

Corporate

Current price **1.30p**

Sector **Mining**

Code **ROCK.L**

AIM **AIM**

Share Performance



1m +42% 3m +46% 12m +10%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **11.0**

Shares in issue (m) **832.42**

52 weeks High Low

2.00p 0.45p

Financial year end **31 December**

Source: Company Data, Allenby Capital

Key Shareholders

Nicholas Walley 6.30%

Michael Somerset-Leeke 5.90%

Spreadex Ltd 2.60%

David W Price 1.66%

Edward Fry 1.56%

Source: Company Data, Argus Vickers

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Rockfire Resources plc (ROCK.L)

Major resource upgrade

Rockfire recently announced a major resource upgrade on its leading Plateau project in northern Queensland. This follows an RC and diamond drilling programme in 2020. The JORC resource base is now put at 208,278 oz Au, up 515% from the July 2019 estimate. An inaugural silver resource has also been announced. Significantly, Rockfire has identified a near surface resource largely in the high confidence indicated category with sufficient critical-mass and grade to justify potential development of a shallow open-cut mine. This could provide cash flow for exploration work on both the gold and copper projects. We believe Rockfire is planning a scoping study for Plateau with publication possibly in Q2 2021. Rockfire has noted that the new Plateau resource is potentially capable of further expansion given that it is open along strike and at depth. A shallow drilling programme is planned for the dry season commencing in April aimed at infill targets and expanding the near surface resource. We increase our fair value to 2.32p/share from 1.96p.

— **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 Plateau is analogous to the Mt Wright mine 47 km to the NE in terms of breccia hosted mineralisation, grade and scale. Mt Wright produced approaching 1.5m oz Au between the mid-2000’s and 2019. ROCK’s objective is to establish a similar mineable resource.

— **Resources:** The new Plateau resource is 11.4m tonnes grading 0.6 g/t Au and 4.0 g/t Ag. Gold and silver resources are 208,278 oz and 1.48m oz respectively. The resource is split 37% indicated and 63% inferred. Gold grades are modest but a concentration of near surface higher grade ore has been delineated with grades of 1.2 g/t Au and 8.8 g/t Ag. The resource within the top 100m is 53,336 oz Au and 0.39m oz Ag.

— **Work programme:** Rockfire has indicated that in the new drilling season beginning April, the Plateau work programme will focus initially on a shallow drilling campaign and a gravity survey. The former will be undertaken at depths down to around 100 m and we believe, could be aimed at establishing a reserve of high-grade ore with sufficient critical-mass for mining. The gravity survey is planned to commence in April and will have the objective of confirming drilling targets at depths >500m. Note, the bulk of Mt Wright’s high-grade ore and output has been obtained between 400m and 850m.

— **Valuation:** Our valuation methodology continues to reflect a sum-of-the-parts calculation. We have increased our absolute valuation from US\$22.4m to US\$28.6m. This reflects partial de-risking stemming from the 2020 Plateau drilling programme and recent resource upgrade and a reassessment of the copper project valuation following positive results from the magnetometer survey at the end of 2020. In the case of the Lighthouse project, we have assumed a pre-feasibility success case, 1.5m oz Au of resources and a \$35/oz valuation quotient risked by a 45% chance of success. Our risked and diluted valuation/share is 2.32p, including prospective share issues to finance cash outflows through 2021. This is up from 1.96p/share in our July 2020 report.

Year End: December

(£'000)	2017	2018	2019	2020E	2021E
EBITDA	(410)	(532)	(549)	(600)	(630)
NET (DEBT)/CASH	1,257	294	762	1,463	30

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

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

Gold tenements: regional overview

Four gold tenements: Rockfire has four 100% owned gold exploration focused tenements in northern Queensland covering 45,700 ha. These are Lighthouse, Kookaburra, Monarch and Marengo. The first three projects are situated in a cluster about 50 km in radius close to the Ravenswood Igneous Complex to the south of the east-west trending Flinders Highway from Townsville to Mt Isa. Contrastingly, Marengo lies closer to the coast about 120 km southeast of the main cluster zone. Lighthouse contains the Plateau prospect, Rockfire’s most advanced project. A fifth tenement, New Leyshon, was relinquished in the first half of 2020. The tenement cluster zone lies about 1,000 km north of Brisbane and broadly 130 km south-southwest of the coastal city of Townsville. Marengo is about 200 km southeast of the same location.

Exhibit 1: Queensland highway map

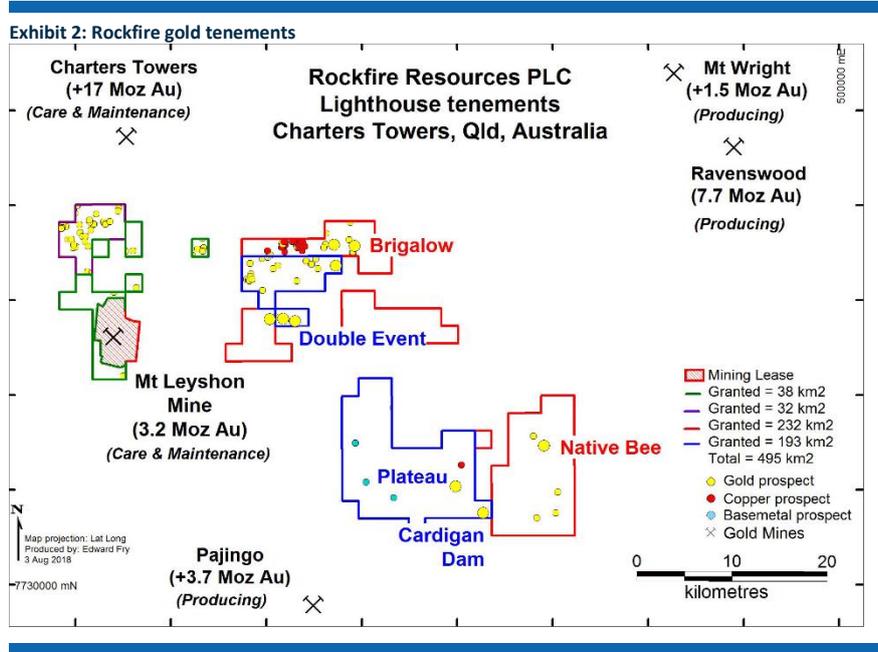


Source: Allenby Capital

Highly mineralised zone in northern Queensland: Northern Queensland is a highly mineralised zone stemming from three major phases of Palaeozoic magmatism and volcanism associated with orogenic (mountain building) activity between about 470 Ma and 300 Ma. Economic mineralisation derives from magmatic intrusions and occurs principally as gold in mesothermal vein and porphyry form. Mesothermal veins typically continue at depth along fissures and fractures from the sources of the intrusion. Shallower and smaller high-grade epithermal vein and breccia systems also exist. In addition to gold, the tenements are prospective for copper, silver, lead and zinc.

Major gold mining province with two operating mines: Northern Queensland in the vicinity of Rockfire’s tenements has been a major gold mining province since the 1860s. Cumulative gold production has been about 20m oz principally from the Charters Tower, Ravenswood, Mt Leyshon and Pajingo mines. Currently, there are two mid-tier gold mines in operation within about a 50 km radius of Rockfire’s core tenement interests. These are Ravenswood and Pajingo, both of which have integrated mills. The former produced 54,500 oz Au in 2019 using feedstock from the high-grade Mt Wright underground mine. This, however, closed in October 2019 with the mill switching to processing stockpiled material prior to the start-up of an open pit close to Ravenswood in the fourth quarter of 2020. Perth-based Resolute Mining, the owner of Ravenswood until March 2020 had suggested a near-term annual production objective of 80,000 oz Au. Ravenswood is now owned by the Hong Kong private equity concern, EMR Capital and the Singapore-based and listed mining group, Golden Energy Resources.

The Pajingo Gold Mine commenced operations in 1986 following a discovery made by Battle Mountain Gold Co in 1983. Since 1986 Pajingo has had several owners. The latest, Perth-based Minjar Gold, a subsidiary of the Chinese concern Shandong Tianye Gold Mining, acquired the mine from Evolution Mining in 2016. Based on the Minjar website, Pajingo’s annual production is expected to average 60,000-65,000 oz Au between 2019 and 2021. Mining operations were originally open pit but are now underground.



Source: Company

Drilling undertaken in the dry season May-October: It should be noted that Rockfire’s tenements are located in a sub-tropical zone close to the Pacific Ocean in the southern hemisphere. There are therefore distinct wet and dry seasons running from broadly November-April and May to October respectively. Typically, drilling is only undertaken in the latter period, although in practice there might be some leeway depending on weather conditions.

Lighthouse tenement

Plateau is the most advanced project: Lighthouse covers 19,300 ha and is located towards the south and centre of the tenement cluster. There are several prospects, but the leading ones are Plateau and Double Event. Of the two, Plateau is the most advanced in terms of drilling activity. It is located about 20km northeast of the Pajingo mine and around 47 km southwest of Ravenswood and the Mt Wright mine. Significantly, Rockfire sees Plateau in the upper zones as being analogous in terms of geology, breccia (fragmented rock cemented together by a fine-grained matrix)-hosted mineralisation, grade and potentially resource base to Mt Wright and uses it for benchmarking purposes. Rockfire classifies Plateau as a breccia/rhyolite hosted gold system.

Exhibit 3: Rockfire Resources drilling activity

Prospect/project	Holes			Metres		
	RC	Diamond	Total	RC	Diamond	Total
Plateau	50	6	56	7,236	2,140	9,376
Double Event	13	0	13	1,319	0	1,319
Lighthouse total	63	6	69	8,555	2,140	10,695
Marengo	10	0	10	940	0	940
Total	73	6	79	9,495	2,140	11,635

Source: Company. Note: Drilling between late 2017 and September 2020.

Plateau 2020 drilling campaign

Major RC and diamond drilling campaign in 2020: Rockfire undertook a major RC (reverse circulation) and diamond drilling campaign at Plateau in 2020. The campaign involved 12 RC and six diamond holes covering 2,762 m and 2,140m respectively. In January 2020 Rockfire completed a six-hole RC programme. RC drilling was recommenced in June with a further six holes over approximately 1,000 m. The aims of the RC drilling were as follows:

- To identify additional gold close to the surface and especially within the top 100m. This is significant in the context of determining the viability of a potential shallow depth mining operation.
- To test mineralisation at depths of around 200m where little drilling had been undertaken to increase confidence in gold grades at the deeper intervals.

Encouraging RC drilling results: The results of the RC drilling were encouraging on a number of counts. Key highlights were that gold was present in all holes drilled, highly significant silver assays and gold encountered at over 2.0g/tonne over 11m at 145m downhole on BLP025. This was at a shallower depth for this important milestone than the 158m at Mt Wright. Following the RC drilling, Rockfire concluded that the modest grades generally encountered of 0.5-1.0 g/tonne down to about 250m metres were in line with those at Mt Wright. It is also significant that the scale of the deposit identified at Plateau post RC drilling was similar to Mt Wright on all dimensions other than depth. Plateau's dimensions were given by Rockfire as 200m long, 70m wide and 240m deep. Mt Wright's dimensions, by contrast, are 250m long, 60m wide and 1,200m deep.

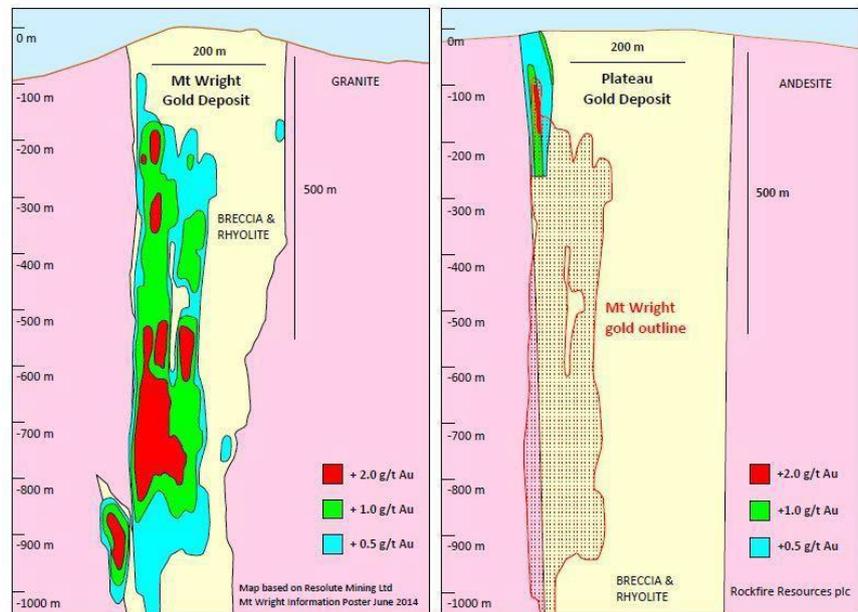
Potential for higher grades at greater depths as at Mt Wright: Importantly, Rockfire decided that post RC drilling and the application of 3-D imaging technology it had enough evidence to test mineralisation at considerably greater depths. Interestingly, the imaging technology revealed a gold target at more than 600m. Rockfire hypothesised that the top of a major new gold system had been identified which had a deeper magma source. Just as at Mt Wright, it was believed this held out the potential for considerably higher grades. It should be noted that the bulk of Mt Wright's gold ore was obtained at depths between 400m and 850m below the surface. At these depths much of the ore has gold grades >2.0 g Au/tonne.

Diamond drilling revealed higher grades but failed to locate the mineralisation source:

To test the deeper intervals Rockfire commenced a six-hole diamond drilling programme in July 2020. The aim was to drill down to 750m which would tap the same sweet spot as at Mt Wright. Results of the diamond drilling announced in early November were arguably mildly disappointing but contained some positive aspects. On the positive front at depths greater than 250m gold grades >1.0g/tonne and high-grade gold >5.0g/tonne both occurred with increasing frequency. The deepest hole, BPL040, intersected 2.5 g/t Au over 0.41m at a depth of 639m suggesting that relatively high-grade gold extends at depth. An impressive gold intercept of 16.9 g/t over 0.74m was made by BPL026. Partially offsetting

the positives was a failure to identify the underlying source of mineralisation. It should be noted, however, that the extent of the diamond drilling undertaken is still modest with only two deep holes drilled both intersecting gold.

Exhibit 4: Mount Wright & Plateau



Source: Company

Highly positive Bell Rock soil sampling results

The Bell Rock prospect is located in the Lighthouse tenement less than 4 km south east of the Plateau gold deposit. A recent soil sampling exercise undertaken by Rockfire revealed highly positive results. A gold/copper anomaly has been identified over a sizeable >300m long and 100m wide zone with high gold in-soil values and coincident copper. The highest in-soil values were 1.7 g/t Au (1,700 ppb) and 605 ppm Cu. Rockfire CEO, David Price, has suggested it is uncommon to obtain soil samples with >1,000 ppb Au and indeed has referred to the result as 'remarkable'. The sampling exercise revealed 16% of soil samples assaying >0.1 g/t Au (100 ppb) and 58% >100 ppm Cu. Previous rock sampling at Bell Rock had recorded maximum assay grades of 23.4 g/t Au and 0.14% Cu.

Rockfire believes that Bell Rock with its coincident copper may prove to be a very different gold mineralisation system to the silver coincident system at Plateau. Exploration at Bell Rock remains at an early stage. Over the next four months the work programme includes ground magnetics, soil sampling and geological mapping. Subject to results of the current work programme, we think a maiden drilling programme at Bell Rock is a possibility in 2021. Given the proximity to Plateau there is the potential for joint mine infrastructure development.

Where does Rockfire go from here at Plateau?

Plateau gravity survey planned: Rockfire has indicated that it is planning to undertake a gravity survey of the Plateau prospect in April 2021. This will be used to map variations in sub-surface density caused by geologic structure and in so doing assist in identifying the location of the source of the gold mineralisation system. Depending on the results of the survey, this could be a prelude to a new drilling campaign at Plateau in Q3 or early Q4 2021 to test the deeper intervals. Rockfire has indicated that the gravity survey will be used to identify drilling targets at depths >500m which is within the Mt Wright sweet spot. Compared with seismic surveys, we believe the cost of a gravity survey is likely to be modest at about A\$100,000 or £55,000.

Resource estimate

Modest inferred resource in July 2019: Rockfire announced a maiden JORC inferred resource on its Plateau and Double Event properties in July 2019. The estimate, based on shallow drilling, was 1.349m tonnes of ore @ 1.18 g/t for 51,000 oz Au. Silver was not identified in the JORC estimate but given the existence of highly meaningful grades of up to 64 g/t Ag (2oz/tonne Ag) the metal could enhance the scale of the resource base on a gold equivalent basis.

Major Plateau resource upgrade in January 2021: A major Plateau resource upgrade was announced by Rockfire at the end of January 2021. This also included a maiden resource estimate for silver and followed 2020's RC and diamond drilling programme. The new JORC resource estimate reflected the following based on a 0.2 g/t Au cut-off:

- 11.4m tonnes of ore @ 0.6 g/t Au and 4.0g/t Ag
- Indicated and inferred resources of 208,278 oz Au and 1.48m oz Ag, with the former up 515% on the previous estimate of 40,442 oz Au.
- Gold resources in the high confidence indicated category accounted for 37.4% of the total. This was equivalent to 77,898 oz Au.

In addition to the Plateau resource, Double Event has inferred resources of 10,558 oz Au which takes Rockfire's total indicated and inferred resources on the Lighthouse tenement to 218,836 oz Au.

The grades revealed in the latest resource estimate are modest but are probably capable of enhancement with drilling in the deeper intervals below 500m. Based on the Mt Wright analogy, this is closer to the magma source and the presence of higher-grade ore. Importantly, Rockfire has delineated at Plateau a zone of relatively high-grade gold and silver which offers the potential for a shallow mine. The zone currently contains 1.4m tonnes of ore grading 1.2 g/t Au and 8.8 g/t Ag. Resources are estimated at 53,336 oz of gold, 390,000 oz of Ag. This would be 58,606 oz on a gold equivalent basis. The gold grade is approaching the average for open pit gold mining operations of around 1.5 g/t Au.

Scoping study

Plateau scoping study possible in Q1 2021: Following publication of a new resource estimate, we believe a scoping study for a Plateau mining operation is likely to be undertaken by Rockfire in the first quarter of 2021 with publication possibly following in the second quarter. This will provide an initial technical and economic assessment of the project based on the inferred resource and whatever other information is available.

Initial shallow open-pit mine a possibility: Given the current status of the project, we believe there are two potential commercialisation strategies for Plateau. The first might involve developing a shallow open-cut mine utilising the low-grade ore in the upper levels of the deposit. This could be undertaken either on a 100% ownership basis or as a joint-venture. A key aspect of such an approach would be a tolling arrangement with a mill. As we have noted there are two operating mills close to Plateau and both probably have surplus capacity. Pajingo offers particularly convenient trucking logistics being within 20 km of Plateau. Cash from a mining operation could be used to finance a de-risking programme for the Plateau and possibly the Double Event projects.

An intensive drilling programme to establish an economic resource is also a possibility: An alternative strategy would be to undertake an intensive drilling programme at the lower depths below 300m and particularly in the Mt Wright sweet spot zone of 400m to 850m. The aim here would be to thoroughly test the hypothesis that Plateau is analogous to Mt Wright. If the hypothesis is proven, Rockfire could be well along the road to establishing a resource base at Plateau of one million or more ounces of gold and a

sizeable quantity of silver. A resource of 1.5m oz Au eq might be possible which would take Plateau into the realm of mid-tier gold mines.

Rockfire would then have established a highly economic resource at anything like late January 2021 gold and silver prices of \$1,846/oz and \$27/oz respectively. This could be a prelude either to mine development or sale to a third party. At this stage it would be necessary to undertake a pre-feasibility study to assess the viability of such a development in greater detail than for the scoping study. Post pre-feasibility and depending on resources and grades, a prospective Plateau mine development project might be worth US\$40/oz Au (\$60m assuming indicated resources of 1.5m oz Au). Without a pre-feasibility study the valuation might be closer to \$25/oz Au.

Zinc prospectivity

Evidence of zinc prospectivity: Drilling on Plateau has revealed significant evidence of zinc prospectivity. Diamond drilled BPL038 and BPL028, for example, revealed a peak zinc value of 2.38% at 341m and 4.32% at around 380m respectively. RC drilling at Plateau also revealed interesting zinc grades of up to 1.72% at shallower depths. Rockfire points out that silver and zinc typically occur in the 'outer halo' surrounding the core of mineralisation.

Polymetallic Rollston River prospect: Towards the eastern periphery of the Lighthouse tenement lies the polymetallic (Zn, Au, Ag, Cu, Pb) Rollston River prospect. Drilling by Plutonic Resources in 1991 encountered significant zinc grades of between 1.0% Zn and 1.7% Zn at shallow depths between 53m and 59m and over intervals of 2-3m. Significantly, Rollston River has similar geology to Red River Resources polymetallic Thalanga mine, about 75 km to the west.

Other gold projects

Marengo

Historic gold mining area in the porphyry belt: The other three gold tenements, Marengo, Kookaburra and Monarch, have been subject to much less exploration activity than Lighthouse Plateau and Double Event. Marengo contains an historic goldfield which commenced operations in the mid-19th century with production continuing through the mid-1930s. Geo-physically Marengo lies within the porphyry belt and is part of an intrusion-related gold system (IRGS) with gold mineralisation originating deep magnetism and occurring in mesothermal veins. Historically bonanza style grades of 149 g/t Au (5 oz/t Au) and 17% have been recorded at Marengo.

Mixed drilling results in 2018: In 2018 Rockfire selected two drilling prospects, One Mile Mountain and Homeward Bound, following geophysical survey work. Both were at the intersection of dominant northwest to southeast and north to south trending faults where fractures potentially created routes for fluid flow. The drilling programme involved 10 RC holes covering 940m in total at shallow depths. Results were mixed. At Homeward Bound gold was discovered below historic mine workings with grades between 0.5 g/t Au over 5m and 2.1 g/t Au over 4m. At One Mile Bottom no significant gold or copper was found.

Rockfire has indicated that its exploration focus at Marengo will be on the 16 historical workings at Homeward Bound and the 30 or so prospects identified throughout the Marengo Goldfield. Rockfire has now stated that it is seeking farm-in and joint-venture partners for the Marengo Project.

Monarch

Historic mine workings: Monarch is the western most gold tenement and lies about 15 km south of the local population centre of Charters Towers. There are several historic mine workings on the tenement which have produced 36,000 oz Au. No drilling has been undertaken on the property.

Kookaburra

The significance of Kookaburra presently is its juxtaposition to the Lighthouse/Double Event property. The pegging of the tenement in 2018 proved a coup given that it preceded some very successful drilling at Double Event, adjacent to Kookaburra. A long vein system at Double Event was found to extend westward into Kookaburra and possibly extends for a further 1.5 km. It should be noted that the grades and vein widths observed at Double Event are pointing to a potentially economic project. Interestingly, a bonanza grade of 26.9 g/t Au was reported for Double Event following the October 2018 drilling campaign.

Copper exploration interests

Copper porphyry plays in mid to northern Queensland

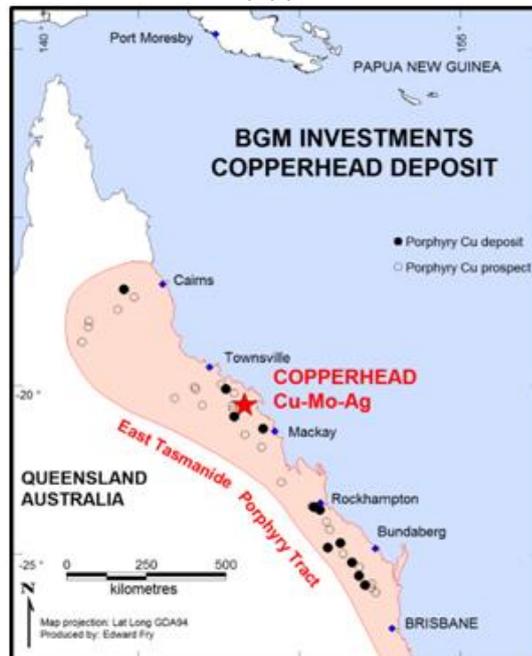
The focus of Rockfire’s exploration activity is the gold properties in general and Plateau in particular. However, Rockfire also believes that its two 100% owned copper tenements in mid to northern Queensland, Copperhead and Copper Dome, have interesting copper porphyry potential.

East Tasmanide Porphyry Tract

The two copper properties are located about 200-250 km southeast of Townsville, close to the A1 Bruce Coastal Highway. They are about 180-200 km east-southeast of Rockfire’s core cluster of gold tenements. Geo-physically, Copperhead and Copper Dome lie in the East Tasmanide Porphyry Tract that runs up to 100-200 km inland from the Queensland coastline. Currently, there is no mining for copper in the Tract but it is recognised as an area having copper porphyry potential. Interestingly, the Brisbane-based copper and gold explorer, SolGold, has its Normanby copper porphyry exploration project about 7 km to the east of Copperhead. SolGold’s tenement immediately abuts Rockfire’s property.

In July 2017 SolGold undertook a limited drilling programme at Normanby involving 7 RC holes over 518m and 89m of diamond drilling from one hole. Reflecting its focus on very large-scale porphyry development opportunities in Ecuador, SolGold is seeking a joint-venture partner or partners for its Normanby project and its other projects further south in the East Tasmanide Porphyry Tract.

Exhibit 5: East Tasmanide Porphyry Tract



Source: Company

Historic drilling at Copperhead----- Copperhead exploration began in the mid-1960s by CRA as part of a wider survey of the area. In 1972 Copperhead and Copper Dome were drilled by Carpentaria Exploration and Australia Selection Pty Ltd respectively. A five-hole diamond drilling programme was undertaken with two drilled to 300m. Carpentaria estimated a non-compliant JORC resource for Copperhead of 35m tonnes @ 0.35% Cu eq for 123,000 tonnes copper equivalent including molybdenum credits. The highest grade observed in the cores was 2.81% Cu and 12 g/t Ag. The scale of the resource and the existence of copper at depth and in all five holes tentatively point to the potential for commerciality.

-----and **Copper Dome revealed positive results:** At Copper Dome, Australia Selection's drilling programme comprised three percussion and six diamond drilled holes covering 1,297m. Again, the results were promising. The drilling revealed: 15.2m @ 0.88% Cu, 12.2m @ 0.61% Cu and 24.4m @ 0.27 Cu which are all potentially economic grades for a large porphyry. Rockfire believes that Copper Dome has considerable exploration upside partly reflecting the earlier positive drilling results and partly the scale of the intrusion area. This is 2 km long by 1 km wide. Rockfire also believes that Copper Dome could be prospective for gold. Rock sampling by Rockfire in 2019 returned maximum values of 23.4% Cu, 952g/t Ag and 3.2g/t Au.

Copperhead magnetometer survey

A helicopter-based magnetometer survey was undertaken at Copperhead in December 2020. Surveys of this type are used for mapping large-scale geological structures and detecting mineralisation in advance of drilling. The survey provided some very interesting information concerning the prospectivity of the property. Importantly, it has doubled the area of copper mineralisation with the footprint now measuring 5 km east-west and 3 km north-south. The area drilled so far represents only 0.6% of the enlarged zone so there is plenty of exploration potential. The survey also highlighted additional large-scale targets, defined fault patterns and identified a preferential direction for future drilling. The cost of the magnetometer survey was modest at about A\$150,000 or £82,500.

Reflecting enhanced prospectivity following the magnetometer survey and the bullish outlook for copper both near and long term, Rockfire now sees Copperhead very much as a core project. A comprehensive work programme has been drawn-up for the first half of 2021 including detailed prospect scale mapping and soil/rock sampling within the expanded target area. We believe a drilling programme is a possibility at Copperhead in 2022.

It should be noted that establishing a viable copper porphyry project is likely to be a long and costly task. This reflects the scale, depth and complexity of porphyry ore bodies and the need to deploy diamond drilling. Once the initial de-risking has been undertaken it may, therefore, be necessary to secure a joint-venture partner.

Financials

Rising financing requirement in 2020: We believe Rockfire's financing requirement rose significantly in 2020 driven by its RC and diamond drilling programme at Plateau. For the full year we believe it was about £1.35m, against £1.07m of 2019. We see the breakdown of the former being G&A and working capital movements £0.58m, exploration outlays and plant and equipment outlays £0.77m. We believe G&A in 2020 was similar to 2019 at about £0.60 and moderate bearing in mind stepped-up exploration activity. Exploration outlays related overwhelmingly to Plateau drilling. The other significant contributor was the magnetometer survey at Copperhead.

-----but **well-underpinned by share issues:** Expenditure requirements were comfortably underpinned in 2020 by two sizeable share issues. The first was announced at the end June and raised by a placing £1.00m gross at a price of 0.85p/share. Net of expenses the raise was £0.94m. The second placing was announced on July 29 and raised £1.05m or

£1.00m at a much higher price of 1.625p/share. In addition, Rockfire raised about £0.12m through the exercise of warrants. As a result of the raises, shares in issue have increased by 32% since end 2019 to 832.42m. We believe, the cash position was around a very comfortable £1.46m at end December 2020 and perhaps £1.40m at end January 2021.

Near-term cash requirements are modest. This reflects the impact of the wet season which curtails the use of heavy machinery. Drilling will probably recommence in 2021 post the wet season end in April but the intensity is uncertain at this stage. It will depend in part on the results of both the gravity survey over the Plateau project and the planned scoping study. Tentatively, we look for exploration outlays in 2021 of £0.8m assuming a similar intensity of drilling to 2020. Besides Plateau drilling, exploration outlays in 2021 could be modestly boosted by the scheduled gravity survey at Plateau, a Plateau scoping study and modelling work and rock/soil sampling at Copperhead.

Comfortably financed through H1 2021: We believe Rockfire is comfortably financed for the first half of 2021, given our scenario for exploration spending and G&A and the absence of drilling activity during the wet season. On our scenario for spending and without further equity raises the company would end 2021 with a marginal cash position of £0.03m. If Rockfire decides on another major diamond drilling programme at Plateau, we believe it may need to seek a new equity raise in the second half of 2021.

Exhibit 6: Summary Financials (£000s)

INCOME STATEMENT

Year end December	2016	2017	2018	2019	2020E	2021E
EBITDA	-344	-410	-532	-492	-600	-630
Depreciation	0	0	0	0	-2	-2
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	-602	-632
Impairment charge	-5,730	0	-1,437	-87	0	0
Loss before tax	-6,091	-380	-2,019	-636	-602	-632
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	-602	-632
Average shares in issue (m)	100	243	239	464	724	832

BALANCE SHEET

Year end December	2016	2017	2018	2019	2020E	2021E
Non-current assets						
Intangibles	1,519	2,237	1,442	1,732	2,482	3,282
Other	0	0	0	10	33	56
Total	1,519	2,237	1,442	1,742	2,515	3,338
Current assets						
Cash	375	1,257	295	763	1,463	30
Trade and other receivables	0	0	23	56	56	56
Total	375	1,257	317	819	1,519	86
Total assets	1,895	3,494	1,759	2,561	4,034	3,424
Current liabilities						
Trade and other payables	134	262	186	146	168	190
ST debt	0	0	0	0	0	0
Total liabilities	134	262	186	146	168	190
Net assets	1,761	3,232	1,573	2,415	3,866	3,234
Net cash/(debt)	375	1,257	295	762	1,463	30
Equity						
Share capital	5,624	6,339	6,369	6,625	6,825	6,825
Reserves	-3,863	-3,107	-4,796	-4,210	-2,958	-3,590
Total equity	1,761	3,232	1,573	2,415	3,867	3,235
Equity and liabilities	1,895	3,494	1,759	2,561	4,035	3,425
End year shares in issue m	152	343	373	629	832	832

CASH FLOW STATEMENT

Year end December	2016	2017	2018	2019	2020E	2021E
Comprehensive income	-6,091	-380	-2,019	-636	-602	-632
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
Total	-222	-388	-602	-606	-600	-630
Receivables (increase)/decrease	12	0	-23	-33	0	0
Payables increase/(decrease)	-48	80	-76	-40	22	22
Total operational cash flow	-257	-308	-700	-679	-578	-608
Share issues net	755	1,454	379	1,535	2,054	0
Exploration expenditure	-325	-215	-642	-378	-750	-800
Acquisition of BGM Investments	0	-50	0	0	0	0
Net cash flow	173	882	-963	468	701	-1,433
Net cash/(debt)	375	1,257	294	762	1,463	30

Source: Company; Allenby Capital

Risks and challenges

The validity of the Mt Wright analogy is the key issue: The key underlying risk surrounding Rockfire remains the validity of the hypothesis that the mineralisation system at Lighthouse is analogous to Mt Wright in scale and grade. The recently announced Plateau resource upgrade and the tentative evidence from the 2020 diamond drilling programme of higher-grade ore at depth clearly support the hypothesis. Significantly, however, the drilling programme failed to discover the source of the gold mineralisation although we appreciate Rockfire is still at an early stage in appraising the deeper intervals. More deep drilling will be required to support the Plateau hypothesis and prove an indicated resource base greater than a million ounces with the economic grades needed for large-scale mine development and potentially monetisation.

Financing: At this stage, finance is not a pressing issue given what we believe is a still comfortable cash position and modest near-term cash demands. By the second half of 2021, however, the situation will probably change if, as seems likely, finance needs to be raised for a major new drilling programme at Plateau. Initially this will inevitably involve a degree of dilution although, ultimately, there should be an offsetting benefit assuming that exploration activity corroborates the Mt Wright hypothesis. The ease with which a prospective raise can be made will be partly dependent on the gold price.

Gold market development: Investor enthusiasm for gold stocks is inevitably determined in part by the outlook for the underlying metal. Presently with gold still selling at elevated levels historically of about \$1,850/oz, which provides the potential for highly profitable new mines, interest in both major and junior gold mining plays remains strong. Sentiment could, however, easily reverse in the coming months if US Treasury bond yields in tandem with the dollar should start to climb on a sustained basis from current levels of about 1.07% on the 10-year to over 1.50%. Much will depend here on the performance of the US economy in the coming months. A weak showing could be positive for gold and gold stocks while a strong showing could be negative.

Valuation

Sum of the parts calculation: Our valuation methodology continues to be based on a risk-adjusted sum of the parts calculation. The parts are the Lighthouse tenement, of which Plateau 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. We have not included any allowance for cash on the balance sheet given that it is assumed that this will either be rapidly consumed as G&A or converted into intangible assets.

Success case of 1.5m oz Au assumed post pre-feasibility study: For the purpose of the exercise, we assume a success case for the exploration of Lighthouse. We define this as completing a pre-feasibility study for one or more projects confirming viability. At this stage, a project will have been de-risked technically and economically and contain a sufficiently large resource base, preferably in the indicated category, to either undertake mine development or monetisation through a trade sale. Our definition of sufficiently large here is 1.5mm oz Au, or the same as Mt Wright's cumulative production. Resources 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 depending on grade, would probably imply a competitive position on the gold mine cost curve even assuming a fully integrated mill. Note, a large-scale mining and processing operation would not preclude an intermediate stage involving a small mining operation.

Ravenswood disposal benchmark: Our key valuation metric for resources or indeed reserves is dollars/oz of gold using corporate deals as a benchmark. In the case of Lighthouse/Plateau we continue to use as a benchmark the disposal of Resolute Mining's Ravenswood operations at the beginning of 2020. The consideration was A\$300m of which

A\$200m was deferred. This was equivalent to about US\$200m or US\$34/oz Au and US\$52/oz Au for total resources (5.87m oz Au) and indicated plus measured resources (3.87m oz Au) respectively.

US\$35/oz Au valuation quotient: Ravenswood is an established mine and mill so, in principle, any valuation for Rockfire needs to be discounted for this factor at the pre-feasibility stage. Previously we had used a valuation quotient of US\$35/oz or a discount of 33% to that for Ravenswood on the indicated and measured resource basis. We continue to use US\$35/oz as the valuation quotient for Lighthouse.

Assigned chance of success 45%: After applying US\$35/oz to the assumed success case resources of 1.5m oz Au, the Lighthouse valuation would be US\$52.5m. This, however, needs discounting for project risk, given that Rockfire is a long way from pre-feasibility study status and still has a resource base well short of 1.5m oz Au. To allow for this factor we propose using a 45% chance of success. This reflects a significant uplift from the 35% used previously and allows for the partial de-risking of the Plateau project following the 2020 drilling programme and the recent major upgrade to the resource base. The implied risked valuation for Lighthouse would therefore be US\$23.6m. Assuming progress in confirming the Mt Wright analogy hypothesis, we would expect to boost the chance of success over time. To the extent that proportionately more of the resource base appears in the indicated category we would also expect to raise the valuation quotient.

US\$2m and \$3m assigned for the other gold and copper projects respectively: As far as the other projects are concerned, they are all at a very early stage of appraisal so nominal valuations apply. For the gold projects other than Lighthouse and the two copper projects, we have assigned valuations of US\$2m and US\$3m for each group to allow for early-stage geotechnical work. The former is unchanged from our previous whereas the latter reflects an upgrade from US\$2m reflecting the encouraging results of the Copperhead magnetometer survey.

The new corporate Rockfire valuation is US\$28.6m or £22.0m at an exchange rate of £1=US\$1.30. This compares with US\$22.4m in our July 2020 report with the variance reflecting an upgrade to the chance of success for the Lighthouse project and an increase to the valuation assigned to the copper projects.

Risked and diluted valuation 2.3p/share: On a per share basis, we believe the valuations of junior resource plays such as Rockfire should be diluted by prospective raises needed to finance near to medium-term cash outflows. Using our methodology, we propose diluting for our forecast outflow of £1.43m in 2021. This would imply Rockfire issuing another 117.2m shares assuming the early 2020 price of 1.22p. Our estimate of the risked and diluted Rockfire valuation per share is therefore 2.32p based on prospective shares in issue of 949.63m (current shares in issue of 832.42m plus 117.21m). This reflects an upgrade from the 1.96p/share given in our July 2, 2020 report.

Exhibit 7: 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	0.45	23.63	18.17	0.022	0.0191
Other gold projects				2.00	1.54	0.002	0.0016
Copper projects				3.00	2.31	0.003	0.0024
Total				28.63	22.02	0.026	0.0232

Source: Company; Allenby Capital Note: Exchange rate £1: US\$1.30

Undiluted valuation/share based on 832.42m shares outstanding

Diluted valuation/share based on a prospective 949.63m shares outstanding, 2020/2021 cash outflow of £1.43m and cash raised at 1.22p/share

COS is chances of success.

Share price catalysts

We see significant potential for news flow over the coming months as follows:

- The go ahead for a gravity survey of the Plateau prospect probably in April 2021.
- Possible announcement of a new drilling programme at Plateau in the second quarter of 2021 once the results of the gravity survey are known.
- Lighthouse scoping study results possibly in the second quarter of 2021. This could include discussion of the potential for small-scale mine development at the Plateau prospect.
- Announcement of an exploration work programme for the copper projects, Copperhead and Copper Dome possibly in the first quarter of 2021. This could include intentions regarding a programme of deep drilling.
- Assuming a new round of drilling commences at Plateau in the second quarter of 2021 results could start flowing through in the third quarter.

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