

## Corporate

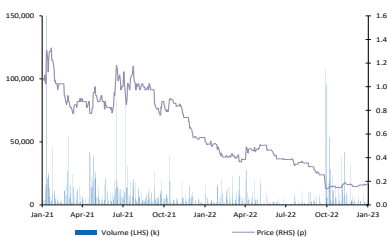
 Current price **0.19p**

 Sector **Mining**

 Code **ROCK.L**

 Listing **AIM**

### Share Performance



% Change	1m	3m	12m
— ROCK.L	+20.6	+38.2	-64.5

Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **2.74**

 Shares in issue (m) **1444.5**

52 weeks (p)	High	Low
	<b>0.58</b>	<b>0.129</b>

 Financial year end **31 December**

Source: Company Data, Allenby Capital

### Key Shareholders

Nicholas Walley	5.21%
Michael Somerset-Leeke	3.40%
Patrick Elliott	3.28%
David Price	3.21%
Gordon Hart	1.28%

Source: Company Data, Allenby Capital

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# Rockfire Resources plc (ROCK.L)

## A sound strategic move

Rockfire Resources plc (ROCK.L) has announced the spin-off into a joint-venture with Sunshine Gold (SHN: ASX) of its principal gold interests in northern Queensland. We regard the move as sound strategically. This reflects Rockfire's earlier decision to focus on the highly promising Molaoi zinc-lead-silver-germanium project in southern Greece and the difficulty for mining juniors to raise finance across a broad portfolio of interests. Under the terms of the joint-venture, Sunshine Gold will sole finance over three years A\$2.2m of exploration expenditure for a 75% interest in the Lighthouse and Kookaburra tenements. We believe this is sufficient for a very active exploration programme. Sunshine is Queensland-based and has four projects focused on copper and gold in the state. Management is highly experienced and has a record of discovery with the drill-bit. Significantly, two Non-Executive Directors of Sunshine were the founding Chairman and MD of the Perth-based mid-tier gold company, Silver Lake Resources (SLR: ASX).

- JV terms:** Sunshine Gold's capital expenditure commitment over three years of A\$2.2m (US\$1.54m) applies according to a yearly schedule starting on January 20, 2023. The quid pro quo will be a reduction in Rockfire's interest. The expenditure schedule is non-cumulative and is as follows: Stage 1 A\$0.60m, Stage 2 A\$0.60m, Stage 3 A\$1.00m. At the end of each stage, Sunshine's interest will be 40%, 51% and 75% respectively, assuming the expenditure commitments are met. At the end of Stage 3, Rockfire will have 60 days to review the data, the proposed development programme and budget. Rockfire can then elect to either contribute 25% of future capital expenditure or convert its 25% share to a 1.5% net smelter royalty (NSR). Reflecting the terms of the JV, Sunshine during the funding period is obliged to keep the tenements in good order and be compliant with all statutory reporting, rehabilitation and expenditure requirements. Rockfire therefore absolves itself from all tenement expenditure commitments.
- NSR:** The NSR refers to the percentage of mine net smelter returns received by the owner of the royalty. The value of the royalty depends purely on the price and volume of the commodity sold by a mine and is not related to profitability. We believe an NSR of 1.5% is normal for the current stage of development for Rockfire's Lighthouse tenement. Sunshine has pre-emptive rights to acquire the NSR.
- Exploration strategy:** Sunshine's exploration strategy is similar to that implemented by Rockfire. Activity will be focused firstly on the high-grade ore potential at shallow depths of <100m close to Rockfire's existing Plateau resource base. This might involve infill drilling and drilling along strike. Secondly, prospective regional targets will be targeted such as Double Event.
- Resource base:** Rockfire has a significant JORC compliant resource base located at the Plateau project on the Lighthouse tenement. The resource currently stands at 131,302 oz Au and 800,000 oz Ag using a 0.5g/tonne cut-off. At depths <100m the resource stands at 53,336 oz Au and 390,000 oz Ag.

Year End: December	2019	2020	2021	2022	2023E
(£'000)					
EBITDA	(540)	(546)	(740)	(725)	(630)
NET (DEBT)/CASH	763	1,351	1,473	532	(968)

Source: Allenby Capital. 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.

## Lighthouse critical-mass for commercialisation

Rockfire has already undertaken a scoping study for a small-scale, shallow open-pit mine at Plateau, assuming a tolling agreement with one of two operational regional mills. The study suggested viability at a price of US\$1,718/oz Au.

We believe that for a company with Sunshine's background that its ambitions would extend far beyond a small scale mining operation. Rockfire itself used the nearby Mt Wright mine as a benchmark for Plateau. Mt Wright, note, produced around 1.5m oz Au until closure. We suspect Sunshine will be looking for similar resources. Assuming a ten-year mine life production could be around 0.15m oz Au/year. At the current gold price of around US\$1,900/oz, this would imply annual revenues of US\$285m/year and a NSR of US\$4.3m, assuming a rate of 1.5%. To arrive at this stage, however, will require a lead time of perhaps five years and significant capital outlays not only on exploration but also mine development and possibly mill construction. Therefore, spinning off the Queensland gold interests not only materially reduces financing needs but also risk.

## Molaoi project and drilling programme

### High-grade Zn-Pb-Ag project

Since being awarded a 30-year exploration and mining licence in March 2022 Rockfire's strategic focus has been the 100% owned Molaoi zinc-lead-silver project in southern Greece. Rockfire commenced a 4-hole, 840m inaugural diamond drilling programme at Molaoi in late November 2022. Drilling is taking place towards the south of the licence where a JORC inferred resource of 2.3m tonnes with a Zn Eq grade of 11.0% for 0.25m tonnes of contained metal. The resource is split 210,000 tonnes zinc, 39,000 tonnes lead and 3.4m oz silver. The scale is still modest but the grade is high and very much in line with the five other major zinc projects underway globally.

As currently defined, the resource extends over more than 7 km of SE-NW trending strike. The bulk of the historical drilling (179 diamond drill holes) along with the resource assessment have, however, been undertaken along the southern 1.5 km of strike. Exploration upside potential is believed by Rockfire to be considerable given that multiple stacked zinc-bearing layers have been mapped over the total strike length.

### Outstanding drilling results

To date, Rockfire has drilled two of its four hole programme. Drilling of the third hole is underway. On January 23, 2023, Rockfire announced what the CEO David Price described as 'outstanding' drilling results from the first drill hole, MO\_GTK\_001. We would concur with this assessment.

The first hole was drilled between two historical drill holes to a depth of 202m. There were several important findings from the assay results which Rockfire has identified as follows:

- The continuing presence of very high grades by international standards at Molaoi. Taking four stacked lodes Zn Eq grades of between 10.7% and 19.5% over widths ranging from 0.17m to 7.18m were encountered.
- Zinc occurrence over widths suitable for mechanised mining.
- Mineralisation is continuous between historical drill sections.
- Multiple lodes have been confirmed. Rockfire that MO\_GTK\_001 may have identified four stacked high-grade lodes.
- Zinc occurs consistently with lead and silver.

- Downhole surveys show no material deviation from the planned angle and direction. This has increased management's confidence in the validity of the historical data.

Interestingly, Rockfire has indicated that the values of the strategic metal germanium (symbol Ge) encountered with MO\_GTK\_001 were low. Rockfire believes that more drilling is needed to determine the precise association between germanium and zinc on the property. Germanium only exists in compound form and is mainly extracted commercially from zinc ores such as sphalerite.

#### **Where does the Molaoi project go from here?**

Rockfire originally indicated that the Molaoi inaugural drilling programme and geophysical survey would be completed by June 2023. Given the excellence of the drilling results the company has now stated, not surprisingly, that it will be proceeding rapidly to a resource upgrade and the commencement of a feasibility study before end year. In our view the omens are positive for a quantum resource upgrade in terms of tonnage and a significant enhancement in the classification for part of the resource from inferred to indicated. We suspect later this year, finance permitting, Rockfire will want to undertake some more infill and extension drilling to fully define the resource at least at the southern end of the deposit.

Possibly the feasibility study referred to by Rockfire might be more along the lines of a scoping study. This could probably be completed relatively quickly possibly following a resource update and would provide early visibility on the economics of an underground mine and surface mill producing zinc concentrate at Molaoi. The medium-term objective we presume is to produce a detailed pre-feasibility study (PFS). Completion we believe would take at least six months and probably longer assuming inclusion of the FEED (Front End Engineering and Design). A key advantage of a comprehensive PFS is that it would enable Rockfire to investigate financing options for mine development either through project debt finance or joint-ventures.

## **Share price performance and valuation**

Rockfire's share price performance has remained lacklustre in recent months. The stock has fallen c. 70% from a year earlier and is trading at more than a five-year low of 0.17p/share. At this level, the market capitalisation is a marginal £2.44m or US\$2.98m. For perspective, we note that Sunshine Gold's performance has also been weak over the past year with a decline of around 60% to 0.018c for a market capitalisation of A\$13.95m or US\$9.77m. In the case of our Molaoi benchmark, Metallum Resources (MVN:TSX), which has the Superior Lake zinc project in Ontario, the stock has been under heavy downward pressure over the past year with a decline of approximately 65%.

Contrastingly, we note that the Van Eck Junior Gold Miners ETF (GDXJ.L) has recently shown some signs of life. It is up 45% from the recent low in late September 2022, although still lagging the highs of the third quarter of 2020. It should be noted however that GDXJ is more a fund of mid-tier rather than genuinely junior gold plays. The former group are more correlated to the firming gold price over recent months than the latter.

We would argue that the underlying problem with mining and resource juniors at this juncture is concerns over hefty financing needs and long lead times. The juniors which are generally pure exploration and development plays, not surprisingly, have been considered particularly vulnerable in an environment in which interest rates are high relative to the experience of the past 10 to 20 years. As a result, projects are probably being evaluated more stringently than previously.

**Exhibit 1: Van Eck Gold Junior ETF**



Source: Refinitiv

We assigned a valuation to Rockfire in our November 2022 report of £36.2m or 2.5p/share. Within this total, Lighthouse constituted £20.44m or 1.4p/share. This was based on a reverse engineering calculation assuming a resource similar to Mt Wright. We then applied a market valuation quotient per Au oz and risked the result for chances of success. This calculation is no longer relevant subsequent to the Sunshine Gold joint-venture given that a valuation of A\$2.2m has been set for 75% of the bulk Rockfire’s gold interests. By implication 100% of Lighthouse is worth A\$2.9m and Rockfire’s residual 25% A\$0.7m or £0.40m. In theory the 25% could be worth considerably more assuming an exploration success case and that Rockfire either retains ownership or receives an NSR.

We now propose assigning a valuation of £0.40m to Lighthouse as indicated above. In the light of the spin-off, however, Rockfire should now be able to devote more resources to Molaoi. Given this and our growing confidence in what we believe is the potentially world class Molaoi zinc-lead-silver-germanium project, we propose upgrading the Molaoi valuation by £20.2m. The overall valuation for Rockfire is therefore maintained at £36.2m or 2.5p/share.

**Exhibit 2: Rockfire Resources valuation**

Project	Resources			Valuation quotient			Risk factor COS	Absolute Valuation		Valuation/share
	Au m oz	Cu tm	Zn Eq tm	US\$/oz Au	US\$/t Cu	US\$/t Zn Eq		US\$m	£m	£
Lighthouse								0.46	0.40	0.000
Other gold projects								2.00	1.73	0.001
Copperhead		0.12			25			3.00	2.60	0.002
Copper Dome								2.00	1.73	0.001
Molaoi			0.25			138		34.40	29.76	0.021
<b>Total</b>								<b>41.86</b>	<b>36.22</b>	<b>0.025</b>

Source: Company; Allenby Capital

Note: Exchange rate £1 = US\$1.156. Undiluted valuation/share based on 1,444.5m shares outstanding. COS is chance of success

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Peter J Dupont is the author of this research and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated, the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies and disclosure in relation to interests or conflicts of interests can be found at [www.allenbycapital.com](http://www.allenbycapital.com). Allenby Capital acts as Nomad and Broker to Rockfire Resources plc.

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