Red Rock Resources

NAMA Greenland Ltd stake sale

Operational update

Metals & mining

Last month, Red Rock announced that the board of the company that is making an offer for NAMA Greenland Ltd (NGL) has approved the transaction. This announcement brings the conclusion of the transaction, and the point at which Red Rock will crystallise the value of past investments, a step closer. In addition to its NGL stake sale, Red Rock is also in talks to sell its investment in Colombia's Four Points Mining, while Resource Star (another RRR investment) has announced a major new initiative in the oil and gas sector. In due course, it may also look to realise value from its investment in Kenya's Mid Migori as well as selling its remaining stake in ASX-listed Jupiter Mines.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/10	0.0	(1.5)	(0.28)	0.0	N/A	N/A
06/11	0.9	(1.6)	0.01	0.0	34.0	N/A
06/12	0.0	(2.7)	(0.31)	0.0	N/A	N/A
06/13e	0.0	(2.8)	0.02	0.0	17.0	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

FPM also for sale (50% Red Rock interest)

In addition to its announcement about NGL, Red Rock was also able to report a lessening of tensions between the government and FARC guerrillas, which had previously been the cause of material disruption in the region of FPM's El Limon mine. All other things being equal, this could be expected to improve the passage of ongoing sale talks between RRR and Ashmont Resources, which has also confirmed its continuing intention to acquire Red Rock's 50.002% interest in FPM.

Valuation: 2.77-4.24p per share

As at 31 December 2012, Red Rock's book value was 1.74p per share. The sale of 40.5m shares of its holding in Jupiter Mines in July substantially brings to an end the process started in 2009, when Red Rock embarked on a strategy of transforming from a passive, investment holding-type company into an active owner-operator. As such, Edison estimates that cash and listed assets (excluding liabilities and deferred tax adjustments) amount to just 0.36p per Red Rock share currently. Otherwise, making relatively conservative assumptions about Red Rock's interests in Kansai, FPM, NGL and its Mt Ida royalty, Edison derives a valuation for Red Rock of 2.77p/share. While this has not always met our most extravagant hopes for value crystallisation, it nevertheless represents a premium to the 2.35p/share value of the company based on cash and listed investments only that Edison calculated in its report of November 2009. In the event of a re-rating of Jupiter's shares close to 'fundamental value' (as was the case in December 2010) plus a successful bankable feasibility study and earn-in at Mid Migori in Kenya, Edison estimates that this value could increase further to 4.24p/share. Additional upside potential is then represented by the Tshipi mine, Red Rock's interest in the 2% NGL mine-mouth royalty, value accretion to Red Rock's residual Mt Ida royalty in the event of its being developed, Resource Star and Ascot Mining.

2 August 2013

Price	**0.34p**
Market cap	**£4.4m**
	US$1.5251/£
Net debt (£m) 30 June 2013 (estimate)	0.6
Shares in issue	1,279.8m
Free float	84.9%
Code	RRR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(9.3)	(13.9)	(82.6)
Rel (local)	(14.6)	(17.4)	(85.4)
52-week high/low		2.03p	0.33p

Business description

Listed on AIM in July 2005, Red Rock Resources is now a combination of a junior gold explorer and a mining finance house, focused on the discovery and development of iron ore, gold, steel feed and uranium globally.

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Investment summary: Owner-operator transformation

Company description: Explorer-finder-seller-royalty retainer

With the announcement, on 5 July, that it had sold a further 40.5m shares in Jupiter Mines, Red Rock has confirmed its ongoing strategic transformation from junior investor to owner-operator.

In general, the company's overall strategy is an 'explore-find-sell-retain royalty' one, with which its sale of JMS shares is entirely consistent. In the short term, this will allow the company to de-gear and to meet working capital commitments, while its long-term objective is to generate a return to shareholders via the leveraging of its cash and near cash in exploration activities.

In the aftermath of the sale, Red Rock has four principal assets:

- A 15% direct and a 28% indirect interest in the Mid Migori Mining Company in Kenya.
- A 50.002% interest in Four Points Mining (FPM) in Colombia, comprising the El Limon and El Mango gold mines; in addition to its equity interest, Red Rock also has an outstanding loan of US$2.5m to FPM.
- A 60% interest in NAMA Greenland Ltd (NGL), which owns 100% of the 1,570km^2 Melville Bugt iron ore licence. In November 2012, Red Rock received an offer from an industrial partner to acquire 51% of the outstanding share capital of NGL (subject to due diligence), to leave RRR with a residual 29% interest.
- A residual 19.7m (0.9%) share interest in Australian-listed Jupiter Mines.

A summary of each of the assets is given below.

Mid Migori Mining Company

Red Rock holds a 15% direct interest along with a 28% indirect interest in Mid Migori via its 33% investment in Kansai Mining Corp, which holds the remaining 85%. Formerly on the TSX-V, Kansai was de-listed in December 2008 after it failed to produce accounts for the 2007 financial year.

Mid Migori is the holder of two special prospecting licences (SPLs) in south-western Kenya, SPL122 and SPL202, covering 310km^2 of the Migori greenstone belt and located 20-30km north of African Barrick's North Mara gold mine in Tanzania and immediately east of Lake Victoria. Included in the land package are the Mikei gold and the Macalder tailings retreatment projects. Upon completion of a bankable feasibility study (BFS), Red Rock will be entitled to a 60% direct interest in Mid Migori.

Geology

The licences cover the strike length of the Migori Greenstone belt, which hosts felsic and mafic intrusives, banded iron formations (BIFs) and metasediments. The deposit at Macalder is a Volcanogenic Massive Sulphide (VMS) base metal system of copper and zinc with accessory gold, silver and lead mineralisation. The tailings dump at Macalder is the remnant of colonial era mining of the Macalder deposit.

Mikei Gold Project

Validation of the historic resource estimate was finalised in Q412 with the JORC resource estimation carried out by CSA Global (UK) Ltd. The resource lies over five major zones within the Mikei Shear zone, denoted KKM, Nyanza, Gori Maria, KKM-West and MK. The zones' combined resources are as follows:

Exhibit 1: Mikei gold project JORC code-compliant resources, 2012

	Indicated			Inferred			Total		
	kt	Grade (g/t)	Contained Au (Moz)	kt	Grade (g/t)	Contained Au (Moz)	kt	Grade (g/t)	Contained Au (Moz)
Gori Maria	0	0.00	0.000	3,780	1.16	0.141	3,780	1.16	0.141
KKM	16,340	1.00	0.525	1,410	1.15	0.052	17,750	1.01	0.577
KKM-west	1,130	1.07	0.039	3,030	1.02	0.099	4,160	1.04	0.139
MK	770	4.05	0.100	580	1.76	0.033	1,350	3.07	0.133
Nyanza	1,170	3.73	0.140	1,150	1.70	0.063	2,320	2.73	0.203
Total	**19,410**	**1.29**	**0.805**	**9,950**	**1.21**	**0.388**	**29,360**	**1.26**	**1.193**

Source: Red Rock Resources, Edison Investment Research. Note: 0.5g/t cut-off grade; totals may not add up owing to rounding.

Mineralisation at all prospects remains open at depth and along strike of key higher grade zones. In addition, recent work has allowed the interpretation of a high grade gold shoot at the Nyanza prospect.

A draft pit optimisation study has been completed, indicating a 4.3 to one strip ratio using a US$1,300/oz gold price and the potential to develop high grade starter pits at the Nyanza and MK prospects. As a result, Red Rock is advancing the project to scoping study level, after which it may be possible to integrate it with the adjacent Macalder tailings resource in order to develop a larger project overall.

Macalder tailings project

The Macalder deposit was discovered in the mid-1930s and mined for copper and gold. In 2011, a JORC code-compliant 'measured' resource estimate was delineated, as follows:

Exhibit 2: Macalder tailings JORC code-compliant resources

	Measured		
	kt	Grade (g/t)	Contained Au (Moz)
Macalder Tailings	1,286	1.65	0.068

Source: Red Rock Resources. Note: 0.0g/t cut-off grade.

A scoping study was commissioned in late-2011, considering two base case scenarios, using new and used plant equipment, respectively, and a Mining Lease Application (MLA) submitted in August 2012. An Environmental Impact Assessment (EIA) is currently underway as part of the Mining Lease Application, which involves community consultations to gauge the opinions, concerns and expectations of the proposed project. Advanced metallurgical test work is also in progress, based on the recommendations in the 2011 scoping study report. The main purpose of the test-work is to understand any variability in the recovery of gold from the tailings and the effects of copper in the system. Cyanide consumption, leach optimisation time and carbon loading is also being analysed.

Red Rock reports that it is currently researching options for purchasing used plant equipment from Asia such that planning and construction may commence quickly after the grant of a mining lease.

Recent developments

Red Rock will undertake a pre-feasibility at Mikei. The company has received a letter from the commissioner of mines stating that the licences will be renewed, and has paid the required fee, so expects issuance of the renewal documents soon.

Potential future developments

Red Rock is in talks with Kansai with a view to consolidating its direct and indirect interests in Mid Migori into a new Canadian shell in which Red Rock could have an enhanced interest. Depending upon the precise nature and timing of any such reorganisation, it is possible that Red Rock might then look to divest itself of its Kenyan assets or add other complementary gold assets.

Valuation considerations

Taken together, the sum of Mikei and Macalder's resources is 1.261Moz, categorised as follows:

Exhibit 3: Mid Migori total resource inventory, Mikei and Macalder

Category	Tonnes (kt)	Grade (g/t)	Contained gold (Moz)
Measured	1,286	1.65	0.068
Indicated	19,410	1.29	0.805
Inferred	9,950	1.21	0.388
Total	**30,646**	**1.28**	**1.261**

Source: Edison Investment Research, Red Rock Resources

In its report *Gold – New benchmarks for old*, published in November 2012, Edison calculated global average differentiated values for explorers' ounces listed in London of US$94.54 per 'measured' ounce, US$50.21 per 'indicated' ounce and negative US$5.04 per 'inferred' ounce. For Canadian listed explorers (as Kansai was hitherto), the averages were negative US$37.06 per 'measured' ounce, US$52.63 per 'indicated' ounce and US$3.84 per 'inferred' ounce.

Applying these multiples to Mid Migori's resource implies a London-listed valuation of US$44.9m (or US$35.60 per total oz) and a Canadian one of US$41.3m (or US$32.72 per total ounce). On this basis, Red Rock's 15% direct interest in the project (under Exploration properties in Exhibit 10 on page 12) is worth US$6.2m, or £4.1m (see 'Median' valuation scenario) and its 33% interest in Kansai is worth US$11.6m, or £7.6m.

In the 'Low-end' scenario, Kansai is valued at C$0.10 per share, which is the last price at which it was able to raise funds in the public markets. By contrast, the 'Top-end' scenario assumes that Red Rock will invest US$8m in order to complete a bankable feasibility study (BFS) at Mikei and thereby earn an additional 45% in Mid Migori, such that its interest is 60% and Kansai's is diluted down to 40%

In addition, Red Rock has acquired options to buy an additional 5.9m shares in Kansai (4.94% of the issued share capital of the company). The price of the options is the greater of C$0.05 and 85% of Red Rock's valuation of Kansai's assets at any time up until Q116. The option is exercisable for C$1.00 in total. Given that the option is deeply 'in the money', its value is assumed to be close to the equity value of Kansai shares, while the consideration for the option is close to fundamental value. Hence the options are valued at zero in all instances but the 'Low-end scenario' in which Kansai is assumed to be worth C$0.10 per share (the last price at which it last raised funds in the public markets), in which case consideration for the option would be C$0.05 per share.

Four Points Mining (Colombia)

Four Points Mining operates two gold mines, El Limon and El Mango, located approximately 6km south of Zaragoza along a series of north-south trending structures on the Frontino Gold belt (a major mesothermal gold field stretching for over 60km from Remedios in the south to Zaragoza in the north that has historically accounted for up to 45% of Colombia's gold production and is characterised by depth and continuity of mineralisation).

More than 350m deep over eight levels, El Limon in particular has a history of producing high grade ore through the exploitation of the narrow, high grade vein deposits prevalent in the area. Originally developed in the 1940s, production was restarted in 2011 after a 10-year hiatus.

After initial refurbishment, a further programme of improvements has focused on the mine transportation system and improved working practices and has resulted in an improvement of ore grade mined and extracted from underground.

Recent developments

The plant at El Limon is sized to 200 tonnes per day (tpd), with the exception of the ball mill, which has a capacity of 100tpd. However, the major constraint on the expansion of throughput is the mine, which can only operate at a maximum rate of 80tpd – partly as a result of the need to use and operate a historic, non-vertical shaft.

Development at the new level (Level 8) has achieved forecast rates and now exceeds 200m. In the near term, management's immediate focus is to increase the mill feed grade to 9-10g/t from head-grades in the range of 6-50g/t. This compares with an optimal feed grade of c 15g/t and a recent historical high of 22g/t.

Improvements at the plant have also continued into 2013, with investment in upgrading process components and metallurgical test work. As a result, recovery grades at the plant have increased from less than 70% to being consistently over 85%.

At these rates, break-even costs are reported to be c US$4.5m per annum – approximately the equivalent of 8-9kg (257-289oz) gold production per month. The company is recalculating its historic and direct cash and sustaining costs per tonne to comply with recent World Gold Council guidelines.

These operating considerations compare to those actually achieved (and reported) in the period Q311-Q112, as follows:

Exhibit 4: Historic El Limon performance, Q311-Q212

	Q311	Q112	Q212	Target
Ore mined (tonnes)	N/A	5,397	6,110	**7,200**
Gold sales (oz)	1,400	1,425	1,149	**1,869**
Silver sales (oz)	1,051			
Ore milled (tonnes)	4,519	5,055	5,658	**7,200**
Head grade	11.9	8.7	10.7	**9.5**
Gold contained (oz)	1,729	1,414	1,946	**2,199**
Implied recovery	81.0	100.8	59.0	**85.0**
Milling rate (tpd)	49.1	54.9	62.2	**80.0**

Source: Red Rock Resources, Edison Investment Research

In the longer term, the mine could benefit from the possible sinking of a new shaft. Management is also planning drilling in the mine, and to the north and south along strike with the object of the delineation of a formal JORC code-compliant resource.

In the meantime however, in 2012, FPM became the subject of an offer by a private institution. The offer is subject to due diligence, during which period the company has implemented cost reductions and an internal reorganisation to reduce the number of miners and cut overheads. As such, a ban on hiring and equipment ordering has been implemented, while staff at the Madellin office have been reduced to two, resulting in costs (which had increased in early-2012) falling by half during the summer of 2012.

Valuation considerations

Given the operating considerations discussed above, Edison is able to value the El Limon mine, based on two long-term gold price forecasts, as shown in Exhibit 5.

On the basis of Edison's long-term price assumption of US$1,676/oz therefore, Red Rock's 50.002% interest in MFP is worth US$14.9m, or £9.8m. On the basis of a long-term gold price of US$1,350/oz, Red Rock's 50.002% interest in MFP is worth US$9.9m, or £6.5m (used in the 'Low-end' scenario valuation).

The principal risk inherent in this analysis is the assumption of a 10-year mine life, given that no official, JORC code-compliant resource has yet been delineated for the deposit. Reserves are estimated by the company at 35kt, or a little over one year's worth of production. Equally however, given the narrow veined nature of the ore-body, this situation has been the case for the majority of the 60 years for which El Limon has been in production.

Probably, in the absence of a JORC resource, the value of El Limon would be discounted heavily in current conditions in the market. Equally, the return on drilling to produce a JORC resource could be high.

Exhibit 5: El Limon valuation estimate

Operating parameter	US$1,676/oz long-term gold price	US$1,350/oz long-term gold price
Throughput (tpd)	80	80
Throughput (tpa)	28,800	28,800
Head grade (g/t)	9.5	9.5
Recovery (%)	85	85
Gold produced (kg)	233	233
Gold produced (oz)	7,477	7,477
Gold price (US$/oz)	1,676	1,350
Revenue (US$000's)	12,532	10,094
Implied break-even grade (g/t)	2.90	3.60
Unit working costs (US$/t)	156.25	156.25
Implied cash costs (US$000's)	4,500	4,500
Implied cash costs (US$/oz)	601.84	601.84
Implied gross profit (US$000's)	8,032	5,594
Government royalty rate (%)	4	4
Government royalty (US$000's)	501.3	403.8
Government royalty (US$/oz)	67.04	54
EBITDA (US$'000s)	7,530	5,190
Assumed life of mine (years)	10	10
Pre-tax NPV at 10% discount rate (US$'000s)	46,270	31,892
Estimated marginal tax rate (%)	30	30
Post-tax profit (US$'000s)	5,271	3,633
Post-tax NPV estimate at 10% discount rate (US$'000s)	32,389	22,324
RRR loan to MFP (US$'000s)	2,500	2,500
Estimated value of MFP equity (US$'000s)	29,889	19,824

Source: Red Rock Resources, Edison Investment Research

NAMA Greenland Ltd (NGL)

Red Rock owns 60% of NAMA Greenland Ltd (NGL), which owns 100% of the 1,570km^2 Melville Bugt licence.

Red Rock's 2011 exploration season generated two main sets of targets with apparent regional differentiation: magnetite-rich targets in the western half of the tenements and hematite dominant targets with direct shipping (DSO) potential in the eastern half.

Two of five magnetite prospects in the western licence were the subject of the 2012 maiden drill season that defined a JORC code compliant resource, as follows:

Exhibit 6: Melville Bugt JORC code compliant resource							
Area	Category	Mt	% Fe	Contained Fe (Mt)	SiO_2 (%)	Al_2O_3 (%)	P (%)
Havik East	Inferred	45	32.1	14.4	50.76	0.77	0.06
Havik North East	Inferred	22	30.0	6.6	52.12	1.51	0.07
Total	Inferred	67	31.4	21.0	51.21	1.01	0.06

Source: Red Rock Resources, Edison Investment Research

Davis Tube test-work from Havik samples demonstrated a high quality concentrate with mass recovery of approximately 40% for a concentrate grading approximately 70% Fe, 2.0% SiO_2, 0.3% Al_2O_3 and 0.01% P. An additional 12 exploration targets with a potential tonnage of 158-474Mt, at grades from 27-47% Fe, were also identified.

In addition to the magnetite targets, grab sampling in 2011 highlighted thick zones of massive hematite at c 69.4% Fe in the De Dødes East target. These were subsequently confirmed at two targets in the eastern licence area by the 2012 drill programme. In the meantime, BIF sequences at both Hematite Nunatak and De Dødes West showed alteration of primary magnetite to hematite (at grades in excess of 60% Fe) in grab and drill samples. Structural and spatial analysis of these high grade intervals implies iron mobilisation in both areas, highlighting the potential to identify similar high grade deposits in the future. In addition, a c 6km long magnetic anomaly (the Tuukkaq anomaly) has been identified directly along strike from the Hematite Nunatak target in the central licence area, buried under shallow, slow-moving ice. It has nevertheless become a priority target for future exploration.

Valuation considerations

In November 2012, RRR announced that it had received an offer (with other shareholders) from International Media Projects (a private BVI company on behalf of an industrial partner) to acquire 51% of the outstanding share capital of NGL from Red Rock (subject to due diligence) for a cash consideration of US$17.75m. A condition precedent of the offer required the company to announce a mineral resource estimate upon completion of the project's 2012 exploration programme, upon which Red Rock would be issued with an additional 35% of NGL in order to bring its holding to 60%. On 19 December 2012, the company announced a JORC mineral resource estimate on the project, thereby satisfying the terms of its farm-in and earning the additional 35%. As a result, the acquirer's offer applies to 30.6% of RRR's 60% interest (assuming pro-rata acceptance by all shareholders) for a cash consideration of US$10.7m to leave RRR with a residual interest in NGL of 29.4%. Note however that Red Rock has committed to making up to 46% of NGL's issued share capital available to the purchaser in the event that the transaction is not taken up by other shareholders (in this case, for a cash consideration of US$16.0m to leave it with a residual holding of 14%).

The purchaser also agreed to carry the first US$2m of further capital required by NGL for completion of the proposed 2013 work programme, after which shareholders in NGL may elect to finance additional work pro-rata to their shareholdings. A mine mouth royalty of 2.0% of the value of the ore produced will be payable to the selling shareholders pro-rata to their acceptance of the offer. Further, a commission of 5% of the consideration received under the offer will be payable by accepting shareholders to IMP.

In terms of its valuation of Red Rock (below), Edison assumes that it sells a minimum 30.6% stake in NGL to IMP for US$10.7m (less 5% commission) and retains a 29.4% interest in the company, worth a pro-rata US$10.2m to give a total valuation of its current 60% shareholding of US$20.4m (£13.4m). Note that this correlates closely to an implied US$34.8m for 100% of NGL, of which RRR's 60% stake would be worth US$20.9m, or £13.7m. Additional value, not included at this stage, is then represented by the 2.0% mine mouth royalty.

Jupiter Mines

Red Rock's interest in Jupiter now amounts to 19.7m shares (0.9% of the issued share capital of the company) out of an original total of 92.9m after RRR successfully injected its Australian iron ore exploration assets into Jupiter in 2009. Since then, the company has diversified (albeit within an overall 'steel feed' strategy) via the acquisition of a 49.9% interest in Tshipi e Ntle Manganese Mining (Pty) Ltd, such that its two principal assets now are a 49.9% interest in Tshipi (which owns two manganese projects in the Kalahari Manganese fields) and a 100% interest in the Central Yilgarn Iron Project.

Tshipi

The total Tshipi resource of 308Mt at 34.5% manganese represents the extension of the Mamatwan ore body (which has been mined for 45 years and is currently operating at a rate of 3Mt per annum) and is one of the largest undeveloped manganese deposits in the world. A feasibility study, completed by Turgis in May 2009, envisaged production of 2.4Mt of run of mine ore per annum (split 83:17 lump:fines) for an upfront capital cost of US$200m.

Exhibit 7: Total Tshipi Borwa resource estimate

Category	Tonnes (Mt)	Grade (% Mn)	Contained Mn (Mt)
Indicated	100.81	35.56	35.85
Inferred	207.41	33.99	70.49
Total	308.22	34.50	106.34

Source: Jupiter Mines. Note: Includes overlying X and Z zones.

The acquisition of its interest in Tshipi was announced by Jupiter in March and completed in November 2010. The mine was granted regulatory approval in February and a mining contract awarded to Aveng Moolmans in November 2011. First ore was mined and shipped in Q412. Activities during Q113 included the production and sale of manganese ore, using a temporary crushing and screening circuit, while continuing the construction of the 2.4Mtpa processing plant and support facilities.

On 21 March, Jupiter announced that Tshipi had formally signed a rail and port contract, whereby Transnet will make available two trains per week, along with 50,000t of storage capacity at Port Elizabeth. One additional train per week will be provided at Transnet's discretion to align with Tshipi's ramp-up plans.

Having achieved commercial production, the focus for the remainder of 2013 is to complete construction activities and to ensure ramp-up of production in line with Tshipi's long-term logistical, mine and production plan as well as ensuring, in the short term, sufficient ore for the temporary crushing and screening plant to match Tshipi's rail allocation.

A total of 109,873 tonnes of manganese was railed from the Tshipi Borwa Mine to Port Elizabeth during the March 2013 quarter, and Tshipi loaded and shipped approximately 76,000 tonnes of manganese – all sales thus far having been marketed and sold through OM Holdings at benchmark adjusted prices.

In the meantime, construction has continued, with a focus on the completion of the rapid load-out station and associated feeding conveyors. By the end of Q113, the project team had completed the majority of the conveyor and bin structures as well as connecting to grid power, ahead of imminent commissioning.

The capital budget for the construction of the Tshipi Borwa Mine was reassessed during the March quarter as a result of a delay in the expected completion date of the project's permanent processing plant until the end of 2013. Capex until completion has thus been increased by ZAR160m (c US$16m) from the original ZAR1,716m. Due to the devaluation of the rand since the original budget was approved however, the overall capital cost in US dollar terms remains approximately the same, at US$200m, of which Jupiter has contributed a total of A$89.25m out of its share of US$100m.

CYIP

The CYIP consists of one long-life (flagship) magnetite project – Mt Ida – and one small DSO project – the Mount Mason DSO Hematite Project – both of which are 100% owned by Jupiter.

A scoping study, completed in March 2011, found Mt Ida to be both technically and financially robust, with a project NPV (at an 8% discount rate) of US$1,685m (after capex of US$1,583m) and an internal rate of return of 19.8%. Thereafter, SRK, along with other leading consultants, was appointed to undertake key elements of the feasibility study.

Two months later, Jupiter announced the results of the Mt Mason DSO Hematite scoping study, which demonstrated a project NPV (at an 8% discount rate) of US$100.2m for a 1.5Mtpa DSO operation with mining, crushing, screening and haulage to rail at Menzies all conducted on an outsourced contract basis.

In May 2012, Red Rock announced the sale of half of its 1.5% gross revenue royalty at Mount Ida for up to US$14m to royalty company Anglo Pacific. A summary of the terms on consideration of the transaction are as follows:

- Tranche 1 (settled): In respect of 0.3% of the gross revenue royalty, US$3.9m in cash and 416,161 Anglo Pacific shares (valued then at US$2.1m) for a consideration of US$6.0m.
- Tranche 2 (outstanding): In respect of 0.225% of the gross revenue royalty, US$4m following the results of a positive definitive feasibility study (DFS) a formal decision to mine and provided that 20% of the pre-production capital costs outlined in the DFS are provided for.
- Tranche 3 (outstanding): In respect of the final 0.225% of the gross revenue royalty, US$4m following commencement of commercial production.

Together, Jupiter has committed A$40m to completing the Mt Ida and Mt Mason feasibility studies. Owing to cost escalation and market conditions however, work on the Mount Ida feasibility study was suspended in November 2012, although work continued on the optimisation of the Mount Mason study. Several areas of further work commenced, including the identification of operating and capital costs that were considered to be amenable to cost reductions.

Recent developments

In May 2012, Jupiter announced that it had received a non-binding indicative offer to acquire one of the assets of the company from an unnamed third party. Neither the consideration nor the asset nor the third party were named. However, Jupiter described the offer as 'highly conditional' and rejected it.

Valuation considerations

Two aspects need to be considered in respect of Edison's valuation of Red Rock's Jupiter-related assets:

- The value of Jupiter shares, and
- The value of Red Rock's Mt Ida royalty.

Jupiter shares

In all but the 'Top-end' valuation scenario, the value of Jupiter shares is deemed to be the currently prevailing share price (A$0.077 at the time of writing). In the 'Top-end scenario', the value of Jupiter shares is deemed to be the pro-rata value of the sum of its Mt Ida and Mt Mason net present values, sourced from the appropriate technical reports plus cash and marketable securities. At the current time, this generates a value per Jupiter share as shown below.

Exhibit 8: Estimated 'Top-end' valuation of Jupiter shares					
Asset	**Discount rate (%)**	**NPV (US$m)**	**Capex (US$m)**	**IRR (%)**	**Source**
Mt Ida magnetite project	8	1,685	1,583	19.8	March 2011 Scoping study
Mt Mason DSO hematite project	8	100	65	74.0	May 2011 Scoping study
Sub-total		**1,785**			
Cash (31 Mar 2013)		75			
Marketable secs (31 Mar 2013)		3			
Grand total		**1,863**			
Per JMS share (US$)		0.82			

Source: Jupiter Mines, Red Rock, Edison Investment Research

Note that this valuation is nevertheless still conservative in that it excludes any value from the Tshipi mine, which is in the process of being brought into production.

Mt Ida royalty

- In the 'Low-end' scenario, Red Rock is deemed to have sold a 0.3% royalty for US$6m (completed) and retained a 1.2% royalty consequently valued at US$24m.
- In the 'Median scenario', Red Rock is deemed to have sold a 0.525% royalty for US$10m (thereby garnering itself an additional US$4m) and retained a 0.975% royalty consequently valued at US$18.6m.
- In the 'Top end' scenario, Red Rock is deemed to have sold a 0.75% royalty for US$14m (thereby garnering itself an additional US$8m) and retained a 0.75% royalty consequently valued at US$14m.

Note that all of these analyses relate to the value of the Mt Ida royalty up to the point at which it commences commercial production. Once in production, at steady-state, the value of the royalty could increase substantially, depending on production rates, as shown below:

Exhibit 9: Potential future Mt Ida royalty value to Red Rock			
Production scenario	**5.0Mtpa**	**10.0Mtpa**	**20.0Mtpa**
Production at 65% Fe content (Mtpa)	5.0	10.0	20.0
Price (US$/t)	90	90	90
Implied turnover (US$m)	450.0	941.5	1,800.0
Gross production royalty at 1.5% (US$m)	6.8	14.1	27.0
Royalty net present value (US$m)*	57.5	120.2	229.9
Estimated post-tax royalty value (US$m)	40.2	84.2	160.9
Value of 50% Red Rock interest (US$m)	**20.1**	**42.1**	**80.5**

Source: Edison Investment Research. Note: *10% discount rate, 20-year life.

As such, these represent potential future value accretion to Red Rock as Jupiter's Mt Ida asset is developed.

Other assets

Other assets held by Red Rock include:

- 46.9m shares in Australian-listed Resource Star (RSL) valued at the prevailing equity price of A$0.007 per share at the time of writing.
- 1.0m shares in Ascot Mining. Ascot is listed on the ISDX market but is currently suspended following a loan default. Red Rock's holding is valued at the last traded price of the shares (2p at the time of writing). In addition, Red Rock holds c US$1.5m in convertible loan stock issued by Ascot. Whereas this was previously valued assuming conversion into equity, it is now accounted for and valued as a receivable.

Resource Star (ASX: RSL)

Resource Star is a publicly-listed Australian company (ASX: RSL) that was previously focused on its uranium exploration assets in Malawi, Western Australia and the Northern Territory and its poly-metallic prospect in Tasmania. However, in a significant development, on 1 August the company entered into a binding agreement with Searex Petroleum (BVI) to acquire a 50% shareholding in D-Bar Leasing Inc, which holds a 100% working interest in 2,732 acres of oil leases located in Abilene, Texas (US). D-Bar holds eight oil producing leases that have 96 wells located on them on the edge of the Llano Uplift in North Central Texas. The transaction is subject to a number of standard commercial conditions precedent; consideration for the transaction is A$1m plus 65m RSL plus up to 41,000 performance shares (convertible into ordinary shares at a rate of 10,000 to one – ie representing 410m additional ordinary shares) subject to various performance milestones being met within the next two years. It is the company's aim to achieve a production rate of 500 barrels of oil per day (b/d) by December 2013 and then to 1,500b/d by December 2014 after an investment of US$3m.

Note that each A$0.007 (ie 100%) by which RSL's share price increases from A$0.007 increases Edison's valuation of RRR (below) by 0.01p.

Valuation

Taking all of the above valuation considerations into account, Edison's valuation of Red Rock Resources according to a number scenarios is as follows. Note that a deferred tax liability has been created in order to reflect likely tax on the profits and/or losses (with respect to book value) that arise from the realisation of value from RRR's investments.

Exhibit 10: Red Rock valuation summary (£'000s)

Asset	Low-end scenario	Median scenario	Top-end scenario
Jupiter Mines	915	915	10,531
Resource Star	194	194	194
UEC	534	534	534
Kansai Mining Corp	2,502	7,605	4,272
Kansai option	188	0	0
MFP (51% interest)	6,500	9,799	9,799
Ascot equity	20	20	20
Net Cash & cash equivalents	2,887	2,887	2,887
Trade & other receivables	1,322	1,322	1,322
Exploration properties (direct Mid Migori interest)	441	4,064	14,157
Mount Ida royalty	15,737	14,800	14,425
NAMA	13,335	13,335	13,335
Total current assets	44,574	55,475	71,476
Non-current assets			
Property, plant and equipment	28	28	28
Total non-current assets	28	28	28
Total assets	**44,602**	**55,503**	**71,505**
Current liabilities			
Trade & other payables	(2,657)	(2,657)	(2,657)
Short-term borrowings	(3,953)	(3,953)	(3,953)
Current tax liabilities	0	0	0
Total current liabilities	(6,610)	(6,610)	(6,610)
Non(current liabilities			
Deferred tax assets/liabilities	(2,545)	(5,816)	(10,616)
Long(term borrowings	0	0	0
Total non(current assets/liabilities	(2,545)	(5,816)	(10,616)
Total liabilities	(9,155)	(12,425)	(17,226)
Net assets	35,447	43,078	54,279
Shares in issue (millions)	1,279.8	1,279.8	1,279.8
NAV per share (pence)	2.77	3.37	4.24
Current share price	0.33	0.33	0.33
(Discount)/premium of current share price to NAV (%)	(88.1)	(90.2)	(92.2)

Source: Edison Investment Research, Red Rock; Note: Based on consolidated balance sheet as at 31 December 2012; Priced at 17 July 2013.

Exhibit 11: Financial summary

£'000s	2007	2008	2009	2010	2011	2012	2013e
Year end 30 June	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	535	24	3	9	943	0	0
Cost of Sales	(185)	(1,026)	(108)	0	(1,463)	0	0
Gross Profit	350	(1,001)	(104)	9	((521)	0	0
EBITDA	(310)	(249)	(750)	(872)	(432)	(2,271)	(1,921)
Operating Profit (before GW and except.)	(310)	(249)	(750)	(872)	(1,142)	(2,632)	(1,940)
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	18	75	(3)	6,066	15,623	3,067	(5,278)
Associates	(1)	(83)	(171)	(519)	(386)	(312)	(561)
Operating Profit	(293)	(257)	(923)	4,674	14,095	123	(7,779)
Exceptionals		347	0	149	(79)	(4,992)	(11,853)
Net Interest	2	13	(5)	(69)	(43)	289	(252)
Profit Before Tax (norm)	(309)	(318)	(926)	(1,461)	(1,571)	(2,656)	(2,753)
Profit Before Tax (FRS 3)	(224)	104	(929)	4,755	13,974	(4,581)	(19,884)
Tax	0	0	0	(1,299)	(3,714)	2,168	2,784
Profit After Tax (norm)	(309)	(318)	(926)	(1,461)	(1,571)	(2,656)	31
Profit After Tax (FRS 3)	(224)	104	(929)	3,455	10,260	(2,412)	(17,100)
Average Number of Shares Outstanding (m)	188.2	266.2	389.7	530.3	668.4	786.9	1,082.0
EPS (normalised (p)	(0.16)	(0.12)	(0.24)	(0.28)	0.01	(0.31)	0.02
EPS (normalised fully diluted (p)	(0.16)	(0.12)	(0.23)	(0.26)	0.01	(0.30)	0.02
EPS (FRS 3 (p)	(0.12)	0.04	(0.24)	0.65	1.78	(0.33)	(1.60)
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	65.5	N/A	N/A	100.0	0.0	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets	0	0	0	5	13,328	19,554	19,534
Intangible Assets	0	0	0	0	0	304	304
Tangible Assets	0	0	0	5	13,328	38	19
Investments	0	0	0	0	0	19,212	19,212
Current Assets	2,848	4,364	5,552	10,692	36,972	17,584	2,887
Stocks	0	0	0	0	0	0	0
Debtors	1,080	394	275	1,127	6,658	1,629	0
Cash	220	88	49	563	269	348	2,887
Other	1,547	3,883	5,228	9,002	30,045	15,607	0
Current Liabilities	(294)	(413)	(180)	(1,904)	(5,867)	(10,443)	(9,275)
Creditors	(294)	(413)	(180)	(1,144)	(4,117)	(9,233)	(8,065)
Short term borrowings	0	0	0	(760)	(1,750)	(1,210)	(1,210)
Long Term Liabilities	0	0	0	(193)	(11,588)	(2,293)	(2,940)
Long term borrowings	0	0	0	0	(2,818)	(2,293)	(2,293)
Other long term liabilities	0	0	0	(193)	(8,770)	0	(647)
Net Assets	2,554	3,951	5,372	8,600	32,844	24,402	10,206
CASH FLOW							
Operating Cash Flow	(174)	(753)	(621)	(1,484)	(8,207)	(3,549)	(1,496)
Net Interest	2	13	(5)	(122)	(96)	(181)	(252)
Tax	0	0	0	0	(827)	(111)	2,784
Capex	(260)	(112)	(184)	(150)	(1,697)	(2,915)	(242)
Acquisitions/disposals	0	(11)	(402)	(156)	(161)	620	(718)
Financing	553	730	1,112	1,613	6,833	3,978	2,463
Dividends	0	0	0	0	0	0	0
Net Cash Flow	119	(133)	(100)	(300)	(4,155)	(2,158)	2,539
Opening net debt/(cash)	(101)	(220)	(88)	(49)	197	4,299	3,155
HP finance leases initiated	0	0	0	0	0	0	0
Other	N/A	N/A	61	53	53	3,303	0
Closing net debt/(cash)	N/A	N/A	(49)	197	4,299	3,155	616

Source: Company sources, Edison Investment Research

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