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Red Rock Resources* - Initiating coverage with a recommendation of Speculative Buy at 3.375p, with a 12p target price

EPIC	RRR
Share Price	3.375p
Spread	3.25p - 3.5p
Total no of Shares	730,760,973
Market Cap	£24.7 million
12 Month Range	3.2p - 16p
Website	www.rrrplc.com
Market	AIM
Sector	Mining
Contact	Andrew Bell - 07766 474849

Red Rock Resources is a proven explorer and developer of mining projects with interests in iron ore, gold and uranium, that has now moved to become an expanding producer. From the beginning, the company has been seeking to add 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 ASX-listed Jupiter Mines Limited (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, a small haematite project at Mt Mason and potential 1.3 billion ton Mt Ida magnetite project where Red Rock has a 1.5% royalty which could generate around $16.5 million a year for 30 years when/if this project gets the green light.

Currently, a feasibility study is underway on Mt Ida which could provide a sounder basis on which to put a value of this potential royalty stream. However a deal was announced recently which provides a rather useful read across valuation. In August 2011, London Mining reported that it had entered into a royalty agreement with Anglo Pacific concerning future iron ore production at the Isua Project in Greenland. The bankable feasibility study for Isua is considering a 15 million tonnes per annum (Mtpa) open pit and processing operation with a 15 year initial life of mine and production scheduled for 2015. Anglo Pacific is to pay $30 million in return for a 1% royalty of iron ore concentrate sales. Isua offers a good parallel as it is of a similar scale to Mt Ida. But it needs to be pointed out that the established mining district of Western Australia (WA) is a far more attractive area than Greenland. Not only is WA far closer to the markets, but also has a port, water power and lies in an established mining area. On top of all that, Mt Ida also has the backing of large shareholders in JML that have a history of bringing world class projects on stream. So it can be seen that even without the decision taken to mine such assets there can a royalty-based valuation determined. Red Rock has a 1.5% royalty on the future production of Mt Ida and so it does not seem hard to place a valuation of $45 million (£27.8 million) on this royalty stream. It is not known whether the company is seeking to sell part or all of this royalty; but at the moment it does sit in the books and is assigned no value.

The development of JML 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. 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. 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 to recently. The level of production is currently 500 oz per month 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 substantially larger as the vein is further explored and as the local area has exploration potential.

In Kenya, Red Rock has essentially farmed into an asset, acquiring a 15% interest for $750,000 which has given them the rights to manage the project with an option to earn a 60% interest on funding the project through to a bankable feasibility study. The deal allows for Red Rock to be repaid all its development and exploration work out of the initial revenue. The company also has 35% stake in the joint venture partner and so overall has an interest of close on 75%. Infill resource drilling is planned of 15,000 metres over the four resources prospects at Migori which is expected to be completed by the end of calendar year 2011. The current JORC resource totals 1.268 million ounces and a series of new resource estimates on the back of a substantial drilling programme is expected to be announced over the coming months. There is also the opportunity for early cash flow here as within this resource is 68,000 ounces of gold in tailings which could easily be brought on stream as a 10,000 ounce per annum of cheap gold production. It does seem that there is good scope for a compelling newsflow from Kenya as in the months to come.

Investors' hopes of the combined potential of the gold division, the stake in JML and the value that the Mt Ida royalty has served to take the share price to the 20p level in the past. Since hitting that peak in February there has been the erosion to the values of resources stock caused by investors' flight from risk even though the gold price has continued to climb ever higher. Gold production in Colombia failed to meet the targets and the market has been disappointed. Looking at the chart, the share price moved up from 2.5p to 20p in a matter of months and so investors had some big profits to take. While the spotlight has been off Red Rock, gold production in Colombia has been rising steadily and it looks as though those targets could be hit in the coming months. 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 £88.0 million for Red Rock which equates to a share price of 12.0p using the current issued shares of 730.76 million. GECR are re-initiating coverage of Red Rock with the recommendation of **Speculative Buy** and a 12p 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	5.2	0	0.0
2011A	943	13,974	1.78	1.9	0	0.0
2012E	5,000	13,974	1.90	1.8	0	0.0

Source: Growth Equities & Company Research

Background

Red Rock Resources joined AIM in July 2005 following a placing that raised £476,000 at 2p which gave the company an initial market capitalisation of around £3 million. Red Rock was spun out of Chairman Andrew Bell's other AIM-quoted play Regency Mines as a mineral exploration and development company which was focused on advancing its iron ore and manganese projects in Western Australia and in Tasmania. At that stage the company had acquired nine tenements at Oakover, Mt Ida, Mt Hope and Mt Alfred, all in Western Australia, and at Savage River North and Arthur River in Tasmania. The basis of much of the success of the company to date can be traced back to May 2006 when Red Rock entered into an agreement with ASX-listed JML which were granted options over its Mt Ida and Mt Hope iron ore licences. At that time JML was drilling on the nearby Mt Mason property. The big step forward came in early 2009 when Red Rock joined forces with Pallinghurst Resources, run by the ex-CEO of BHP, Brian Gilbertson, to act in concert building up a stake in JML. Red Rock was vending its iron ore and manganese interest into JML whilst Pallinghurst put in cash to fund the development of this company. Red Rock gained a significant stake in Jupiter, part of which would prove to be a longer term investment and the remainder which would be traded to help fuel the growth of the company outside of iron ore.

To begin to monetise the investment in uranium, in May 2007, Red Rock announced the sale of Orion Exploration Pty Ltd, its 100%-owned uranium exploration subsidiary which was reversed into ASX-listed Retail Star Limited, whose name was subsequently changed to Resource Star Limited. By this move, the company ended up with a 24.9% stake in a quoted uranium stock and no longer had to fund the exploration programme on these uranium projects from its own financial resources. Since then a drilling programme at the Livingstonia uranium prospect in Malawi has led to an initial JORC Inferred Resource being announced.

The move into gold was announced on April 2009, when investors learnt that Red Rock had agreed to buy a mobile gold treatment plant; but the company's gold ambitions proved to be far larger than that. An option to acquire a 70% stake in two licences at Ngira-Migori in southern Kenya, which lie adjacent to the former gold, silver and copper producing Macalder Mine was announced in August 2009. The company's gold interest grew further in 2010 with deals in Colombia and helping to fund Ascot Mining. Red Rock gained an interest in the EL Limon mine in Colombia in 2010 by procuring a $2 million bank loan to fund the purchase of new equipment to boost production. Later on last year, the company took a stake in the then PLUS-quoted Ascot Mining by way of a £1.5 million investment in 10% convertible loan notes convertible at 20p per share.

Overview of operations

IRON ORE

More than 98% of iron ore is used to make steel and the price has been soaring over recent years as mining companies struggle to meeting booming demand from Asia. Vale, the world's biggest iron ore producer expects that prices will remain above the $150 a tonne level for at least the next five years.

<u>Australia</u>

In the Yilgarn district of Western Australia, the company's iron ore projects include two known large high-grade occurrences of Banded Iron Formation (BIF) in the hills at Mt Ida which included iron assays that ran as high as 66.64% in haematite lens. Interests in Mt Ida and Mt Hope are now held through a direct holding in Jupiter Mines Limited. Red Rock holds the 471km² licence Mt Alfred, an area that also contains BIF with high iron grades found at one hematite lens.

RED ROCK RESOURCES PLC
Project Location

Jupiter Mines Limited (4.99%)

Red Rock played an important part in the consolidation of iron ore interests in the Central Yilgarn region in Western Australia where the company had 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 - hosted iron called Mt Ida and Mt Mason which are hills measuring some 21km² and 8km² respectively rising 100 metres above the surrounding plains. In May 2006, Red Rock entered a joint venture deal with its neighbour ASX-listed JML which has been the basis for the transformation of the company.

Red Rock gained a substantial holding in JML after vending in its iron ore licences in the Central Yilgarn, Australia and later on the Oakover Manganese Project. Since that time JML has enjoyed dramatic growth as it has acquired an extensive portfolio of iron ore and manganese exploration tenements in the well-known mining districts of Western Australia. The portfolio consists of: the Mt Ida Project and the Mt Mason DSO Hematite Project in the Central Yilgarn as well as the Oakover Manganese Project along with a prospective land holding in a manganese producing region in East Pilbara. The latest move for the JML has been the acquisition of a 49.9% interest in the Tshipi Manganese Project in the Kalahari Manganese Field in South Africa, where it is expected that production at a rate of 2 million tonnes per annum will begin later this year.

It was the acquisition of Tshipi which diluted Red Rock's holding below the 20% level and so this interest in JML is now deemed to be an investment rather than an associate. The company has a 1.5% gross production royalty over the Mt Ida magnetite project which JML is taking towards a feasibility study having announced a substantial JORC Inferred Resource of 530 million tons at 31.94% Fe earlier on this year. A Scoping Study on the project announced in March 2011 demonstrated that this project was economically robust with a Net Present Value of A$1.685 million using an 8% discount rate. The assumptions used were a 20 year mine life for a 25 million tonne per annum project producing 10 million tonnes of magnetite concentrate annually. Red Rock now holds 74.2 million JML shares but has made some disposals but still retains around 80% of its original stake which it considers a key asset.

Greenland

Red Rock has entered into an earn-in agreement with North Atlantic Mining Associates Limited (NAMA) to joint venture exploration over concessions at Thule, Greenland. The company issued $250,000 worth of shares at 9.545p to exercise this option. The licence area totals 1,013km2 and constitutes a major and undrilled iron ore province. This follows work by the Geological Survey of Denmark and Greenland which mapped the area as Achaean greenstone with banded iron formations, magnetite, and haematite. Samples taken by the joint venture partners using a portable Niton SL3 Gold XRF analyser have yielded encouraging grades of 30% to 40% Fe in course-grained magnetite. Exploration work this year involves regional airborne geophysics, magnetic and radiometric surveys with drilling expected either later this year or in 2102.

MANGANESE

Manganese is an important alloying agent and 90% of world production goes into the manufacturing of steel where it improves the strength, toughness, hardness and wear resistance. The leading world producer is China followed by South Africa, Australia, Brazil, Gabon and India. In 2010 world output of manganese stood at 47 million tonnes, which was 32.4% higher than in 2009.

Zambia

Red Rock holds a permit in the Chiwefe area, central Zambi which contains manganese. The company has encountered almost constant interference with its licence and its rights; but has won an injunction against illegal occupants on its land and is now pursuing the matter of the falsification of records. Exploration by Red Rock has already established an Indicated Resource of 2.36 million tons of high grade manganese at more than 46% on a 550 metre strike length plus there is also a further 6 kilometres of strike extension which shows continuous mineralisation. Exploration work and the drilling programme are underway to increase the JORC resource and also test the extension at depth of the mineralisation.

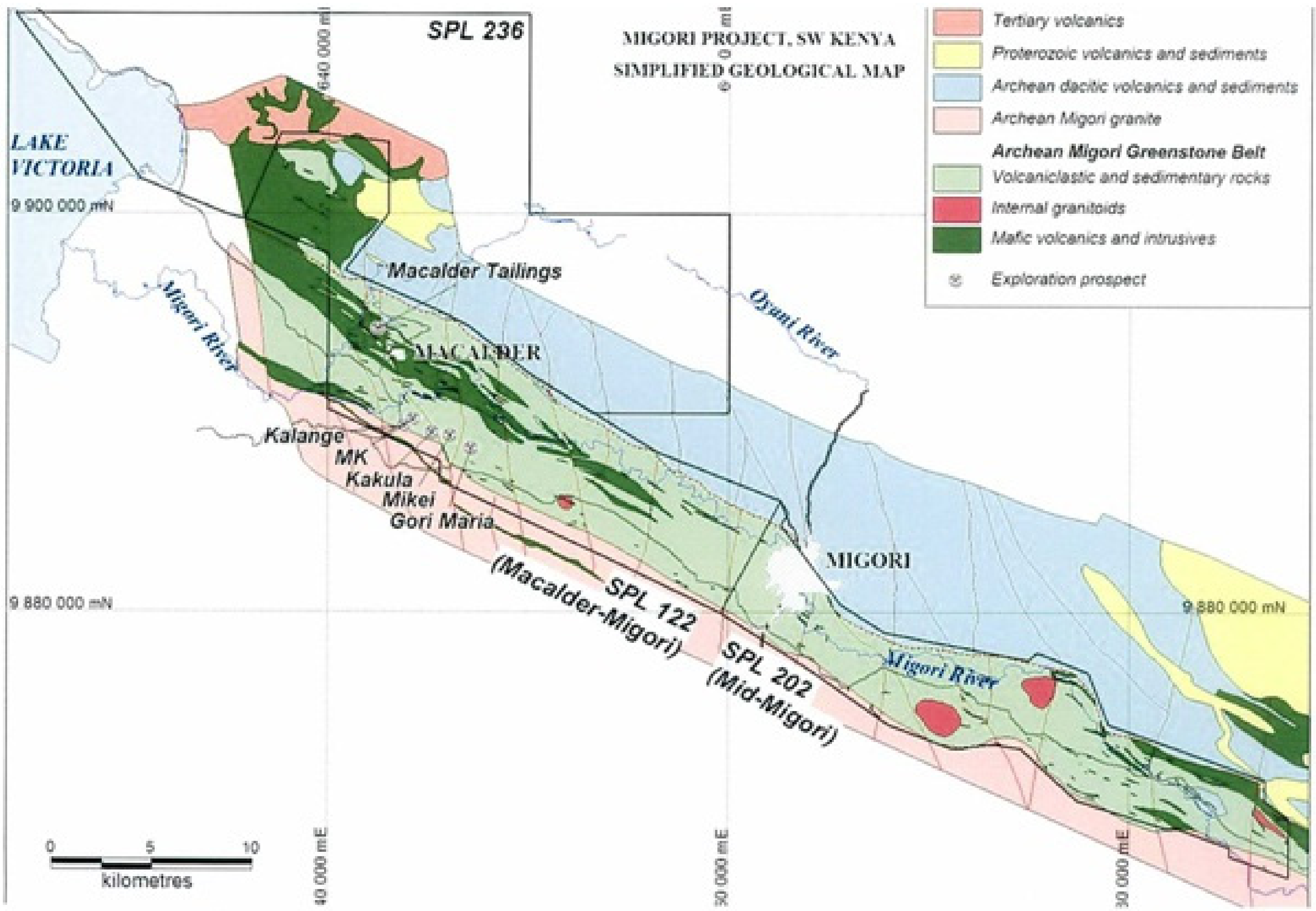
GOLD

Kenya

In 2009, Red Rock acquired a 60% stake in the 68 kilometre long Migori greenstone belt in South West Kenya from Kansai Mining Corporation Limited (KMC) in 2009. This is the Mid Migori Property which covers an area of some 300km² in size and is located 30 kilometres north of the North Mara Gold Mine in Tanzania. The Migori greenstone belt has seen little exploration effort even though it does host a number of gold and base metal mines which includes the Macalder VMS copper-zinc-gold mine. The tenements have a NI 43-101 Indicated Resources totalling 1.172 million ounces of gold which is spread across five assets which are: KKM, Goria Maria, MK, Nyanza and the tailings at Macalder. In addition, Red Rock has options over adjacent properties at Ngira-Migori, and has acquired the rights over 35% of KMC.

November 2010 saw the start of a large drilling programme which followed the completion of the VTEM and magnetics/radiometrics airborne geophysics surveys. The programme had been designed not just to gain a greater understanding of the geology but also to enlarge the resource. At the same time a number of new VTEM copper targets around the old Macalder VMS copper-gold were explored.

A helicopter-borne airborne electromagnetic survey was carried out over a small area of the Migori Greenstone belt in 2010 which covered the Macalder VMS mine area as well as extending further south and south east from the mine. Back in December 2010 the board announced that this work had uncovered two medium strength conductors.



Migori Project, SW Kenya: simplified geological map

The results of interpretation work by consultants EMIT on this data was announced in July 2011 that conductor 1 at Macalder Mine and conductor 2 at the Barnabas exploration prospect showed potential 3D shapes and dip angles of the conductive bodies based on the electromagnetic signatures. This work has been followed up by trenching at the Barnabas conductor which has uncovered BIF. A ground induced polarisation (IP) geophysical survey across the Macalder central boundary is to be completed during August to identify drill sites for testing this conductor.

Infill resource drilling is planned of 15,000 metres over the four resources prospects at Migori which is expected to be completed by the end of calendar year 2011. The results of drilling on greenstone-hosted gold targets were reported in November 2011. In all 50 holes were drilled for a total of 5,656 metres and 118 significant intersections were reported. At the KKM prospect, the best intersections looked to be: 41.9 metres @ 1.65g/t gold (including 5.0 metres @ 8.36g/t gold) and 5.5 metres @ 7.07 g/t gold (including 1.0 metres @ 34.9g/t gold). The KKM prospect is the first one out of five deposits that are linked together which are due to have their Mineral Resource Estimates updated to become JORC-compliant. The results of drilling on the Mikei Gold Project will also be included in the series of JORC-complaint Resources updates for each prospect that look as though they will be completed and announced over the coming months.

A revised Measured Mineral Resource Estimate at the Macalder Tailings of 68,000 ounces of gold (at 1.65g/t) and 1,385,000 ounces of silver (at 33.5g/t) was reported in October; which were significantly higher than the original estimate.

Colombia

Red Rock has a 50.5% stake in Mineras Four Points SA (MFP) which is a Colombian gold mining company. The history of this investment began with Red Rock lending MFP $2 million for three years, coupled with a three year consultancy agreement. MFP owns and has the rights over two gold mines in Antioquia which are the El Limon and El Mango (La Aurora). El Limon is a high grade mine which extends to a depth of over 350 metres; whereas El Mango has only recently started producing ore which is transported to the mill at El Limon for processing. A recently completed refurbishment of the 150t/day plant at El Limon has allowed gold mining to begin once more.

In March 2011, Red Rock exercised its 51% option The original $2 million loan, advanced to MFP to recommence production at the old El Limon gold mine and plant, remains outstanding. Now with control, Red Rock has set about appointing an internationally experienced mine manager. The target at El Limon and its sister mine El Mango is 150tpd, which is expected to be achieved by improving the operational efficiency and implementing improvements to the plant, seven day a week working, better dilution control, partial mechanisation, improvements in metallurgical testing and recruitment of mine geologists.

In May 2011 the El Mango mine had been producing test rates of up to 20tpd which had been transported to El Limon. In the same month the local subsidiary broke even on an operational basis. Production now has climbed to around 50 tonnes per day and in June gold sales totalled 273 ounces. A steady improvement at both the mine and the mill are expected as new equipment is introduced and new technical staff are recruited which should allow working practises to improve. Gold sales in July were 361 ounces, with an average mill input grade of 11.8g/t and 1,193 tons milled in a month (despite 4 day shutdown). In October this grew to 509 ounces of gold plus 451 ounces of silver.

Ascot Mining*

In 2010, Red Rock took an interest in Ascot Mining by way of a convertible bond. Ascot Mining is a PLUS-quoted, Costa Rican-focused gold mining company. From a standing start less than four years ago, Ascot has assembled a portfolio of interests in old gold mines and exploration assets in a gold belt in the north of the country. By and large all these interests are within thin high grade gold veins which are/or have the potential to be mined by underground methods with little dilution. Grades are within the order of 0.3 – 0.7 ounces per tonne and there are also bonanza shoots that are substantially higher. Ascot has in the past disappointed the market as it has failed to meet tough self-imposed targets, but this should not detract from the quality of its assets. However Ascot today looks to be on the verge of commercial production and is moving to AIM which could allow an enhanced valuation to be placed on this company's assets by comparing it with its peers.

**- Please note that the author holds shares in Ascot Mining.*

URANIUM & RARE EARTHS

Demand for uranium is predicted to outstrip supply in the future. Nuclear power's re-emergence has come as the energy has now been shown to be green. Worldwide electricity consumption is expected to double by 2030 and nuclear power seems to have been seized on as part of the solution.

The Rare Earth Elements (REE) are seeing increased demand as they represent a key constituent for many technological applications such as mobile phones, computers, wind turbines, low energy light bulbs and hybrid car batteries. China has been the source of over 95% of rare earths but now has moved to stop exporting these strategic elements. The scramble for the heavy rare earths (HREE) has been frantic as these elements are vital for a host of environmentally green technologies.

RESOURCE STAR LTD (24.9%)

Red Rock acquired a number of uranium and rare earth elements licences in the Northern Territory, Australia and Malawi which in 2008 were injected into ASX-listed Resources Star Limited (RSL), which has given it a 24.9% holding. RSL's key projects are the joint ventures with Globe Metals and Mining on the Livingstonia Uranium Project and the Machinga Rare Earths Project in Malawi; and the Edith River Uranium Project (100%) in the Northern Territory and the Spinifex joint venture with ASX-listed Thundelarra Resources in Western Australia. Resource Star is in the midst of earning an 80% stake in the Livingstonia where existing JORC Resource has recently been increased by 30% to 6 million pounds uranium. There looks to be an interesting situation developing a Resources St's JV partner has now become a subsidiary of Chinese state-owned enterprise East China Non-Ferrous Metals.

Strategy for growth

Red Rock is a proven explorer, where success has allowed the team to create substantial value from its West Australia iron ore and manganese interests that are now part of JML. In the process Red Rock has gained a good stake in the JML steel feed business and retained a 1.5% royalty interest in the potential 1.3 billion ton Mt Ida magnetite project in WA. The latest exploration play is in Greenland where the pace looks to be quite rapid as the 13,170km magnetic and radiometric surveys have been quickly followed up by field validation of geophysical and geological targets. The geological mapping that followed traversing could lead to possible test drilling this year. The plan is that infill with higher resolution geophysics and more drilling to be completed next summer.

As well as being a proven explorer, Red Rock is fast establishing itself as an expanding gold producer; a move which looks likely to allow an enhanced valuation to be placed on the company. In Columbia, the board has negotiated a 51% stake in a gold mine operator by investing in two gold mines in a traditional gold mining district which lies on the Frontino Gold Belt. Gold mine number one is El Limon where the plan is to get production up from 50 to 150 tonnes per day; production of some 512 ounces in August could rise to 1,200 ounces per month later on this year as production rises are coupled with mining grades in excess of 10g/t gold. There has been further exploration at El Limon to expand production potential which could also come from deals with the holders of neighbouring licences which have already begun. Gold mine number two El Mango saw production begin in July 2011 with production at 20tpd.

In Kenya, the company has scope to take its holding to 60% in licences at Migori that cover a 63km section of an Archaean Greenstone Belt. This an extension of the prolific Tanzania Greenstone Belt which hosts the nearby significant gold discoveries of Barrick and Anglo Gold at North Mara and Geita in Tanzania. Already an NI 43-101 Indicated Resource of 1.2 million ounces has been identified but further drilling has been undertaken to define further resources from five linked deposits with view to early production. Plans for the short term include: drilling Macalder and Barnabas VMS copper/gold targets; along with a plan for early cash flow from gold production from the 75,084 ounces of JORC Indicated Resource at the Macaulder Tailings Project.

Looking at the investment holdings, it has got to be remembered that the success that Red Rock had at JML was on the back on an initial investment of under A$500,000; which should provide investors with a good degree of confidence concerning the outcomes of these other investments. The company by nature is not a passive investor and it is expected that Red Rock will further help to craft the destiny of Resource Star and Cue Resources; and in this manner seek to maximise the potential gain to the company. Ascot Mining has completed its NI 43-101, it does look likely that it can now proceed from PLUS to AIM, a path which could lead to an increase the value of this investment. Going forward we believe that there is no reason that the shares of Red Rock could not recapture the highs seen in early 2011, as investors begin to appreciate once again the sort of valuation that the company could now be awarded not just for the progress that has already been made but the potential for value creation that exists within the portfolio.

Risks and opportunities

Risks

Geological risks - There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation style being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Uranium – Following the disaster at Fukushima in Japan, a number of countries have changed their stance on nuclear power, notably Germany, but even so only a couple of months after this disaster in Japan the spot price of uranium had already recovered to the current $49 a pound compared to $66.50 before the disaster.

Financing –The company has raised funds using Standby Equity Agreements and continues to use such a financing capability. There is always concern that such a financing arrangement would result in the stock price being plunged into a downward spiral as shares are sold into the market as the price weakens. However, Red Rock has the right to call this funding down when required which did allow the company to gain some advantage from the surge the share price earlier on this year.

Director selling shares – In the past twelve months Directors have been selling shares which investors see as a negative sign. The board has been exercising options and then selling the shares in the market; and no one would blink when the Directors of a FTSE 100 or FTSE 250 companies do the same thing. By AIM standards the board’s remuneration is fairly low; and so granting of options does allow the company to attract and retain well-experienced members of the management team.

Nationalisation in Africa – There seems to have been growing concern amongst the African nations that the countries are not benefitting as much from their mineral wealth which has been magnified by the strength in metal prices. This has led to a wave of nationalisation and the cancellation of mining licences. There has been much concern that South Africa might follow this trend but JML’s Tshipi manganese mine in that county does meet all the requirements required by black empowerment legislation.

Opportunities

Corporate strategy - Red Rock is exploring for iron ore, manganese and uranium where the management has masterminded a series of carefully planned initial investments. These projects have then been advanced in a cost effective way and then spun out into quoted vehicles. At all stages in this process, value has been added which must be the envy of many other AIM-quoted junior mining companies. Spinning off these assets, means that such interests are no longer a drain on Red Rock’s cash.

Profitable – Last year Red Rock made a pre-tax profit of £13.97 million which equated to earnings per share of 1.78p; and the intention is for the company to remain profitable. This looks set to continue as production is being ramped up at the Colombian gold operations which will allow costs per ounce to shrink to a more normal level, should allow this operation to begin to make a contribution to the bottom line. Chairman Andrew Bell knows that there is probably no better way to gain the loyalty of shareholders than to remain profitable.

Buoyant metal prices – Gold, iron ore and manganese and rare earths have all been enjoying a strong performance. The credit crunch, economic downturn and lack of liquidity and continued economic uncertainty have helped propelled gold to an all-time high and supply/demand considerations seem to suggest that the price could remain relatively high for some years to come. The demand for stainless steel not just from China but also the other BRIC countries from Russia, India, Brazil as well as emerging Asian economies beyond

Blue sky exploration – In Greenland, the company has embarked on what is truly blue sky exploration as this land has never even been walked over by geologists. Already the team has flown the entire area for magnetics and found important and significant targets that need to be drilled, which includes high grade haematite and magnetite iron ore.

Management

Chairman – Andrew Bell – In the 1970s, Bell began his career as a natural resources analyst at Morgan Grenfell & Co. His business experience covers periods in fund management work at leading financial institutions, international corporate finance work as well as private equity. He is also the Chairman of AIM-quoted Red Rock Resources and Greatland Gold along with being a Director ASX-listed Jupiter Mines Ltd and Resource Star Ltd.

Director - Manoli Yannaghas - Yannaghas was formerly a financial analyst working with an international financial consultancy. He has experienced with small companies including operations and corporate finance, for the past ten years he has worked in various operational capacities within these types of businesses. Yannaghas has experience with team building and management, fund raising as well as other areas of corporate finance. He currently sits as Non-Executive Director on a number of small fast growth companies and is also a former Director of ASX-Listed Resource Star Ltd.

Non-Executive Director – Michael Nott – Nott is a geologist and mining engineer by profession who has thirty five years' experience in the mining, minerals and quarrying industries. His management and executive experience covering exploration, underground mining, surface operations, environmental studies, permitting, strategic planning and operational and commercial management in significant mineral industry operations and international consulting. His early career was based in Zambia which included nine years with Roan Consolidated Mines Ltd. Nott was a Regional Manager for Pioneer Aggregates (UK) Ltd then an Australian Company and later a Director of Jay Minerals Services Ltd, Hills Aggregates Ltd, becoming Trading Director of ARC (Southern) Ltd and Production Director of C White Ltd. He is currently Chairman and Managing Director of AIM-listed Alba Mineral Resources plc and a Director and CEO of Magyar Mining Ltd.

Non-Executive Director – John Watkins – Watkins is a Charted Accountant and a former partner of Ernst & Young and Neville Russell. He is a Director of Starvest Plc (which is a substantial investor in Regency Mines), Red Rock Resources Plc and Greatland Gold Plc. He is the Chairman of PLUS-quoted Lisungwe Plc and Equity Resources Plc.

Non-Executive Director – James Ladner – Ladner is a Swiss citizen who is a graduate of the University of St Gallen in economics and business administration, who has more than forty years' experience in the finance industry. After twenty eight years at Coutts Bank (Switzerland) Ltd, where he was an Executive Vice-President, he was for nine years Chairman of Bank Austria (Switzerland) Ltd. Ladner has also served as a director of Royal Bank of Scotland AG, Interallianz Bank AG, Asahi Bank AG, F. Van Lanschot Bankiers (Switzerland) Ltd, Atlantic Finanz AG, Immofonds, Verit Immobilien, and Ahold Finance Group. He was a Member of the Swiss Admissions Commission for listing on the Swiss Stock Exchanges, and of the Swiss Capital Market Commission of the Swiss National Bank. Outside Switzerland, he has served as Director of a number of companies, including StrataGold Corporation, Pan Pacific Aggregates plc, Colombia Gold plc, and Nevoro Inc. He is currently a Director of Oracle Energy Corp., Colt Resources Inc, Royal Coal Corp. and Ardent Mines Inc.

Significant shareholders

Shareholder	Holding (%)
Regency Mines Plc	20.96
TD Waterhouse Nominees (Europe) Ltd	9.39
Barclayshare Nominees Ltd	9.01
HSDL Nominees Ltd	8.19
L R Nominees Ltd	5.06
James Capel Nominees Ltd	3.72

Financial results

Year to 30th June £	2011	2010
Revenue		
Management services	**64,076**	8,956
Sale of minerals	**878,535**	
Total revenue	**942,611**	8,956
Gains on sales of investments	**1,215,666**	519,636
Gains on sale of exploration assets	**169,322**	3,527,968
Profit on transfer of investment from associate	**14,238,297**	2,018,255
Cost of sale of minerals	**(1,463,251)**	-
Gain on dilution of interest in associate	**252,947**	259,174
Impairment of investment in associate	**(70,298)**	(89,601)
Impairment of available for sale investment	**-**	(20,090)
Financial assets at fair value through profit and loss	**3,647,104**	-
Exploration expenses	**(781,169)**	(197,622)
Administration expenses	**(3,487,603)**	(638,658)
Share of losses of associates	**(386,228)**	(519,220)
Finance costs	**(42,637)**	(69,241)
Profit/(loss) for the year before taxation	**13,973,537**	4,754,557
Tax (expenses)/credit	**(3,713,553)**	(1,299,187)
Profit for the year	**10,259,984**	3,455,370
Profit/(loss) for the year attributable to		
Equity holders of the parent	**11,924,606**	3,455,370
Non-controlling interest	**(1,664,622)**	-
	10,259,984	3,455,370
Earnings per share attributable to owners of the parent:		
Earnings/(loss) per share – basic	**1.78p**	0.65p
Earnings/(loss) per share – diluted	**1.71p**	0.62p

Valuation and Conclusion

In seeking to place a valuation on Red Rock we have looked at the company's various interests and assigned a valuation using a variety of methods which are discussed below.

Red Rock holds 74.2 million shares in JML which equates to a 4.99% stake. With the shares trading at 32.5 cents, this holding is worth A$24.11 million (£15.67 million). The share price has been as significantly higher and with Tshipi due to come strongly on stream in 2012 this might mark the bottom for this share price.

When Red Rock vended its licence interests in Western Australia to JML it retained a 1.5% gross production royalty over the Mt Ida magnetite project. A Scoping Study on the project which has a declared JORC Inferred Resource of 53 million tons at 31.94% iron was announced in March 2011 demonstrated that this project was economically robust with a Net Present Value of A$1.685 billion. The assumptions used were a 20 year mine life for a 25 million tonne per annum project producing 10 million tonnes of magnetite concentrate annual at $110 per tonne. On that basis Red Rock would receive $16.5 million a year. However JML's CEO has been talking about a 30-45 million ton a year project.

Obviously this could represent a substantial income stream but to get an idea what it might be worth today; we have compared Mt Ida with the Isua Project in Greenland. In August 2011, London Mining announced that it had entered into a royalty agreement with Anglo Pacific concerning future iron ore production at Isua. The bankable feasibility study is considering a 15Mtpa open pit and processing operation with a 15 year initial life of mine and with production scheduled for 2015. Anglo Pacific is to pay $30 million in return for a 1% royalty of iron ore concentrate sales.

Isua offers a good parallel as it is of a similar scale to Mt Ida. It has to be argued that the WA is a far more attractive area than Greenland. WA is far closer to the markets, has a port, water power and lies in an established mining area; and Mt Ida would also have the backing of large shareholders that have a history of putting big projects on stream. So it can be seen that even without the decision to be mined such assets can an impressive royalty-based valuation. Red Rock has a 1.5% royalty on the future production of Mt Ida and so it does seem hard to place a valuation of $45 million (£28.7 million) this royalty. It is not known whether the company is seeking to sell part/all of this royalty; but at the moment it sits in the books and is assigned no value.

In Colombia, Red Rock has acquired a 51% stake in the El Limon and El Mango gold mines. The level of production is currently about 500 oz per month and the target is for daily production to rise to 150 tonnes per day at an average grade of 11g/t gold which equates to 48 ounces per day or 17,000 ounces per annum. At the current level total production costs are estimated to be in the $900 to $1000 per ounce range. Looking at a conservative gold price of $1,500 this suggests cash flow of [$13.6] million annually. It is not difficult to place a valuation on these gold mining interests of 5 times cash flow which equates to $68 million; where a 51% stake is worth $34.7 million (£22.1 million).

At Kansai in Kenya, Red Rock has essentially farmed into an asset acquiring a 15% interest for $750,000 which has given them the rights to manage the project and take this interest up to 60% on funding the project through to a bankable feasibility study; and the deal allows for Red Rock to be paid for the development and exploration work 100% out of the initial revenue. The company also has 35% stake in the joint venture partner and so overall has a stake of close on 75%. The JORC resource totals 1.268 million ounces and a new resource estimate is expected from drilling the key areas again, plus a bit of infill drilling and drilling between those areas. We valued this interest using peer comparisons assuming that Red Rock had net attributable ounces of 950,000 ounces of gold which at £27.32 per ounce gives a figure of £25.95 million.

Peer group comparisons African gold exploration companies

Company	Enterprise Value (£m)	JORC resource contained gold (oz)	EV/oz (£/oz)	Country of operation
Azumah Resources (ASX:AZM)	76.72	1,200,000	63.93	Ghana
African Consolidated Resources (AIM:AFCR)	9.64	1,030,000	9.36	Zimbabwe
Chalice Gold Mines (ASX:CHN)	37.86	840,000	45.07	Eritrea and Australia
GoldStone Resources (AIM:GRL)	8.48	405,600	20.91	Ghana
Hummingbird Resources (AIM:HUM)	47.31	1,765,000	26.81	Liberia
Nyota Minerals (AIM:NYO)	18.11	1,460,000	12.40	Ethiopia
Shanta Gold (AIM:SHG)	52.41	2,618,445	20.01	Tanzania
Volta Resources Inc (TSX:VTR)	63.66	3,172,000	20.07	Bukina Faso, Ghana and Mali.
		Average	**27.32**	

Source: Growth Equities & Company Research

Looking at Ascot Mining, the company has £1.5 million convertible bond with a 10% coupon which converts into shares at 20p, plus 9.5 million warrants plus 1,530,00 ordinary shares. With the share price of Ascot standing at 23.5p, this holding is worth £3.22 million.

Red Rock holds 13.98 million shares in Resources Star which equates to a 26.9% stake. With these shares currently trading at AS0.03, this holding is worth A$0.42 million (£0.27 million). Plus the company has options which seem out of the money at present.

The holding in Cue Resources consists of 16.298 million ordinary shares which are currently trading at C$0.03 worth C$0.49 million (£0.30 million) plus 15.798 million warrants which currently are out of the money.

Sum–of-the-parts valuation of Red Rock Resources

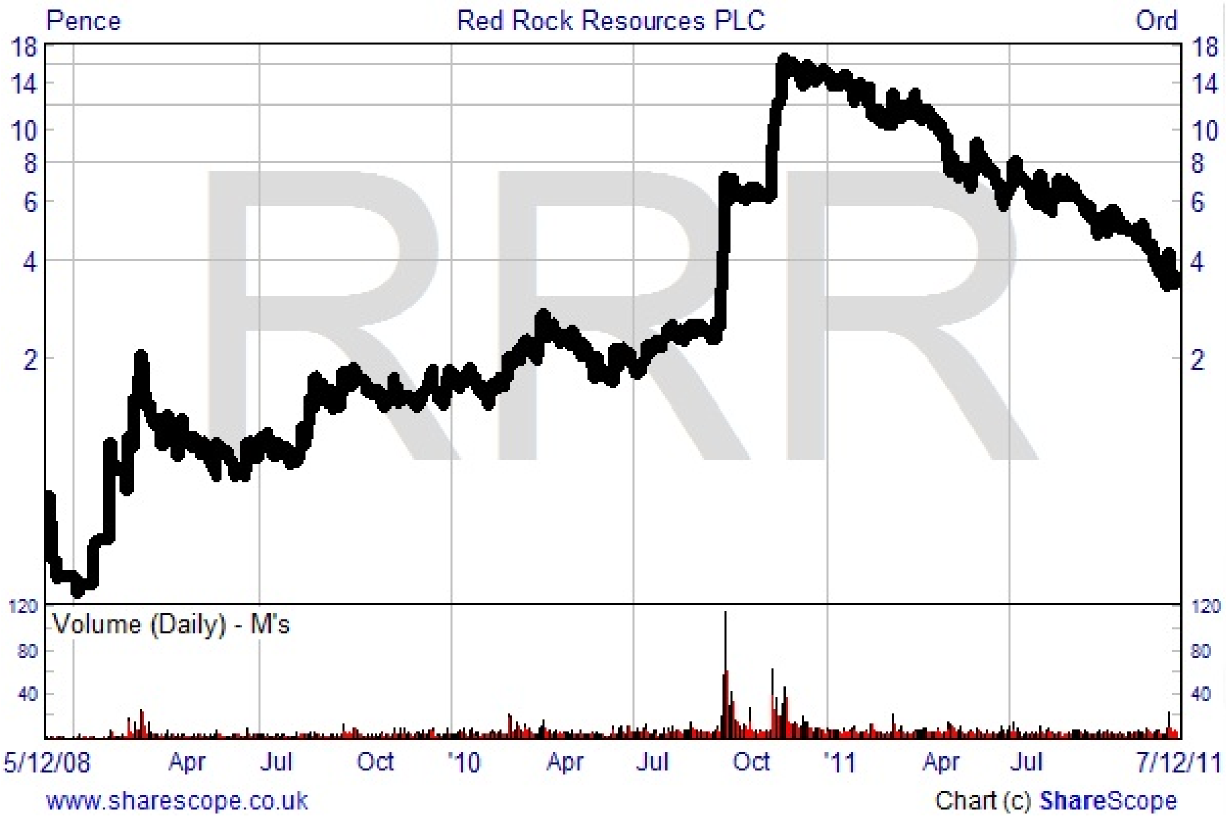
Asset	Valuation £million
Jupiter Mines Limited - shareholding	15.7
Jupiter Mines Limited – NPV from royalty	28.7
Colombia - El Limon and Machuca gold mines	22.1
Kenya – peer comparison of resource	25.9
Ascot Mining – loan note, shares and options	3.2
Resource Star – 13.98m shares	0.27
Cue Resources 16.30m shares and 15.798m warrants	0.30
Regency Mines 17,900,000 shares @ 1.78p	0.32
Cash	0.27
Debt	(8.7)
Total	**£88.0m**

Our sum of the parts valuation takes all the items discussed above and the debt into consideration to determine a valuation for £88.0 million for Red Rock which equates to a share price of 12.0p using the current issued shares of 730.76 million. GECR are re-initiating coverage of Red Rock with a recommendation of **Speculative Buy** and a 12p target price.

Forecast table

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	5.2	0	0.0
2011A	943	13,974	1.78	1.9	0	0.0
2012E	5,000	15,000	1.90	1.8	0	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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