

31 January 2012

## Red Rock Resources

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/09	0.0	(0.9)	(0.24)	0.00	N/A	N/A
06/10	0.1	4.8	0.65	0.00	4.5	N/A
06/11	0.9	14.0	1.78	0.00	1.7	N/A
06/12e	4.8	1.2	(0.01)	0.00	N/A	N/A

Note: \*PBT and EPS are presented in accordance with IFRS.

### Investment summary: Growing clarity

Red Rock Resources has continued its transition in 2011 away from a holding company function towards an owner-operator one. As such, it begins 2012 with three major assets over which it has operational control in Kenya, Colombia and Greenland, in addition to its residual 74.2m shareholding in Jupiter Mines – alone worth 1.6p per Red Rock share.

### Isua provides a benchmark

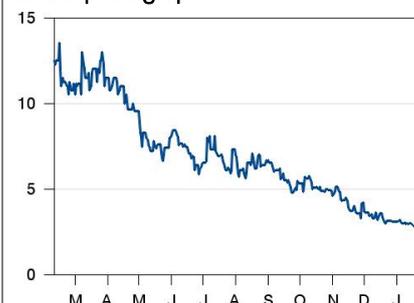
A key development in our valuation of Red Rock has been the purchase of the Isua iron ore royalty by Anglo Pacific from London Mining for US\$30m. We have previously valued Red Rock's Mt Ida iron ore royalty according to a series of potential output scenario outcomes, but the recent purchase of a closely comparable royalty now provides a benchmark against which we can assess our valuation. In this case, our low-end valuation of US\$32.5m for a 1.5% gross production royalty over an operation producing 10Mtpa of 68% magnetite concentrate over 20 years compares with Isua's value of US\$30m for a 1% royalty over an operation producing 15Mtpa of 70.2% magnetite concentrate over 15 years. This seems credible given the projects' similar stage of development. Note that we anticipate management will take steps to crystallise the value of the royalty in the next few months.

### Valuation: Conservatively 4.23p/share

Excepting the scenario in which we consider only Red Rock's listed assets, our valuations of Red Rock's shares have fallen by approximately one-third. This is partly due to the revaluation of Mineras Four Points (MFP) in the light of the difficulties Red Rock has had in ramping up production to the target rate of 150tpd; in part it is because the valuation is now based on Red Rock's company accounts rather than its consolidated accounts. While lower, however, even our low-end valuation of 4.23p/share is still at a premium to the current share price by 30%, with MFP valued assuming it maintains no more than its current output rate for just two years. Similarly, our median scenario values Red Rock at 12.26p/share with MFP at no more than book value (and Mt Ida effectively fully developed). Our top-end scenario values Red Rock at 37.18p/share (vs 61.02p previously) assuming MFP achieves 150tpd throughput and Mt Ida achieves 20Mtpa concentrate production. Note these all exclude any contribution from Red Rock's iron ore assets in Greenland.

Price 2.94p  
Market Cap £23m

#### Share price graph



#### Share details

Code RRR  
Listing AIM  
Sector Mining  
Shares in issue 784m

#### Price

52 week High 14.75p  
Low 2.58p

#### Balance Sheet as at 30 June 2011

Net debt/Equity (%) 13.3  
NAV per share (p) 4.53  
Net debt (£m) 4.3

#### Business

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.

#### Valuation

	2010	2011	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

#### Geography based on revenues (H110)

	UK	Europe	US	Other
100%	0%	0%	0%	0%

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## Three highlights: Running hot and cold

Red Rock continues to pursue a strategy of aggressive exploration and development, diversifying away from listed to unlisted, with owner-operated assets principally in Kenya, Greenland and Colombia. 2011 saw the first of a series of expected resource updates released from the Mikei Gold Project in Kenya and the completion of the company's initial exploration season at Melville Bugt in Greenland. In the meantime, production continues to increase at its El Limon mine in Colombia.

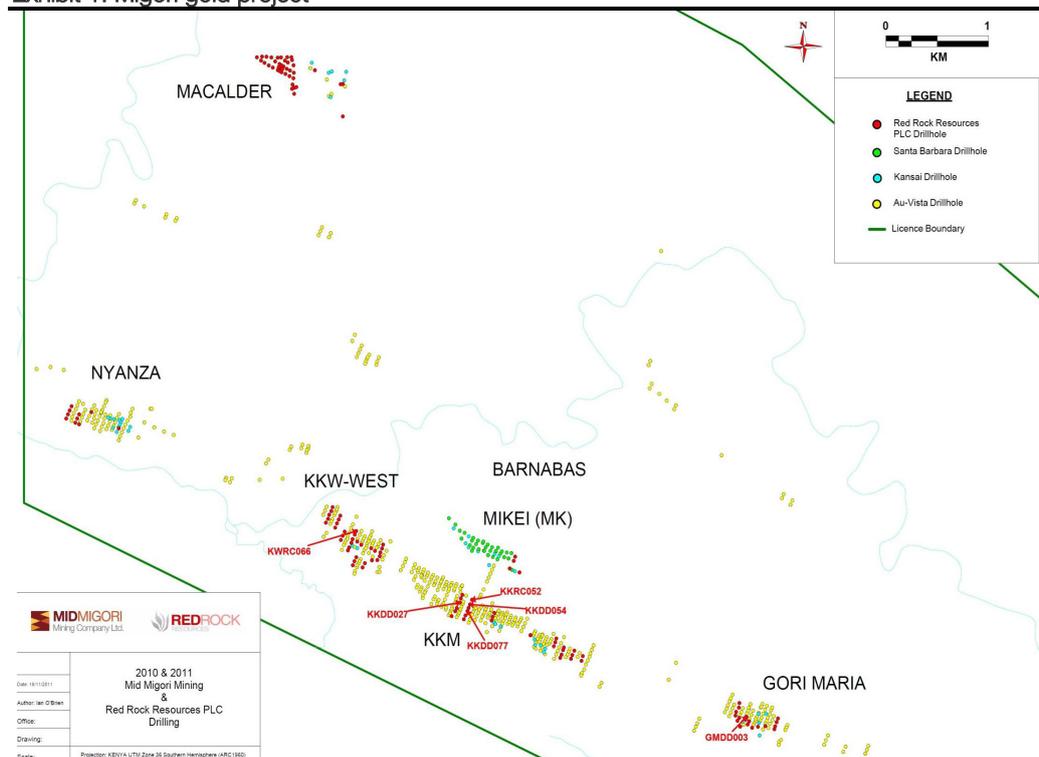
## Kenya: Migori gold project

Red Rock's interest in Migori is via the Mid-Migori-Mining Company (MMMC). Of this, 15% is a direct interest in MMMC and 29.92% is held indirectly through a holding of 39.629m shares in Red Rock's joint-venture partner Kansai Mining Corporation, which holds the remaining 85% of MMMC. The Migori gold project covers 310km<sup>2</sup> in the Migori greenstone belt, southwest Kenya and includes the Mikei gold project and the Macalder tailings retreatment project, both of which have recently been the subject of extensive exploration programmes. The Migori gold project's existing indicated resource is 1.17Moz Au (ie excluding Macalder) and was performed by Kansai Mining in 2006 to Canadian NI 43-101 standards (see Exhibit 2).

## Mikei

The Mikei gold project consists of five project resource areas, namely KKM Main, KKM West, Gori Maria, Nyanza and MK as shown in Exhibit 1 (below). Red Rock has undertaken a combination of diamond and reverse circulation drilling throughout 2011 with the intention of infilling and extending existing resource areas and verifying and extending historic data.

Exhibit 1: Migori gold project



Source: Red Rock Resources

The first of a series of expected JORC-compliant resource updates was recently announced at the most advanced prospect, KKM Main, giving 0.58Moz at 1.01g/t (NB this excludes KKM-West). The KKM Main prospect measures 2.5km in the centre part of a 7km strike and is characterised by silicification and sericite-chlorite and sulphide mineralisation. Combined with KKM-West the prospect had previously accounted for 0.68Moz of the historic 1.24Moz 'measured' and 'indicated' resource at the Migori project (see Exhibit 2).

#### Exhibit 2: MMMC historic resource estimate

Note:\* No cut-off grade applied;\*\* 0.5g/t cut-off, excludes KKM West. All remaining estimates performed at 0.25g/t cut-off.

Name	Category	Historic tonnes (kt)	Historic grade (g/t)	Historic contained gold (oz)	Current tonnes (kt)	Current grade (g/t)	Current contained gold (oz)
KKM Total	Indicated	22,110	0.96	680,000			
KKM Main**	Indicated				17,750	1.01	577,000
Gori Maria	Indicated	8,600	0.87	240,000	8,600	0.87	240,000
MK	Indicated	1,450	2.32	108,000	1,450	2.32	108,000
Nyanza	Indicated	840	5.32	144,000	840	5.32	144,000
Macalder tailing*	Indicated	1,424	1.64	75,084			
Macalder tailing*	Measured				1,286	1.65	68,000
<b>Total</b>		<b>34,424</b>	<b>1.13</b>	<b>1,247,084</b>	<b>29,926</b>	<b>1.18</b>	<b>1,137,000</b>

Source: Red Rock Resources, CSA Global (UK)

Exploration conducted at the four other prospects includes 33 holes drilled at KKM West, 17 at Gori Maria and four at Nyanza. The zones are thought to represent a single shear system of more than 7km in length, extending from surface to 150m where it is open at depth.

The company has reported results from 50 drill holes from the 2011 campaign totalling 5,656m. At Gori Maria intercepts reported include 12.3g/t over 2m, 4.18g/t over 4m and 4.08g/t over 11m, while KKM West reported intercepts of up to 4.46g/t over 2m. Best intercepts reported so far at MK were 3.39g/t over 1m. Resource estimates for KKM West, Gori Maria, Nyanza and MK will also be made according to JORC standards and will be released sequentially beginning in early 2012.

As well as conducting infill drilling on defined resource areas, Red Rock is currently following up anomalous targets associated with shear and vein hosted gold, BIF-hosted gold and VMS gold-copper potential. Beyond the five principal prospects, drilling at the Karutiange Prospect has returned grades of up to 1.95g/t over 1.3m at 98m depth, while at the Kehancha 5 Prospect drilling returned grades of up to 3.72g/t over 12.9m at a depth of 21m, warranting further investigation.

The company intends to continue resource development in 2012, delineating additional resource prospects and assessing potential for open pit mining. Prohibition reported earlier in the year over the exporting of assay samples has now been resolved.

#### Macalder to measured

Elsewhere in the Migori gold project, Red Rock has upgraded its indicated gold resource estimate at the Macalder tailings retreatment project to measured status. The resource now stands at 68,000oz contained Au at a grade of 1.64g/t, compared to 75,000oz at 1.65g/t previously estimated in August 2010 (see Exhibit 2). In September 2011, the company hired St Barbara to carry out a scoping study and risk and gap analyses at Macalder to provide cost estimates along with a discounted cash-flow model.

## Greenland: A new priority

Red Rock has completed its arctic field season at the Melville Bugt iron ore project, northwest Greenland, in which it holds a 25% interest through an equivalent stake in NAMA Greenland (NGL), which holds the exploration concessions. Additionally, Red Rock has exercised its option to acquire a further 35% interest in NGL via a US\$0.25m payment (made through a recent 5.36m share subscription to NGL) and by committing to fund 2012 exploration (estimated to be around US\$5m). As described in the earn-in agreement announced in March 2011, Red Rock must define a compliant resource statement and commission a scoping, pre-feasibility or bankable feasibility study, or other relevant assessment, at the project.

Through 2011, sampling, mapping and geophysical surveys have identified banded to massive haematite iron formations in a number of areas, the most extensive of which consists of a series of four linked occurrences, with an estimated strike length of up to 7.5km. Conducted in an extensive area of Neoproterozoic to Paleoproterozoic crystalline shield, exploration to date has consisted of 13,170km of airborne magnetic and radiometric surveys between 200m and 1.6km of line spacing. Ground-based exploration consisted of the scanning of 232 iron ore samples with a Niton XRF analyser, which gave initial grades averaging 32% Fe.

Assay results have been reported from six prospective targets: De Dødes West, Haematite Nunatak, Havik East, Havik Central, Havik West and Hans Nielson Fjeld (see Exhibit 3).

### Exhibit 3: Iron content and dominant mineralisation of key exploration targets

Prospect	Fe content	# of samples	Ore mineralogy
De Dødes West	68.4–21.1%	42	Haematite and magnetite
Haematite Nunatak	69.4–37.1%	9	Haematite and magnetite
Havik East	36.5–24.2%	46	Magnetite and haematite
Havik Central	53.7–27.3%	17	Magnetite
Havik West	46.1–35.3%	8	Magnetite
Hans Nielson Fjeld	45.3–35.8%	7	Magnetite

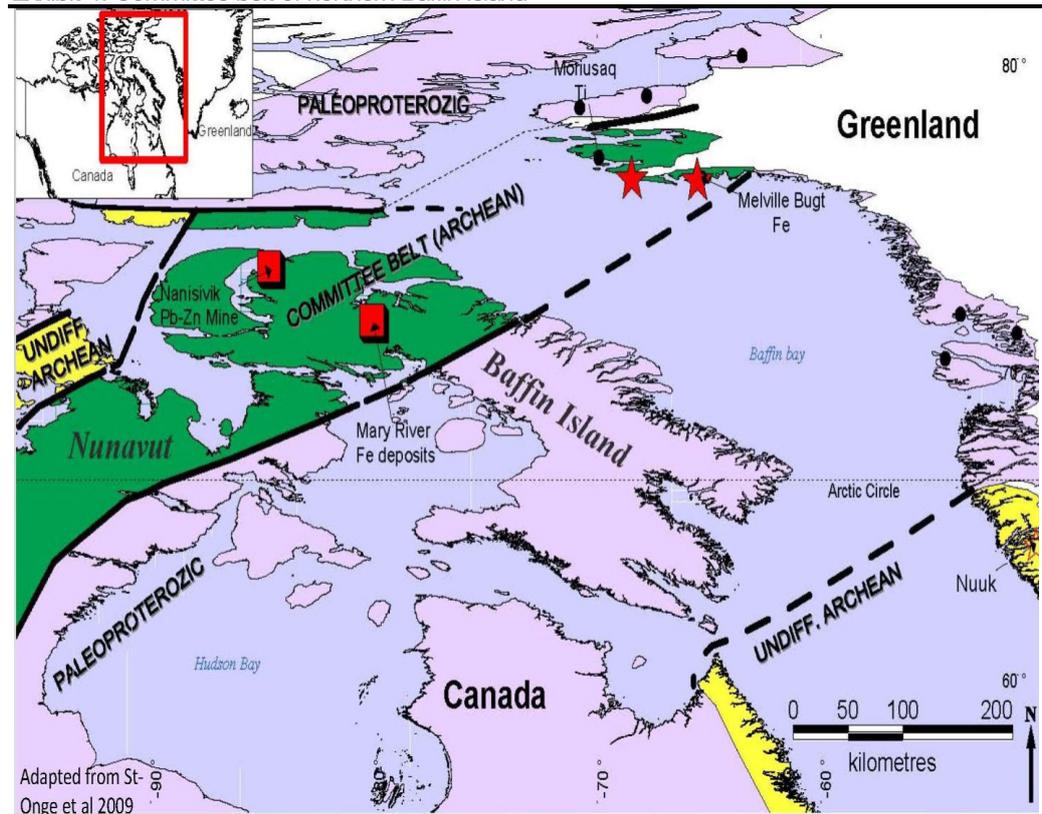
Source: Red Rock Resources

The company has further categorised these prospects into two groups: the haematite-rich eastern targets of the De Dødes Fjord area and the magnetite-rich western targets of the Havik Area.

An aeromagnetic survey performed between July and August 2011 confirmed the presence of magnetite targets, three of which are outcropping. The largest magnetic anomaly, De Dødes Target 5, has over 5km of strike length but could not be accessed fully due to ice cover.

The company believes its findings confirm that the Melville Bugt area represents an extension of the Committee belt of northern Canada into western Greenland, with initial samples correlating with the geology surrounding the Mary River iron ore project of northern Baffin Island (see Exhibit 4).

Exhibit 4: Committee belt of northern Baffin Island



Source: Red Rock Resources

Having recently received approval to extend its licence at Melville Bugt by 558km<sup>2</sup> to 1,571km<sup>2</sup>, we expect Red Rock to continue making exploration at Melville Bugt a priority, undertaking detailed mapping, infill geophysics and targeted drilling with a view to defining an initial compliant resource at the project as agreed with its joint venture partner, NGL. Under its agreement with NGL, Red Rock is expected to commission a scoping, pre-feasibility or bankable feasibility study at the project as appropriate. A full report outlining the 2011 exploration results is expected in early 2012.

## Colombia: El Limon

Red Rock holds a 51% interest in El Limon through Mineras Four Points (MFP). On acquiring its interest in March, Red Rock completed a payment of US\$4.52m of a total US\$5.502m to MFP, with US\$1m left to pay on resolution of a commercial dispute. The company must pay an additional US\$1m on MFP achieving its ore production target of 150 tonnes per day. A further US\$1m is payable if MFP achieves a net operating profit over US\$10m in one year.

Since our last update, gold sales at the El Limon mine, Colombia, have increased 44% from 361oz in July to 521oz in November. Red Rock reported Q3 sales of 1,404oz Au, 245.8% higher than Q2 sales of 406oz. This was attributable to a 23% increase in ore milled and a 50.6% increase in grade. Since production began in December 2010, a number of improvements have been made to operations at El Limon with the arrival of new pumps, a new filter press and two new hydraulic shovels on site.

**Exhibit 5: Implied MFP production**

Month	June	July	August	September	October	November	Cal. Q3
Gold sales (oz)	273	361	512	527	509	520.8	1,400
Silver sales (oz)		266	394	391	451		1,051
Ore milled	1,309	1,193	1,328	1,998			4,519
Av grade	9.9	11.8	12.2	11.8			11.9
Gold contained (oz)	417	453	521	756			1,729
Implied recovery	65.5	79.8	98.3	69.7			81.0

Source: Edison Investment Research

Red Rock has compiled basic geometric volumes of the ore zone at El Limon based on surveyed areas and projected dips of the zone. According to this assessment, which has not been conducted to a compliant standard and has not been independently verified, Red Rock believes the known ore zone contains 29,000 to 35,000 tonnes of in situ mineralised material across the level 6 and 7 mine blocks – ie a mine life of approximately two years at El Limon's current milling rate.

A mine plan has been established, which the company believes will provide profitable production over the next six months while it works to extend and define new ore blocks at Level 7. This could extend production at the current level for up to 18 months. The mine is currently operating at a diluted grade of 9-10g/t.

## Financial highlights

Red Rock's full-year results to 30 June 2011 recorded IFRS pre-tax profit of £13.97m, up 194% from £4.76m for FY10. Earnings per share rose from 0.65p to 1.78p. Through the period the company raised £7.1m from share issuances, with a further £3.5m from the sale of 9.5m shares in its associate Jupiter Mines. With Jupiter Mines acquiring an interest in the Tshipi manganese mine, Red Rock's holding fell below 20% and was subsequently accounted for as an investment available for sale rather than as an interest in associate. Recorded as a non-cash gain of £14.24m, the revaluation was responsible for much of the increase in profit for the period. Cash on the balance sheet stood at £0.269m, subsequent fund raisings have raised £3.9m to date. Red Rock reported both group and company accounts for the first time, from which we have used company accounts as the basis for our valuation (see Exhibit 13). Management has stated that it is going ahead with controlled disposals over the course of the next two years.

A summary of Red Rock's group full-year and half-year results is as follows:

**Exhibit 6: Red Rock Resources' group interims and full-year results**

Year end (June) (£)	H111	Implied H2	FY11
<b>Revenue</b>			
Management services	1,002	63,074	64,076
Sale of minerals	507,472	371,063	878,535
<b>Total revenue</b>	<b>508,474</b>	<b>434,137</b>	<b>942,611</b>
<b>Net gains from other sales</b>			
Gains/(losses) on sales of investments	74,494	1,141,172	1,215,666
Gains on sales of exploration assets	0	169,322	169,322
Gain on recognition of contracts in relation to Ascot	950,135	(950,135)	0
Profit on transfer of investment from/to associate	13,978,109	260,188	14,238,297
<b>Total net gains from other sales</b>	<b>15,002,738</b>	<b>620,547</b>	<b>15,623,285</b>
<b>Total revenue and net gains from sales</b>	<b>15,511,212</b>	<b>1,054,684</b>	<b>16,565,896</b>
Cost of sale of minerals	(588,297)	(874,954)	(1,463,251)
Gain on dilution of interest in associate	257,159	(4,212)	252,947
Impairment of investment in associate	(70,298)	0	(70,298)
Financial assets at fair value through P&L	0	3,647,104	3,647,104
Exploration expenses	(157,916)	(623,253)	(781,169)
Impairment of exploration assets	0	(261,224)	(261,224)
Administrative expenses	(1,481,123)	(2,006,480)	(3,487,603)
Share of loss in associates	(163,195)	(223,033)	(386,228)
Finance costs (net)	(439,910)	397,273	(42,637)
<b>Profit for the period before taxation</b>	<b>12,867,632</b>	<b>1,105,905</b>	<b>13,973,537</b>
Tax expense	(3,673,065)	(40,488)	(3,713,553)
<b>Profit for the period</b>	<b>9,194,567</b>	<b>1,065,417</b>	<b>10,259,984</b>
<b>Profit for the period attributable to:</b>			
Equity holders of the parent	9,780,255	2,144,351	11,924,606
Non-controlling interest	(585,688)	(1,078,934)	(1,664,622)
Earnings per share (p)			
Earnings per share – basic	1.52	0.26	1.78
Earnings per share – diluted	1.45	0.26	1.71

Source: Edison Investment Research

## Prior valuation and adjustments

In our previous valuation of Red Rock we offered investors four potential valuation scenarios, ranging from 'worst-case' to 'top-end' as shown below.

### Exhibit 7: Edison's previous estimate of Red Rock Resources' net asset value (£'000s)

Note: \* 06/11 estimate; \*\* Conversion assumed; US\$ values converted at \$1.602/£; balance sheet liabilities updated to 31 December 2010.

£'000s	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
<b>Current assets</b>				
Investments in associates				
- Jupiter Mines	26,436	26,436	26,436	115,822
- Resource Star	646	646	646	646
- Cue Resources	538	538	1,533	2,528
- Kansai Mining Corp	0	5,921	5,921	5,921
- MFP 51% interest	0	6,959	34,797	57,995
- 0.5% MFP option	0	40	313	540
- Ascot convertible**	0	3,113	3,113	3,113
- Ascot equity	307	307	307	307
- Ascot warrants	0	2,670	2,670	2,670
Cash & cash equivalents*	2,066	2,066	2,066	2,066
Trade & other receivables	0	2,132	2,132	2,132
Exploration properties	0	1,045	15,100	57,406
Mount Ida royalty	0	47,829	100,073	191,316
<b>Total current assets</b>	<b>29,992</b>	<b>99,701</b>	<b>195,106</b>	<b>442,461</b>
<b>Non-current assets</b>				
Property, plant and equipment	0	5	5	5
<b>Total non-current assets</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Total assets</b>	<b>29,992</b>	<b>99,706</b>	<b>195,111</b>	<b>442,466</b>
<b>Current liabilities</b>				
Trade & other payables	(2,028)	(2,028)	(2,028)	(2,028)
MFP consideration	(3,433)	(4,682)	(4,682)	(4,682)
Ascot consideration	(1,838)	(1,838)	(1,838)	(1,838)
Short-term borrowings	(1,740)	(1,740)	(1,740)	(1,740)
Current tax liabilities	(909)	(909)	(909)	(909)
<b>Total current liabilities</b>	<b>(9,949)</b>	<b>(11,197)</b>	<b>(11,197)</b>	<b>(11,197)</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	(11,208)	(11,208)	(11,208)	(11,208)
<b>Total non-current liabilities</b>	<b>(11,208)</b>	<b>(11,208)</b>	<b>(11,208)</b>	<b>(11,208)</b>
<b>Total liabilities</b>	<b>(21,157)</b>	<b>(22,405)</b>	<b>(22,405)</b>	<b>(22,405)</b>
<b>Net assets</b>	<b>8,835</b>	<b>77,301</b>	<b>172,706</b>	<b>420,061</b>
Shares in issue (millions)	688.4	688.4	688.4	688.4
<b>NAV per share (pence)</b>	<b>1.28</b>	<b>11.23</b>	<b>25.09</b>	<b>61.02</b>
Current share price (pence)	10.5	10.5	10.5	10.5
<b>Premium/(discount) of current share price to NAV (%)</b>	<b>718.1</b>	<b>(6.5)</b>	<b>(58.1)</b>	<b>(82.8)</b>

Source: Edison Investment Research

The principal changes to this valuation are outlined below. In addition, our valuation is based on the audited accounts for the company (which have been provided for the first time), rather than the group's consolidated accounts, which were used previously.

## Colombia

Previously, we valued Red Rock's stake in MFP according to a number of production and grade scenarios that are reproduced in Exhibit 8. In addition, we have now added a new scenario (with a throughput rate of 49.12tpd) to reflect both the last-reported achieved milling rate and a two-year life of mine, in line with the reserves reported as at 19 December 2011 (see page 6).

### Exhibit 8: MFP updated estimated scoping economics at varying throughput rates

Note: \* Marginal tax rate of 30% assumed.

Throughput (tpd)	<b>3.6</b>	<b>30</b>	<b>49.12</b>	<b>150</b>	<b>250</b>	<b>400</b>	<b>1,000</b>
Throughput (tpa)	1,296	10,800	17,683	54,000	90,000	144,000	360,000
RoM grade (g/t)	239.18	25	11.9	25	25	25	25
Recovery (%)	59.244	59.244	81.205	59.244	59.244	59.244	59.244
Gold produced (kg)	184	160	171	800	1,333	2,133	5,332
Gold produced (oz)	5,904	5,143	5,494	25,714	42,857	68,571	171,428
Gold price (US\$/oz)	1,350	1,350	1,350	1,350	1,350	1,350	1,350
Revenue (US\$000's)	7,971	6,943	7,417	34,714	57,857	92,571	231,428
Break-even grade (g/t)	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Implied break-even cost (US\$/t)	146.54	146.54	146.54	146.54	146.54	146.54	146.54
Implied cash costs (US\$000's)	190	1,583	2,591	7,913	13,189	21,102	52,755
Implied cash costs (US\$/oz)	32.17	307.74	471.67	307.74	307.74	307.74	307.74
Implied gross profit (US\$000's)	7,781	5,360	4,825	26,801	44,668	71,469	178,673
Government royalty rate (%)	4	4	4	4	4	4	4
Government royalty (US\$000's)	319	277.7	296.7	1,389	2,314	3,703	9,257
Government royalty (US\$/oz)	54	54	54	54	54	54	54
EBITDA	7,462	5,082	4,529	25,412	42,354	67,766	169,416
Assumed mine life (years)	10	10	1.952	10	10	10	10
NPV at 10% over mine life	45,851	31,230	7,689	156,148	260,247	416,395	1,040,986
NPV at 30% over mine life	23,069	15,713	6,051	78,563	130,939	209,502	523,755
Estimated post-tax NPV at 10% over mine life*	32,096	21,861	5,382	109,304	182,173	291,476	728,690
Estimated post-tax NPV at 30% over mine life*	16,148	10,999	4,236	54,994	91,657	146,652	366,629

Source: Edison Investment Research

We have adjusted our low-end valuation of Red Rock's 51% MFP interest to reflect El Limon's average third-quarter milling rate. Our low-end valuation has therefore been conducted at a 49.1tpd milling rate, while our medium valuation is the current asset value of MFP as stated in Red Rock's company accounts. Our top-end scenario is based on the company's target milling rate of 150tpd.

Red Rock's 0.5% option over the enlarged share capital of MFP has been valued with a Black Scholes model, using a risk-free rate of return of 5%, notional MFP share price volatility of 10% and a period of expiry of two years.

Following Red Rock's payment on acquisition of its 51% interest, we have adjusted the MFP consideration in the liabilities section of our valuation so that our worst-case and low-end scenario's feature this US\$1m dollar payment outstanding 'on resolution of a dispute'. Our medium

and top-end scenario's now feature the US\$1m payment stipulated on MFP achieving ore production of 150tpd for a continuous 90-day period, and the US\$1m payment stipulated on MFP achieving a net operating profit over US\$10m in one year, in addition to the US\$1m payment outstanding on the acquisition.

## Kenya (Kansai)

We have updated our valuation of Red Rock's exploration properties on the back of the company's resource updates at the Macalder tailings dam. For KKM-Main, we continue to use the total historic KKM resource awaiting an updated resource for KKM-West.

Red Rock's interest in MMMC has been valued at 15% of the value of its gold resource using our updated London resource values (below).

### **Exhibit 9: Enterprise values per resource oz summary by category and market (US\$)**

Note: \* Excluding Witwatersrand ounces.

	Measured	Indicated	Inferred	Average
London*	365.72	129.32	22.39	141.54

Source: Edison Investment Research

In the absence of any specific balance sheet value, we have valued Red Rock's interest in Kansai according to three different scenarios. For our low-end scenario, we have used the last price at which Kansai raised funds in August 2007, being C\$0.10 per Kansai share. In our median scenario we have taken the company's last reported net asset value, from Kansai's unaudited consolidated balance sheet at 30 June 2008. This equates to C\$12.83 per Kansai share. Our top-end scenario assumes Red Rock exercises its option to take a direct 60% interest in MMMC (against which US\$8m has been deducted as the estimated expense of the related bankable feasibility study), as a result of which Kansai's interest in the same assets has reduced to 40%. This has been valued using our updated London resource values (above).

## Jupiter Mines

Following Red Rock's disposal of shares in its associate Jupiter Mines, we value the company's remaining shareholding of 74.2m shares at market value for our low-end and medium scenarios. In our top-end scenario we assume the exercise of the Mount Alfred Bonus option and the allocation of the maximum number of shares in Jupiter to Red Rock, we also assume the re-rating of Jupiter shares to a value of US\$1.13/share, based on the per share value of the announced NPV of the Mt Ida project (at an 8% discount rate).

## Mt Ida royalty

For Red Rock's 1.5% Mt Ida gross production royalty we have assumed concentrate production scenarios of 5Mtpa, 10Mtpa and 20Mtpa for our low-, median and top-end scenarios, respectively. We have adjusted our Fe price downwards to US\$100/t to reflect current market conditions. Our scoping economics for the Mt Ida royalty can be found in Exhibit 10 below.

**Exhibit 10: Mount Ida 1.5% gross production royalty scoping economics and potential value**

Note: \* Valued over 20 years at 10% discount rate; assumes 30% tax rate.

Concentrate production (Mtpa)	5	10	20
Grade (%)	65	68	65
Price (US\$/t)	100	100	100
Implied turnover (US\$m)	500	1,046	2,000
Gross production royalty at 1.5% (US\$m)	7.5	15.7	30.0
Post-tax royalty value (US\$m)*	44.7	93.5	178.8

Source: Edison Investment Research

In the case of Mt Ida, however, a significant development towards verifying the value of Red Rock's royalty is Anglo Pacific's recent acquisition of a comparable royalty from a comparable iron ore project (albeit located in Greenland). In this case, Anglo Pacific announced the purchase of a 1% gross revenue royalty on London Mining's Isua iron ore project for US\$30m. The open pit operation has anticipated production of 15Mtpa with a 15-year mine life. A qualitative comparison of the salient features of the Isua and Mt Ida royalties is shown in Exhibit 11 below.

**Exhibit 11: Mount Ida and Isua royalty comparison**

Project	Mt Ida	Isua
Royalty rate (%)	1.5	1.0
Mineral	Magnetite	Magnetite
Resource (Mt)	530	951
Resource category	Inferred	Inferred + Indicated
Stage of development	Scoping study completed, feasibility study underway	Bankable feasibility study underway
Forecast concentrate production (Mtpa)	10	15
Life of mine (yrs)	20	15
Stated Project Net Present Value (US\$m)	1,685 @ 8% discount rate	3,779 @ 8% discount rate
Royalty value (US\$m)		30

Source: Edison Investment Research

A comparison of the Isua royalty's US\$30m value with the calculated gross production royalty cash flows (and therefore value) shown in Exhibit 12 below implies that it was sold at a 75.7% discount to its maximum theoretical value (assuming a flat iron ore price and a cost of funds of 10%).

Applying the same discount to Mt Ida at the parameters shown implies a value for the Mt Ida royalty of US\$32.5m, or US\$22.8m after a full 30% taxation rate (assuming zero cost is associated with the creation of the royalty). More importantly, the sale of the Isua royalty materially increases our confidence in our valuation.

**Exhibit 12: Mount Ida and Isua royalty comparison**

Note: \* at 10% discount rate.

Project	Mt Ida	Isua
<b>Production (Mtpa)</b>	<b>10.0</b>	<b>15.0</b>
Grade (%)	68.0	70.2
Price of 65% Fe conc.(US\$/t)	100.0	100.0
Implied turnover (US\$m)	1,046.2	1,620.0
Royalty rate (%)	1.5	1.0
Gross production royalty (US\$m)	15.7	16.2
Life (years)	20.0	15.0
Calculated royalty value (US\$m)*	133.6	123.2
Post-tax royalty value (US\$m)	93.5	

Source: Edison Investment Research

As such, we have now made US\$22.8m the basis of our 'low-end' scenario valuation.

## **CUE Resources**

Red Rock currently holds 18.9m CUE Resources shares representing a 15.71% interest in the company. On 24 January, CUE announced it had entered into an agreement with Uranium Energy Corporation (UEC), whereby UEC will acquire the entire issued share capital of CUE. Under the terms of the agreement share holders will receive 0.0195 UEC shares for each CUE share, on which basis we calculate Red Rock's interest will be worth £0.96m.

## Updated valuation

Adjusting for the factors mentioned above and updating for the company's balance sheet as at 30 June 2011, our updated valuation is as follows:

### Exhibit 13: Edison estimates of Red Rock Resources' net asset value (£'000s)

Note: Our valuation does not factor the £2m loan note issued by Cornhill Capital to Red Rock on 18 July. Based on audited company accounts (previously using consolidated accounts).

£'000s	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
<b>Current assets</b>				
Investments in associates				
- Jupiter Mines	12,703	12,703	12,703	119,040
- Resource Star	216	216	216	216
- Cue Resources	955	955	955	955
- Kansai Mining Corp		2,511	3,222	9,602
- MFP 51% interest		1,386	4,004	17,994
- 0.5% MFP option		43	322	265
- Ascot convertible**		1,238	1,238	1,238
- Ascot equity	1,614	1,614	1,614	1,614
- Ascot warrants		128	128	128
Net Cash & cash equivalents*	-1,854	-1,854	-1,854	-1,854
Trade & other receivables		4,960	4,960	4,960
Exploration properties		443	15,697	59,708
Mount Ida royalty		14,608	59,998	114,701
<b>Total current assets</b>	<b>13,634</b>	<b>38,951</b>	<b>103,202</b>	<b>328,566</b>
<b>Non-current assets</b>				
Property, plant and equipment	0	27	27	27
<b>Total assets</b>	<b>13,634</b>	<b>38,977</b>	<b>103,228</b>	<b>328,593</b>
<b>Current liabilities</b>				
Trade & other payables	(2,540)	(2,540)	(2,540)	(2,540)
MFP consideration	(642)	(642)	(1,925)	(1,925)
Short-term borrowings	(1,750)	(1,750)	(1,750)	(1,750)
Current tax liabilities	(84)	(84)	(84)	(84)
<b>Total current liabilities</b>	<b>(5,015)</b>	<b>(5,015)</b>	<b>(6,298)</b>	<b>(6,298)</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	(971)	(971)	(971)	(30,757)
<b>Total non-current liabilities</b>	<b>(971)</b>	<b>(971)</b>	<b>(971)</b>	<b>(30,757)</b>
<b>Total liabilities</b>	<b>(5,987)</b>	<b>(5,987)</b>	<b>(7,270)</b>	<b>(37,055)</b>
<b>Net assets</b>	<b>7,797</b>	<b>33,140</b>	<b>96,108</b>	<b>291,538</b>
Shares in issue (millions)	784.2	784.2	784.2	784.2
<b>NAV per share (pence)</b>	<b>0.99</b>	<b>4.23</b>	<b>12.26</b>	<b>37.18</b>
Current share price (pence)	2.94	2.94	2.94	2.94
<b>Premium/(discount) of current share price to NAV (%)</b>	<b>195.7</b>	<b>-30.4</b>	<b>-76.0</b>	<b>-92.1</b>

Source: Edison Investment Research

Compared to our prior valuation scenarios, our updated NAV per share values represent a 62% decrease in our 'low-end' scenario, a 57% decrease in our median scenario and a 39% decrease in our 'high-end' valuation scenario.

In summary:

- Our worst-case scenario only features Red Rock's listed assets at current market prices (excluding Kansai, the Ascot convertible and Ascot warrants). Red Rock's interest in CUE Resources is valued according to the terms of its acquisition by UEC. To this we add our current cash forecast for the company and subtract balance sheet liabilities (as at 30 June 2011) and our estimate of the residual consideration payable by Red Rock for its interest in MFP.
- Our low-end scenario also considers Red Rock's unlisted securities (MFP, Kansai, the Ascot convertible and Ascot warrants). For MFP, we have assumed the 49.12tpd for a two-year production scenario. This analysis then values Red Rock's direct holding in the Mid Migori Mining Company (under exploration assets) in direct proportion to the value of Red Rock's Kansai holding. Kansai is valued at the last price at which it raised funds. The Mt Ida royalty is valued relative to the Isua royalty, as described in Exhibit 12. Property, plant and equipment is included at its June 2011 balance sheet value.
- The median scenario values Red Rock's 15% interest in the current Kenyan resource base (under exploration assets) at the average values calculated for 'indicated' and 'measured' resources in London (see page 10). The Mt Ida royalty is valued assuming a 10Mtpa concentrate production rate. Kansai is valued at its last reported balance sheet net asset value. MFP is valued at its June 2011 balance sheet value in Red Rock's company accounts.
- The top-end scenario assumes that Red Rock exercises its option to take a direct 60% interest in the Kenyan gold assets (against which US\$8m has been deducted as the estimated cost of the related bankable feasibility study). Kansai's 40% interest in the same assets is also valued using our updated London resource values. Our top-end scenario also takes into account the effect of the exercise of the Mount Alfred Bonus option and the allocation of the maximum number of shares in Jupiter to Red Rock and assumes a re-rating of Jupiter shares to a value of US\$1.13/share based on the per share value of the announced NPV of the Mt Ida project (at an 8% discount rate). The Mt Ida royalty is valued assuming a 20Mtpa concentrate production rate is achieved. MFP is valued on the basis that a 150tpd throughput scenario is achieved for 10 years.

Note that no value has been ascribed to Red Rock's Greenland iron ore prospects at this stage, which therefore represents additional upside potential.

## Exhibit 14: Financials

Year end 30 June	£'000s	2007	2008	2009	2010	2011	2012e
		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>535</b>	<b>24</b>	<b>3</b>	<b>9</b>	<b>943</b>	<b>4,758</b>
Cost of Sales		(185)	(1,026)	(108)	0	(1,463)	0
Gross Profit		350	(-1,001)	(104)	9	(-521)	4,758
<b>EBITDA</b>		<b>(310)</b>	<b>(249)</b>	<b>(750)</b>	<b>(872)</b>	<b>(1,140)</b>	<b>490</b>
<b>Operating Profit (before GW and except.)</b>		<b>(310)</b>	<b>(249)</b>	<b>(750)</b>	<b>(872)</b>	<b>(1,142)</b>	<b>(221)</b>
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		85	422	(3)	6,215	15,545	2,177
Associates		(1)	(83)	(171)	(519)	(386)	(386)
<b>Operating Profit</b>		<b>(225)</b>	<b>90</b>	<b>(923)</b>	<b>4,824</b>	<b>14,016</b>	<b>1,569</b>
Net Interest		2	13	(5)	(69)	(43)	(344)
<b>Profit Before Tax (norm)</b>		<b>(309)</b>	<b>(318)</b>	<b>(926)</b>	<b>(1,461)</b>	<b>(1,571)</b>	<b>(951)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(224)</b>	<b>104</b>	<b>(929)</b>	<b>4,755</b>	<b>13,974</b>	<b>1,225</b>
Tax		0	0	0	(1,299)	(3,714)	(326)
<b>Profit After Tax (norm)</b>		<b>(309)</b>	<b>(318)</b>	<b>(926)</b>	<b>(1,461)</b>	<b>(1,571)</b>	<b>(951)</b>
<b>Profit After Tax (FRS 3)</b>		<b>(224)</b>	<b>104</b>	<b>(929)</b>	<b>3,455</b>	<b>10,260</b>	<b>900</b>
Average Number of Shares Outstanding (m)		188.2	266.2	389.7	530.3	668.4	761.2
EPS - normalised (p)		(0.16)	(0.12)	(0.24)	(0.28)	0.01	(0.26)
EPS - normalised fully diluted (p)		(0.16)	(0.12)	(0.23)	(0.26)	0.01	(0.25)
EPS - FRS 3 (p)		(0.12)	0.04	(0.24)	0.65	1.78	(0.01)
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		65.5	N/A	N/A	100.0	0.0	100.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	10.3
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>13,328</b>	<b>12,617</b>
Intangible Assets		0	0	0	0	0	0
Tangible Assets		0	0	0	5	13,328	12,617
Investments		0	0	0	0	0	0
<b>Current Assets</b>		<b>2,848</b>	<b>4,364</b>	<b>5,552</b>	<b>10,692</b>	<b>36,972</b>	<b>38,831</b>
Stocks		0	0	0	0	0	397
Debtors		1,080	394	275	1,127	6,658	391
Cash		220	88	49	563	269	5,138
Other		1,547	3,883	5,228	9,002	30,045	32,905
<b>Current Liabilities</b>		<b>(294)</b>	<b>(413)</b>	<b>(180)</b>	<b>(1,904)</b>	<b>(5,867)</b>	<b>(4,291)</b>
Creditors		(294)	(413)	(180)	(1,144)	(4,117)	(540)
Short term borrowings		0	0	0	(760)	(1,750)	(3,750)
<b>Long Term Liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(193)</b>	<b>(11,588)</b>	<b>(11,588)</b>
Long term borrowings		0	0	0	0	(2,818)	(2,818)
Other long term liabilities		0	0	0	(193)	(8,770)	(8,770)
<b>Net Assets</b>		<b>2,554</b>	<b>3,951</b>	<b>5,372</b>	<b>8,600</b>	<b>32,844</b>	<b>35,569</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>(174)</b>	<b>(753)</b>	<b>(621)</b>	<b>(1,484)</b>	<b>(8,207)</b>	<b>3,565</b>
Net Interest		2	13	(5)	(122)	(96)	(344)
Tax		0	0	0	0	(827)	(326)
Capex		(260)	(112)	(184)	(150)	(1,697)	(4,028)
Acquisitions/disposals		0	(11)	(402)	(156)	(161)	2,177
Financing		553	730	1,112	1,613	6,833	1,825
Dividends		0	0	0	0	0	0
Net Cash Flow		119	(133)	(100)	(300)	(4,155)	2,870
<b>Opening net debt/(cash)</b>		<b>(101)</b>	<b>(220)</b>	<b>(88)</b>	<b>(49)</b>	<b>197</b>	<b>4,299</b>
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	61	53	53	0
<b>Closing net debt/(cash)</b>		<b>(220)</b>	<b>(88)</b>	<b>(49)</b>	<b>197</b>	<b>4,299</b>	<b>1,430</b>

Source: Edison Investment Research, Red Rock Resources accounts

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