

16 October 2007

The Peruvian Pipeline to Prosperity

Investment Highlights

- SRK holds the right to earn a 68.15% interest in two prospective high-grade iron ore projects in Peru. We believe these advanced exploration assets offer excellent development potential based on our preliminary (pre-PFS) estimates. Our DCF derived and risk-weighted price target is A\$4.62/share and accordingly we are initiating coverage on SRK with a BUY.
- As an advanced exploration play, SRK has a major land holding in a world-class greenfields iron ore district. Its two flagship projects, Apurimac and Cuzco, present all the right signs including an abundance of outcropping mineralisation, high-grade surface samples and large gravity anomalies.
- In 2006 SRK acquired these two assets with a significant historical resource of over 1,200Mt combined. SRK has since defined an initial Inferred Resource at Apurimac of 172Mt grading 62.3% Fe, providing it with a high-grade resource base larger than all but one of its ASX listed peers.
- SRK's project development plan involves three stages. Firstly, a Stage 1 Scoping Study is underway for a small-scale (2Mt/tpa commencing 2009) hematite DSO operation. While capturing high iron ore prices and providing a handy cash flow, based on our iron ore price assumptions its mine life is limited to 2014 at which time lower prices render it unprofitable. Our NPV for SRK's 68.15% share of the project is A\$30m.
- The Stage 2 (22Mt/tpa commencing 2011) and Stage 3 (40Mt/tpa commencing 2015) operations offer a low operating cost of US\$16/t (after royalties) and a long mine life of 20+ years, contingent on resource definition. Low operating costs are driven by high-grade nature of mineralisation, a low strip ratio and the use of a proposed pipeline to transport ore to port. Once de-risked, SRK's 68.15% share in the Stage 2 and 3 projects is potentially worth A\$3.5b.

Company

Stock code:	SRK
Share price:	\$2.46
Recommendation:	BUY

\$4.16 \$5.08



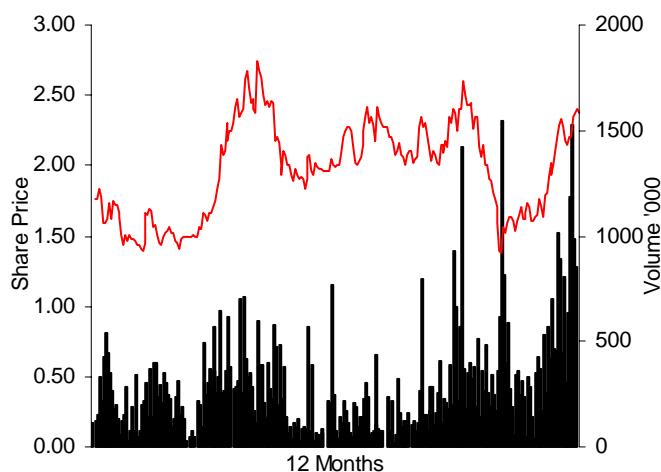
S&P/ASX 300 = 6,750

Analyst

Analyst: Mark Savich
Phone: (+61 8) 9263 1144
Email: msavich@psl.com.au

Company Statistics & Performance

Shares on Issue	79.0m	Daily Vol.	270,096
Market Cap.	\$194.2m	Debt	\$0.0m
52 Week Range	\$1.38 - \$2.74	Cash	\$18.4m



Investment Summary

Year End June 30	2007A	2008F	2009F	2010F
Reported Earnings				
Net Profit (\$m)	2.3	(2.6)	(0.5)	18.5
EPS (cents)	3.1	(2.1)	(0.4)	3.7
EPS growth (%)	nm	(167.2)	(82.4)	(109.2)
PER (x)	nm	nm	nm	67.0
EBITDA				
EBITDA (\$m)	2.3	(3.7)	14	53.7
EV/EBITDA (x)	nm	nm	nm	15.9
Cashflow Multiples				
Gross Cashflow (\$m)	2.3	(9.8)	(14.3)	19.7
GCFPS (cents)	3.1	(7.8)	(11.4)	3.9
PGCF (x)	80.2	(31.6)	(21.6)	63.1
Free Cashflow (\$m)	(2.6)	(9.8)	(30.3)	(740.4)
FCFPS (cents)	(3.5)	(7.8)	(24.2)	(146.7)
PFCF (x)	(71.1)	(31.6)	(10.2)	(1.7)
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Table of Contents

Investment Highlights	1
Company Background	3
Capital Structure	3
Board of Directors	3
Substantial Shareholders	3
Exploration & Development Interests.....	3
Other Assets	3
Apurimac & Cuzco Iron Ore Projects.....	3
History & Ownership	3
Geology & Mineralisation	3
Historical Exploration	3
Current Exploration & Resource Definition	3
Project Development Plan	3
Stage One – Cuzco	3
Mine Plan	3
Infrastructure Requirements	3
Capital & Operating Costs	3
Cash Flows & Earnings Forecasts.....	3
Project Valuation & Key Risks	3
Stage Two & Three – Apurimac/Cuzco	3
Mine Plan – Apurimac Stage Two.....	3
Mine Plan – Cuzco Stage Three.....	3
Infrastructure Requirements	3
Capital Costs.....	3
Operating Costs	3
Cash Flows & Earnings Forecasts.....	3
Pre-Feasibility Study	3
Financing.....	3
Off-take	3
Project Valuation & Key Risks	3
Mining in Peru	3
Investment Thesis.....	3
Valuation	3
Peer Comparison	3

Company Background

Strike Resources Ltd (formerly Fast Scout Ltd) was incorporated in Western Australia in September 1999 and listed on the ASX in March 2000. The Company was initially involved with activities in the internet technology sector.

The Board was restructured in October 2005. In February 2006 the former dotcom Company was recapitalised, changed its business activities to that of a mineral exploration and development company and renamed to Strike Resources. The new Company's exploration portfolio consisted of uranium and coal projects in Australia and Indonesia.

In May 2006 SRK acquired the right to earn a 51% interest in a portfolio of high-grade iron ore projects in Peru. Subsequently, the Company's attention became firmly focussed on exploring these projects and evaluating their development potential. This shift in focus saw SRK spin-off its uranium exploration interests into Alara Uranium Ltd which listed on the ASX in May 2007.

Capital Structure

SRK currently has 79.0m ordinary shares on issue. The Company also has 23.3m options outstanding, of which 10.5m are listed options (SRKO.ASX) with a exercise price of A\$0.20 and expiring 30 June 2008. SRK does not have any debt or interest-bearing liabilities outstanding.

Figure 1: Issued Securities

	(m)
Fully Paid Ordinary Shares	79.0
Options Outstanding	23.3
Total Issued Capital	102.3
	(A\$m)
Fully Diluted Market Cap.	245.5
Unpaid Capital	19.3
Cash	18.4
Debt	0.0
Enterprise Value	207.8

Source: Strike Resources Ltd, Patersons Securities estimates

Board of Directors

John Stephenson (Chairman) – Appointed 26 October 2005

John is a geologist with over 37 years experience in the mining. He has held senior positions in large mining companies, most recently as Exploration Director for Rio Tinto Australasia where he led Rio Tinto's exploration activities for five and a half years based in Perth.

Shanker Madan (Managing Director) – Appointed 26 September 2005

Shanker has world-wide experience in the exploration and evaluation of mineral deposits for various commodities. He has been a Manager with Hamersley Iron, Group Leader with BHP Minerals, Chief Geologist with Hancock and Wright Prospecting and a Senior Geological Consultant to the Rio Tinto Group.

Farooq Khan (Executive Director) – Appointed 9 September 1999

Farooq is a qualified lawyer having previously practiced principally in the field of corporate law. He has experience in the securities industry, capital markets and the executive management of ASX listed companies.

Malcolm Richmond (Non-Executive Director) – Appointed 25 October 2006

Malcolm has 30 years experience with the Rio Tinto and CRA Groups in a number of positions including: Vice President, Strategy and Acquisitions, Managing Director, Research and Technology, Managing Director Development (Hamersley Iron Pty Ltd) and Director of Hismelt Corporation Pty Ltd.

William Johnson (Executive Director) – Appointed 14 July 2006

William commenced his career in resource exploration and has most recently held senior management and executive roles in a number of public companies in Australia, New Zealand and Asia.

Victor Ho (Executive Director & Company Secretary) – Appointed 12 October 2000

Victor has been in company secretarial/executive roles with a number of public listed companies since early 2000. Previously, he had nine years experience in the taxation profession with the Australian Tax Office and in a specialist tax law firm.

Substantial Shareholders

As at 30 June 2006 the top 20 shareholders in SRK held a 45.2% interest in the Company.

Figure 2: Top Five Shareholders

	Nb. of Shares (m)	(%)
ANZ Nominees Ltd	5.8	7.3%
Database Systems Ltd	4.8	6.1%
HSBC Custody Nominees Ltd - A/C 2	4.0	5.1%
HSBC Custody Nominees Ltd	2.7	3.4%
Orion Equities Ltd	2.4	3.0%

Source: Strike Resources Ltd, Patersons Securities estimates

Nominee Accounts: The majority of the parties behind these nominee accounts are institutional investors who acquired equity in SRK through its A\$15m capital raising in May 2007.

Database Systems Ltd: This shareholder has been on SRK's register since its inception as a dotcom company. It can achieve a 9% shareholding through exercising its options.

Orion Equities Ltd: This is investment company which received shares in SRK as consideration for vending in SRK's initial mineral exploration assets when the Company was recapitalised and changed its business activities in 2005. It holds a 6% diluted interest in SRK.

Exploration & Development Interests

Below is a summary of SRK's portfolio of mineral exploration and development interests. Patersons has only applied a value to the Company's more advanced iron ore projects in Peru.

Figure 3: Company Projects

Project	Interest	Location	Commodity
Apurimac	68.2%	Apurimac District, Peru	Iron Ore
Cuzco	68.2%	Cuzco District, Peru	Iron Ore
Banten	100.0%	West Java, Indonesia	Copper/Gold
Paulsens East	100.0%	West Pilbara, WA	Iron Ore & Gold
King Sound	100.0%	West Kimberley, WA	Minerals Sands

Source: Strike Resources Ltd, Patersons Securities estimates

Other Assets

Alara Uranium Ltd (AUQ.ASX) – Listed on the ASX in May 2007

In 2007 SRK vended its Australian and Peruvian uranium exploration interests into AUQ. As consideration for the assets, SRK received 28.75m AUQ shares giving it a 37.5% interest in the junior explorer. With AUQ trading at A\$0.20/share, SRK's stake is valued at circa A\$5.7m. AUQ's Board comprises of three Directors of SRK.

Apurimac & Cuzco Iron Ore Projects

History & Ownership

SRK's flagship assets are the Apurimac and Cuzco iron ore projects in Peru, located 450km and 550km southeast of Lima, respectively. During his time working for BHP, Rio Tinto and Hamersley Iron, Shanker Madan managed a range of mineral evaluation studies in Iran, Brazil and Western Australia. It was through this experience that Shanker identified and directed SRK's attention towards the greenfields projects in Peru.

Since the 1960's a Peruvian family has held title to the concessions in the Apurimac and Cuzco projects. SRK has entered into two agreements that have secured the Company the right to progressively earn a 68.15% interest in these projects. This ownership will occur through SRK's investment in Apurimac Ferrum S.A (AF), a Peruvian company that now holds title to the concessions in the projects.

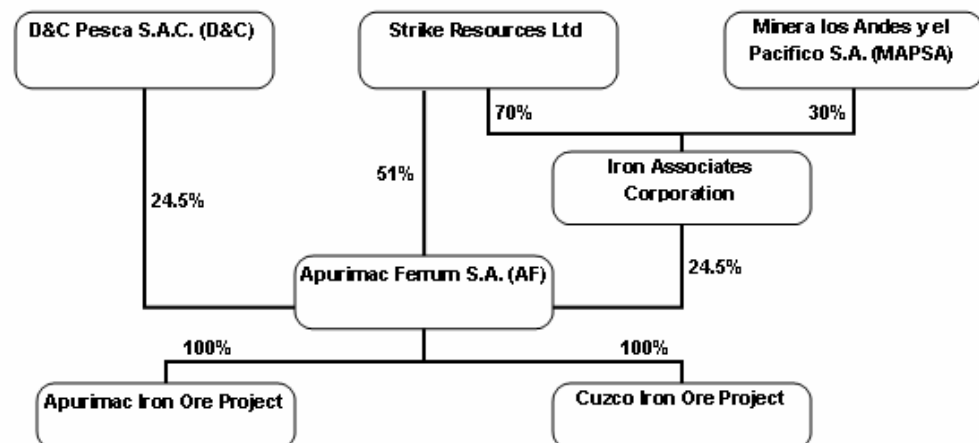
In October 2006 SRK entered the 'AF Agreement' to acquire up to a 51% interest in the two iron ore projects from two parties, Minera los Andes y el Pacifico S.A. (MAPSA) and D&C Pesca S.A.C. (D&C). Under this agreement the total consideration required by SRK will be:

- A US\$6.5m spend on exploration through an investment in AF. This is expected to be spent by March 2008 on the Pre-Feasibility Study and will deliver SRK an initial 12.5% stake in AF.
- A bullet payment of US\$34.5m, being the cost to exercise options to acquire shares in AF delivering SRK a further 38.5% of AF.

In February 2007 SRK entered into the 'MAPSA Agreement' to acquire a further 70% of MAPSA's residual interest in AF, delivering SRK a stake of 68.15% in AF. Under this agreement the total consideration required by SRK will be:

- US\$10m bullet payment, already paid in cash and shares.
- A further US\$10m payment when production and sales from Apurimac and Cuzco first exceed 20Mtpa.

Figure 4: Apurimac & Cuzco Ownership Structure



Source: Strike Resources Ltd, Patersons Securities estimates

In May 2007 SRK, through a Peruvian subsidiary, entered into an assignment and option agreement for three more mineral concessions in the Apurimac District. The consideration for the assignment of mining rights is US\$0.2m with another bullet payment of US\$3m required to exercise the option to acquire the three concessions.

Geology & Mineralisation

The iron oxide deposits in the Apurimac and Cuzco Districts exist as metamorphic skarn mineralisation hosted in limestone at the margins of and intruded by diorite. While the contacts have often been obscured by sedimentary material later deposited, this contact will allow SRK to visibly determine ore from waste once mining operations are underway.

The deposits are structurally challenging with several faults running through the region, however continued drilling and mapping should allow SRK to get a strong understanding of the structural controls of mineralisation.

Historical Exploration

The Apurimac and Cuzco iron ore projects comprise 27 mineral concessions, 21 at Apurimac and 6 at Cuzco.

Based on exploration carried out by Takahashi Trading S.A. in 1961 and the Peruvian Ministry of Energy and Mines, the estimated size of the Apurimac deposit is 730Mt of high-grade hematite and magnetite ore. The ore is estimated to grade between 60 – 66% Fe with impurities of between 2 – 5% Silica and 0.2 – 0.8% Alumina.

A report by the Peruvian Ministry of Energy and Mines in 1974 estimated the mineralisation within the Cuzco project area at 500Mt grading 65% Fe, 5.1% SiO₂, 0.09% P and 0.2% Cu. A detailed ground magnetic survey was completed at Cuzco in 2006 by a Peruvian geophysical consultancy group and estimated a 570 – 650Mt target of high-grade iron ore, principally magnetite.

Current Exploration & Resource Definition

The above resource targets are based primarily on surface sampling, field mapping and geophysical surveys. This process is greatly assisted by frequently outcropping mineralisation allowing surface mapping and the high-grade nature of the ore bodies allowing the subsurface to be effectively defined through the use of gravity surveys.

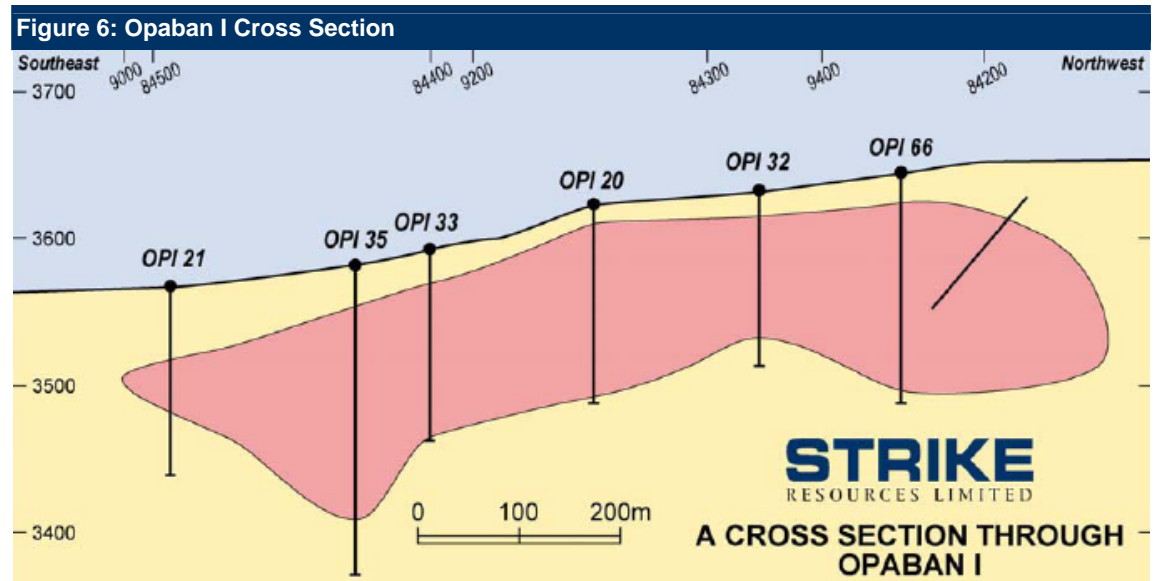
While significantly more exploration is required by SRK to ultimately convert these large targets into Mineral Resources, the Company is making solid progress having defined an Inferred Resource of 172Mt grading 62.3% at Apurimac.

Figure 5: SRK Resource Base

Apurimac Project	Mt	Fe (%)
Target Estimate	730.0	62 - 66
Including Inferred Resources:		
Opaban I	151.0	62
Opaban III	21.0	63
Cuzco Project	Mt	Fe (%)
Target Estimate	570 - 650	64
Total	Mt	Fe (%)
Target Estimate	1300.0	64
Including Inferred Resource	172.0	62

Source: Strike Resources Ltd, Patersons Securities estimates

The Inferred Resource is based on over 6,000m of RC and diamond drilling at Opaban I and over 1,000m diamond drilling at Opaban III. The resource is a high-grade hematite/magnetite aggregate with low levels of impurities.



Source: Strike Resources Ltd

The above cross section highlights the flat lying tabular nature of the Opaban I deposit and illustrates why SRK's stripping ratios have the potential to be low.

SRK has experienced some difficulties with attaining drilling approvals in Peru, however to resolve this the Company has recently established a community relations program that deals with approvals for drilling and the longer term issues of local communities. SRK expects to have four drilling rigs operating (three at Apurimac and one at Cuzco) by 14 November 2007.

SRK's US\$7m exploration program for 2008 involves:

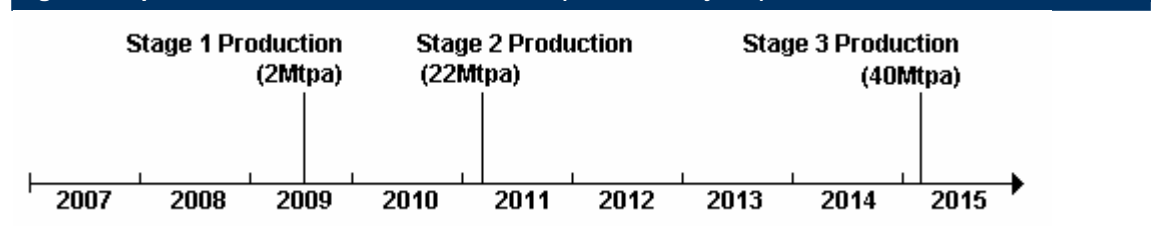
- Stage 1 Scoping Study
- Stage 2 Pre-Feasibility Study
- 30,000m of drilling at Apurimac for Stage 2 resource definition
- 5,000m of drilling at Cuzco for Stage 1 resource definition

Project Development Plan

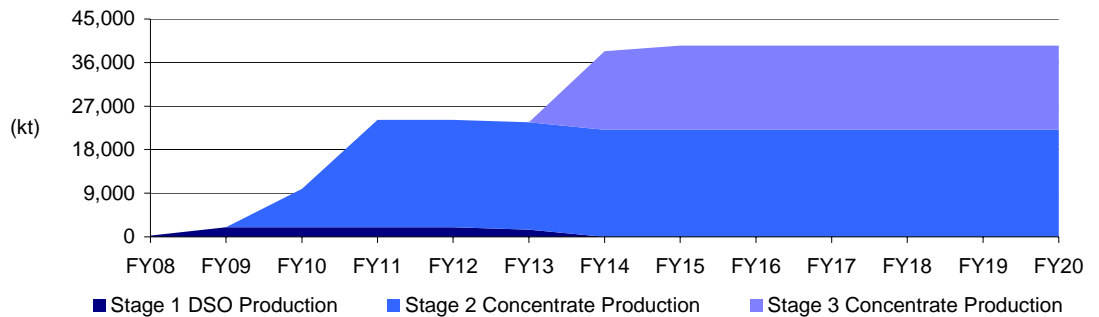
SRK has a designed three stage development plan for its two iron ore deposits:

- Stage 1 – 2Mtpa hematite DSO operation commencing 2009
- Stage 2 – 22Mtpa sinter/concentrate operation commencing 2011
- Stage 3 – 40Mtpa sinter/concentrate operation commencing 2015

Figure 7: Apurimac & Cuzco Production Profile (100% of Projects)



Source: Patersons Securities estimates

Figure 8: Apurimac & Cuzco Production Profile (100% of Projects)


Source: Patersons Securities estimates

Stage One – Cuzco

Mine Plan

Recent drilling and field mapping at Cuzco has confirmed that outcropping high-grade mineralisation has the potential to underpin a small-scale hematite DSO operation. SRK is targeting a hematite resource in the order to 30 – 40Mt at 64% Fe and resource definition drilling is scheduled to commence in November 2007. From the results of early sampling and the abundance of high-grade outcrops we believe this target will be achieved.

The Stage 1 operation will mine 2Mtpa of high-grade ore to a depth of approximately 10m. Production will be grading at 64% Fe with an estimated lump to fines ratio of 60:40. A Scoping Study is currently underway with first production slated for 2009.

Infrastructure Requirements

This operation will utilise the existing road, rail and port infrastructure. The ore will be hauled 70km by truck to a nearby railhead and then transported by rail for 300km to the port at Matarani. Stage 1 is not infrastructure constrained with the current plan to mine, however railway capacity will limit output to 2Mtpa.

The existing railway is owned by Peru Rail. Although being predominantly used for tourist purposes, this railway currently transports mineral concentrates and ore. Peru Rail has indicated that it is supportive of SRK's proposals and negotiations have commenced regarding access terms and costs.

SRK is yet to hold discussions with the management of the Matarani port. The Company intends on using available grid power located 25km from the Apurimac project.

Capital & Operating Costs

With only modest additions required to existing infrastructure, SRK estimate Stage 1 capex at US\$15m. This will be used to upgrade to the existing road, construct a rail loop and build a conveyer system at the port. Patersons estimates include a 20% contingency in addition to SRK's guidance and include an estimate US\$0.5mpa of sustaining capex

SRK has estimated average cash costs to be US\$42/t. While mining costs are low due to a near-zero strip ratio, the lion share of costs is attributable to transporting the ore, US\$5/t road and US\$25/t rail. Patersons forecast LOM average cash cost of US\$41/t (this includes a 3% government royalty and US\$0.30/t vendor royalty) is circa 25% higher than that of the junior iron ore miners operating in Western Australia. Consequently, Stage 1 is a relatively high cost operation and is extremely sensitive and leveraged to future iron ore prices.

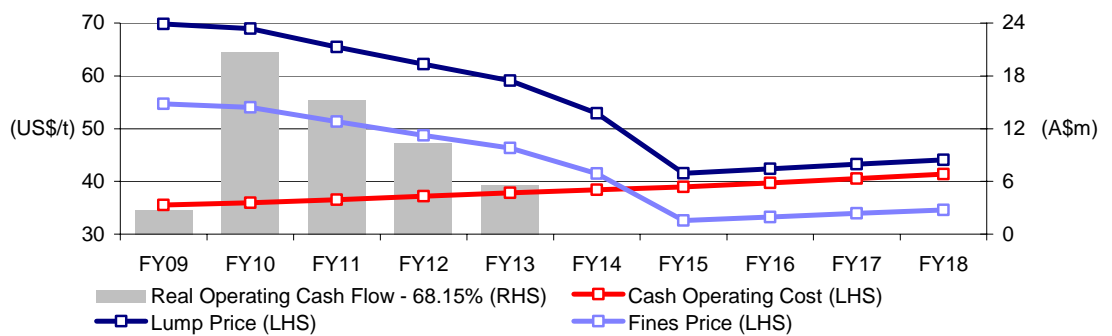
Cash Flows & Earnings Forecasts

On Patersons iron ore price assumptions SRK's Stage 1 operation will be restricted to a mine life of five years. Our forecast iron ore prices revert back to the long-term mean in JFY14, at which time these lower prices will render the Stage 1 operation unprofitable.

The below line graphs demonstrate that our Stage 1 valuation is highly sensitive to the project's lump to fines ratio, with its cash costs higher than our long-term fines price but lower than our long-term lump price. Our DCF forecasts call for a lump to fines ratio of 60:40, however if this is improved to beyond 70:30 the average price realised will be above operating costs, thus extending the project's life.

The below bar chart also illustrates our Stage 1 forecast operating cash flow. Stage 1 has the potential to generate significant cash flows if SRK can capture current high iron ore prices. At today's prices SRK's 68.15% share in Stage 1 would generate over A\$20m in cash flows per year.

Figure 9: Stage 1 Operating Costs vs. Iron Ore Prices (Patersons Forecast)



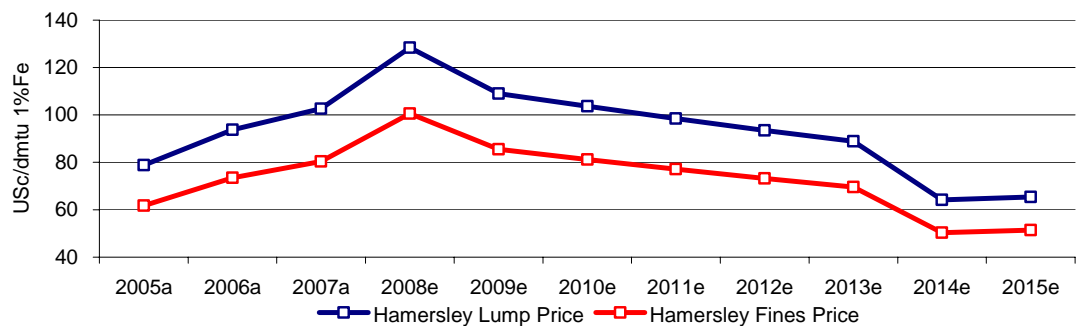
Source: Patersons Securities estimates

Project Valuation & Key Risks

The Stage 1 project is designed to capture historically high iron ore prices and provide early cash flow to the Company. On our estimates Stage 1 breaks even at a lump price of US\$0.90/dmtu and fines price of US\$0.70/dmtu.

Figure 10: Patersons Iron Ore Price Assumptions (Contract Year Commencing 1 April)

US\$/dmtu 1% Fe	2005a	2006a	2007a	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
Lump Price	78.77	93.74	102.64	128.30	109.06	103.60	98.42	93.50	88.83	64.12	65.40
Fines Price	61.72	73.45	80.43	100.53	85.45	81.18	77.12	73.27	69.60	50.33	51.34



Source: Patersons Securities estimates

These price floors are breached in JFY14 when Patersons price assumptions revert back to the long-term mean and consequently the Stage 1 operation is limited to a five year life. This restricted mine life translates to a modest NPV of A\$30m for SRK's 68.15% share of Stage 1, based on a 10% real discount rate. However, we believe this project offers significant upside if iron ore prices remain stronger than our assumptions call for, with cash flows from an extended mine life adding incrementally to the project's NPV.

It is important to note that all the estimates provided by SRK are preliminary and at risk of material change.

A Scoping Study for Stage 1 is due in March 2008 and resource definition drilling will commence at Cuzco in November 2007. We believe SRK will define a sufficient resource to support the proposed Stage 1 operation. If this resource is successfully converted to reserve status, we believe that debt financing the project's modest capex estimate of US\$15m will not be an issue.

This is a relatively simplistic project with low operating risk operation. We believe infrastructure risk remains until agreements outlining access and costs for rail and port are executed.

Stage Two & Three – Apurimac/Cuzco

Mine Plan – Apurimac Stage Two

SRK's proposed 20Mtpa Stage 2 project will transform the company into a significant iron ore producer. While the project's current mine plan is based on a 730Mt historical resource estimated by the Peruvian Ministry of Energy and Mines in 1961, SRK has defined an initial Inferred Resource of 172Mt at Apurimac which will be sufficient to underpin the operation for a minimum of eight years.

The Company holds a 68.15% interest in 21 concessions in the Apurimac project area with the existing Inferred Resource coming from only two of these, being Opaban I and Opaban III. Reconnaissance, field mapping and surface sampling programs have provided SRK with confidence that drilling out these targets will continue to define further resources.

Stage 2 will produce 20Mtpa of iron ore over an anticipated mine life of 20+ years.

Due to processing and transporting reasons, SRK will produce two iron ore products grading circa 67% Fe. Approximately 60% of production will be sold as magnetite concentrate with the remaining sold as sinter feed.

SRK is currently undertaking a Stage 2 Pre-Feasibility Study (PFS) which is due in March 2008. This will be followed by a Bankable Feasibility Study (BFS) due in 2009 and if a decision to mine is made, SRK anticipate Stage 2 will start production in 2011. While this is a long time for development, once the infrastructure is in place SRK will be a significant producer of iron ore and the addition of new resources from its numerous prospective concessions in the Apurimac District will provide it with the potential to be a long life producer.

Mine Plan – Cuzco Stage Three

Based on 1974 exploration work undertaken by the Peruvian Ministry of Energy and Mines and recent geophysical exploration completed, SRK believes its 68.15% owned Cuzco project is capable of supporting an additional 20Mtpa of production.

SRK is targeting a large magnetite deposit at Cuzco in the order of 500 – 650Mt grading 64% Fe. Cuzco is expected to be developed in 2015 and this will result in Stage 3 combined production totalling 40Mtpa.

Cuzco requires considerably more exploration to be completed and is not incorporated into the Stage 2 PFS. Drilling so far has indicated that the mineralogy of the Cuzco ore body is more

variable than Apurimac. No metallurgical testwork has been carried to determine the consistency of the end product to be sold but SRK expects Cuzco to produce a similar high-grade product to Apurimac.

Infrastructure Requirements

Ore mined at Apurimac will be crushed on site, mixed with water and fed into a 350km slurry pipeline. Once the ore reaches the port it will be de-watered and prepared for shipping.

Stage 3 will involve separate mine development at Cuzco and a second pipeline to adjoin to the Apurimac corridor. The additional production will utilise the same port infrastructure as Stage 2.

SRK is currently examining four different routes for the Apurimac pipeline with its preferred option involving approximately 350km to the coast. Engineering work carried out to date has provided positive results. The majority of the route encounters a downslope gradient and indications are that only two pumping stations will be required.

Being closer to the coast the Cuzco pipeline will involve less km's of piping, however initial assessments indicate that more pumping stations will be required due to the topography.

Figure 11: Proposed Pipeline Routes



Source: Strike Resources Ltd

SRK has identified large bodies of water located near to Apurimac which will be necessary for operating the pipeline. SRK has also identified gas power that is available via a gas pipeline 80km from Apurimac.

SRK is assessing three possible deep-water ports from which to ship its concentrate.

Capital Costs

While in absolute terms SRK's estimated capex amounts are significant, these costs work out to circa US\$75/t of annual production and are below average for a magnetite project.

Figure 12: SRK Estimated Capital Costs (100% of Project)

	Stage 1 (US\$m)	Stage 2 (US\$m)	Stage 3 (US\$m)
Mine & Infrastructure	14	650	550
Pipeline	0	500	400
Port	1	350	150
Total	15	1,500	1,100

Source: Strike Resources Ltd, Patersons Securities estimates

Mine and infrastructure costs are attributable to mine development, a concentrator facility, filtration, power and water.

Preliminary estimates for the cost of a pipeline include US\$1m per km and US\$50m per pumping station. Although the estimated capex of the pipeline is significant, it will bring operating cost savings in the future.

SRK is assessing three possible deep-water ports, however either port will require considerable upgrading for Stage 2 operations. It is intended that Stage 3 production will utilise the same port following further upgrades.

Patersons estimates include a 10% contingency factor plus a US\$2.0mpa sustaining capex estimate. We believe the most immediate risks to capex relate to additional pumping stations being required.

Operating Costs

The Stage 2 and 3 projects are estimated to operate at a very attractive US\$15 – 16/t operating cost, being less than half the cost of most other magnetite producers.

Firstly, low mining and processing costs stem from a low waste to ore strip ratio and higher ore grades requiring little processing. Patersons estimates include a recovery of 80% and ore grade of 60% Fe.

Secondly, the use of a slurry pipeline to carry concentrate to the port has cut transport costs significantly.

Figure 13: SRK Estimated Operating Costs

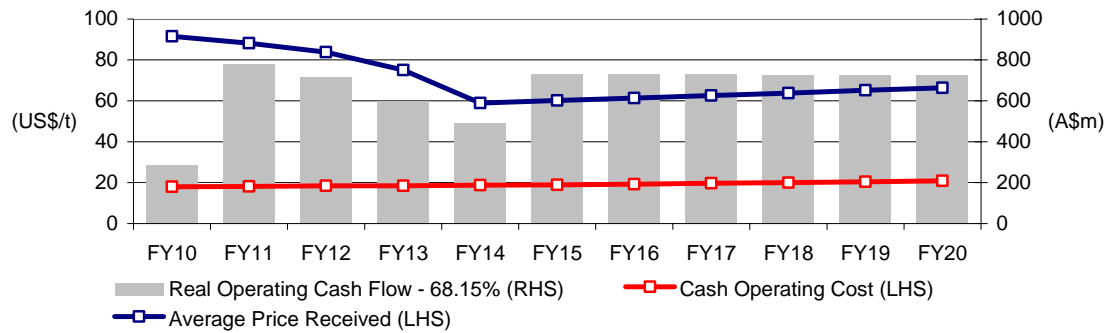
	Stage 1 (US\$/t)	Stage 2 (US\$/t)	Stage 3 (US\$/t)
Mining & Processing	5.0	8.0	8.0
Transport	30.0	3.0	4.0
Port	5.0	2.0	2.0
Infrastructure	1.0	1.0	1.0
Admin & Overheads	1.0	1.0	1.0
Total	42.0	15.0	16.0

Source: Strike Resources Ltd, Patersons Securities estimates

On our estimates the LOM average operating cash cost is US\$16/t (this includes a 3% government royalty and US\$0.30/t vendor royalty).

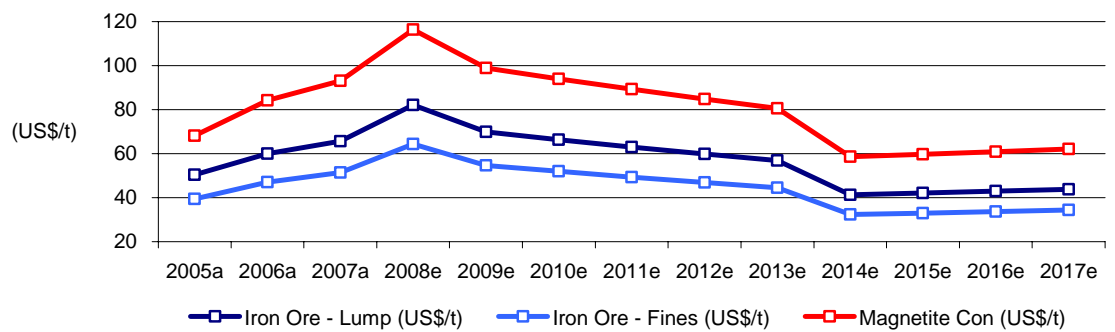
Cash Flows & Earnings Forecasts

The redeeming feature of the Apurimac and Cuzco projects is a US\$15/t operating cost which generates a healthy operating margin as illustrated below. On our estimates, SRK's 68.15% share in Stage 3 has the potential to deliver very impressive operating cash flows of over A\$700m per year on our long-term price assumptions.

Figure 14: Stage 2 & 3 Operating Costs vs. Iron Ore Prices (Patersons Forecast)


Source: Patersons Securities estimates

SRK will produce two iron ore products from Stage 2 and 3. Circa 60% of production will be sold as magnetite concentrate with the remaining sold as sinter feed. All revenue forecasts are based on Patersons magnetite concentrate price assumptions, which fluctuate between a 35 – 42% premium to our lump price assumptions.

Figure 15: Patersons Iron Ore Price Assumptions (Contract Year Commencing 1 April)


Source: Patersons Securities estimates

Pre-Feasibility Study

It is important to note that all the estimates provided by SRK are preliminary and at risk of material change. The PFS due in March 2008 is designed to provide a confidence factor of +/- 25% to all assumptions. The key areas to be addressed in PFS include:

- Ore body modelling
- Mine plan
- Process plant design
- Slurry pipeline
- Environment
- Water and power
- Port and stockpile
- Marketing

Financing

With a capex estimate of US\$1.5b for Stage 2 development, financing will be an issue in the longer term. SRK believes it can achieve a 70:30 debt to equity split for financing the project.

Peru offers a stable investment environment and is currently BB+ rated. We believe it is highly probable that project such as this can be banked given its low position on the cost curve and long mine life. However, our estimates include a more conservative 50:50 split between debt and equity portions. This will result in 520.9m shares being on issued subsequent to the equity raising, assuming equity is raised at a 10% discount to the current share price plus a 3% share issue cost.

Importantly, on our estimates SRK will have generated sufficient operating cash flow to fund its US\$1.1b Stage 3 development.

Once capex payments are required SRK believes that minority shareholders in AF may elect to divest their interests in the project. It is probably MAPSA will divest its 7.35% interest, however D&C is more likely to be able to fund its 24.5% or US\$367.5m contribution to capex.

More immediate financing is required for SRK to complete its obligations under the AF and MAPSA Agreements. SRK has indicated that it will complete a A\$100m equity raising in March 2008 to fund these obligations as well as continued exploration and evaluation studies.

Our estimates have assumed that A\$100m in equity is raised at a 10% discount to the current share price plus a 3% share issue cost. This equates to issuing 48.3m shares, taking SRK's total shares on issue to 127.2m.

Off-take

Due to processing and transporting reasons, SRK will produce two iron ore products grading circa 67% Fe. Approximately 60% of production will be sold as magnetite concentrate with the remaining sold as sinter feed.

The SRK high-grade product is likely to be heavily demanded by customers. The product will assist blast furnaces in formulating a product mix with the lower grade products coming on to the market so that consistent mill feed is maintained. As the chemical and physical characteristics of the Apurimac and Cuzco ore become better understood we believe off-take agreements to be executed without problem. SRK's magnetite product will also bring energy credits as the ore is exothermic.

The large tonnage and long life of SRK's intended operations offer customers the opportunity to secure long-term supply contracts. Furthermore, SRK estimates that its position on the west coast of South America has the potential to reduce shipping rates by 10 – 14 days. At current shipping costs, this presents a considerable cost saving to steel mills based on an FOB pricing convention.

Project Valuation & Key Risks

Based on 100% of the Apurimac and Cuzco projects, we derive an NPV of A\$5.1b based on a 10% real discount rate. This translates to a valuation of A\$3.5b for SRK's 68.15% share.

Apurimac and Cuzco are world-class iron ore exploration assets, however their development potential is yet to be proved through detailed feasibility studies. Accordingly, the above valuation involves a high degree of risk which is inherent in evaluating any exploration project at this stage in its life. Patersons believe the key risks involve the following.

Resource Definition Risk: The delineation of 20+ years of mining reserves is the principal assumption made by Patersons in valuing SRK's iron ore projects. The historical estimate of over 1.2bt of high-grade iron ore across its two deposits is largely based on field mapping and surface sampling carried out by Takahashi Trading S.A. in 1961 and the Peruvian Ministry of Energy and Mines in 1974.

Estimation Risk: Patersons DCF valuation is based on preliminary assumptions which are primarily driven by management's best estimates. It is important to note that all the estimates provided by SRK are yet to the subject of a PFS or BFS and are therefore at risk of material change.

Development Risk: The largest risk to development involves SRK's proposed pipeline. However, there are numerous operations world-wide using this technology. While the likelihood of the number of pumping stations increasing beyond the current estimate of two may be of concern, we note that the cost of one pumping station equates to only 3.3% of the current total capex estimate. Once operating geotech issues, mainly landslides, pose the greatest threat to the pipeline.

Country Risk: SRK has experienced some delays attaining drilling approvals in Peru as negotiations often involve several communities and can be complex and time consuming. We remain cautious that these types of issues could pose threats to SRK's development timeline. However, to mitigate this risk SRK has recently established a community relations program that deals with approvals for drilling and the longer term issues of local communities.

In order to account for the above risks attached to valuing this project, we have applied a risk-weighting of 30% to our valuation of Stage 2 and 3. This generates a risk-weighted NPV of A\$2.4b for Stage 2 and 3.

Mining in Peru

Peru has a long mining history with some of the largest copper mines in the world situated in the Peruvian Cordilleras. The country holds about 16% of the world's known mineral reserves, including 15% of copper and 7% of zinc reserves.

Over the last decade Peru has become an attractive country to invest for mining companies. Extensive political and economical reforms have now created a stable environment seeing many of the world's top mining companies making significant investments in Peru.

Foreign investment in Peru has resulted in the development of several world class deposits, including the Yanacocha and Pierina gold mines owned by Newmont Mining and Barrick Gold respectively, and BHP's large Antamina copper-zinc mine.

Investment Thesis

Valuation

On a DCF basis SRK represents compelling upside value with our risk-weighted NPV of A\$4.49/share (10% real discount rate) well above its current share price levels.

Over 99% of our valuation is attributable to the Company's Stage 2 and 3 operations. Firstly, this valuation is contingent on SRK defining sufficient resources to underpin the required 20+ year mine life. Secondly, this creates significant single-mine risk, especially with a pipeline providing the sole route to getting ore to port.

However, if these advanced exploration projects are successfully explored and developed, based on our estimates SRK's 68.15% share of Stage 2 and 3 will yield an impressive operating cash flow of over A\$700m per year on our long-term magnetite concentrate price assumptions (2016 onwards). This will also place SRK on a forward earnings multiple of less than 2.0x once the Stage 2 operation ramps up to full production in FY12.

Figure 16: Forward Earnings & Cash Flow Multiples

	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
NPAT (A\$m)	-2.6	-0.5	18.5	266.5	796.0	819.8	742.4	604.9
PER (x)	nm	nm	66.7	4.6	1.6	1.5	1.7	2.0
Free Cashflow (A\$m)	-9.8	-30.3	-740.4	-365.5	1,196.4	1,229.1	453.8	261.4
PFCF (x)	-30.9	-9.9	-1.7	-3.4	1.0	1.0	2.7	4.7

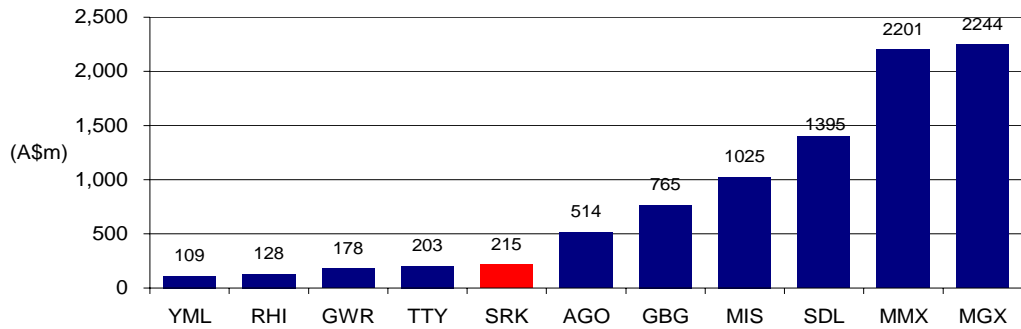
Source: Strike Resources Ltd, Patersons Securities estimates

The above multiples take into account dilution resulting from the Company's two proposed equity raisings. Subsequent to raising A\$100m in March 2008 there will be 127.2m share on issue. This will be increased to 520.9m shares in late-2009 when SRK raises debt and equity (50:50) to fund its Stage 2 development.

Peer Comparison

At its current market value SRK is much smaller than many of its peers in the junior iron ore space.

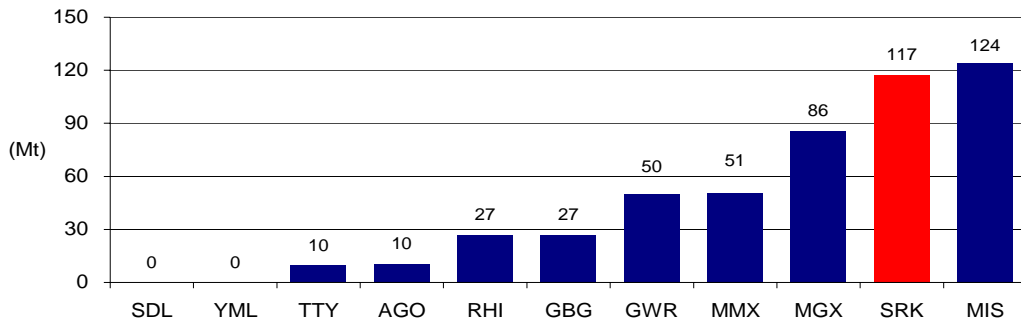
Figure 17: Enterprise Values



Source: Patersons Securities estimates

However, SRK has the second largest resource inventory of high-grade (55%+ Fe) iron ore among its ASX listed peers.

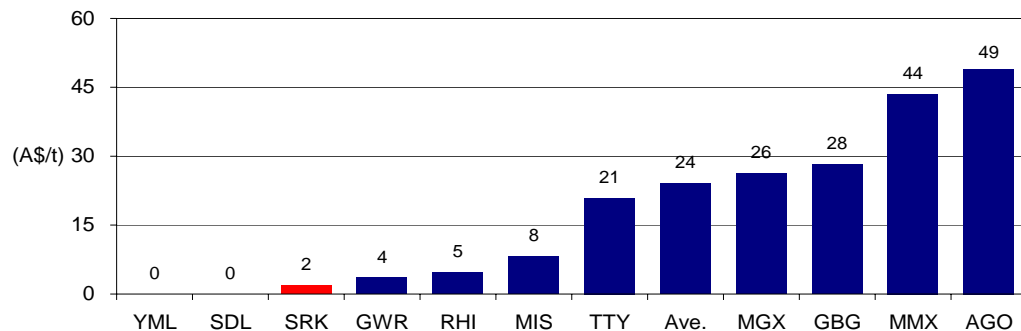
Figure 18: Company JORC Resources



Source: Patersons Securities estimates

At its current share price SRK is the cheapest iron ore stock on an EV to Resource basis. We believe this discount is excessive given the high-grade nature of the Apurimac and Cuzco deposits and the resultant low operating costs.

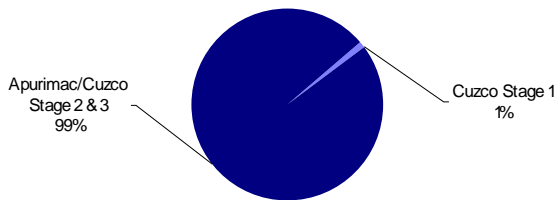
Figure 19: EV to Resource Ratios



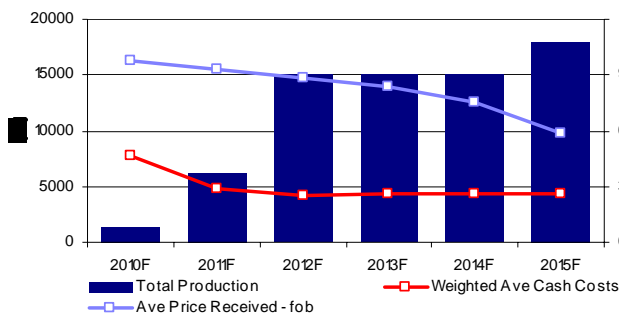
Source: Patersons Securities estimates

Strike Resources Ltd	\$2.46		
Valuation	A\$m	A\$/sh	
Cuzco Stage 1	30	0.06	
Apurimac/Cuzco Stage 2 & 3	2436	4.61	
Exploration	0	0.00	
Corporate	(52)	(0.10)	
Unpaid Capital	9	0.02	
Cash	8	0.03	
Debt	0	0.00	
NPV (10% Discount Rate)	2441	4.62	
Price Target		4.62	
Price Target Sensitivities	-10%	0%	+10%
Magnetite Concentrate Price (US\$/t)	3.47	4.49	5.50
Foreign Exchange Rate (A\$:US\$)	3.58	4.49	5.34

Valuation Summary of Operating Assets



Iron Ore Production Summary (SRK Share)



Reserves & Resources (100% of Project)

	Mt	Fe (%)
Apurimac		
Inferred Resource	172	62
Historical Resource	730	62 - 66
Cuzco		
Historical Resource	570 - 650	64+

Directors

Name	Position
John Stephenson	Chairman
Shanker Madan	Managing Director
Farooq Khan	Executive Director
Victor Ho	Executive Director
William Johnson	Executive Director
Malcolm Richmond	Non-Executive Director

Substantial Shareholders	Shares (m)	(%)
ANZ Nominees Ltd	5.8	7.3
Database Systems Ltd	4.8	6.1
HSBC Custody Nominees Ltd	4.0	5.1
Top 20	33.6	42.5

Commodity Assumptions	2007A	2008F	2009F	2010F
A\$:US\$	0.79	0.84	0.79	0.78
Iron Ore - Lump (US\$/dmu)	95.96	109.06	123.49	107.69
Iron Ore - Fines (US\$/dmu)	75.19	85.45	96.76	84.39
Magnetite Pellets (US\$/t)	137.93	157.80	178.68	155.83
Magnetite Concentrate (US\$/t)	86.43	98.88	111.96	97.64

Production Summary	2007A	2008F	2009F	2010F
Production (SRK Share)				
Cuzco Stage 1(kt)	0	0	170	1363
Apurimac Stage 2 (kt)	0	0	0	0
Total Production	0	0	170	1363
Cost Summary (US\$/t)				
Cuzco Stage 1 Cash Costs	0.00	0.00	46.28	46.07
Apurimac Stage 2 Cash Costs	0.00	0.00	0.00	0.00
Weighted Ave Cash Costs	0.00	0.00	46.28	46.07
Ave Price Received - fob	na	na	81.74	80.71

Profit & Loss (A\$m)	2007A	2008F	2009F	2010F
Sales Revenue	0.0	0.0	13.9	110.0
Other Income	8.1	2.4	5.7	32.6
Operating Costs	(0.0)	0.0	9.9	80.5
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	5.8	6.1	8.2	8.4
EBITDA	2.3	(3.7)	1.4	53.7
Depn & Amort	0.0	0.0	0.3	1.6
EBIT	2.3	(3.7)	1.2	52.1
Interest	0.0	0.0	0.0	11.9
Operating Profit	2.3	(3.7)	1.2	40.2
Tax expense	0.0	(1.1)	0.4	12.1
Minorities	0.0	0.0	1.3	9.6
Abnormals	0.0	0.0	0.0	0.0
NPAT	2.3	(2.6)	(0.5)	18.5

Cash Flow (A\$m)	2007A	2008F	2009F	2010F
Normalised NPAT	1.6	(2.6)	(0.5)	18.5
Adjusted Net Profit	2.3	(2.6)	(0.5)	18.5
+Interest/Tax/Expl Exp	0.0	(1.1)	0.4	23.9
-Interest/Tax/Expl Inc	0.0	6.1	14.4	24.4
+Depn/Amort	0.0	0.0	0.3	1.6
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	2.3	(9.8)	(14.3)	19.7
- Capex (+asset sales)	0.0	0.0	16.1	760.0
- Working Capital Increase	4.9	0.0	0.0	0.0
Free Cashflow	(2.6)	(9.8)	(30.3)	(740.4)
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+Equity raised	26.3	100.0	0.0	839.7
+Debt drawdown (repaid)	0.0	0.0	0.0	628.2
Net Change in Cash	17.3	90.2	(30.3)	727.6
Cash at End Period	13	108.6	106.1	805.8
Net Cash/(LT Debt)	13	108.6	106.1	388.1

Balance Sheet (A\$m)	2007A	2008F	2009F	2010F
Cash/Bullion	18.4	108.6	106.1	805.8
Total Assets	38.8	135.1	162.9	1633.6
Total Debt	0.0	0.0	0.0	417.8
Total Liabilities	0.5	-0.6	27.6	640.1
Shareholders Funds	37.9	135.4	134.9	993.1

Ratios	2007A	2008F	2009F	2010F
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	4.4
Return on Equity (%)	6.1	na	na	19

Research

Mark Simpson – Head of Research Phone: (+61 8) 9263 1678 Email: msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator Phone: (+61 8) 9263 1152 Email: aquin@psl.com.au

Resources

Alex Passmore – Head of Metals & Mining Phone: (+61 8) 9263 1239 Email: apassmore@psl.com.au
Mark Savich – Resources Analyst Phone: (+61 8) 9263 1144 Email: msavich@psl.com.au
Levi Spry – Resources Analyst Phone: (+61 8) 9263 1610 Email: lspry@psl.com.au
Josh Welch – Resources Analyst Phone: (+61 8) 9263 1668 Email: jwelch@psl.com.au

Industrials

Robert Gee – Industrial Analyst Phone: (+61 8) 9263 1637 Email: rgee@psl.com.au
David Gibson – Industrial Analyst Phone: (+61 8) 9263 1664 Email: dgibson@psl.com.au
Julia Griffiths – Industrial Analyst Phone: (+61 8) 9263 1151 Email: jgriffiths@psl.com.au
Jonathan Kriska – Property Analyst Phone: (+61 2) 8238 6245 Email: jkriska@psl.com.au
Steve Suleski – Industrial Analyst Phone: (+61 8) 9263 1189 Email: ssuleski@psl.com.au
Mark Topy – Banking & Finance Analyst Phone: (+61 3) 8803 0117 Email: mtopy@psl.com.au
Russell Wright - Retail Analyst Phone: (+61 2) 8238 6219 Email: rwright@psl.com.au

Institutional Dealing

Phil Schofield Phone: (+61 2) 8238 6223 Email: pschofield@psl.com.au
Michael Brindal Phone: (+61 2) 8238 6274 Email: mbrindal@psl.com.au
Dan Bahen Phone: (+61 2) 8238 6237 Email: dbahen@psl.com.au
Paul Doherty Phone: (+61 3) 8803 0108 Email: pdoherty@psl.com.au
Trent Foxe Phone: (+61 2) 8238 6265 Email: tfoxe@pls.com.au
Andrew Frazer Phone: (+61 8) 9263 1241 Email: afrazer@psl.com.au
Jason Lal Phone: (+61 2) 8238 6276 Email: jlal@psl.com.au
Ben McIlvrde Phone: (+61 2) 8238 6253 Email: bmcilvrde@psl.com.au
Jeremy Nugara Phone: (+61 3) 8803 0166 Email: jnugara@psl.com.au
Trevor Pike Phone: (+61 3) 8803 0110 Email: tpike@psl.com.au
Nicholas Whiteley Phone: (+61 2) 9238 6244 Email: nwhiteley@psl.com.au
Sandy Wylie Phone: (+61 8) 9263 1232 Email: swylie@psl.com.au

Important Notice: Copyright 2007. The contents contained in this report are owned by Patersons Securities Limited ("Patersons") and are protected by the Copyright Act 1968 and the copyright laws of other countries. The material contained in this report may not be copied, reproduced, republished, posted, transmitted or distributed in any way without prior written permission from Patersons. Modification of the materials or use of the materials for any other purpose is a violation of the copyrights and other proprietary rights of Patersons.

Disclaimer: Patersons believes that the information or advice (including any financial product advice) contained in this report has been obtained from sources that are accurate at the time of issue, but it has not independently checked or verified that information and as such does not warrant its accuracy or reliability. Except to the extent that liability cannot be excluded, Patersons accepts no liability or responsibility for any direct or indirect loss or damage caused by any error in or omission from this report. You should make and rely on your own independent inquiries.

If not specifically disclosed otherwise, investors should assume that Patersons is seeking or will seek corporate finance business from the companies disclosed in this report.

Warning: This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual financial circumstances and investment objectives.

Disclosure: Patersons, its director and/or employees may earn brokerage, fees, commissions and other benefits as a result of a transaction arising from any advice mentioned in this report. Patersons as principal, its directors and/or employees and their associates may hold securities in the companies the subject of this report, as at the date of publication. These interests did not influence Patersons in giving the advice contained in this report. Details of any interests may be obtained from your adviser. Patersons as principal, its directors and/or employees and their associates may trade in these securities in a manner which may be contrary to recommendations given by an authorised representative of Patersons to clients. They may sell shares the subject of a general "Buy" recommendation, or buy shares the subject of a general "Sell" recommendation.

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-5% to +5% total return) and Sell (> 5% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

Patersons Securities Limited ABN 69 008 896 311 AFSL No. 239 052
Participant of ASX Group
Securities & Derivatives Industry Association Principal Member
Financial Planning Association Principal Member



Western Australia

Perth - Head Office: Level 23, Exchange Plaza, 2 The Esplanade, Perth, Western Australia 6000
Ph: (+61 8) 9263 1111 Fax: (+61 8) 9325 6452 Email: patersons@psl.com.au

West Perth Office: Level 2, 34 Colin Street, West Perth Western Australia 6005
Ph: (+61 8) 9482 0900 Fax: (+61 8) 9482 0999 Email: patersons@psl.com.au

Albany Office: Level 2, Middleton Centre, 184 Aberdeen Street, Albany, Western Australia 6330
Ph: (+61 8) 9842 4700 Fax: (+61 8) 9841 4211 Email: albany@psl.com.au

Bunbury Office: Unit 3, 53 Victoria Street Bunbury, Western Australia 6230
Ph: (+61 8) 707 2000 Fax: (+61 8) 9721 1840 Email: bunbury@psl.com.au

Busselton Office: Suite 1, 72 Duchess Street, Busselton Western Australia 6280
Ph: (+61 8) 9754 0700 Fax: (+61 8) 9754 4333 Email: busselton@psl.com.au

Kalgoorlie Office: 63 Hannan Street, Kalgoorlie, Western Australia 6430
Ph: (+61 8) 9021 1422 Fax: (+61 8) 9021 8133 Email: kalgoorlie@psl.com.au

New South Wales

Sydney Office: Level 27, 264 George Street, Sydney New South Wales 2000
Ph: (+61 2) 8238 6222 Fax: (+61 2) 8238 6266 Email: sydney@psl.com.au

Victoria

Melbourne Office: Level 18, 90 Collins Street, Melbourne Victoria 3000
Ph: (+61 3) 8803 0100 Fax: (+61 3) 8803 0199 Email: melbourne@psl.com.au

ACT

Canberra Office: Level 4, 53 Blackall Street, Barton ACT 2600
Ph: (+61 2) 6120 2222 Fax: (+61 2) 6273 3433 Email: canberra@psl.com.au