

## Corporate

 Current price **1.10p**

 Sector **Mining**

 Code **ROCK.L**

 AIM **AIM**

### Share Performance



— **ROCK.L**      +10%    +100%    +63%

Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **8.3**

 Shares in issue (m) **750.6**

52 weeks High Low

**2.33p**    **0.27p**

 Financial year end **31 December**

Source: Company Data, Allenby Capital

### Key Shareholders (pre placing)

Nicholas Walley 8.18%

Michael Somerset-Leeke 8.13%

Salida Capital (Europe) Ltd 2.36%

David W Price 2.16%

Edward Fry 2.07%

Source: Company Data, Allenby Capital

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# Rockfire Resources plc (ROCK.L)

## Potential for a major resource base upgrade

Rockfire Resources, the gold and copper exploration junior with projects in northern Queensland has recently commenced a major £0.8m drilling programme on Plateau, its most advanced project. Drilling is likely to be followed by a resource update in late 2020 and a scoping study in Q1 2021. We believe that the updated resource estimate could be commercially significant. This reflects the promising drilling results post July 2019's resource assessment and the potential for the drilling programme to expand the resource base given the analogous Mt Wright mine geology 47 km to the NE. The new drilling programme will include diamond drilling for the first time which will enable deeper higher-grade targets to be targeted. The drilling programme has been underpinned by the recently announced £1m raise. We believe the scope for positive news flow in the coming months is excellent while the gold market backdrop should be supportive for gold exploration as well as production plays over the balance of 2020.

- Rockfire's hypothesis:** Rockfire's tenements in northern Queensland lie in a prolific gold producing province. Since the 1860's gold production has been around 20m oz Au and two mid-tier mines continue to operate. Rockfire's hypothesis is that the Plateau prospect is analogous to the Mt Wright mine in terms of geophysical characteristics, breccia hosted mineralisation, grade and scale. Drilling in the upper levels of Plateau, at least, supports the hypothesis. Mt Wright has produced 1.5m oz Au historically.
- Resources:** Rockfire currently has a modest resource base. As of July 2019, JORC inferred resources for the Plateau Double Event prospects were 51,000 oz. This however excluded some very promising drilling results in late 2019 and early 2020. Allowing for these plus a successful drilling programme, it would be surprising, in our view, if resources by year end were not comfortably over 100,000 oz Au or even 150,000 oz Au. Furthermore, we would expect significant resources in the indicated category.
- Drilling programme:** The Plateau drilling programme calls for 19 holes and 4,671m of reverse circulation (RC) and diamond drilling. The programme is expected to cost £775,000. The initial phase of the programme will aim to test gold mineralisation with RC drilling near the surface and down to about 200m. More expensive diamond drilling will be applied for deeper targets down to 750m. Note, the maximum depth drilled so far on Plateau is 230m. Interestingly, Mt Wright has been mined down to 1,200m and a large area of mineralisation exists between 500m and 800m with grades >2g Au/oz.
- Valuation:** We are leaving our absolute Rockfire valuation unchanged from our March initiation report at \$22.4m. The valuation reflects a sum-of-the parts calculation. In the case of the Lighthouse tenement we have assumed a pre-feasibility success case, a \$35/oz valuation quotient and 1.5m oz Au of resources risked by 35% chance of success. For the other gold and copper projects we have used a nominal \$2m each. Our risked and diluted valuation/share is 1.96p including prospective share issues to finance cash outflows through 2021. This is up from 1.9p previously reflecting a change in the exchange rate assumption from £1=\$1.30 to £1=\$1.25.

### Year End: December

(£'000)	2017	2018	2019	2020E	2021E
EBITDA	(410)	(532)	(492)	(517)	(542)
NET (DEBT)/CASH	1,257	294	762	111	(1,407)

Allenby Capital acts as Nomad &amp; Broker to Rockfire Resources plc (ROCK.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

## Exploration news flow

### 3D geophysical imaging

Rockfire has commissioned geophysical consultants to apply three-dimensional (3D) imaging technology to some historical aeromagnetic data obtained by Ramelius Resources in 2011 on the Plateau prospect. The results are very interesting as Rockfire has noted. The key points of interest are that application of the technology assists in selecting drill targets particularly at depth and giving a clear picture of the geology. Significantly, a gold target has been identified at a depth of more than 600m.

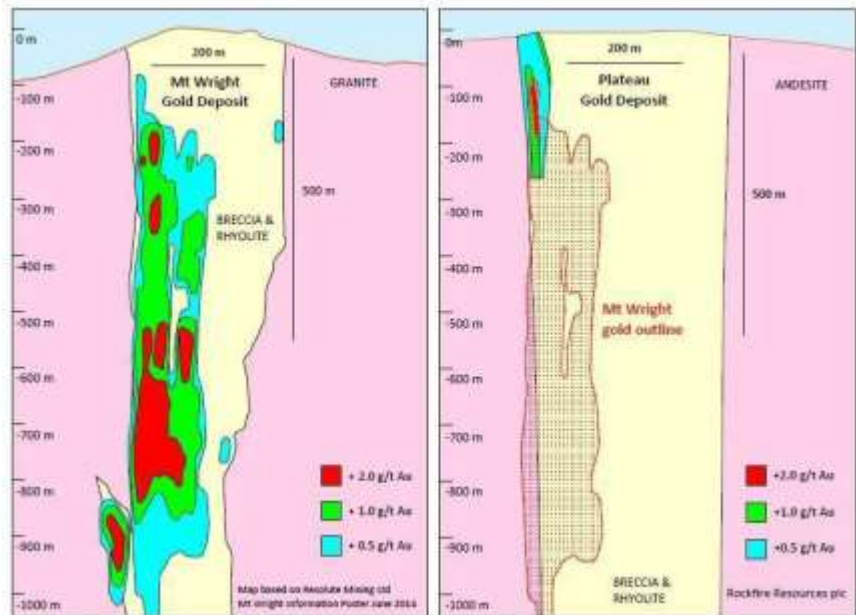
### Initial Plateau drilling

Rockfire has referred to drilling at Plateau ‘progressing well’ about 100m east of earlier drilling locations. Significantly, long intervals of sulphide mineralisation have been encountered. According to Rockfire, sulphides are usually associated with gold at Plateau which is encouraging for anticipated gold assays bearing in mind that much of the gold at Plateau occurs in microscopic form.

### Cardigan Dam rock sampling

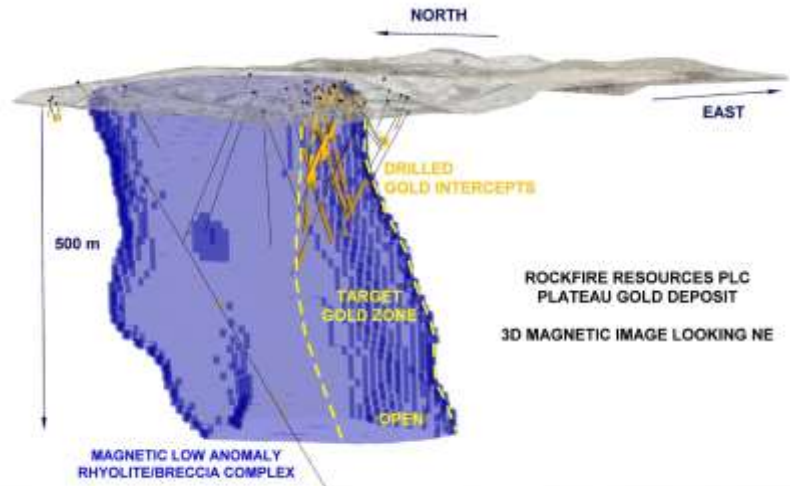
Rockfire has recently completed a rock sampling study on the Cardigan Dam prospect 3.5 km southeast of Plateau. The results were encouraging in that high grades were encountered with 47% of the sample returning gold values >0.5g/t Au. The highest grade was 23.4 g/t Au. In his comment on the results CEO David Price referred to the evidence from Lighthouse increasingly pointing to the tenement hosting ‘multiple mineralised systems’.

Exhibit 1: Mount Wright & Plateau



Source: Company

Exhibit 2: Plateau 3D magnetic image



Source: Company

### Copper exploration interests

Rockfire has two early stage copper exploration tenements, Copperhead and Copper Dome in mid to northern Queensland approximately 200 km south of Townsville and 100 km east of Rockfire’s gold tenements close to the Bruce Coastal Highway. The tenements are both porphyry plays located in the East Tasmanide Porphyry Tract that runs up to 100-200 km inland from the Queensland coastline. Both Copperhead and Copper Dome were explored in the early 1970’s by Carpentaria Exploration and Australia Selection Pty Ltd respectively. Significantly, based on diamond drilling in 1972, Carpentaria estimated a non-JORC compliant resource for Copperhead of 35m tonnes @ 0.35% Cu eq for 123,000 tonnes copper equivalent. Copper Dome has also been subject to some modest drilling with some promising results in terms of grades.

Rockfire considers that both Copperhead and Copper Dome are prospective copper porphyry plays based on earlier exploration activity. The company also believes that the tenements have been under-explored using modern techniques. We understand that the company had been contemplating a new exploration programme for the copper tenements. For the time being, however, resources are being largely focused on the considerably more advanced gold prospects in general and Plateau in particular. According to Rockfire, a drone-based magnetometer survey is planned for the Copper Head and Copper Dome projects in the coming months. This is a geophysical technique used for mapping large-scale geological structures and detecting mineralisation ahead of drilling. We believe the cost of the survey is about £83,000.

Arguably, to de-risk the deep potential of the copper porphyry plays an intensive diamond drilling programme is required. The drawback is that this would be a very expensive exercise probably requiring a joint-venture partner.

### Gold market view

Gold is perhaps the definitive risk-off or defensive investment. Over the past year or more investment interest in the precious metal, particularly as reflected by ETF holdings, has surged. Interestingly, this has been partly offset by declining physical demand in the largest market, jewellery, with corona virus related lockdowns particularly in India being the key driver.

Investment interest of late has been driven by a combination of factors of which the collapse in government administered interest rates and bond yields has been of

paramount importance. The opportunity cost of holding gold is now approximating to zero when denominated in the world’s major currencies. The lack of income from holding physical gold has therefore effectively ceased to matter for defensive investors. Other positives supporting gold investment interest have been general uncertainty surrounding the impact of the corona virus epidemic, the collapse in world economic activity since the first quarter of 2020 and unease concerning the ramifications of a massive increase in government borrowing in the OECD world in recent months. For many major economies, including the US, debt to GDP ratios are now well into three digits and at levels rarely seen outside wartime. Some believe this is the harbinger of a future surge in inflation given the potential for debt issuance having to be monetised through central banks.

Growing investment interest has been manifested by a significant upward trend in the gold price in recent months and indeed over the past year. As of late June 2020, gold was trading at about \$1,780/oz, up around 26% on a year earlier and an eight-year high. The current price, however, is still slightly under the all-time peak of \$1,878/oz recorded in August 2011. At a price anywhere near current levels producing gold is a very lucrative for most mines given cash costs typically in the \$650-750/oz range and fully accounted costs of around \$1,000/oz.

We believe that the forces driving gold since early 2020 will probably persist which should be supportive for the price of the precious metal. Further support could be provided by a resurgence in physical demand for jewellery applications as corona virus lockdowns are eased or unwound. In these circumstances we believe \$2,000/oz plus is very much in the cards before year-end and possibly \$2,500/oz by mid-2021. The risk for gold is arguably a dramatic development on the covid-19 vaccine front in the coming months. This would probably lead to a swing in investor sentiment to risk-on and a resurgence in the S&P 500 and the dollar. Contra wise there would be a potential loss of interest in defensive investments such as gold.

While mines are particularly sensitive to gold price fluctuations given the implications for profitability and cash flow, they are also not without significance for junior exploration plays. The link occurs through the willingness of both portfolio investors and particularly established mining groups to finance new projects including farm-ins. Rising prices boost sentiment and vice versa.

**Exhibit 3: Gold price trend**



Source: Thomson Reuters

## Financials

We believe that following the end June 2020 raise of £1m gross (£0.95m) Rockfire is comfortably financed for its work programme and G&A over the balance of 2020 and possibly into early 2021. The company has indicated the raise will be used for drilling at Plateau, geophysical studies at the Lighthouse tenement, magnetometer surveys at the Copperhead and Copper Dome projects and general working capital purposes. The focus of the work programme is the drilling at Plateau and subsequent new JORC resource assessment.

Prior to the raise, we believe the cash position was about £0.18m with the significant drop from £0.76m at the end of 2019 reflecting carryover drilling work on the Lighthouse tenement, the commencement of the new drilling programme and six months of G&A or around £0.25m. With the new drilling programme now underway during the dry winter season window in northern Queensland, the cash outflow is likely to be heavy in the second half of 2020. We look for capital outlays for 2020 as a whole of £1.1m. Note, that the Plateau drilling programme is scheduled to include both reverse circulation and considerably more expensive diamond drilled holes. The latter are targeting high-grade targets at Plateau down to 750m.

As far as G&A is concerned, we look for expense of about £0.52m in 2020. This reflects an increase of 5% from 2019 to allow for higher levels of activity but still constitutes a very modest corporate overhead. Overall, our forecasts call for a cash outflows in 2020 of £1.60m and £0.65m before and after equity raises respectively. This would imply a cash balance at 2020 year-end of £0.11m.

We would expect there to be another sizeable cash outflow in 2021 given the stage of exploration at Plateau and the wider Lighthouse tenement and the need to undertake a scoping study. To achieve a route to the commercialisation of Lighthouse Rockfire will need to establish a resource base of at least 1m oz Au. This will require more drilling and ultimately a pre-feasibility study. Rockfire may, however, be able to establish a small-scale mine with a lower resource base and out-sourced mill processing to one of the two under-utilised mills at Ravenswood and Pajingo in the greater Charters Towers region. Both are within trucking distance of the Plateau project. The potential for establishing an initial small-scale mining operation at Plateau is likely discussed in the upcoming scoping study.

Provisionally for 2021 we look for capital spending of £1m and an operating outflow cash outflow of £0.52m or similar to 2020. This would imply a net debt position at 2021 year-end of £1.41m before capital raises. It should be noted that capital spending in 2021 will to a considerable extent be contingent on the outcome of the 2020 drilling programme and the conclusions of the Plateau scoping study.

## Exhibit 4: Summary Financials (£000s)

<b>INCOME STATEMENT</b>						
<b>Year end December</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>
EBITDA	-344	-410	-532	-492	-517	-542
Depreciation	0	0	0	0	0	0
Share based payments	-34	-28	0	0	0	0
FX gain/(loss)	16	58	-49	-57	0	0
Other	0	0	0	0	0	0
EBIT before impairment	-362	-380	-581	-549	-517	-542
Impairment charge	-5,730	0	-1,437	-87	0	0
Loss before tax	-6,091	-380	-2,019	-636	-517	-542
Tax	0	0	0	0	0	0
FX translation gain/(loss)	776	-245	-20	0	0	0
Comprehensive income	-5,316	-626	-2,039	-636	-517	-542
Average shares in issue (m)	100	243	239	464	751	751
<b>BALANCE SHEET</b>						
<b>Year end December</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>
<b>Non-current assets</b>						
Intangibles	1,519	2,237	1,442	1,732	2,839	3,839
Other	0	0	0	10	10	10
<b>Total</b>	<b>1,519</b>	<b>2,237</b>	<b>1,442</b>	<b>1,742</b>	<b>2,849</b>	<b>3,849</b>
<b>Current assets</b>						
Cash	375	1,257	295	763	111	500
Trade and other receivables	0	0	23	56	56	56
<b>Total</b>	<b>375</b>	<b>1,257</b>	<b>317</b>	<b>819</b>	<b>167</b>	<b>556</b>
<b>Total assets</b>	<b>1,895</b>	<b>3,494</b>	<b>1,759</b>	<b>2,561</b>	<b>3,016</b>	<b>4,405</b>
<b>Current liabilities</b>						
Trade and other payables	134	262	186	146	168	193
ST debt	0	0	0	0	0	1,907
Total liabilities	134	262	186	146	168	2,100
<b>Net assets</b>	<b>1,761</b>	<b>3,232</b>	<b>1,573</b>	<b>2,415</b>	<b>2,848</b>	<b>2,305</b>
<b>Net cash/(debt)</b>	<b>375</b>	<b>1,257</b>	<b>295</b>	<b>762</b>	<b>111</b>	<b>-1,407</b>
<b>Equity</b>						
Share capital	5,624	6,339	6,369	6,625	6,743	6,743
Reserves	-3,863	-3,107	-4,796	-4,210	-3,895	-4,437
Total equity	1,761	3,232	1,573	2,415	2,848	2,306
Equity and liabilities	1,895	3,494	1,759	2,561	3,016	4,406
End year shares in issue m	152	343	373	629	751	751
<b>CASH FLOW STATEMENT</b>						
<b>Year end December</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>
Comprehensive income	-6,091	-380	-2,019	-636	-517	-542
Impairments	5,824	0	1,437	87	0	0
Share-based payments	34	28	0	0	0	0
FX translation	13	-36	-20	-57	0	0
Other	0	0	0	0	0	0
	<b>-222</b>	<b>-388</b>	<b>-602</b>	<b>-606</b>	<b>-517</b>	<b>-542</b>
Receivables (inc)/dec	12	0	-23	-33	0	0
Payables inc/(dec)	-48	80	-76	-40	22	25
Total operational cash flow	-257	-308	-700	-679	-495	-517
Share issues net	755	1,454	379	1,535	950	0
Exploration expenditure	-325	-215	-642	-388	-1,107	-1,000
Acquisition of BGM Investments	0	-50	0	0	0	0
Other	0	0	0	0	0	0
<b>Net cash flow</b>	<b>173</b>	<b>882</b>	<b>-963</b>	<b>468</b>	<b>-652</b>	<b>-1,517</b>
<b>Net cash/(debt)</b>	<b>375</b>	<b>1,257</b>	<b>294</b>	<b>762</b>	<b>111</b>	<b>-1,407</b>

Source: Company; Allenby Capital

## Valuation rationale

Our Rockfire valuation methodology is based on a risked sum-of-the-parts calculation. The parts are the Lighthouse tenement of which the Plateau project is the key component, the residual gold tenements and the two copper projects, Copperhead and Copper Dome. Clearly, Lighthouse is the major contributor to the overall valuation given that it contains the most advanced projects.

For the purposes of the exercise we assume a success case for the exploration of Lighthouse. We define this as completing a viable pre-feasibility study for one or more projects. At this stage a project such as Plateau or projects will have been de-risked technically and commercially and contain a sufficiently large resource and reserve base to either undertake mine development or monetisation through a trade sale. Our definition of sufficiently large here is 1.5m oz Au or the same as Mt Wright's cumulative production. Reserves of this size would be adequate for a ten-year mine life, assuming annual production of 150,000 oz Au. This level of production is typical for a mid-tier gold mine and would probably imply a competitive position on the gold mine cost curve. Mill outsourcing could enhance economics.

Our key valuation metric for the reserve base is dollars/oz of gold using corporate deals as a benchmark. In the case of Lighthouse/Plateau there is a very relevant benchmark in the form of Resolute Mining's disposal of its Ravenswood operations at the beginning of 2020. The consideration for the disposal was US\$202m or US\$42/oz Au and US\$61/oz Au for total resources and indicated plus measured resources respectively. Ravenswood, note, is an established mine and processing facility so, in principle, the valuation needs to be discounted for this factor in a Rockfire context at a hypothetical pre-feasibility study stage. For our valuation we have used \$35/oz which reflects a 17% discount to the Ravenswood deal based on overall resources. For perspective we believe the Newcrest farm-in into Greatland Gold's Havieron gold project in Western Australia may have been undertaken at about US\$21/oz Au, although this was well before pre-feasibility study.

After applying \$35/oz to assumed reserves of 1.5m oz Au the Lighthouse valuation would be US\$52.5m. This however needs heavily discounting for project risk given that Rockfire is a long way from pre-feasibility status. To allow for this factor we would propose discounting by using a 35% chance of success (COS). This would take the Lighthouse valuation down to US\$18.38m.

As far as the other projects are concerned, they are all at a very early stage of appraisal, so nominal valuations apply. We note, however, that they all show promise. For the gold projects other than Lighthouse together with the copper projects we have assigned valuations of US\$2m for each group to allow for early stage geotechnical work. This would take the Rockfire valuation corporately to US\$22.4m or £17.9m at an exchange rate of £1=\$1.25. Previously we had used £=\$1.30.

On a per share basis we believe the valuation for junior resources plays such as Rockfire should be diluted by prospective raises to finance near to medium term cash outflows. Rockfire's late June raise of £1m underpins its exploration and G&A expenditure needs over the balance of 2020. Based on our forecast cash outflow in 2021 of £1.52m, Rockfire may have to issue another 163m shares assuming the late June 2020 share price of 0.93p/share. Our estimate of the risked and diluted Rockfire valuation per share is therefore 1.96p based on prospective shares in issue of 914.03m. This is similar to our previous valuation of 1.9p/share with the minor variance accounted for by the change in exchange rate assumption.

**Exhibit 5: Rockfire Resources valuation**

Project	Resources	Valuation quotient	Risk factor	Valuation		Valuation per share £	
	Au m oz	US\$/oz Au	COS	US \$m	£m	Undiluted	Diluted
Lighthouse	1.50	35	0.35	18.38	14.70	0.024	0.016
Other gold projects				2.00	1.60	0.002	0.002
Copper projects				2.00	1.60	0.002	0.002
<b>Total</b>				<b>22.38</b>	<b>17.90</b>	<b>0.029</b>	<b>0.020</b>

Source: Company; Allenby Capital

## Risks and challenges

The key risk surrounding Rockfire concerns the success or otherwise of the current Plateau drilling programme. Indeed, we see this programme as critical to the future development of the company. Catalysts for major setbacks in the stock could stem from disappointing drilling results in terms of grade, a lack of evidence supporting the Mt Wright hypothesis and an inability to establish a resource base comfortably over 100,000 oz Au with a significant representation in the indicated category. From a drilling perspective a particular issue concerns the diamond drilling results at the lower intervals. A failure to discover the relatively high grades found at Mt Wright would be disappointing, given the implications for establishing a viable resource base.

The risks outlined above are however common to pretty well all resource exploration projects. It should be noted that so far drilling activity on the Lighthouse tenement has yielded highly positive results. We believe the evidence so far points to Rockfire's Mt Wright analogy being well founded.

Finance is often the Achilles heel of resource juniors. Following, however, the late June £1m raise the current drilling programme is well underpinned financially. The ability to continue funding exploration in 2021 will, of course, be very dependent on the success of the current programme and the scale of the resource base at the end of 2020. Inevitably, uncertainty surrounds such matters.



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