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## Red Hill to combine forces with Prophecy

BY TRISH SAYWELL

The boards of juniors **Red Hill Energy** (RH-V) and **Prophecy Resource** (PCY-V) have unanimously given the thumbs up to a friendly merger that will see the new company holding a diversified portfolio of thermal coal assets in Mongolia, nickel assets in Manitoba, lithium and rare earth properties in Nevada, copper-molybdenum properties in British Columbia and a vanadium-titanium-iron project in Ontario.

The new company — to be called Prophecy Resource — will have National Instrument 43-101 compliant measured and indicated resources of 232 million lbs. nickel, 1 billion tonnes coal and 116 million lbs. copper, in addition to inferred resources of 500 million tonnes coal and 593 million lbs. copper.

Red Hill shareholders will receive 0.92 of a new Prophecy share for each Red Hill share they own, which represents a 26.8% premium to Red Hill's closing share price on Jan. 20. All of Red Hill's outstanding options and warrants will be exchanged for options and warrants of the new company on similar terms.

The proposed merger excludes Red Hill's assets in the United States, namely its Red Lithium property near Clayton Valley and its Thor rare earth property in Nevada, as well as \$1 million in cash. All of which will be put into a private company owned by Red Hill shareholders that may become a new publicly traded company at a later date.

"The stronger asset base will help in raising capital," Paul McKenzie, Red Hill's current president said in a telephone interview from Vancouver. "We're combining management strengths and asset strengths and we just become a stronger company."

John Lee, chairman and chief executive of Prophecy, explained that he joined the company four months ago with the goal of "amassing advanced assets, management talent, and investors world wide," adding that the company's Lynn Lake nickel project in Manitoba and Red Hill's coal assets will provide the "cornerstones from which Prophecy can now build its legacy."

Since October 2009, Lee has acquired Lynn Lake and an 80% interest in the Titan vanadium-titanium-iron project in eastern Ontario. If the Red Hill merger goes ahead, he says, that will make a grand total of three acquisitions in just three months.

"The idea right now and the premise is to offer a diversified holding company that provides financial leverage to rising commodity prices," Lee explains in a telephone interview. "The days of running a company with a single property asset are gone — you cannot raise money based on a single asset. So why not create a vehicle where you can buy a share of one company that has leverage over a suite of commodities."

Lee will become chairman and chief executive of the combined company and the board of directors will be made up of four nominees from Red Hill and three nominees from Prophecy.

A chartered financial analyst by training who made much of his money from the tech boom in 2000, Lee says he is focused on buying undervalued assets in countries like Canada and South America and marketing them the hardest to investors in Asia, noting that if things go well and Prophecy gains more assets he might consider delisting the company from the Toronto Stock Exchange and listing it in Hong Kong instead.

"We're about three more acquisitions away from that point," he says.

To emphasize his reasoning he referred to **SouthGobi Energy Resource's** (SGQ-T) announcement on Jan. 11 that it plans to list on the Hong Kong Stock Exchange — a second listing for its coal assets in Mongolia.

"You can probably count on two hands the number of junior mining companies listed in Hong Kong, whereas in Canada you have around 2,000 of them," he said. "It just doesn't make sense to develop our company as a single-listed company here."

Lee also noted that Chile, Peru and Colombia are planning to combine their stock exchanges. "That could be 12 months away but it's going to create a joint market to cater to international institutional investors."

Lee notes the company is looking at both nickel and copper assets in Canada and South America to add critical mass before he considers a listing outside Canada. "You need economies of scale to thrive in this environment and that is what we will have to offer."

Prophecy isn't interested in grassroots properties without a defined resource, which requires extensive drilling and lots of dollars, Lee adds, commenting that there is little or no appetite among investors right now to put a lot of money into risky greenfield/exploration mining investments.

"The assets we are interested in are advanced stage, where there are tangible economics and hard dollars to place on their value, but because North American retail markets have been decimated, there is very little enthusiasm towards non-revenue generating resource companies. In order for them to be properly

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valued they need to be marketed outside of Canada.”

Lee said mineral assets held by Canadian junior firms are grossly undervalued and now is the time to go on a shopping spree. Prophecy acquired Lynn Lake, for example, for just \$4 million but the previous owners had spent about \$12 million taking the asset to the prefeasibility stage. As for Red Hill, a buyer was interested in one of its coal assets for more than \$30 million last year, but the financing fell through because of the financial crisis. “The replacement cost or value of these assets exceed what the market capitalizations of the companies that held those assets by two or three times,” he explains.

If shareholders approve the business combination between Red Hill and Prophecy, the combined company will have roughly 85.4 million shares outstanding, of which Red Hill shareholders will own about 65% and current Prophecy shareholders will own about 35% (based upon the current issued capital of each company and including a private placement that will be conducted by Red Hill in the coming weeks).

Red Hill is planning a non-brokered private placement consisting of up to 6.5 million units at a price of 35¢ per unit for proceeds of \$2.27 million. Each unit will be made up of one share and one-half warrant. A full warrant entitles the holder to buy one more share within two years for 60¢.

The proceeds will go to coal operations and later for general working and development capital.

Red Hill controls 100% interests in two Mongolian coal districts. Its fully permitted Ulaan Ovoo coal project is within 10 km of Mongolia’s border with Russia and 120 km east of the Central Mongolian railroad, which links the

project to international coal markets.

Ulaan Ovoo has measured resources of 174.5 million tonnes of thermal coal, indicated resources of 34.3 million tonnes, and inferred resources of 35.9 million tonnes.

The average seam thickness of the resource is 53.9 metres with a stripping ratio of 2.0:1 on the first 140 million tonnes.

The Mongolian government has granted the project a fully transferable 30-year mining licence that can be extended for an additional 40 years. The project has met Mongolia’s environmental hurdles and the Ministry of Nature and the Environment has approved a Detailed Environmental Impact Assessment (DEIA) and Environmental Protection Plan (EPP) specifically for Ulaan Ovoo, an important pre-condition prior to production.

Central Russia’s transmission grid reaches within 25 km to the north of the project.

In addition to Ulaan Ovoo, Red Hill owns 100% stakes in the Chandgana Tal and Chandgana Khavtai coal projects.

The projects share the same Nyalga Basin coal seam and are both contiguous to **Vale’s** (VALE-N) largest Mongolian coal project.

The Nyalga coal basin is within 160 km of the Central Mongolian railroad, giving the project direct links to China, Russia and other countries in Asia.

The Chandgana projects contain a combined total of 819.7 million tonnes of thermal coal in the measured and indicated category and 440 million tonnes of inferred. Both projects have low stripping ratios of 0.53:1 at Chandgana Tal and 2.1:1 at Chandgana Khavtgai with respective average coal seam thicknesses of 40 and 45.4 metres.

Both the Chandgana’s coal qualities are of desirable low ash, low sulfur content

with KCAL/KG LB averaging up to 4,358.

Prophecy Resource’s key asset is the Lynn Lake nickel project in Manitoba, which it acquired from **Victory Nickel** (NI-T).

According to the previous owner, Lynn Lake has a National Instrument 43-101 compliant measured and indicated resource of 17 million tonnes at an average grade of 0.62% nickel and 0.31% copper at a 0.4% nickel cut-off grade in the measured and indicated categories.

Prophecy has optioned or agreed to buy six of the seven known gabbro plugs in the Lynn Lake area and is now the dominant player in terms of land size and resource base in this premier nickel district.

Prophecy also has earned a 60% interest in the Okeover copper-molybdenum project in southwestern B.C., 25 km north of Powell River.

According to a 2006 technical report, Okeover contains an inferred resource of 86.8 million tonnes grading 0.31% copper and 0.014% molybdenum disulphide at a 0.20% copper cut-off grade. So far, less than 10% of the property has been drilled.

Recently the company also entered into an option agreement to earn an 80% interest in the Titan vanadium-titanium-iron project in eastern Ontario.

Previous owners have recorded 4,898 assay intervals from 38 core holes and highlights include 142 metres of 0.27% vanadium (0.48% vanadium pentoxide) from hole RA-5-21 and 174 metres of 0.26% vanadium from hole RA-5-10. The mineralization started from surface to a vertical depth of 500 metres. The complete horizontal and vertical extent of the deposit has yet to be determined.

At presstime, Red Hill was trading at 34.5¢ within a 52-week range of 31-66¢ per share; while Prophecy Resource was trading at 42¢ per share and has a 52-week range of 2-53¢ per share.