EDISON

Red Rock Resources

Four sold for five

Disposal of FPM

Metals & mining

Red Rock's announcement that it has signed a binding letter of agreement to sell its 50.002% interest in Four Points Mining (FPM) in Colombia continues the rationalisation of its portfolio of assets and its ongoing strategic transformation from junior investment holding company to African gold explorer.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/11	0.9	(1.6)	0.01	0.0	26.0	N/A
06/12	0.0	(2.7)	(0.31)	0.0	N/A	N/A
06/13	2.6	(5.1)	(0.03)	0.0	N/A	N/A
06/14e	3.0	(1.4)	(0.09)	0.0	N/A	N/A

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

Mikei takes up the running

On 29 May, Red Rock announced the completion of a positive preliminary technical and economic assessment of the Nyanza gold prospect (effectively Phase 1 of a Bankable Feasibility Study) by consultants Applied Geology & Mining (Pty) (AG&M). AG&M considered various options for exploiting the deposit, but focused on a modular plant format to accelerate revenue generation and minimise capex and opex outlays. At a processing rate of 13,000tpm, it found Nyanza to be a 'robust project'. It recommended further development work on an option involving the initial exploitation of the highest grade portion of the ore-body by gravity methods only over 18 months, before phasing in a CIL plant to exploit the balance of the ore-body over the following seven years. At a gold price of US$1,200/oz, AG&M calculated a net present value for the project of US$7.0m (cf Edison US$7.6m). At our long-term gold prices (see *Gold – US$2070 by 2020*, published in November 2013), it calculates an NPV for the project of US$21.7m (at a 10% discount rate). Note that, at the point of execution, all of the conditions will have been fulfilled for Red Rock to have taken a 60% direct interest in Mid Migori, in which case its beneficial interest in the project will be at least US$13.0m, or £7.8m. Note that, subject to funding, we estimate that Nyanza has the potential to add up to c 0.16 US cents or 0.094p to Red Rock's EPS (see Exhibit 6).

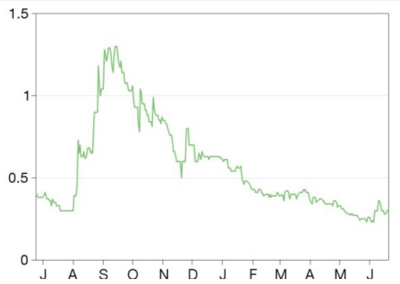
Valuation: 70% discount or 2.3x upside potential

In the wake of its sale of its interest in FPM, Red Rock's four principal assets are its Mount Ida royalty, its 43% net interest in Mid Migori (ie Nyanza, above), Melville Bay Ltd (MBL) and Jupiter. To a large extent the value of Red Rock's Mt Ida royalty is determined by its sale of 0.3% of 1.5% of the royalty (Tranche 1, see page 12) to Anglo Pacific for US$6.0m, announced in May 2012. Thereafter, if Red Rock's interest in Jupiter is valued at Jupiter's last quoted price before de-listing in January 2014 and its interest in Mikei is valued with respect to the last price at which Kansai raised funds, we calculate a net asset value for Red Rock of 0.95p per share. This rises to 1.81p if Jupiter and Mikei re-rate to something close to fundamental value and Melville Bay re-rates to the value implied by International Media Projects' November 2012 bid for a 51% stake in the company for US$17.75m.

24 June 2014

Price	**0.285p**
Market cap	**£5m**
	US$1.7019/£
Net debt (£m) as at December 2013	4.0
Shares in issue	1,859.2m
Free float	84.9%
Code	RRR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	21.6	(21.5)	(22.5)
Rel (local)	20.8	(23.9)	(30.6)
52-week high/low		1.30p	0.23p

Business description

Red Rock Resources listed on AIM in July 2005. It is now a combination of a junior gold explorer and a mining finance house, focused on discovering and developing iron ore, gold, steel feed and uranium globally.

Next events

FY14 results	November 2014
AGM	December 2014

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

Edison profile page

Red Rock Resources is a research client of Edison Investment Research Limited

Investment summary: Gold explorer transformation

Company description: Explorer-finder-seller-royalty retainer

Red Rock's 13 May announcement that it has signed a binding letter of agreement to sell its 50.002% interest in FPM in Colombia continues the rationalisation of its portfolio of assets and its ongoing strategic transformation from junior investment holding company to African gold explorer.

Under the letter of intent, the company will sell its 100% interest in American Gold Mines (AGM) – which owns a 50.002% interest in Four Points Mining SAS, the owner of the El Limon mine – and its loans to FPM for a total consideration of US$5m.

A summary of significant newsflow since our last major update report on Red Rock is as follows:

- The illegal stoppages, which had previously been the cause of major disruption in the region of FPM's El Limon mine in Colombia, came to an end as a result of a lessening of tensions between the government and FARC guerrillas.
- Jupiter Mines was de-listed from the ASX in early January. Shortly before that, Red Rock acquired an additional 7.65m shares in Jupiter at a price of A$0.056 for a total consideration of A$428,400. Note that on 31 December 2013 Jupiter's book value was A$0.21 per share.
- In an update on its Kenyan operations, Red Rock announced the identification of 12 new regional targets as a result of an analysis of grab samples. At the same time, 15 existing regional targets were reprioritised and the Mikei Shear Zone reinterpreted to posit two parallel zones of mineralisation (the Main Zone, containing KKM, KKM-west and others, and the North Zone, containing MK and Gori Maria) to govern future targeting.
- Red Rock established an investment facility focused in Côte d'Ivoire (Ivory Coast) and applied for three exploration licences near the town of Bettié in the south-east of the country along trend from Newmont's 17Moz Ahafo gold mine in Ghana.
- On 4 April 2014, Red Rock's sale of its 60% interest in Melville Bay, which had been announced in July 2013, was deferred. Simultaneously, the company announced that there would be no active exploration programme in 2014.
- Resource Star (RSL), in which Red Rock (now) has a 20.94% interest, raised A$0.64m via a fully underwritten 1 for 1 rights issue at a price of A$0.004 per share and is currently actively seeking new projects.
- On 13 May, Red Rock announced that it had signed a binding letter of intent to sell its interest in FPM for US$5m.
- On 29 May, Red Rock announced a positive technical and economic assessment of the Nyanza gold prospect at Mid Migori in Kenya.

In general, the company's overall strategy is an 'explore-find-sell-retain royalty' one, with which its sale of its FPM interest is entirely consistent. In the short term, this will allow the company to de-gear and 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, with further farm-in rights;
- a 60% interest in Melville Bay Ltd (MBL), which owns 100% of the 1,570km^2 Melville Bugt iron ore project;
- a 27.3m (1.2%) share interest in Jupiter Mines; and
- a 1.2% gross revenue royalty at Mount Ida.

Four Points Mining (FPM) sale transaction

A summary of FPM's balance sheet, derived from published information at the time of Red Rock's interim results to 31 December 3013 (announced on 31 March 2014), is as follows:

Exhibit 1: FPM estimated balance sheet (December 2012)

	£	US$
Current assets		
Cash and cash equivalents	9,826	16,464
Trade and other receivables	2,262,508	3,791,058
Inventories	79,198	132,704
Total current assets	**2,351,532**	**3,940,227**
Non-current assets		
Property, plant and equipment	13,031,839	21,836,149
Total non-current assets	**13,031,839**	**21,836,149**
Total assets	**15,383,371**	**25,776,376**
Current liabilities		
Trade and other payables	(1,284,682)	(2,152,613)
Total current liabilities	**(1,284,682)**	**(2,152,613)**
Non-current liabilities		
Long-term borrowings	(3,221,395)	(5,397,769)
Borrowings from Red Rock	(1,492,003)	(2,500,000)
Deferred tax liabilities	(3,376,109)	(5,657,008)
Total non-current liabilities	**(8,089,507)**	**(13,554,778)**
Total liabilities	**(9,374,189)**	**(15,707,391)**
Net assets	**6,009,182**	**10,068,986**
Minority interest	2,667,468	4,469,609
Net assets attributable	**3,341,714**	**5,599,376**

Source: Red Rock Resources, Edison Investment Research. Note: US$1.6756/GB£.

Under the letter of intent announced on 13 May, Red Rock will sell its 100% interest in AGM – which owns a 50.002% interest in Four Points Mining SAS, the owner of the El Limon mine – and its loans to FPM for a total consideration of US$5m.

Payment of consideration will occur in three tranches. The first tranche of US$2.5m will be payable on the completion of satisfactory due diligence on the mine and subsequent closing of the transaction, which is expected to be 11 August 2014 (ie FY15), if the exclusivity period is not extended. A second tranche of US$1.5m will be satisfied by the purchaser issuing a non-interest bearing promissory note to Red Rock due and payable on or before the date that is one year from the closing. Security for the promissory note will be held in the form of a charge over 100% of the shares in AGM. Finally, the third tranche of up to US$1.0m will be paid in the form of a 3% royalty on annual net gold sales. If gold production at any stage ceases at El Limon, the total paid under the third tranche may fall short of this amount.

A 7% commission is payable to Ariel Partners on the transaction. Ariel Partners is a corporate advisory firm that provides bespoke business development and other services to companies in the natural resources sector.

Assuming Red Rock's loans to FPM were sold at par value, the residual equity portion of the consideration implies a value for FPM of US$5.0m for 100% of the company, on which basis its enterprise value is US$12.9m.

Exhibit 2: FPM/El Limon gold sales, calendar Q311-Q114, by quarter

Heading Left	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413	Q114		CY12	CY13	YTD 14
Gold Sales (oz)	1,404	1,425	1,149	1,400	*680	*680	*363	*126	980	909	718		3,909	2,378	718

Source: Red Rock Resources, Edison Investment Research. Note: * Estimated.

No official, JORC code-compliant resource has ever been delineated at El Limon. Reserves were estimated to be 35kt of ore (ie a little in excess of one year's worth of production). However, given the narrow-veined nature of the ore body, this situation has pertained for the majority of the 60 years of the mine's life.

Red Rock's target production rate from El Limon was 7,476oz per year, which would imply resources and reserves of 74,760oz over a 10-year life of mine, or 149,520oz over 20 years etc. On this basis, the resource multiple at which Red Rock sold its interest in FPM may be expressed in terms of the estimated number of years remaining of the mine's life as follows:

Exhibit 3: FPM resource multiple estimate with respect to remaining life of mine

Estimated years remaining	10	20	30	40	50	60
Implied reserve/resource (oz)	74,760	149,520	224,280	299,040	373,800	448,560
Implied resource multiple (US$/oz)	172.52	86.26	57.51	43.13	34.50	28.75

Source: Edison Investment Research

Similarly, FPM's enterprise value equates to US$1,725 per planned annual ounce of production or US$3,300 per actual annual ounce of production (with respect to CY12).

Remaining assets

In the wake of the sale of its interest in Four Points Mining, Red Rock's four principal remaining assets are:

- a 15% direct and a 28% indirect interest in the Mid Migori Mining Company in Kenya, with further farm-in rights;
- a 60% interest in Melville Bay Ltd, which owns 100% of the 1,570km^2 Melville Bugt iron ore project;
- a 27.3m (1.2%) share interest in Jupiter Mines; and
- a 1.2% gross revenue royalty at Mount Ida.

In addition, it has a joint interest in gold exploration activities in the Ivory Coast (although this has not been attributed a value to date, given its relatively early stage of development – see below).

In the following section, we analyse each asset in turn and derive low, median and top-end valuations, resulting in a valuation range for Red Rock itself of 0.95-1.81p per share (see Exhibit 11).

Remaining assets: Mid Migori

Red Rock has a 15% direct and a 28% indirect interest in the Mid Migori Mining Company in Kenya – its indirect interest held via a 33.0% interest in Canada's Kasai Mining Corp, which holds the remaining 85% of Mid Migori.

Mid Migori owns the Mikei gold project, comprising five deposits located in the south-west of Kenya, 290km west of Nairobi. The five deposits combine along a strike of 7km within tenements that extend 63km from Lake Victoria, parallel to the Kenya-Tanzania border. Together, they are hosted in the Archean Migori Greenstone Belt, which is a WNW trending shear complex of anastomosing shear zones with orientations approximately parallel to the strike of the belt.

The five deposits' combined resources are as follows:

Exhibit 4: 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; resource not depleted for historical mining of c 83koz in the 1960s.

Mineralisation at all prospects remains open at depth and along strike. Included in the land package is the Macalder tailings retreatment project, which adds an additional 68,000oz of resources in the measured category.

On 29 May, Red Rock announced the completion of a positive preliminary technical and economic assessment of the Nyanza gold prospect (effectively Phase 1 of a bankable feasibility study, BFS) by consultants AG&M.

On completion of a BFS, Red Rock will be entitled to a 60% direct interest in Mid Migori.

In common with most other deposits on the Migori Greenstone Belt, Nyanza is probably a structurally controlled lode gold deposit, which is manifested in steeply dipping quartz veins that vary in thicknesses from 1cm to 3m. AG&M considered various options for mining and processing the Nyanza deposit, but focused on low capital and operating cost options that offered an accelerated timeframe to revenue generation. In keeping with this, it adopted a modular plant format to achieve flexibility and minimise the initial capex requirement. Various studies resulted in the determination of an ideal steady-state throughput of 20tph or 13,000tpm (at 89% capacity utilisation). In conclusion, it presented four options:

- Option 1.1: initial capex of US$3.026m to process 111kt of high grade ore at 7.4g/t by gravity methods alone over a 1.5-year mine life at average unit operating costs of US$44.64/t.
- Option 1.2: initial capex of US$3.026m to process 1.2Mt of mineable inventory at an average feed grade of 4.1g/t by gravity methods alone over a nine-year mine life at average unit operating costs of US$44.64/t.
- Option 2.1: initial execution of Option 1.1 followed by a subsequent investment of US$7.186m to phase in a CIL plant after 1.5 years to process 1.2Mt of mineable inventory at an average feed grade of 4.1g/t at average unit operating costs of US$68.43/t.
- Option 2.2: concurrent execution of Options 1.1 and 2.1 such that initial capex of US$10.212m is invested to process 1.2Mt of mineable inventory, with initial high grade ore being treated by the CIL plant over nine years at an average feed grade of 4.1g/t at average unit operating costs of US$68.43/t.

Only the input parameters and the results of the economic analysis were made available to investors in Red Rock's 29 May announcement. Nevertheless, on the basis of the information made available to the public, it is possible to put forward the following (approximate) mine plan:

Exhibit 5: Edison estimate of Nyanza operating and financial parameters (AG&M Option 2.1)

Year	1	2	3	4	5	6	7	8	9
Steady-state production rate (tpm)	1,199	8,563	13,000	13,000	13,000	13,000	13,000	13,000	13,000
Steady-state production rate (tpa)	14,385	102,750	156,000	156,000	156,000	156,000	156,000	156,000	156,000
Average feed grade (g/t)	7.4	7.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Contained gold (oz)	3,422	24,446	18,788	18,788	18,788	18,788	18,788	18,788	18,788
Recovery (%)	46.7	46.7	81.4	81.4	81.4	81.4	81.4	81.4	81.4
Recovered gold (oz)	1,597	11,404	15,286	15,286	15,286	15,286	15,286	15,286	15,286
Gold price (US$/oz)	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Revenue (US$000's)	1,916	13,685	18,343	18,343	18,343	18,343	18,343	18,343	18,343
Unit costs									
Mining (US$/t)	21.41	21.41	21.41	21.41	21.41	21.41	21.41	21.41	21.41
Processing (US$/t)	13.72	13.72	29.34	29.34	29.34	29.34	29.34	29.34	29.34
Overheads (US$/t)	9.51	9.51	17.68	17.68	17.68	17.68	17.68	17.68	17.68
Other (US$/t)	23.60	23.60	25.35	25.35	25.35	25.35	25.35	25.35	25.35
Total (US$/t)	**68.24**	**68.24**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**
Costs									
Mining (US$000's)	308	2,200	3,340	3,340	3,340	3,340	3,340	3,340	3,340
Processing (US$000's)	197	1,410	4,577	4,577	4,577	4,577	4,577	4,577	4,577
Overheads (US$000's)	137	977	2,758	2,758	2,758	2,758	2,758	2,758	2,758
Other (US$000's)	340	2,425	3,954	3,954	3,954	3,954	3,954	3,954	3,954
Total (US$000's)	**982**	**7,012**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**
Unit production costs (US$/oz)	615	615	957	957	957	957	957	957	957
Gross profit (US$000's)	934	6,673	3,713	3,713	3,713	3,713	3,713	3,713	3,713
Depreciation (US$000's)	1,513	1,513	1,027	1,027	1,027	1,027	1,027	1,027	1,027
Operating profit (US$000's)	(579)	5,160	2,687	2,687	2,687	2,687	2,687	2,687	2,687
Net interest (US$000's)	0	(230)	(475)	(191)	0	0	0	0	0
PBT (US$000's)	(579)	4,930	2,212	2,495	2,687	2,687	2,687	2,687	2,687
Tax (US$000's)	0	1,479	664	749	806	806	806	806	806
Marginal tax rate (%)	30	30	30	30	30	30	30	30	30
Profit after tax (US$000's)	(579)	3,451	1,549	1,747	1,881	1,881	1,881	1,881	1,881
Profit attributable to Red Rock (US$000's)	(347)	2,071	929	1,048	1,128	1,128	1,128	1,128	1,128
Red Rock EPS contribution (US cents)	(0.019)	0.111	0.050	0.056	0.061	0.061	0.061	0.061	0.061
Capex (US$000's)	3,026	7,186							
Cash-flow (US$000's)	(2,092)	(2,222)	2,575	2,773	2,907	2,907	2,907	2,907	2,907

Source: Edison Investment Research, Red Rock Resources, Applied Geology & Mining. Note: AG&M gold price of US$1,200/oz used.

Note the net present value of the cash-flow calculated in Exhibit 5 is US$7.6m (discounted at a rate of 10% per year) and the internal rate of return 48.5%, which accords closely with AG&M's calculations. Note also, however, that this analysis was conducted at AG&M's gold price of US$1,200/oz. When adjusted for our long-term gold prices (see *Gold – US$2070 by 2020*, published in November 2013), the net present value of future cash flows increases by 185.5% to US$21.7m and the project's internal rate of return to 128.6% (see Exhibit 6, overleaf):

Exhibit 6: Estimate of Nyanza operating and financial parameters using Edison's long-term gold prices

Year	1	2	3	4	5	6	7	8	9
Steady-state production rate (tpm)	1,199	8,563	13,000	13,000	13,000	13,000	13,000	13,000	13,000
Steady-state production rate (tpa)	14,385	102,750	156,000	156,000	156,000	156,000	156,000	156,000	156,000
Average feed grade (g/t)	7.4	7.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Contained gold (oz)	3,422	24,446	18,788	18,788	18,788	18,788	18,788	18,788	18,788
Recovery (%)	46.7	46.7	81.4	81.4	81.4	81.4	81.4	81.4	81.4
Recovered gold (oz)	1,597	11,404	15,286	15,286	15,286	15,286	15,286	15,286	15,286
Gold price (US$/oz)	1,474	1,420	1,420	1,478	1,470	1,466	1,495	1,530	1,546
Revenue (US$000's)	2,354	16,190	21,707	22,593	22,463	22,412	22,848	23,386	23,629
Unit costs									
Mining (US$/t)	21.41	21.41	21.41	21.41	21.41	21.41	21.41	21.41	21.41
Processing (US$/t)	13.72	13.72	29.34	29.34	29.34	29.34	29.34	29.34	29.34
Overheads (US$/t)	9.51	9.51	17.68	17.68	17.68	17.68	17.68	17.68	17.68
Other (US$/t)	23.60	23.60	25.35	25.35	25.35	25.35	25.35	25.35	25.35
Total (US$/t)	**68.24**	**68.24**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**	**93.78**
Costs									
Mining (US$000's)	308	2,200	3,340	3,340	3,340	3,340	3,340	3,340	3,340
Processing (US$000's)	197	1,410	4,577	4,577	4,577	4,577	4,577	4,577	4,577
Overheads (US$000's)	137	977	2,758	2,758	2,758	2,758	2,758	2,758	2,758
Other (US$000's)	340	2,425	3,954	3,954	3,954	3,954	3,954	3,954	3,954
Total (US$000's)	**982**	**7,012**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**	**14,629**
Unit production costs (US$/oz)	615	615	957	957	957	957	957	957	957
Gross profit (US$000's)	1,372	9,178	7,078	7,963	7,833	7,783	8,218	8,756	8,999
Depreciation (US$000's)	1,513	1,513	1,027	1,027	1,027	1,027	1,027	1,027	1,027
Operating profit (US$000's)	(141)	7,665	6,051	6,937	6,806	6,756	7,192	7,730	7,973
Net interest (US$000's)	0	(182)	(230)	0	0	0	0	0	0
PBT (US$000's)	(141)	7,483	5,822	6,937	6,806	6,756	7,192	7,730	7,973
Tax (US$000's)	0	2,245	1,746	2,081	2,042	2,027	2,158	2,319	2,392
Marginal tax rate (%)	30	30	30	30	30	30	30	30	30
Profit after tax (US$000's)	(141)	5,238	4,075	4,856	4,765	4,729	5,034	5,411	5,581
Profit attributable to Red Rock (US$000's)	(85)	3,143	2,445	2,913	2,859	2,838	3,021	3,247	3,349
Red Rock EPS contribution (US cents)	(0.005)	0.169	0.132	0.157	0.154	0.153	0.162	0.175	0.180
Capex (US$000's)	3,026	7,186							
Cash-flow (US$000's)	(1,654)	(435)	5,102	5,882	5,791	5,756	6,061	6,437	6,607

Source: Edison Investment Research, Red Rock Resources, Applied Geology & Mining

Note that at the point of execution, all of the conditions will have been fulfilled for Red Rock to have taken a 60% interest in Mid Migori, on which basis its beneficial interest in the project will be at least US$13.0m.

In due course, it may be possible to integrate the Nyanza Preliminary Technical and Economic Assessment with the adjacent Macalder tailings resource to develop a larger project overall.

Valuation considerations for Nyanza/Mid Migori/Kansai

In the low-end scenario (see page 14, below), Kansai is valued at C$0.10 per share. This is the last price at which it was able to raise funds in the public markets before it was de-listed in December 2008, for failing to produce accounts for the 2007 financial year.

In the median scenario, by contrast, Kansai is valued with respect to its 85% interest in Mid Migori's global resource of 1.261Moz. In our report, *Gold – US$2070 by 2020*, published in November 2013, we calculated global average differentiated values for explorers' ounces listed in London of US$83.74 per measured ounce, US$43.14 per indicated ounce and negative US$3.54 per inferred ounce. For Canadian listed explorers (as Kansai was previously), the averages were US$37.39 per measured ounce, US$16.46 per indicated ounce and US$2.17 per inferred ounce. Applying these multiples to Mid Migori's resource implies a London-listed valuation of US$39.0m (or US$30.97 per total ounce) and a Canadian one of US$16.6m (or US$13.19 per total ounce). On this basis, Red Rock's 15% direct interest in the project (under exploration properties in Exhibit 11 on page 14) is worth US$2.5m, or £1.5m, based on the more conservative Canadian valuation, and its 33% interest in Kansai is worth US$4.7m, or £2.8m.

By contrast, the top-end scenario assumes Red Rock will invest a further US$6m to complete a BFS at Nyanza and thereby earn an additional 45% in Mid Migori, such that its interest is 60% and Kansai's is diluted down to 40%. At this point, the Nyanza project is valued at the US$21.7m NPV calculated in Exhibit 6. Both Kansai's and Red Rock's interests in Mid Migori are then discounted by a further five years at 10%, that being the time we estimate it will take to complete the required BFS and bring the project to the point of development.

Red Rock also has options giving it the right to purchase 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 price at which it last raised funds in the public markets) and the cost of the option C$0.05 per share. Note that in this case the options are valued according to their intrinsic value only; no account is taken of their time value.

Remaining assets: Ivory Coast

On 4 March, Red Rock announced that it had agreed terms with a co-investor to fund gold exploration activities in the Ivory Coast Gold Project (the ICGP). The initiative was based on an extensive investigation of the mineral prospects of the country and resulted in Red Rock's applying for three exploration licences to the southeast of the country in the same prospective greenstone units and along trend from Newmont's 17Moz Ahafo gold mine in Ghana. All licences were selected after a thorough and detailed analysis of their mineral potential by a geological team that specialises in greenstone-hosted gold in west, east and central Africa and Canada. Criteria assessed included regional and local geology, structural trends, spatial relationships with the region's other numerous gold deposits, local artisanal mining sites and other known mineral occurrences. Input was solicited from local, in-country experts and the quality of local infrastructure also taken into consideration. In addition, on 4 April, Red Rock announced that it had taken a technical advisory role for Basse Terre sarl, a local affiliate, which has in turn applied for four exploration licences in the centre of the country in the region of Oume, Tiéningboué and Niofin. All four of Basse Terre's licences are similarly underlain by prospective Birimian greenstone rocks and three of the four are located along trend or proximal to other major gold deposits.

Background – Ivory Coast

The Ivory Coast contains more than a third of the Birimian geology that underlies west Africa and hosts mines such as Randgold's Tongon, Endeavour's Agbaou, Newcrest's Bonikro and La Mancha's Ity and prospects such as Amara's Yaoure and Perseus's Tengrela. In addition, it possesses some of west Africa's best infrastructure – not least on account of its close post-independence ties with France – yet remains largely underexplored, partly as a result of past political tensions and partly as a result of a mining code hitherto perceived by junior explorers as unattractive.

The roots of the 2010-2011 Ivoirian conflict lay in the end of the 33 year presidency of Felix Houphouet-Boigny in 1993. An advocate of close ties with the former colonial power, France, and a staunch anti-communist, Houphouet-Boigny's death in 1993 ushered in an era of increasing tension and instability throughout the 1990's, attended by a series of attempted coups d'etats, currency devaluations and sporadic violence. After nine years of simmering tensions, civil war broke out in 2002 and lasted for another nine years attended by rounds of talks, agreements, deadlocks, embargoes, expatriate exoduses, international intervention (France and the UN) and effective partition between the ethnically and religiously distinct north and the south of the country. The second Ivoirian Civil War erupted in March 2011 when Laurent Gbagbo, the country's sitting President since 2000, claimed victory in the presidential election over the northern candidate, Alassane Ouattara, in defiance of the country's Independent Electoral Commission (CEI) and, ultimately, the UN. In particular, Gbagbo claimed victory on the basis that the President of the Constitutional Council had invalidated the results of the election in seven northern regions. It was also claimed the Ouattara, a former prime minister, was of Burkinabe extraction and therefore ineligible to run for the post of president. As a result, both Gbagbo and Ouattara claimed victory and took the presidential oath of office. After months of unsuccessful negotiations and sporadic violence, the crisis escalated into full-scale military conflict between the two sides, which was only resolved when Ouattara's forces stormed the presidential palace and arrested Gbagbo on 11 April 2011. In 2013, Gbagbo appeared before the International Criminal Court (ICC) facing four counts of crimes against humanity including murder, rape, attempted rape and persecution. In June 2014, judges at the pre-trial chamber decided that the prosecution had sufficient evidence to put him on trial, although no date was set. Despite localised opposition to the ICC process, the country has otherwise settled down since the formal end of the civil war with President Ouattara vowing to unite the country and to reprise its status as a beacon of stability in west Africa. There are sporadic outbursts of violence (typically of a north-south nature). Recently however, Ouattara has announced steps to restore 'discipline' to the former rebels of the northern New Forces who backed him during the crisis.

Valuation considerations for Ivory Coast

On account of its early stage of development, no value has yet been attributed to Red Rock's assets in the Ivory Coast in any of the scenarios considered in Exhibit 11 on page 14. In due course, value is likely to attributed on the basis i) of the value of investments made and ii) on the basis of the value of any resource ultimately derived as a result of that investment.

Remaining assets: Melville Bay

Red Rock owns 60% of Melville Bay Ltd (MBL), which owns 100% of the 1,570km^2 Melville Bugt licence. In November 2012, Red Rock announced 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 MBL from the shareholders (subject to due diligence) for a cash consideration of US$17.75m. On 4 April 2014, it was announced that this sale had been deferred.

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 7: 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

Subsequent Davis Tube test-work on samples from Havik 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. Although there will be no active exploration at Melville Bugt in 2014 (as per Red Rock's announcement on 4 April), Tuukkaq nevertheless remains a priority target for future exploration.

Valuation considerations for Melville Bay

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 MBL from Red Rock (subject to due diligence) for a cash consideration of US$17.75m. A mine mouth royalty of 2.0% of the value of the ore produced was also payable to the selling shareholders pro-rata to their acceptance of the offer.

Under the terms of the earn-in agreement, Red Rock announced a JORC mineral resource estimate on completion of the project's 2012 exploration programme and was issued with an additional 35% of MBL to bring its holding to 60%. At that point therefore, the acquirer's offer applied to 30.6% of Red Rock's 60% interest (assuming pro-rata acceptance by all shareholders) for a cash consideration of US$10.7m to leave Red Rock with a residual interest in MBL of 29.4%.

In terms of our valuation of Red Rock (below), in the low-end scenario, we initially assume that Melville Bay is valued at the average resource multiple for iron ore explorers of US$0.116/t Fe. In the median and top-end scenarios, by contrast, we assume Red Rock sells a minimum 30.6% stake 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 60% shareholding of US$20.4m (£12.1m), as per International Media Project's original bid. Note that this excludes any additional value attributable to Red Rock as a result of its beneficial interest in the associated 2.0% mine mouth royalty.

For investors wishing to benchmark the above valuations to account for subsequent price movements, it is worthwhile noting that the price of iron ore has declined by c 22% since November 2012, while the share prices of iron ore producers (eg Labrador Iron Mines, London Mining, African Minerals and Ferrexpo) have declined by anything between 34% and 84%. Equally, however, the share prices of some small explorers that are deemed to have added value by their exploration work (eg Baobab) have actually increased since November 2012.

Remaining assets: Jupiter Mines (JMS)

Its having acquired 7.65m shares shortly before Jupiter was de-listed, Red Rock's interest in Jupiter is now 27.4m shares (or 1.2% of the issued share capital of the company).

Jupiter's two principal assets are its 49.9% interest in Tshipi e Ntle Manganese Mining (Pty) and its 100% interest in the Central Yilgarn Iron Project (CYIP).

Tshipi

The Tshipi manganese resource represents the extension of the Mamatwan ore body (which has been mined for 45 years) and is one of the largest 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 year (split 83:17 lump:fines) for an upfront capital cost of US$200m.

Exhibit 8: 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.

First ore was mined and shipped in Q412 using a temporary crushing and screening circuit, while the full-scale 2.4Mtpa processing plant and support facilities was being constructed. On 21 March 2013, 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. From March to September 2013, 400kt of manganese ore was shipped to overseas customers, followed by a further 310kt in the September to December quarter. Jupiter's share of Tshipi's profits was US$8.8m in the eight months from June 2013 to February 2014, although this was offset by foreign exchange losses and (albeit non-cash) impairment charges. In FY15, Tshipi has a 1.7Mt target for production and exports and a longer-term target in excess of 2.0Mtpa.

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.

Together, Jupiter has committed A$40m to completing the Mt Ida and Mt Mason feasibility studies. Owing to cost escalation and market conditions, work on the Mount Ida feasibility study was suspended in November 2012. However, work continued on the Mount Mason study as well as securing project approval documents and a decision on a 'Quick Start' project to produce an initial 5-6Mt ore in return for an upfront capital investment of A$80-100m is expected imminently.

Valuation considerations for Jupiter Mines

In the low-end scenario, Red Rock's holding of Jupiter shares is valued in relation to Jupiter's last traded price of A$0.081 before de-listing on 10 January 2014. In the median scenario, it is valued at its February 2014 book value of A$0.2104/sh. In the top-end scenario, the value of Jupiter shares is deemed to be the value of the sum of its Mt Ida and Mt Mason net present values plus cash and marketable securities per share, as follows:

Exhibit 9: 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)		41			
Marketable secs (31 Mar 2013)		2			
Grand total		**1,828**			
Per JMS share (US$)*		0.80			

Source: Jupiter Mines, Red Rock, Edison Investment Research. Note: * 2,281,835,383 Jupiter shares in issue.

Note that this valuation excludes any value from Tshipi. However, it accords closely with Jupiter's peak share price of A$0.8593, recorded on 4 January 2011.

Remaining assets: Mount Ida royalty

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 Anglo Pacific. A summary of the terms of the transaction are:

- Tranche 1 (settled): in respect of 0.3% of the gross revenue royalty, US$3.9m in cash and 416,161 Anglo Pacific shares (then valued 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.

Valuation considerations for Mount 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 (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 (garnering itself an additional US$8m) and retained a 0.75% royalty consequently valued at US$14m.

For investors wishing to benchmark the above valuations to account for subsequent price movements and looking for a proxy, it is worthwhile noting the share prices of major royalty companies (eg Franco Nevada and Royal Gold) have increased since May 2012. The share price of Anglo Pacific itself has declined by c 40% (in sterling terms).

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

Exhibit 10: 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
Grade (%)	65	68	65
Price for 65% Fe content (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 mine life.

Remaining assets: Other

Other assets held by Red Rock include 65.3m shares in Australian-listed Resource Star (RSL), equating to a 20.94% interest in the company, which are valued at the prevailing equity price of A$0.004 per share at the time of writing.

Valuation

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

Exhibit 11: Red Rock valuation summary (£000s)

Asset	Low-end scenario	Median scenario	Top-end scenario
Jupiter	1,228	3,189	12,864
Resource Star	145	145	145
Anticipated UEC interest (from CUE Res)	388	388	388
Kansai Mining Corp	2,169	2,745	1,048
Kansai option	163	0	0
FPM 51% interest	2,186	2,186	2,732
Net Cash & cash equivalents	1,907	1,907	1,907
Trade & other receivables	727	727	727
Exploration properties	383	1,467	2,572
Mount Ida royalty	14,102	13,262	12,927
Melville Bay Ltd	861	11,949	11,949
Total current assets	**24,258**	**37,965**	**47,260**
Non-current assets			
Property, plant and equipment	28	28	28
Total non-current assets	28	28	28
Total assets	**24,286**	**37,993**	**47,288**
Current liabilities			
Trade & other payables	(2,557)	(2,557)	(2,557)
Short-term borrowings	(4,085)	(4,085)	(4,085)
Total current liabilities	(6,641)	(6,641)	(6,641)
Non-current liabilities			
Deferred tax assets/(liabilities)	565	(3,548)	(6,336)
Long-term borrowings	(586)	(586)	(586)
Total non-current liabilities	(21)	(4,134)	(6,922)
Total liabilities	**(6,663)**	**(10,775)**	**(13,564)**
Net assets	**17,623**	**27,218**	**33,724**
Shares in issue (millions)	1,859.2	1,859.2	1,859.2
NAV per share (pence)	**0.95**	**1.46**	**1.81**
Current share price	0.29	0.29	0.29
(Discount)/premium of current share price to NAV (%)	**(69.9)**	**(80.5)**	**(84.3)**

Source: Edison Investment Research, Red Rock. Note: Based on consolidated balance sheet as at 31 December 2013 with FPM deconsolidated where appropriate and/or possible; priced at 23 June 2014.

Exhibit 12: Financial summary

£'000s	2007	2008	2009	2010	2011	2012	2013	2014e
Year end 30 June	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	535	24	3	9	943	0	2,565	3,047
Cost of Sales	(185)	(1,026)	(108)	0	(1,463)	0	0	0
Gross Profit	350	(1,001)	(104)	9	(-521)	0	2,565	3,047
EBITDA	(310)	(249)	(750)	(872)	(432)	(2,271)	(3,458)	(472)
Operating Profit (before GW and except.)	(310)	(249)	(750)	(872)	(1,142)	(2,632)	(4,387)	(1,402)
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	18	75	(3)	6,066	15,623	3,067	(2,469)	7
Associates	(1)	(83)	(171)	(519)	(386)	(312)	(326)	(87)
Operating Profit	(293)	(257)	(923)	4,674	14,095	123	(7,182)	(1,482)
Exceptionals		347	0	149	(79)	(4,992)	(16,874)	(790)
Net Interest	2	13	(5)	(69)	(43)	289	(432)	67
Profit Before Tax (norm)	(309)	(318)	(926)	(1,461)	(1,571)	(2,656)	(5,145)	(1,422)
Profit Before Tax (FRS 3)	(224)	104	(929)	4,755	13,974	(4,581)	(24,488)	(2,205)
Tax	0	0	0	(1,299)	(3,714)	2,168	2,382	106
Profit After Tax (norm)	(309)	(318)	(926)	(1,461)	(1,571)	(2,656)	(2,762)	(1,316)
Profit After Tax (FRS 3)	(224)	104	(929)	3,455	10,260	(2,412)	(22,106)	(2,099)
Average Number of Shares Outstanding (m)	188.2	266.2	389.7	530.3	668.4	786.9	1,076.3	1,569.5
EPS - normalised (p)	(0.16)	(0.12)	(0.24)	(0.28)	0.01	(0.31)	(0.03)	(0.09)
EPS - normalised fully diluted (p)	(0.16)	(0.12)	(0.23)	(0.26)	0.01	(0.30)	(0.03)	(0.09)
EPS - FRS 3 (p)	(0.12)	0.04	(0.24)	0.65	1.78	(0.33)	(1.83)	(0.14)
Dividend per share (p)	0.00	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	100.0	100.0
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A	N/A	(134.8)	(15.5)
Operating Margin (before GW and except.) (%)	N/A	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	21,830	20,913
Intangible Assets	0	0	0	0	0	304	0	0
Tangible Assets	0	0	0	5	13,328	38	8,174	7,257
Investments	0	0	0	0	0	19,212	13,657	13,657
Current Assets	2,848	4,364	5,552	10,692	36,972	17,584	6,139	6,081
Stocks	0	0	0	0	0	0	0	0
Debtors	1,080	394	275	1,127	6,658	1,629	2,949	2,950
Cash	220	88	49	563	269	348	21	1,907
Other	1,547	3,883	5,228	9,002	30,045	15,607	3,169	1,223
Current Liabilities	(294)	(413)	(180)	(1,904)	(5,867)	(10,443)	(10,131)	(11,728)
Creditors	(294)	(413)	(180)	(1,144)	(4,117)	(9,233)	(4,529)	(7,006)
Short term borrowings	0	0	0	(760)	(1,750)	(1,210)	(5,603)	(4,723)
Long Term Liabilities	0	0	0	(193)	(11,588)	(2,293)	(3,410)	(246)
Long term borrowings	0	0	0	0	(2,818)	(2,293)	(246)	(246)
Other long term liabilities	0	0	0	(193)	(8,770)	0	(3,164)	0
Net Assets	2,554	3,951	5,372	8,600	32,844	24,402	14,428	15,020
CASH FLOW								
Operating Cash Flow	(174)	(753)	(621)	(1,484)	(8,207)	(3,549)	(1,312)	(1,445)
Net Interest	2	13	(5)	(122)	(96)	(181)	(414)	67
Tax	0	0	0	0	(827)	(111)	220	106
Capex	(260)	(112)	(184)	(150)	(1,697)	(2,915)	(105)	(48)
Acquisitions/disposals	0	(11)	(402)	(156)	(161)	620	(1,722)	1,396
Financing	553	730	1,112	1,613	6,833	3,978	3,894	2,691
Dividends	0	0	0	0	0	0	0	0
Net Cash Flow	119	(133)	(100)	(300)	(4,155)	(2,158)	560	2,767
Opening net debt/(cash)	(101)	(220)	(88)	(49)	197	4,299	3,155	5,827
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	0	0	61	53	53	3,303	(3,233)	0
Closing net debt/(cash)	(220)	(88)	(49)	197	4,299	3,155	5,827	3,061

Source: Company sources, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960	**London** +44 (0)20 3077 5700	**New York** +1 646 653 7026	**Sydney** +61 (0)2 9258 1161	**Wellington** +64 (0)48 948 555
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 25, Aurora Place	Level 15, 171 Featherston St
60325 Frankfurt	London, WC1V 7EE	10167, New York	88 Phillip St, Sydney	Wellington 6011
Germany	United Kingdom	US	NSW 2000, Australia	New Zealand