Ivory Coast Gold Report

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Ivory Coast Poised to Exploit its Golden Potential

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After a period of internal strife of the kind that has plagued so many African nations, Ivory Coast is gearing up in a drive to achieve what by all accounts promises to be a comparatively golden future for both its economic well-being and that of its population. Prior to the first decade of the twenty-first century, Ivory Coast was seen as a model of stability, but after a 2002 armed rebellion split the nation, attempted peace deals were occasionally interjected by renewed violence.

Today the country is enjoying peace, political stability and strong economic growth. Encouraged and supported by President Alassane Ouattara, Prime Minister Daniel Kablan Duncan has worked diligently to lay the foundation for Ivory Coast to reinvigorate its economy and return to its former position as West Africa’s Powerhouse. A continuing strong rebound in foreign direct investment demonstrates broad confidence in Ivory Coast’s ability to accelerate its way towards a bright and sustainable future for both its economy, and most importantly for its people.

Ivory Coast (also referred to as Cote d’Ivoire) is located in West Africa bordering the North Atlantic Ocean between Ghana and Liberia, with Mali and Burkina Faso lying to its north. Consisting of mainly flat terrain and populated by 22.4 million people, the official capital is Yamoussoukro, but it is Abidjan, Ivory Coast’s largest city and the most populous French-speaking city in Western Africa, that serves as the commercial and banking centre as well as the de facto capital.

Ivory Coast’s current agricultural based economy is a familiar one amongst African nations; the industry provides employment for two thirds of its workers, and contributes around 40% to annual export revenues. Ivory Coast is the world’s leading producer of cocoa and also produces coffee beans, rubber and timber, however sustainable growth of these resources is limited by seasonable bouts of adverse weather. The most obvious pathway for Ivory Coast to increase its GDP and create employment opportunities for its people is to realise the country’s vast and neglected mining and oil and gas potential. Today Ivory Coast is proactively engaged in a range of efforts to achieve just that.

A Rapidly Improving Economy Driven by a Surge in Foreign Investment

A recent KPMG report indicates that Ivory Coast’s new found stability saw its economy grow by a staggering 9.8% in 2012. The country was a recipient of substantial debt relief during that period which enabled the government to pursue its plans for large-scale infrastructure investment and upgrades over the medium term. It has the largest economy of the eight countries that comprise the West African Economic and Monetary Union and last year it recorded one of the highest economic growth rates on the entire African continent.

Macroeconomic stability has triggered a surge of foreign investment activity and the IMF estimates that real investment increased by a substantial 63.3% in 2012. In light of ongoing political stability the expansion of Ivory Coast’s economy, driven by continuing foreign investment, is expected to maintain its rapid growth for the foreseeable future.

Ivory Coast’s National Development Plan 2012-15 aims to reduce poverty significantly and transform the country into an emerging market economy by 2020. According to a Bloomberg report, China has committed to lend the country up to US$10 billion over the next 6 years at below market rates to further fund major infrastructure projects necessary for the continued rapid economic expansion, and to add to the existing infrastructure.

Without doubt Ivory Coast has well and truly embarked on a route to tap its vast economic potential and a sizeable portion of the path along the way could well be paved with gold.

Links:

MiningMaven- 21 Reasons to Own Physical Gold, Gold Miners and Explorers in 2014
Kitco 24 Hour Live Gold Prices

Ivory Coast Gold Report
Mining Industry Reform Now on a Solid Footing

A new mining code was signed into law in March 2014 replacing the previous 1995 version. Importantly the new code reflects the willingness of Ivory Coast to attract more investors, notably in the gold sector, and to better manage its burgeoning mining industry. In another positive step the renewal of research permits related to mineral exploration has now been extended with an initial term of 4 years, and a maximum duration of 12 years.

President Alassane Ouattara has declared that the time for mining is now and in a major effort to diversify the national economy, the President has called for the mining sector to become an economic leader for the country. In 2012, Ivory Coast’s gold mines produced 7 tonnes of gold. However, gold production is now growing rapidly as indicated by a July 2014 Reuters Africa report which quotes Mines Minister Jean-Claude Brou: “We are currently at more than 15 tonnes, and we expect to be close to 20 tonnes between now and 2015, and 22 tonnes of gold in 2016”.

Gold’s Outstanding Potential in Ivory Coast

The Ivory Coast lies along the West African Birimian Greenstone Belt, a 2 billion year-old rock formation stretching from Senegal to Ghana and host to some of the richest gold deposits in the world. With more of this greenstone belt running through Ivory Coast than any other West African country, it is widely believed that there is likely to be more gold under Ivorian soil than in neighbouring Ghana; 35% of the West African Greenstone Belt is contained within Ivory Coast compared to 19% in Ghana. The vast majority of it remains unexplored and as a result Ivory Coast’s annual gold production is dwarfed by each of its neighbours Ghana, Burkina Faso and Mali.

Some of the world’s largest listed gold miners are already hard at work and reaping rewards in Ivory Coast including Australia’s Newcrest Mining, and South Africa’s Randgold which has so far invested nearly half a billion US dollars. Randgold CEO Mark Bristow is confident that Ivory Coast can easily overtake Ghana, currently Africa’s second largest gold producer after South Africa. He believes Ivory Coast has much more to offer including the availability of low-cost power and good existing infrastructure.

Canada’s TSX and ASX listed Endeavour Mining with a market cap of C$ 300 million opened its producing Agbaou gold mine earlier this year with annual production expected to average 100,000 ounces and with cash costs of a low $750 per ounce. Endeavour CEO Neil Woodyer recently commented “If I could have a wish, all our mining would be transferred to Ivory Coast”. Newcrest is currently producing more than 90,000 ounces per annum from its Bonikro gold mine where further exploration is expected to result in a substantial multi-million ounce gold resource.

Meanwhile Ivory Coast has sold a stake in the Ity Gold Mine as part of its divestment of state mining assets to a group led by Egyptian billionaire Naguib Sawiris who, besides multiple other interests, is Chairman of Canadian miner La Mancha Resources. The group now plan to reinvigorate activities at the long standing gold producing Ity Gold Mine. La Mancha will now hold 55% ownership of the mine, seeing it fall under majority non-government control for the first time.

Footballing great Didier Drogba is credited with playing a vital role in bringing peace to his country and his high level involvement in forging the peace process there led to him being named as one of the world’s 100 most influential people by Time magazine in 2010. As captain and all-time top scorer for Ivory Coast, which performed more than creditably in the recent 2014 World Cup Finals, Drogba is revered in Ivory Coast not just for his football prowess but also for his extensive and generous humanitarian work there. Drogba recently purchased a sizable share in Ivory Coast’s Ity Gold Mine. His investment is seemingly based on three key fundamentals; confidence in the ongoing peace and stability in Ivory Coast, confidence in the growth and development of the country’s future gold industry, and confidence in the strength of future gold prices; three basic fundamentals which likely sum up an outstanding opportunity for informed natural resources investors.

Market Outlook for Gold and Gold Prices

Based on its supply and demand fundamentals the real outlook for increasing gold prices is likely to be outstanding. Despite any assorted commentary to the contrary, future gold prices will ultimately be determined, as will any commodity, by supply and demand fundamentals. MiningMaven’s widely read ‘21 Reasons to Own Physical Gold, Gold Miners and Explorers in 2014’ summarises these, and a link to this easy to read information is supplied under ‘Links’ on page 2. Some pertinent points covered include the following key fundamental drivers of potentially much higher gold prices.

The average grade for yet to be developed deposits of over 1 million ounces of gold has fallen to around 0.66g/t, and Casey Research points out that mined grades at the world’s top 10 gold mines fell by a staggering 75% from 4.6g/t in 1998, to just 1.1g/t in 2012. In addition, newly discovered gold resources have sunk to a record low.
Red Rock Reshapes as it Forges a Golden African Future

In another measured step towards crafting an all-African gold future, Red Rock Resources is focusing its attention on several exhaustively researched gold licence applications located in Ivory Coast on the West African Birimian Greenstone Belt. In its first new exploration venture in more than 3 years, Red Rock aims to add potentially significant gold ounces to those JORC gold resources already in place at its existing African gold project in Kenya.

Its move is a carefully considered one shared by several early moving world-class gold producers which are already reaping significant reward in the revitalised Ivory Coast. The strongly pro-mining Ivorian government, which presides over a newfound peace and rapid economic growth, has demonstrated it is keen to support foreign investment and expertise to develop what likely represents the world’s last remaining large-scale gold discovery frontier.

Red Rock is an asset rich company with a depth of management quality proven to be able to acquire and develop projects in keeping with its core company strategy of ‘explore, find, develop, sell, and retain royalty’. The company currently has several value adding disposals of assets underway which is entirely consistent with the aforementioned strategy.

The producing Four Points gold mine in Colombia located on the Frontino Gold Belt is currently under offer for up to US$5.0m with an expectation of a sale proceeding before the end of the year. The mine was successfully re-started in 2012 and cash costs are gradually being whittled down to a targeted level of around US$850 an ounce. Another project earmarked for disposal is the Melville Bugt Iron Ore Project in Greenland where the company has successfully developed a significant iron JORC resource and where an evaluation of exploration targets by SRK Consultants has estimated the exploration potential for 111Mt of haematite and 363Mt of magnetite. Red Rock has now opened up discussions with potential buyers and partners and no further exploration activities will take place at Melville Bugt in 2014.

Red Rock owns 27.3m shares with a current NAV of A$5.8m in Jupiter Mines which has a 49.9% ownership of the profitable producing Tshipi Manganese Mine in South Africa, a large-scale high grade manganese resource. In addition, Jupiter’s Western Australian iron ore projects at Mt Mason and Mt Ida are progressing towards development and, pending additional cost reductions as part of a revamped scoping study, a green light is likely to be given for future development leading to production. Red Rock is entitled to a 1.2% gross revenue royalty from future production at the Mt Ida Project. The company’s holding in Jupiter is earmarked for eventual disposal when its future value is optimised.

Red Rock’s disposal of other significant assets such as the producing Four Points gold mine in Colombia is entirely consistent with its core strategy and is expected to generate cash to allow a concentration of gold exploration, capital and resources in Africa.

Red Rock’s holding in the Migori Gold Project in Kenya forms a key component in this strategic company transformation. Red Rock is joint owners of two Special Prospecting Licences - SPL122 and SPL202 covering 310.5 square km of the prolific gold-endowed Migori Greenstone Belt. A significant JORC Indicated and Inferred gold resource has been completed for the project and is the subject of an ongoing programme of feasibility studies with Phase One having been completed in May 2014.
The African Gold Projects

Ivory Coast

Red Rock, through a locally incorporated affiliate has recently applied for 3 exploration licenses covering approximately 1,200 km² of the West African Birimian Greenstone Belt contained within the same prospective greenstone units which house Newmont Mining’s 17 Moz Ahafo Gold Mine in nearby Ghana. The licences are located near the town of Bettié, the name of which has been adopted for the new project pending the expected approval of the licence applications. Bettié is surrounded by good existing infrastructure and provides a low cost working environment. On 18th September the company announced that they have had assigned to it the purchase of two local Ivory Coast companies, formerly the property of Nemex Resources Limited. These companies have three granted licences and four applications in Ivory Coast, several of which are adjacent to properties which Red Rock has already applied for. These licence areas are in the Company’s priority areas and the Company will be able to start work whilst waiting for the application process to result in grant on the other applications.

The Ahafo gold mine, owned by the US$12 billion market cap Newmont Mining operates four open pits with reserves contained in 11 pits. Commercial production in the fourth pit, Amoma, began in October 2010. Newmont’s Ahafo mine produces in excess of 800,000 oz per annum and is believed to contain a resource of up to 17 million ounces of gold. Additionally, Newmont’s Akyem Gold project in Ghana moved into production in late 2013 with resources of more than 7 million ounces. Together these 2 mines are believed to represent 20% of Newmont’s total global gold production. Such is the vast potential of the still mostly unexplored West African Birimian Greenstone Belt.

Red Rock will also be advising in a technical capacity for Basse Terre SARL, a local company which has applied for a further four licence areas, all along greenstone belts. Red Rock’s licence application areas include Niofoin which lies to the south of Australia’s Resolute Mining’s Syama gold mine, currently producing nearly 200,000 ounces of gold per annum, and Tieningboue and Oume which lie north and south respectively of Amara Mining PLC’s exciting 6.3 million ounce gold resource at its Yaoure gold deposit.

The Company’s Ivory Coast licence map can be viewed here
The African Gold Projects

Kenya

The Migori Gold Project

In Kenya Red Rock owns an interest in the Migori Gold Project which consists of two Special Prospecting Licences- SPL122 and SPL202 covering 310.5km² of the gold-endowed Migori Greenstone Belt. The Migori project boasts a JORC Indicated and Inferred 1.3 million ounce gold resource at the Mikei Resource with an additional Measured resource of 68,000 ounces of gold contained within the Macalder Tailings stockpile. Red Rock can acquire a 75+% direct and indirect interest upon completion of the already underway Nyanza Feasibility Study which constitutes a Preliminary Technical and Economic Assessment on the viability of the 200,000oz Au Nyanza deposit as a stand-alone open pit operation.

The results of a Preliminary Technical and Economic Assessment on the Nyanza deposit of the Mikei Resources, announced in May 2014, indicate a projected life of mine revenue from gold sales of US$95 million at US$1,200 per ounce gold price with a capital cost of US$3 million recoverable within the first 6 months of operation and entailing production of approximately 80,000oz of gold over 9 years. Further work is underway to complete the study, and Red Rock is concurrently proceeding with its objectives of upgrading and expanding existing mineral resources at Nyanza, as well as continuing greenfield exploration. The development of this project to the mining stage continues to be a focus in order to optimise the project’s total value to investors.
The Value Proposition

The overall investment case for Red Rock Resources is a compelling one and offers exposure to multiple large-scale, upside opportunities. Its planned evolution into a company which specialises in finding significant gold resources on the African continent makes perfect sense for a small cap explorer and allows the company to concentrate its cash resources and proven exploration expertise within a ‘single commodity, single continent’ strategy.

What better place to concentrate these efforts than in Africa? It is not by coincidence that both US President Barack Obama and China’s President Xi Jinping made extended visits to Africa during 2013. Their visits were about trade, and more to the point about helping to secure a sizable share of Africa’s vast mineral wealth for their respective countries interests.

The African continent is believed to contain more than 30% of the world’s remaining mineral wealth, including 40% of its gold- almost all of it yet to be discovered in a world where physical gold demand continues to rise, but where new discoveries and the grades of these discoveries continues to fall. In contrast, African gold discoveries tend to be large in size -and higher in grade, rarely requiring the expensive drilling out of vast areas to prove up a reasonable resource of a low yield gold grade.

Red Rock is poised in the future to add further diligently researched gold opportunities to complement its exciting potential in Ivory Coast and Kenya. As Red Rock positions itself as an African gold-focused operator, it will in the near term continue to unlock the value of its legacy assets. In a world where investment outlooks tend to be ever shorter, those investors who exercise that key requirement of successful natural resources investment - i.e. Patience - are likely to find themselves exposed to significant reward and meaningful upside.

The current market cap of just £3.75m fails to adequately reflect even the net asset value of Red Rock’s projects and investments.

For instance, Jupiter Mines, in which Red Rock owns 27 million shares (representing 1.2%), is a very significant strategic asset with substantial potential for value enhancement. Aside from the its sizable Australian Iron Ore interests, its cash and loans to Tshipi Borwa, Jupiter’s 49% equity stake in the producing Tshipi Borwa manganese mine has recently been valued at AUD460 million by consultants Venmyn Deloitte. Jupiter’s book value for Tshipi adjusted for Venmyn Deloitte’s valuation equates to around AU28c per Jupiter share, valuing Red Rock’s interest in Tshipi alone at around AU$7.5m – which is equivalent to Red Rock’s entire current market capitalisation! Note that this valuation is attributed to the Tshipi asset alone, discounting all of Jupiter Mines other assets and operations.

Tshipi has been operating profitably from day 1; achieving production of 1.1 million tons of manganese last year, and projecting 2.7 million tons for the current year - potentially scalable to up to 3.6m tonnes. The mine also has the lowest costs in the industry worldwide with around 80% of Tshipi’s sales going to China, accounting for around 12% of its seaborne manganese trade.

Aside from its stake in Jupiter Mines, Red Rock also holds of a 20.94% stake in Resource Star (ASX:RSL) which could well be setting Red Rock up for some serious returns following the decision to steer Resource Star in a new direction. RSL recently revealed an exclusive option to acquire the privately owned Australian Cloud Lands Digital Fortress Pty Ltd, a cloud computing services provider. Final approval was obtained at a meeting of shareholders on 18th September and the company is now set to re-position itself in this dynamic fast growing technology space.

The change in direction will obviously position RSL as a non-core asset to the Company and with the share price currently trading at around AU$0.06c it values Red Rocks 65.3m shareholding at around AU$391k. Red Rock’s holding in RSL represents yet another potential value-adding catalyst for investors.
For us, Red Rock’s current position is looking eerily similar to that of 2009, just before its spectacular rise from a fraction of a penny, topping out at over 15p in 2010 – that’s around a 60 fold increase!

Back then, the company held a clutch of compelling assets with completely bombed out valuations. Today’s valuations are arguably even more severe, yet many of its assets are far more advanced (with particular regard to the Company’s stake in Jupiter Mines).

Additionally, going forward, the Company now has serious exposure to some of the most prospective ground in Africa within its gold-focused operations.

In that tough market back in 2009, Red Rock had very few funding options available it but the Company used that tough market as a platform to outperform. Today’s market may be equally as tough, but fortunately the Company’s assets base now gives it a wide range of funding options.

Followers of Red Rock’s sister company Regency Mines (whose share price has risen over 100% since July), will know only too well that it can take just a spark to start the fusion, transforming sentiment and market psychology overnight.

As investors in the natural resource sector we always have to contend with the extreme market cycles, with all their inherent risks, and focus our attention on the intrinsic risk/reward ratio in order to find the best opportunities for significant capital gains.

For us, Red Rock Resources is now positioned at that sweet spot for significant near term value creation and we will be keenly following the company’s developments in the near term in this recovering market.

For our latest Podcast interview with Red Rock’s Chairman Andrew Bell click here:

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