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## Red Rock Resources\* - Partial sale of royalty interest from the Mt Ida iron ore project could net \$14 million - Speculative Buy at 2.65p with an 11.2p target price

Red Rock Resources has announced the sale of 50% of its 1.5% gross production royalty over any production from the Mt Ida iron ore project. The sale is for a total of \$14 million to Anglo Pacific, for a combination of cash and shares. This is to be paid in three instalments, with an initial \$6 million for 0.3% of this royalty and the remainder paid on reaching the key milestones of a formal decision to mine and commercial production beginning. This deal serves to place a value on this royalty interest which had so far been assigned no value at all in the company's balance sheet.

The Mt Ida operator is ASX-listed Jupiter Mines Limited (JML), of which approximately 4% is owned by Red Rock. A scoping study at the Mt Ida magnetite project in Western Australia was completed in March 2011 which outlined an operation producing 10 million tonnes a year of a 68%+ iron manganese concentrate. A feasibility study is underway with the drilling out of the 3 kilometre long central zone, containing an inferred resource of 530 million tonnes at 31.94% iron, almost completed.

Completion of the feasibility study, including the drilling out of a further 4.5 kilometres of strike, is expected by the year-end.

The development of JML, whose Tshipi manganese mine is expected to come into production in the second half of 2012, has created the solid financial base which Red Rock has used to take stakes in gold projects in Colombia and Kenya, as well as an investment holding in the Costa-Rican gold vehicle Ascot Mining (expected to list on AIM soon). In what has been little over two years, Red Rock has put together a gold division which could easily be attributed with a significant valuation. Red Rock has just announced the results of a Scoping Study at the company's Macalder Tailing Retreatment Project which is part of the Migori Project in Kenya where there looks to be opportunity for early cash flow. This study did show that this tailings project has the potential to

Key Data	
EPIC	RRR
Share Price	2.65p
Spread	2.6p - 2.7p
Total no of Shares	784.2 million
Market Cap	£20.78 million
12 Month Range	2.28p - 13p
Market	AIM
Website	<a href="http://www.rrrplc.com">www.rrrplc.com</a>
Sector	Mining
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create significant value for shareholders based on average annual production of 10,500 ounces of gold a year and a four year mine life. Such a project could generate an annual free cash flow in the range of \$5.6 million to 6.8 million and with a capital cost of \$14.1million using second hand equipment. In December 2011, the team announced a JORC-compliant, Indicated and Inferred Mineral Resource estimate of 577,000 ounces for the KKM Prospect within the Mikei Gold Project which forms part of Red Rock's larger Migori Project in south west Kenya. This follows the completion of 15,000 metres of infill resource drilling over the four resources prospects at Migori and this new resource estimates seems to be the first of a series of such upgrades that could be expected over the coming months.

Gold sales from Colombia rose a touch to 1,425 ounces in last quarter of 2011 even though there were planned infrastructural upgrades conducted at the El Limon mine. These were on the tunnels, shafts and the development of working fronts, which are all planned to allow production to increase over the coming quarters. In Colombia, Red Rock has acquired a 51% stake in the El Limon and the El Mango gold mines. El Limon is an old mine which is known for its high grade (up to 40g/t) narrow vein gold. Low gold prices and guerrilla activity led to abandonment and irregular working up until recently. The level of production is currently 500 ounces per month at which level total costs are believed to be about \$900 an ounce and the target is for daily production to rise to 150 tonnes per day which at an average grade of 11g/t gold equates to 17,000 ounces per annum. There may be scope for the gold mining operation in Colombia to become larger as the vein is further explored coupled with the obvious exploration potential of the local area.

## **Valuation**

Red Rock was created with the goal of adding shareholder value by taking stakes in mineral exploration projects and derisking these with some early investment and via corporate activity - spinning off such interests which allowed the value created to be crystallised. The best example of this strategy is the West Australia iron ore and manganese interests that now form part of a much-expanded JML which has been developed by Red Rock and Pallinghurst Resources as a steel feed platform.

Amongst JML's assets are the open pit manganese mine at Tshipi, South Africa (in production 2012), a small haematite project at Mt Mason (in production 2013 with expected free cash flow of \$82.5 million a year), and the potential 1.3 billion ton Mt Ida magnetite project where, even post the deal with Anglo Pacific, Red Rock will still have a 0.75% royalty, which could generate around \$8 million a year for 50 years when/if this project gets the green light. These moves have allowed the development of Mt Ida to be in the hands of JML where the management have a history of bringing world class projects on stream. Moving ahead the company's key objectives are to boost gold production in Colombia, start gold production in Kenya as well as planned exploration in Kenya and the first drilling in Greenland.

Our sum of the parts valuation comes to £87.9 million for Red Rock, which equates to a share price of 11.2p using the current issued shares of 784.2 million. We maintain our recommendation of **Speculative Buy with an 11.2p target price.**

## Financial records & forecast table

Year to 30th June	Sales (£000)	Pre-Tax Profit (£000)	Earnings per share (0)	Price Earnings Ratio	Dividend (p)	Yield (%)
2009A	0	(928)	(0.23)	NA	0	0
2010A	9	4,754	0.65	4.1	0	0
2011A	943	13,974	1.66	1.6	0	0
2012E	5,000	15,000	1.76	1.5	0	0

Source: Growth Equities & Company Research

\* Funds managed by a subsidiary of Rivington Street Holdings, the ultimate owner of GE&CR, own shares in Red Rock Resources.



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