REDROCK RESOURCES

Newsletter

16th August 2016

Dear Shareholders and Colleagues,

It is some while since our last newsletter, but our announcements to the market leave a lot of context out, and RRR cannot expect readers of them to become RRR anoraks who remember everything, and cross check through old announcements, interim reports and website material to piece together the full picture. Sometimes a bit of background from us is helpful in reminding shareholders of the broader picture.

When we see RRR, despite its slight price uptrend since late last year, still languishing on a market valuation of £1.68m, we know how much work we still have to do to gain the full confidence of the market.

So on to today's announcement.

Revenues from Colombian Milling Ltd

When we completed in May 2015 our sale of direct and indirect interests in the El Limon mine in Colombia to a private company, Colombia Milling Limited, it was for a mixture of cash instalments, a US$1m Promissory Note, and royalty payments on future production. It was provided that on any sale of the assets into a public vehicle the PN would be convertible into stock at the IPO or last placement price.

Earlier plans by the buyers to put the assets into a listed entity at the time of sale had proved to have too many moving parts, so initially the transaction was carried out by a private buyer entity, but it remained their intention to list the assets, which was obviously necessary if the operation was to be funded going forward in such a way that it could grow. We felt that in that event we should be able to revert to the earlier form of the deal, by having liquidity for our US$1m, and the same upside as other funders, which would be achieved by conversion. As a quid pro quo, it was agreed that the buyers would have the right to redeem early.

As the buyers sold Colombia Milling (CML) into Para Resources Inc (Para), which they run, in several stages, we raised the matter of the point at which the conversion right was deemed to be triggered, as we had not received the 60 day notice that was required if this were about to occur. We did not receive any responsive reply. Today, 100% of CML is owned by Para, so it appears evident to us and our advisers that the conversion point has passed, albeit without notice. Accordingly, we have given notice of conversion, and stated that on our analysis the last placement price, being the price at which we were entitled to receive conversion shares, must be 12.5c plus a one-for-one warrant at 18c, or lower. We have notified our intention to go to arbitration, on the view that an attempt to resolve the matter by discussion had not met with any substantive response.

The price of Para is now 32.5c, with the company valued at C$37m, so that the value of the shares and warrants to which we were entitled has risen to at least C$2.6m + C$1.16m = C$3.76m (or £2.9m).

Para/CML has now, rather later than we might have hoped, offered to sit down and discuss a redemption of the PN, but our view is that that the redemption right was extinguished at the point at which we gave valid notice of the exercise of our right of conversion. We shall of course sit down and listen to them when they visit this month, in the hope that a quick settlement can be achieved, but have not, as you will note, put the resolution/arbitration process on hold.

Obviously we would expect to get US$1m in a redemption (though CML may be looking for a discount), while the issue to us of the Para stock to which we believe we are entitled would give us US$3.76m of present value, so there is a considerable gap between these two outcomes.

The PN has been something where we expected before these events to wait to 2018 for repayment, meanwhile receiving 5% interest p.a., so the range of outcomes likely today represents a massive change of expectation for RRR, and a very good one.

Meanwhile, as a separate matter, we are due US$225,000 this month as an instalment payment for El Limon, and our first gold royalty payment next month. This royalty will of course come a little later than hoped at the beginning of the year, only starting, as we have announced, on 1 May, but that is because the refurbishment of the mine and plant took a little longer than expected, so production resumed later. Production, as is usual with commissioning a new mine or new equipment, is stated by Para in its announcements to have started at low levels, but is expected by them to increase substantially in coming months.

Revenues from Shoats Creek

We began with 20% of the planned LM21 and 22 in Louisiana onshore, accessing cheap shallow oil. We then bought into LM20, already just drilled. We spoke of LM23 later this year. Well, we paid our money for LM21 under the AFE (authorisation for expenditure) but that hasn't been drilled yet, though the pad is prepared. As is obvious, things were a bit slow getting under way, with a team that was feeling its way at the operator (and has now been replaced), flooding of the site earlier in the year, and the normal debugging and learning process when a new well is brought into production.

The new management has found some low-hanging fruit where oil could be got cheaply and very quickly by completing or reworking old wells drilled under a former owner, and that is why we are in a couple of other LM wells, one producing. These have filled in the gap before LM21 gets under way, and have been a priority.

The first production cheque payment received, therefore, is not a fair representation of the size of regular payments we expect once production from these wells is in full swing. Steady progress should be seen from here, with a spread of producing wells reducing dependence on any one.

The expected contribution to revenues and covering our costs from steady production across a number of wells in the U.S. was an important component of our strategy at the beginning of the year. At that point the metals markets looked so weak that access to capital over coming years looked as if it might be so constrained that the value of shareholder equity could be diminished by the need to fund at low prices if we did not have a regular income source. Oil revenue can be turned on faster than gold royalty income or Jupiter Mines dividends, which have taken years.

An each way bet on gold and oil, with Jupiter in our back pocket as the one undeniable first class asset, looked a reasonable posture at the beginning of the year, in order to rebalance before advancing. Happily, the metal markets look much more prospective now.

Finally on another matter, not mentioned in the RNS, all in the public record, but overlooked.

Jupiter Mines Ltd

As most of you will know, through our shareholding in Jupiter Mines Ltd, now private but formerly listed on the ASX, we hold an interest in the Tshipi é Ntle manganese mine in South Africa, a leading producer with among the lowest costs and longest life of any manganese mine. This mine has been extremely successful since Jupiter and its partners brought it into production, and a good summary in just a few slides is given in Jupiter's AGM presentation, which we recommend reading. Slide 5 shows the manganese price chart, with the left hand scale showing US$ per DMTU (dry metric ton unit). To get the realised price for product FOB a South African port one must multiply that number by the percentage of Mn in the ore. So 38% Mn lumpy ore, a typical South African product, would if the price per DMTU was $2 be loaded at $(2 x 38 = 76) per ton FOB.

Late in 2015, as can be seen, the price suddenly collapsed below $2 per DMTU and went down to under $1.40 per DMTU in late January and into February. At that price all of the significant producers would have been in loss, by our reckoning, and so we anticipated, as did industry experts, a recovery to maybe $2.70 per DMTU by end-2016. The recovery to that level – and higher – in fact came within two or three weeks.

It was this, as well as the dip in oil prices to February WTI lows around $27 a barrel that convinced us that the price - and sentiment – lows for the commodity cycle might have been seen in February 2016.

After the sudden jump in the Mn price to over $3 DMTU, as destocking in China ended, there was some natural pullback towards $2 in Spring-Summer, but recently the price has risen again as the following table (top line) shows.


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Mn ore

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Choose Manganese Ore 38% FOB S.A. USD/dmtu More

From 2016 Y 5 M 17 D To 2016 Y 8 M 15 D OK

Item	Low	High	Latest	30-day	60-day	90-day	180-day	360-day
Manganese Ore -38% FOB S.A.	2.90	2.95	0.00%	25.00%	17.99%	5.90%	11.98%	30.23%
Manganese Ore -40% FOB Turkey	3.05	3.15	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Manganese Ore -50% EXW Zambia	0.97	1.02	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Manganese Ore -40% EXW India	9800	10200	0.00%	0.00%	0.00%	0.00%	0.00%	-0.29%
Manganese Ore -44% FOB Brazil	135	145	0.00%	0.00%	0.00%	0.00%	0.00%	-2.00%
Manganese Ore - Australian 46%min (BHP)	43.0	43.5	0.00%	12.78%	27.52%	30.50%	34.08%	57.77%
Manganese Ore - Australian 46%min (BHP)	42.5	43.0	0.00%	13.01%	28.26%	30.60%	33.34%	57.59%
Manganese Ore -S.A. 37%min (BHP) South China	31.7	32.2	0.00%	7.70%	14.96%	14.65%	16.93%	35.93%

Base Metals
Minor Metals
Ferroalloys
Rare Earths
Carbon Steel
Stainless & Special

Source: Asian Metal

At this level, the Tshipi mine as a low cost producer can make very good profits, especially after its cost-cutting in the last year, and some signs of the beginning of a better profit environment fed through to the first four months' figures of Jupiter's financial year (slide 7 of the presentation). The valuation used in the balance sheet (Slide 6) was arrived at as of end-February when over the previous few months the price had been hitting its lows, and inevitably to some degree reflected this. At that valuation RRR's stake in Jupiter's equity in Tshipi was worth A$2.15m. RRR's stake in Jupiter's cash was worth A$0.45m and in Jupiter's loans to Tshipi A$0.53m. So A$3.13m (or £1.84m) solid value at the bottom of the market.

The Tshipi mine is a very fine operation, and anyone doubting this should visit Tshipi's website. It is not unreasonable to expect the capital value here to increase as markets normalise, and to expect Jupiter to become a dividend-paying investment.

In conclusion, our RNS today dealt with two of our sources of income and the progress there. These are not our only assets, or our only income: Jupiter is another significant asset and one with great income potential. In this newsletter we have amplified a little, and in the course of doing so drawn attention to just two assets we hold that are perhaps not valued by the market: our Promissory Note, and our Jupiter shares, either of them as valuable as - and potentially much more valuable than – the company itself, to judge by market capitalisation.

With best wishes for a good Summer break,

Andrew Bell