

Ridge Mining Plc

(LSE: RDG)

Outperform Speculative Risk

Erratum - BEE deal finalized on Blue Ridge

This copy of the Ridge Mining Research Comment replaces the version distributed August 31, 2006. We wrongly calculated the option value of the Imbani shares in the Net Asset Value Calculation. As a consequence our NAV increases from US\$1.06 to US\$1.34 per fully diluted share, implying a 12-month target price of US\$1.34 or £0.70 per fully diluted share. We apologize for the inconvenience to our readers.

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| | | | |
|---------------|--------|---------------|--------|
| Price: | \$0.71 | Price Target: | \$1.34 |
| | £0.37 | | £0.70 |
| 52-Wk High: | £0.59 | 52-Wk Low: | £0.25 |
| Float (MM): | 63.2 | Debt-to-Cap: | 0.0 |
| Shs O/S (MM): | 63.2 | Mkt Cap (MM): | \$44.9 |
| Dividend: | \$0.00 | Yield: | 0.0% |
| Tr. 12 ROE: | 0.00% | | |

Strategic Shareholders:

| (FY June) | 2004A | 2005A | 2006E | 2007E |
|-----------|----------|----------|----------|----------|
| EPS | (\$0.18) | (\$0.05) | (\$0.11) | (\$0.06) |
| P/E | n.m. | n.m. | n.m. | n.m. |
| CFPS | (\$0.09) | (\$0.06) | (\$0.11) | (\$0.06) |
| P/CFPS | n.m. | n.m. | n.m. | n.m. |
| Rev (MM) | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| | 2004A | 2005A | 20056E | 2007E |

| Production | 2004A | 2005A | 20056E | 2007E |
|--------------|-------|-------|--------|-------|
| Ni ('000t) | - | - | - | - |
| Cu ('000t) | - | - | - | - |
| Pl ('000oz) | - | - | - | - |
| Pt ('000oz) | - | - | - | - |
| C.Cost(\$/t) | - | - | - | - |

All values in US\$ unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise stated).

For Required Disclosures, please see page 4.

Event

Ridge Mining has finalized the empowerment transaction with Imbani on the Blue Ridge project, thereby positioning Ridge Mining to conclude the debt financing on the project.

Investment Opinion

- Ridge successfully completed the long awaited empowerment transaction with Imbani (BEE partner). This has allowed Ridge to finalize the debt financing for the project of R650 million (including a R90 million cost overrun facility) with a consortium of South African banks. The current debt raised is 65% of the projected capital; therefore we believe the remaining project finance of R100 million could be raised by way of an equity issue by Ridge.
- On a see through value, this empowerment transaction is effectively neutral to Ridge, but what the transaction does is monetize the sunk capital Ridge has put into developing the Blue Ridge project for R200 million.
- This empowerment transaction demonstrates the economic viability of the Blue Ridge project and positions Ridge Mining closer to putting the project into production and importantly, transforms the company from a developer to a producer.
- Valuation.** We have updated our model for the potential equity issues. We have assumed Ridge raise the R100M through equity at £0.60/shr by issuing 13.8 million shares.
- Our NAV increases to £0.75/shr effectively due to the monetization of the R200m sunk capital our previous NAV did not capture. However, we have assumed the 25 million options issued to Imbani are exercised, increasing the shares on issue to 101.6 million, for net proceeds of US\$33 million.
- Our NAV on a fully diluted basis for Ridge increases marginally from US\$1.00/share to US\$1.34/share. We continue to apply a 1.0x P/NAV multiple to derive a 12-month price target of US\$1.34 or £0.70/shr, up from £0.60/shr. **We view the current share price level as a cheap entry point into Ridge Mining.**
- It must be stressed that the company has a strong technical team and in our view is adequate to bring the Blue Ridge project to fruition, and advance the development of Sheba's Ridge, in partnership with the IDC. The Sheba's Ridge project is too large for Ridge to develop alone, but Ridge is well positioned to attract a major.

Details

Ridge Mining has finalized the empowerment transaction with Imbani on the Blue Ridge project, thereby positioning Ridge Mining to conclude the debt financing on the project.

Blue Ridge Project & Financing

Ridge successfully completed the long awaited empowerment transaction with **Imbani** (a BEE company founded in 1977, which has interests in mining, exploration, industrial supplies, property development, construction, rail operations and telecommunications).

- Imbani will provide R300 million of equity funding to the Blue Ridge Project for a 50% equity interest in the project.
- Imbani will subscribe for £2.5 million of options to acquire 25 million shares of Ridge Mining at £0.70, with an option life of 5 years.
- Ridge is finalizing the debt financing for the project of R650 million (including a R90 million cost overrun facility) with a consortium of South African banks. The current debt raised is 65% of the projected capital; therefore we believe the remaining project finance of R100 million could be raised by way of an equity issue by Ridge. In our valuation, we have assumed an equity issue of 13.8 million shares at £0.60/share.

On a see-through value, this empowerment transaction is effectively neutral to Ridge, but what the transaction does is monetize the sunk capital Ridge has put into developing the Blue Ridge project for R200 million.

- Capital Raised – Imbani equity: R300 million
- Bank Debt: R650 million
- Ridge Mining equity: R100 million
- Ridge Mining sunk capital in Blue Ridge: R200 million

This transaction demonstrates the economic viability of the Blue Ridge project and positions Ridge Mining closer to putting the project into production and importantly, transforms the company from a developer to a producer.

Project Details – the project is expected to produce 125,000 4E oz per year for 18-years; with a throughput of 1.44mt per year at 3.3g/t. The efficient cut method allows for the UG2-Chromitite reef to be mined economically, by reducing the stoping width, while increasing the mined head grade. The capital cost is expected to be around R1bn, of which R650 million is debt finance. Cash costs are expected to be around US\$450 or R3,000 per PGM oz. Development of the project is expected to start in H2-2006 with production to commence in early 2008, with full production in 2009.

Valuation

We have updated our model for the potential equity issues. We have assumed Ridge raise the R100M through equity at £0.60/shr by issuing 13.8 million shares. Our NAV increases to £0.75/shr effectively due to the monetization of the R200m sunk capital our previous NAV did not capture. However, we have assumed the 25 million options issued to Imbani are exercised, increasing the shares on issue to 101.6 million, for net proceeds of US\$33 million. Our NAV for Ridge increases marginally from US\$1.00/share to US\$1.34/share on a fully diluted basis. **We continue to apply a 1.0x P/NAV multiple to derive a 12-month price target of US\$1.34 or £0.70/shr, up from £0.60.** This valuation in our view is the base case valuation for Ridge and as such it provides upside from the current share price of £0.37/share. We view the current share price level as an inexpensive entry point into Ridge Mining.

It must be stressed that the company has a strong technical team and in our view is adequate to bring the Blue Ridge project to fruition, and advance the development of Sheba's Ridge, in partnership with the IDC. The Sheba's Ridge project is too large for Ridge to develop alone, but Ridge is well positioned to attract a major. According to our numbers the market appears to be discounting this project by 50%, therefore Ridge is in a strong position to provide attractive terms to a major partner, while still being accretive to Ridge shareholders.

We remain with an Outperform ranking and a Speculative risk rating, with a 12 month target of £0.70.

Sheba's Ridge

Sheba's Ridge is a bulk tonnage (12mt/yr), low-grade nickel (0.22%) project, potentially mined by open-pit methods on the southern part of the Eastern Bushveld complex. Projected annual production is around 23,900t nickel; 12,000t copper and 390,000 oz 4E. Cash operating costs are around US\$1.80/lb Nickel (net bi-products), with a life-of-mine of >18 years. The project economics are predicated on maximizing throughput, as the capital requirement for this project is around US\$690

million, however this capital does include the provision for a smelter. The project is very strategically placed near the Eastern Limb, and the Sheba's concentrate has Merensky reef characteristics, low chrome content and high nickel and copper content, which will act as good PGM collected in a smelter. The project is large enough to justify its own smelter, however we believe the project will be part of a larger alliance in the region, to justify bringing in another smelter, and to relieve the current smelter bottleneck faced by the industry.

On 14th February 2006, Ridge invited the Industrial Development Corporation (IDC) of South Africa to participate in the development of the Sheba's Ridge project. The IDC will invest R60 million or US\$9.7 million for a 26% interest in the project, and will fund the bankable feasibility, to be completed within 18 months. We are encouraged by the participation of the IDC in the project, which supports our view of the strategic importance of Sheba's Ridge for the development of the Eastern Limb, particularly the Mpumalanga province.

Under the terms of the new agreement, following the positive development decision, Ridge will own 61.5%, the IDC 26% and Anglo Platinum 12.5%. Ridge will have to pay Anglo Platinum US\$12.5 million, under the terms of the JV, whereby Ridge can increase its current shareholding from 65% to 87.5%, then be in a position to relinquish 26% to the IDC, which would be a mandatory requirement.

Price Target Impediments

The principal impediments to our forecasts and valuations are production risk, the long-term commodity prices, the Rand/US\$ exchange rate, the local inflation outlook, legislative and fiscal changes in South Africa.

Company Description

Ridge Mining plc (formally Cluff Mining PLC) is a London-based platinum and associated metals company, focused on early stage Platinum Group Metals projects on the Bushveld Complex in South Africa.

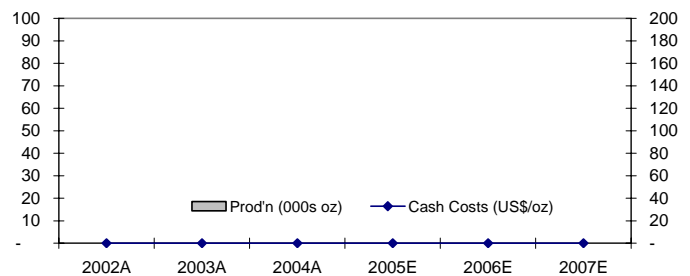
The company's portfolio of assets consists of three key PGM projects; the current 50%-owned Blue Ridge UG2 Chromitite Project, and the 61.5%-owned Sheba's Ridge deposit; and the Fountain Ridge prospect on the Western Limb. In addition, the company has a number of smaller projects such as Fonte Verde and Red Bush Ridge. All the projects are located in South Africa.

Ridge Mining plc

| | | | | | | | |
|----------|----------------|--------|-------|---------------|------------|----------------|-------------|
| RDG: LSE | Share Price | \$0.71 | £0.37 | Stock Rating: | Outperform | Risk Qualifier | Speculative |
| | Mark. Cap (MM) | \$54.4 | £28.3 | Price Target: | \$1.34 | NAV (@5%) | \$1.34 |

| <i>All US\$ unless noted</i> | | For Fiscal Year Ended Dec 31 | | | |
|---|-------|------------------------------|----------|----------|----------|
| RATIO ANALYSIS | | 2004A | 2005A | FY2006E | FY2007E |
| Net Income | \$MM | (7.0) | (2.4) | (6.7) | (3.9) |
| EPS | \$/sh | (\$0.18) | (\$0.05) | (\$0.11) | (\$0.06) |
| P/E Multiple | x | (3.9) | (15.5) | (6.5) | (11.6) |
| Operating Cash Flow | \$MM | (3.5) | (3.3) | (6.7) | (3.9) |
| CFPS before working cap. | \$/sh | -\$0.09 | -\$0.06 | -\$0.11 | -\$0.06 |
| Price/CF | x | (7.9) | (11.3) | (6.5) | (11.6) |
| Dividends Per Share | \$/sh | \$0.00 | \$0.00 | \$0.00 | \$1.00 |
| Dividend Yield* | % | 0.0% | 0.0% | 0.0% | 140.8% |
| LTD/(Total Cap) | % | 0.0% | 0.0% | 0.0% | 0.0% |
| INCOME STATEMENT | | 2004A | 2005A | FY2006E | FY2007E |
| Sales Rev. incl. Royalties | \$MM | - | - | - | - |
| Operating Costs | \$MM | 3.8 | 4.0 | 7.0 | 4.0 |
| EBITDA | \$MM | (7.0) | (4.0) | (7.0) | (4.0) |
| DD&A | \$MM | - | - | - | - |
| EBIT | \$MM | (7.0) | (4.0) | (7.0) | (4.0) |
| Net Interest Expense | \$MM | (0.0) | (0.2) | (0.3) | (0.1) |
| EBT | \$MM | (7.0) | (3.8) | (6.7) | (3.9) |
| Foreign exchange (loss) gain | \$MM | - | - | - | - |
| Non-Recurring Items/Other | \$MM | - | (1.4) | - | - |
| Taxes/Recovery | \$MM | - | - | - | - |
| Minority Interests | \$MM | (0.1) | - | - | - |
| Net Income | \$MM | (7.0) | (2.4) | (6.7) | (3.9) |
| Shares o/s | MM | 38.5 | 52.4 | 61.3 | 62.8 |
| EPS | \$/sh | (\$0.18) | (\$0.05) | (\$0.11) | (\$0.06) |
| CASH FLOW | | 2004A | 2005A | FY2006E | FY2007E |
| Cash Flows from Operating Activities | | | | | |
| Net Income | \$MM | (7.0) | (2.4) | (6.7) | (3.9) |
| DD&A | \$MM | 0.1 | 0.1 | - | - |
| Deferred Taxes | \$MM | - | - | - | - |
| Non Recurring/Other | \$MM | 3.5 | (1.0) | - | - |
| Working Cap. Changes | \$MM | (1.1) | 0.0 | - | - |
| Net Operating cash flow | \$MM | (4.5) | (3.3) | (6.7) | (3.9) |
| Cash Flows from Investing Activities | | | | | |
| Capital Expenditure (net) | \$MM | (11.0) | (5.0) | - | - |
| Acquis./Investments | \$MM | 0.8 | 4.7 | - | - |
| Other | \$MM | - | (1.2) | (2.8) | - |
| Net Investing Cash Flow | \$MM | (10.2) | (1.5) | (2.8) | - |
| Cash Flows from Financing Activities | | | | | |
| Equity Issues (net of costs) | \$MM | 21.6 | 8.0 | 2.1 | - |
| Net Borrowings | \$MM | - | - | - | - |
| Dividends Paid & Other | \$MM | - | - | - | - |
| Net Financing Cash Flow | \$MM | 21.6 | 8.0 | 2.1 | - |
| X-rate adjustments | \$MM | - | - | - | - |
| Net Inc.(Dec.) incl For. Ex | \$MM | 6.9 | 3.2 | (7.4) | (3.9) |
| Cash at End of Year | \$MM | 7.9 | 11.1 | 3.6 | (0.2) |
| BALANCE SHEET | | 2004A | 2005A | FY2006E | FY2007E |
| Cash & Equivalents | \$MM | 7.9 | 11.1 | 3.6 | (0.2) |
| Total Current Assets | \$MM | 8.6 | 11.6 | 4.1 | 0.3 |
| PP&E & Mining Interests | \$MM | 41.3 | 45.8 | 45.8 | 45.8 |
| Other | \$MM | (0.1) | 0.6 | 3.4 | 3.4 |
| Total Assets | \$MM | 49.8 | 57.9 | 53.3 | 49.4 |
| Current Liabilities | \$MM | 1.3 | 4.0 | 4.0 | 4.0 |
| Long Term Debt | \$MM | - | - | - | - |
| Other Long Term Liabilities | \$MM | 0.4 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | \$MM | 1.7 | 4.0 | 4.0 | 4.0 |
| S/Holder Equity | \$MM | 48.1 | 53.9 | 49.3 | 45.4 |
| Total Liab. & S/Holder Equity | \$MM | 49.8 | 57.9 | 53.3 | 49.4 |
| Working Capital | \$MM | 7.3 | 7.6 | 0.1 | (3.7) |

| <i>All US\$ unless noted</i> | | For Fiscal Year Ended Dec 31 | | | |
|-------------------------------|----------|------------------------------|-------|---------------|---------|
| PRICES/EXCHANGE RATES | | 2004A | 2005A | FY2006E | FY2007E |
| Platinum Price | \$/oz | \$846 | \$902 | \$1,173 | \$1,000 |
| Palladium Price | \$/oz | \$232 | \$204 | \$341 | \$400 |
| PGM Basket Price | \$/oz | n/a | n/a | n/a | n/a |
| Exchange Rate | ZAR/US\$ | R6.44 | R6.36 | R6.26 | R6.42 |
| MINE/EQUITY PRODUCTION | | 2004A | 2005A | FY2006E | FY2007E |
| Pt production ('000oz) | | - | - | - | - |
| Pd production ('000oz) | | - | - | - | - |
| 4 PGE production ('000oz) | | - | - | - | - |
| Cash Costs (US\$/ 4 PGE oz) | | - | - | - | - |
| OTHER DATA | | | | | |
| Issued Shares* | | 76.6 | MM | 12-month High | £0.59 |
| Issued Shares (fully diluted) | | 101.6 | MM | 12-month Low | £0.25 |



| ESTIMATED NET ASSET VALUE (NAV)/SHARE | | | | |
|---------------------------------------|-----------|----------------|---------------|-------|
| Projects | %Own'ship | \$MM | \$/Share | %NAV |
| Sheba's Ridge (@8%) | 61.5% | \$68.9 | \$0.68 | 48.7% |
| Blue Ridge (@5%) | 50.0% | \$39.2 | \$0.39 | 27.7% |
| Sunk Capital in Blue Ridge (R200m) | 100.0% | \$31.1 | \$0.31 | 22.0% |
| Fountain Ridge | 51.0% | \$2.2 | \$0.02 | 1.6% |
| Operating NAV | | \$141.4 | \$1.39 | |
| Sheba's Ridge Anglo Platinum Payment | | -\$11.6 | -\$0.11 | |
| Imbani Options (25m at £0.70) | | \$32.9 | \$0.32 | |
| Investments | | \$0.0 | \$0.00 | |
| G & A | | -\$28.7 | -\$0.28 | |
| Working Capital | | \$2.1 | \$0.02 | |
| L/T Debt | | \$0.0 | \$0.00 | |
| Net Asset Value at 5% | | \$136.1 | \$1.34 | |

* Assumes Ridge raises the R100m project finance as equity at £0.60/shr for 13.8 M shares

Source: RBC Capital Markets estimates

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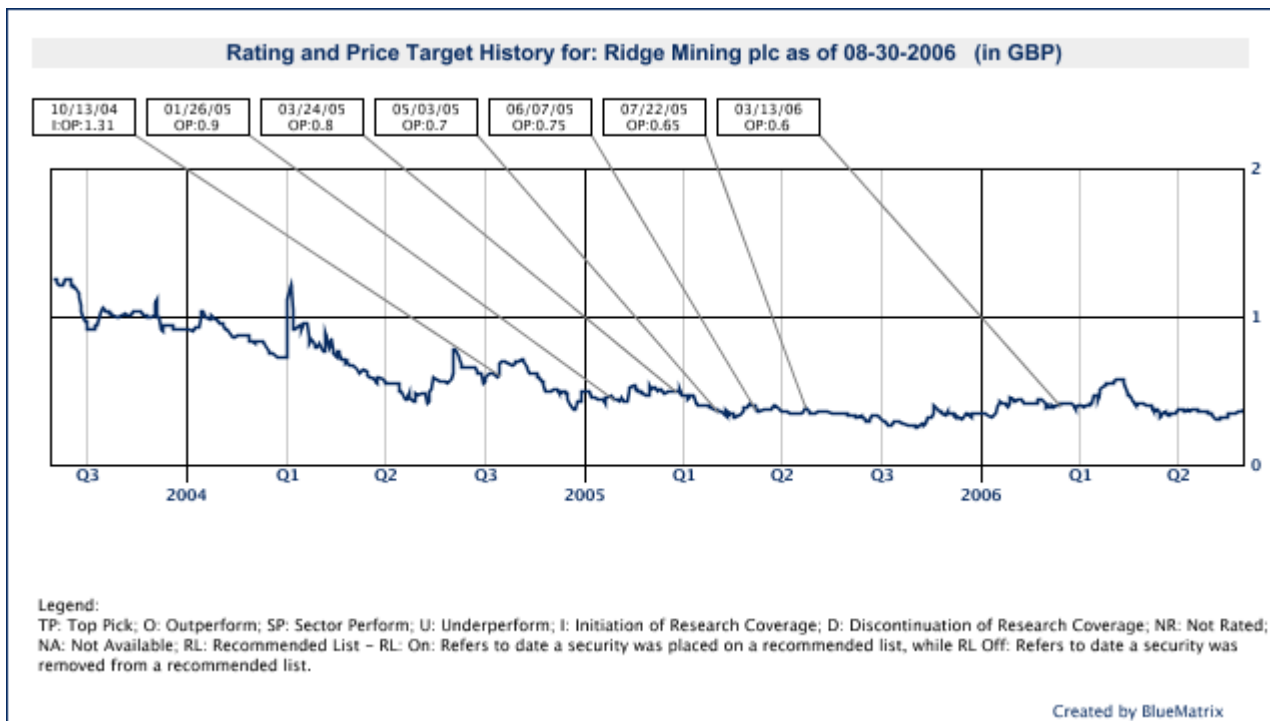
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|---------------------|-------|--|-------|---------|
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| HOLD [SP] | 447 | 47.86 | 141 | 31.54 |
| SELL [U] | 85 | 9.10 | 30 | 35.29 |



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