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Red Rock Resources - Interims show significant maiden mineral sales. Speculative Buy at 2.32p with a 9.4p target price

Key Data	
EPIC	RRR
Share Price	2.32p
Spread	2.3p - 2.5p
Total no of Shares	880.68 million
Market Cap	£20.43 million
12 Month Range	2.3p - 13p
Market	AIM
Website	www.rrrplc.com
Sector	Mining
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Red Rock Resources is a mineral exploration and development company which is focused on iron ore, manganese; and operates in Greenland, Colombia and East Africa. Interim results to December 2011 have confirmed that the company is moving rapidly to become a producer as well as an explorer. The results not only showed that sales of minerals from operations rose to a significant £3 million (compared to £0.5 million in the first half of the previous year) but also that the company's Colombian gold mining activities recorded a pre-tax and finance profit of £0.8 million in the period as production volumes reached a profitable level. The fall in the share price of ASX-listed Jupiter Mines Limited (JML) led to what the board believe will be a temporary decline in the carrying value of Red Rock's 74.2 million shares from £49.8 million as at 31st December 2010 to £14.7 million at 31st December 2011. Overall, Red Rock made a loss of £3.1 million against a profit of £11.8 million at the last interim stage when there was a total of £18.9 million of net gains from other sales that included a profit on transfer of investments which was not repeated in the current first half. Andrew Bell, Executive Chairman, commented that *"...we expect the remainder of 2012 and early 2013 to be a period where the company can show the results, and gain reward, for many months of solid effort. We continue to search for strong partnerships that can accelerate our growth and the development of our projects."*

The board expects that confidence will return to JML - where the share price has fallen from A$0.765 at 30th June 2011 to the current A$0.24 - as 2012 will see results from three of its important projects. Firstly, the imminent completion of the bankable feasibility study on the Mt Mason Haematite project. Secondly, the opening of a large open pit manganese mine in Tshipi in the second half of the year. Thirdly, the completion of a bankable feasibility study on the Mt Ida magnetite project at the year end. In recent months, Red Rock 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 installments, with an initial $6 million for 0.3% of this royalty and the reminder 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 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. The 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, includes the drilling out of a further 4.5 kilometres of strike.

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 recently 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 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.

The interims also brought news that the company's Colombian gold mining activities are now profitable as production volumes have increased. In Colombia the board hope to increase production levels and lower cash costs and total costs per ounce through operating efficiencies and increased production. 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 recent production has been 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.

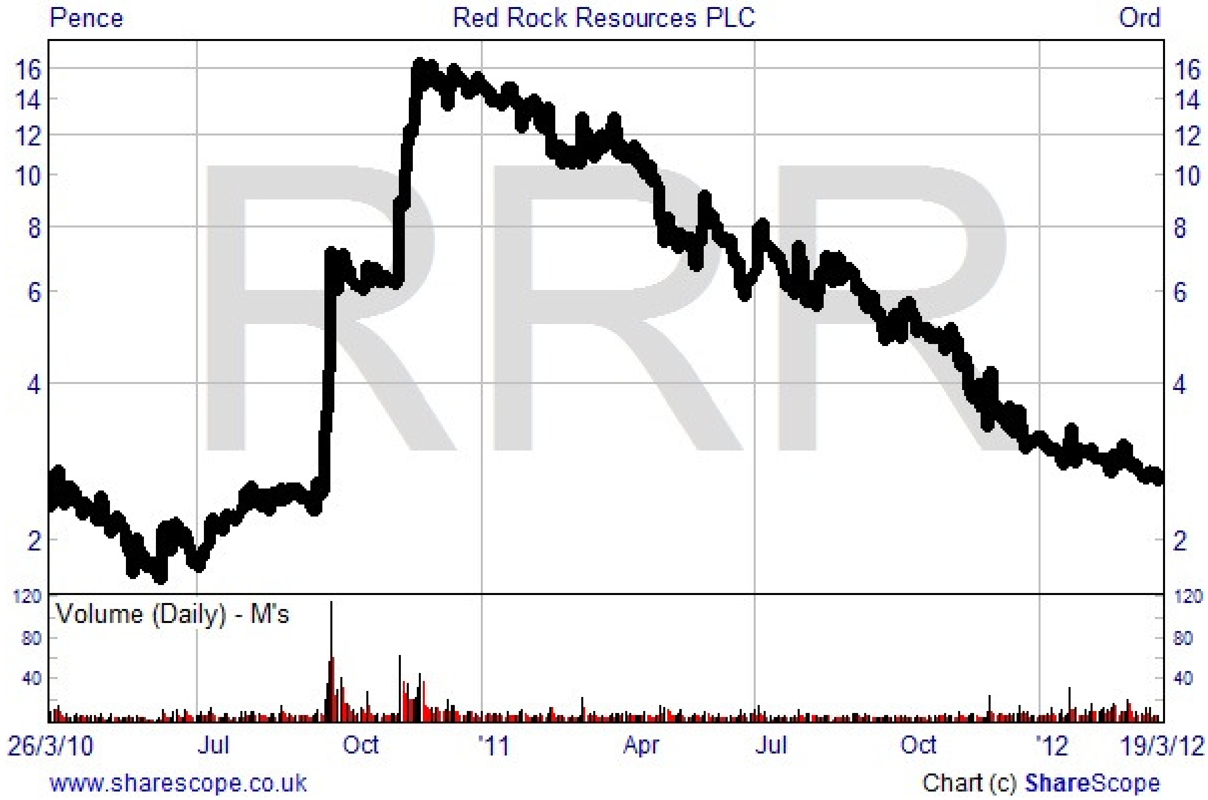
Valuation

Red Rock was created with the goal of adding shareholder value by taking on mineral exploration projects and de-risking 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 $82.5m a year), and the potential 1.3 billion ton Mt Ida magnetite project and where post the deal with Anglo Pacific, we have a conservative present day value to attribute to this interest. 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 £82.2 million for Red Rock, which equates to a share price of 9.4p using the current issued shares of 880.68 million. We maintain our recommendation of **Speculative Buy** with a 9.4p target price.

Financial records & forecasts

Year to 30th June	Revenue (£000)	Pre-tax Profit (£000)	Earnings per share (p)	Price Earnings Ratio (x)	Dividend (p)	Yield (%)
2009A	0	(928)	(0.23)	NA	0	0.0
2010A	9	4,754	0.65	4.0	0	0.0
2011A	943	13,974	1.66	1.6	0	0.0
2012E	7,000	10,000	1.07	2.5	0	0.0

Source: Growth Equities & Company Research



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