Growth Equities & Company Research

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Red Rock Resources* - Development Key On Several Fronts. Speculative Buy with An Increased Base Case 7.125p Target Price.

Key Data	
EPIC	RRR
Share Price	6.125p
Spread	6p - 6.25p
Total no of Shares	675,544,383
Market Cap	£41.4 million
Net Cash	£1 million (est)
12 Month Range	1.4p - 7.15p
Market	AIM
Website	www.rrrplc.com
Sector	Mining
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Red Rock Resources has published a stream of announcements in recent weeks which has caused us to increase our minimum base case target price to 7.125p. However the Migori gold prospect in Kenya and the value of Red Rock's shares in ASX listed Jupiter both offer spectacular upside which could increase our valuation significantly. The recent news flow centres on the prospective sale of Red Rock's interest in Kansai and Jupiter's transformational Tshipi transaction but we expect that the Autumn will see news of very real on the ground progress on a number of fronts.

Red Rock's investment in Kansai looks like coming to fruition shortly as the Canadian company has received a cash offer of C$40 million from private equity group IPCM for its interests in its two subsidiary companies Mid Migori Mining Company Limited (MMM) and Compania Minera Adamantine CA. At the 1st of October announcement date, Red Rock held 10 million shares in Kansai as well as an option to acquire a further 39,629,000 shares for C$10 (ten dollars). Red Rock is in favour of the transaction which requires both shareholder and regulatory approval, and plans to exercise its options, vote in favour of the sale and receive a return of C$10,897,975 (£6.7 million) on its total investment of C$460,010.

Red Rock's current direct 15% shareholding it MMM is unaffected by the IPCM transaction, as is its farm in agreement which will entitle the company to a further 45% of MMM upon completion of a bankable feasibility study on the Migori gold project by September 2015. Operations at Migori are progressing well with a final report on Red Rock's VTEM (Versatile Time Domain Electro-Magnetics) and Magnetic / Radiometric airborne surveys due this month which, along with the analysis of metallurgical test work results from the Macalder tailings dam, will allow the company to finalise its drill programme.

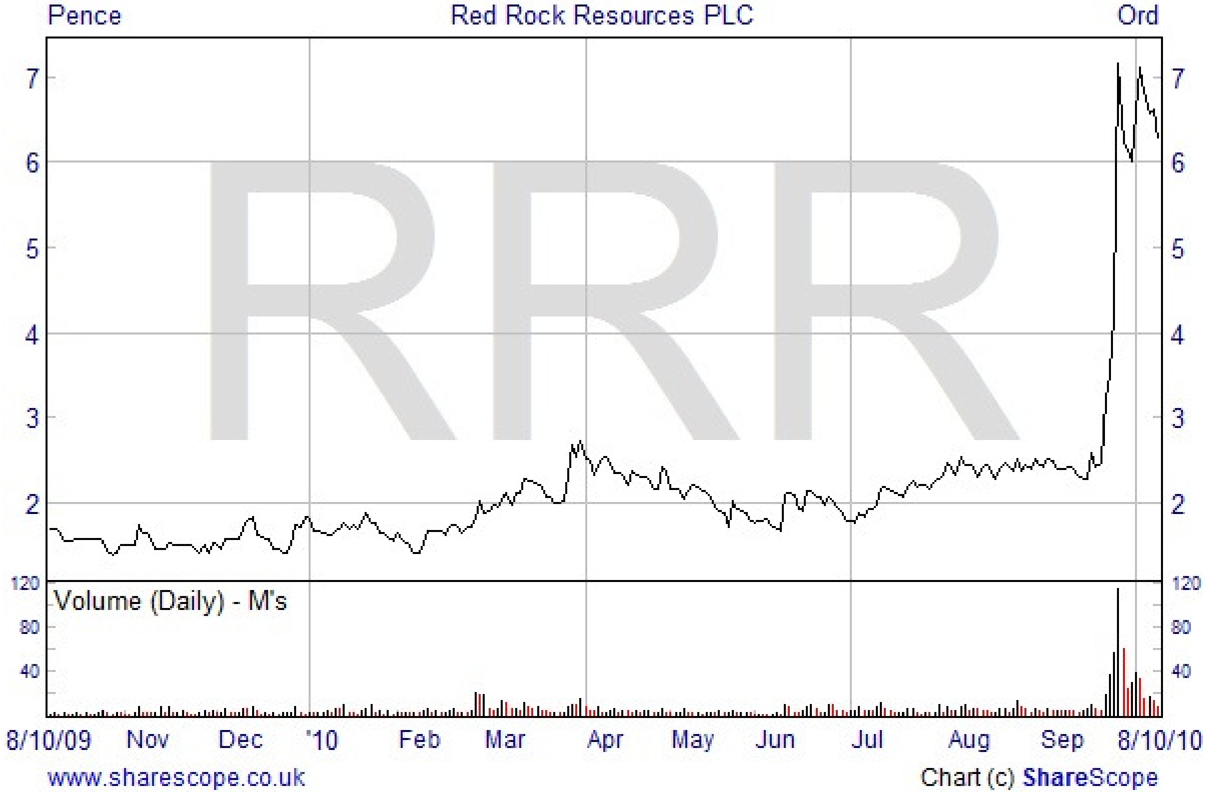
In Colombia, Red Rock's most recent investment, Mineras Four Points SA has now drawn down the entire $2 million available to it under the Funding and Co-Operation Agreement agreed in June 2010. Mineras is currently ahead of its 30th November schedule on the recommencement of production from its El Limon gold mine. Initial expected capacity has already been increased from 100 to 150 tonnes per day (tpd), while plans for raising this to 250 tpd and then 400 tpd are already coming together. 250 tpd could be implemented fairly rapidly with expansion of the mill capacity and additional tanks the only requirements. 400 tpd would require more significant investment in the region of $1.1 million to upgrade the plant and install a new vertical shaft.

Jupiter Mines, in which Red Rock has a 22.64% interest, confirmed in its full year results to 30th June 2010, that it had initiated a major exploration programme at Mt Ida with the intention of defining a JORC compliant resource before the end of the year. With a 1.5% gross production royalty on Mt Ida, Red Rock wholeheartedly supports the fast tracking of production. Red Rock also supports Jupiter's acquisition of a 49% interest in the Tshipi manganese project which recently received approval from the South African authorities. The transaction will be transformational for Jupiter with Tshipi primed for development of a 2 million tonne per annum operation. Red Rock's interest in Jupiter will be diluted down to 5.23% after completion of the Tshipi deal, but the value of its holding will, in our view, increase sharply as the market starts to appreciate the true import of this deal. Red Rock's royalty stream at Mount Ida will not be affected by the transaction..

Finally, Resource Star, in which Red Rock has a 26.9% interest, announced the completion of its RC drill programme at the Machinga Rare Earth Project in Malawi, where results are due this month. Also due in October is results from helicopter magnetics / radiometrics over the Ilomba Hill uranium/niobium/rare earth prospect in Northern Malawi and the commencement of drilling for resource expansion at Livingstonia in Malawi and for prospect testing at its Edith River licences in the Northern Territory.

The expected sale of Red Rock's interest in Kansai monetises an investment which has long excited and frustrated the company in equal measure. The cash provided by the sale of Kansai will provide Red Rock with a welcome boost as it embarks on an important period of exploration work at Migori, while Jupiter's corporate decisions are also providing Red Rock with tremendous upside potential and again appears like a canny investment by the company. Gold production from El Limon will not only increase the value of Red Rock's options in Mineras (to acquire up to 51% for $7.5 million), but provides further assurance that Mineras will be able to afford Red Rock's consultancy and technical advice as well as repay its loan.

Updating our valuation model of Red Rock begins with the expected receipt of £6.7 million on its Kansai holding. The improvement of El Limon's initial production rate from 100 tpd to 150 tpd is also a welcome development which increases our valuation from £11.8 million to £19.7 million. Valuation of Red Rock's portfolio investments in Jupiter and Resource Star continue to be via their listed value, although recent events, particularly at Jupiter, are undoubtedly positive. Finally, our in-situ valuation of the Migori gold project remains unchanged at £7 million. The net effect of these changes is to increase our, admittedly conservative, base case valuation from 6.9p to 7.125p per share. However the upside potential from that point is clear. Migori and Jupiter are the obvious value drivers for Red Rock with development key issues for both. Red Rock's share price jumped from 2.4p to 6.9p between the 21st and 27th of September and has since has maintained its level above 6p. With a base case valuation of 7.125p and the knowledge that either Migori or Jupiter have the potential to lift our valuation well into double figures within months, our stance, at 6.125p remains **speculative buy**, with an increased 7.125p target price.



Data Table:

Year to 30th June	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2008A	0	(0.15)	(0.06)	NA	0	0.0
2009A	0	(0.93)	(0.24)	NA	0	0.0

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