

# 1. Report from the Field: Site Visit to Redhawk Resources Copper Creek Project (Chris Berry, MBA)



Before our recent trip to China, we stopped off in Tucson, Arizona to conduct a site visit for a company we've written about in the past – Redhawk Resources (RDK:TSX). We spent a full day with CEO Joe Sandberg and Chairman Stephen Barley on site at their Copper Creek project. What follows are our impressions of the company based on the Factors in our Ten Point Factor Model.

**Factor #1: Quality of Management** – RDK is led by CEO Joe Sandberg who has a varied and extensive career in mining exploration and development spanning 40 years. He has focused predominantly in the southwestern United States with both open pit and underground projects. Joe has worked for major mining companies including Franco Nevada, Normandy, and Newmont. In our opinion, a CEO of a junior mining company who has extensive experience with “majors” is a plus. CEOs need vision more than anything else and a mining company CEO who has seen all sides of the industry, from exploration to development to production is a key asset.

The remainder of the Board and Management team is sound and has a suitable balance of technical and financial expertise – two areas RDK will need to excel in to achieve its production goals.

Directors and Officers:

- R. Joe Sandberg, B.Sc., MBA, AIPG – President, CEO, and Director
- Darryl J. Yea, B.Com.
- Steven Bastable
- J. Stephen Barley, B.Com., LLB. – Executive Chairman
- Greg McKelvey – M.S. Geol.

Management Team

- R. Joe Sandberg, B.Sc., MBA, AIPG
- J. Stephen Barley, B.Com, LLB
- Alec Peck, CA, CFO
- A. Joe Fernandez, VP Project Development

## Technical Advisory Board

- John A. Greig, M.Sc., P.Geo.
- Brock Riedell – Consulting Geologist
- John E. Black, B.Sc., M.Sc.

## Consulting Team

- Independent Mining Consultants, Inc.
- Westland Resources, Inc.
- Milne & Associates
- KD Engineering / Metcon Research
- Call & Nicholas, Inc.
- Golder Associates Inc.
- JDS Energy & Mining Inc.

Factor #2: **Is the asset world class?** - RDK acquired Copper Creek in 2005 for \$1.6 million. Though the property acquired was seven square miles in size, this acquisition price is impressive when you consider what the company acquired along with the land package. Over 461,000 feet of historical drill core from previous operators of the property including Magma and Newmont makes this deposit worth substantially more than \$1.6 million in our view.

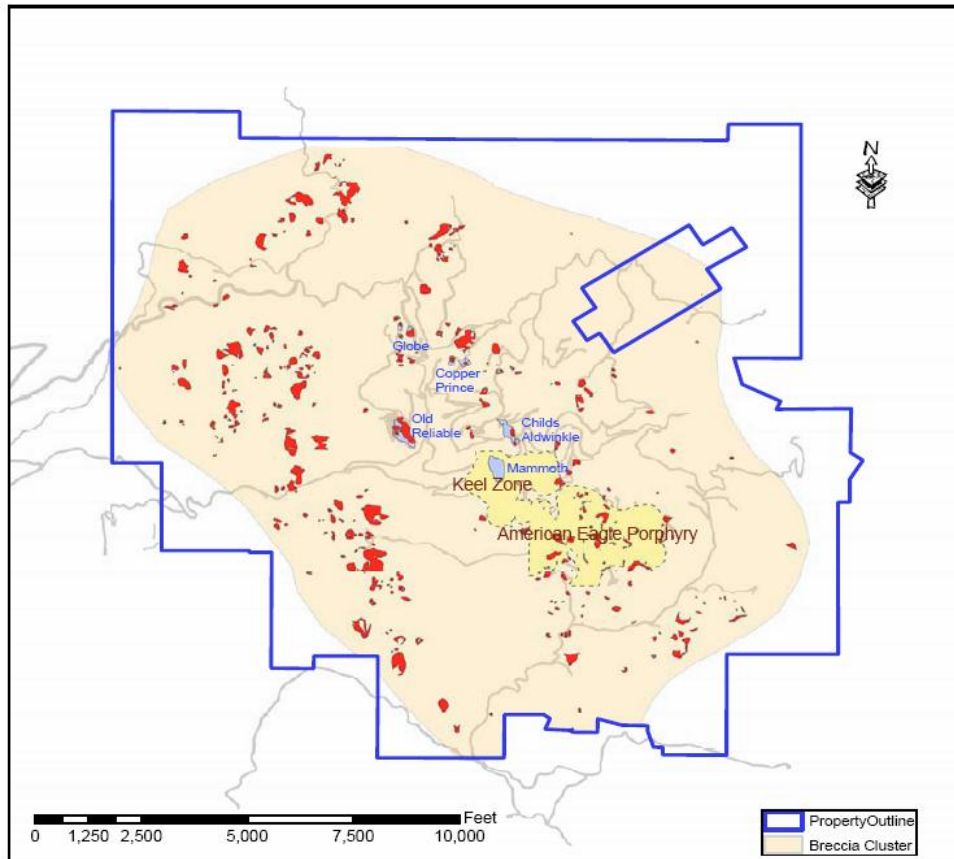
In addition, RDK acquired the geophysical data on the deposit dating back to 1977 from Magma and Newmont which has saved a great deal of expense as exploration on Copper Creek continues. Since the initial acquisition, RDK has drilled an additional 124,600 feet (diamond and rotary) for a total of approximately 575,000 feet of drilling on the property and acquired additional adjacent land bringing the total size of the land package to 28 contiguous square miles. An additional 100,000 foot drill program currently underway will be completed by February 2012.

Thus far only 20% of the entire land package has been adequately explored and is open in multiple directions, so we are confident in our belief that this deposit holds the potential to be “district scale”. The property is located in Arizona 75 miles northeast of Tucson and 15 miles northeast of San Manuel where RDK’s satellite office is located along with all of the historical core and drill data.



Source: Company website

Copper Creek hosts copper porphyries as well as breccia pipes. There are two primary porphyries the company focuses on (the American Eagle and the Keel) and approximately 400 breccia pipes on the property. Molybdenum, silver, and gold are also present which will serve as credits when evaluating this deposit, a copper play, first and foremost.



Source: Company Presentation

This picture is a top down view of RDK's original seven square mile property boundary. The red marks are high grade copper breccias (grading approximately 1.7% Cu). The yellow coloring represents the Keel Zone and American Eagle porphyries (grading approximately .7% Cu).

RDK has focused on the porphyries thus far. We were very impressed with the sheer size of this property. Much of the drilling that has occurred thus far, and continues today, was undertaken with the goal of expanding the size of these porphyries and improving various resource categories. RDK produced a scoping study in 2008 which was updated in March 2010 and is NI 43-101 compliant. The results are shown below:

Indicated Economic Resources						
Deposit	Cu cutoff	Short Tons	Cu%	Mo%	Au opt	Ag opt
Childs	1%	1,355,000	1.964	0.061	0.006	0.172
Prince	1%	433,000	2.132	0.005	0.001	0.083
Globe	1%	92,000	1.267	0.003	0	0.048
Mammoth	1.30%	2,213,000	1.85	0.001	0.001	0.16
Old Reliable	1.30%	519,000	1.585	0.014	0.002	0.08
<b>Subtotal Breccias</b>		<b>4,612,000</b>	<b>1.869</b>	<b>0.021</b>	<b>0.003</b>	<b>0.145</b>
Keel (Indicated)	0.70%	17,188,000	0.95	0.023	n/a	n/a
Keel (Inferred)	0.70%	31,738,000	0.91	0.03	n/a	n/a
AE (Inferred)	0.70%	64,200,000	0.83	0.015	n/a	n/a
<b>Subtotal Porphyry</b>		<b>113,126,000</b>	<b>0.871</b>	<b>0.02</b>	<b>n/a</b>	<b>n/a</b>
<b>Grand Total</b>		<b>117,738,000</b>	<b>0.91</b>	<b>0.02</b>	<b>n/a</b>	<b>n/a</b>

Indicated Economic Resources for Keel and American Eagle .9% Cu cutoff					
Deposit	Short Tons	Cu%	Mo%	Au opt	Ag opt
Keel (Ind and Inf)	26,450,000	1.12	0.039	n/a	n/a
AE (Inferred)	27,463,000	1.01	0.017	n/a	n/a
<b>Subtotal Porphyry</b>	<b>53,913,000</b>	<b>1.106</b>	<b>0.028</b>	<b>n/a</b>	<b>n/a</b>

Source for both charts: Company Documents

The scoping study assumed a copper price of \$2.75/lb, a molybdenum price of \$15/lb, a silver price of \$12/troy oz, and a gold price of \$750/troy oz. The IRR was 20.4%. With metals prices today higher than those used in the scoping study it is clear that Copper Creek can be mined economically. Increasing the size of this resource should help insulate against any significant volatility in metals prices.

Regarding the geology of the deposit, it is defined by a layer of pyrite near the surface, followed by a layer of chalcopyrite and then bornite at depth. Mafic rocks are found on the property which act like a sponge and serve to concentrate the grade of the deposit. Copper Creek is believed to be what is known as an “EDM” system. EDM systems, containing Early Dark Micaceous veins, are representative of quartz-sulfide vein systems.<sup>1</sup> These are veins which add to the rock strength of the deposit and should increase the economics of Copper Creek. Examples of other EDM style deposits would be the Berkley pit in Butte, Montana and Chuquicamata in Chile.

<sup>1</sup> An excellent overview of EDM style systems can be found at [http://www.segweb.org/eg/SkinnerAwardPapers/Rusk\\_et\\_al.pdf](http://www.segweb.org/eg/SkinnerAwardPapers/Rusk_et_al.pdf)



**At left is a picture of the Globe copper breccia pipe on RDK's Copper Creek property. There are estimated to be 400 such pipes on Copper Creek.**

Source: House Mountain Partners, LLC

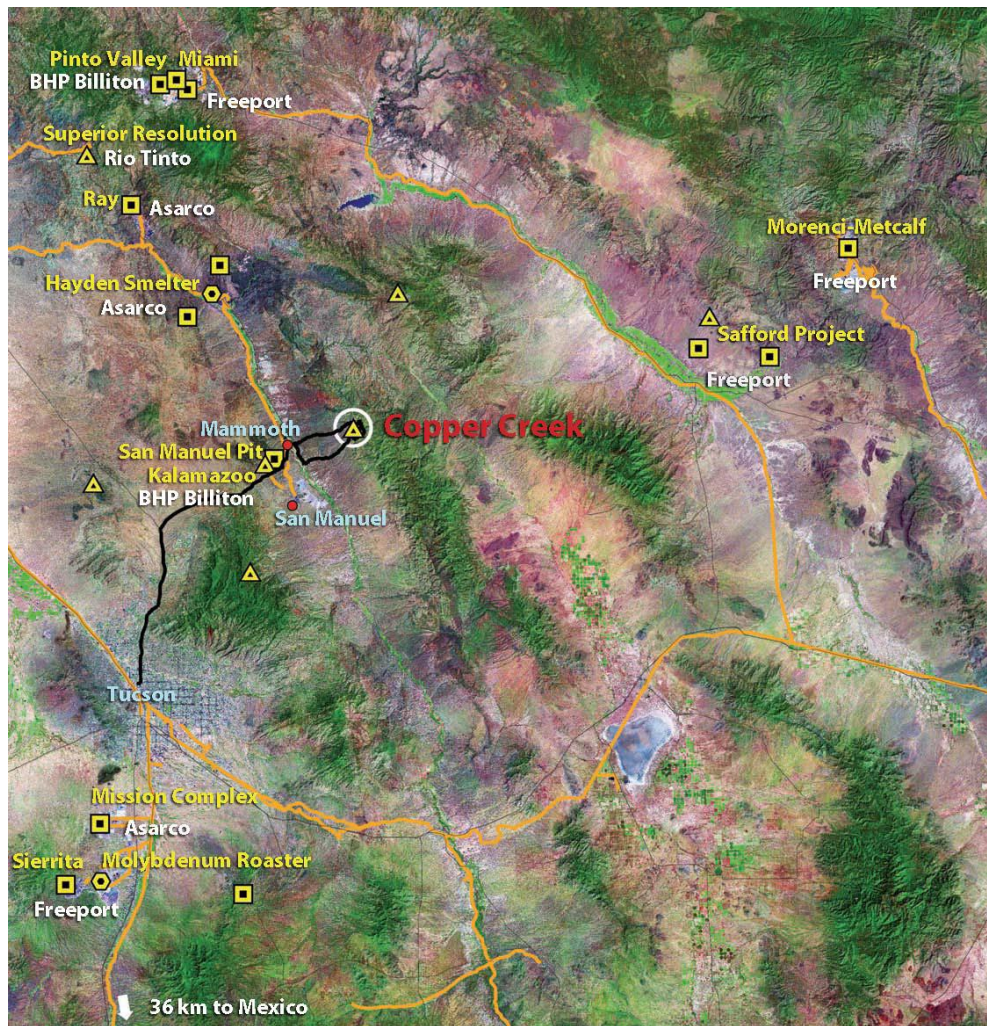
There is ample infrastructure with roads leading to and crisscrossing the property as well as power, water, and rail available nearby.



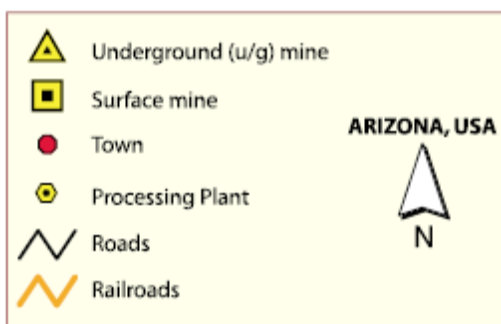
**Ample infrastructure is onsite as evidenced by the roads crisscrossing the property.**

Source: House Mountain Partners, LLC

There is a rich copper and molybdenum mining history in this region confirmed by the figure below:



If you are judged by the company you keep, RDK is in good company indeed. Copper Creek is on trend with Resolution Copper's (parented by Rio Tinto) Resolution property and Asarco's Ray mine. According to the Asarco website, "The Ray Operations consist of a 250,000 ton/day open pit mine with a 30,000 ton/day concentrator, a 103 million pound/year solvent extraction-electrowinning operation, and associated maintenance, warehouse and administrative facilities. Cathode copper produced in the SX-EW operation is shipped to outside customers and the Asarco Amarillo Copper Refinery."



Source (both pictures): Company Presentation

To summarize, this is a sizable property with world class potential. It is focused on a metal (copper) that we think will continue to be in healthy demand for years as global infrastructure build out accelerates. It is in one of the top mining jurisdiction in the world. RDK's Copper Creek asset is a highly promising one as demand for copper should be firm in the future thanks to falling head grades in countries like Chile and labor strife in countries like Indonesia (Freeport's

Grasberg mine). As drilling continues on Copper Creek, the size of the resource should grow, putting this company squarely in the sights of a major mining company such as BHP Billiton or Freeport or another consortium.

**Factor #3: What percentage of the project does the company own?** - RDK owns 100% of the Copper Creek property. The Bureau of Land Management (BLM) levies a charge of \$140 per claim. The property is a mixture of patented and unpatented mining claims as well as state prospecting permits. We think the company can control its destiny in developing this property to production or to a monetization event.

**Factor #4: What is the potential and immediacy of the asset?** - As we pointed out in Factor #2, there is a high degree of potential in Copper Creek to one day become a long-lived copper mine in Arizona. Additional drilling is required and is underway (3 drills are currently turning on the property and are finishing up 100,000 feet of drilling budgeted for 2011).

Copper Creek is also a "multi metal" deposit containing copper, molybdenum, gold, and silver, we think this is a plus as it could potentially serve to insulate RDK against a downdraft in the price of any metal. We would much rather have "the problem" of dealing with multi metallic deposits than the other way around because you have more options as metals prices fluctuate. On the other hand we are very bullish on the price of gold and silver.

The 2008 scoping study assumed a base case of production of 2,500 short tons per day focusing on the near surface breccias increasing to 10,000 tpd when the deeper porphyries are accessed. Using a 20 year mine life and prices of \$2.75/lb price for copper, \$15/lb for molybdenum, \$12/oz for silver, and \$750/oz for gold yielded an NPV of

- US \$ 531 million at a 5% discount rate
- US \$ 350 million at a 7.5% discount rate
- US \$ 222.7 million at a 10% discount rate

Over the course of the 20 year mine life, 1.3 billion pounds of copper, 26.6 million pounds of molybdenum, and 528,900 troy ounces of silver would be produced. This production could increase based on long term prices for the metals as well as input costs.

Regarding immediacy, RDK has a stated goal of commencing commercial production (on a small scale of 2,500 tons per day (tpd)) by 2015 with the goal of eventually increasing this to 20,000 tpd. The idea of starting small and growing into a larger production schedule is one that we like. There is still much work to be done vis-à-vis understanding the true size and composition of this asset as well as ensuring all permits are in place (so far they are) and necessary infrastructure is built. However, RDK word scores very highly on this factor.

**Factor #5: Diversification** - RDK has one primary asset in one jurisdiction. If the asset were out of favor or if it were located in a more uncertain part of the world, Central Asia or Africa, this could be a problem. However, as we have noted above, a focus on copper in Arizona overrides our concerns about a lack of diversification. Though a single property, it is extremely large and

the molybdenum, gold, and silver credits will add to the overall diversification and de-risking of this discovery company.

**Factor #6: What is the catalyst for the company?** - Aside from a steady stream of press releases we anticipate concerning results from the 2011 drill program and an updated NI 43-101 resource estimate, RDK plans to produce a Pre-Feasibility Study (PFS) in 2012.

The work being conducted for the PFS will be completed in early 2012 and includes the following: the 100,000 foot drill program mentioned above, hydrology studies to ensure adequate water supply, rock quality studies, development of right of ways which have been completed from the paved roads to the mine site, environmental permitting, and metallurgical work to confirm the high recovery rates previously experienced.

Management indicated that all aspects of the PFS work have progressed successfully to date. The goal of increasing the production rate appears attainable. While we know a great deal about Copper Creek, a PFS can serve to verify our assumptions based on uncovering more knowledge about the deposit. With copper trading in the \$3.80/lb range today as we write, a multi-billion pound CuEq resource like Copper Creek should have little trouble generating ample cash flow as production commences and ramps up, due to significant economies of scale.

Finally, one must not overlook the effect that the Emerging World striving for a higher quality of life will continue to have on the price of metals such as copper. The chart below from the ICSG<sup>2</sup> demonstrates the relationship between GDP per capita in select countries and copper usage, or intensity, in a given country. The relationship between the US and China is instructive. While the 2009 GDP per capita in China was roughly 1/10<sup>th</sup> of what it was in the US, the copper intensity per person was roughly the same. Therefore, if GDP per capita in China alone is ever going to reach the level we are accustomed to in the West, then copper usage must also increase by a factor of ten. This, of course, excludes other countries such as India, Indonesia, Brazil, etc. Clearly, this is a long-term catalyst for a company such as RDK.

<b>Country</b>	<b>2009 GDP/Capita (USD/person)</b>	<b>Copper Usage/Capita (kg/person)</b>
<b>China</b>	<b>\$4,500</b>	<b>5</b>
<b>India</b>	<b>\$1,000</b>	<b>1</b>
<b>US</b>	<b>\$45,000</b>	<b>6</b>
<b>Canada</b>	<b>\$39,000</b>	<b>4</b>
<b>Germany</b>	<b>\$41,000</b>	<b>13</b>

Source: ICSG; all figures approximate

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<sup>2</sup> International Copper Study Group

Factor #7: **Is this a contrarian asset?** - When we speak of contrarian assets here, we are revering to the under (or over) valuation of the company. RDK, like many of its junior exploration peers, has taken it on the “chin” in 2011. We view this more as a consequence of the "risk on - risk off" mentality currently gripping the markets rather than poor management execution or any another factor. In other words, we think RDK is significantly undervalued even with its current price appreciation.



**RDK’s share price has rebounded smartly of late. Given our view on copper’s fundamentals going forward, this seems like a solid contrarian play to us at current levels.**

**Factor #8: Financial Soundness/Dilution Management/Management Acquisition or Disposition of Stock**

Here is a snapshot of RDK’s capital structure as of November 7, 2011:

<b>Shares Outstanding</b>	<b>141,961,037</b>	
<b>Underwriter's Compensation Options</b>	<b>1,733,355*</b>	
<b>Options Outstanding</b>	<b>8,810,000</b>	
<b>Warrants Outstanding</b>	<b>5,048,572</b>	<b>at \$0.50 expiring April 30, 2012</b>
	<b>14,200,175*</b>	<b>at \$1.00 expiring December 21, 2012</b>
<b>Fully Diluted</b>	<b>171,753,139</b>	

Source: Company Documents

\*On December 21, 2010 RDK completed an underwritten private placement with Macquarie. The compensation options entitle Macquarie to receive one share and one half of one non-transferrable share purchase warrant. Each warrant, if exercised, entitles Macquarie to purchase one common share at \$1.00 until December 21, 2012.

RDK had \$12,626,820 in working capital as of September 30, 2011 and is showing a burn rate of approximately \$1 million per month. This burn rate is sensitive to drilling on the property and will slow down substantially in February 2012 once the 2011 drill program is completed. RDK has enough cash in the Treasury to complete the PFS. They will need to go to the capital

markets after the PFS is completed in 2012 to continue advancing Copper Creek to production. Given pending results we think

With respect to capital expenditure, building a mine and mill will account for the bulk of development costs. The company also told us that the cost of drilling and assays is approximately \$100 per foot. If we refer to the scoping study, RDK believes this can be accomplished for less than \$400 million (for a 2,500 tpd operation).

Naturally capital costs will rise as planned throughput is increased. For example we think a 20,000 tpd operation would require a capital expenditure of approximately \$800 million. There exists excess capacity at local smelters which could defray capital expenditures in the near-term. However but this decision is still several years away and we won't speculate except to say that there are opportunities to reduce the cap ex as planned production is expanded.

We are comfortable with a forecast cap ex less than \$1 billion for a project in a proven and reliable jurisdiction for copper production and one in which current producing projects demonstrate similar positive economics. A joint venture partner for RDK could be ideal, but we won't speculate on this eventuality until RDK's Copper Creek resource is further defined and the PFS is released, demonstrating more certain resource and financial characteristics. Superior dilution management will be a critical task for RDK in the future.

Regarding insider ownership, RDK management owns 15% of the fully diluted shares. Below is a report from Bloomberg of recently filed insider and institutional ownership.

GRAB EquityHDS  
 DELAY Vol 10,000 Op .41 T Hi .41 T Lo .41 T ValTrd 4100  
 RDK CII Equit 25) Customize 99) Feedback CUSIP 75746K10 Redhawk Resources Inc/Canada  
 1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions  
 Holder Group All Holders 20) Export 21) Searches 22) Edit Filters  
 Quick Search 29) Save

Holder Name	Portfolio Name	Source	Amt Held	% Out	Latest Chg	File Dt
1. IG INVESTMENT M	Multiple Portfolio	MF-AGG	8,276,500	5.97	350,000	09/30/11
2. YEA DARRYL J	n/a	PROXY	4,478,168	3.23	0	10/22/10
3. BASTABLE STEVEN CHA	n/a	SEDI	3,284,222	2.37	-70,000	08/24/10
4. BARLEY JACK STEPHE	n/a	SEDI	2,593,789	1.87	10,000	07/27/10
5. GOODMAN & CO IN	Multiple Portfolio	MF-AGG	2,565,000	1.85	2,565,000	12/31/10
6. RBC GLOBAL ASSE	Multiple Portfolio	MF-AGG	1,749,567	1.26	-231,179	08/31/11
7. WESTPOINT MERCH	n/a	SEDI	1,128,168	0.81	0	06/03/11
8. SANDBERG R JOE	n/a	SEDI	1,005,000	0.73	250,000	06/09/10
9. BRICK ASSET MAN	Multiple Portfolio	MF-AGG	1,000,000	0.72	100,000	08/31/11
10. PECK ALEC	n/a	SEDI	112,500	0.08	60,000	11/23/10
11. APEX LLOYDS INSURAN	APEX LLOYDS INS	Sch-D	69,500	0.05	57,500	09/30/11
12. JULIUS BAER MUL	Multiple Portfolio	MF-AGG	52,829	0.04	-1,214	08/31/11
13. MCKELVEY GREGORY E	n/a	SEDI	14,000	0.01	0	01/19/11
14. PACIFIC WEST FINANCI	PACIFIC WEST FI	13F	0	0.00	-30,000	09/30/11
15. OSLER CHRISTINA	n/a	SEDI	0	0.00	-13,500	08/12/11

% Out 19.01 Zoom - + 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 3204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
 SN 729831 6752-2642-2 21-Dec-11 11:03:39 EST GMT-5:00

Source: Bloomberg

Factor #9: **Stakeholder Relations** – On our recent site visit to Copper Creek we remarked that RDK is a public company that trades like a private company, the inference being that the shares are in “tight hands”. Despite the lack of liquidity that can arise in similar situations, we view it as a positive element of control. The true “float” is estimated to be 20 million shares (out of 138 million outstanding non-diluted). Several institutions in New York and Toronto own large blocks of stock as do a number of high net worth investors based in the United States. Additionally, when we met with management in New York, they mentioned that they have CAs signed with several mining companies and investor groups who are interested in the potential of Copper Creek.

Factor #10: **Investor Sentiment** – Echoing the sentiments we mentioned in Factor #9, it appears that the core institutional and insider holders of RDK are “in it for the long haul”. Our opinion is based on a low average daily volume relative to the size of the share float.

RDK management has been consistent in reconfirming a 2015 production timeframe. While we do not see production commencing sooner than 2015, the strong possibility exists that a suitor or white knight could come into view for the company as the Copper Creek resource continues to grow. This may be why RDK’s shares are as tightly held as they are.

## **Final Thoughts**

We always find site visits to be enlightening experiences. You can view all the PowerPoint presentations on the web site, but until you can get onsite spend a couple of days with management and ask questions, it is truly difficult to get a sense for whether or not a project will “work”. We have worked closely with RDK management both in the field and in their trip to New York to meet with institutional investors.

We are confident that RDK is on the right path to developing Copper Creek into a producing mine with world class potential. They are focused (and we emphasize FOCUSED) on the best asset in the best jurisdiction in the U.S. With very strong global forces like resource nationalism on the rise, this focus is important as we forecast a steady demand for copper into the future. RDK ranks favorably on our Discovery Investing Scoreboard Ten Point Factor Model ([www.discoveryboard.com](http://www.discoveryboard.com)). Based on crowd scoring, it appears that the “crowd” views RDK as a company with high potential for investment gains. We anticipate the crowd score increasing as RDK management executes its stated goals.

This does not mean, however, that RDK will have a smooth and easy path to production. Significant challenges remain including the need for additional financings to fund the drive to resource development and commercial production. Also, volatility in copper and molybdenum prices could provide challenges.

Stagnant economic growth in the United States and the Eurozone coupled with the threat of slowing economic growth in China cast a pall on the metals markets in the second half of 2011. It would appear that Darwinian forces are percolating in the metals markets. Perhaps only the “strong will survive”. The pieces are in place for RDK to remain strong and prosper throughout

these turbulent times. That responsibility rests with company management. We are confident they have the expertise and business plan in place to do so.



**Staining on a breccia pipe at Copper Creek.**

Source: House Mountain Partners, LLC

*The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words “plan,” confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition we may review investments that are not registered in the U.S. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin. Though we have served as paid advisors to Redhawk Resources in the past we are no longer retained in that capacity. On Saturday, December 3<sup>rd</sup>, 2011 we visited Copper Creek and were reimbursed by RDK for expenses incurred. We do not own any shares in the company.*