ALIGN
RESEARCH

Red Rock Resources

3rd January 2018

Compelling portfolio of commodity investments underpinned by RRR's stake in Jupiter Mines expected to be worth on and half times the current market cap providing the rest for free

Red Rock Resources joined AIM in 2005 to advance iron ore and manganese projects in Western Australia and Tasmania. An early deal with ASX-listed Jupiter Mines paved the way for a lot of future success which propelled the shares from 1p to 20p. Today, the company is still headed by founder Andrew Bell and continues to pursue its well-proven strategy based on a combination of corporate deal making alongside exploration.

Negotiated a series of cracking deals based on providing the last dollar

Red Rock is a small cap that punches well above its weight. The recent Steelmin deal sees them taking a 20% stake for providing the finance to get this ferrosilicon smelter complex back into production in 2018. **Red Rock may emerge with a far larger interest and share of profits.**

Poised for substantial growth with battery metals

The portfolio is being broadened to include battery metals. Red Rock has interests in manganese, which is now being heralded as a future battery metal, and is undertaking DD on an exciting cobalt play. **Big value could be added by driving such a project towards early cash flow generation.**

EBITDA multiples and peer comparisons suggests an upside of 204%

Red Rock's stake in Jupiter Mines, assuming an upcoming IPO valuation of A$1 billion (£574 million), is worth more than the company's current market cap. In addition, our conservative valuation also demonstrates that the stock is highly under-priced ex this stake. **We initiate coverage of Red Rock Resources with a target price of 2.89p and a Conviction Buy stance.**

Table: Financial overview

Year to end June	2016A	2017A	2018E	2019E
Revenue (£'000)	-	-	-	-
PTP (£'000)	(283)	(1,114)	1,095	2,137
EPS (p)	(0.1)	(0.24)	0.22	0.33

Source: Company accounts & Align Research

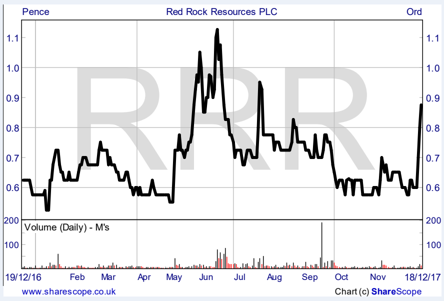
This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY – Price Target 2.89p

Key data

PIC	RRR
Share price	0.95p
52 week high/low	1.23p/0.49p
Listing	AIM
Shares in issue	499.04m
Market Cap	£4.74m
Sector	Mining

12 month share price chart



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Business Overview

Red Rock Resources Operations

Red Rock Resources is a natural resources exploration and development company which manages a diverse portfolio of mining and oil & gas projects, along with other investments around the world. **Historically, the portfolio has been focused on the core areas of steel feed metals and gold, however, there has been further diversification into oil & gas over the last few years and most recently into battery metals.**

STEEL FEED

• **Jupiter Mines Limited (1.2%)** – An Australian company with interests in the Tshipi é Ntle's manganese mine which is located in the Kalahari Basin in South Africa. Jupiter Mines Limited (JML) also owns two projects in Western Australia which are a Direct Shipping Ore (DSO) iron project at Mount Mason and a magnetite project at Mt Ida.

• **Steelmin Limited (20% with option to increase to 30%)** – A UK company that is restarting a ferrosillicon and silicon metal smelter complex in Bosnia, funded by a back-to-back finance deal through Red Rock. Production is expected to begin in Q1 2018.

GOLD

• **Migori Gold Project (75%)** - The company has a 75% stake in Mid Migori Mining Company Ltd which holds Special Prospecting Licenses 122 and 202 in the Migori gold belt in Kenya, which has a 1.2 million ounce JORC gold resource.

• **El Limon** – The El Limon mine in Colombia lies within the prolific Zaragoza Gold District. The disposal of Red Rock's interests is ongoing, and the company will be receiving increasing royalty payments as gold production is expected to grow rapidly.

• **Ivory Coast Gold Project (100%)** – Red Rock has an agreement with local companies Nemex Resources CI SARL and Barclay Resources CI SARL, to carry out gold and manganese exploration across three licenses in the highly prospective Birimian greenstone belt.

OIL & GAS

• **Shoats Creek (20% WI, 14.4% NRI)** – The project is located onshore in the SW of Louisiana in the US, where the current development phase was initiated by Mayan Energy in 2015. Red Rock has a 20% interest in the LM20 well, along with two wells to be drilled in the future and three re-entries.

• **Elephant Oil (5.11%)** – Oil and gas company focused on the underexplored areas in onshore West Africa, which looks as though its heading towards an IPO. The first target is likely to be oil onshore in the Dahomey Embayment of Benin.

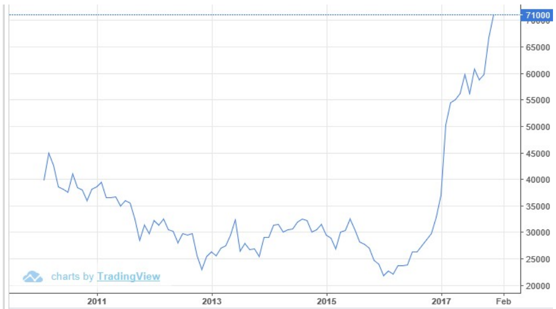
Battery metals

The move in the car industry towards electric vehicles has led to rapid developments in battery technology and Red Rock is growing its interests in this sector. **Currently, the company is undertaking due diligence on a cobalt project in the Democratic Republic of Congo (DRC), whilst at the same time its holding in JML gives exposure to manganese.**

Cobalt

Cobalt is a strategic metal which is becoming increasingly important in the global move to electric vehicles and the entire future energy economy due to its role in rechargeable batteries. There are very strong dynamics for cobalt, where the price has soared over the last twelve months. **Cobalt is not mined on its own but is largely a by-product of copper mining, with most of the world's cobalt production currently coming from the DRC.**

Most lithium-ion batteries for portable applications are cobalt-based, where the cathode is a cobalt oxide electrode. The big advantage of using a cobalt-based battery is that they have the highest energy densities, which is important for mobile phones and electric vehicles.



Cobalt price. Source: Trading Economics

Tesla Model S. Source: Tesla

Tesla's Powerwall, a home battery which can provide seven days continuous power when the grid goes down, uses around 7kg of cobalt, while Tesla's Model S car requires a total 22.5kg of cobalt. **There is tremendous future demand from automobile manufacturers for cobalt, with Tesla alone forecasting production of 10,000 vehicles a week in 2018, plus rapidly growing future demand which is expected from battery makers like Panasonic.**

Manganese

As yet, manganese does not really seem to have much of a following as 95% of mined production goes into steel. **However, manganese looks as though it is just about to be caught up in the rapidly growing battery technology story, as manganese is a critical metal for battery and electric vehicles**. (Source: INNspired Investing News 18th July 2017).

Manganese is used to produce batteries for electric vehicles as well as for other renewable energy applications including electricity grid storage like Tesla's Powerwall batteries. An upgraded form of manganese called electrolytic manganese dioxide (EMD) is a key ingredient in lithium-ion, alkaline and zinc-manganese batteries. It could be that regular lithium-ion batteries might be overtaken by the lithiated manganese dioxide (LMD) batteries (61% manganese and 4% lithium) as tests have shown a good combination of higher power output and better thermal stability. Manganese is quite lowly priced and as such could become an increasingly attractive metal to substitute lithium and cobalt as the cost of these two metals continues to move higher.

Background

Red Rock Resources plc was established in September 2004 to pursue mineral exploration and development opportunities. The company joined AIM in July 2005 following a placing that raised £476,000 at 2p per share, giving the company an initial market capitalisation of around £3 million.

In essence, Red Rock was spun out of Executive Chairman Andrew Bell's other AIM-quoted play Regency Mines as a mineral exploration and development company focused on advancing iron ore and manganese projects in Western Australia and in Tasmania.

In 2006, Red Rock entered into an agreement with ASX-listed **Jupiter Mines Limited (JML),** which paved the way for a lot of future success. The JML agreement included the granting of options over the company's Mt Ida and Mt Hope iron ore licences.

The big leap forward for Red Rock came in 2009 when the company joined forces with Pallinghurst Resources, run by the ex-CEO of BHP, to stake build in JML. Eventually, Red Rock vended its iron ore and manganese interest into JML, whilst Pallinghurst put in cash to fund the development of JML**. In this way, Red Rock gained a significant stake in Jupiter which has helped fuel the growth of the company outside of iron ore.**

Over time, the company has moved beyond the initial targets of iron ore, manganese and uranium and become a more diverse natural resource play. Red Rock acquired assets in central and eastern Africa, notably uranium properties in Malawi, gold in Kenya, Ivory Coast and Colombia, and iron ore in Greenland. The move into gold began in 2009 and it was during the period from 2008 to 2010 that shares in Red Rock climbed from 1p to 20p (on a pre-consolidation basis).

In common with mineral exploration companies the world over, Red Rock suffered when junior mining stocks fell firmly out of favour. From 2012 to 2015 management worked hard to restructure the balance sheet, cut costs and dispose of mature assets, along with non-core assets. At the culmination of this process, in December 2015, there was a capital reorganisation which saw the shares consolidated on a 1-for-25 basis.

Management had been clearing the decks and streamlining the company ahead of making a select number of acquisitions which represented bottom of the cycle opportunities at real down to earth valuations. **Probably more importantly, all these projects offer the prospect of near term cash generation.**

The company has also invested in oil and gas development assets in the United States. This began in 2015 when the option to invest in Shoats Creek was gained.

In June 2017, the company acquired an interest in Steelmin Limited, in agreeing to fund the completion of the refurbishing and commission of a ferrosilicon smelter in Bosnia. **Through the efforts made over recent years, we believe that management has now successfully positioned Red Rock for a sustained period of out-performance as evidenced by the material increase in CEO Andrew Bell's holding in the company in mid December.**

Operations

Red Rock is building an investment portfolio focused on natural resources and commodities. The current interests principally include: steel feed, gold and oil & gas.

STEEL FEED

Jupiter Mines (1.2%)

Jupiter Mines Limited (JML) is an Australian company with interests in Tshipi é Ntle's manganese mine which is located in South Africa's Kalahari Basin. JML also owns two projects in Western Australia which are a Direct Shipping Ore (DSO) iron project at Mount Mason and a Magnetite project at Mt Ida.

Tshipi Mine. Source: Company

There is no doubt that Tshipi is a blue-chip mining asset in being one of the world's leading manganese producers. JML has a 49.9% stake in the Tshipi Mine, where the other shareholders are Nstimibintle Mining (37.1%) and OM Holdings (13.0%). The management team at Tshipi are highly experienced.

Tshipi is a long-life, low-cost world class asset with a one-hundred-year life at 3 million tonnes per year and low operating costs. The mine has compelling economics as it is not only one of the largest manganese mines globally, but it is also the shallowest manganese resource worldwide, which dramatically reduces stripping ratios and overall mining costs.

The mining technique is a relatively simple drill and blast, with the material being loaded and trucked away to private rail siding loop with a capacity of 5Mtpa. The material is then transported by rail to four ports on the coast for export. The site benefits from reliable on-site power generation and has well-established off-take channels.

Production began at Tshipi in early 2013, and since then has risen to a run rate of over 3Mtpa. In the six months to the end of August 2017, profits after tax rose to A$33 million with its share of profits from Tshipi being A$33.79 million**. Already around US$80 million has been paid back to shareholders, with Red Rock receiving almost US$1 million in calendar year 2017 via buybacks and with additional buybacks planned.**

A total of 80% of the world's manganese ore lies within the Kalahari Manganese Field in South Africa. The mineralisation in the manganese rich Kalahari Basin is well-known and is dipping which means that Tshipi is possibly the last big open pit manganese mine in the Kalahari Basin. Any new mines in this basin will have to be higher cost underground mines as the overburden becomes too thick to permit surface mining.

Supply and demand in manganese could be changing over the coming years. Today Tshipi is the world's third largest manganese producer. The top two manganese producers, including South32 with its Mamatwan Mine, both have limited reserves which will not last much more than a decade. **In comparison, Tshipi will still be in production in fifty years' time and so occupies an important position in the manganese market**. So, Tshipi represents a good strategic asset as, within a decade, there is likely to be no other long term big manganese open pit mines in operation. In China, the country also seems to be phasing out its own high cost low grade small mines.


Tshipi Mine. Source: Company

Tshipi's profits for 2017 are expected to rise on the back of higher manganese ore prices over the past twelve months. The guide price for production from Tshipi, which is 37% manganese ore (Port Elizabeth), hit a high of US$5.13 per dry metric tonne in September 2017 (was US$4.97 in early December 2017), which is well up from the low of US$2.23 recorded in March 2017.

The steel industry uses 95% of manganese mined and as we mentioned earlier on, the metal does not really have that much of a following resulting in it being an "under the radar" investment opportunity. The metal is so cheap in price that there is nothing else that is likely to substitute it. Over the coming years there now seems to be the potential use of manganese in rechargeable batteries, and which could represent a brand-new demand opportunity dependent upon the anticipated dynamic growth in electric vehicles.

Progress at both of JML's Western Australia projects has been slowed by recent low iron ore prices. The Mt Ida the Magnetite project has a JORC inferred resource of 1.85 billion tonnes at 29.48% iron (where Red Rock retains a 0.75% production royalty), while Mount Mason is a DSO project. Both these projects in Western Australia are currently on care and maintenance, waiting for metal prices to improve.

Steelmin Ltd (20%)

The Steelmin plant and facility lies in central Bosnia, 104 kilometres north-west of the capital Sarajevo. This complex used to be part of Electrobosn and was originally built by the Norwegian ferrosilicon producer Elkem in the 1970s. The plant closed down in 1992 due to the Bosnian War and was privatised in 2000 when the six furnaces were sold off in two separate lots. The Steelmin plant consists of two of these furnaces which were brought back into production but closed in 2004 due to competition from China.

The Steelmin plant and facility. Source: Company

Steelmin Ltd. is a UK company that is restarting this ferrosillicon and silicon metal smelter complex funded by a back-to-back finance deal through Red Rock. In facilitating this financing, **Red Rock has to date been granted a 20% stake and within the terms of the deal the company's holding could increase to 30%.**

The acquisition of the interest in Steelmin and the completion of the back to back financing agreements were announced in June 2017. Under the terms of the deal, Red Rock issued an 8 month secured loan to Steelmin, bearing interest at 13% per annum, which could be extended for a further 8 months for a fee. Red Rock was initially issued with a 16% holding in Steelmin (now at 20%) and which could increase to 30% depending on the date when the loan is fully repaid.

Steelmin is able to refinance the loan for an additional 8 months by paying a 5% fee, with outstanding amounts to then be amortised on a monthly basis. If the loan was not fully repaid by 1st September 2017, Red Rock would receive a further 1% stake in Steelmin and receive another 1% a month up to a maximum holding of 30%.

Furnace V and the hydro dam. Source: Company

Ferrosilicon is a ferro alloy of iron and silicon. Steelmin intends to produce a ferrosilicon containing 75% silicon and 25% iron, which is largely used as a deoxidising agent to add electrical conductivity and corrosion resistance to steel. **The price of such a product is driven by the level of worldwide steel production and is being helped by Chinese export prices having been on a rising trend since the beginning of 2016.**

Importantly, the Steelmin plant benefits from low cost energy which is provided by hydro plants on site aswell as locally available quartz, wood, lignite and metallurgical coal. **The end result is that these low input costs are expected to generate strong margins.** The process also creates microsilica which represents a handy by-product which is used for hardening concrete in flooring and airport runways.

On the ground in Bosnia is an experienced local management team which includes the original engineers. Initial production of ferrosilicon is targeted for Q1 2018 from one of the two electric arc furnaces on site, and the long lead time items have already been ordered.

The capacity of the complete complex is 48,702 tonnes of ferrosilicon and 9,700 tonnes of microsilica. The first furnace going back into production is Furnace V, which is expected to produce 29,000t of ferrosilicon per annum as well as 5,800t of microsilica. **This first furnace is expected to generate an annual revenue of €35 million revenue and EBITDA of €7 million.**

Once production has been re-established, the plan is to refinance the project. Towards this goal, discussions are continuing with the European Bank for Reconstruction and Development (EBRD). Such a move would allow the second furnace to be refurbished and brought back into production using debt finance.

The second furnace (Furnace IV) has a lower capacity. However, with a lot of the administration and staffing costs already being paid, it does mean that much of the margin will drop through to the bottom line. **When both furnaces are up and running, an EBITDA of €11-12 million per annum has been estimated.** Beyond completing the second furnace, there is further upside potential provided by M&A opportunities in the region as well as expanding into higher margin ferroalloys.

From its base in Bosnia, Steelmin is well-located to serve the major European steel producers in Italy and Germany. Yugoslavia had a long industrial history and today the EU is Bosnia’s largest trading partner. The country is applying for EU membership and has a stable currency that is pegged to the Euro. Bosnia benefits from having a highly educated and competent workforce.

GOLD

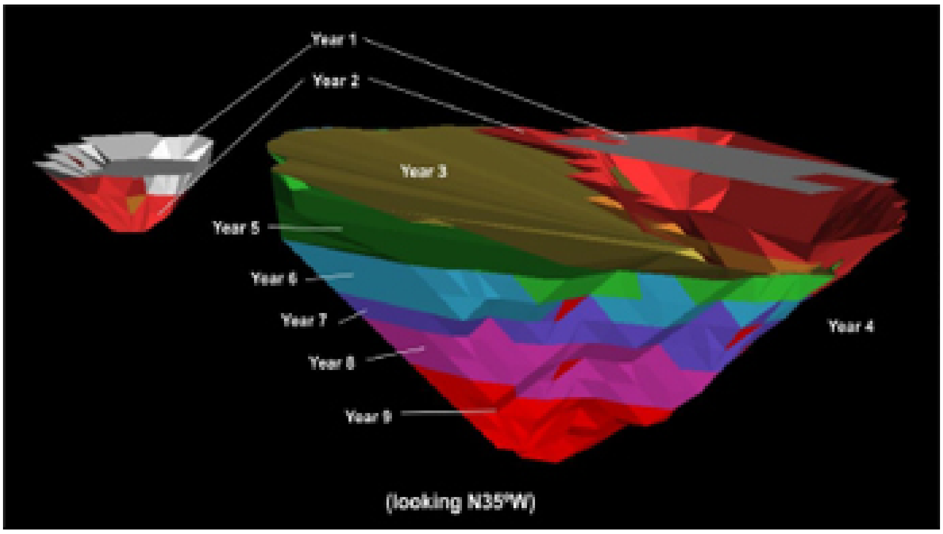
Migori Gold Project (75%)

Red Rock is exploring the Migori gold belt in Kenya, which is highly analogous to the far better-known greenstone belts in Tanzania which boast a high level of gold production. **The company has a 75% stake in Mid Migori Mining Company Ltd (MMM) which holds Special Prospecting Licenses 122 and 202 which contain a 1.2 million ounce JORC gold resource.**

	Inferred		Indicated		Total		
0.5 g/t cut-off	**mt**	**g/t gold**	**mt**	**g/t gold**	**mt**	**g/t gold**	**Million ounces**
KKM	1.4	1.15	16.3	1.00	17.8	1.01	0.58
KKM-West	3.0	1.02	1.1	1.07	4.2	1.04	0.14
Nyanza	1.2	1.70	1.2	3.73	2.3	2.72	0.20
Gori Maria	3.8	1.16	0	0	3.8	1.16	0.14
MK	0.6	1.76	0.8	4.05	1.4	3.07	0.13
Total	**10.0**	**1.21**	**19.4**	**1.29**	**29.4**	**1.26**	**1.19**

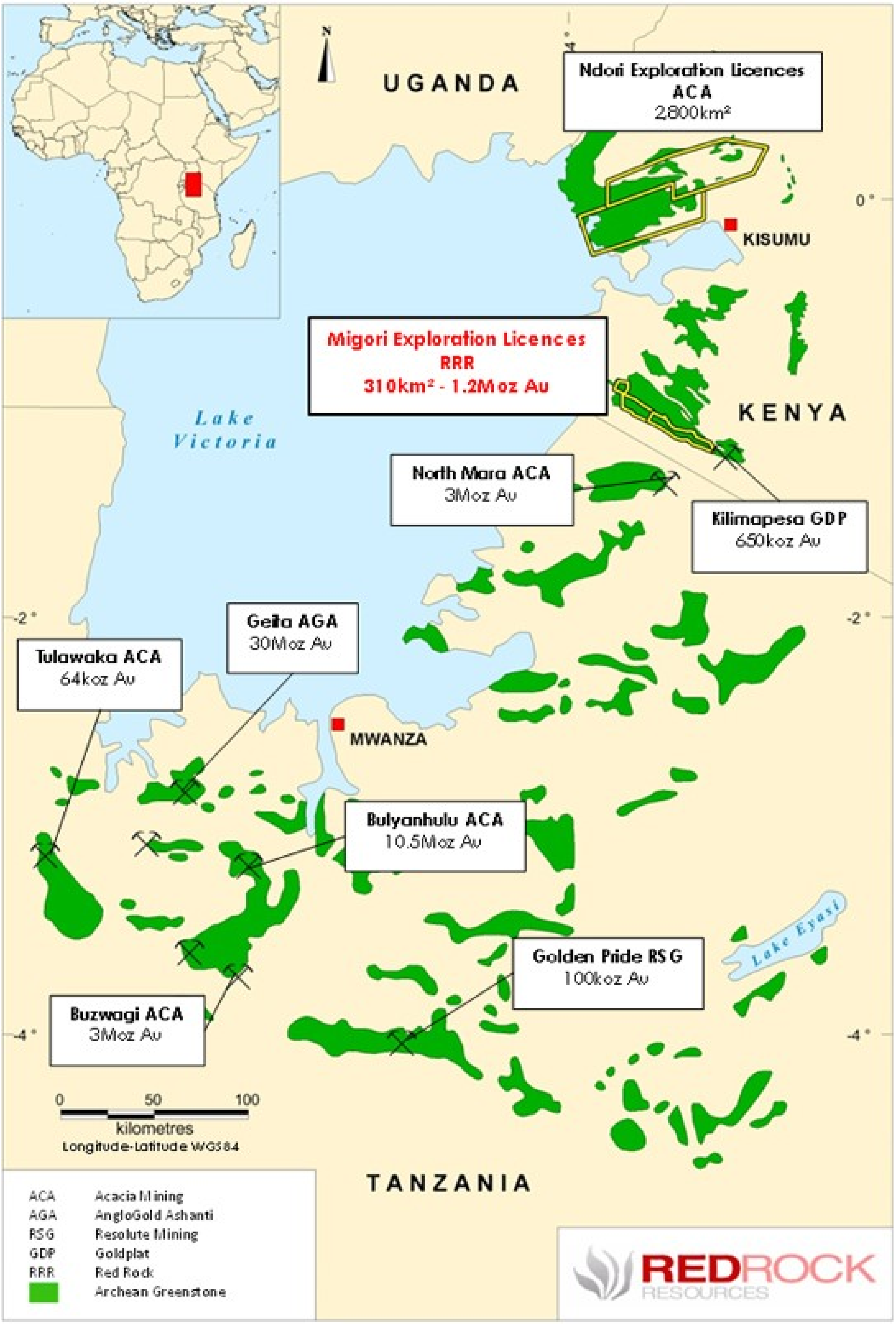
Table: Summary of CSA reported JORC-compliant Mineral Resource Estimate Statement for the Migori Gold Project. Source: Company

The project is currently the subject of a license dispute which has been ongoing since mid-2015. Resolution is expected soon as MMM has been working with Kenyan Ministry of Mining on licensing issues. Whilst awaiting a decision, desktop studies have been ongoing together with discussions with larger companies that are active in gold exploration/production within this region regarding the establishment of a joint-venture.



Pits shells per year mined at Nyanza, one Migori's key prospects. Source: Company

In addition to the JORC Mineral Resources Estimates for the Mikei Shear Zone of 1.2 million ounces gold @ 1.3g/t, there is also the Macalder tailings which total 68,000 ounces of gold @ 1.65g/t (Measured, based no cut-off grade). Already, key technical and economic studies have been completed for the both Nyanza hard rock and Macalder tailings gold deposits.



Location of the Migori Gold Project, Archean greenstone belts and gold resources identified by majors. Source: Company

The board is confident that the company will get this asset back in contrast to the feeling amongst investors that the project has been lost forever. We anticipate that good news could come in early 2018. Currently, the resource is at early feasibility stage, but there does seem to be good potential for a significant expansion of the resource.

The plan seems to be that the company would bring the Macalder tailings into production themselves, whilst bringing in a joint-venture partner for the Nyanza hard rock. The ideal joint-venture partner would probably be a Chinese company that is already active in the area, which has good capital backing and so can move rapidly**. Such a partner would not require a Bankable Feasibility Study as they have access to the necessary funding.**

Future exploration efforts are likely to be focused on the seven kilometer long Mikei shear where there is clear upside potential between known zones. Also, there appears to be significant resource expansion potential for both gold and base metals, with a total of twelve new regional targets identified and fifteen existing targets that are being re-prioritised. **The team's geologists are confident that a reasonably affordable, well-planned exploration programme could increase the JORC Resource from the current 1.2 million ounces to a couple of million ounces.**

El Limon

The El Limon mine is located in NW Colombia within the Zaragoza Gold District and which hosts a number of underground gold mines and is thought to be one of the most prolific gold areas within that country. The disposal of Red Rock's interests is ongoing. **The gold assets were sold for US$5 million in 2015, but a US$1m Promissory Note and US$3m royalty are still to be paid.**

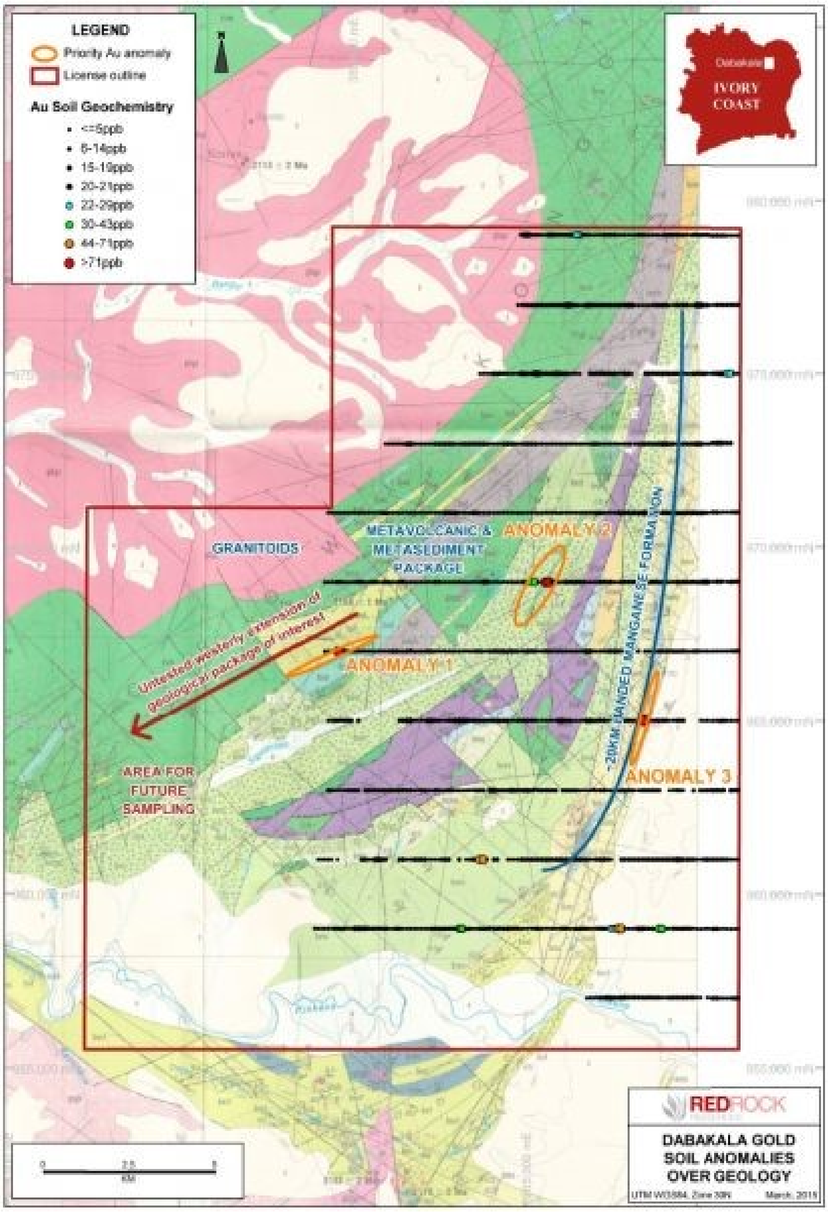
El Limon is operated by Para Resources (CVE:PBR) and produces high grade gold plus provides toll milling for regional suppliers. The mine has an average grade 8g/t gold with breakeven costs at $450/oz. In 2016, approximately 1,000 ounces of gold were produced.

El Limon mill. Source: Company

The mill has undergone an upgrade which has allowed capacity to increase to more than 200tpd, with 15,000 ounces targeted in 2017 and 25,000 ounces in 2018. **Based on these sorts of figures, the company is expecting to receive royalty payments of US$227,000 (2017), US$401,000 (2018) and US$580,000 (2019).**

Ivory Coast Gold Project (100%)

Red Rock plans to carry out gold and manganese exploration across three licenses in the highly prospective Birimian greenstone belt in the Ivory Coast which cover a total area of 1,185km². This comes from an agreement with local companies Nemex Resources CI SARL and Barclay Resources CI SARL, which selected these licence areas based on their knowledge of the local geology. Additional licences are also under application.



Dabakala licence and soil geochemical superimposed on geology. Source: Company

The three licence areas are roughly each the same size at around 390km² and cover some interesting geology. The Dabakala licence in north-central Ivory Coast covers part of the Ouango-Fetini Greenstone Belt along trend from Semafo’s 6 million ounce Mana Gold Mine in Burkina Faso. **The ground is thought to be highly prospective for gold and base metals. Newmont, Randgold and Resolute Mining are targeting ground in the immediate vicinity.**

The Ivory Coast is fast being seen as the next frontier for gold exploration in West Africa. The country has more West African Birmian greenstone geology than its neighbours and the results of preliminary exploration have not disappointed. The Birmian Greenstone Belt in the Ivory Coast remains underexplored despite having enormous potential which has been well illustrated by the presence of the majors.

OIL & GAS

Shoats Creek (20% WI, 14.4% NRI)

The project is located onshore in the south west of Louisiana in the US and covers some 1,670 acres. The Shoats Creek Field was initially developed in the 1950s and has produced more than 2mmboe from numerous horizons. The field allows for low cost onshore vertical wells targeting the Lower FRIO Sands. The current phase of development was initiated by Mayan Energy (formerly Northcote Energy) as an operator in 2015. At that time, one new infill well was completed along with multiple recompletions.

Oil and water storage tanks and well LM20 at Shoats Creek. Source: Company

Red Rock has acquired a 20% working interest in the Lutcher Moore #20 (LM20) well, along with the LM21 and LM22 wells which are intended to be drilled in the future. The company's interests also include three re-entries LM19, LM9 and LM13.

Northcote Energy drilled and tested LM20 in 2015, the first well in the redevelopment programme. LM20 was a twin to the historical LM16, which had been a strong producer until it had to be shut down prematurely due to mechanical problems. **At the beginning of 2016, test results from LM20 showed rates of over 250 bopd and 500 mcf/d of gas.** The LM20 encountered 10'-12' of pay with an estimated 20% porosity and was perforated over a small interval from 5018-23'. By late 2016, a gas line had been installed to allow gas from the LM20 well to be sold to the market.

There were a lot of problems in the field in 2016. News that a new management team has taken over at Northcote Energy was well received. Under the new name of Mayan Energy, the team look like they are making a renewed effort with the development of Shoats Creek. Moving ahead, plans include moving to full production on the LM19 as well as multiple additional workovers where Red Rock may choose to participate as well as the spud of the new LM21.

Mayan Energy is undoubtedly making good progress on its fast-growing portfolio of oil interests in Texas and Oklahoma, which makes Shoats Creek increasingly appear to be a non-core interest for Mayan. The area is not the easiest place to operate as it is prone to flooding and the sand is quite loose which has caused production problems in the past. It does look as though going forward Red Rock's financial resources are more likely to be focused elsewhere within the portfolio.

Elephant Oil (5.11%)

Elephant Oil is an oil and gas company focused in the underexplored areas in onshore West Africa. The first target looks to be oil onshore on the Dahomey Embayment of Benin, where the prolific West African Transform Margin comes onshore. The precedents that have been set by analogous fields offshore suggest that a comparable onshore accumulation would be very profitable.

Dahomey Embayment of Benin. Source: Elephant Oil

The strategy is to seek large early-stage exploration uplift. Elephant Oil is led by its Managing Director Matt Lofgran and looks like it is being groomed for an IPO and listing on AIM. **Red Rock invested £275,000 in July 2015 and had the option to invest a further £412,000 for six months.**

OTHER INVESTMENTS

Red Rock offers exposure to a wide variety of commodities through its portfolio. One investment that has attracted a lot of interest is Melville Bugt (60%) which is an iron play in North Greenland with a 67Mt Iron JORC Resource. In 2012, Red Rock was offered in excess of US$20 million for its stake in the iron ore project, which at the time the management found hard to believe. Currently the project is on care and maintenance.

Strategy for growth

Red Rock has a proven strategy based on a combination of corporate deal making alongside exploration through its well-proven business model of: identify, develop and monetise. The focus has always been on multiple commodities, JORC resources and opportunities with large upside potential.

Since inception, the company has been headed by its Executive Chairman Andrew Bell. Bell is adept at negotiating innovative corporate transactions which have served to give this small cap resources stock an interest in some world class blue-chip projects. Such corporate transactions encompass joint-ventures and partnerships, asset trading, disposals and royalties where Red Rock has been successful in winning some impressive deals often by committing the last dollar.

The company has an impressive portfolio across a diverse range of in-form commodities which the management team is driving hard towards early cash flow. Multiple income sources are now being developed and over the coming months there looks to be a series of value-adding milestones coming up as projects are brought into production and other assets that have already been developed are monetised. **These represent astute investments made across a range of commodities at the bottom of the cycle and so there are good gains that can be crystallised on exit.** Developments that are likely to be played out in 2018 are discussed below.

Jupiter Mines Limited

In 2017, it was thought that Tshipi would either be listed or sold. The stumbling block came with a change in the proposed regulations for Black Economic Empowerment (BEE), which would affect the saleability of the BBE partner's holding. Instead, JML, the 49.9% owner of Tshipi, has been exploring strategic options such as a potential IPO or the possible sale of Tshipi. Bank of America Merrill Lynch have been brought in to help in the evaluation of the various options.

It does seem that the most likely option is that JML will be listed in either Australia or the UK and this could happen as early as Q1 2018. The combination between the cash flow from Tshipi and the shareholding in the mine looks like a solid base on which to grow JML with new project developments, along with mergers and acquisitions.

JML does not need to raise new funds at IPO, but when it relists the partners might each let go of say 20% of their holding to provide the stock with reasonable liquidity. In such a move, **Red Rock may well sell a 0.3% stake and be left with a 0.9% holding which could easily be disposed of when necessary over the coming years in our view given present liquidity levels.**

Steelmin

The recent Steelmin deal now sees the company with a 20% stake for providing the finance to this ferrosillicon and silicon metal smelter complex, which could be back in production in Q1 2018, providing Red Rock with a growing share of profits. However, Red Rock is in no hurry for Steelmin to get back into production. The financing provided by the company was seen to provide a stop gap, a temporary measure whilst Steelmin went out and refinanced the operations on better terms.

Red Rock has dilution protection, security over everything and is sitting there watching its holding in Steelmin increase the longer the loan remains outstanding –a fantastic position to be in. Unless Steelmin gets into production soon and is able to refinance the Red Rock loan, it is not beyond the realms of possibility that punitive penalty clauses could come into play. **The end result could be that Red Rock may end up controlling Steelmin.**

Cobalt/copper tailings

The resources world endured five years in the wilderness between 2010 and 2015, and which has led to there being some once in a generation bottom of the market cycle opportunities such as the copper/cobalt tailings project in the Congo and which is currently undergoing due diligence. This deal will give investors an exposure to cobalt, which is now fast being recognised as one of the most important metals for the batteries of the electric vehicles of the future and the one with the tightest supply/demand fundamentals.

This copper/cobalt tailings project where Red Rock is undertaking due diligence is right next door to the large players such as: Glencore's Katanga Mining, Sicomines a (joint-venture between a group of Chinese companies and the DRC's Gecamines SA) and Eurasian Resources Group (ERG, which is now a big Kazakh private company).

This is a first-class copper/cobalt tailings project and the management team is attracted to such tailings projects as they have low production costs. The due diligence period has been extended purely because the drilling team and geologists could not gain access to one of the largest tailings ponds. Metallurgy involving cobalt is highly complicated and it can be difficult to achieve a decent level of recovery from a processing plant. Fortunately, ERG is building a large processing plant nearby and so there is the opportunity for the company's future production to be processed there.

Corporate deal making

Resource stocks remained out of favour for a five-year period until early 2016, with a lack of performance in commodity prices and investors becoming disillusioned by such companies' constant fund raising and dilution. Red Rock, through its corporate deal making expertise, has always been able to generate funds through monetising its investments and therefore has never been wholly reliant on raising money by issuing shares. **In this way, the company has shown itself to be a clearly different sort of resources play.**

To make progress in today's equity market, small cap resources stocks have needed to demonstrate the potential for early cash flow. Here, Red Rock leads the pack as it has been on this path for many years.

Financials & current trading

Losses that have been recorded over the years are largely due to impairment of investments in associates and fixed assets and administration as the board has built the portfolio of interests in mineral exploration projects.

Y/E 30th June £'000s	2013A	2014A	2015A	2016A	2017A
Revenue	-2,565	-	-	-	-
Pre-tax profit/loss	-22,488	-3,769	-7,727	-283	-1,114
Net profit/loss	-22,106	-3,769	-7,727	-283	-1,114

Red Rock Resources five-year trading history. Source: Company accounts

2017 results

Financial results for the twelve months ended 30th June 2017 showed a loss of £1.114 million. The basic and diluted loss per share from continuing operations came out at 0.24p. During this period, the board continued to seek out and develop cash flow producing assets which would make the company less dependent on the financial markets for funding.

Recent developments

In September 2017, the company announced a conditional joint-venture agreement to develop a cobalt/copper tailings project in DRC. The agreement has been made with Cobalt Blue Limited to acquire an interest in a joint-venture company, to be newly formed, for the exploitation of four or five copper/cobalt tailings. Red Rock can acquire a 26.25% of the joint-venture company for cash of $700,000 (£490,000) payable in Red Rock shares (with attached 5-for-3 three-year warrants to subscribe for new shares at 1p) and a commitment for Red Rock to fund US$1.2 million of exploration expenditure over an eighteen-month period to produce a bankable feasibility study (BFS) on Kamirombe, and thereafter pro-rata. In the six months after the completion of the BFS, Red Rock would be able to increase its stake to 52.5% with a further payment of $1 million. The due diligence period has subsequently been extended until the end of January 2018.

In November and December 2017 saw Red Rock raised a total of £1 million via Convertible Notes plus warrants to high net worth investors. The notes are convertible (paying 10% per annum, accruing monthly) into shares at 0.8p, which represents a goodly premium to the then prevailing share price. The funds raised were earmarked to mainly reduce the company's exposure under the back-to-back financing facility that Red Rock undertook to facilitate an investment in the Steelmin ferrosilicon plant at Jajce.

Also in December 2017, JML announced the completion of payments under the distribution by way of equal access share buy-back which had been first mentioned in October 2017. The net proceeds received by Red Rock were US$279,945. Following this buyback, the company retains a holding of approximately 1.2% in Jupiter Mines.

Risks

Geological risks

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Political risk

There are political risks involved in companies operating in countries like South Africa, Colombia, DRC and Kenya. The mining industry is arguably the most susceptible sector of the market to political risks largely due to the its importance to the host counties' economies

Metal price risks

Metal prices are highly cyclical and changes in the prices of manganese, ferrosilicon, gold, copper and cobalt could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of metals. The price of cobalt has enjoyed a recent spectacular rise on the back its use for growing markets but as the price climbs higher, it does bring with it the increasing fears of substitution by other metals.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from local currencies in the South Africa, Columbia, DRC and Kenya or US dollars, or euros into UK pounds. Fluctuations in the value of these currencies as well as the US dollar against the pound may well have an effect on the valuation that Red Rock is awarded by the UK stock market.

Future funds

The market for raising funds for small cap companies may have improved from the worse conditions eighteen months ago, however the equity market does continue to be difficult especially for resources companies. Some recent fund raising in the resources sector have seen share prices being undermining by incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

Andrew Bell, MA, LLB, FGS – Executive Chairman

Andrew began his career as a natural resources analyst at Morgan Grenfell & Co. in the 1970s. His business experience encompasses periods in fund management and advisory work at leading financial institutions, international corporate finance work and private equity. Andrew Bell's listed company directorships are Regency Mines plc (Executive Chairman), Greatland Gold plc (Non-Executive Chairman) and Jupiter Mines Limited (Non-Executive Director). Andrew Bell is also a former Director of ASX-listed Star Striker Limited.

Scott Kaintz, BSc, MBA – Executive Director

Scott has a MBA from London Business School and Columbia Business School. He started his career as a US Air Force Intelligence Officer and analyst working across Europe, the Middle East and Central Asia. Scott has held operational and managerial roles in the defence industry and worked in corporate finance and investment funds in London, focussing primarily on capital raising efforts and debt and equity investments in small-cap companies. He joined Red Rock in 2011 in a corporate finance role and has subsequently became an Executive Director where he works to identify, evaluate and source funding for natural resource development projects. Scott is also an Executive Director of AIM-listed Regency Mines.

Michael Nott, BSc, MSc, DIC, FIMM, FMES, FIQ, C.Eng - Non-Executive Director

Mike is a geologist and mining engineer by profession and has forty years' experience in the oil & gas, mining, minerals and quarrying industries. His early career saw him based in Zambia, including nine years with Roan Consolidated Mines Limited. He was a Regional Manager for Pioneer Aggregates (UK) Limited, then an Australian company, and later a Director of Jay Minerals Services Limited and Hills Aggregates Limited, becoming Trading Director of ARC (Southern) Limited and Production Director of C. White Limited. He is currently Chief Executive of AIM-listed Alba Mineral Resources and a Director and CEO of Magyar Mining Limited.

Sam Quinn, BA, LLB - Non-Executive Director

Sam has a Bachelor of Laws and Bachelor of Arts and is a qualified lawyer in Western Australia and in England & Wales. He has served as Legal Counsel for and as part of the executive management team of several listed and non-listed gold, silver, copper, iron-ore and diamond exploration and development companies with operations in various jurisdictions. He is also currently the Director of Corporate Finance and Legal Counsel for the Dragon Group and Lionshead Consultants Limited.

Forecasts

We initiate coverage of Red Rock with forecasts for the financials for the years ending 30th June 2018 and 2019. For the year ending 30th June 2018, we anticipate the proceeds of JML buy-backs and gains on the sale of investments due to the company selling a proportion of its interest in JML in the IPO along with the other shareholders to create liquidity. We also assume receipt of the US$1 million Promissory Note payment due following the disposal of the company's interest in El Limon. These are expected to create a pre-tax profit of £1.095 million and earnings per share of 0.23p.

In the year ending 30th June 2019, further gains on the company's investment in JML are anticipated to be crystallised, with increased exploration spending in Africa and a share of profits from the ferrosilicon smelter in Bosnia. We see an increased number of shares in issue due to the conversion of the Convertible Loan Notes along with options and warrants being exercised. For 2019, it is estimated that the company will make a pre-tax profit of £2.137 million which would result in earnings per share of 0.33p.

Year End 30 June (000s '£)	**FY2016a**	**FY 2017a**	**FY 2018e**	**FY 2019e**
Gain/(loss) on sales of investments	-	(61)	3,040	3,500
Gains on sale of associates	599	-	-	-
Impairment of investment in associates and joint-ventures	(1,500)	(1,467)	(1,500)	(1,500)
Exploration expenses	(120)	(42)	(185)	(380)
Administration expenses	(758)	(645)	(650)	(700)
Share of profits/(losses) of associates	(9)	-	-	720
Provision for bad debts	(58)	(140)	-	-
Other income and currency gain on MFP receivable	919	352	-	-
Other currency gain	346	48	-	-
Finance income, net	298	871	390	497
Profit/(loss) for the year before taxation from continuing operations	(283)	(1,114)	1,095	2,137
Tax	-	-	-	-
Profit/(loss for the year from continuing operations	**(283)**	**(1,114)**	**1,095**	**2,137**
Profit/(loss) for the year	**(283)**	**(1,114)**	**1,095**	**2,137**
Profit/(loss) for the year attributable to:				
Equity holders of the Parent	(275)	(1,111)	1,095	2,137
Non-controlling interest	(8)	(3)	-	-
	(283)	**(1.114)**	**1,095**	**2,137**
Profit/(loss) per share attributable to the owners of the Parent:				
Basic earnings per share (p)	(0.10)	(0.24)	0.22	0.33
Weighted average number of shares	263,154,543	458,077,061	493,756,722	657,276,519
Total shares plus warrants and options	551,424,111	765,136.111	995,285,845	995,285,845

Source: Company/Align Research

Valuation

We have strived to value the key assets of Red Rock using a sum-of-the parts valuation. Below, we have detailed the assumptions made and the valuations awarded to the main assets which seem to form the focus of the company's future plans.

Jupiter Mines Limited

JML looks as though it will be listed in Australia or the UK fairly early in 2018. Prices that had been suggested for a trade sale were in the region of US$600-700 million (£444 – 518 million). JML would be listing having had a highly profitable year as production is now at record levels, thought to be at a current run rate of 3.6Mtpa, whilst manganese prices have been rising strongly over the second half of the company's financial year (year-end 28th February).

The Australian media (theaustralian.com) is firmly of the belief that JML will re-list on the ASX market in Australia. As far as timing and valuation are concerned, the media down under are talking about a relisting in the first three months of 2018 and at a market capitalisation that could be worth nearly A$1 billion (£574 million). **Using that sort of figure would give a value of A$12.0 million (£6.8 million) to Red Rock's current 1.2% stake in JML, a figure that we point out is 79% higher than Red Rock's current market cap.**

Steelmin

The ferrosillicon and silicon metal smelter complex could be back in production in Q1 2018 and looks to be coming on stream with good timing. The selling price of ferrosilicon is dependent on the health of the worldwide steel industry, which has been helped by Chinese export prices rising over the last eighteen months. **Steelmin is targeting operating revenue of €35 million in its first full year of operations, with gross margins expected at around 33% and EBITDA of €7 million.** These figures are based on production of 85 tonnes per day over 339 days a year and a ferrosilicon selling price of €1,200 per tonne. Over this period, the first furnace (Furnace V – annual capacity 48,720 tonnes ferrosilicon) could generate an EBITDA of €7 million once nameplate capacity has been achieved consistently.

Refurbishment of the second furnace (Furnace IV – annual capacity 29,000 tonnes of ferrosilicon) is planned to begin later on in 2018. This work is likely to be debt financed and a multinational financial institution has expressed an interest to partner with Steelmin once the company is in production. Internal estimates suggest that with both furnaces in operation EBITDA would rise to €11-12 million per annum. Over time, Steelmin is expected to produce both ferrosilicon as well as additional silicon alloys that offer higher margins and additional upside. It has to be noted that these financial forecasts were made by Steelmin ahead of an improvement in world ferrosilicon prices.

We have chosen to value Red Rock's holding in Steelmin using EBITDA multiples. As a standalone company, Steelmin probably deserves a 6-7x EBITDA multiple. However, if the business was merged with another smelter operation to create a significantly larger scale business then a 10-11x EBITDA multiple would be realistic in our view. Based on an annual EBITDA of €11-12 million when both Furnaces V and IV are in operation and our chosen 6-7x EBITDA multiple application, a valuation in the range of €66 – 84 million looks realistic. **On this basis, Red Rock's current 20% stake could be worth something in the range of €13.2 – 16.8**

million (£11.5 – 14.7 million). We are content to use a mid-range figure, which equates to £13.1 million.

Migori Gold Project

We have valued Red Rock's 75% interest in MMM using peer companions based on its JORC resource. Future mineral reserves are based on the economically mineable part of the Measured and Indicated categories of JORC resources and so just these categories of resources have been used in the peer comparison to arrive at an acceptable valuation.

Peer companions were GoldStone Resource and Katoro Gold which are both listed on AIM. GoldStone Resources has interests in Ghana, Senegal and Gabon and its most advanced project is Homas/Akrokeeri in Ghana. Katoro Gold has two gold projects in Tanzania and was formed by spinning these gold interests out of Kibo Mining.

Peer comparisons of gold exploration companies in Africa

Company	Share Price p	EV £m	JORC Resources' ounces	EV/oz £	Comments
GoldStone Resources (AIM:GRL)	2.21	5.52	324,900	16.98	Ghana, Senegal & Gabon Homas/Akrokerri project (Ghana – 90%) 602,000 ounces at an average grade of 1.77 g/t. Measured 113,000 oz,, Indicated 245,000 oz,, M&I 361,000 oz and Inferred 241,000 oz.
Katoro Gold (AIM:KAT)	2.25	0.94	90,800	10.35	Tanzania Imweru 515,110 oz total - 90,800oz Indicated and 424,310oz Inferred. Lubando 239,870 oz total -Inferred 239,870oz.

' – Measured and Indicated

Looking at Indicated and Measured categories of JORC resources for Goldstone Resources and Katoro Gold shows an Enterprise Value per ounce of £13.66 (or US$18.64).

MMM holds Special Prospecting Licenses 122 and 202 which contain a 1.19 million ounce JORC gold resource, of which 0.8 million ounces lie within the Indicated category. Plus, there are an additional 68,000 ounces (Measured) at the Macalder Tailings. Combined, this totals 868,000 ounces. Red Rock has a 75% stake in MMM and hence has an attributable interest in 651,000 ounces. **The simple average Enterprise Value per ounce figure of £13.67 from our two comparables thus suggests a valuation of £8.9 million for Red Rock's interest in the Migori Gold Project.**

EL Limon

Red Rock is owed US$4 million following the disposal of its interests in El Limon - a US$1m promissory note and US$3 million in royalties. Although the level of gold production had been quite low, following the upgrade of the mill capacity has increased significantly with 15,000 ounces targeted in 2017 and 25,000 ounces in 2018.

Based on such a level of production, Red Rock is expecting to receive royalties of US$227,000, US$401,000 and US$580,000 in respect of production in years 2017, 2018 and 2019. We have determined an NPV(12) based on the Promissory Note being repaid in 2018 and the royalty payment on increased production over the coming years following the upgrading of the mill.

Our sum-of-the-parts valuation thus comes out at £28.8 million. **Based on the current number of shares in issue (499,042,740) we have a per share valuation of 5.77p**. However, in applying our usual conservative approach we have used a fully diluted basis (995,285,845), giving a valuation that equates to 2.89 per share.

Sum-of-the-parts valuation

	Valuation £m
Jupiter Mines	6.8
Steelmin	13.1
Migori Gold Project	8.9
EL Limon	2.4
Cash	1.0
Debt	(3.4)
Total	**28.8**
Per share	**2.89p**

Source: Align Research

Moving ahead there looks as though there will be a strong news flow from JML, Steelmin, Colombia, Kenya and the copper/cobalt tailings project. News from JML is likely to include an announcement about the dividend, the IPO or other liquidity event and whether Red Rock will be selling part of its holding. In addition, there will be news on the manganese price and growing understanding of the role that manganese might play in the batteries of tomorrow.

News flow could be just as impressive from Steelmin with announcements concerning first production, the production ramp up, refinancing and the decision to go ahead with the second furnace. Announcements concerning the El Limon mine in Colombia are expected to concern a reasonable sized royalty payment at the end of February and the repayment of the promissory note in April-May 2018.

Further, there could be a lot of news from Kenya as the feeling in the boardroom is that the situation could be satisfactorily resolved relatively quickly. The due diligence on the copper/cobalt tailings project now runs until the end of January and so likely news could be that the company's team is back on site. We expect news on assays of the cobalt grade, distribution from drilling work on the tailings and the plan of action in the Congo as the board is expected to move quickly to commence feasibility studies.

We believe that Red Rock is now well-positioned to materially outperform the wider market. There is likely to be considerable cash flow generated for shareholders. In the process of moving projects to their current stage, substantial value is likely to be have been added as these interests were acquired at the bottom of the cycle. Over the short term, it looks as though value will begin to be unlocked as assets are monetised which could mean that equity raises in the market and dilution may become a thing of the past**. The stock market has just begun to get warmed up towards small cap resource plays and we believe Red Rock Resources is precisely the sort of well-managed diversified-vehicle to benefit from such improving sentiment.**

We look forward to being given the opportunity to update our target price in the future as the fundamentals improve in line with the company's well-planned growth strategy. **Our coverage of Red Rock Resources, is initiated with a target price of 2.89p and a Conviction Buy stance.**

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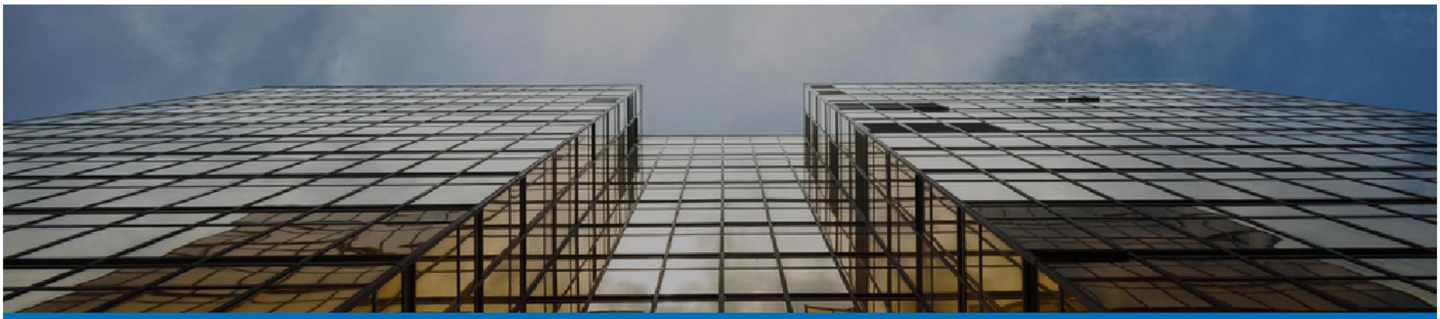

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