

RED ROCK RESOURCES PLC

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Recommendation: Buy

Price:	0.93p	Market Value:	£4.3m
Ticker:	RRR	Sector:	Mining
12 month trading range:	3.13p – 0.38p		
PE:	n/a	Yield:	0%
Shares in issue:	462.47 million 0.1p ordinary shares		
Net cash:	£150,000 (estimate as at 1 st May)		
Net assets:	£1,350,000 (estimate as at 1 st May)		
Listing:	AIM		
Significant shareholders:	Regency Mines plc 29.4% Sunvest Corporation Limited 3.9%		
Financial calendar:	Interims - March, Finals - December, AGM – January		
Business:	Mineral exploration and mineral investment company with interests in iron ore and manganese in Australia and Zambia; plus uranium investments in Africa and Australia.		
Recent fundraising:	£150,000 on 19 th May		

Gold cashflow and £3m war chest to fund opportunistic acquisitions

The recent history of Red Rock Resources has been dominated by the company's joint venture with Pallinghurst, which has seen the two partners gain a substantial stake in Australian Stock Exchange-listed Jupiter Mines Ltd which is transforming itself into a steel feed business. Red Rock appears to have taken this project through to a successful conclusion.

On 17 April 2009, Red Rock announced a move into gold. This might at first glance look like small beer compared with Jupiter Mines and Pallinghurst's billion dollar investment plans. However a clever investment in gold looks as though it could provide the Company with a substantial cash flow within months.

Red Rock is now focussed on (a) cash flow and (b) unlocking the value of its assets. It may deserve a substantially higher valuation for a number of reasons that are listed below.

- The economic downturn presents a great opportunity to create a steel feed business. With experienced management and Pallinghurst's capital backing, investors could be seeing the creation of a 'BHP in exile' at Jupiter Mines. As this story unfurls the value of this Red Rock investment looks set to rise significantly.
- The move into gold by buying small and modular mobile mills is designed to provide near immediate cashflow. Under a special deal these mobile mills are being purchased at cost. They are sufficiently large at 50-100 tph to provide scale economies and could see a pay back on the first contract.
- On a typical project, the board believe that a single mobile mill working round the clock could generate AUD\$200,000 a month or more of revenue after costs to be split between Red Rock and the site/mine owner.

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- The new £3m Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Limited, puts Red Rock in a strong financial position.
- Armed with cash flow and the £3m war chest, Red Rock can take advantage of the current market conditions and make further opportunistic investments.
- After a £103,716 profit in the year to June 2008, Red Rock expects the impact of the Jupiter deal to cause a sharp rise in profit this year and next. As the Jupiter strategy rolls out, Red Rock can begin to realise profits and monetise part of its Jupiter investment.

INTRODUCTION

Red Rock is exploring for iron ore, manganese and uranium where the management has made a series of carefully planned initial investments. These projects have been advanced in careful step by step process until they were ready to be spun out into quoted vehicles. At all stages in this process, value has been added. In a successful implementation of a strategy which must be the envy of many other AIM-quoted junior mining companies, (a) as these assets have been spun off they have ceased to be a drain on Red Rock's cash, and (b) they become as listed stock a potential source of new liquidity.

IRON ORE & MANGANESE

Red Rock has been the catalyst behind the consolidation of iron ore interests in the Central Yilgarn region in Western Australia which lies 400km inland from Perth. The Company's interests in this important geological region consisted of three tenements called Mt Ida, Mt Hope and Mt Alfred covering 460km² and are known to include two large high-grade occurrences of Banded Iron Formations (BIF) - hosted iron called Mt Ida and Mt Mason which are hills measuring some 21km² and 8km² respectively rising 100m above the surrounding plains. In May 2006, Red Rock entered a joint venture deal with its neighbour Jupiter Mines Limited which has transformed the Company.

The quantum leap came when Red Rock joined forces with Pallinghurst Resources which is run by Brian Gilbertson, the former chief executive of Billiton who aggressively built that company into a mining giant that was finally merged with BHP. Mr Gilbertson was ousted from his position in 2003 as he had planned a merger with Rio Tinto, but was unable to win the backing of his own board. Pallinghurst Resources is Brian Gilbertson's own vehicle which has gained commitments totalling \$1bn from a consortium of investors including the South Korean steel maker POSCO, US coal group AMCI and South African investment bank Investec. These business partners also look to co-invest in projects as well; which means that Pallinghurst has substantial funds at its disposal to pursue its international ambitions.

Red Rock continues to develop its manganese interests in Africa, where it has stakes in Zambia, and in a company in Burkina Faso, and recently entered into a joint agreement with a substantial US-based end-user to source and develop new manganese deposits.

JUPITER MINES LIMITED (16.2%)

Red Rock and Pallinghurst were deemed to be acting in concert as the pair built up stakes in ASX-listed Jupiter Mines Limited. The partners chose Jupiter Mines to be their consolidation vehicle of iron ore and manganese interests in Western Australia; and have used their shareholdings to force through substantial change in the corporate strategy. At the EGM of Jupiter Mines Ltd held on 9 March 2009, the pair's proposals were passed unanimously. Under phase 1 of these proposals, Red Rock was issued with 23.89 million new Jupiter shares taking their shareholding to 38.95 million (16.2%) with Pallinghurst holding 66.05 million shares (27.5%). Red Rock managed to attract Pallinghurst's interest towards its manganese-play the Oakover project in Western Australia which lies within the East Pilbara Region, a well-known manganese producing area just 40km from the famous Woodie Woodie mine. In the past, Pallinghurst were outbid for this mine as their \$1bn bid for owner ConsMin was trumped.

Phase 2 of the proposal consists of Red Rock transferring over its Oakover manganese tenements, at that stage; Jupiter will issue 81.00 million shares with Red Rock and Pallinghurst receiving 54.16 million shares and 26.85 million shares respectively. After this, the joint venture partners would hold 92.90 million shares and each have a holding of 27.75%. On top of that, further shares could be awarded to the partners by way of an option if more than 10 million tonnes of indicated or measured resources of saleable direct shipping ore is independently verified at Mt Alfred, then Jupiter would issue the pair extra shares at the then current share price at a rate A\$2 per tonne.

THE CREATION OF A MINI-BHP

Jupiter Mines is now to focus on its iron ore and manganese assets and to develop its Yilgarn Iron Ore projects and manganese assets. On top of that, the new look board will be looking to expand the portfolio of steel feed related commodities and implement strategies to maximise the value of its portfolio non-core assets. Since the recent EGM, a mining industry heavyweight Geoffrey Wedlock has been appointed Executive Chairman of Jupiter. Geoffrey has been the MD of leading Australian iron ore producer Portman Limited and also spent 32 years with BHP and was CEO of its iron ore business. Jupiter is also relocating its corporate offices from Sydney to Perth closer to its asset base in Western Australia. In February 2009, the board of Jupiter Mines unveiled a 160% increased in the Inferred Resource for the Mt Mason Project, which forms the cornerstone of the Central Yilgarn Iron Project, to 5.75 million tonnes at 59.98% Fe following the completion of a successful drilling program in 2008. There is further potential for high grade hematite mineralisation within the resource which remains open to the north-east.

Next to Mt Mason, Mt Ida drilling has shown that the company is sitting on top of a potentially massive high grade magnetite orebody with favourable mineral characteristics. It is understood that more than one Chinese major is already in discussion with Jupiter to take an interest in this.

With A\$7m plus cash in the bank, Jupiter Mines is well placed to expand both its asset base and operations following the injection and further drilling is planned in 2009. Pallinghurst partner POSCO is rumoured to be about to make its much-heralded entry as a shareholder in Jupiter, giving access to fresh funds.

From the beginning, Pallinghurst's strategy has been to buy mines that supply the steel industry with iron ore and manganese. This private equity group \$1bn bid for ConsMin which illustrates the level of capital backing that is available to the team to develop a broadly based business which might just become a mini-Rio Tinto or mini-BHP.

GOLD

Red Rock has retained the rights over the gold potential in the eastern Oakover tenement, where stream sediment samples showed that this area, a few miles west of the Telfer deposit (over 30m oz gold), has high gold prospectivity. A more immediate move into gold was announced on 17 April 2009, when investors learnt that Red Rock had ordered and prepaid part of the cost of a mobile gold treatment plant with an option for a second. Resource Gold Proprietary Limited (RGL) will be supplying the mobile gold treatment plant on a turnkey basis. The plant comprises of a gravity plant and smelter that is in a modular format that can be transported by lorries; and will be manufactured in Perth, Western Australia.

EARLY CASHFLOW

The first mobile plant will be assembled and commissioned by RGL and who will also provide a profit sharing contract to kick start this new venture which should allow the generating of significant early cashflows. A second plant may be ordered on the same basis, two months after the first one rolls out of the factory. Red Rock has invested A\$67,000 (£32,000) to take an 11% stake in RGL, where their Kenneth Watson is a common director. Directly or indirectly Red Rock's directors Andrew Bell and Kenneth Watson have interests of 9% and 18% respectively. RGL was established to treat old Carbon in Pulp (CIP) and Carbon in Leach (CIL) mill site materials and is run by Ken Watson along with Chris Longmuir who used to be a partner in Mill Site Resources Pty Ltd which had a proven track record of producing gold by cleaning up old mill sites. The mobile plant will be built to RGL design specifications and be a wet gravity gold recovery plant designed to handle 50 tonnes per hour, upgradeable to 100 tonnes per hour.

POTENTIAL REVENUES

These small mills have been acquired at cost and using some reconditioned parts and so are exceptionally cheap to Red Rock, with a cost of under £100,000 per plant. They are not only cheap but also mobile and so can be moved from one location to another. Cash costs are expected to be low at just A\$200 (US\$141) per ounce which will mean that the projected return on capital is high. Putting numbers to that announcement makes for compelling reading. A typical mill site reclamation is expected to yield at minimum 1-2,000 ounces gold, since the company will be selective. Experience shows expected grades would never be less than 0.25g/t which would generate 10 ounces of gold per day working round the clock. At the current gold price and with projected costs

Definitions

BUY

Expected increase of 15% or more over the next 12 months

SPECULATIVE BUY

The stock has significant upside, expected increase of 15% or more over the next 12 months. Valuation reflects the high risks, but could reward significantly if the operations are successful.

ADD

Expected increase of 5% to 15% over the next 12 months

HOLD

Expected movement over the next 12 months in the range of plus 5% to minus 5%

REDUCE

Expected movement over the next 12 months of minus 5% to minus 15%

SELL

Expected fall/decrease of greater than 15%

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of US\$141 per ounce suggest revenue after costs of \$7,000 a day or \$210,000 a month to be split between Red Rock and the site/mine owners. Such mobile mills could rapidly become a powerful cashflow generator with a large profit potential and quick payback.

THE BIGGER OPPORTUNITY

It is not hard to see that the move into gold could become a major development in the future. Red Rock's chairman Andrew Bell sees a clear division in mining market between real small scale operations and listed junior miners. By and large, the juniors are not interested in small scale projects with a short life and mobile mills are not really part of their mindset. The management envisages uses for mobile mills that go beyond mill site reclamation to exploitation of dumps, alluvial deposits, and small scale surface deposits. A mobile mill teamed up with a locally hired crusher and grinder could deal with hard rock situations provided the metallurgical characteristics are right i.e. free gold. In the current market where it is hard to raise funds for exploration, many small companies might be interested in Red Rock scalping the surface expression of its deposit in return for a share of the gold revenues. The company will initially enter other people's ground as a contractor/partner, but intends to acquire its own projects as its expertise develops. This looks to be a highly profitable business operating in a dynamic niche area. It is fairly low risk given the level of investment required and could easily present Red Rock with further opportunities in gold exploration and mine development.

URANIUM

Demand for uranium is predicted to outstrip supply in the future. Nuclear power's re-emergence has come as it is increasingly recognised as the key to meeting CO2 emission targets. Even with the present economic downturn, worldwide electricity consumption is still expected to double by 2030 and nuclear power seems to have been seized on as part of the solution. Red Rock had a number of uranium properties in Australia and Malawi which really required a bigger exploration budget to maximise the opportunities and accelerate the work program. Early 2008 saw these interests injected into an Australian-quoted shell company renamed Resource Star Limited for a 24.2% stake. Ian Scott who had been the Geology Manager of Olympic Dam, the biggest uranium mine in the world, has taken the position of MD at Resource Star. On 31 March 2009, the board of Resource Star updated the market on its recent progress. Apparently, in Malawi, the team have completed a detailed scintillometer survey over the entire 7km length of the Main Machinga Radiometric Anomaly where at the surface the team has defined a 2km long by 200-500m wide highly anomalous Niobium-Zirconium-Thorium-Uranium zone. Highly encouraging sample results have confirmed the magnitude of these anomalies and the next stage is trenching, pitting and drilling. Whilst in the Northern Territory, Resource Star's geologists have completed a field reconnaissance program on the Woolgini/Edith River project which is seen to be the top priority. Here four uranium targets have been defined for drilling and the Mining Management Plan has been approved by the Northern Territory Government.

OUTLOOK

Cash is the life blood of mineral exploration companies and in today's market there are tremendous opportunities for explorers with financial resources. On 01 May 2009, the board announced that it had entered into a Standby Equity Distribution Agreement (SEDA) for up to £3m with YA Global Master SPV Limited which is advised by New York-based Yorkville Advisors LLC. The Company will be able to draw on these funds in tranches for the next two years. Current economic conditions have not made it easy for smaller quoted companies to raise sufficient money and so Red Rock has taken advantage of this innovative form of financing. Essentially, Red Rock now has a £3m war chest to now go out and find new projects.

CONCLUSION

Red Rock has already been seen to add value to its iron ore, manganese and uranium assets. The iron ore and manganese interests have now been successfully parcelled up into Jupiter Mines which has the potential to become a substantial steel feed business. The uranium interests are now in their own quoted (though suspended) vehicle which will be the focus of the company's attention now that the Jupiter deal is concluded.

Whilst Pallinghurst-backed Jupiter Mines gathers momentum and the value being created there becomes more obvious to analysts, investors are now about to witness the opening of a new chapter at Red Rock. The move into gold looks likely to generate substantial cashflow within months. Also within the business strategy are other transactions where the management team sees the chance of creating value for shareholders by deal making rather than just pure exploration.

