



Red Rock Resources

13 July 2009

Building a steel feed business in a JV with Pallinghurst

With a market cap of just £5.1m Red Rock Resources, a hybrid mineral exploration and investment company with a particular focus on iron ore, manganese and uranium, is one of the smaller players on AIM, currently ranking about 100th by size out of the 150+ listed mining companies.

However Red Rock's vision is "to leverage from a small capital base", or in other words to do a lot with a little. In essence the company aims to enhance shareholder value by building on its expertise and networks in mining and finance to acquire exploration or mining assets and then crystallise value from them by one of perhaps half a dozen routes. These include: (a) developing the assets internally, (b) selling them, (c) joint venturing them, (d) floating them, (e) farming them out to earn carried interest or (f) putting appropriate management teams, finance and structures in place to take the projects ultimately through to production and cash flow.

When Red Rock was initially floated from AIM-listed Regency Mines in July 2005 it held 9 Australian exploration licence applications comprising 4 manganese tenements at Oakover in the Pilbara district of Western Australia, 3 iron ore tenements on the Yilgarn Craton of Western Australia and 2 iron ore tenements in Tasmania. Since then it has made several acquisitions and disposals, pursuing a number of corporate, exploration and partnership opportunities in parallel. In each instance it has sought to bring together the best combination of assets, management and finance.

Key threads to the Red Rock story are summarised below beginning with the Jupiter/Pallinghurst story – the best example to date of how Red Rock have pursued its vision of creating synergies and leveraging from a small capital base .

Thread #1: The Iron Ore/Manganese/Steel Feed JV with Pallinghurst in Jupiter Mines

The Yilgarn craton, home to Red Rock's initial iron ore assets at Mount Ida, Mount Alfred and Mount Hope, is the most productive mining region in Australia, attracting more than half of Australia's exploration expenditure and host to significant iron ore, gold, nickel and other mineral reserves. Red Rock's tenements, which at the time of acquisition were considered prospective for iron ore but which had not been systematically explored, were in the Central Yilgarn district, close to good infrastructure and existing iron ore production.

However Red Rock has recognised from the outset that iron ore projects tend to be large, bulk, billion-dollar plus projects with low unit prices requiring significant economies of scale to be viable, (there are only a handful of producers globally). So it has consistently sought methods to leverage its interest, to co-operate with neighbouring tenement holders, to stimulate fundraising and to generate investor interest.

In 2006 Red Rock entered an option agreement for Mount Ida and Mount Hope with ASX-listed Jupiter Mines, who owned the neighbouring iron ore properties and who were then obligated to carry out exploration on the properties. In 2007, following successful exploration results, Jupiter exercised its option. It acquired the two properties from Red Rock, in return for shares, cash and royalties and combined them with its neighbouring assets to form the

Price: 1.03p

Market Cap: £4.76m

1 Year Share Price Graph



Share Information

Code: RRR

Listing: LSE

52 week	High	Low
	2.05	0.38

Sector: Iron Ore Mining

Website: www.rrrplc.com

Company Synopsis:

Red Rock Resources Plc is an exploration and mineral property investment company focused on the discovery and development of iron ore, manganese and uranium, both through exploration for, and exploitation of, mineral deposits, through the acquisition and disposal of interests in actual or potential mineral deposits or companies holding them in exchange for cash, securities, or royalty and other deferred interests, through buy-in agreements and joint ventures with such companies, and through public offerings of securities in subsidiary or associate companies. Its operations are located in Australia and South Eastern Africa. Red Rock Resources (AIM: RRR) listed on London's AIM market in July 2005.

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275 square kilometre Central Yilgarn Iron Project (CYIP). The Mount Mason portion of the project now has an inferred resource of 5.75 million tonnes at 59.9% Fe.

In 2007/2008 Red Rock further developed its strategy to consolidate and co-ordinate iron ore interests in the area. It bought shares in Mindax Ltd, which was exploring the contiguous project to Mount Alfred, later selling some at a £300,000 profit. It also increased its shareholding in Jupiter. Then in a key announcement in May 2008 Red Rock disclosed that it was acting in concert with Pallinghurst Resources, the natural resources investment company controlled by Brian Gilbertson, (the former CEO of BHP), to further build a joint stake in Jupiter and Mindax. The ambition was eventually to transform Jupiter into a significant steel feeds business, (i.e. a company which produces inputs for steel manufacture), by combining the iron ore and manganese assets with Pallinghurst's management expertise in big projects and its deep pockets. Pallinghurst has backing of at least \$1bn and also co-invests in specific projects with its partners which include the Korean company POSCO, the second largest steel manufacturer in the world. Pallinghurst's attraction to steel feeds is easy to understand as they are simply the biggest mining business. (Indeed Pallinghurst had already tried to get a foot in the steel feeds door with a \$1bn failed attempt to acquire a manganese producer).

In November the details of the JV became clearer when a two-tiered option agreement was announced whereby:

- in Phase 1, eventually exercised in March 2009, Red Rock vended its Mount Alfred iron ore project and 1.5 million Mindax shares to Jupiter in exchange for 23.8 million Jupiter shares, while Pallinghurst vended 11.6m Mindax shares plus A\$1m cash for 47.3 million Jupiter shares.
- under Phase 2, triggered on 8 July, (though still subject to approval by Red Rock shareholders), Red Rock will receive an additional 54 million shares in Jupiter in exchange for the Red Rock's manganese tenements at Oakover. These huge tenements are considered highly prospective and are just north of the world class Woodie Woodie manganese mine. Pallinghurst will also receive additional Jupiter shares.

When the Phase 2 option is exercised Red Rock's holding in Jupiter will rise to 93.1 million shares and Pallinghurst's to 92.9 million. This will represent a controlling stake of 57.9% of the Jupiter's enlarged issued share capital though this share will fall to 50.3% when Jupiter complete a share placement with POSCO Australia. The JV partners have already brought about a number of changes at Jupiter in order to increase the focus on the core steel feeds business. Crucially, a new Executive Chairman, Geoff Wedlock, has been appointed who was formerly the CEO of BHP Iron Ore Pty Ltd and Managing Director of Portman Ltd and who has extensive relevant experience and a strong track record in converting small projects into big ones.

When phase 2 of the option is complete Red Rock will have converted their manganese tenements, which had a carrying value of £120,000 on Red Rock's books at the end of 2008 into 54 million shares in Jupiter worth £5.6m at the closing price of A\$0.21 on July 7th.. The value of Red Rock's total shareholding in Jupiter at that price is £9m (compared to Red Rock's market value of £5.2m on that day).

Thread 2: Uranium Story with Resource Star Ltd

Red Rock also acquired five uranium properties in the Northern Territory shortly after listing in 2005. Exploration work was conducted and in August 2007 the assets were sold to ASX-listed Retail Star Ltd (RSL) for a 24.2% stake. In keeping with Red Rock's strategy of finding the best people Ian Scott, the former Geology Manager of Olympic Dam, which is the biggest uranium mine in the world, was appointed MD. He has since been joined by Richard Evans, ex-Western Mining, who also has very considerable uranium expertise, and now that Ian Scott is having to resign for health reasons Richard Evans is taking up where he left off.

RSL subsequently changed its name to Resource Star Ltd and in July 2008 was suspended pending relisting from the ASX but now almost all the building blocks are in place for it to be relisted. In theory it requires just a cash injection of a further A\$2m, but in practice RSL and Red Rock are keen to take time to get it into shape, to wait until all the ducks are lined up in a row, and thus to improve the chances of a favourable share price evolution on relisting.



Red Rock's Chairman, Andrew Bell, hopes that the RSL story will eventually parallel that of Jupiter/Pallinghurst with the necessary assets, people and finance to facilitate substantial future growth.

Thread 3. Other exploration interests in Africa and Australia

Red Rock still own several exploration projects including:

- A small manganese project at Chiwefwe in Zambia which is high grade, open at surface and on top of a main road and railway and could potentially be mined at low capital cost as it is almost a quarrying project. However it is currently being occupied by illegal miners and although an injunction has been served this has yet to be enforced. Andrew Bell has said that this project will be pursued more vigorously in future now that the Jupiter deal is complete.
- Two iron ore exploration tenements in Tasmania
- Two uranium projects in Malawi
- Gold and base metal exploration rights on the Oakover tenements.
- A 20% stake in manganese projects in Burkino Faso and Mali run by Africa China Mining Company (ACMC).

Thread 4. Planned Gold Treatment Plant(s)

In April 2009 Red Rock announced that it has contracted to purchase a mobile gold treatment plant with an option to purchase a second unit from Resource Gold Proprietary Ltd (RGL), a company which is 11% owned by Red Rock. The plant, which can handle 50 tonnes per hour move and has projected costs of around US\$140/oz, was purchased to generate cash flow in the short term and as a step on the road to making Red Rock an operating and mining company. The plant has yet to be delivered and a permit to operate is still required, but analyst Dr Michael Green of Simple Investments who wrote a research note in May, believes that the project economics and revenue streams could potentially become a big opportunity for Red Rock in the future.

Thread 5. A SEDA (Standby Equity Distribution Agreement) for up to £3m

Red Rock have negotiated a SEDA for up to £3m with YA Global Master SPV limited. Under the agreement YA has agreed to subscribe in tranches to up to £3m of the Red Rock's ordinary shares over a period of up to 24 months from the first use of the SEDA. In effect this means that Red Rock has access to up to £3m finance at a time when it is difficult to raise finance.

Future Plans / Summary

Looking ahead it seems quite possible that there will be further deals involving Jupiter. Pallinghurst and POSCO (which is the second biggest steel company in the world) both think big and will be looking for scale. Meanwhile Red Rock will be looking for RSL to relist as soon as the time is right and they may be looking for a gold deal. Bell is also looking to sell an asset at a good price to generate cash, and he is particularly keen that Red Rock should pay a dividend to shareholders (though this will be subject to accountancy advice).

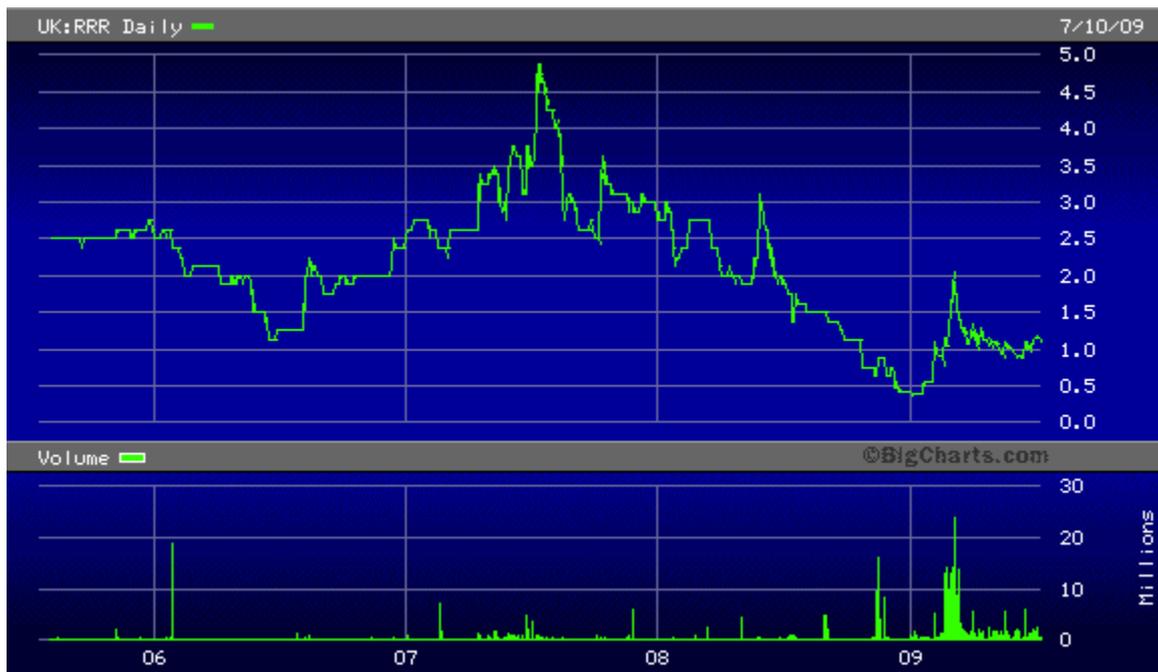
To date Red Rock has demonstrated a business model whereby it can add value though acting as a facilitator and catalyst. It has already seen both successes and failures, but according to Bell the key is to recognise something good and build on it. While there is no explicit corporate philosophy certain guiding principles emerge when in conversation with Bell, notably the importance of an exit strategy right from the outset of a project, the crucial importance of people and expertise, Red Rock's hands-off approach when appropriate to running a project and its willingness to step back to allow expertise to step to the fore, and the importance that it attaches to implementation.

Red Rock plans eventually to look for more mineral projects, particularly surface deposits, though these would probably not be in iron ore, manganese or uranium as this could compete with Jupiter and RSL. Red Rock probably has access to enough finance in the near future to progress its plans.



Ultimately, although Red Rock currently views itself as a hybrid exploration/investment company its ambition is not to remain as an explorer and not to be perceived as an investment company. It seeks to make profits, pay dividends and demonstrate repeatability of earnings. Perhaps Michael Green had an interesting point in his research note when he suggested that the Jupiter Mines, with its potentially high quality assets, people and financial backing “just might become a mini-Rio Tinto or mini-BHP”.

At the moment the greatest risks are those of exploration. The weak market and low commodity prices are not a great risk according to Bell. Indeed they present opportunities as assets, people and equipment are cheaper and more readily available, especially to those with finance and good projects.



Red Rock’s share price is currently 1.1p, significantly below its IPO price of 2p and peak of 5p, but 190% higher than the lows of December and January. At this price it is valued by the market at £5.1m, which is less than 60% of the value of its holding in Jupiter Mines effectively assigning a negative valuation to all the other assets of the company. There are perhaps at least three possible explanations. One is that the market perceives Red Rock as an investment company and is assigning a discount because of potential difficulties in liquidating Jupiter Mines’ stock, (though Pallinghurst, according to Bell, are waiting in the wings). Another is that Red Rock has a complex business model and asset structure which are not fully understood by the market (although there is a Red Rock fan club on Facebook!). A third perhaps is that the stock is just plain cheap.

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