Update

Edison investment research

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Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/08	1.3	(0.2)	(0.12)	0.00	N/A	N/A
06/09	0.1	(0.8)	(0.23)	0.00	N/A	N/A
06/10e	3.5	1.9	0.33	0.05	5.2	2.9
06/11e	2.9	1.9	0.27	0.05	6.4	2.9

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Maiden dividend beckons

We have revised our valuation of Red Rock Resources in the wake of our analysis of the gold sector expounded in our research note entitled *Gold – Valuation benchmarks are obsolete*, published last month. In addition, the company has raised £240,000 (before expenses) via the issue of 16.8m shares in two tranches at varying prices. Finally, the company announced the termination of its joint venture with Pallinghurst in respect of the two companies' shareholdings in ASX-listed Jupiter Mines Ltd, raising the possibility that Red Rock could part liquidate its stake in JMS.

In-situ ounces re-valued

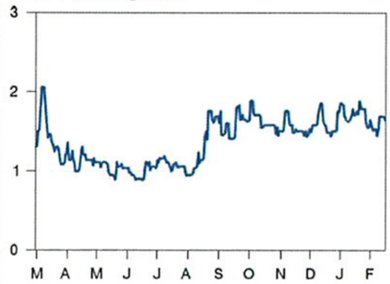
The principal effect of our analysis of the gold market is the revaluation of exploration assets. Whereas we had previously calculated an average in-ground value of resources of US$380.66/oz and US$30.74/oz for 'measured' and 'indicated' resources respectively, our analysis of January 2010 caused us to adjust these benchmarks to US$403.53/oz and US$85.94/oz for ounces listed in London and US$283.68/oz and US$243.76/oz for ounces listed in Canada.

Valuation: Discount to NAV potentially as high as 89%

At its current share price of 1.725p, we calculate that Red Rock is trading at a 17% discount to its net asset value, based solely on the value of its shareholdings in ASX-listed Jupiter Mines, TSX-listed Cue Resources and our estimate of the cash on the company's balance sheet in the wake of its recent equity capital raisings. This discount rises further, to 48%, in the event that the rest of the company's balance sheet is taken into account plus values are ascribed to its shareholdings in companies whose shares have been suspended from trading (at the last prices at which they were able to raise equity funding), namely Canada's Kansai Mining and Australia's Resource Star. In the event that the Mid Migori assets are ascribed the average value of resources in the London and Canadian market given their categorisation and the Cue Resources assets partially revalue, this discount rises to 88%. Finally, it rises to 89%, assuming the full revaluation of Cue Resources and the exercise of the Mt Alfred and Mid Migori options.

Price	**1.725p**
Market Cap	**£10m**

Share price graph



Share details

Code	RRR
Listing	AIM
Sector	Mining
Shares in issue	575m

Price

	High	Low
52 week	2.06p	0.77p

Balance Sheet as at 30 June 2009

Debt/Equity (%)	N/A
NAV per share (p)	1.2
Net cash (£'000s)	49.4

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 iron ore, manganese, uranium and gold, primarily in Australia and Africa.

Valuation

	2009	2010e	2011e
P/E relative	N/A	37%	54%
P/CF	N/A	5.7	5.0
EV/Sales	97.9	1.8	2.0
ROE	N/A	20%	15%

Geography based on revenues (2008)

UK	Europe	US	Other
2%	0%	0%	98%

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

Red Rock's estimated net asset value

Since our last note in December 2009, there have been a number of developments at Red Rock and also in our approach to its valuation. A summary of these is as follows:

1) We concluded our analysis into the valuations of gold companies listed in London, Toronto, Sydney and Johannesburg. The principal conclusions of the report were that gold ounces in the ground are valued according to their categorisation and centre of listing as follows:

Exhibit 1: Enterprise values per resource oz summary by category and market (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

2) The company has raised £240,000 before expenses via the issue of 16.8m shares to Yorkville under the terms of its Standby Equity Distribution Agreement (SEDA) in two tranches at prices of (approximately) 1.38p and 1.48p per share.

3) The joint venture with Pallinghurst in respect of its and Red Rock's shareholdings in ASX-listed Jupiter Mines has been terminated.

In respect of the above three points, the first clearly affects our valuation of both Red Rock and (potentially) its holding in Kansai Mining. As a result, we have updated our valuation of Red Rock's direct holding in Mid Migori Mining in southern Kenya to reflect our new benchmarks for resource ounces listed in London. In addition, we have also selectively re-valued its holding in Kansai which has an interest in the same asset, albeit in this instance we have chosen to re-value Kansai according to the benchmarks established for gold ounces listed in Canada rather than London (see table and explanation below). We have also updated the analysis to take into account the additional shares issued and funds raised. The discontinuation of the joint venture with Pallinghurst is, by contrast, a qualitative, rather than a quantitative matter. As such, it makes no difference to our valuation at all. However, it increases Red Rock's options in how it manages its Jupiter holding (discussed below).

Our updated valuation of the company in terms of our estimate of its net asset value under a variety of different circumstances is therefore as follows (overleaf):

Exhibit 2: Red Rock Resources' forecast company balance sheet

Note: * Estimated.

£000's	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
Current assets				
Investments in associates				
- Jupiter Mines	11,164	11,164	11,164	21,979
- Resource Star		937	937	1,229
- Cue Resources	602	602	1,583	2,565
- Kansai		3,963	57,314	26,971
Cash and cash equivalents*	322	322	322	322
Trade and other receivables		275	275	275
Investments in subsidiaries		964	964	964
Available for sale financial assets*		368	368	368
Exploration properties		699	10,395	38,538
Total current assets	12,087	19,294	83,322	93,212
Total assets	**12,087**	**19,294**	**83,322**	**93,212**
Liabilities				
Trade and other payables	(181)	(181)	(181)	(181)
Total liabilities	**(181)**	**(181)**	**(181)**	**(181)**
Net assets	**11,906**	**19,113**	**83,141**	**93,031**
Shares in issue (millions)	575.0	575.0	575.0	575.0
NAV per share (pence)	**2.07**	**3.32**	**14.46**	**16.18**
Share price discount to NAV (%)	(16.7)	(48.1)	(88.1)	(89.3)

Source: Edison Investment Research estimates

The four scenarios considered above may be summarised as follows:

- The worst-case scenario considers only Red Rock's interests in currently listed assets, valued according to their share prices (ie it excludes shares in companies that have been suspended), in addition to our estimate of the company's cash position.
- In addition to listed assets and cash, the low-end scenario considers Red Rock's holdings in companies whose shares have been suspended. In this case, it values the company's holding in Resource Star at 17 Australian cents per share (being the last price at which Red Rock accepted an equity for debt swap relating to its ongoing funding of Resource Star's working capital requirements). It values Kansai Mining at 10 Canadian cents (the last price at which the company was able to raise funds, in August 2007). Consistent with this, it then values Red Rock's direct holding in the Mid Migori Mining Company (under exploration assets) in direct proportion to the market capitalisation of Kansai at a price of 10 Canadian cents. It also takes account of the other items on Red Rock's balance sheet as at its last reporting date.
- The median scenario values Red Rock's 15% interest in the current Kenyan resource base (under exploration assets) plus its 35.2% interest in Kansai, which has an 85% interest in those same assets at the average values calculated for 'indicated' and 'measured' resources listed in London and Canada in our January 2010 report (see Exhibit 1). 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 below).

- 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 bankable feasibility study), as a result of which Kansai's interest in the same assets has reduced to 40%. 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. Its 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). It also takes into account an additional 3m shares in Resource Star to be issued to Red Rock upon the relisting of the former on the ASX (expected imminently).

A number of features relating to this analysis are worthy of comment. Most notably, the scenarios that we have chosen to present in this report differ from those in previous notes (particularly the 'low-end' and 'median' scenarios), with the result that they are not directly comparable. Secondly, it is notable that while we have considered the potential revaluations of Cue and Kansai based on their resource bases, we have not performed similar exercises for Resource Star and Jupiter. Doing so would inevitably increase the discount of Red Rock's share price relative to its estimated net asset value even further.

Jupiter Mines holding, dividends and related accounting issues

While not making any difference to our valuation of Red Rock at this time, the dissolution of the Pallinghurst joint venture creates the possibility that Red Rock may independently sell down its holding in Jupiter Mines. As it would generate profits (and funds) from this process, it also raises the possibility that it could pay a dividend of its own to shareholders.

Forecasting the extent to which Red Rock is likely to take advantage of its ability to realise its stake in Jupiter and over what timeframe is inevitably subjective. For the purposes of our financial forecasts, we have hitherto assumed that 100% of the profit of its Jupiter deal was to be realised in FY10, whereas in reality the realisation of the Jupiter stake is unlikely to occur in anything less than about three years. We have now adjusted our forecasts to reflect this timescale. Almost inevitably, however, we will have to revise this estimate closer to the end of the financial year when we have a clearer idea of actual sales that occurred in the period.

In realising its stake in Jupiter – albeit over three years – Red Rock also significantly eases its cash position, as shown in Exhibit 3.

Other operational matters

In the meantime, Red Rock is continuing its strategy of pursuing value by discovering and upgrading ounces of gold into the higher JORC categories as quickly and as cheaply as possible. It is also happy to consider M&A targets to which such an approach could also add value. As such, the immediate focus is on speeding up exploration at Mid Migori, especially on the tailings dams and also the largest historic anomaly within its leases, both of which have the potential to add hundreds of thousands of ounces to the company's resource base. Inevitably, it will also continue the process of tidying up its assets, with specific tenements being reorganised into specific, corporate vehicles.

Exhibit 3: Financials

£'000s Year end 30 June	2007 UK GAAP	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS
PROFIT & LOSS					
Revenue	**535**	**1,347**	**68**	**3,526**	**2,926**
Cost of Sales	(185)	(1,026)	(108)	(869)	(360)
Gross Profit	350	321	(39)	2,656	2,565
EBITDA	**(310)**	**(249)**	**(750)**	**1,902**	**1,811**
Operating Profit (before GW and except.)	**(310)**	**(249)**	**(750)**	**1,902**	**1,811**
Intangible Amortisation	0	0	0	0	0
Exceptionals	85	422	(3)	0	0
Other	0	0	0	0	0
Operating Profit	**(225)**	**173**	**(753)**	**1,902**	**1,811**
Net Interest	2	13	(5)	1	68
Profit Before Tax (norm)	**(309)**	**(235)**	**(755)**	**1,904**	**1,880**
Profit Before Tax (FRS 3)	**(223)**	**186**	**(758)**	**1,904**	**1,880**
Tax	0	0	0	(0)	(21)
Profit After Tax (norm)	**(309)**	**(235)**	**(755)**	**1,903**	**1,859**
Profit After Tax (FRS 3)	**(223)**	**186**	**(758)**	**1,903**	**1,859**
Average Number of Shares Outstanding (m)	188.2	266.2	389.7	529.9	637.3
EPS - normalised (p)	(0.16)	(0.12)	(0.24)	0.34	0.27
EPS - FRS 3 (p)	(0.12)	0.07	(0.19)	0.36	0.29
Dividend per share (p)	0.00	0.00	0.00	0.05	0.05
Gross Margin (%)	65.5	23.8	N/A	75.3	N/A
EBITDA Margin (%)	N/A	N/A	N/A	54.0	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	54.0	N/A
BALANCE SHEET					
Fixed Assets	**0**	**0**	**0**	**0**	**0**
Intangible Assets	0	0	0	0	0
Tangible Assets	0	0	0	0	0
Investments	0	0	0	0	0
Current Assets	**2,848**	**4,364**	**5,552**	**8,933**	**11,465**
Stocks	0	0	0	0	0
Debtors	1,080	394	275	290	240
Cash	220	88	49	2,281	4,458
Other	1,547	3,883	5,228	6,363	6,766
Current Liabilities	**(294)**	**(413)**	**(180)**	**(71)**	**(30)**
Creditors	(294)	(413)	(180)	(71)	(30)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	**0**	**0**	**0**	**0**	**0**
Long term borrowings	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Net Assets	**2,554**	**3,951**	**5,372**	**8,861**	**11,435**
CASH FLOW					
Operating Cash Flow	**(349)**	**(1,316)**	**(559)**	**1,602**	**2,179**
Net Interest	2	13	(5)	1	68
Tax	0	0	0	(0)	(21)
Capex	(260)	(112)	(184)	(837)	(874)
Acquisitions/disposals	0	(11)	(402)	0	0
Financing	727	1,293	1,112	1,764	1,163
Dividends	0	0	0	(299)	(339)
Net Cash Flow	119	(133)	(38)	2,231	2,178
Opening net debt/(cash)	**(101)**	**(220)**	**(88)**	**(49)**	**(2,281)**
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	(0)
Closing net debt/(cash)	**(220)**	**(88)**	**(49)**	**(2,281)**	**(4,458)**

Source: Company accounts/Edison Investment Research