Dear Shareholders and Colleagues,

We announced a few days ago that we had taken an option to invest in the next two wells to be drilled at Shoats Creek in Western Louisiana, near the Texas border.

Following this, we have put together a Q and A to address your questions about the opportunity and the Company's interest in it. We hope you will find it useful.

Questions and Answers on the Shoats Creek opportunity

Q: Will we exercise the option?

A: We do intend to exercise the option, however we have given ourselves some time to look further into the project and to finalise drafting of the operating agreement and its schedules, so there does still remain a possibility of us not doing so. By announcing the option now, we are able to discuss our plans with stakeholders.

Q: How much will it cost us?

A: Red Rock's cost for the well to be drilled this year, LM21, and the well to be drilled Q1 of next year, would be, including completion and share of cost of two salt water disposal wells and of tanks, between $500,000 and $600,000. If the wells are unsuccessful, the cost is approximately halved. Some of those costs would arise this year, and some next.

The returns on our calculations are very high so for a modest outlay, well within the capabilities of the Company, we can achieve, we believe, a meaningful cash flow and profit.

Q: Will this involve raising funds, and will this involve dilution?

A: We expect to raise some funds from disposal of assets, including liquid assets. To give one example, the Company's holding in shares and options of ASX-listed Star Striker (SRT) alone is valued currently at c.A$1.1m, and is non-core. We issued some convertibles in September, one third of which have been converted, in part to fund the redundancy process we started at that time in order to reduce our cost base, but since then and in the last few days we have actually rejected half a dozen or so offers of new equity funding.

We are focussed on disposal not issuance, keeping costs down, and only issuing – if we do - in the context of visible transactions that will have an *anti*-dilutive impact, at least on earnings and market value of existing holdings.

Q: There have been false dawns before; will this be another?

This is true. After the GFC in 2008 there was a recovery to 2010, but things started to deteriorate again in our sector from that year, while the rest of the market had a liquidity-fuelled bull market which made us frequently feel that at some point we would be joining in.

In 2013 we saw some recovery as likely and so did others; hence the rally in the third quarter. In late 2014 we thought 'things have gone down enough'. So did others. Then suddenly oil and iron ore collapsed, and other metals have fallen sharply. The late 2014 to 2015 commodity price falls, in many cases by 50% or more, exceeded in sharpness anything that had gone before. Anglo American has fallen by 80% since 2012, Glencore dropped 80% from December 2014.

Unlike some, we were unsupported by revenue; explorers were hit harder. We believed we were seeing the bottom and our thoughts were on how to prepare for this. We were wrong. We were not alone in that, but we could have laid off risk earlier. This year we have finally got rid of the residue of financial debt and cut costs more radically through a number of measures, including laying off staff. We have put ourselves in a much better position as a result. Our costs will remain low; indeed, we continue to reduce them and are even converting our surplus office space into a profit centre.

Without the burden of ongoing costs at home and abroad maintaining our projects, we look much stronger. Look at our assets: which we now don't need to manage actively. Jupiter is a stable company that makes money in almost any circumstance and has a value of several million dollars to us. Colombia is a series of receivables, some secured, so converted to a passive investment and an income stream of several million dollars. SRT is now worth over a million dollars, and managed by others. Kenya is a legal process and Ivory Coast largely a permitting process – but both with positive outcomes likely, when we will aim to arrange farm-ins.

So we've cut costs and laid off responsibilities. We have a platform in these assets, and are looking at making commitments where we take participating interests in oil assets low geological risk with strong cash flows in prospect. A couple of deals like that can make us revenue-neutral or positive before our June year-end, we believe.

Q: So the NCT deal fits into this vision? Have we chosen the right partner for our first transaction?

Yes. this is the context for the Shoats Creek deal. We think Northcote is a company that had a bad time in Oklahoma, and lost some investor confidence, but has shown grit and ingenuity in fighting its way back, and its related company that is the operator in Louisiana has proven competence there. We expect that NCT will do well from here on. The geological risk in the Frio horizon at Shoats Creek is very low, and the day we announced our option was the same day that NCT announced it had started selling oil from the initial well, LM20.

We expect further announcements from NCT that will show our entry terms in a very good light. And we expect the offset LM21 and LM22 wells to be successful and to go into production within months. We also expect more geological and presentation material to be made available on the NCT website soon, and at that point we will be able to use that too. Then I think the market will judge.

Q: Is this deal enough to turn things around?

Everything is cumulative, but since first announcing our restructuring, we have done what we said we would and this is another well-signalled step. Turning sentiment round is like pulling a toy train with a piece of elastic: nothing happens for a while, and the elastic stretches, and then there is slow movement, followed by a sudden jump forward. But we have eliminated one by one many risks and variables. We have signposted what we were doing at every stage; we have talked about it; and we have done it. It has been a process, and sometimes slow. Now that we have divested ourselves of much historic baggage, it should begin to be faster. But we are the last people to ask when the point of inflection for sentiment will come: we can only speak of when it happens operationally; sentiment is when others see and believe.

Q: Why should we believe you after such a large share price fall?

When our price was high and people heaped praise on us, we knew some of what happened was simply due to the market and it would be brickbats when the market turned. When they threw brickbats, we set ourselves to find new strategies and implement them. The ground continually shifted beneath our feet, but we have cut costs so deeply that we are insulated against adverse moves.

It is very understandable if some people do not believe us now, as it was understandable some people believed in us too much before. The only thing we ask is that people focus on the assets, and on the projects, and rely on analysis. The more rational they are, the more it allows us to be rational in our decision-making, and the more rational we all are, the better we shall do.

Q: Is this a sudden, rash new venture?

We started looking for deals like this early in 2014, and have been getting back into oil industry circles since 2013 and reviewing a large number of projects and partners. When I say reviewing, I mean speaking to management, getting data, creating our own financial models, stress-testing, getting external reviews where we progressed to a certain stage, and then often walking away if the project was unsuitable. We have been talking to NCT since the beginning of 2015. This investment opportunity represents the culmination of a long and careful process. Whereas a mineral opportunity may take a license from being worth nothing to a huge value based on completing different phases of exploration, an oil participation opportunity like this is a matter of fine calculation of costs, risks, and returns. That is a different business, much more sensitive to overheads and cost control than exploration.

When I first looked at oil deals back in the 1970s, I had to create models from a range of anticipated production profiles using log tables, graph paper, an over-used rubber and a calculator. Times have changed, and my Texan colleague Scott's business-school-honed modelling skills make what used to be a dismal process of iteration thoroughly enjoyable.

For both of us, and in different ways, this is something of a return to where we came from.

Q: How much impact will it have on the Company?

On our IRR (internal rate of return) calculations, taking a constant oil price and a 10% discount rate, we would expect on the same assumptions otherwise as our prospective partners, an after tax IRR of 89%. On the more conservative assumptions as to total oil produced that we at RRR have input as an alternative model, but with the same production profile, we would expect an after tax IRR of 23%. The possibilities stretch from unsuccessful holes and so a total loss of capital on a lower investment as wells are plugged and abandoned without being completed, to an outcome better than the highest IRR figure above if oil prices improve. On our workings the most probable range appears to be between the 23% and the 89%, with a bias towards the higher part of the range, but actual outcomes depend on drilling.

Thus capital might be returned in less than a year, net present value added might be the equivalent of 40% of market value, and monthly cash inflows from this asset might defray a third of more of RRR cash outflows. This is the upside potential.

But what happens when spreadsheets meet the real world we have to wait and see.

Positives are the low geological risk in this initial horizon, the Frio, and the element of derisking that has already taken place through the drilling and putting into production of LM20; *negatives* include the uncertain oil price outlook. An *unknown* is the potential for our participating in further step out wells, and so generating increased inflows over time. On current assumptions, this is a conservative, low-risk short-term cash generating asset. If our net revenue interest at peak production from these first two wells was 70 bpd we would be doing very well.

We think a successful investment with good returns and with no management responsibility is a good building block, will create stability, and will enhance perceptions of the company.

Once we stabilise this bridgehead it will enable us to scale up operations and make more rapid progress, and we will do that.

Q: What is the strategy?

Not to over-promise. To roll out carefully considered developments after this first deal as fast as circumstances allow, in order to leverage our historic strengths as an actively traded stock capable of massive outperformance in the right market. We should not be shy about this. We can see, and have seen, strong stock outperformance and it is our responsibility to create the conditions where this can happen again.

Clearly the RRR price is not going to rise from 0.0225 to 0.1 (adding £4.8m of value), let alone to 1.44 (adding £88.2m of value) in a straight line and without us making a series of very good decisions. The reason I give those numbers, incidentally, is that those rises are the equivalent of the rise in our share price from August to September 2013 in the sectoral rally of that time, and the rise from 2009 post-GFC to late 2010, with today's price taken in each case as the starting point.

Red Rock has shown repeatedly that it can trade actively and in a liquid manner, and can respond to news and outperform a favourable market. That is a strength that can be played to. Once we get a virtuous circle going then adding perceived value per share by adding assets can be a key element in our progress. What changes now is that we are focussed not just on adding assets with perceived value, but on rigorously screening and restricting our choice to assets with a high IRR and a positive NPV. Asset values are no longer going to be unsupported by earnings and cash flow.

That moves a little away from the traditional exploration model. We have learnt from and adapted to the changes in the market and in economic conditions, and recognise that the traditional exploration model, which neglects cash flow, is broken at present. We want not to depend wholly on the market conditions and a favourable wind to prosper, but to make the weather for ourselves. Our emphasis will also be on front-end-loaded cash flow, to reduce risk and to accelerate the perception change we seek.

Q: ***How soon can we sell SRT?***

This stake is now worth A$1.1m to us. Traded volumes have been increasing, and each funding this year has been at a higher price. First at 0.6c, then at 0.8c, and currently another placing has been announced and is being completed at 1.25c. This creates opportunities for us, and we await the announcement of the successful closing of the current placement. The turnaround in the last year, especially in the liquidity of the stock, has been remarkable, and the expectations obviously are for a deal very soon in the technology or medical/pharmaceutical space. Should something like this become imminent, we would have to wait for an announcement before selling, for insider reasons.

We obviously can realise some part at least of this holding, and for us to do so might be beneficial to SRT as given our low market capitalisation and the growing value of this stake, we will be seen as potential sellers and this might create an overhang. Ideally should we sell we will place to one buyer.

These general observations are the most I can say at the moment on SRT.

Q: ***Anything else to comment on?***

Not for now. We have made great progress in the campaign to clean up the balance sheet, reduce costs, dispose of assets, and transform managed assets into carried assets. We have a partially secured $4.45m receivable where we had a gold mine, we have the Jupiter Mines shares, we have the SRT shares. Our aim has been to simplify, simplify, simplify. And to bring costs and structure to a sustainable level at which we can take on business without them increasing. Now we can turn to the revenue side. This has been a long time coming, but from now on we will have once more a story of achievement and recovery to tell.

Andrew Bell