RED MOUNTAIN MINING

PATERSONS
THE AUSTRALIAN STOCKBROKER

RESEARCH NOTE

Drill testing high grade targets underway

Investment Highlights

- **Red Mountain Mining (RMX) has ridden the gold sector rollercoaster in the last six months, however, the latest set of high grade trenching results have highlighted a number of exciting drill-ready targets and set the share price alight. The subsequent $0.017/sh equity raise and SPP has bolstered the Company's cash balance to ~$4m and appreciation in the share price represents a good return for investors that have held stock since we initiated coverage at $0.01/sh in July 2013. In our view, RMX will remain highly leveraged to exploration success in the near term and, with a drilling program currently underway, we expect to see news flow in the next couple of weeks. The key catalyst in 2014 will be the conversion of exploration targets into meaningful resources and demonstration of the developmental merit of the project.**

- **Key results in the past 6 months.** Milestones achieved in the last 6 months from the high grade lodes which comprise the Lobo gold project include: Encouraging shallow drill results from the Japanese Tunnel prospect include 8.7m at 4.34g/t gold (including 3.7m at 8.62g/t) and 3.7m at 3.06g/t gold with anomalous silver and copper. Trenching results also continued to provide exciting targets and have extended the interpreted strike length of the SW Breccia trend to 500m. Highlights include 2m at 31.1g/t, 2.6m at 28.6g/t, 1.8m at 55.9g/t, 1.2m at 17.2g/t and most recently 4.9m at 24.9g/t gold. These trenching results provide high potential targets which are currently being drilled with results expected in the near term.

- **The plan going forward.** We expect RMX to diamond drill test a number of the new targets for continuity of mineralisation at depth. While the new targets look encouraging and carry good grade at surface, we note that relatively complex geology is a characteristic of the epithermal systems and mineralisation is often difficult to trace at depth. We expect to see the first results from the current program released to the market within ~2 weeks and anticipate the share price to remain highly leveraged to success on this front. Key targets are located along the South West Breccia trend which has an interpreted strike length of 500m.

- **Initial scoping study outcomes encouraging.** An independent scoping study is nearing completion which is examining a number of potential mining scenarios. The study will look at optionality around bulk tonnage low grade versus small scale high grade operations based on the current resources. Metallurgical testing has run in parallel with the study and returned initial positive results (+95% recovery at fine grind size) on the high grade SW Breccia resource.

- **SPP and options to potentially provide the next round of funding.** Further to completing a $1m placement in January 2014, a Share Purchase Plan (SPP) at $0.017/sh was oversubscribed (and was scaled back) and provides an additional $2.5m. Furthermore, in-the-money options at $0.015/sh (RMXO) which expire in June 2014, could serve as the next round of funding raising up to an additional $2.1m.

- **Catalysts**. 1) Positive drill results from high grade targets 2) Conversion of exploration targets into meaningful resources 3) Scoping study and metallurgical outcomes 4) Exercise of 30 June 2014 options.

12 February 2014

RIC: **RMX.AX**		BBG: **RMX AU**
Issued Capital	m	685.8
Price	A$	0.022
Market Cap.	A$m	15.1
Cash (est)	A$m	4.0
Recommendation		**SPEC BUY**

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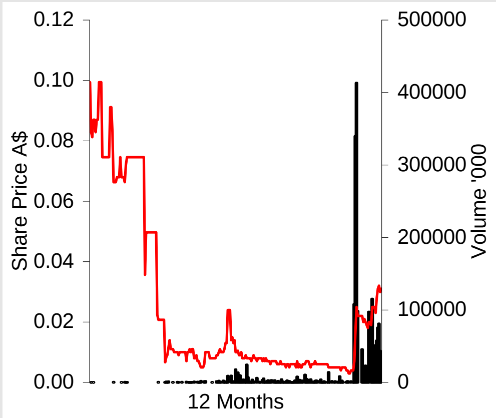
Disclosure: Patersons Securities acted as Lead Manager to a renounceable rights issue that ultimately raised a total of $2.81m at $0.01/sh in August 2013 and Lead Manager to a share placement and share purchase plan that raised a combined total of $3.47m at $0.017/sh in February 2014. It was paid a fee for the preparation of this report and for the above services.

An investment in this company should be considered speculative and note assumptions employed are contingent on broader market conditions remaining buoyant. These can change at short notice. Recommendations are current at the time of publication.

12 Month Share Price Performance



Company background

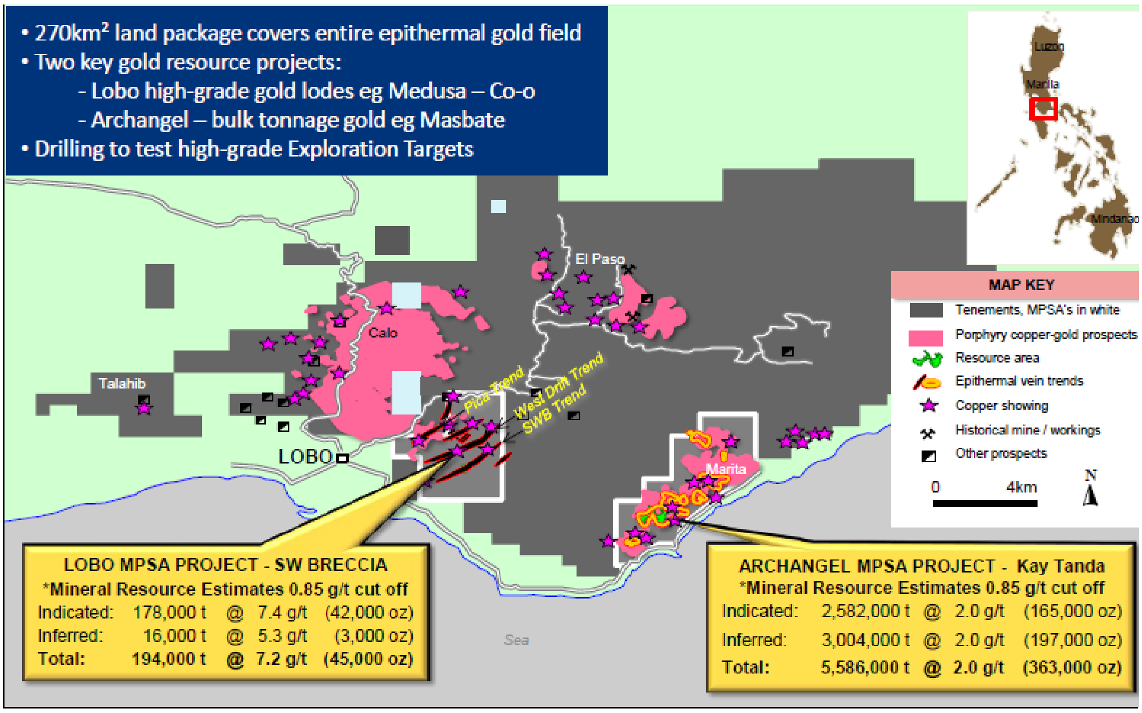
The strategy of Red Mountain Mining (RMX) is to establish itself as an operating gold producer in Asia through joint venture partnerships and/or asset acquisition. The Company's management believe that, through the implementation of advanced exploration techniques and mine design; value can be un-locked in many early stage assets throughout the region.

In October 2012 RMX completed a transaction to acquire 100% of the Batangas Gold project and 75% of the Tapian San Francisco Copper/Gold project from Mindoro Resources Ltd (MDO) for a consideration of 100m shares and 50m performance shares. Since the original transaction, the 50m performance shares have been cancelled and the ownership stake in the Tapian San Francisco has been relinquished in return for buying back and cancelling 4m shares from MDO. As such, MDO remains a significant shareholder with 96m shares (escrowed until April 2014) and RMX has an improved share register and a single project focus. The Batangas project is located on the island of Luzon in the Philippines which is which is ~120km south of the capital Manilla, easily accessible by road.

The current JORC compliant resource at the Batangas project stands at 5.8Mt at 2.2g/t for 408koz of gold. Since acquiring the project RMX has run a focused exploration program with the aim of growing existing high grade resources. With ongoing drilling we see good potential for RMX's exploration team to progress the Batangas project towards becoming a viable development proposition.

The Philippines has a rich mineral endowment with a number of foreign owned entities operating in the country. The best analogues for RMX include gold producers Medusa Mining (MML), CGA Mining (now merged with B2Gold Corp) and Red 5 (RED). Several large scale copper/gold projects include the producing Didipio Copper-Gold Project (Oceana Gold), Far Southeast (Gold Fields) and the world class Tampakan project (Xstrata/Indophil).

Figure 1: Mineral endowment of the Batangas gold project



Source: Red Mountain Mining

Capital structure and funding

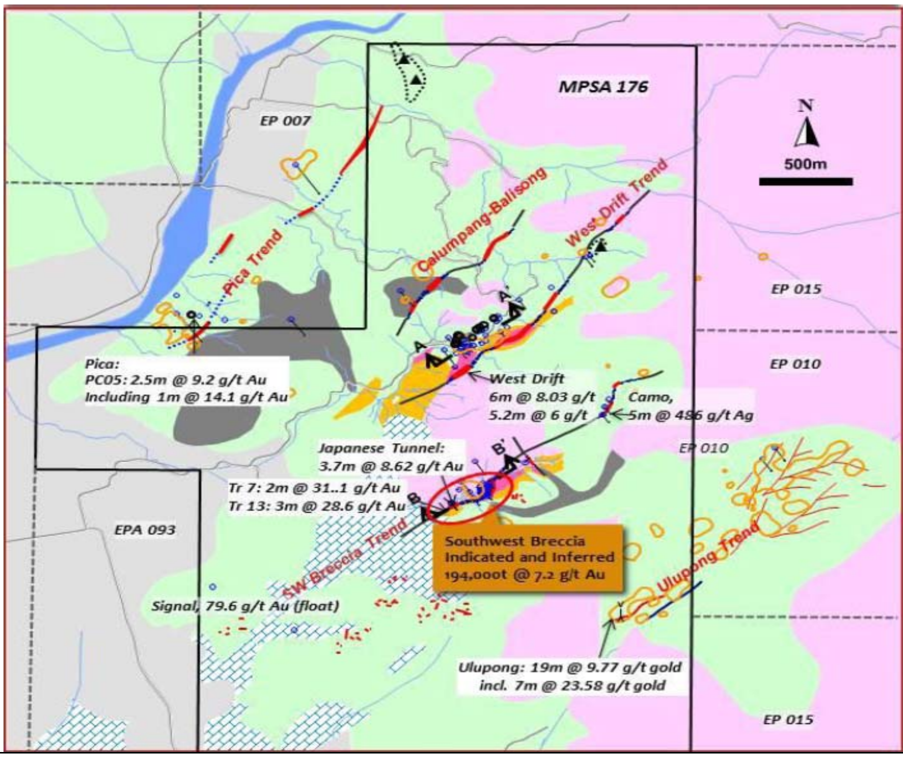
Following the recent placement of 60m shares at $0.017/sh to sophisticated investors and the issue of 144.4m shares from its oversubscribed SPP ($0.017/sh), the total shares on issue are 685.8m. We estimate RMX has a cash balance of $4m which includes $1m from the placement, $2.46m from the SPP and a cash balance of $0.92m at the end of December. This is a significant cash balance which will provide funding for RMX's exciting exploration program. This should also provide good share price momentum to ensure the 140.7m short dated RMXO options, which expire in June 2014 at a price of $0.015/sh remain in-the-money. The successful exercise of all these options could raise an additional $2.1m and likely provide sufficient funding through to 2015.

Targeting high grade ounces in 2014

RMX is focused on growing its high grade resources in 2014, initially targeting the prospective targets along the SW Breccia trend. The SW Breccia trend already houses an indicated and inferred resource of 178kt at 7.4g/t for 45koz of gold and we see potential for this to grow through successful drilling. The broader area hosts 5 parallel trends: Pica, Calumpang-Balisong, West Drift, SW Breccia and Ulupong which have all reported anomalous gold occurrences.

The SW Breccia trend currently has the most prospective drill targets and diamond drilling has commenced testing immediately under the high grade Trench 7 results (2m at 31.1g/t). RMX plans to drill 4 holes under Trench 7 then step out along strike with a view to defining a new resource. Drilling will also test depth extensions below Trench 13 (2.6m at 28.6g/t) and rigorous trenching along the strike of the SW Breccia trend will be ongoing.

Figure 2: Lobo compilation map with key drill targets



Source: Red Mountain Mining

Budget and exploration target

Allocation of funding is outlined in Figure 3 and we see the Company as comfortably funded until the end of FY14, which, depending on the share price, could dovetail into the conversion of ~$2m worth of options. RMX anticipate that ~60 holes will be drilled in two phases which should provide plenty of news flow to the market between now and 30 June 2014.

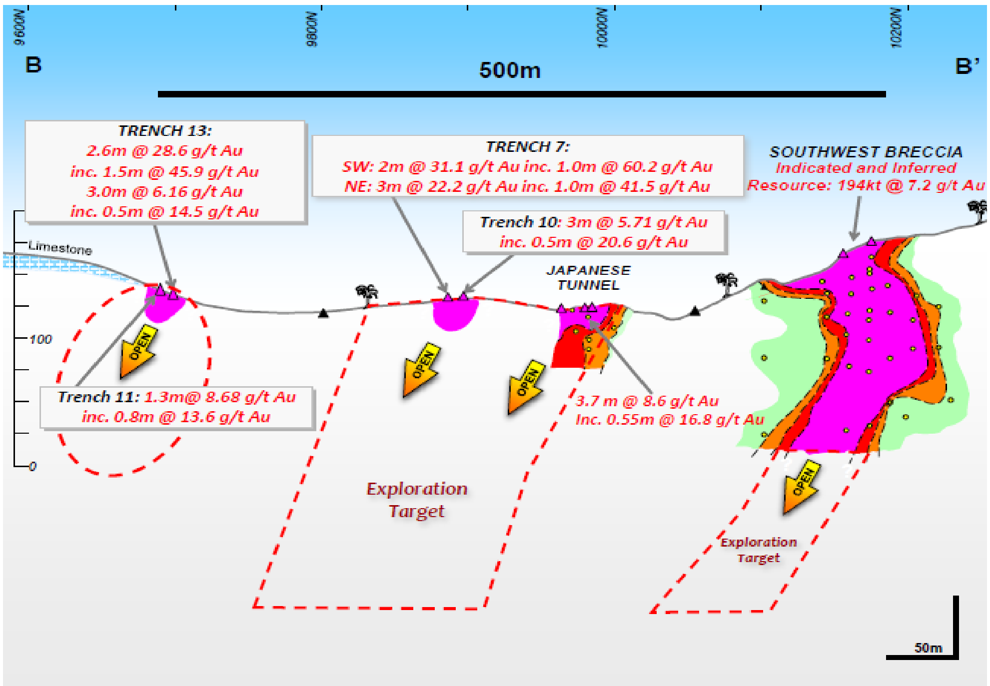
Figure 3: Allocation of funds in 2014

Targets	Results to date			
SWB – Trench 7	*Trenching, 2m @ 31.1 g/t Au, 3m @ 22.2 g/t Au*			
SWB - Trench 13	*Trenching, 2.6m @ 28.6 g/t Au, 3m @ 6.16 g/t Au*			
Drilling Phase 1		24 holes	1,000m	$0.30m
Drilling Phase 2		36 holes	2,000m	$0.60m
Development Studies (Scoping to Feasibility)				$0.20m
Working Capital (6 months)				$0.60m
TOTAL (February to July 2014)				$1.7m

Source: Red Mountain Mining

In RMX's latest corporate presentation the Company provides a table outlining exploration targets within the Lobo project. The Company is targeting an additional 160-240kt at 8.2-12.3g/t for 42-95koz of gold below the Trench 7 and Trench 13 with an additional and 80-120kt at 5.8-8.6g/t for 15-33koz targeted from the SW Breccia "Deeps" target. Success on achieving these targets could push the total high grade resource (currently 45koz at 7.4g/t) to between 100-150koz and give the project the critical mass for developing a small scale high grade mining operation. While the targets look attractive, we note that a previous exploration target (32-86koz) for the Pica prospect has been placed "under review", which may indicate the unlikelihood of the target being achieved.

Figure 4: Exploration targets at the Lobo



Source: Red Mountain Mining

Scoping study results pending

While the project is relatively infantile, RMX aims to complete a scoping study on the developmental merit of the project in the near term. We envisage the study to run multiple scenarios varying from a lower grade bulk tonnage operation to a smaller scale high grade operation. In our view, the project needs larger critical mass, especially in terms of high grade resource ounces and this should be the focus of the Company in 2014.

Completing a scoping study on the Batangas project is an important milestone and required by the Company as part of maintaining the 10 year exploration phase of its 25 year Mineral Production Sharing Agreements (MPSA's). These agreements are due for renewal in April 2014 for Archangel and October 2014 for Lobo respectively. Initially, RMX envisaged the scoping study to be based on a conceptual 500ktpa plant sourcing base load material from Archangel (80%) and additional high grade ore from Lobo (20%). However, if the next round of drilling is to delineate sufficient additional high grade resources, the study may focus on developing only the higher grade portion of the resources at Lobo as a stand alone operation.

Metallurgical work completed on the project to date has been encouraging with recoveries (at 37 micron grind size) up to 97% from the SW Breccia resource. We note that higher recoveries require a fine grind and that, at a standard 75 micron, the recoveries drop to 83.5%. Figure 4 demonstrates the results form the latest metallurgical test work.

Figure 5: Metallurgical results from resources at SW Breccia and Kay Tanda (Archangel)

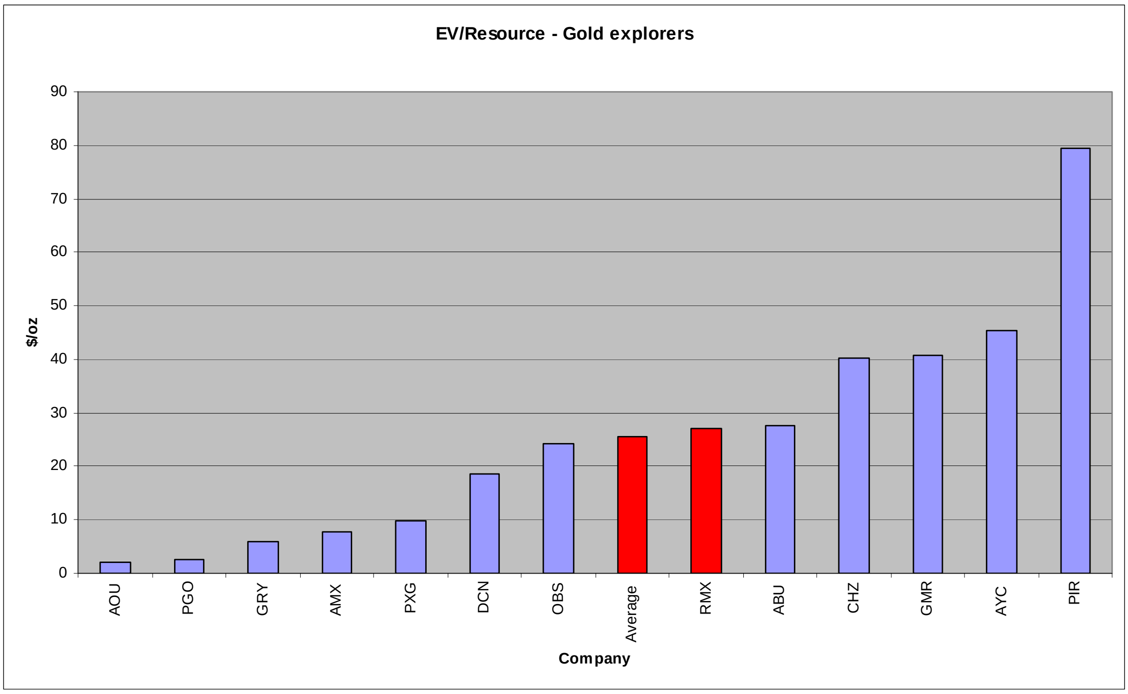
Sample Location	Head Assays g/t (ppm)		Grind	Recovery % 48 hours		Recovery % 24 hours	
	Gold (Au)	Silver (Ag)	Micron	Au	Ag	Au	Ag
South West Breccia Transition/Fresh	8.8	1.7	37	**96.7%**	89.4%	91.7%	89.7%
	8.8	1.7	44	**95.3%**	46.7%	90.0%	46.0%
	8.8	1.7	53	87.5%	95.1%	83.7%	95.4%
	8.8	1.7	74	83.5%	98.3%	80.7%	44.7%
	8.8	1.7	105	74.1%	98.9%	70.5%	29.0%
Kay Tanda West Oxide	2.1	44.6	53	98.2%	85.6%	94.3%	80.4%
	2.1	44.6	74	**97.4%**	81.1%	**91.3%**	72.9%
	2.1	44.6	105	91.5%	79.8%	86.2%	75.2%
Kay Tanda West Transition	1.3	0.40	53	96.8%	N/A	88.0%	N/A
	1.3	0.40	74	**97.5%**	N/A	**92.5%**	N/A
	1.3	0.40	105	97.5%	N/A	92.7%	N/A

Source: Red Mountain Mining

Valuation

Since our last report RMX has significantly re-rated on an EV/Resource metric to be trading at ~\$27.2/oz (previously \$4/oz), which is slightly above the peer average of \$25.5/oz (Figure 6). Potential upside remains, if the Company can deliver on exploration targets with an additional 150koz Au resource translating to an EV/Resource of ~\$19.9/oz. Targeting high grade ounces will generally see a Company positioned at the right hand side of the average and if RMX can continue to produce exciting exploration results, we believe the stock will trade up accordingly.

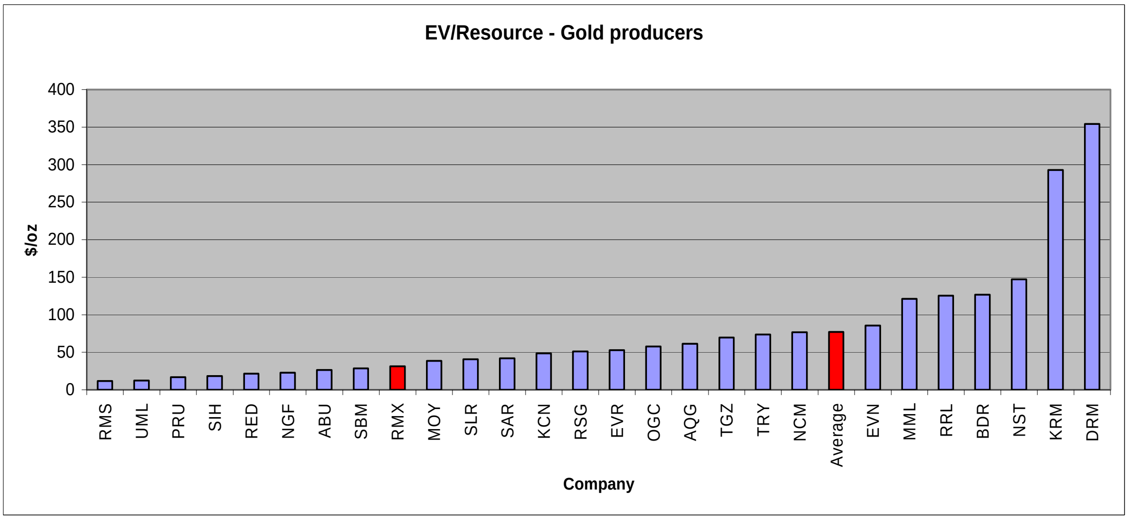
Figure 6: EV/Resource comparison explorers



Source: Patersons Securities Limited

If we examine the suite of producing gold companies that comprise the XGD gold index (Figure 7) the average EV/Resource is considerably higher at $77/oz. This premium is justified given the companies are generally funded with cashflow but the valuation disconnect does demonstrate considerable upside if RMX can get into low cost production.

Figure 7: EV/Resource comparison for producers



Source: Patersons Securities Limited

Management

Neil Warburton - Non-Executive Chairman

Neil Warburton has worked within the Mining Industry throughout his entire 35 year career, in roles ranging from corporate Non-Executive Directorships to managing large mining and contracting companies with experience covering gold and base metal mining.

Until March 2012, Neil was the Chief Executive Officer of Barminco Limited, one of Australia's largest underground mining contractors. Neil successfully guided and grew the Company both within Australia and Africa with revenues having more than doubled during his tenure. Before joining Barminco, he was Managing Director of Coolgardie Gold. His early career was with Western Mining Corporation.

Neil is also a Non-Executive Director of Australian Mines Limited and Sirius Resources, both companies listed on the ASX.

Neil graduated from the Western Australia School of Mines with an Associate Degree in Mining Engineering, is a Fellow of the Australian Institute of Directors and Fellow of the Australian Institute of Mining and Metallurgy.

Jon Dugdale – Managing Director

Jon joined the board in November 2012, as part of the acquisition of the gold and copper gold assets from Mindoro Resources, where he was President and CEO, and was later appointed Managing Director of RMX in April 2013.

Jon graduated as a geologist with first class honours from the University of Melbourne in 1986 and has 26 years mining and investment experience in Australia and the Asian region. Before Mindoro, Jon spent four years with Asian Lion, part of the Lion Selection Group, as an investment manager and analyst focussed on valuation and investment in mining projects in the Asian region.

With MPI Mines from 1993 to 2004, Jon was involved with the exploration and development of several discoveries made by the MPI exploration team, including direct involvement in the 1 million ounce Golden Gift discovery at Stawell, Victoria for which he was jointly awarded the Joe Harms Medal for distinguished excellence in mineral exploration and contribution to the discovery of ore deposits. Jon's early career was with Western Mining Corporation in gold and nickel exploration and mine geology at Kambalda and Leinster in WA and in far north Queensland.

Jon is a Fellow of the Australian Institute of Mining and Metallurgy and a Graduate Member of the Australian Institute of Company Directors (GAICD).

Michael Wolley – Non-Executive Director

Michael Wolley has extensive experience in the resources and industrial sectors in both Australia and Internationally. In 2011, Mr. Wolley was appointed Vice President Corporate Development for the Todd Corporation and in February 2013 he was appointed to the role of Vice President Minerals and Coal based in Sydney. Mr. Wolley was recently Managing Director of a junior gold development business, Golden Iron Resources. Michael was recently Managing Director of a junior gold development business, Golden Iron Resources, and prior to that was Chief Operating Officer for Lynas Corporation, an ASX 100 company that is a vertically integrated mining and minerals business with mining and processing facilities in Western Australia and downstream processing in Malaysia.

Prior to Lynas Corporation, Michael held senior executive roles with industrial and construction services businesses across Asia Pacific including the position of Managing Director Asia Pacific for a refrigeration and climate control business and as President BlueScope Steel China. Prior to joining BlueScope Steel Michael was General Manager Operations for Dexion, a business servicing the logistics industry across Asia Pacific. He began his career with Mobil Oil Australia and over a 15 year period held senior roles in engineering, production and planning across Australia and New Zealand. Michael holds a first class honours degree in Chemical and Materials Engineering from Auckland University and a Masters of Management from Macquarie Graduate School of Management. Michael is a Member of the Australian Institute of Company Directors.

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