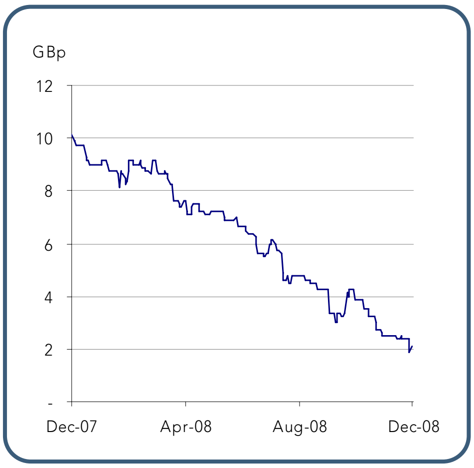
Sector/Location:	Mining/Turkey
Date:	02 Dec 2008
Ticker/Exchange:	STI/AIM
Rec./Target price:	BUY/£0.07

Stratex International

Initiating Coverage

Share Price Performance



Event

- We are initiating coverage of Stratex International, an exploration company currently focussed on its highly prospective gold and base metals targets in Turkey.

Comment

- Stratex's highly experienced and well-renowned geologists have secured some of the most prospective ground in Turkey, an emerging hot spot for mining.
- A Resource of almost 0.5Moz gold at Altıntepe offers small-scale, highly profitable near-term production.
- There is significant blue sky from the portfolio of highly prospective exploration projects. Öksüt is the most advanced of these with 'company maker' potential.

Valuation

- We initiate coverage of Stratex with a Buy recommendation and a conservative 7p target price. With cash of around £3.8m, Stratex is well placed to ride out the current financial storm.
- We believe the depressed share price offers an ideal low-risk entry for an excellent medium-term investment.

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Investment Case

Stratex International is an exploration company currently focussed on its highly prospective gold and base metals targets in Turkey. The main focus to date has been on advancing the Altıntepe and Inlice projects through resource drilling and to the stage where feasibility studies are now required. The company is currently considering all options for developing these projects as rapidly as possible through to production.

Altıntepe in particular offers the opportunity for a very profitable, small scale gold operation to be put into production in the near term. Low capital and operating costs are implied through open-pit, low waste (low stripping ratio) mining, and simple ore metallurgy amenable to heap-leach processing. The total JORC-standard *oxide* resource stands at 472,318oz gold, at a grade of 1.12g/t (including 196,204oz at 1.73g/t in the Inferred category).

Stratex's is run by highly experienced and very well-renowned geologists, both at Board and at local management level. It has leveraged well from this base to identify highly prospective areas, secure prime licence areas and to rapidly advance exploration across several fronts.

Stratex's main exploration focus in Turkey is currently on a specific age-range of volcanic-related rocks; the Miocene. These formations are known to host 'epithermal' (volcanic-related) as well as 'porphyry'-style (intrusive-related) deposits. Some of these are world class, such as Eldorado's +10Moz Kısladağ mine.

Drilling in 2008 has identified the Öksüt project as the most exciting in Stratex's current portfolio, where results have returned intersections of 270.2m at 1.22g/t; 62.4m at 2.16g/t; and 73.3m at 1.36g/t. Mineralisation here is thought to be primarily controlled by near-vertical structures, although there is also an apparent sub-horizontal lithological control, offering significant upside for resource tonnage. This potential is aided by a deep oxidation level of >100m.

Since inception in 2004, Stratex has enjoyed a strategic partnership with Teck Ltd, one of the world's major mining houses. The alliance gives Teck the option to farm into four of Stratex's projects, a right which they have waived over Inlice, thus 'freeing' Stratex to pursue other potential interested parties here and also for Altıntepe where Stratex has acquired 100 % of the project from Teck by completing an agreed drill programme. Stratex's holdings in the Konya Volcanic Belt have shown sufficient potential such that Teck have exercised three of their earn-in options at an early stage of exploration. Independent consultant Richard Sillitoe has compared this Belt to the Maricunga district in Chile, where in excess of 40 million oz gold has been discovered since the 1980's.

We have based our valuation of Altıntepe on a conceptual Discounted Cash Flow model, fully diluted and 12 months forward from present. Due to its early stage of development, we have applied a 50% risk-weighting to the £24m NPV in order to derive a £12m valuation of the project. We value the balance of Stratex's portfolio on a multiple of 3% of the in-situ gold spot value in JORC resource, i.e. £7.5m. There is significant blue sky from several highly prospective exploration projects. Öksüt is the most advanced of these with 'company maker' potential.

Despite possible near-term volatility from deflationary 'scares', we believe that the US$ gold price will remain strong in the medium-to-long term as inflation remains the key risk to Western economies. Direct exposure to the gold price through production at Altintepe would offer significant upside leverage to our base-case assumptions, with low project risk.

We initiate coverage of Stratex with a Buy recommendation and a conservative 7p target price. With cash of around £3.8m, Stratex is well placed to ride out the current financial storm. We believe the depressed share price offers an ideal low-risk entry for an excellent medium-term investment.

Market Data Summary

Stratex International

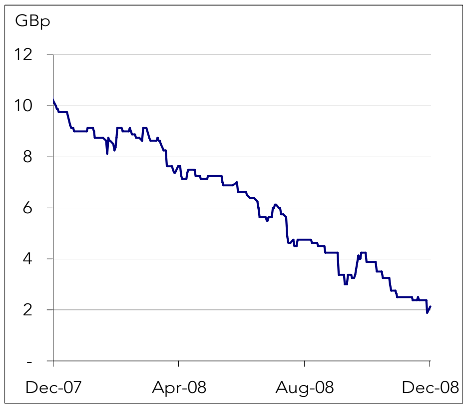
Current: £0.02 — Recommendation: BUY (Target: £0.07)

STI (AIM)

December year-end		2007	2008F	2009F	2010F	2011F	2012F	2013F
PROFIT & LOSS (£ M)								
Sales revenue		0.0	0.0	0.0	0.0	8.3	16.3	16.1
Dividends received		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating costs		1.3	1.1	0.8	0.8	3.1	5.4	5.4
Exploration write off		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation/amortisation		0.0	0.0	0.0	0.0	1.3	2.5	2.5
Other expenses		0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT		(1.3)	(1.1)	(0.8)	(0.8)	3.9	8.4	8.2
Net interest expense		(0.2)	(0.4)	(0.2)	0.1	0.8	0.5	(0.1)
Pre-tax profit		(1.0)	(0.8)	(0.6)	(0.9)	3.2	7.9	8.3
Income tax expense		0.0	0.0	0.0	0.0	0.0	0.4	1.7
Minorities, pref divs		0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (inc significant items)		(1.0)	(0.8)	(0.6)	(0.9)	3.2	7.5	6.7
NPAT (equity)		(1.0)	(0.8)	(0.6)	(0.9)	3.2	7.5	6.7
Significant Items (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (exc significant items)		(1)	(1)	(1)	(1)	3	7	7
DIVISIONAL EBIT (£ M)								
Altintepe		0.0	0.0	0.0	0.0	4.5	8.8	8.6
Total Divisional EBIT		(1.3)	(1.1)	(0.8)	(0.8)	3.9	8.4	8.2
CASHFLOW (£ M)								
EBITDA		(1.3)	(1.1)	(0.8)	(0.8)	5.2	10.9	10.8
Exploration write off		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax paid		0.0	0.0	0.0	0.0	0.0	(0.4)	(1.7)
Working capital / other		0.0	0.0	0.0	0.0	0.0	(0.0)	0.0
Gross operating cash flow		(1.3)	(1.1)	(0.8)	(0.8)	5.2	10.5	9.1
Capex / exploration		(1.3)	(2.0)	(1.8)	(3.6)	(12.6)	(1.4)	(1.4)
Net investments		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investing		(1.2)	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flows		(3.8)	(3.1)	(2.6)	(4.4)	(7.4)	9.1	7.7
Change in net debt		(3.4)	2.3	(0.8)	4.5	8.2	(8.6)	(7.8)
Equity raised		6.9	0.0	3.2	0.0	0.0	0.0	0.0
Dividends paid		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing		0.4	0.8	0.2	(0.1)	(0.8)	(0.5)	0.1
Financing cash flows		3.8	3.1	2.6	4.4	7.4	(9.1)	(7.7)
BALANCE SHEET (£ M)								
Cash & deposits		6.3	3.8	17.4	12.9	4.7	6.9	8.3
Trade debtors		0.5	0.4	0.4	0.4	0.4	0.4	0.4
PPE		0.1	0.2	0.8	3.2	13.4	11.1	8.8
Exploration		1.9	3.4	4.6	5.8	7.0	8.2	9.4
Other assets		0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total assets		9.0	7.8	23.3	22.4	25.6	26.7	26.9
Current borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current borrowings		0.0	0.0	12.8	12.8	12.8	6.4	0.0
Other liabilities		0.0	(0.2)	3.0	3.0	3.0	3.0	3.0
Total liabilities		0.2	(0.2)	15.8	15.8	15.8	9.4	3.0
Total shareholders' equity		8.7	8.0	7.4	6.6	9.7	17.2	23.9
EQUITY PRODUCTION								
Altintepe	(koz)	0.0	0.0	0.0	0.0	20.5	41.0	41.0
Total production	(koz)	0.0	0.0	0.0	0.0	20.5	41.0	41.0
CASH COSTS								
Altintepe	(£/oz)	0.0	0.0	0.0	0.0	201.3	201.0	200.6
Total cash costs	(£/oz)	0.0	0.0	0.0	0.0	201.3	201.0	200.6

ASSUMPTIONS		2007	2008F	2009F	2010F	2011F	2012F	2013F
Gold	(US$/oz)	697.5	839.9	737.5	729.4	721.3	713.2	705.1
British Pound	USDGBP	2.00	1.86	1.59	1.64	1.77	1.79	1.79

SHARE PRICE PERFORMANCE



52-week low/high	GBp	1.88/10.25
Market value	(£ M)	4.4

Valuation	HJ10	NPV	@%	value
Altintepe	(£ M)	24.0	50%	12.0
Hedging	(£ M)			0.0
Exploration	(£ M)			7.5
Corporate/Other	(£ M)			-4.9
Total	(£ M)			14.5
Less net debt (cash)	(£ M)			-4.6
Valuation	(£ M)			19.1
Total diluted shares	(M)			274
Valuation per share	(GBp)			7

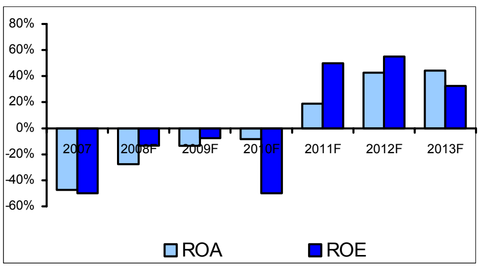
SENSITIVITY

change in Altintepe NPV for +10% change in:

Gold	18%
British Pound	-10%
Head grade	18%
Capex	-5%
Operating costs	-7%

	2007	2008F	2009F	2010F
Diluted shares on issue	0.0	175.7	244.2	274.2
EPS pre amortisation (c)	0.0	(0.4)	(0.2)	(0.3)
EPS growth (%)	NA	0.0	(0.4)	0.3
PER (x)	0.0	0.0	0.0	0.0
Enterprise value (£ M) *	(1.9)	0.6	(0.2)	4.3
EV*/EBITDA (x)	2.4	0.2	(0.0)	0.8
ROA (%)	-47.3%	-27.5%	-13.6%	-8.4%
ROE (%)	-50.0%	-13.3%	-7.6%	-50.0%
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%
Net debt/equity (%)	-71.9%	-47.5%	-61.8%	-1.4%
Net debt/net debt+equity (%)	-256.1%	-90.3%	-161.6%	-1.4%
Net interest cover (x)	5.1	3.1	3.8	-14.8

* forecasts based on current market cap



Overview

Stratex International was formed in 2004 and listed on AIM on 4th January 2006. The company is registered in the United Kingdom and currently focussed on gold and base metals exploration in Turkey. These operations are managed through its wholly-owned Turkish subsidiary Stratex Madençilik Sanayi ve Ticaret Ltd Sti.

Table 1: Share placement history

		No. of shares	Price	Funds raised
	Seed investors	100,000,000		£510,000
19th December 2006	Teck agreement options	550,000	£0.092	n/a
4th January 2006	IPO	37,400,000	£0.05	£1,870,000
25st August 2006	Placement	15,666,667	£0.075	£1,175,000
22nd May 2007	Exercise of options	2,000,000	£0.05	£100,000
14th June 2007	Placement	77,777,775	£0.09	£7,000,000
30th June 2007	Exercise of options	172,500	£0.05	£8,624
8th August 2007	Exercise of options	500,000	£0.085	£42,500
2nd April 2008	Exercise of options	172,500	£0.05	8,625

Source: Stratex

It was the early identification of Turkey's under-developed mineral potential that led David Hall (Exec. Chairman) and Bob Foster (CEO) to set up Stratex. The company objective remains to be a leading edge and innovative explorer whilst creating revenue from gold and base metal production via well managed joint ventures (JVs). The founding directors are very experienced geologists with strong reputations within both industry and academia. Their relationships and key strengths were recognised through the early strategic agreement with Teck Cominco (now simply "Teck"), a major Canadian diversified miner.

Project Summary

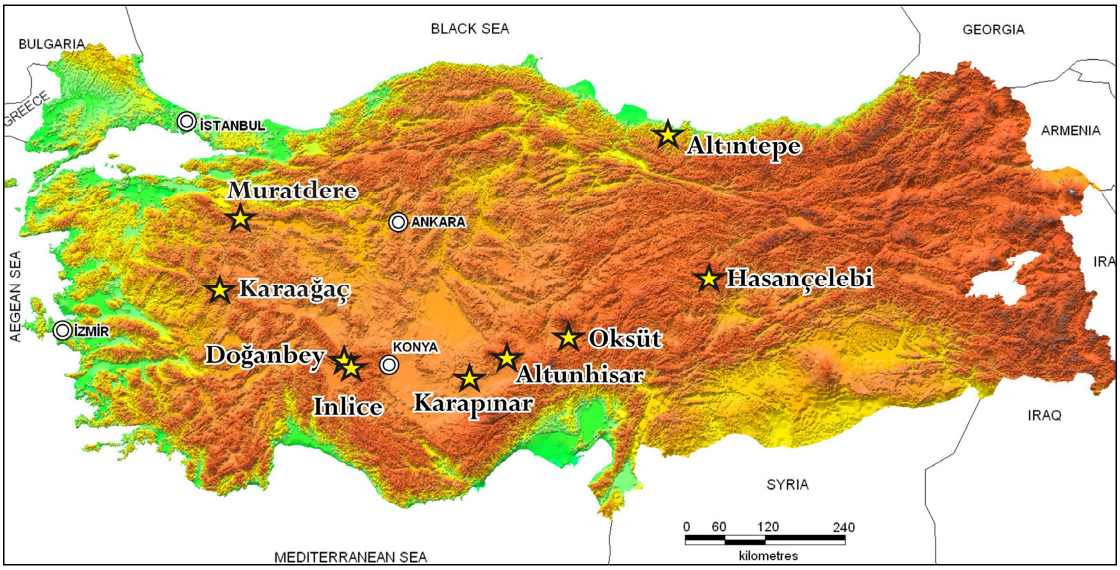
Whilst potential opportunities in other countries are continuously being assessed, all of Stratex's currently active exploration permits are in Turkey.

Table 2: Stratex's exploration portfolio

Licence	Region	Target	Owned	JV Status	Status
Altıntepe		Au-Ag high-sulphidation epithermal*	100%	Discussions underway	Resource defined, feasibility study required
Inlice	Konya	Au high-sulphidation epithermal*	100%	Discussions underway	Resource defined, feasibility study required
Doğanbey	Konya	Au+Mo porphyry*	100%	Teck option to earn-in to 51%	Teck recently drilled
(29 others)	Konya	Au-Ag high-sulphidation epithermal {& base metals} porphyry [Karacaören, Doğanbey South and Gölcük]	100%	Teck option to earn-in to 51%	Teck funding exploration by Stratex
Öksüt		Au high-sulphidation*	100%		Analyse drilling and soil sampling results to delineate new targets
Altunhisar		Au high-sulphidation epithermal*	100%		Active exploration
Hasancelebi		Au high-sulphidation epithermal Au+Mo porphyry*	100%		Active exploration
Karapinar		Au high-sulphidation epithermal*	100%		Active exploration
Muratdere		Cu-Au-Mo porphyry*	100%		Seeking JV partners for further exploration and drilling
Karaağaç		Au epithermal & sediment hosted*	100%		Seeking JV partners for further exploration

Source: Stratex *see Geology - Overview for explanation of these terms

Exhibit 1: Location of Stratex's projects in Turkey



Source: Stratex

Teck Strategic Alliance

Teck was an early founder shareholder in Stratex and currently holds an 8.75% equity interest in the company, having diluted down from their initial 17.5% pre-IPO level (14.52% at IPO). Teck is a diversified mining, smelting and refining group. The company is a world leader in the production of metallurgical coal and zinc and a major producer of copper and gold. The company is listed on the Toronto Stock Exchange (TEK.MV.A and TEK.SV.B). Teck's subsidiary company in Turkey is Teck Cominco Arama ve Madencilik San.Tic.A.S. (TCAM).

The strategic alliance which was formed at Stratex's inception allows benefits for both companies. Stratex is able to retain the dynamism and flexibility of a small, focussed exploration company whilst also having benefit of access to the technical and financial support of a major mining house. Teck, for its part, is able to 'cast its net wider' on the exploration front with minimal exposure to the hit-and-miss nature of grass-roots stage exploration which is more suited to a junior company.

The agreement covers activities in Europe, the Middle East, and Africa, with certain exceptions, and requires that all potential prospects identified by either party are formally screened by the Teck - Stratex Advisory Committee and either approved or rejected.

Stratex can achieve a 100% interest in a property introduced by Teck on the basis of negotiated exploration expenditure by Stratex. Subject to agreed further expenditure by Teck, Teck can earn back in to a project to a level of 60%.

Teck has the right to earn in up to 51% of Stratex's interest in any approved property introduced by Stratex by funding two times the exploration expenditure incurred by Stratex. Teck has rights of first refusal to earn into four such opportunities for earn-in. The initial term of the agreement was completed on 31 Dec 2007 and either party can now terminate on 90 days notice. However, Teck will retain the right to earn-in to one more property already in the shared portfolio – unless Teck delivers notice that it has no further interest in any property.

Importantly, the Konya Volcanic Belt has shown sufficient potential that Teck have exercised three of these earn-in options at an early stage of exploration. The "Konya" agreement covers Stratex's entire licence holding in the Konya region, excluding Inlice but inclusive of Doğanbey, Do anbey South, Karacören, and Gölcük, where drilling has already confirmed porphyry gold ± molybdenum systems.

The remaining issue as far as Stratex is concerned is therefore over when, and for which property, Teck exercises its last remaining earn-in option. Öksüt would appear to be the lead candidate, based on the excellent drill results to date but Teck have not yet provided any clues as to their intentions. There is therefore some uncertainty over Stratex's "next big thing" and any negotiations there might be with other potential partners. However, at least Teck have stated that they have no interest in Altintepe and Inlice, allowing Stratex clarity over those relatively advanced projects. Whilst exploration activity in Turkey halts for the winter season, Stratex have a window of time during which expenditure is naturally low to 'tidy up' some of these corporate issues and opportunities. In the interim, we expect there to be an initial resource estimate for Öksüt which will help all parties gauge the potential for that project.

Despite that fact that Teck has so far been an active and supportive partner, there have been some recent signs that they may be about to scale back on their exploration commitments. The limited amount of exploration carried out at Konya to date has not so far yielded a significant discovery, although a number of porphyry gold prospects have been identified and early drilling has confirmed them to contain significantly anomalous concentrations of gold. More importantly, however, is the recent announcement that Teck will slash spending, sell assets, withdraw from the Petaquilla copper project in Panama and suspend dividend payments. These moves are part of a plan to cut the debt generated in its acquisition of Fording Canadian Coal Trust, a deal struck at the top of the bull market. Teck has subsequently been affected more than most major mining companies in the recent downturn, with a +90% drop in its share price from the May '08 highs.

We have no idea yet as to whether this cut-back in expenditure will directly affect the Teck/Stratex properties, or whether it will ultimately lead to them withdrawing entirely from the agreements. However, whilst the money Teck are spending in Turkey is small fry compared to its debt level and the savings from restructuring so far announced, exploration is usually the first cost centre to be scaled back in any down-turn. It is therefore likely that, at a minimum, Teck will be pursuing a less aggressive exploration philosophy over the medium term.

Other Joint Venture Opportunities

Stratex recently announced that a proposed JV agreement with ASX-listed Syrah Resources will not now proceed. Syrah cited issues relating primarily to the sharp deterioration of the financial markets, which would make it difficult to raise the finance required to complete the Joint Venture and feasibility studies.

The aim of the JV was to fast track the Altıntepe and Inlice gold projects into production. These two projects have a current combined oxide gold resource of 570,600oz. The directors of Syrah stated that Inlice offers an excellent opportunity to fast-track development of a small heap leach mine, and that Altıntepe holds strong potential for the development of a heap leach project with production capability of 40,000-50,000 ounces of gold per annum over a mine life of four to five years.

We understand that Stratex management are currently holding talks with several other interested parties regarding possible joint venture agreements.

Discussion of Corporate Strategy

Stratex pursue a fairly typical approach for a junior exploration company that seeks to maximise its return for shareholders from the exploration process, whilst minimising the technical risk inherent in taking a project through to construction. The main revenue streams envisaged are:

- Developing a mine in collaboration with Teck, should they decide to exercise their earn-in option. Teck manage the development process and subsequent exploitation.
- Entering into a joint venture agreement with a mid-tier mining company that would have the technical and financial capabilities to put the resource into production.
- Selling the resource to a third-party company whilst retaining a royalty.

We believe, in line with Syrah's thinking, that the Altıntepe project in particular represents an ideal path to first production for a junior company. Due to the amenability of this deposit (and Inlice) to heap leach processing, the capital and operating expenses are expected to be low. Therefore, whilst the levels of production will not be large, the operating profit margins should be high and the technical challenges minimal. Furthermore, there is low political risk in Turkey once the permitting process is complete (we recognise that this aspect may represent some challenges).

From a geological, mining and processing point of view, the projects (especially Altıntepe) compare well with Minera IRL's Corihuarmi mine in Peru. Minera were able to put this ~40,000oz per annum heap leach gold mine into production in 2008 at a capital cost of only US$20m and with cash costs well below the budgeted US$300/oz, thereby making the transition from 'explorer' to 'producer'. In October 2008, the company announced that it had recovered all project costs to date, including the +$7m of exploration/feasibility expenditure, just 7 months after first production. This was a remarkable achievement by any standards, but serves well to highlight the cash generating potential of these small but high-margin deposits.

The present economic downturn has highlighted the merit to having direct exposure to the gold price through production. Safety is paramount at present, hence the recent outperformance of gold bullion relative to most other asset classes and of gold producers over gold exploration stocks. Of course, we are currently in a gold equity bear market, but even in the early-to-mid stages of a bull market, as "savvy" investors increasingly return to the sector, we would expect the producers to continue to outperform. In fact, we observe that pure exploration companies, as a group, will attract a large market premium only in the latter stages of a bull market, as 'gold fever' (read; speculation, or greed) rules sentiment. We are presently a long way from another one of those periods.

In light of all this, we strongly support Stratex management's current focus on bringing Altıntepe and Inlice into production as early as possible. Of course, in the current market, the ability to raise capital is the key barrier to entry for any project and we would naturally expect Stratex to have greater difficulty raising the required funding than an established producer with a 'track record'. Minera were perhaps fortunate that they raised their capital before the full force of the credit crisis struck. For this reason, the JV-funded route would, in our opinion, be the preferred option provided a suitable partner could be found.

In this respect, we view the withdrawal of Syrah from the Altıntepe/Inlice deal as positive. Despite having the required technical expertise, Syrah are a small company with a lower market capitalisation than Stratex and cited the difficult market conditions as a key reason for not progressing. Should a *cash-rich* partner come forward with a view to developing these interesting assets we would expect Stratex to grab the deal with both hands. However, whilst we understand that the current strategy plays to managements key strengths, we believe that Stratex should not discount the possibility of appointing someone with mining experience to the Board and taking the Altıntepe and Inlice projects into production themselves. All things are possible at this stage.

Mining in Turkey

Historical records (and the legends of Croesus and Midas) suggest that mining has been undertaken in Turkey for over 9,000 years. Copper, gold, iron, lead, mercury, silver, tin, chromite and other metals have been mined during this time by Phoenicians, Greeks, Hittites, Romans, Ottomans, Russians and the modern-day Turkish.

The application of modern exploration methods in recent years has led to a new wave of discoveries, some of which are world-class. Most are gold deposits, but there have also been some major copper/base metal discoveries in the Pontides region of northeast Turkey. These include Çayeli and Cerratepe (both Inmet Mining), Murgul (Ceta Madencilik, a private Turkish company) and Berta (Nuinsco Resources). Also, European Nickel are currently trial mining a nickel heap leach deposit at Caldağ in western Turkey.

Turkey has a current gold endowment of 34.3Moz, with 5 deposits of >1Moz found in the last 10 years.

Table 3: Recent gold discoveries in Turkey

Project	Status	Gold in Resource (Measured & Indicated)	Owner
Kisladag	In production since 2006.	7.7Moz	Eldorado Gold (AMEX/TSX)
Çopler	Under construction estimated first production in Q1 2010	3.9Moz	Anatolia Minerals (TSX)
Ovacik	Commissioned 2001 (Normandy Mining) Closed Aug 2004, following legal challenge	0.8Moz* plus 3Moz* (unofficial) new discovery at Kaplan	Koza Gold* Sold by Newmont in March 2005
Aği Daği	Resource drilling	1.2Moz	Fronteer (AMEX/TSX)
Efemçukuru	Under construction estimated first production in Q1 2010	1.5Moz	Eldorado Gold (AMEX/TSX)
Kirazlı	Resource drilling	0.4Moz (+1Moz Inferred)	Fronteer (AMEX/TSX)
Mastra	Under construction	0.6Moz*	Koza Gold*
Altıntepe	Resource drilling	0.3Moz (+0.2Moz Inferred)	Stratex International (AIM)
Tavşan	Resource drilling	0.2Moz (+0.4Moz Inferred)	Ariana Resources (AIM)
Inlice	Resource drilling	0.2Moz (+0.1Moz Inferred)	Stratex International (AIM)
Kızıltepe	Resource drilling	0.1Moz	Ariana Resources (AIM)

Source: company web sites
*note – Koza Gold is a Turkish company. Resources not reported to JORC-equivalent standard

Turkey hosts significant industrial mineral deposits, such as borax, bentonite, soda, marble and perlite (a volcanic glass with many applications). There are also coking coal and lignite deposits, mined by state or Turkish-owned companies for domestic use only.

Turkey is a parliamentary representative democracy and, since its foundation as a republic in 1923, Turkey has developed a strong tradition of secularism. Turkey's constitution governs the legal framework of the country, sets out the main principles of government and establishes Turkey as a unitary centralized state.

Following the high-inflation boom-and-bust cycles of the 1990's that ultimately culminated in a severe banking and economic crisis in 2001 and a deep economic downturn (GNP fell 9.5% in 2001), Turkey's economy has made an impressive recovery thanks to good monetary and fiscal policies and structural economic reforms made with the support of the International Monetary Fund and the World Bank.

Turkey's economy grew an average of 7.4% per year from 2002 through 2007--one of the highest sustained rates of growth in the world. A series of large privatizations, the stability fostered by the start of Turkey's EU accession negotiations, strong and stable growth, and structural changes in the banking, retail, and telecommunications sectors have all contributed to the rise in foreign investment. Turkey succeeded in attracting $21.9 billion in foreign direct investment (FDI) in 2007.

A drive to liberalise and grow the Turkish economy was given impetus in 1994 through the Privatisation Law. Since this, the mining industry has experienced rapid growth due to the explosion of private-owned firms attracted by the new and investor-friendly business environment. More recently a new foreign investment law (2003) and extensive amendments to the 1985 Mining Law (2004) gave another boost to investment from foreign mining companies.

Corporate tax is 20% and the mining royalty is only 2% for on-site finished products, such as gold-silver doré and mineral concentrates. There is also a VAT exemption for gold-producing companies. Turkey has a number of bilateral investment and tax treaties, including with the United States, which guarantee free repatriation of capital in convertible currencies and eliminate double taxation.

However, it has not all been plain sailing as mining companies have struggled to convince local groups to overcome a 'not in my backyard' resistance. Trust is slowly being established through close dialogue and involvement with these communities. Eldorado's Kısladağ project provides an example where local objections (driven by environmental groups in Germany) have caused delays to operations. The mine was shut down by the courts in August 2007 following a challenge of the Environmental Impact Assessment (EIA). Operations re-commenced in March 2008 as the court eventually ruled in Eldorado's favour.

The new mining law requires that, before the end of the exploration licence period (valid for 3 years plus a 2 year extension), the licence holder must apply for conversion to an operating licence, which can be for up to sixty years duration. However, the rights to mine are only conveyed on issue of a separate operating permit. Application for this permit can only be made once other relevant social and environmental studies and permits are in place (e.g. forestry, pastures, water resources and impacts on communities). In order to provide simplification, the General Directorate of Mining Affairs (GDMA), a unit of the Ministry of Energy and Natural Resources, is authorised to govern the application process.

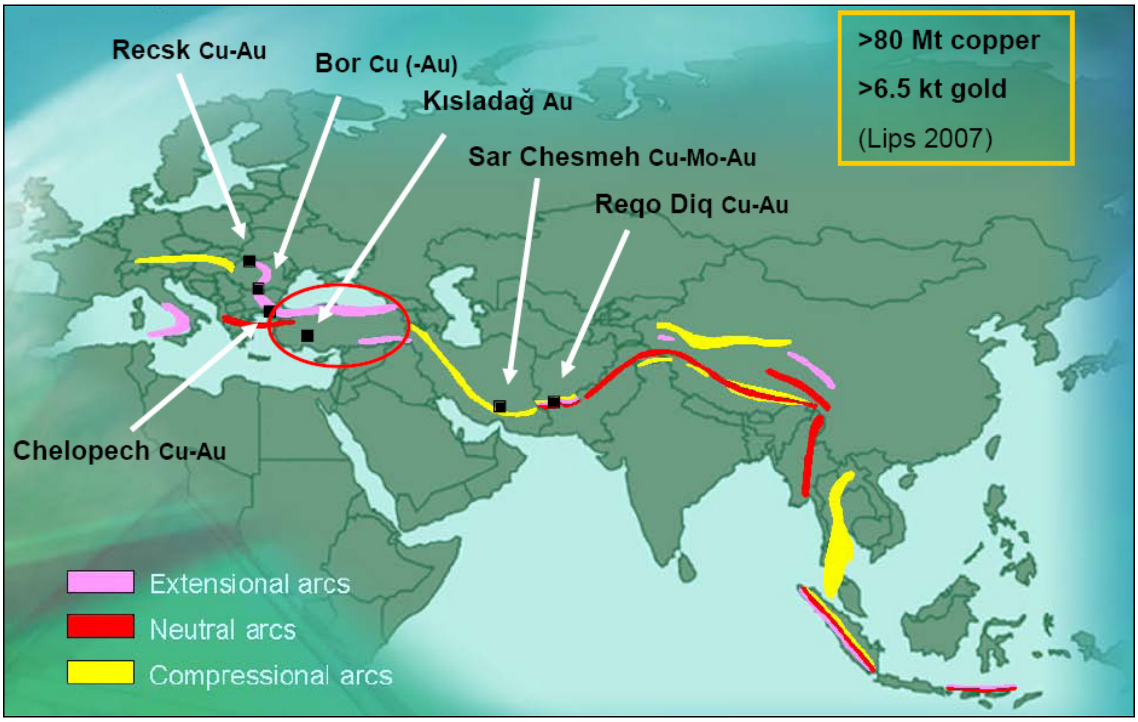
The climate is broadly temperate with hot, dry summers and mild, wet winters but harsher conditions prevail in the interior. Throughout central and western Turkey mineral exploration can be undertaken for about ten months of the year and this increases to all year-round near the northern, western and south-western coastal areas.

The majority of even the most remote villages in Turkey can now be accessed by paved roads and almost all villages benefit from national-grid electricity and boast solar-powered water heating and satellite TV links.

Geology - Overview

Turkey contains four major tectonic and metallogenic belts: the Pontides, the Anatolides, the Taurides, and the Border Fold Zone, which lie at the eastern end of the Alpine orogenic (mountain-building) belt. This belt is itself part of the 10,000 km-long Tethyan Belt; a still active region of multiple collisional tectonic arcs, extending eastwards through the southern Caucasus, Iran, the Hindu Kush, Tibet and then south through Burma and southwest Indonesia.

Exhibit 2: Global distribution of the principle "Tethyan" tectonic arcs



Source: Sengor/Leaman & Stauce/Stratex

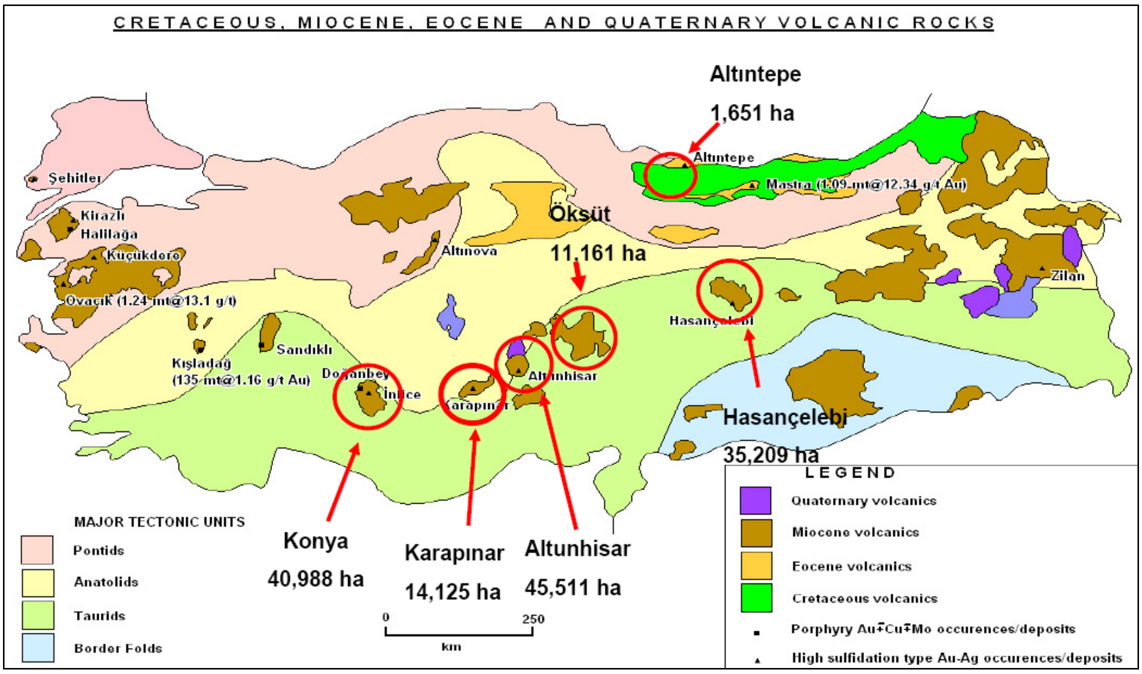
With the notable exception of Altıntepe, Stratex's prime targets are hosted within the Eocene-Miocene volcanics, positioned within and geologically between the Tauride and Anatolide units (Exhibit 3). These volcanics were erupted in response to the northward subduction of the African Plate beneath Anatolia along the Cyprean Arc from Upper Cretaceous to Miocene times (70- 5.3Ma). Eruption of the Konya volcanics was controlled by extensional faulting along the major arc-parallel Aksehir Fault.

The complex tectonic activity during the formation of Turkey gave rise to many different types of mineral deposits. Most are of epithermal, porphyry or VMS-style and of Late Mesozoic to Tertiary age. Stratex's advanced targets and defined resources consist of porphyry and the "high sulphidation" class of epithermal deposits.

Porphyry deposits

Porphyry deposits are associated with intrusive rocks. The ore occurs as disseminations along fractures and veins, which often form a stockwork. The ore bodies typically contain low grades of copper plus/minus molybdenum, silver and gold. They often contain significant ore tonnages.

Exhibit 3: Simplified geology of Turkey, showing major tectonic units and highlighting the Miocene volcanic targets.



Source: Stratex

"High-Sulphidation" Epithermal Deposits

Deposits of this type result from fluid, channelled through faults and fracture networks from a hot magma, interacting with groundwater and forming strong acids. These acids can dissolve the surrounding rock, sometimes leaving only silica behind. Further fluid phases then precipitate their contained metals (gold and sometimes copper). The shape of the mineral deposits is generally determined by the distribution of fractures and/or vuggy silica, which in turn can also depend on the permeability of the original host rocks. Due to this lithological sub-control on mineralisation, which 'disperses' the structurally-focussed ore-fluids, it is common to find large bulk-tonnage deposits with relatively low grades.

The acidic fluids are progressively neutralised by the rock the further they move away from the fault, resulting in progressively less alteration further away from the main structure. Definable zones of alteration minerals are usually formed in shell-like layers around the fault zone. Typically the central silica zone gives way to quartz-alunite (a sulphate mineral) and then outwards through zones of various clay minerals: kaolinite-dickite, illite, and finally chlorite-rich rock at the outer reaches. The alteration can leave huge areas of visually impressive coloured rocks.

Gold often occurs within sulphide mineral lattices. This usually makes the primary (fresh) ore unsuited to cyanide leaching and thus processing requires more metallurgically complex (and expensive) techniques, such as flotation, Pressure Oxidation (POX), BIOX, the Albion process, etc. However, since natural weathering can oxidise the sulphides, the near-surface portions of high sulphidation orebodies can be highly amenable to cheap cyanide-leach processing, such as heap leaching. Oxidation to great depth (such as seen at Öksüt) is often aided by the deep fracture networks found within these deposits.

Advanced Projects – Ripe For Joint Venture

Of all the Stratex portfolio of licenses, the Inlice and Altıntepe projects have undergone the most extensive drilling. Both have JORC-compliant resources, a significant proportion of which is in the high-confidence Measured and Indicated categories. This is important as it permits the next stage of development – a scoping study followed by a detailed feasibility study (including further infill drilling).

Due to its smaller scale and likely easier permitting (fewer impacted communities and no forestry areas), Inlice offers the prospect of a quicker and cheaper path to first production than Altıntepe. It is therefore possible that a staged approach to development could see cash generated from the former providing a significant proportion (if not all) of the capital costs of the latter.

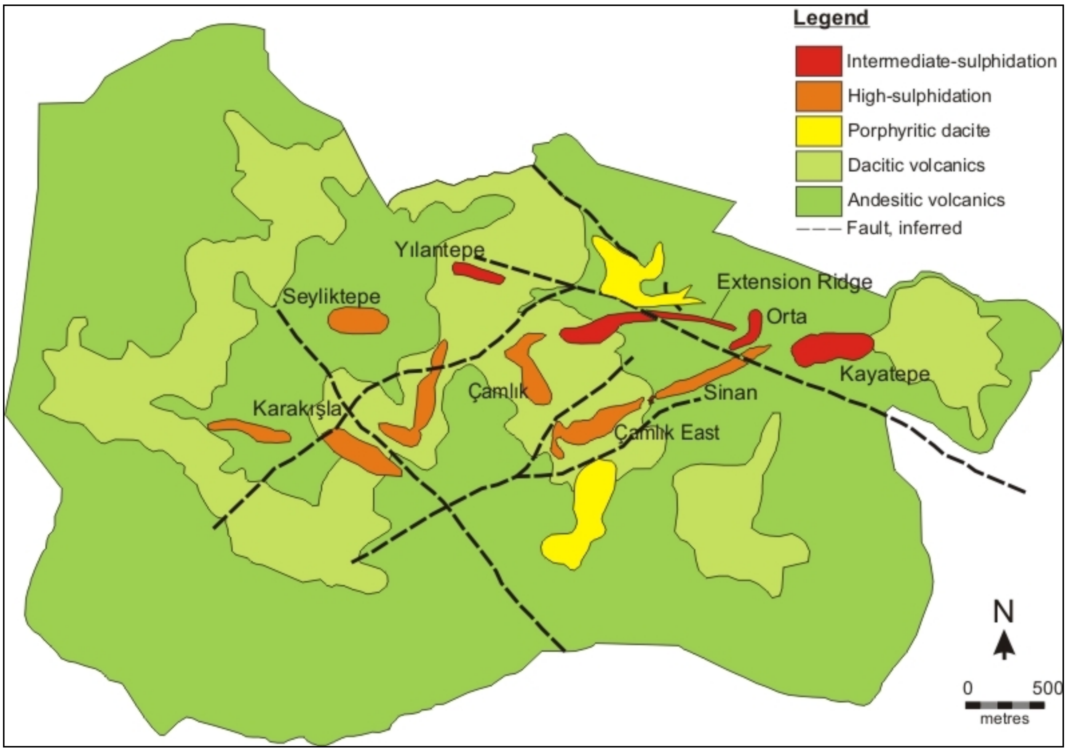
Altıntepe Project

The Altıntepe ('Gold Hill') gold project is located near the town of Fatsa on the Black Sea coast of northern Turkey. In April 2007 Stratex entered into an option agreement to acquire 100 % of the Altıntepe project from Teck's Turkish subsidiary, Teck Cominco Arama ve Madencilik San. Tic. A.S. (TCAM).

Teck retain an underlying 1.5 % Net Smelter Return ('NSR') royalty from any future production. A portion of the property is also held by a third party that holds a NSR royalty of 2.5 % which can be reduced to 1.25 % by a payment of US$ 750,000.

There are five deposits that make up Altıntepe: Çamlık, Çamlık East, Karakısla, Kayatepe and Extension Ridge. There are two additional zones - Sinan and Orta.

Exhibit 4: Altıntepe plan, showing location of the various deposits, alteration outcrop and main structures.



Source: Stratex

High-sulphidation epithermal gold mineralization is an integral part of the lithocap and consists of wide zones dominated by silica alteration (Çamlık and Çamlık East). In places, this is accompanied by intermediate-sulphidation epithermal gold mineralization (Extension Ridge and Kayatepe) that occurs as a series of linear, fault-controlled quartz veins and related stockworks.

The project has an in-house cross-sectional resource calculation to JORC standards. The total oxide resource for Altıntepe now stands at 472,318 oz gold, 276,114 oz of which falls in the Measured and Indicated categories. The bulk of the contained gold is in the Çamlık East and Kayatepe deposits.

Table 4: Altıntepe in-house (JORC standard) oxide resource

Category	Tonnes[1]	Grade (g/t Au)	Gold (oz)
Measured – OXIDE	287,333	1.78	16,453
Indicated – OXIDE	9,287,370	0.87	259,661
Inferred – OXIDE	3,523,434	1.73	196,204
Total	**13,098,137**	**1.12**	**472,318**

Source: Stratex
resource at cut-off grade of 0.20g/t; [1]using sg of 2.14t/m^3

The above oxide resource is broken down between the various deposits as follows:

Table 5: Altintepe oxide resource broken down by deposit

Deposit	Category	Tonnes[1]	Grade (g/t Au)	Gold (oz)
Kayatepe – OXIDE	Measured	287,333	1.78	16,453
	Indicated	1,431,841	1.54	71,214
	Inferred	702,660	1.98	44,935
Çamlık East – OXIDE	Indicated	3,521,672	1.09	123,603
	Inferred	528,206	1.09	18,604
Çamlık – OXIDE	Indicated	3,643,746	0.45	52,871
Karakışla – OXIDE	Indicated	690,110	0.54	11,973
	Inferred	563,675	0.65	11,760
Extension Ridge – OXIDE	Inferred	1,728,894	2.17	120,906

Source: Stratex
resource at cut-off grade of 0.20g/t; [1]using sg of 2.14t/m^3

The depth of oxidation is variable across the different deposits, depending on the relief, but in the major deposit of Çamlık East it is near the base of the hill. The deposit is in all cases outcropping at surface and is amenable to open pit mining with a low stripping (waste:ore) ratio.

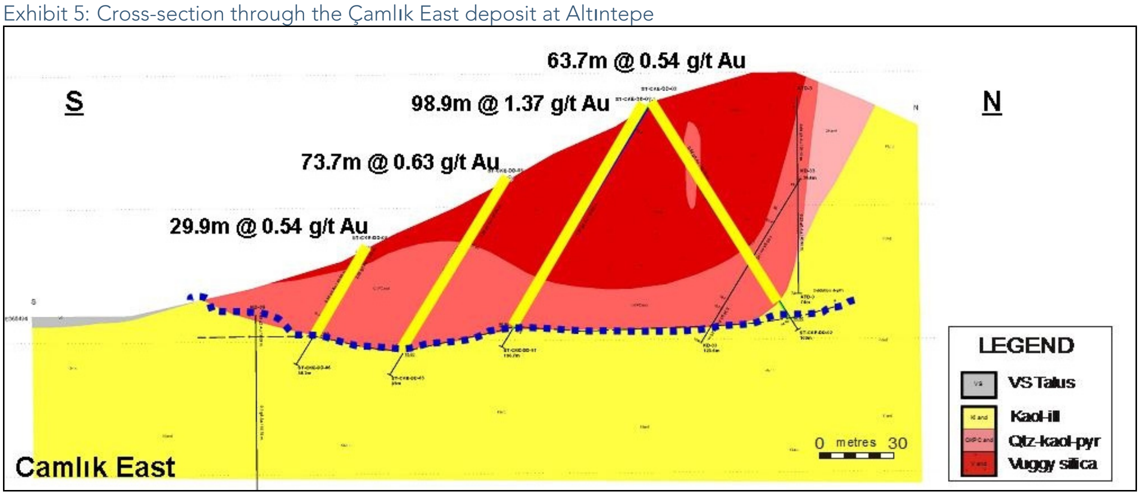
Preliminary cyanide-leach test work has been completed by Wardell Armstrong International Ltd on oxide samples from all five main zones. Two suites of tests were carried out: (1) Carbon-in-leach (CIL) bench tests on material ground to <75 micron, and (2) bottle roll tests on coarser material (crushed to <12 mm indicate). The tests showed the potential for high gold recoveries from all material, although a lower recovery (68.5 %) was recorded for the leach tests on coarse material from Extension Ridge. Both cyanide and lime consumptions were low to moderate. The test work thus gives strong evidence that the oxide material from Altıntepe is amenable to processing by low-cost heap leaching methods.

Table 6: Altintepe initial metallurgical test work results

Zone	CIL (<75µm)	Bottle Roll (<12mm)
Çamlık	96.4%	95.0%
Çamlık East	94.1%	96.5%
Karakısla	92.8%	96.6%
Kayatepe	91.8%	86.7%
Extension Ridge	87.5%	68.5%

Source: Stratex/Wardell Armstrong

Exhibit 5: Cross-section through the Çamlık East deposit at Altıntepe



Source: Stratex

A high voltage power line runs through the property and there is a sizeable river nearby, thus allowing easy access to power and water. Road access is good with a paved highway running adjacent to the deposit area.

There are a few communities in the area that will likely need relocating, but following our recent site visit to the project, we do not see this as a great problem. The area is covered with a hazelnut tree wood and so special permits will need to be gained from the Forestry Commission. Around 90% of the land is government owned and so land-use negotiations should be relatively simple. We have observed that Stratex's local management hold excellent relations with the local communities and authorities, and the company is therefore well placed for the permitting process.

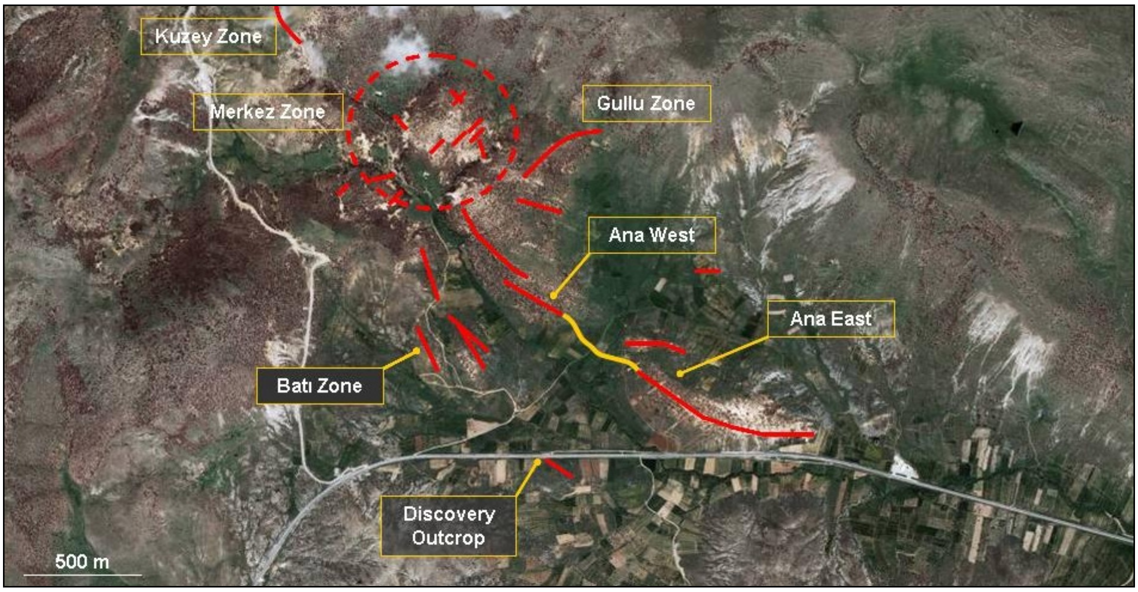
The topography of the area is hilly, but there exist several potential sites for processing and heap leach pads, with the valley-fill method being the most likely route in our opinion. Blasting will need to be carried out with care in order not to affect the local communities, although we believe there should be sufficient flexibility in the mine scheduling method to minimise this.

Stratex estimate that it will take between 2 and 4 years to achieve first production at Altıntepe. We suspect that it will be sooner rather than later providing (a) permitting proceeds relatively smoothly and, more critically, (b) financing can be achieved (as discussed previously).

Inlice Project

Inlice (pronounced In-lee-jer) project is located 230km south of Ankara and forms part of the Konya Volcanic Belt. The mineralization at Inlice was first recognised by Stratex Madencilik General Manager Bahri Yildiz, who noted and sampled a roadside outcrop, the sample returning 1.3 g/t Au. Stratex has now defined a JORC-compliant resource of 262,300 oz gold which is hosted by the Ana Zone, 98,000 oz of which is in oxide material.

Exhibit 6: The Inlice project, showing mineralised zones



Source: Stratex

The Inlice project is hosted by rocks of Upper Miocene to Pliocene age (12 - 3 million years old) that outcrop in the Erenlerdağı Volcanic Belt. The rocks comprise andesitic and dacitic lavas, agglomerate, lithic tuff, and ignimbrite locally interbedded with sedimentary units.

The immediate host rocks of the gold mineralization at Inlice are relatively massive homogenous andesitic volcanic rocks forming a dome complex. The gold mineralization occurs in steeply dipping structural zones that consist of silica "ledges". These replacement lenses cross-cut the andesitic host rock and are typical of structurally controlled high-sulphidation epithermal systems that formed from very low-pH (highly acidic) fluids.

The main silica types are opal/chalcedony, vuggy, sugary and massive silica. Geochemically the gold mineralization has a typical high-sulphidation trace element association of As, Bi, Hg, Sb, Te and Tl.

The alteration zone system at Inlice extends over an area of at least 3,500m by 1,000m. The NW and SE ends of the system are covered by alluvium and talus.

ACA Howe provided Stratex with a CPR and resource estimate comprising a total gold resource of 262,300 oz, of which 98,300 oz gold is in oxide. The Measured and Indicated categories represent 63 % of the total resource as shown below. The oxide gold component comprises 70,000 oz of in situ material and a further 28,300 oz in overlying talus.

Table 7: Inlice resource statement

Category	Tonnes[1]	Grade (g/t Au)	Gold (oz)
Measured – All	327,036	2.90	30,500
Indicated – All	1,503,524	2.62	127,000
Inferred – All	1,979,827	1.20	76,500
Total - All	**3,810,387**	**1.91**	**234,000**
Measured – OXIDE	327,036	2.90	31,000
Indicated – OXIDE	307,331	2.06	20,000
Inferred – OXIDE	310,128	1.89	19,000
Total – OXIDE	**944,495**	**2.29**	**70,000**
Indicated – SULPHIDE	1,196,193	2.77	107,000
Inferred – SULPHIDE	1,669,699	1.07	57,000
Total - SULPHIDE	**2,865,892**	**1.78**	**164,000**
Indicated – TALUS	205,673	1.06	7,000
Inferred – TALUS	1,141,301	0.58	21,300
Total – TALUS	**1,346,974**	**0.65**	**28,300**

Source: ACA Howe/Stratex

Wardell Armstrong International (WAI) has conducted two programme of metallurgical test work on samples from the Inlice gold deposit in Turkey.

The first tests in January 2007 indicated that the sulphide ore was not amenable to direct cyanidation. Recoveries were found to be clearly related to sulphur content, with the higher sulphide samples giving poor recoveries. It is likely that, in these samples, gold is associated with sulphide minerals, either as fine (sub-micron) grains or located within the mineral lattice. Oxide ore was indicated to have good recoveries, with one sample returning over 95%, although cyanide consumption was relatively high.

Flotation tests in May 2008, demonstrated that 74.3% of the gold could be recovered to a concentrate accounting for 9% of the sample weight. It was found that gold recovery could be increased by 4.1% to 78.4% if the cleaning stage was omitted although the concentrate weight increased to circa 13%. It was found that the sample's rather poor flotation response was due to a significant proportion of the pyrite being present as fine inclusions within chert. It was concluded that a finer primary grind size would probably increase gold recovery although this may prove uneconomic, considering the Work Index of the material (18kWhr/t).

SRK Consulting completed a preliminary Environmental Baseline Study at Inlice in July 2008. No major issues were identified and the report outlined various recommendations for further study.

Next in the Pipeline: Öksüt

Öksüt is Stratex's latest high-sulphidation gold discovery in Central Anatolia. The key license, Ortaçam, was acquired in October 2007 and was targeted on the basis of significant gold grades yielded from rock samples obtained during 2007.

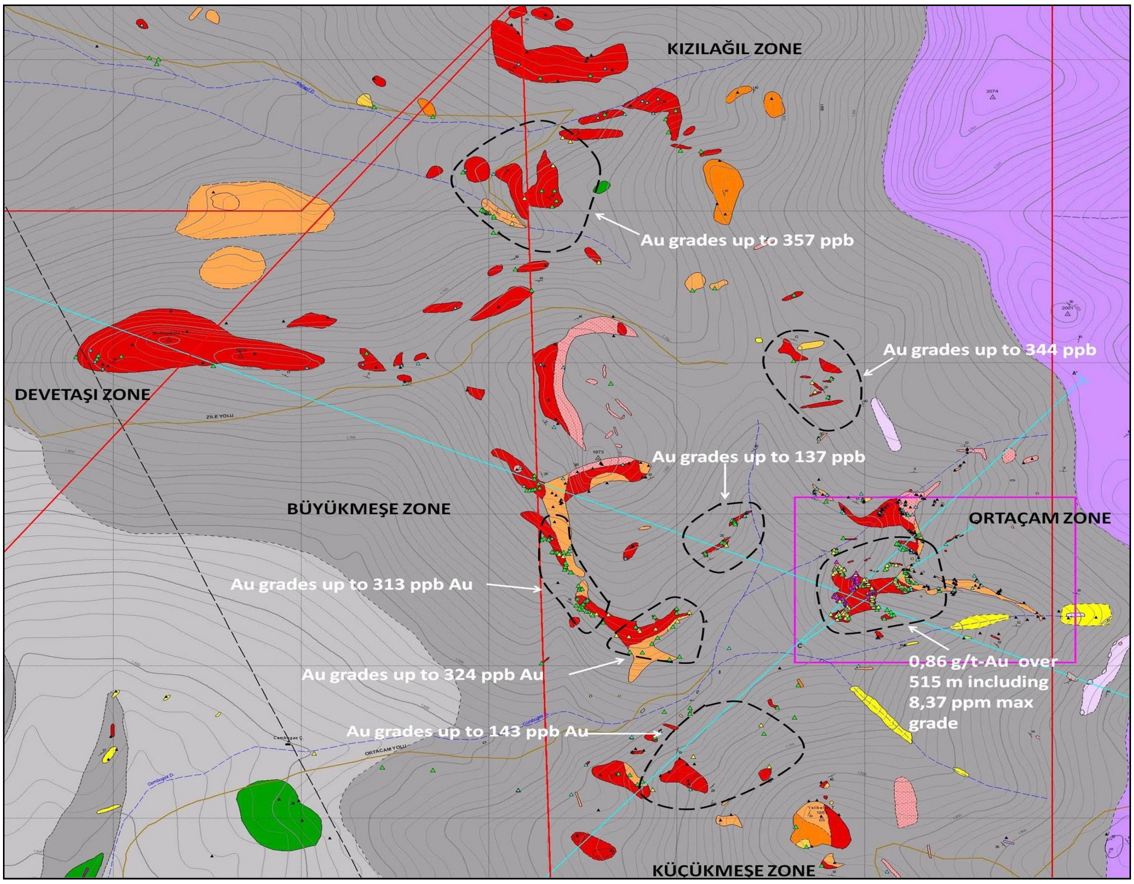
Miocene andesitic lava flow domes are overlain by alternating pyroclastics (andesitic volcanic breccias/agglomerates and andesitic lithic tuff) and lava flows.

Alteration and mineralisation show both structural and strong lithological controls. It is thought that the mineralising fluids migrated up structures and then out and along the near-horizontal volcanic beds in places. The thickness of the mineralised zones appears variable – it is thought there may be upward-funneling and flaring structures with only limited true bed replacement (see cross-section). The lithic tuffs (and locally, lava flow intercalations) are preferentially altered and mineralised, presumably due to their higher permeability than surrounding units. The altered units are overlain by later, barren presumed Pliocene-age lava flows.

Within the mineralised zones there is an observed zonation, with basal brecciated and massive silica (with highest grades) giving way to quartz-alunite ±kaolinite and opaline & chalcedonic quartz (with the lowest grades) at the top of the sequence.

Mapping and sampling commenced in April 2008 with a view to fast-track a reconnaissance drilling programme. Significant gold grades obtained from rock chip sampling identified the Ortaçam zone as an early priority. Here, the zone of massive and vuggy, and brecciated silica is exposed over an area of 200m by 300m.

Exhibit 7: Öksüt silica-altered zones (coloured) and Ortaçam zone (central eastern area), the current focus of drilling.



Source: Stratex

Drilling commenced in mid-August and initial results are shown below. ODD-8 yielded 270.20 metres averaging 1.22 g/t Au using a 0.2 g/t Au cut-off. To date this is the longest interval of continuous gold mineralization drilled by Stratex on any of its projects.

Table 8: Öksüt – significant drill intersections to date

Hole	From (m)	Intersection Length (m)	Au (g/t)
ODD-1	0.80	19.30	2.96
ODD-3	14.75	62.45	2.16
ODD-4	71.80	73.30	1.36
ODD-6	0.00	171.70	0.51
ODD-7	7.30	105.70	0.59
ODD-8	0.00	270.20	1.22
including	0.00	45.50	1.58
including	77.00	40.70	2.77
including	224.60	38.20	2.94
including	226.40	8.10	10.23

Source: Stratex

Results show that partial to complete oxidation persists down to a vertical interval of more than 100 metres, dependent on the degree of pervasive fracturing present within the silica zones. We therefore expect that the deposit hosts significant tonnages of mineralised material which would be amenable to cyanide leaching.

The area currently being drilled (Ortaçam) represents just one of several identified zones of altered and mineralised outcrop and there remains significant near-surface potential in the surrounding areas. Soil sampling of the entire property is currently underway to provide further insight into the project's wider exploration potential, including the possibility of underlying porphyry gold systems.

Furthermore, there is a nearby spring which could provide water to the project, and main power lines are close by. There is also good road access to the base of the hills where the project is located. There are few communities in the area and the requirement for relocation will likely be minimal, if non-existent. The area is mostly grass-covered with only minor scrub oak.

The topography of the deposit area appears to lend itself well to plant infrastructure, with shallow-sided valleys and flat areas suitable for processing. It may be necessary to use valley-fill heap leaching if that processing route is taken, depending on the eventual scale of the operation.

We recently visited this project and were impressed by its potential. We are reluctant to draw conclusions based on a few drill holes and without the guidance of a JORC-standard resource. However, not only do the grades and thickness appear to be economic, the lateral bed-controlled mineralization has the potential to host large near-surface mineralised tonnages. Whilst we do not yet have evidence that it is on the same scale (tonnage-wise), we do see many geological parallels with Lydian International's very exciting high-sulphidation deposit at Amulsar in nearby Armenia.

Grass Roots Projects – Plenty of Targets

In addition to the advanced projects described previously, Stratex holds a number of other highly prospective license areas which are waiting to be developed. These include Hasançelebi, where chip sampling has returned 1.16g/t over 22m width within a >5.5km length silica ledge system, and Altunhisar where anomalous gold and molybdenum (to 0.048%) has been identified in chip sampling, and mapping has identified at least 6 alteration zones around a volcanic complex.

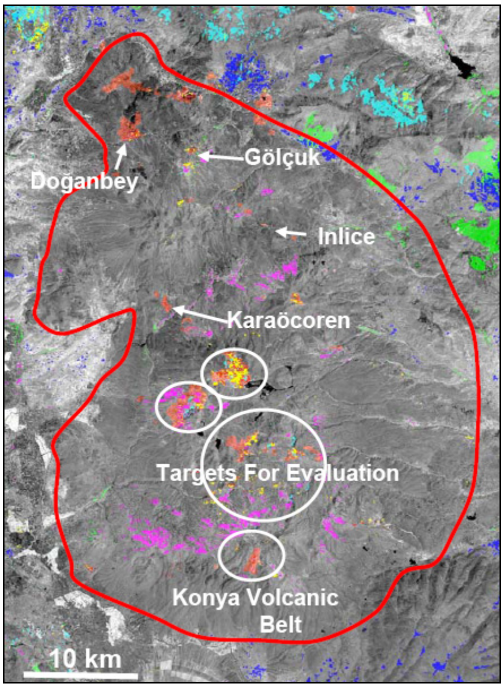
Konya – Three Out of Four for Teck

The Konya Volcanic Belt is located in the Erenler Dağı (Erenler Mountains) 245 km south of Ankara and 35 km west-south-west of the city of Konya. The Belt comprises a sequence of volcanic and intrusive rocks extending over an area of 60km x 40km and hosts Stratex's Inlice and Doğanbey projects. Stratex has a total of 31 licences covering an area of 37,480 hectares over the volcanic belt.

Independent consultant Richard Sillitoe has compared the Miocene-age (4-10 Ma) Konya Belt to the Maricunga district in Chile, which had no known gold mineralization prior to 1980, but which is now known to host reserves and resources in excess of 40 million oz gold. Significantly, many of the chemical and isotopic characteristics of the Konya volcanics are very similar to those of the Central Andes that are host to major gold, silver and base metal deposits.

This potential has been supported by Teck who, through its local subsidiary Teck Cominco Arama ve Madencilik San.Tic.A.S. (TCAM), have exercised three of their four earn-in options at an early stage of exploration. The "Konya" agreement covers Stratex's entire licence holding in the Konya region, excluding Inlice but inclusive of Doğanbey. TCAM have already spent US$1.6m in Year 1 (to 30 June 2008) and have to expend a further $1.4m in order to earn a 51% interest in the property. Doğanbey, together with the recently discovered Gölcuk and Karaöcoren have all been confirmed as porphyry gold ± molybdenum systems.

Exhibit 8: The Konya Volcanic Belt



Source: Stratex

Exhibit 9: Silica ledges at Hasançelebi

Source: Stratex

Valuation and Risks

We have based our valuation on a "conceptual" Discounted Cash Flow (DCF) model for the Altintepe project. Inlice offers potential if mined in conjunction with another project in the Konya Volcanic Belt, but, bearing in mind its small scale and challenging metallurgy, we feel its impact as a stand-alone operation is limited. Whilst potentially the most exciting of Stratex's properties, Öksüt is too early in development to model in detail.

Our DCF model for Altıntepe is conceptual in nature as we do not yet have a feasibility study on which to base reserve estimates and mine operating parameters/costs. Instead, we have used comparable projects as a guideline – in particular, our own valuation model of Minera IRLs operating Corihuarmi mine in Peru which, as we discussed earlier, has many similarities with Altintepe.

Our valuation is based on the fully-diluted NPV per-share, 12 months forward. We have used a discount rate of 10% due to the stable mining legislation and low sovereign risk in Turkey. Using the assumptions as detailed below, we derive an NPV of £24m for Altıntepe. Due to the early stage of development, we have attributed a 50% chance of success for Altıntepe and have applied this risk-weighting to the NPV in order to derive a valuation of the project. The discount reflects (a) the technical risks associated with the feasibility study, construction and commissioning (all relatively low risk in our opinion), and (b) the more significant financing risk. Our nominal valuation for the project is therefore £12m.

A negative NPV of £4.9m applies to projected corporate/head office costs. These are based on our assumption of £0.2m costs per quarter. We have modelled the operations in US Dollars and converted to British Pounds, the account reporting currency, using our GBP/USD exchange rate forecast (the consensus forecasts obtained from Bloomberg). See the "Market Data Summary" for our commodity and currency forecasts. We have valued Stratex's exploration portfolio, outside of Altıntepe, at a conservative £7.5m (see the discussion on "in-situ valuation" below).

The table below compares our valuation under two scenarios: (1) Stratex retaining 100% interest in Altıntepe, and; (2) on a farm-out basis, with Stratex retaining 30% of the project. Under the farm-out scenario, we have added-back the cost of the feasibility study to the Altıntepe valuation, in order to reflect the likely 'purchase cost' of the joint-venture. In both cases we have assumed Stratex fund their share of capital requirement through an 80/20 debt/equity arrangement, with equity raised at 4p per share (well below the 12 month average price).

We believe that the real value to Stratex in taking this project forward to production is the low project technical risk and the gain in exposure to potentially much greater gold prices than we have assumed here. We therefore favour the 100%-owned scenario and value Stratex at 7p per share. On a fully de-risked basis (100% of Altıntepe NPV), our valuation would be 10p per share.

Table 9: Stratex valuation summary

Valuation		Stratex 100% equity	Farm-out to 30% equity
Altintepe	(£ M)	12.0	6.7
Hedging	(£ M)	0.0	0.0
Exploration	(£ M)	7.5	7.5
Corporate/Other	(£ M)	-4.9	-4.9
Total	(£ M)	14.5	9.3
Less net debt (cash)	(£ M)	-4.6	-2.3
Valuation	(£ M)	19.1	11.6
Total diluted shares	(M)	274*	258
Valuation per share	(GBp)	7	5

Source: FD Capital * share dilution is risk-weighted by 50%, in line with the Altintepe NPV

Sensitivity

For a 10% increase in the gold price (or head grade), the NPV of Altintepe increases by 18%, indicating good leverage. Using a flat gold price of US$800/oz, the NPV increases from £24m to £30.8m. At US$1000/oz it is £45m, and our share target price increases to 11p.

The other sensitivities are given on the Market Data Summary page near the beginning of this report.

Altıntepe Valuation Assumptions

We have assumed that mining commences in 3Q 2011 at a rate of 1Mt per annum. Capital costs are estimated at $25m (including feasibility studies). This is in line with the capital costs that Minera IRL achieved at Coruhuarmi in Peru. We note here that this mine was constructed when inflationary pressures were at a cyclical high and that the price of steel, fuel and other critical items is expected to ease over the next few years during the economic downturn. We also point out the relative ease of sourcing cost-effective equipment and mining related contractors in Turkey, and the nearby locality of cheap power and water. Sustaining capex is estimated at $0.4m per annum over the life of the mine.

The major assumption we have made concerns the reserve tonnage and grade, i.e. what the mineable portion of the current resource is likely to be. In order to be as conservative as possible, we have taken the following steps:

(a) we have taken all of the Measured and Indicated and 50% of the Inferred resource tonnage (11.34Mt), then
(b) multiplied this tonnage by 70% to estimate the reserve tonnage, then
(c) used an estimated reserve grade of 1.2g/t, which gives a reserve metal content of just over 300,000oz gold. We feel that a reserve grade of 1.2g/t is realistic given the breakdown in resource grades by deposit (detailed earlier).

We believe there is strong potential to maximise the cash flow, and NPV, of the project by selectively mining the higher grade deposits early in the mine life. We have assumed that the Kayatepe and Extension Ridge deposits are mined early, and have taken a head grade of around 1.5g/t in the first two years of the mine, reducing thereafter towards 0.8g/t at the end of mine.

We assume a recovery between 85% and 75% (higher recovery for higher grade material). We have not included any revenues from silver. We use a 0.75 strip ratio for the open pits, i.e. 0.75 tonnes of waste for each tonne of ore mined. We believe that this is realistic based on the highly open-pit-amenable form of the orebodies.

These parameters give a projected mine life of 8 years and a production of 20-40,000oz per annum, depending on head grade. Our mining, processing and administration costs give a total operating cash cost (including royalties) of between $200 and $400/oz, again depending on grade. We have included an additional $20/oz cost for rehabilitation and mine closure costs.

We estimate that the project will require a capital raise of £16m, which would cover the feasibility, capital and working capital costs of the project, as well as ongoing exploration costs (assumed to be £0.3m per quarter).

In-situ valuation

An approximate valuation can be achieved based on a multiple of the in-situ resource value. Our experience suggests that, over longer time periods the 'fair value' of exploration-stage resource stocks as a group will be around 3% of the in-situ value of the resource. At current spot prices, this equates to around $25/oz for gold. On this basis, Stratex's 1Moz of gold would suggest a fair Enterprise Value of US$25m (around £15m).

Since Altıntepe consists roughly half of the current resource base, this implies a value of £7.5m for the balance of the portfolio. We feel that this is a conservative estimate, bearing in mind the potential of Öksüt in particular.

It should be noted that market comparative studies can give highly misleading results at the best of times. The most commonly used multiples for exploration-stage mining stocks such as the one described do not take into account the grade, operating cost, capex, geographic/political risk and stage of development of a given project. Since the stock market is essentially a mechanism for valuing expected future cash flows (when it is functioning more rationally, unlike the present), we believe that it is dangerous to make investment decisions ignoring these critical factors.

With a few notable exceptions, just about every resource stock is currently trading at extremely low levels due to the ongoing credit crisis (fund liquidation) and the discounting of a global economic slowdown. These factors have combined to make (a) the relative differences in multiple 'valuations' between companies small, and (b) the underlying reasons for any differences even more uncertain.

For these reasons we believe that the expected low-costs at Altıntepe and Öksüt will not be fairly represented by an 'in-situ' comparison, and such studies will result in a bias towards lower 'valuations'. However, we will stick with the £7.5m valuation for the exploration portfolio (ex Altıntepe), bearing in mind the current market conditions.

Upside

- Operations – we have been conservative in our estimates of the mining parameters for Altıntepe. There is ample scope to achieve better grades, lower costs and/or greater production from the orebodies and hence improve the NPV.
- Exploration – Stratex has a very strong management team and a very exciting portfolio of projects. We do not yet know if Öksüt is the "company maker" in waiting, but we are certainly impressed by its potential. Whilst we have included a premium for the exploration portfolio in our valuation, we anticipate much upside from this base.
- Inlice – We have not modelled Inlice separately, preferring to 'lump' it together with the other properties valued on an in-situ basis. We expect the property is worth significantly more than we have given credit for.
- Commodity prices – We expect that the price of gold will remain strong for the foreseeable future, outperforming other commodities as it benefits from an ongoing inflationary monetary backdrop. Refer to the "Market Data Summary" to see the sensitivities to metals prices.
- Joint Venture – Stratex have stated that they are on the lookout for a joint venture partner to help develop Altıntepe, Inlice and, perhaps, others in the stable. There is good potential to find a strategic partner who can significantly de-risk the financing of these projects and help bring them forward in a timely manner.
- Project de-risking – We expect uplift in the valuation once feasibility and financing risks are removed.

Risks

- Financing – As with all junior resource companies in the current economic environment, the major risk to Stratex revolves around securing adequate project finance.
- Teck – have one more "option" to exercise over Stratex's properties. Will it be Öksüt? Will they walk away from the agreement altogether, bearing in mind that they have financial difficulties of their own?
- Costs – Inflation is an ongoing concern in the mining industry. We believe that our estimates are sufficiently conservative to provide contingency for this effect.
- Commodity prices – With a global slowdown currently underway it is possible that metal prices, including gold, could experience a prolonged period of weakness. We do not view this as a particularly significant risk as, by the time any project is brought into production, we expect that prices will have recovered.
- Sovereign – Our view is that Turkey presents low sovereign risk.
- Currency – As we have modelled operations in US Dollars and converted to GBP to derive our target price there is an associated exchange rate influence on the model.

Corporate Structure and Shareholders

Corporate Structure

Stratex International listed on the AIM market on 4 January 2006, with an Initial Public Offering of 37,400,000 shares at 5p per share. At listing Stratex had 100,000,000 Ordinary Shares in issue. The registered office address of the company is 212 Piccadilly, London, W1J 9HG.

The authorised share capital of the Company is £3,000,000 divided into 300,000,000 Ordinary Shares of 1p each. Stratex has outstanding 234,239,442 Ordinary Shares and 19,670,500 Options. The Options mature as follows.

Table 10: Options outstanding

Grant Date	Expiry Date	Exercise Price (GBP)	Number of Shares
January 2006	4 January 2016	5.0p	4,277,000
March 2006	1 March 2016	7.0p	20,000
August 2006	8 August 2016	8.5p	3,000,000
February 2007	8 February 2017	8.25p	57,500
March 2007	12 March 2017	8.75p	3,000,000
June 2007	6 June 2017	10.0p	5,500,000
January 2008	23 March 2018	8.5p	780,000
February 2008	1 February 2018	8.625p	1,500,000
June 2008	10 June 2018	6.5p	1,500,000
July 2008	11 July 2018	5.25p	36,000

Source: Stratex

Shareholders

Table 11: Stratex major shareholders

Registered Name	% Holding
Kairos Investment Management Ltd	20.98%
Orion Trust	10.98%
Mr N Graham	9.82%
Teck Ltd	8.75%
David Hall	5.35%
Cenkos NI Nominees	4.08%
Bob Foster	2.95%

Source: Stratex

Management & Directors

David Hall – Executive Chairman, is a graduate in geology from Trinity College Dublin and holds a Masters Degree in Mineral Exploration from Queens University, Kingston, Ontario. He has 26 years of experience in the exploration sector and has worked on and assessed exploration projects and mines in over 50 countries including Turkey where he worked for four and half years. From 1992, he was Chief Geologist for Minorco responsible for Central and Eastern Europe, Central Asia and Middle East. He moved to South America in 1997 as Consultant Geologist for Minorco South America, subsequently became Exploration Manager for AngloGold South America in 1999.

Bob Foster – CEO, has 33 years of experience as a professional economic geologist in exploration, mining, and applied academic posts and has particular expertise in the genesis of and exploration for gold deposits, having worked in Europe, Central Asia, North and South America, and throughout Africa. Following ten years in the mining industry in Rhodesia (now Zimbabwe) he joined Southampton University in 1984 where he subsequently devoted more than 15 years to lecturing and managing a large applied research group investigating ore-forming processes and mineral exploration strategies on regional and area scales and within operating mines. During his time at Southampton University he undertook numerous consultancy projects with major and junior mining companies and was a founding member of the management team of Pan-African Mining Pvt Ltd that developed the open pit Ayrshire gold mine in Zimbabwe in 1991-1996. He also directed a major gold exploration programme for associated company Pan-Reef Mining in Zimbabwe during 1994-1996.

Perry Ashwood – CFO, qualified as a Chartered Accountant in 1971, training with Spain Brothers & Co. and KPMG. Shortly after qualifying he spent 5 years with British Oxygen Ltd in their Corporate Office before moving to Rank Xerox Ltd in 1978. Perry was with Xerox for 20 years and held various positions ranging from Group Chief Accountant to Finance Director, Central & Eastern Europe. During his time with Xerox, he held both technical accounting roles, including involvement in internal controls and audit, and operational roles with extensive involvement in: Turkey; Egypt; India and Russia.

Mr Bahri Yildiz – General Manager Turkey, is a Turkish national with an industrial career spanning 27 years dedicated to mineral exploration and mining geology throughout Turkey. A geology graduate of the Middle East Technical University, Bahri commenced his career in 1980 with the government's General Directorate of Mineral Research and Exploration (MTA) where he spent ten years managing a wide range of projects relating to exploration for precious and base metals. This was followed by three years as Exploration Manager with Turkish company Yurttaslar Madencilik before he joined Dardanel Madencilik, the Turkish subsidiary of major Canadian mining company Inco Ltd in 1992 as Senior Geologist. During his final four years with Dardanel he was Exploration Manager and responsible for generating and supervising a wide range of exploration programmes throughout Turkey.

Christopher Hall – Non-Executive Director, has over 35 years of wide ranging experience in the mining sector. He is currently the in-house mining adviser to Grant Thornton LLP, principally assisting the Capital Markets team with clients listed on London Stock Exchange and the AIM market.

Peter Addison – Non-Executive Director, qualified as a solicitor in 1966 and practiced in the City of London, originally with Linklaters & Paines and subsequently with Norton Rose, specialising in company and commercial law. In 1982, he became a director of English Trust, a corporate advisory bank, and for some twenty years was involved in providing corporate finance advice to a wide range of public companies in the UK and Ireland on all aspects of their businesses.

Glossary

A$	Australian Dollar
AIM	Alternative Investment Market
ASX	Australian Stock Exchange
Ag	silver
Au	gold
BFS	bankable feasibility study
bn	billion
Co	cobalt
Cu	copper
fd	fully diluted
Fe	iron
g	gram
g/t	gram per tonne
GBP	GB pounds
JORC	The Code for Reporting of Mineral Resources and Ore Reserves by the Australasian Joint Ore Reserves Committee (JORC)
kg	kilogram
km	kilometre
koz	thousand ounces
kt	thousand tonnes
lb	pound (weight)
LME	London Metal Exchange
m	metre
M	million
M&I	measured and indicated
Mlb	million pounds (weight)
Mn	manganese
Mo	molybdenum
Moz	million ounces
Mt	million tonnes
Ni	nickel
oz	ounce
Pb	lead
pa	per annum
P&P	proven and probable
ppm	part per million
RC	reverse circulation drilling
Sn	tin
t	tonne
tpa	tonnes per year
US$	United States Dollar
V	vanadium
W	tungsten
Zn	zinc

Research Disclosures

Peter Rose – Head of Mining Research

Peter Rose has had 20 years experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia, with previous positions including three years with Prudential Bache and five years with James Capel. Peter's industry experience includes 16 years as a metallurgist, three years with De Beers in South Africa, and eight years in the uranium industry, five of which were spent at the Ranger Uranium mine. Peter has a Bachelor of Science in Applied Mineral Science from Leeds University UK, and a Bachelor of Commerce from the University of South Africa. Peter is a member of the Institute of Mining & Metallurgy and a chartered engineer.

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Andy Davidson – Mining Analyst

Andy has had over 7 years experience as a geologist in the mining industry. He worked for Ashanti Goldfields on the exploration and development of Geita, one of the largest new gold mines in Africa of recent years. He was also involved in projects in other parts of Africa and Mongolia. Prior to joining Fox-Davies Capital, Andrew enjoyed a successful 4-year period of self-employment as a commodity-focused analyst and trader. He holds a Bachelor of Science in Geology with First Class Honours from the University of Southampton and also a Master of Science/DIC from Imperial College London in Mineral Project Appraisal.

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Ian Lucas – Research Assistant

Ian joined Fox-Davies Capital in November 2007. Prior to this he gained a BA (Hons) in archaeology from University College London, graduating in September 2007.

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Research disclosure as of December 2nd, 2008

Company: Stratex International
Disclosure: 1, 2, 7, 8, 9

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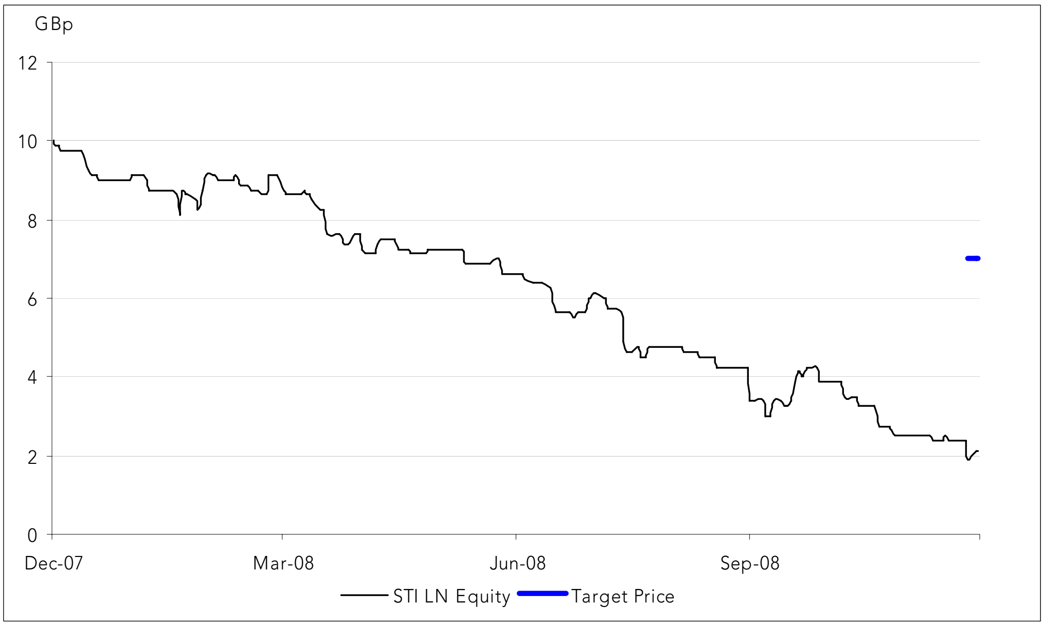
Buy	Recommendation implies that expected total return of at least 15% is expected over 12 months between current and analysts' target price.
Trading Buy	Recommendation implies that the analysts' expected total return over the short term compared against the target price is positive.
Hold	Recommendation implies that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.
Trading Sell	Recommendation implies that the analysts' expected total return over the short term compared against the target price is negative.
Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

Disclosure charts

Exhibit 10: Stratex International share price.



Source: Bloomberg, FDC

Stratex International Recommendation Summary

Date	Recommendation	Target Price (GBp)
Dec 2, 2008	Initiate at BUY	7.0

About Fox-Davies CAPITAL

Fox-Davies CAPITAL Limited (FDC) has been advising and raising funds for the natural resource sector since February 2001. The firm specialises in assisting international resource companies gain access to the UK, European and North American capital markets and has a substantial background in emerging markets particularly in Africa, Asia, Russia and the CIS.

FDC enjoys a successful track record in advising and undertaking fundraising transactions for its clients from private equity to IPO and secondary offerings and works with over 350 specialised institutional resource and emerging markets funds worldwide.

FDC provides professional advice based on effective analysis and research to assist its corporate clients in presenting their proposals to the investment community. Our strength lies in the oil & gas and mining sectors where as a company or in previous roles our board has advised clients on the main board of the London Stock Exchange and AIM as well as the Toronto Stock Exchange. This includes such companies as Cadogan Petroleum, Aurelian Oil & Gas (AIM), Heritage Oil and Gas (TSX), First Calgary Petroleums (TSX & AIM), Hardman Resources (ASX & AIM), Highland Gold (AIM), SouthernEra (TSX & AIM) and Titanium Resources Group (AIM) amongst others.

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Fox-Davies Capital Coverage

Mining companies covered by Fox-Davies Capital as of December 2nd, 2008:

Company	Recommendation	Date	Target Price	Ticker	Last Price
Mining					
Amur Minerals	BUY	30.07.08	£0.34	AMC LN Equity	£0.01
Angus & Ross	HOLD	24.11.08	£0.03	AGU LN Equity	£0.01
Baobab Resources	BUY	27.10.08	£0.18	BAO LN Equity	£0.04
Diamonex	HOLD	03.11.08	A$0.10	DON AU Equity	A$0.06
Discovery Metals	BUY	24.11.08	£0.24	DME LN Equity	£0.07
EMED Mining	BUY	01.12.08	£0.29	EMED LN Equity	£0.08
Exco Resources	BUY	24.11.08	A$0.46	EXS AU Equity	A$0.08
Gippsland Limited	BUY	26.11.08	£0.12	GIP LN Equity	£0.02
Hambledon Mining	BUY	24.11.08	£0.06	HMB LN Equity	£0.03
Highland Gold	BUY	23.10.08	£1.06	HGM LN Equity	£0.45
International Consolidated Minerals	BUY	24.11.08	£1.95	ICMI LN Equity	£0.25
Kryso Resources	BUY	08.09.08	£0.45	KYS LN Equity	£0.04
Lydian International	BUY	29.09.08	C$1.47	LYD CN Equity	C$0.24
Minera IRL	BUY	24.11.08	£0.70	MIRL LN Equity	£0.57
Neptune Minerals	BUY	12.05.08	£0.58	NPM LN Equity	£0.05
Stratex International	BUY	02.12.08	£0.07	STI LN Equity	£0.02
Van Dieman Mines	HOLD	21.11.08	£0.03	VDM LN Equity	£0.01

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