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MINING

4th December 2012

STRATEX INTERNATIONAL

BUY*

What we are expecting in 2013

4.6p[#]

Year-end Dec	2011A	2012E	2013E	2014E
Revenue (£m)	-	-	-	-
EBITDA (£m)	(1.1)	(2.0)	(2.1)	(2.2)
Adj. Pre-tax Profit (£m)	(0.4)	(0.4)	2.8	0.4
Adj. EPS (p)	(0.1)	(0.1)	0.6	0.1
DPS (p)	-	-	-	-
Net Cash/(Debt) (£m)	3.0	6.2	4.5	3.2
P/E (x)	(35.6)	(54.7)	7.9	54.7
Dividend yield (%)	-	-	-	-
EV/EBITDA (x)	(13.8)	(8.8)	(8.5)	(8.7)

Key Data	
Rating (12 month)	BUY
Price Target	17.1p
Risk	High
Sentiment	Positive
Ticker	STI.L
Shares in issue	467m
Market cap	£21m
12-mth price range	10.6p-4.4p
Net cash	£4.4m
Next event	March 13 FY12 Results

SOURCE: Northland Capital Partners Limited estimates

[#]Priced at market close, 03/12/12

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This year has seen Stratex International produce positive exploration results in Turkey, East Africa and West Africa. In 2013, we anticipate a number of key share price catalysts including a resource upgrade at Öksüt, results from six drill programmes, the sale of Inlice (that we value at £3.5m), plus initial exploration results from a number of other projects. Some of these programmes will be fully funded by JV partners while others will be funded from Stratex's healthy cash position that we expect to be further bolstered by the 51% sale of Muratdere and the sale of Inlice. We have been conservative in our assumptions behind our 17.1p price target and positive developments on these milestones would drive upgrades to our forecasts and price target outlined in more detail below.

- **Turkey:** Maiden production at Altintepe, the sale of Inlice and a resource upgrade at Öksüt. At Muratdere, we expect the company to receive \$1.7m through sale of 51% the project to JV partner Lodos.
- **East Africa:** Results of three drill programmes from the Blackrock, Megenta and Pandora projects. Both the Megenta and the Pandora projects are fully funded by JV partner Thani Ashanti that is currently earning to 51% by spending \$3m on exploration.
- **West Africa:** At the Dalafin project, Senegal, a licence-wide geochemical sampling programme identified four key targets and we expect an update shortly with maiden drilling Q113. At the Mauritanian licences, H113 should see the results of an initial soil and rock geochemistry programme.
- **Forecasts and valuation:** We have updated our forecasts for FY12 and FY13 and also include forecasts for FY14. There is no change to our price target of 17.1p.

COMPANY DESCRIPTION

Stratex International is a gold and base metals exploration and development company with key assets in Turkey, East Africa and West Africa. The company has a gross resource of 2.3moz Au before JV interests/options (net 1.1moz Au) and is actively exploring through several JV partnerships with major operators.

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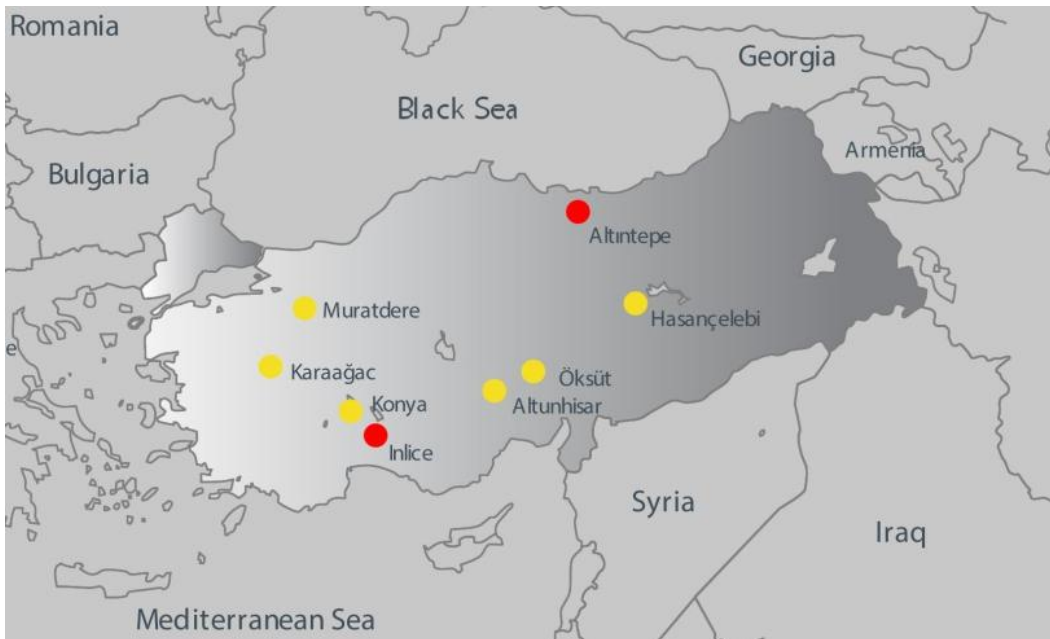
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TURKEY



SOURCE: Company/modified by Northland Capital Partners

Öksüt

This year at Öksüt, JV partner Centerra drilled 11,597m and completed a \$3m spending commitment to take it up to 70% ownership (21/11/12). Positive drill results (21/11/12 & 24/09/12) extended the known area of gold mineralisation and we anticipate a further resource upgrade in 2013. The upgrade will almost certainly increase our valuation of Stratex's 30% of the project from £33.6m (7p per share).

[Share price catalyst:](#)
Resource upgrade in 2013

The current inferred and indicated resource totals more than 1moz gold. Drilling is continuing at the project and is being funded on a 30:70 basis, with Stratex funding the 30%. The drill programme, that now involves five rigs, will continue to focus on expanding the Ortaçam North Zone before likely testing satellite targets.

Altıntepe

At Altıntepe (45% owned), JV partner Bahar Mining has completed confirmation drilling and metallurgical test work as well as commissioning an Environmental Impact Assessment (EIA) study. This comprises part of the in-house feasibility study, fully funded by Bahar that is necessary to advance the project to production before the end of 2013.

[Share price catalyst:](#)
Gold production in 2013

The minimum production target for the project is approximately 30,000oz Au per annum. We currently have a 50% exploration stage discount applied to our valuation of Altıntepe but once production begins the valuation discount should reduce and our valuation of Stratex's share of the project could potentially double from its current level of £18m (3.9p per share).



Inlice

We anticipate that by early 2013 Stratex (45% owned) and JV partner NTF will have sold the Inlice deposit by Stratex. The cash from the sale of Inlice will be deployed on its potentially higher impact exploration projects.

A recent independent review assigned an NPV of \$17.5m (£11m) to the Inlice project (£5m attributable to Stratex). We have taken a conservative approach to our valuation of Inlice and value Stratex's 45% at £3.5m (0.7p per share), leaving room for a valuation upgrade should a higher price be realised.

Muratdere

At the Muratdere project (49% owned), JV partner Lodos has placed \$1.7m in an escrow account to confirm its intention to purchase 51% of the project, subject to approval of a Forestry Permit.

Lodos has also committed to earn a further 10% interest, pending release of the funds from escrow, by commencing a minimum of 3,000 metres of drilling and making two cash payments of \$0.25m each. The first of these payments will be made upon release of the funds from escrow, and the second within 15 months of the date of acquisition of 51% of the project.

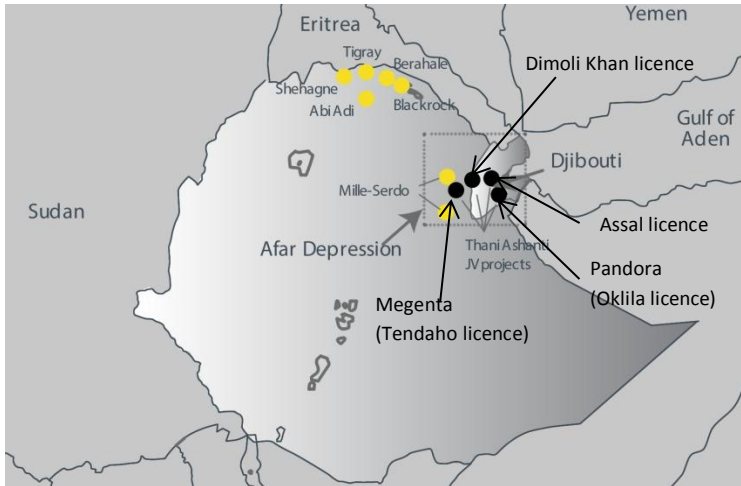
The results of the drill programme are expected around mid-2013 and positive returns would result in upside on our current valuation of Stratex's share of the project at £14.9m (3.2p per share). After this, Lodos has the option to increase its stake in the project to 70% by fully funding a feasibility study.

[Share price catalyst:](#)
Sale in 2013

[Share price catalyst:](#)
**Results from 3,000m of
diamond drilling in
mid-2013**



EAST AFRICA



SOURCE: Company/modified by Northland Capital Partners

Blackrock Project

At Blackrock (95%-owned), the Phase 1 drill programme at the Black Water Zone defined extensive low grade gold mineralisation throughout the vein system.

A re-evaluation of the core from this initial programme confirmed the Black Water veins were intercepted by the drilling at a higher level in the gold mineralised system than previously believed. Phase 2, planned for Q1 2013, will initially test the veins systematically between depths of 100m and 250m below the surface.

Identification of boiling zone textures at surface and the correlation of higher grade zones with breccias gives the company confidence that the gold was introduced from below and that systematic drilling at depth should reveal high-grade ore shoots (>1oz/t). Should these ore shoots be encountered in the drill programme, it would result in a substantial increase to our current £0.6m (0.1p per share valuation) of the project.

Afar Project (Thani Ashanti JV)

At the Afar Project (95% owned but Thani Ashanti are closing in on a 51% earn-in), an extensive drill programme is planned at both Megenta and Pandora for 2013. Priority will probably be given to the exciting Pandora system, only discovered in the early part of 2012 and where multiple high-grade gold assays have been returned from surface sampling of the 1,500m-long vein. Drilling will also test targets generated by the recent 14,653 line-kilometre magnetic and radiometric survey at the Megenta prospect.

Reconnaissance sampling of the Assal licence also highlighted this area's potential with gold-bearing epithermal quartz veins and brecciated rhyolite domes identified. Follow-up exploration work is underway, with the possibility of a drill programme later in 2013.

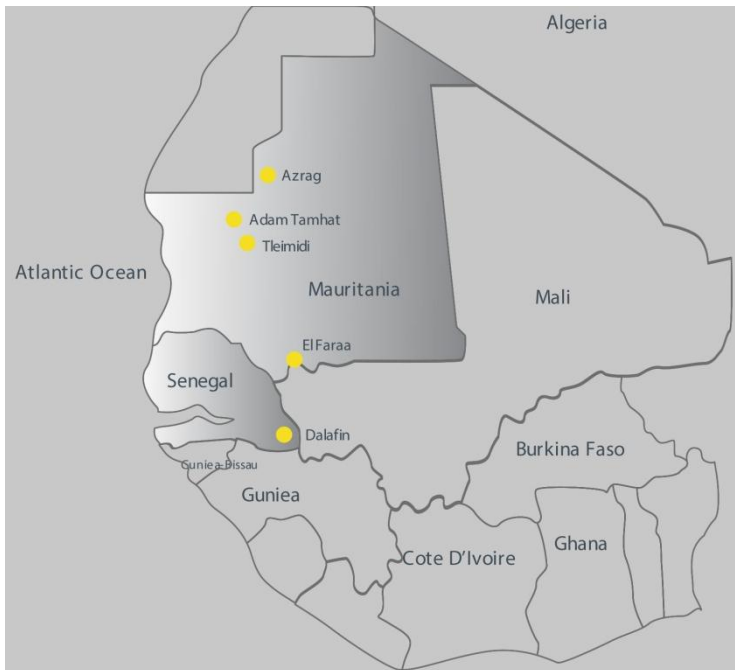
Positive results from these drill programmes at the Afar Project would result in a significant increase to our £1.4m (0.3p per share) valuation of the project. We do not anticipate any work being undertaken at the Dimoli Khan licence in 2013.

[Share price catalyst:](#)
Results of drill programme by mid-2013

[Share price catalyst:](#)
Results from three drill programmes in 2013



WEST AFRICA



SOURCE: Company/modified by Northland Capital Partners

Dalafin project, Senegal

Stratex is currently earning an additional 24% interest in the Dalafin project (51% owned) from JV partner EMC by spending \$1.5m on exploration at the project.

The Company has used a combination of sampling techniques, including soil sampling, termite mound sampling, lag sampling, and trench sampling, to help identify key targets and we expect an update by the end of the year. Based on these results and a recently completed airborne geophysical survey (magnetics and radiometrics), we expect drilling to begin at the project early in 2013.

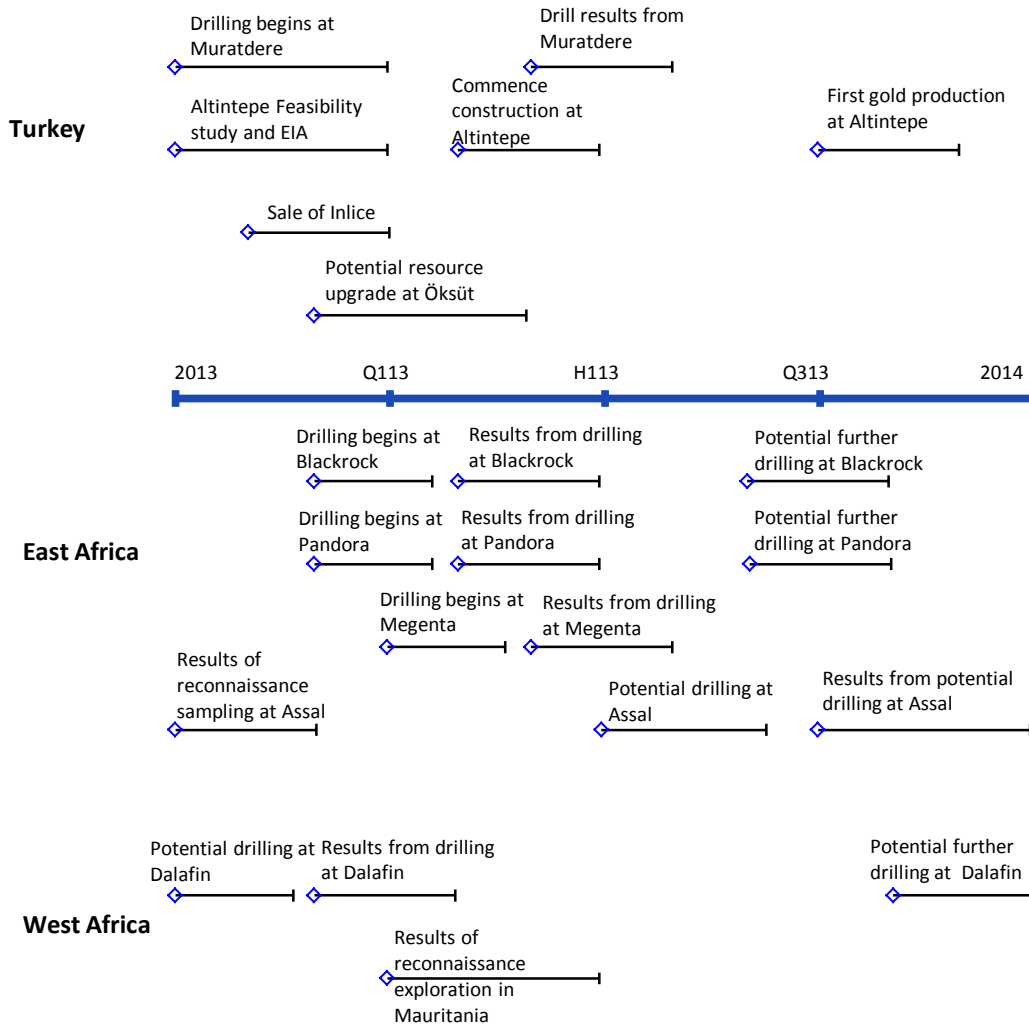
Mauritania

In Mauritania (100% owned), Stratex has completed initial reconnaissance work on four licences and is now undertaking a soil and rock sampling programme to generate targets for further follow up in Q113.

We currently assign 0.6m (0.1p per share) to the West African projects in our valuation of Stratex and any positive updates from the projects would likely provide some upside.



TIMELINE OF EXPECTED NEWSFLOW



SOURCE: Northland Capital Partners estimates



FORECASTS

Income statement						
Year to 31st December (£m)	2009A	2010A	2011A	2012E	2013E	2014E
Revenue	-	-	-	-	-	-
Other income/(loss)	(0.0)	0.1	0.9	-	-	-
Total income	(0.0)	0.1	0.9	-	-	-
Issue of shares other than for cash	(0.4)	-	-	-	-	-
Corporate expenditure	(1.3)	(1.7)	(2.0)	(2.0)	(2.1)	(2.2)
Impairment charges	(0.5)	(0.1)	(0.1)	-	-	-
Total costs	(2.2)	(1.8)	(2.1)	(2.0)	(2.1)	(2.2)
EBIT	(2.2)	(1.7)	(1.2)	(2.0)	(2.1)	(2.2)
Financial income	0.0	0.0	0.0	0.0	0.0	-
Financial expense	-	-	-	-	-	-
Net financing income	0.0	0.0	0.0	0.0	0.0	-
Post tax associate income from Altintepe	-	-	-	-	1.5	2.6
Gain/(loss) of associate	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Gain/(loss) on acquisition/sale	-	(1.1)	0.8	1.7	3.5	-
Profit/(loss) before tax	(2.1)	(2.9)	(0.5)	(0.4)	2.7	0.3
Taxation credit/(expense)	(0.0)	(0.0)	0.1	-	-	-
Profit/(loss) for the year	(2.1)	(2.9)	(0.4)	(0.4)	2.7	0.3
Exchange differences on translating foreign operations	(0.4)	(0.3)	(0.7)	-	-	-
Profit/(loss) for the year	(2.6)	(3.1)	(1.2)	(0.4)	2.7	0.3
Profit/(loss) for the year attributable to:						
Equity holders of the parent company	(2.1)	(2.9)	(0.4)	(0.4)	2.7	0.3
Non-controlling interest (minorities)	-	-	-	-	-	-
EPS analysis:						
From continuing operations						
Basic profit/(loss) (p)	(0.9)	(1.0)	(0.1)	(0.1)	0.6	0.1
Diluted profit/(loss) (p)	(0.8)	(0.9)	(0.1)	(0.1)	0.6	0.1

SOURCE: Northland Capital Partners estimates



Cash flow						
Year to 31st December (£m)	2009A	2010A	2011A	2012E	2013E	2014E
Operating profit (EBIT)	(2.2)	(1.7)	(1.2)	(2.0)	(2.1)	(2.2)
Net interest (cash paid)	0.1	0.0	0.0	0.0	0.0	0.0
Depreciation and Amortisation	0.1	0.1	0.1	0.0	0.0	0.0
Impairments	0.5	0.1	0.1	0.0	-	-
Post tax associate income from Altintepe	-	-	-	-	1.5	2.6
Other	(0.0)	(0.0)	(0.1)	-	-	-
Cash in	(1.6)	(1.5)	(1.1)	(2.0)	(0.6)	0.5
Debtors less creditors	0.0	(0.4)	0.6	-	-	-
Cash out	0.0	(0.4)	0.6	-	-	-
Gross trading cash flow*	(1.6)	(1.9)	(0.5)	(2.0)	(0.6)	0.5
Capital expenditure	(0.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Exploration costs	(1.0)	(1.7)	(4.5)	(6.4)	(6.4)	(3.1)
Net trading cash flow	(2.6)	(3.8)	(5.0)	(8.5)	(7.1)	(2.7)
Acquisitions & investments	(0.0)	(0.0)	(1.0)	(0.1)	(0.1)	(0.1)
Sale of fixed assets & investments	-	0.7	0.8	1.7	3.5	-
Issue of share options	0.2	0.0	0.1	-	-	-
Issue of shares (net)	0.4	1.3	4.5	7.6	-	-
Funds from JV partner	0.5	1.4	2.8	2.4	2.0	1.5
Gain/(loss) from non-controlling interest in subsidiary	-	-	0.3	-	-	-
Exchange Rate Movements	(0.0)	(0.2)	(0.5)	-	-	-
Change in net cash (debt)	(1.6)	(0.7)	2.0	3.2	(1.7)	(1.3)
Net cash (debt)	1.7	1.0	3.0	6.2	4.4	3.1

SOURCE: Northland Capital Partners estimates



Balance sheet						
Year to 31st December (£m)	2009A	2010A	2011A	2012E	2013E	2014E
Share capital	2.5	2.9	3.5	4.7	4.7	4.7
Share premium account	8.4	9.3	13.2	20.4	20.4	20.4
Retained earnings/losses	(3.0)	(7.7)	(8.1)	(8.4)	(5.9)	(8.1)
Other Reserves (incl. Foreign currency reserve)	0.6	0.0	(0.6)	1.2	(0.6)	(0.8)
Non-controlling interest (minorities)	-	-	0.1	0.1	0.1	0.1
Differed tax, provisions & retirement benefit obligations	-	-	-	-	-	-
Long term debt	0.5	1.4	0.5	1.0	-	-
Short term debt	0.1	0.1	2.0	2.0	-	-
Capital employed	9.2	6.0	10.7	21.0	18.7	16.3
Intangibles and goodwill	0.1	2.5	5.2	9.2	11.6	10.8
Fixed assets	0.0	0.3	0.2	0.2	0.1	0.1
Investments/assets held for sale	0.0	0.6	0.3	3.5	-	-
Investments in subsidiaries	4.9	0.1	0.3	1.4	1.4	1.4
Stocks	-	-	-	-	-	-
Debtors less creditors (incl. Loans receivable)	2.4	1.4	1.4	0.3	0.9	0.7
Differed tax	-	0.2	0.2	0.2	0.2	0.2
Cash & Equivalent (unrestricted)	1.7	1.0	3.0	6.2	4.4	3.1
Cash (restricted)	-	-	-	-	-	-
Capital employed	9.2	6.0	10.7	21.0	18.7	16.3

SOURCE: Northland Capital Partners estimates



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