Update

Edison investment research

6 April 2011

Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/09	0.1	(0.8)	(0.24)	0.00	N/A	N/A
06/10	6.1	5.1	0.62	0.00	16.9	N/A
06/11e	19.9	14.1	1.43	0.05	7.3	0.5
06/12e	34.9	27.4	2.15	0.05	4.9	0.5

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation and exceptional items

Investment summary: Falling into place

In the past six months, Red Rock has successfully negotiated a £16.5m increase in third-party funding, in both debt and equity form and with an additional £5m in convertible form under negotiation, which has allowed it to capitalise on its assets. Taking advantage of its opportunity, it has exercised options over 29.629m shares in Canadian-listed Kansai Mining Corp (netting the company a likely profit of C$10.4m in the process) and over 51% of the issued share capital of Mineras Four Points (MFP) in Colombia, thereby allowing it to take management control of the operation as it ramps up to 150tpd. In addition, it has optioned ground in Greenland, north-east of Baffin Island (which contains the Mary River iron ore deposit – recently the subject of a takeover by ArcelorMittal and Nunavut Iron Ore).

Jupiter into orbit

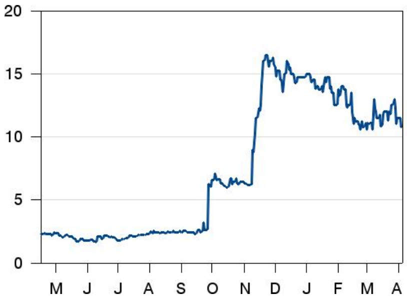
At the same time that Red Rock has been active, Australian-listed Jupiter Mines, in which Red Rock has a 74.2m (4.5%) shareholding, has announced that it has raised A$150m, of which A$40m is to fast-track its Mount Ida magnetite project (over which Red Rock has a 1.5% gross production royalty). Jupiter has declared a 530Mt maiden resource at Mt Ida at a grade of 31.94% (vs a target of 400Mt) and released the results of a scoping study indicating a project NPV of A$1,685m (equivalent to A$1.13 per existing JMS share) at an 8% discount rate.

Valuation: Potentially 60p per share

With 688m shares in issue, we estimate that Red Rock's liquid assets are worth 4.36p per share. Adding its Ascot Mining convertible loan stock holding and its Ascot warrant holding and assuming that MFP maintains its current processing rate of 30tpd increases this valuation to 11.23p/share. This increases again, to 25.09p/share, on the assumption that MFP attains a throughput rate of 150tpd (as planned) and that its holding in MMMC in Kenya re-rates in line with the average valuation of its gold resources. Including all other factors (see pages 10-11), we estimate that it could be worth as much as 61.02p/share.

Price	10.5p
Market Cap	£72m

Share price graph



Share details

Code	RRR
Listing	AIM
Sector	Mining
Shares in issue	688m

Price

	High	Low
52 week	16.5p	1.7p

Balance Sheet as at 31 December 2010

Debt/Equity (%)	3.9
NAV per share (p)	6.2
Net debt (£'000s)	1,629

Business

Listed on AIM in July 2005, Red Rock Resources is now a combination of a junior gold explorer and a mineral property investment company focused on the discovery and development of gold, iron ore, manganese and uranium, primarily in Africa and Australia.

Valuation

	2010	2011e	2012e
P/E relative	167%	74%	54%
P/CF	N/A	N/A	6.1
EV/Sales	9.2	3.5	2.2
ROE	38%	43%	42%

Geography based on revenues (H110)

UK	Europe	US	Other
100%	0%	0%	0%

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Red Rock Resources is a research client of Edison Investment Research Limited

Investment summary: Falling into place

Red Rock has multiple assets across a number of commodities and over which it has recently conducted a number of transactions. These are summarised below since our last report in 2010. As a result, this note is focused on the components of the valuation and the factors behind changes therein.

Corporate

- Red Rock has extended its Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Limited from £3m (of which £0.5m was undrawn) to £10.5m – ie YA Global has agreed to subscribe for up to £10.5m in Red Rock shares over a period of three years from December 2010 at a price calculated relative to the market price of Red Rock's shares at timings, intervals and in sizes determined by Red Rock.
- It entered into a loan agreement with YA Global for an additional US$3m, carrying interest at 12% per annum secured under the SEDA (see above) and by security over 21.3m shares in Jupiter Mines held by Red Rock.
- Further, in March 2011, Red Rock agreed to borrow up to US$9m from YA Global in three tranches of up to US$3m at an interest rate of 12% per annum with each tranche being repayable within 13 months of drawdown. NB US$0.73m of the loan was applied to the repayment of the US$3m loan described above.
- On 31 March, Red Rock announced that it had appointed Cornhill Capital to assist in securing convertible debt financing of up to £5m for the company.
- Red Rock has sold a total of 9,533,333 shares of Jupiter Mines (JMS) for a gross consideration of A$5,509,545.50 (ie an average of A$0.578 per share), such that it retains 74.2m shares (4.2%) in the company.
- Red Rock has entered into an option agreement to earn in to and explore iron ore deposits in north-west Greenland. The area comprises 644km^2 of ground to the north-east of Baffin Island (which contains the Mary River iron ore deposit – recently the subject of a takeover by ArcelorMittal and Nunavut Iron Ore) and has been mapped as Archaean greenstone with banded iron formations, magnetite and haematite. Under the terms of the agreement, Red Rock will exercise its option by making payment of US$250,000 (in cash or shares), at which point it will be obliged to fund the 2011 exploration programme and after which it will have a 25% interest in NAMA Greenland Ltd (NGL). The agreed aggregate cost of the 2011 and 2012 exploration programmes is US$5m (excluding taxes). Thereafter, Red Rock may elect to earn a further 35% interest in NGL by making a further US$250,000 payment.
- On 11 March, Red Rock exercised its option over 29,629,000 shares in Kansai Mining Corporation for a consideration of C$10 (ten), such that it is now interested in a total of 39,629,000 Kansai shares (35.2% of the company on a diluted basis).
- Nimrodel has issued to Red Rock shares (Edison estimates 3,333,333 shares at 9c each) to the value of A$300,000 in respect of the latter's acquisition of Walkabout Resources.

Colombia

Red Rock has now exercised its options over 51% of the issued share capital of its partner, Mineras Four Points (MFP). After negotiating revised terms, it has agreed to acquire 25,500 of 50,000 issued shares for a total cash consideration of up to US$7.5m. Of the consideration, US$5.5m is payable on completion of a loan guarantee by the vendors with a further US$1m deferred “until MFP has an average ore production of 150 tonnes per day for a continuous 90 day period”. A further US$1.0m is payable only when MFP achieves a net operating profit in excess of US$10m in one year.

After some initial teething problems (eg the cone crusher at El Limon and delays to the commissioning of the larger flotation cell circuit), the plant is now deemed capable of delivering in accordance with the production plan, with the ball mill, jig and pumps in particular running 24 hours per day and the crushers and conveyors operating ‘satisfactorily’. As such, the plant is now in the process of increasing throughput from a test rate of 30tpd to 100tpd and then to 150tpd. In the meantime, the El Limon mine is producing ‘lower grade’ material of 12-15g/t, while the Machuca (La Aurora) mine is producing c 20tpd at a grade of c 6g/t. Ore was initially sourced from remnants and stockpiles in the upper levels of the El Limon mine and from exploration activity, with the result that grades in the early months of operation have been/are likely to be lower than the long-term average. In the longer term, sampling has confirmed gold grades as high as 45.3g/t (plus 72g/t silver), while metallurgical test-work has recorded recoveries of 97% in 24 hours in whole ore leach tests. Over the range sampled, it was determined that primary grind size did not affect gold leach performance, with the result that it may be possible to increase the primary grind size and reduce reagent consumption, while simultaneously maintaining recovery rates. A consultant engineer from the United States has recently visited the mine and concluded that it has capable employees, the potential to expand and is “without fundamental problems”, although he did also note that it “lacked proper flowsheets and planning”.

Red Rock retains warrants to subscribe for an additional 0.5% of MFP’s enlarged share capital for US$50,000.

Jupiter Mines (JMS)

Red Rock’s interest in Jupiter Mines equates to c 4.2% of the latter’s current issued share capital. JMS’s two principal assets are the Central Yilgarn Iron Project (CYIP) and a 49.9% interest in the Tshipi Manganese project. The CYIP consists of four project areas, namely Mt Mason, Mt Ida (in which Red Rock has an additional 1.5% gross production royalty), Mt Alfred and Mt Hope-Walling Rock, all 100% owned by JMS. The Tshipi Manganese project is an advanced exploration project with a defined mineral resource of 163Mt at a grade of 37.9% Mn, of which 38% is in the ‘indicated’ category and 62% is in the ‘inferred’ category. The resources are low in phosphorus and other deleterious elements and a feasibility study has indicated a run-of-mine ore tonnes operation of c 2.2-2.6Mtpa over an official life of 24 years.

In January, Jupiter raised A$150m to develop its projects, of which A$100m was directed towards the Tshipi project and A$40m to fast-track the Mt Ida project. Thus far in 2011, Jupiter has announced the completion of the first phase of the planned drilling programme at Mt Ida and declared an ‘inferred’ resource at its Central Mt Ida prospect (c 30% of the mineralisation strike length) of 530Mt at 31.94% Fe, compared to a target of 400Mt by end-December 2010. Resource modelling shows six flat lying magnetite lodes extending from 50-300m in depth, with mineralisation open to both the north and the south of the tested area. Further drill programmes are planned to both increase the size of, and the geological confidence in, the resource as well as serving as the basis for a feasibility study during 2012. A scoping study has indicated a project net present value (NPV) of A$1,685m at an 8% discount rate and a 19.8% internal rate of return. The study is based on a 20 year mine life, mining 25Mtpa to produce 10Mtpa of 68% magnetite concentrate (NB Davis Tube Recovery tests have indicated concentrate grades as high as 71% Fe) at an average 43.4% weight recovery, a silica content of 4.5% and low levels of sulphur, phosphorus and alumina. A concurrent scoping study is also underway on the Mt Mason direct shipping ore (DSO) haematite project, which is scheduled for completion in late April 2011. Mt Mason has an 'inferred' resource of 5.75Mt at 59.9% Fe and provides an opportunity to generate early cash-flows from a 1.5Mtpa DSO operation commencing in early 2013.

Migori, Kenya

Hitherto Red Rock's second largest asset with the potential to become its largest asset has been its interest in the Mid-Migori Mining Company (MMMC) in Kenya, which comprised a 15% direct interest plus an effective 29.92% indirect interest via Canada's Kansai Mining Corporation (which holds/held the remaining 85% of MMMC). Red Rock's interest in Kansai was 10m ordinary shares (acquired for a consideration of C$100,000) plus an option to acquire a further 29.629m shares (acquired for C$360,000 and exercisable for a total further consideration of C$10). Red Rock has since exercised its options in Kansai, such that its total holding is now 39.629m shares, acquired for a total historic consideration of C$460,010 (ie a historic cost of 1.16 cents per Kansai share). In the aftermath of Red Rock's exercise, we estimate that there are 112.582,386 Kansai shares are in issue.

In Q410, Kansai announced that it had reached agreement to sell its interest in MMMC to a private equity group for a total cash consideration of C$40m – equivalent to C$0.355 per Kansai share, based upon its enlarged share capital post-Red Rock's option exercise. Upon completion of the sale of its interest in MMMC, Kansai is expected to substantially distribute the proceeds of the sale to shareholders via two dividends amounting to C$0.275 per share. On this basis, Red Rock would be entitled to a dividend of C$10.9m before any Canadian withholding taxes (estimated by Red Rock to be of the order of 5%). NB This dividend is not yet included in our financial forecasts on page 12.

MMMC owns five assets with JORC-compliant resources, namely KKM, Gori Maria, MK, Nyanza and Macalder tailings. A summary of MMMC's resource estimate is as follows:

Exhibit 1: MMMC resource estimate

Note: Numbers may not add up owing to rounding.

Name	Category	Tonnes (kt)	Grade (g/t)	Contained gold (oz)
KKM	Indicated	22,110	0.96	680,000
Gori Maria	Indicated	8,600	0.87	240,000
MK	Indicated	1,450	2.32	108,000
Nyanza	Indicated	840	5.32	144,000
Macalder tailings	Indicated	1,424	1.64	75,084
Total	**Indicated**	**34,424**	**1.13**	**1,247,084**

Source: Red Rock Resources, CSA Global (UK) Ltd

Red Rock has finalised a c 10,000m infill drill programme to test, validate and extend resources at Gori Maria, KKM, MK and Nyanza. To date, a total of 2,259m of diamond core drilling and 1,367m of reverse circulation drilling has been completed over the Gori Maria and Kakula/Kalange (KKM) prospects. On completion, the MK and Nyanza prospects will also be drilled.

In August, a fixed-wing, magnetic/radiometric survey was conducted over Mid-Migori's assets comprising 3,117 line kilometres flown at a height of 30m, with 2,295 line kilometres flown at a 200m spacing and 822 infill kilometres flown at a 50m spacing. The survey identified two copper targets, denoted Conductor 1 and Conductor 2, for follow-up work. Conductor 1 is just below surface and plunges east at depth. Of note is the fact that the area directly below the main pit to the west of the conductor does not have a strong conductive response, which is interpreted as being the result of ore depletion on account of historic underground mining activities to a depth of 200m. Conductor 2 was similar in strength to Conductor 1, plunging to the south-east. Thus far, Conductor 1 has been interpreted as being the potential extension of Macalder mineralisation, while Conductor 2 has been interpreted as being a potential repetition of the Macalder mineralisation on the edge of the next anticline in the fold system. Six trenches have been dug to examine the lithology and structure around Conductor 2 and six drill holes proposed to test the source of the electro-magnetic (VTEM) anomaly. In the meantime, a preliminary drill programme to test Conductor 1 and to delineate new potential targets has been designed, pending final processing of the VTEM/radiometric data. Results from stage 2 of the metallurgical test work on the Macalder tailings are expected at the end of the month.

Ascot Mining

In November, Red Rock reported a £1.5m investment in Ascot Mining by way of a convertible loan note (2015), convertible at any time at Red Rock's discretion into new Ascot ordinary shares at a price of 20p per share. In addition, it was granted warrants to subscribe for an additional 10.5m additional new ordinary Ascot shares at an exercise price of 20p per new Ascot share, valid for five years. Ascot used the proceeds of its fund-raising to pay for and obtain clear title to the Chassoul Gold concession, from which it has subsequently poured first gold. Since then, Red Rock has exercised a number of warrants. In addition, it has bought ordinary shares in the secondary market, such that its holding in Ascot now amounts to 740,000 ordinary shares, 10.3m warrants (as above) and £1.5m nominal of Ascot 10% convertible loan stock, due 2015.

Resource Star (24.9% Red Rock interest)

In addition to its other shareholdings, Red Rock has been issued A$300,000 of Nimrodel shares as a result of Red Rock's retention of the right to A$300,000 of Walkabout Resources (Pty) Ltd stock upon the latter's farm-in to the company's Arthur River tenement and Walkabout's subsequent acquisition by Nimrodel.

In Malawi, analysis of Resource Star's 13 follow-up drill holes at the Livingstonia sandstone-hosted redox uranium project (designed to capitalise on the announcement of a maiden JORC inferred resource of 4.6 million lbs of U_3O_8 at 0.27kg/t in 2010) demonstrated intercepts of 517ppm eU_3O_8 over 11.8m (including 1,546ppm over 2.15m) and 33.95m at a grade of 338ppm (including 12.1m at 575ppm). Elsewhere, an RC drill rig has been mobilised at the company's Machinga Rare Earth Project by its partners, Globe Metals & Mining, to begin a maiden 1,500m drill programme to test four different zones of heavy rare earth oxide (HREO) and high-grade niobium mineralisation intersected in trenches at the Machinga North target. In northern Malawi, New Resolution Geophysics has been contracted to fly 270 line kilometres of helicopter magnetic/radiometrics over the Ilomba Hill uranium/niobium/rare earth prospect. In Australia, first pass sampling has confirmed the presence of "significant levels of uranium in outcrop at the Tennysons Prospect" in Resource Star's Edith River uranium project in the Northern Territories.

Valuation considerations

In our note of September 2010, we valued Red Rock as follows:

Exhibit 2: Sept 2010 Edison estimates of Red Rock Resources' net asset value

Note: * Estimate; US$ values converted at a rate of $1.567/£.

£'000s	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
Current assets				
Investments in associates				
– Jupiter Mines	13,534	13,534	13,534	80,603
– Resource Star	1,062	1,062	1,062	1,062
– Cue Resources	371	371	1,478	2,584
– Kansai	-	2,476	58,043	27,314
– MFP interest and fees	-	626	626	626
– MFP US$6.5m option	-	-	26,654	46,925
– MFP US$1.0m option	-	-	-	436
Cash and cash equivalents*	961	961	961	961
Trade and other receivables	-	224	224	224
Investments in subsidiaries	-	964	964	964
Available for sale financial assets	-	368	368	368
Exploration properties	-	437	10,259	37,974
Mount Ida royalty				195,589
Total current assets	15,928	21,022	114,172	395,629
Total assets	**15,928**	**21,022**	**114,172**	**395,629**
Liabilities				
Trade and other payables	-253	-253	-253	-253
Loan re MFP	-1,276	-	-	-
Total liabilities	**-1,529**	**-253**	**-253**	**-253**
Net assets	**14,399**	**20,770**	**113,919**	**395,376**
Shares in issue (millions)	642.0	642.0	642.0	642.0
NAV per share (pence)	**2.24**	**3.24**	**17.74**	**61.59**
RRR share price (pence)	2.47	2.47	2.47	2.47
Share price discount to NAV (%)	**10.1**	**-23.7**	**-86.1**	**-96.0**

Source: Edison Investment Research

Specifically, in the median scenario, we valued Red Rock's US$6.5m call option in MFP on the assumption that management was successful in increasing throughput at El Limon to 150tpd. In addition, Red Rock's direct, 15% interest in MMMC was valued according to the average values for 'measured', 'indicated' and 'inferred' ounces calculated in our report, *Gold – Valuation benchmarks are obsolete*, published in January 2010 (see Exhibit 3, below). This valuation for MMMC was then presumed to flow through to Kansai, in which Red Rock's optioned interest was presumed to have been exercised (given its relatively low exercise price).

Exhibit 3: Enterprise values per resource oz summary by category and market, Sept 2010 (US$)

Note: * Excluding Witwatersrand ounces; ** Excluding JSE; Highest valuations in each category in bold.

	Measured	Indicated	Inferred	Average
London*	403.53	85.94	3.78	120.73
Canadian*	283.68	243.76	62.01	196.90
Australian*	738.55	143.43	91.47	191.75
Simple average	395.46	131.57	48.38	120.26
Weighted average* **	339.90	158.55	33.65	158.56
JSE (maximum)	156.08	53.14	36.27	36.27

Source: Edison Investment Research

In the top end scenario, we added the value of Red Rock's US$1.0m call option on the assumption that management would be successful in increasing throughput at El Limon to 250tpd. In addition, it was assumed that Red Rock would exercise its option to take a direct 60% interest in the Kenyan gold assets (against which US$8m had been deducted as the estimated expense of the related bankable feasibility study), as a result of which Kansai's interest in the same assets was reduced to 40%.

Valuation variations – Colombia (MFP)

In our note of 12 July 2010, we valued Red Rock's interests in MFP on the basis of the following five potential mine and plant throughput rates.

Exhibit 4: Previous Edison El Limon estimated scoping economics at varying throughput rates

Throughput (tpd)	4	150	250	400	1,000
Throughput (tpa)	1,296	54,000	90,000	144,000	360,000
RoM grade (g/t)	239.18	25	25	25	25
Recovery (%)	59.244	59.244	59.244	59.244	59.244
Gold produced (kg)	183.6	799.8	1333.0	2132.8	5332.0
Gold produced (oz)	5,904	25,714	42,857	68,571	171,428
Gold price (US$/oz)	1,177	1,177	1,177	1,177	1,177
Revenue (US$000's)	6,949	30,266	50,443	80,708	201,771
Break-even grade (g/t)	2.00	2.00	2.00	2.00	2.00
Implied break-even cost (US$/t)	127.8	127.8	127.8	127.8	127.8
Implied cash costs (US$000's)	166	6,899	11,499	18,398	45,994
Implied cash costs (US$/oz)	28.0	268.3	268.3	268.3	268.3
Implied gross profit (US$000's)	6,784	23,366	38,944	62,311	155,776
Government royalty rate (%)	4	4	4	4	4
Government royalty (US$000's)	278.0	1,210.6	2,017.7	3,228.3	8,070.8
Government royalty (US$/oz)	47.08	47.08	47.08	47.08	47.08
EBITDA	6,506	22,156	36,926	59,082	147,705
15% of EBITDA	976	3,323	5,539	8,862	22,156
NPV at 10% over 10 years	39,975	136,138	226,896	363,034	907,586
NPV at 30% over 10 years	20,113	68,496	114,159	182,655	456,637

Source: Edison Investment Research

Since then, we have updated our long-term gold price forecast to US$1,350/oz on the basis of a regression analysis between the price of gold and US narrow money supply. In addition, a 30tpd scenario has also been added to accommodate a new low-end valuation scenario (ie assuming that the plant's throughput increases from a test rate of 30tpd to 100tpd and then to 150tpd is unsuccessful). Updating our analysis for the price alone increases our estimates and valuations for the (now) six throughput scenarios as follows:

Exhibit 5: MFP updated estimated scoping economics at varying throughput rates

Note: * Marginal tax rate of 30% assumed.

Throughput (tpd)	3.6	30	150	250	400	1,000
Throughput (tpa)	1,296	10,800	54,000	90,000	144,000	360,000
RoM grade (g/t)	239.18	25	25	25	25	25
Recovery (%)	59.244	59.244	59.244	59.244	59.244	59.244
Gold produced (kg)	184	160	800	1,333	2,133	5,332
Gold produced (oz)	5,904	5,143	25,714	42,857	68,571	171,428
Gold price (US$/oz)	1,350	1,350	1,350	1,350	1,350	1,350
Revenue (US$000's)	7,971	6,943	34,714	57,857	92,571	231,428
Break-even grade (g/t)	2.00	2.00	2.00	2.00	2.00	2.00
Implied break-even cost (US$/t)	146.54	146.54	146.54	146.54	146.54	146.54
Implied cash costs (US$000's)	190	1,583	7,913	13,189	21,102	52,755
Implied cash costs (US$/oz)	32.17	307.74	307.74	307.74	307.74	307.74
Implied gross profit (US$000's)	7,781	5,360	26,801	44,668	71,469	178,673
Government royalty rate (%)	4	4	4	4	4	4
Government royalty (US$000's)	319	277.7	1,389	2,314	3,703	9,257
Government royalty (US$/oz)	54	54	54	54	54	54
EBITDA	7,462	5,082	25,412	42,354	67,766	169,416
NPV at 10% over 10 years	45,851	31,230	156,148	260,247	416,395	1,040,986
NPV at 30% over 10 years	23,069	15,713	78,563	130,939	209,502	523,755
Estimated post-tax NPV at 10% over 10 years*	32,096	21,861	109,304	182,173	291,476	728,690
Estimated post-tax NPV at 30% over 10 years*	16,148	10,999	54,994	91,657	146,652	366,629

Source: Edison Investment Research

On the same 150tpd and 250tpd scenarios as used previously, Red Rock's 51% interest in MFP is therefore potentially worth some US$55.7m (51% of US$109.3m) and US$92.9m (51% of US$182.2m), respectively. On the 30tpd scenario, it is worth US$11.1m (51% of US$21.9m).

Similarly, its option over an additional 0.5% of the enlarged share capital of MFP, according to the Black-Scholes method of option pricing, is worth US$501,276 and US$865,621, respectively, under the same 150tpd and 250tpd scenarios (assuming a continuously compounded risk-free rate of return of 5%, MFP volatility of 10% and a period to expiry of two years).

Valuation variations – Kansai/Kenya

Red Rock's direct interest in MMMC has been valued at 15% of the value of its gold resource, updated for the most recent revision of the values calculated in our report, *Gold – Valuation benchmarks are obsolete*, published in January 2010, which are shown below.

Exhibit 6: Enterprise values per resource oz summary by category and market (US$)

Note: * Excluding Witwatersrand ounces.

	Measured	Indicated	Inferred	Average
London*	365.72	129.32	22.39	141.54

Source: Edison Investment Research

By contrast, Red Rock's holding in Kansai has henceforward been valued at 27.5 Canadian cents per share – being the value of future (effectively) terminal distributions by the company – less 5% (assumed) Canadian withholding tax.

Valuation variations – Jupiter Mines

In all but the top-end scenario, Red Rock's holding in Jupiter has been valued at the latter's share price and Red Rock's shareholding has accordingly been adjusted to 79.2m shares from 83.7m. Note that the top-end scenario takes into account the effect of the exercise of the Mount Alfred Bonus option and the allocation of the maximum number of shares in Jupiter to Red Rock and assumes a re-rating of Jupiter shares to a value of US$1.13/sh based on the per share value of the announced NPV of the Mt Ida project (at an 8% discount rate – see page 1). Obviously this analysis excludes potential dilution of current shareholders in the future; on the other hand, it also excludes the value of both Tshipi and Oakover to the company. Nevertheless, it is indicative of the fact that Jupiter's shares have the potential to rise appreciably from their current level.

In addition, the release of the results of Jupiter's scoping study at Mt Ida allows us to adjust our valuation of the potential value of Red Rock's 1.5% Mt Ida gross production royalty. Whereas we had previously assumed concentrate production scenarios of both 5Mtpa and 20Mtpa, the indicated output rate of 10Mtpa allows us to adopt this valuation as our median scenario, with production rates of 5Mtpa and 20Mtpa then forming the low- and top-end scenarios, respectively. Exhibit 7 is a summary of the scoping economics and approximate value of the 1.5% gross production royalty retained by Red Rock over Mount Ida at production rates of 5Mtpa, 10Mtpa and 20Mtpa.

Exhibit 7: Mount Ida 1.5% gross production royalty scoping economics and potential value

Note: * Valued over 20 years at 10% discount rate.

Concentrate production (Mtpa)	5	10	20
Grade (%)	65	68	65
Price (US$/t)	120	120	120
Implied turnover (US$m)	600	1,255	2,400
Gross production royalty at 1.5% (US$m)	9.0	18.8	36.0
Gross royalty value (US$m)*	76.6	160.3	306.5

Source: Edison Investment Research

Clearly these values need to be discounted further to account for the deferral of positive cash-flows until the commencement of any operations, the risk that the targeted resource may not be defined and that, even if it is, it is still possible that no mine will be built and potential taxation considerations. Nevertheless, it provides an indication of the value potentially accruing to Red Rock as a result of its asset.

Valuation variations – Ascot Mining

Red Rock's £1.5m convertible loan investment in PLUS-listed Ascot Mining is convertible into equity at 20p per share. In addition it has 10.3m warrants to buy Ascot shares at 20p as well as 740,000 Ascot ordinary shares which we estimate Red Rock bought between 19 and 29 November at a price of c 45.72p.

Ascot Mining's shares are currently trading at 41.5p, suggesting that, all other things being equal, Red Rock will exercise its conversion right and convert £1.5m of nominal Ascot convertible loan stock into 7.5m Ascot shares. Valued at £0.415, these would collectively be worth £3.1m. Assuming that it bought Ascot shares at the price indicated above, Red Rock will have a small loss of £31,228 on its equity position. Assuming a continuously compounded risk free return of 5%, equity price volatility of 10% and a five year life, we estimate that Red Rock's options in Ascot Mining are worth 25.9p per option (ie close to the intrinsic value of the option, as expected), or £2.7m collectively.

Updated valuation

Making appropriate adjustments to our valuation to account for the factors noted above (plus its updated balance sheet as at 31 December 2010), our revised valuation for Red Rock is as follows:

Exhibit 8: Edison estimates of Red Rock Resources' net asset value (£'000s)

Note: * 06/11 estimate; ** Conversion assumed; US$ values converted at $1.602/£; balance sheet liabilities updated to 31/12/10.

£'000s	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
Current assets				
Investments in associates				
– Jupiter	26,436	26,436	26,436	115,822
– Resource Star	646	646	646	646
– Cue Resources	538	538	1,533	2,528
– Kansai Mining Corp		5,921	5,921	5,921
– MFP 51% interest		6,959	34,797	57,995
– 0.5% MFP option		40	313	540
– Ascot convertible**		3,113	3,113	3,113
– Ascot equity	307	307	307	307
– Ascot warrants		2,670	2,670	2,670
Cash & cash equivalents*	2,066	2,066	2,066	2,066
Trade & other receivables		2,132	2,132	2,132
Exploration properties		1,045	15,100	57,406
Mount Ida royalty		47,829	100,073	191,316
Total current assets	29,992	99,701	195,106	442,461
Non-current assets				
Property, plant and equipment		5	5	5
Total non-current assets	0	5	5	5
Total assets	29,992	99,706	195,111	442,466
Current liabilities				
Trade & other payables	-2,028	-2,028	-2,028	-2,028
MFP consideration	-3,433	-4,682	-4,682	-4,682
Ascot consideration	-1,838	-1,838	-1,838	-1,838
Short-term borrowings	-1,740	-1,740	-1,740	-1,740
Current tax liabilities	-909	-909	-909	-909
Total current liabilities	-9,949	-11,197	-11,197	-11,197
Non-current liabilities				
Deferred tax liabilities	-11,208	-11,208	-11,208	-11,208
Total non-current liabilities	-11,208	-11,208	-11,208	-11,208
Total liabilities	-21,157	-22,405	-22,405	-22,405
Net assets	8,835	77,301	172,706	420,061
Shares in issue (millions)	688.4	688.4	688.4	688.4
NAV per share (pence)	1.28	11.23	25.09	61.02
Current share price (pence)	10.5	10.5	10.5	10.5
Premium/(discount) of current share price to NAV (%)	718.1	-6.5	-58.1	-82.8

Source: Edison Investment Research

The assumptions inherent in each of these scenarios may be summarised as follows:

- The worst-case scenario considers only Red Rock's interests in currently listed assets (ie it excludes Red Rock's interests in Kansai, the Ascot convertible and Ascot warrants) at market value plus our estimate of the company's cash position at end-FY11, less balance sheet liabilities (at their December 2010 values) and our estimate of the consideration of recently acquired investments (eg MFP and Ascot).
- In addition to listed assets and cash, the low-end scenario considers Red Rock's holdings in unlisted/suspended securities (eg MFP, Kansai, the Ascot convertible and Ascot warrants). For these purposes, MFP is valued assuming that only the 30tpd production scenario is achieved. This analysis then values Red Rock's direct holding in the Mid Migori Mining Company (under exploration assets) in direct proportion to the valuation of Kansai. The Mt Ida royalty is valued assuming a 5Mtpa concentrate production rate. Property, plant and equipment is included at the June 2010 balance sheet value.
- The median scenario values Red Rock's 15% interest in the current Kenyan resource base (under exploration assets) at the updated average values calculated for 'indicated' resources listed in London, as shown in Exhibit 6, previously. The Cue Resources stake has been valued at the mid-point between its market value and our estimate of its value based on the size and categorisation of its uranium resource base (see 'top-end scenario', below). MFP is valued on the basis that the 150tpd throughput scenario is achieved. The Mt Ida royalty is valued assuming a 10Mtpa concentrate production rate.
- Finally, the top-end scenario assumes that Red Rock exercises its option to take a direct 60% interest in the Kenyan gold assets (against which US$8m has been deducted as the estimated expense of the related bankable feasibility study). It also takes into account the effect of the exercise of the Mount Alfred Bonus option and the allocation of the maximum number of shares in Jupiter to Red Rock and assumes a re-rating of Jupiter shares to a value of US$1.13/sh based on the per share value of the announced NPV of the Mt Ida project (at an 8% discount rate – see page 1). The Mt Ida royalty is valued assuming a 20Mtpa concentrate production rate is achieved. Red Rock's Cue Resources stake is valued at 15.78% of US$25.7m (being the value of 9.5m lbs of U_3O_8 indicated and inferred resources at US$2.70/lb). MFP is valued on the basis that the 250tpd throughput scenario is achieved.

Of note is the fact that, whereas we have considered the potential revaluations of Cue and MMMC based on their resource bases, we have performed only a partial revaluation of Jupiter Mines in the top-end scenario and have performed no revaluation at all on Resource Star.

Exhibit 9: Financials

£'000s	2007	2008	2009	2010	2011e	2012e
Year end 30 June	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	535	1,347	68	6,075	19,895	34,887
Cost of Sales	(185)	(1,026)	(108)	0	(2,104)	(4,175)
Gross Profit	350	321	(39)	6,075	17,791	30,712
EBITDA	(310)	(249)	(750)	5,194	14,509	27,430
Operating Profit (before GW and except.)	(310)	(249)	(750)	5,194	14,507	27,428
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	85	422	(3)	149	187	0
Other	0	0	0	0	0	0
Operating Profit	(225)	173	(753)	5,343	14,693	27,428
Net Interest	2	13	(5)	(69)	(448)	13
Profit Before Tax (norm)	(309)	(235)	(755)	5,124	14,059	27,441
Profit Before Tax (FRS 3)	(223)	186	(758)	5,274	14,246	27,441
Tax	0	0	0	(1,299)	(4,037)	(6,893)
Profit After Tax (norm)	(309)	(235)	(755)	3,825	10,022	20,547
Profit After Tax (FRS 3)	(223)	186	(758)	3,975	10,209	20,547
Average Number of Shares Outstanding (m)	188.2	266.2	389.7	530.3	636.1	688.4
EPS - normalised (p)	(0.16)	(0.12)	(0.24)	0.62	1.43	2.15
EPS - normalised and fully diluted (p)	(0.16)	(0.12)	(0.23)	0.59	1.37	2.06
EPS - FRS 3 (p)	(0.12)	0.07	(0.19)	0.75	1.51	2.19
Dividend per share (p)	0.00	0.00	0.00	0.00	0.05	0.05
Gross Margin (%)	65.5	23.8	N/A	100.0	89.4	88.0
EBITDA Margin (%)	N/A	N/A	N/A	85.5	72.9	78.6
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	85.5	72.9	78.6
BALANCE SHEET						
Fixed Assets	0	0	0	5	3	0
Intangible Assets	0	0	0	0	0	0
Tangible Assets	0	0	0	5	3	0
Investments	0	0	0	0	0	0
Current Assets	2,848	4,364	5,552	10,692	24,759	45,703
Stocks	0	0	0	0	322	2,907
Debtors	1,080	394	275	1,127	1,635	2,867
Cash	220	88	49	563	2,066	23,693
Other	1,547	3,883	5,228	9,002	20,736	16,235
Current Liabilities	(294)	(413)	(180)	(1,904)	(2,880)	(4,071)
Creditors	(294)	(413)	(180)	(1,144)	(2,120)	(3,311)
Short term borrowings	0	0	0	(760)	(760)	(760)
Long Term Liabilities	0	0	0	(193)	(193)	(193)
Long term borrowings	0	0	0	0	0	0
Other long term liabilities	0	0	0	(193)	(193)	(193)
Net Assets	2,554	3,951	5,372	8,600	21,689	41,439
CASH FLOW						
Operating Cash Flow	(349)	(1,316)	(559)	(1,484)	(1,865)	16,081
Net Interest	2	13	(5)	(122)	(448)	13
Tax	0	0	0	0	(4,037)	(6,893)
Capex	(260)	(112)	(184)	48	4,645	12,898
Acquisitions/disposals	0	(11)	(402)	(354)	0	0
Financing	727	1,293	1,112	1,613	3,572	0
Dividends	0	0	0	0	(366)	(471)
Net Cash Flow	119	(133)	(38)	(300)	1,502	21,628
Opening net debt/(cash)	(101)	(220)	(88)	(49)	197	(1,305)
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	53	0	0
Closing net debt/(cash)	(220)	(88)	(49)	197	(1,305)	(22,933)

Source: Edison Investment Research, Red Rock Resources accounts