Growth Equities & Company Research

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Red Rock Resources* - Gold Focus with Further Value from Iron Ore, Uranium and Manganese. Buy with 6.1p Target Price

Key Data	
EPIC	RRR
Share Price	2.075p
Spread	2p - 2.15p
Total no of Shares	583.9 million
Market Cap	£12.3 million
Net Cash	£500,000 (est)
12 Month Range	0.95p - 2.73p
Market	AIM
Website	www.rrrplc.com
Sector	Mining
Contact	Andrew Bell, Chairman & CEO Tel: +44 (0)20 7402 4580

Having started with iron ore and manganese, and added uranium, AIM listed mining investment house Red Rock Resources has floated off these original assets and settled on gold as its investment of choice. While iron ore, uranium and manganese still feature in the company's portfolio as investments in associates, Red Rock believes gold's scarcity and desirability offers the best return for its shareholders.

Headlining Red Rock's portfolio of gold assets are the Migori gold project in Kenya and the El Limón mine in Colombia. Migori has 1.171 million ounces of gold currently defined with 2 million ounces targeted. El Limón is a narrow vein deposit, so lacks a defined resource, but the mine has been operational for 60 years and Red Rock believes it can significantly improve the currently inefficient operation.

23.18% owned Jupiter Mines is exploring for iron ore in the Yilgarn region of Western Australia, but is currently in the process of acquiring a 49.9% stake in the 163 million tonne Tshipi Kalahari manganese project in South Africa. Resource Star (26.3% owned by Red Rock) is focused on uranium in the Northern Territory of Australia, while Cue Resources (15.8%) is exploring for the same commodity in Paraguay. Finally, a 35.2% stake in Kansai Mining gives Red Rock exposure to diamonds and gold in Venezuela and an indirect interest in Migori.

Red Rock has a supportive shareholder base which, along with careful financial management, has allowed the company to remain debt free. Our sum of the parts valuation generates an initial target price of 6.1p, but with major upside from Migori and El Limón in particular, together with our own conservative assumptions, this could be underselling the company. At 2.075p, **buy** with 6.1p target price.

Year to 31st Dec	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2008A	1.32	(0.15)	(0.06)	NA	0	0.0
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Background

Red Rock shares were listed on AIM in July 2005 with the company raising £476,000 at 2p with the intention of developing a portfolio of iron ore and manganese properties in Western Australia and Tasmania. The following five years has seen it raise money on a number of occasions but, unlike many of AIM's mining juniors, Red Rock now has a credible portfolio of assets and is starting to realise value for shareholders.

Red Rock's relationship with Jupiter Mines Ltd began on the 22nd of May 2006 when it granted Jupiter an option over its Mt Ida and Mt Hope tenements in exchange for A$40,000 in cash and an undertaking from Jupiter to spend at least A$250,000 on exploration across the sites. Since then Pallinghurst Resources Australia Ltd has entered into an agreement with Red Rock where the two would take a controlling interest in Jupiter in exchange for a combination of asset vending and cash. In July 2009 Jupiter brought POSCO into the frame with a significant placing of stock to the South Korean steel producer, which was also granted an off-take agreement to purchase up to 50% of Jupiter's iron ore production. Finally in March 2010, Jupiter announced that it was in negotiations to buy a 49.9% interest in the South African Tshipi Kalahari Manganese project in exchange for 1,160,363,867 new shares.

In August 2007 Red Rock sold its wholly owned Australian uranium exploration subsidiary Orion Exploration Pty Ltd to Retail Star Limited for a package worth A$1.5 million and comprising ordinary shares, options and A, B and C performance shares. Retail Star Limited changed its name to Resource Star Limited in July 2008 as the company focused its activities on exploration and mining. On the 17th of August 2009, Red Rock acquired its 15% stake in the Mid Migori Mining Company Limited with an earn-in agreement to increase this to 60% upon the production of a bankable feasibility study (BFS) within 6 years of this agreement. Total consideration for the 15% stake was $350,000 cash and $375,000 worth of Red Rock shares. At the time of acquisition Mid Migori had already defined an Indicated Resource of 1,171,000 ounces gold at its Migori Gold prospect in Kenya. Kansai Mining Corporation was the seller and is the owner of the remaining shares in Mid Migori. Red Rock also owns a direct interest in Kansai, having acquired the rights to 35% of the issued shares in 2009.

Red Rock's interest in Cue Resources came with the acquisition of 9,898,000 shares on the 2nd November 2009 in exchange for C$989,000 (£565,000) in cash. The agreement also saw Red Rock acquire 9,898,000 warrants convertible into the same number of shares at a price of C$0.15 on or before 1st November 2011.

The company’s most recent investment was announced on the 10th of June 2010 when it entered into an agreement with Colombian gold mining company Mineras Four Points SA. The agreement saw Red Rock providing a $2 million loan to Mineras in exchange for the provision of consulting and technical support and two options to acquire up to 51% of the Colombian company. The loan, with $1 million already drawn down and the remaining $1 million expected to follow within 3 months, was made at an interest rate of 5% per annum and is repayable by the 30th June 2013. The consultancy support service is for a minimum of 20 days a month and will provide Red Rock with a total of $2.96 million in fees during the length of the agreement (1st of September 2010 to the 30th June 2013). The first of the two options is to acquire 50% of Mineras’ shares for $6.5 million within 2 years, while the second expires in 3 years time and allows Red Rock to acquire 1% of Mineras’s shares for $1 million.

Operations

Jupiter Mines Limited (23.18% or 5.35% if Tshipi acquisition proceeds)

ASX listed Jupiter is currently involved with iron ore, manganese and gold in Australia but, with the purchase of a 49.9% stake in the South African Tshipi Kalahari manganese project in progress, Jupiter’s value driver is likely to shift continents. Jupiter has understandably prioritised the Tshipi transaction, but has also flagged its intention to fast track exploration at its other projects in the Central Yilgarn, Australia.

The Tshipi project is wholly owned by Tshipi e Ntle Manganese Mining Limited, itself owned by Ntsimbintle (50.1%) and Pallinghurst Co-Investors (49.9%). Jupiter is set to acquire Pallinghurst’s entire 49.9% stake in exchange for 1,160,363,867 new shares in Jupiter (valued at A$245 million). Tshipi is located in the Kalahari basin and adjacent to Samancor’s (BHP) Mamatwan mine currently producing 3 million tonnes of manganese ore per annum. Tshipi has a SAMREC compliant resource estimate of 61.82 million tonnes at 37.07% Manganese in the Indicated category and 101.41 million tonnes at 37.11% in the Inferred category. A feasibility study estimated that $200 million in capital expenditure was necessary to establish an open cut operation producing 2 million tonnes of lumpy manganese product each year for at least 28 years. Development of the mine is scheduled to commence this year with production anticipated by 2013.

Jupiter’s other main asset is the Central Yilgarn Iron project covering the Mt Mason, Mt Hope, Mt Ida, Mt Alfred and Walling Rock tenements in Western Australia. Of the 5 targets, only Mt Mason has a defined resource (5.75 million tonnes at 59.9% iron), but both Mt Ida (2,101 metres) and Mt Alfred (1,195 metres) have recently had RC drilling completed, with follow up exploration planned.

At Mt Ida a conceptual resource of up to 1.3 bn tons of high grade magnetite in a flat-lying horizon with a low stripping ratio has been identified for follow-up exploration, with the object of declaring a Inferred or Indicated Resource (Red Rock holds a 1.5% direct royalty interest in this discovery).

Resource Star Ltd (26.3%)

Having penned a deal with then ASX listed Retail Star in August 2007 to transfer all of Red Rocks uranium licences in the Northern Territory of Australia in exchange for 24% of Retail Star's capital, the two companies became closely linked. Today the renamed Resource Star has exploration assets in the Northern Territory, Tasmania, Western Australia and Malawi.

The wholly owned Edith River uranium project and the joint ventured Machinga niobium-rare earths project are the company's main assets located in the Northern territory and Malawi respectively. Edith River has a number of historical uranium occurrences and Resource Star has estimated a 40 kilometre strike length after spot spectrometer readings averaged 295 ppm U3O8 at three historical sites. The company recently flew in excess of 3,250 line kilometres of detailed airborne geophysics over its Northern Territory licences, refining its existing targets and identifying new ones. Mapping and sampling of these targets have commenced, while follow up drilling is also planned for later in the year.

Machinga is a joint venture with Globe Metals & Mining which is currently earning a 20% equity interest in the project through its management and funding of the project's exploration work. In addition, Globe can earn up to 80% by funding all activity up to and including a feasibility study. Thus far Globe has identified three separate zones of high-grade heavy rare earth oxide mineralisation ranging in widths of 5–7 metres and highlighted an intersection of 7 metres at 1.3% TREO (total rare earth oxides). Drilling continues as the company looks to define a deposit capable of supplying the strong demand from Japanese motor vehicle manufacturers who are currently seeking long term primary supplies of dysprosium, an element used in hybrid cars and found in high grades at Machinga.

Cue Resources (15.8%)

TSX-V listed Cue Resources holds 100% of the rights to the Yuty uranium project in south eastern Paraguay through its wholly owned subsidiary Transandes Paraguay SA. The project area covers 230,650 hectares and includes a defined resource at San Antonio as well as a number of other prospective targets.

In May 2009, Healex Consulting defined an indicated resource of 9.0 million tonnes at an average grade of 0.042% U3O8 (8.3 million pounds of contained U3O8) and an inferred resource of 1.1 million tonnes at 0.050% U3O8 (1.2 million pounds of contained U3O8) at the San Antonio zone. Lab testing recovered up to 96.7% of the material, while column leach tests using sulphuric acid recovered 86%. Healex recommended that Cue performed additional test work to confirm the deposit's capability to host an in situ recovery method and expand the resource through further resource drilling. Further drilling was also recommended at the area's other targets including Yarati-í, San Miguel, Typychaty, Santa Barbara-San Pedro, Yataity and Tapyta.

Cue is virtually debt free and has developed strong relationships with senior political figures in Paraguay. The company has a 20 year exploration and exploitation licence and will be announcing the next phase of its operations shortly.

Mid-Migori Mining Company Limited (15% with option to increase to 60%)

The owner of the beneficial title and mining rights to the Migori gold project in Kenya, Red Rock is able to increase its stake to 60% through the completion of a bankable feasibility study within 6 years of the 14th of August 2009 – the agreement signature date. Migori's two contiguous special prospecting licences of SP202 and SP122 cover 310.5 square kilometres and together have a NI43-101 compliant Indicated Resource of 1,171,000 ounces of contained gold.

NI43-101 Indicated Resource	**Ore (tonnes)**	**Gold Grade (g/t)**	**Contained Gold (ounces)**
Kakula-Kalange-Munya	22,000,000	1.0	679,000
Gori Maria	8,600,000	0.9	240,000
MK	1,444,000	2.32	108,000
Nyanza	842,000	5.32	144,000
TOTAL	**32,886,000**	**1.0**	**1,171,000**

In addition to the ore identified above, 67,000 ounces of gold has been estimated as existing in the tailings of the closed Macalder mine. A drill programme aimed at increasing the total resource to 2 million ounces of gold was left unfinished in 2007 after Presidential election instability saw the drill company withdraw its rigs.

Red Rock has been aggressively exploring the Migori licence and recently announced pleasing results from its hand grab sampling and December 2009/January 2010 RC drilling programme. 35 hand-grab samples were collected from the underground artisanal workers at the Macalder gossan with 12 samples returning 1 – 5 g/t gold, 14 samples 5-20 g/t gold and 1 sample of 38.5 g/t gold. At the Macalder mine 38 holes were drilled on a 50 metre x 50 metre spacing with 191 sulphide samples returning average grades of 1.56 g/t gold and in excess of 16.78 g/t silver, while the 156 calcine samples returned average grades of 1.85 g/t gold and in excess of 20 g/t silver.

Longer term, great potential is seen for exploration of a greater variety of targets including the boundary of the shear zone with the banded iron formations. The succession of multi-million ounce discoveries south of the Tanzanian border, now mainly held by AngloGold and Barrick, including Geita, Bulyanhulu, North Mara, Golden Pride and Buzwagi has lessons for future exploration approach at Migori, which has at least equal potential.

Kansai Mining Corporation (35.2%)

Currently suspended from trading on the TSX-V due to the company's failure to file its accounts, Kansai is involved in diamond and gold projects in Venezuela and Kenya. Compania Minera Adamantine CA is a wholly owned subsidiary holding two diamond licences in south west Venezuela. The Natal I and II concessions cover a combined 6,368 hectares in the Guaniamo diamond province and expire in 2013. The company is in good standing with the Venezuelan Government and operates in a low cost/high skilled operating environment.

Kansai's gold asset in Kenya is the remaining stake in the Mid-Migori Mining Company. Having negotiated Red Rock's farm-in in August 2009, Kansai is now benefiting from the progress brought about by its new partner's exploration work.

An audit of its Kenyan asset has been completed, but those in Venezuela are outstanding. While the apparent lack of audit urgency is frustrating, the stock still represents value to Red Rock which is content to maintain its investment for now.

Mineras Four Points SA (options to acquire up to 51%)

Mineras owns the exploration and mining rights to two properties in the north eastern Colombian province of Antioquia. The El Limón underground gold mine has been in production for 60 years and is currently producing at an average monthly rate of 15.3 kilograms of gold (108 tons of ore), 420 metres below surface. Mineras will use the proceeds of Red Rock's $2 million loan to upgrade the surface plant to produce at an initial rate of 100 tons per day (3,000 tons per month) and, with further expansion and another ball mill, on to a rate of 250 tons per day (7,600 tons per month).

Being a narrow vein deposit, the estimation of a resource is impractical and thus Red Rock plans to get a better idea of the resource potential during the normal course of mining. The vein has historically hosted 36-40 g/t gold, and even with the relative inefficient mining methods previously employed, has yielded a head grade of 15 – 17 g/t. The implementation of new techniques, better equipment and a better trained workforce should see the head grade increase to in excess of 20 g/t which, at the initial 100 tpd target production rate would see 70 ounces of gold produced per day (60 kg per month).

Red Rock expects that the gradual upgrade of machinery at El Limón will sequentially reveal process bottlenecks, but the addition of another ball mill will give the operation a theoretical capacity of 250 tpd. With the $2 million loan being used as working capital, Red Rock's optioned investment is being developed without any obligations for Red Rock.

The second property is named La Aurora and has a shaft sunk to 180 metres. With a transformer and pump recently acquired, mine development should begin shortly. Being a mere 30 kilometres south of El Limón, initial production will be transported 30 kilometres along the well maintained road for treatment.

Strategy

Red Rock's current strategy is to assist in the management of exploration and bring in partners to take projects forward as they prove themselves. While the senior Red Rock team has mining experience, Red Rock's financial and staffing limitations mean day-to-day project involvement is only feasible on easily controlled projects where the management is convinced risk is low and operations are within their area of expertise. However, with Red Rock being a major shareholder in each of its investments, it does maintain a more active involvement than would a pure financial investor.

With a reputation as a company willing to take the right risks if indeed these risks are manageable and the rewards are appropriate, Red Rock continues to be presented with potentially interesting new projects and challenges. While the company was satisfied to focus on protecting the growth in shareholder value expected to come from the maturing of its existing portfolio, the Mineras Colombian opportunity was exceptional and strategically analogous, thus, despite its apparent contentment, Red Rock is always willing to entertain new opportunities.

As an asset trader, at some point in the future Red Rock may have surplus capital and, in the absence of a suitable destination, has flagged the possible return of capital to shareholders. However, while there remain investment opportunities whose expected returns exceed the cost of equity capital, Red Rock will continue to invest.

SWOT Analysis

Strengths

Exciting commodity mix – while Red Rock has repositioned itself as a gold company, its exposure to other metals, including iron ore and uranium, offers a degree of diversification and a means of benefiting from the global economic recovery and a possible power supply solution respectively.

Diversity of Investments – Red Rock is diversified in the resources its investments are involved with, their stage of development and the regions in which they operate. Gold, diamonds, uranium, manganese and iron ore; exploration, development and production; Africa, Australasia and South America. Diversification reduces risk and smooth returns.

Gold focus – having repositioned itself as a gold company, and with El Limón already in production, Red Rock is well positioned to benefit from the continued strength in the gold price.

Debt free – while Red Rock makes its cash work hard, it has avoided the use of debt and thus remains unburdened by constant loan repayments.

Weaknesses

Discount to NAV – investment companies will rarely trade at a premium to their net asset value and thus Red Rock's growth is tied to the performance of its investments. With minority holdings in each of its investments, the company is only indirectly in control of its short term performance.

Lack of majority ownership – Red Rock only has an option to gain majority ownership in its two gold investments and, while significant shareholder status brings a degree of influence, co-operation from other shareholders is required to make real changes. Co-operation is never guaranteed and thus enacting change can be lengthy and frustrating if possible at all (eg Kansai).

Reliance on external funding – while the company reported a £2.3 million net profit in the 6 months to 31st December 2009, and the profitable trading of assets is in theory an infinitely repeatable strategy, in reality Red Rock remains reliant on external funding.

Opportunities

El Limón production – currently producing at a rate of 4 tons per day, Red Rock expect its $2 million loan to provide the funds necessary to increase this figure to 100 tpd in the short term. Beyond this, the installation of a new ball mill will provide the capacity to increase production to 250tpd.

Migori resource upside – with 1.171 million ounces of gold already defined, Red Rock is now targeting a 2 million ounce resource. We would expect that the definition of a 2 million ounce resource would then be the catalyst for development, with work then focusing on upgrading rather than expanding the resource.

New geographical destination – having now gained a foothold in South America through its involvement with Mineras, Red Rock sees this as a potential launch pad from which it can increase its exposure in the continent.

Threats

Resource risk and economic discoveries – common resource exploration / development risks can only be mitigated with careful planning and judicious research. Even before the logistics of extraction occur, an explorer bears the risk of not just finding valuable material, but also whether mining that material justifies its cost.

Overly committed – while diversification is generally a good strategy in reducing risk and increasing returns, it is possible to have too much of a good thing and find one's self spread too thinly to be able to effectively manage the portfolio. While multiple equity interests are more than manageable for a small team, when a company undertakes its own mining projects, it is easy for the same team to get stretched beyond comfort.

Other resource sector risks – unfavourable changes to legislation, permitting risk, social unrest and infrastructure capacity are all examples of other threats experienced throughout the resources sector.

Directors

Chairman - Andrew Bell, MA, LLB, FGS. Having begun his career as a natural resource analyst with Morgan Grenfell & Co, Bell subsequently gained experience in fund management, corporate advisory, corporate finance and private equity. Based in London, he is currently a director at Jupiter Mines Ltd and chairman of Regency Mines plc and Greatland Gold plc.

Director - Manoli Yannaghas, BA. Currently a Non-executive Director on the boards of a number of small companies, Yannaghas is a former financial analyst and former director of ASX-Listed Resource Star Ltd. Having worked for the past 10 years in various operational capacities within small and medium sized businesses, Yannaghas is also adept at team building, management, fund raising and other corporate finance activities.

Non-executive Director - Michael Nott, BSc, MSc, FIMMM, FIQ, FMES. CEO of private company Magyar Mining and Managing Director of Alba Mineral Resources plc, Nott has 34 years of experience in geological, engineering and management roles. Previous roles include a decade with Roan Consolidated Mines as well as several other mining companies in Zambia, managing aggregate quarrying operations and then senior roles with ARC Southern Ltd and Hills Aggregates Ltd.

Non-executive Director - John Watkins, FCA. Current chairman of PLUS listed mineral explorer Lisungwe and director of AIM listed Starvest and Regency Mines, Watkins is a qualified chartered accountant and former partner at Ernst & Young and Neville Russell.

Non-executive Director - Robert Weicker, BSc, PGeo. A 25 year veteran of the mineral exploration and mining industry, Weicker has experienced the whole resource lifecycle from greenfield exploration to production, and served as a director of several TSX-listed companies. Previous appointments were with Noranda and Lac Minerals in Canada, where he became chief geologist of the latter's Williams gold mine, before moving on to the development of zinc and gold mines at other Canadian companies.

Shareholders

Red Rock Resources currently has 583,908,812 ordinary shares in issue. Those shareholders with a significant holding (3%+) are as follows:

Name	Shares	Percentage
Regency Mines Plc	141,598,000	23.64%
TD Waterhouse Nominees (Europe) Ltd	53,578,396	8.95%
Barclayshare Nominees Ltd	39,463,913	6.59%
HSDL Nominees Ltd	37,999,933	6.34%
Hargreaves Lansdown Nominees Ltd	28,031,527	4.68%
LR Nominees Ltd	24,000,617	4.01%
Rock Nominees Ltd	19,239,974	3.21%
Share Nominees Ltd	18,389,116	3.07%
Sunvest Corporation Ltd	18,037,500	3.01%

Red Rock also has a number of options In Issue with 5 million exercisable at 3.5p before 11th May 2012, 7.5 million exercisable at 1.25p before 31st May 2011, and 10 million exercisable at 1.1p before 3 June 2014.

Valuation

Our valuation of Red Rock is based on a sum of the parts model comprising market valuations of its stakes in Jupiter Mines, Resource Star, Cue Resources and Kansai Mining, a risk weighted in-situ valuation of the Migori Gold Project and an operating valuation of Mineras' El Limón mine. Throughout our valuation, our exchange rate assumptions are AUD/GBP $1.70, USD/GBP $1.30 and CAD/GBP $1.50.

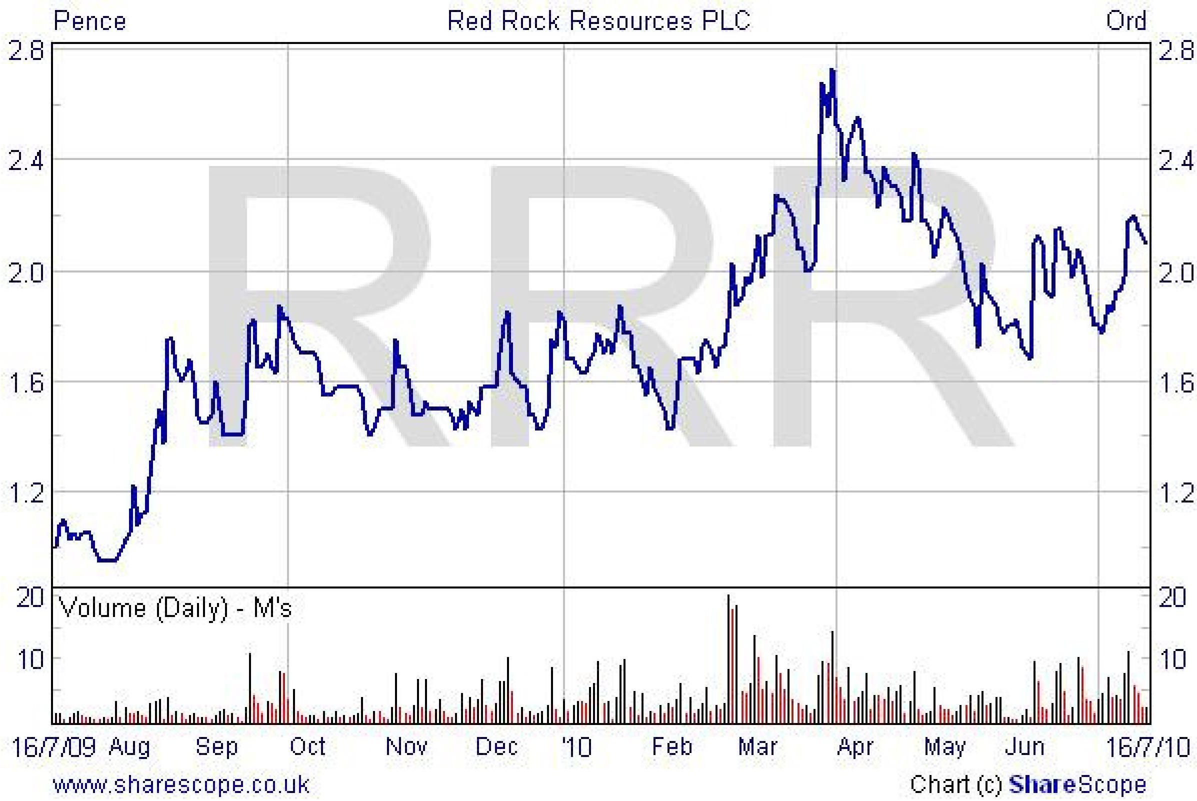
Beginning with Red Rock's shares in Jupiter, Resource Star, Cue Resources and Kansai, using each company's recent share prices (although Cue's price is the C$0.10 it last placed funds at before its delisting) and multiplying by the number of shares held in each, we value Jupiter (pre Tshipi acquisition) at £13.4 million, Resource Star at £0.47 million, Cue at £0.43 million and Kansai at £2.6 million.

Migori's 1.171 million ounce resource is valued at £6.97 million after attributing a $1,000 per ounce gold price, 2% in-situ value and deducting an estimated $5 million in cost for the BFS necessary to take Red Rock's interest to 60%.

Finally, our valuation of Mineras is based on conservative assumptions about the operation at El Limón. In the absence of a resource estimate, we have assumed a 3 year mine life. Further assumptions are that Red Rock exercises its options to acquire 51% of the company for $7.5 million, that production is a flat 100 tpd with 20 g/t head grade and that operating costs are $350 per ounce of gold (the operation has operated at $300 - $330 /oz in the past). At a gold price of $1,000 / oz Red Rock's 51% share of cash flows would be $8.5 million per annum. Adding consultancy fees of $2.96 million (split $0.8 million, $1.08 million and $1.08 million in each of the 3 years) and discounting by 12% per annum, we value Red Rock's expected 51% interest in Mineras/El Limón at £11.8 million.

Combining our valuations of Red Rock's investments and dividing by the 583.9 million shares in issue we arrive at a target price of 6.1p per share. Major upside comes from any number of factors increasing gold output at El Limón (eg higher head grade, increased mining rate, mine life greater than 3 years), a larger and upgraded resource at Migori and increased share values for each of the other investments.

Red Rock's current share price is backed by the market value of its stake in Jupiter alone so in essence, the remaining portfolio is a bonus. These 'bonus' assets have tremendous upside and while their worth might be hidden by their inclusion in a wider portfolio, Red Rock has no end of options to realise their value. At 2.075p, **buy** with target price of 6.1p.



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