dowgate CAPITAL STOCKBROKERS

RED ROCK RESOURCES* **20 October 2014**

RED TO GOLD ROCK RESOURCES?

As the announcement last week indicated, the sale of Red Rock's Colombian gold assets is now entering the final stages, following the move by the buyer to acquire a local shareholding to add to its planned 50.002% purchase from Red Rock. The windfall consideration of up to US$5m from Colombia will bolster the Group's balance sheet and help finance future exploration on gold properties in Kenya and Ivory Coast.

Red Rock has recently re focused its project portfolio towards gold. In the current gold exploration resource environment, Red Rock can acquire new assets for remarkably low considerations. New projects have been secured in Ivory Coast, a country that is largely under explored, but is tantalisingly close and shares similar geology to the elephant gold discovery country of Ghana. At the more advanced stage and in another prolific gold discovery region in Kenya, a JORC resource of 1.2m plus ounces of gold has been defined. With the focus now on gold, investors may have forgotten about the Group's non gold assets that hold hidden value upside, such as its stake in Jupiter Mines that has scope to surprise should certain events occur. This initiation note attempts to analyse all of the Group's assets, both old and new, to determine a base valuation and target price for the stock.

With a wide range of portfolio assets, the potential is very high of a newsflow event occurring that could lead to an upward re-rating in the shares by the market and our valuation, for example;

- Confirmation due diligence completed and sales transaction executed over gold assets in Colombia, to yield a consideration of up to US$5m,
- Securing further acreage in Ivory Coast and first exploration news from recently acquired licences in highly prospective Birimian gold belt,
- Further news on reorganisation of Kenyan interests or development plans,
- Confirmation ASX listed Resource Star has concluded its acquisition of a cloud computing company,
- Production updates from Jupiter's Tshipi mine or sale of Jupiter shares,
- Higher iron ore prices and/or port developments may lead to interest from Indian or Chinese companies in Jupiter Mines' Australian assets.

VALUATION - We have used a 'sum of the parts' method to calculate a valuation that factors in a number of risk considerations, discounted cash flow and timings for each of Red Rocks' five main assets, for which a value can be quantified. We have taken an ultra prudent valuation approach for each asset in our calculations.

In Kenya, as a JORC statement has been estimated for six deposits on licence SPL122, a sum of £4.64m is calculated based upon the value of each defined ounce of gold, NPV from Nyanza's assessment and computed only at the Group's current ownership level of 43%. Colombia, we compute the discounted cash flows in the NMC deal and a small execution risk to arrive at a £2.22m figure. Although the new gold properties in Ivory Coast have considerable exploration upside, due to their early stage nature, we have not estimated a value for the licences.

Jupiter Mines valuation is based on its accounting net asset value and estimated value of Red Rock's Mt Ida royalty, using a cash flow and risk based analysis, to arrive at a £4.27m figure. The sale of any Jupiter assets would lead to a much higher valuation. Along with the value of the Greenland assets (£3.26m), Resource Star holding (£0.26m) and less estimated debt (£0.8m), we arrive at a final sum of the parts valuation of **£13.9m, or 0.63p per share**. Given that this represents over 200% potential upside from the current share price and considering the numerous event triggers that could move this base valuation higher within the near term, we recommend **Red Rock Resources plc** as a **'Buy'.**

BUY*

Price Target 0.63p

(223% potential upside)

Price Data

Price:	0.195p
Shares in Issue:	2.21bn
52 Week High/Low	0.99p/0.16p

Profile

Market:	AIM - London
Sector:	Basic Resources
Ticker:	RRR.L
Weblink	rrrplc.com

Key Data

Market Cap:	£4.3m
Net Debt *(est. Oct '14):*	£0.8m

Activities

The investment, exploration, development and mining of resource projects with a focus on gold, along with manganese and iron ore assets.

Directors

Andrew Bell (Ex Chairman)
Michael Nott (Non-Ex)
John Watkins (Non-Ex)
James Ladner (Non-Ex)

Main Shareholders

HSBC Client Hdgs Nom'	14.2%
TD Direct Investing Nom'	12.2%
Regency Mines	10.1%
Barclayshare Nom'	8.6%
HSDL Nom'	6.8%
Investor Nom'	4.2%
Hargreave Lansdown Nom'	3.1%

Valuation Estimate *(Details p8-10)*

Colombia	£2.22m
Kenya	£4.64m
Ivory Coast	*await exploration results*
Greenland	£3.26m
Jupiter Mines	£4.27m
Resource Star	£0.26m

Exchange Rates: A$/£1.83 / US$/£1.60

**Dowgate Capital Stockbrokers acts as Broker to Red Rock Resources plc.*

Jason Robertson (Analyst/Corporate Broker) 01293 643709 | jason.robertson@dowgate.co.uk

Dealing Desk 01293 517744 | broker@dowgate.co.uk

INTRODUCTION & BACKGROUND

Red Rock Resources plc (RRR) gained an AIM listing in July 2005 following a small placing at 2p, and at the time held iron ore and manganese projects in Australia. The Group was essentially a spin out from Regency Mines plc.

A central component to the story for most of the Group's history has been its interest in Jupiter Mines, which now has an operating open pit manganese mine in South Africa and interests in two potentially valuable iron ore development projects in Western Australia. Although now delisted from the Australian Stock Exchange, the value of the Group's investment in Jupiter Mines was worth A$60m at its peak value in early 2011, resulting in a surge in Red Rock's share price at around the same time, in late 2010, to an all-time high of just over 16p.

As is the case with Regency Mines, the management have exhibited a high level of lateral thinking aptitude and deal making skills in building up Red Rock Resources' project portfolio and by extracting value from its assets. More recently the Group's focus has shifted towards the acquisition of gold interests, particularly in Kenya and Ivory Coast. The gold project in Colombia is in the process of being sold, subject to the completion of final due diligence that could be finalised within the next few months. Red Rock has also been looking to dispose of its iron ore assets in Greenland, although this is likely to take longer to sell than the Colombian gold assets, due to the frontier nature of the project, given that it is inside the Arctic Circle. Another asset windfall source could come from the sale of shares held in ASX listed Resource Star, which is seeking to complete an RTO that would move it from uranium exploration to cloud based technology.

(Exchange Rates used in Report – A$/£1.83 : US$/£1.60)

GOLD INTERESTS

Kenya

Red Rock has an interest in two licences (SPL122 & SPL202) in Kenya covering 310 sq km, as outlined in Figure 1. Once a Bankable Feasibility Study is completed, RRR will be entitled to a 60% direct interest, bringing its total interest to over 75%.

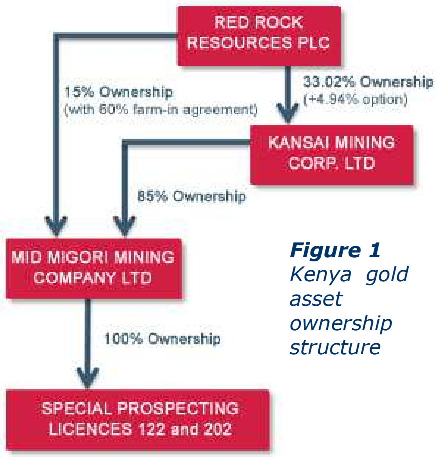


Figure 1 *Kenya gold asset ownership structure*

The Group's licences are located in a prolific gold region, which forms the northern extension of a gold enriched craton that stretches from Tanzania to south west Kenya, around Lake Victoria. About 300km to the south west of Migori, in Tanzania lies Anglogold Ashanti's giant 30m oz Geita gold deposit. Closer to Migori, just 20-30km to the east, Kenya's only operating gold mine operated by Goldplat is located at Kilimapesa (650K oz).

Figure 2 outlines the five main gold deposit areas on the project, from which a 1.2m oz JORC compliant statement has been estimated, as summarised in Table 1. Included within this Table and from a separate JORC statement, we have included the resource estimate for Macalder, a tailings resource that was produced from colonial era mining operations in the 1930s, and is believed to contain economic levels of gold mineralisation.

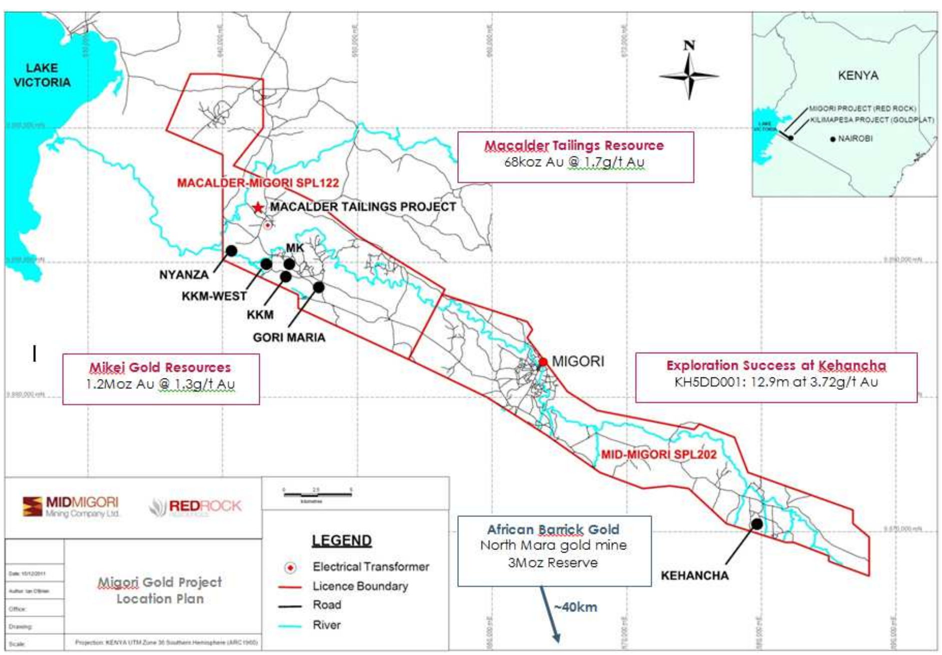


Figure 2: *Licence map for SPL122 & SPL202, along with identified gold deposits. Source: Red Rock Resources Sept 2014.*

A preliminary technical and economic assessment was completed on Nyanza in May 2014 for a stand alone open pit gravity mine by South African based geological mining and consultancy company, 'Applied Geology Mining (Pty) Ltd'. The study computed a pre-tax NPV of US$8m *(10% discount rate)* based upon the production of around 80,000 oz of gold over a 9 year mine life. A modest capital cost of US$3m was outlined, which would be recoverable within the first 6 months of operation. Future plans being considered at Nyanza include upgrading the geological model, metallurgical work, infill drilling and other exploration work. The management are also looking at ways to rationalise its project interests in Kenya.

Deposit	**JORC Classification**	**Mt**	**Gold Grade g/t**	**Oz 'm**
KKM	Indicated & Inferred	17.8	1.01	0.58
KKM-West	Indicated & Inferred	4.2	1.04	0.14
Nyanza	Indicated & Inferred	2.3	2.73	0.20
Gori Maria	Inferred	3.8	1.16	0.14
MK	Indicated & Inferred	1.4	3.07	0.13
Mekei Resource Total		**29.4**	**1.26**	**1.2**
Macalder Tailings	Measured	1.3	1.65	0.068

Table 1: *JORC Resource estimates for the Mekei and Macalder tailings deposits.*

NB1: Cut off grade for Mekei deposit is 0.5 g/t. No cut off grade applied to Macalder tailings project.
NB2: CSA Global (UK) Ltd estimated and compiled both resource estimates (Mekei in December 2012 and Macalder in October 2011).

Ivory Coast

In September 2014, the Group revealed it had acquired three exploration licences (Dabakala, Abengourou & Alepe) covering 1,200 sq km and four exploration permits in Ivory Coast. These were obtained by acquiring the share capital of Nemex Resources CI SARL and Barclay Resources SARL for a cash consideration of £140,000. Exploration is due to start shortly on these newly acquired licences. Further gold prospective licences in Ivory Coast are under application, directly by the Group.

The Dabakala licence lies along trend to the south of the large Mana gold mine in Burkino Faso (6m oz gold, - Figure 3). The licence is also prospective for manganese. Most of Nemex's exploration work was focused on Abengourou, where five gold anomalies were identified. Of these, 'Anomaly 5' showed gold in soil values of 100-525 parts per billion over a 4km structural trend, along a line of local artisanal workings.

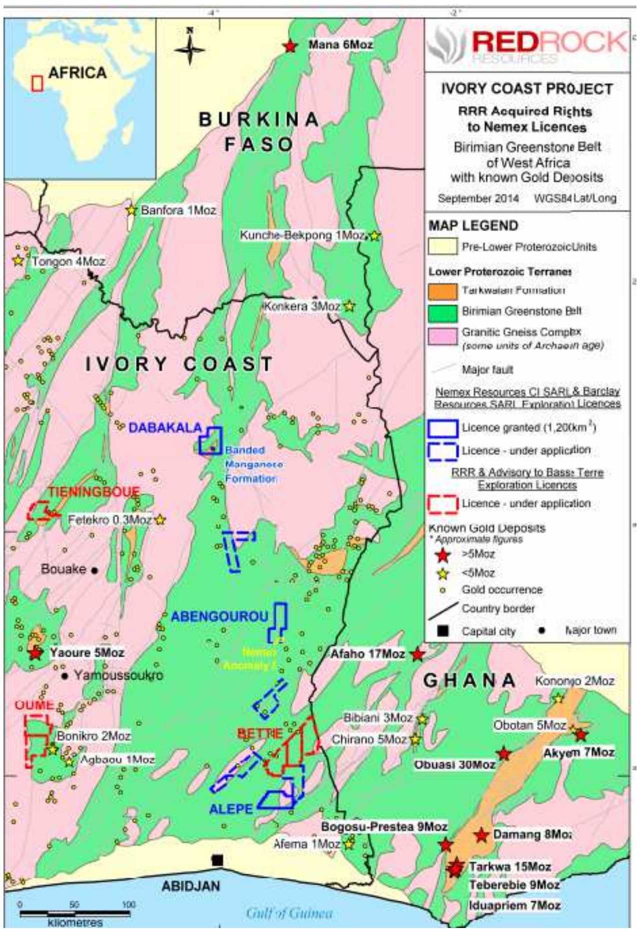


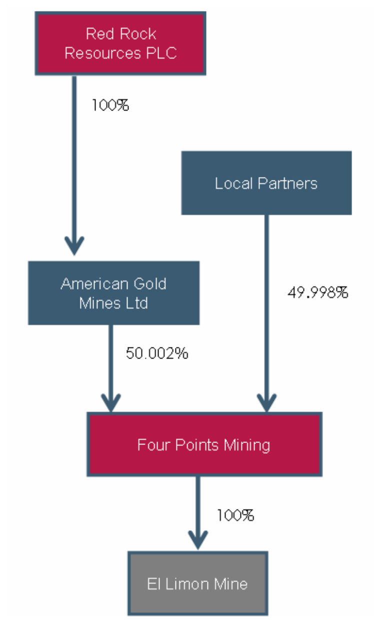
Figure 3: *Ivory Coast licence map. Source: Red Rock Resources Sept 2014.*

All of the licences are prospective for gold and lie within the highly prospective Birimian and Tarkwaian Greenstone rocks. Despite containing around 35% of the Birimian geology, more than other countries in West Africa, the Ivory Coast has largely been under explored and produces far less gold than neighbouring Ghana (19% Birimian). Ghana itself is host to many world class gold deposits such as Obuasi (30m oz) and Afaho (17m oz). The excellent infrastructure in the region and low costs, coupled with the prospective geology, all make Ivory Coast an attractive gold exploration destination. The first field trip to the new project is being planned and should take place very soon.

Colombia

In May 2014, RRR plc executed a binding Letter Of Intent ('LOI') with Nicaragua Milling Company Limited (NMC) to sell its net 50.002% Colombian gold mining assets *(held via American Gold Mines Ltd – See Figure 4 for ownership diagram)* and loans owed by Four Points Mining, for a consideration of up to US$5m. NMC is a private company registered in Belize that is represented by James Martin, the former CEO of Colombia Goldfields Ltd, who is also founder and Chairman of gold producer Hemco.

To date US$100K in total has been paid by NMC to RRR to extend its exclusivity period, to enable due diligence work to be performed. The current exclusivity period ends on 10 November 2014. As revealed in October 2014, the buyer has agreed to acquire 11.2% of the mine from a local shareholder, which along with the interest from Red Rock, would give NMC 60% plus ownership and full operational control. A 50.002% stake would not have achieved this objective.



Production from the mine restarted in 2010 and around 10,000 ounces of gold have been produced since July 2011. Red Rock's management believe a long term cash cost of US$750 to US$850 per ounce is a "viable sustainable target".

The consideration for the mining assets would be payable in three tranches. The first amount of US$2.5m will be payable upon completion of satisfactory due diligence and closing of the transaction. A second tranche of US$1.5m would be settled through the issue of a non-interest bearing promissory note that will be due and payable on or before the date that is one year from the closing. A final and third tranche of up to US$1m would take the form of a 3% royalty payment on annual net gold sales. Corporate advisory firm Ariel Partners will be paid 7% commission, once the transaction is completed.

Figure 4: *Colombia gold mine asset ownership structure. Source: Red Rock Resources Sept 2014.*

OTHER PROJECTS

Jupiter

RRR holds 27.3m shares (1.2%) in Jupiter Mines, along with a 1.5% royalty in Jupiter Mines' Mt. Ida project. Jupiter is headed up by the highly experienced Brian Gilbertson as non-executive Chairman, who was previously CEO of BHP Billiton and led the IPO of Indian resources company, Vedanta on the London Stock Exchange in late 2003. Andrew Bell represents RRR's interest on Jupiter's Board as an independent non-executive director. The shares in Jupiter Mines were previously listed on the Australian Stock Exchange (ASX), but were delisted in early 2014. It was felt that the low share price of Jupiter Mines could hamper any plans to sell its project assets or conversely make it difficult to potentially consolidate the industry regionally, when acquiring assets for equity considerations. Before delisting the stock traded at around 8c, valuing RRR's stake at (A$2.2m). The shares reached a peak price of 87c in early January 2011. As at 28 February 2014, the date of the last Annual Report, Jupiter's net asset were valued at 21c per share (A$6.5m).

Jupiter's main asset is a 49.9% interest in a producing open pit manganese mine at **Tshipi**, South Africa. Production started in late 2012/early 2013. RRR's management believe it is the "cheapest manganese producer on the planet" *(Source: Red Rock newsletter 3 September 2014).* Tshipi's resource is estimated to contain 163mt at 37.1% manganese, along with a top-cut resource of 145mt at 31.85% manganese. An independent valuation by Venmyn Deloitte (30 April 2014) calculated a fair value (net to Jupiter) for Tshipi of ZAR4,489 (A$460m), which equates to A$5.52m net to Red Rock.

Jupiter also holds two development projects in Western Australia, at Mt. Mason and Mt. Ida. The magnetite iron ore project at **Mt Ida** is currently on hold pending further clarity on the expansion of the Esperance port. A higher iron ore price is also needed to move the project nearer to the mining stage, which would require around A$2bn in capital expenditure. Mt. Ida has a JORC (January 2013: SRK Consulting) compliant estimated resource of 1.85bn tonnes at 29.48% iron, of which around two thirds is in the 'Indicated' category, with the remaining resource 'Inferred'. RRR retain a 1.5% gross production royalty on Mt Ida. In 2012, the Red Rock sold half (0.75%) its gross royalty interest to Anglo Pacific for an initial consideration of US$6m, along with two milestone payments totalling US$8m.

Mt. Mason is a smaller iron ore project than Mt Ida, with an estimated resource of 9.4mt at 57.6%, but a capital expenditure requirement of around A$65m. Mount Mason presents opportunities for direct shipping ore production. Mine optimisation and planning work is ongoing on the project. As highlighted in a recent Red Rock newsletter (3 September 2014), it is interesting to note that Legacy Iron Ore's majority (79%) joint venture partner at its Mt Bevan iron ore project, which is to the north of Mt Mason and Mt Ida, is the large Indian company NMDC. Potential exists for NMDC to consolidate iron ore projects near Mt Bevan, in particular those containing magnetite iron ore, which is preferred in steel making to haematite, due to the lower levels of impurities typically found in magnetite.

Greenland - Red Rock Resources holds a 60% interest in the Melville Bugt licence in north-west Greenland that covers 1,570 sq km. Exploration work over the Summers of 2011 and 2012 led to the defining of a JORC Inferred resource estimate in December 2012 by consultants SRK of 67mt at 31.4% iron on the Havik East and Havik North West deposits. The project offers considerable exploration upside. The management estimate that the haematite exploration targets with direct shipping ore potential could be up to 200mt and magnetite exploration targets are up to 1,000mt. Melville Bugt benefits from being near to natural deep water harbours and having a shorter sea ice season than other areas in northern Greenland.

The Group is in discussions with various potential buyers and partners. One such offer was received in late 2012 from an industrial partner to acquire 51% of the project for a $17.75m cash consideration. Little information has been forthcoming on this deal in the last nine months, and given that it is almost two years since the conditional offer was received, it can be assumed that the probability of this deal being concluded is very low. We therefore look forward to the potential of a transaction being secured with other parties.

Resource Star - The Group holds 65.3m shares and 5.21m options (exercisable at 0.4 cents) in ASX listed Resource Star Limited (ASX:RSL). RSL holds uranium interests in Western Australia and the Northern Territory. With sentiment towards the uranium sector still subdued following the 2011 Fukishima disaster, RSL has been looking at ways to diversify. To this end, on 1 August 2014, RSL announced the securing of an option to acquire an Australian cloud computing service and infrastructure provider, 'Cloud Lands Digital Fortress Pty Ltd'. Under the 90 day option agreement, due diligence is currently being conducted on the business, which along with other conditions is subject to RSL raising at least A$3.5m. On 16 October 2014, we learnt that Cloud Lands had secured two milestone agreements with Fujitsu Australia Limited that will enable it to expand its cloud based services in Australia. The envisaged move into technology has significantly lifted RSL's share price from around 0.4c to 1.05 cents. At the current bid price of 0.7c, Red Rock's RSL share holding is worth A$0.457m(£0.25m).

VALUATION

Kenya - To determine an exploration value for Red Rock's Kenya gold assets, we have applied a value of US$5 for each 'Inferred' ounce, US$20 for every ounce at the higher JORC confidence level of 'Indicated' and also US$50 for every 'Measured' ounce.

With the exception of the tailings deposit at Macalder, where all of the ounces are defined in the Measured category, the Nyanza deposit is the most advanced project and nearest the mining stage. To reflect this and the fact that it is being considered for a standalone mine, we have used the NPV figure of US$8m computed by Applied Geology and Mining Ltd to derive a US$4m value for Nyanza, using a 50% risk factor. By adding Nyanza's value to the other deposits, a valuation of US$17.2m at the 100% gross project level or US$7.4m (£4.64m) at Red Rock's current net ownership level of 43.067% is computed.

Deposit	Inf' Ozs '000	Ind' Ozs '000	Mea' Ozs '000	Inferred Value $5'oz	Indicated Value $20'oz	Measured Value $50'oz	**Total Value US$ 'm**
KKM	525	52	-	2.63	1.04	-	3.67
KKM West	39	99	-	0.20	1.98	-	2.18
Gori	-	141	-	-	2.82	-	2.82
MK	100	33	-	0.50	0.66	-	1.16
Macalder	-	-	68	-	-	3.40	3.40
Sub Total							**$13.23**
Nyanza Deposit - **$8m NPV** - 50% risk factor (x0.5)							**$4.00**
Total at 100% Project interest level							**$17.23**
Total at current 43.067% Red Rock ownership level							**$7.42m**
UK Sterling Value £/US$1.60							**£4.64m**

Table 2: *Valuation estimate for Mekei and Macalder deposits.*

Colombia - We have discounted by 10% p.a. each payment tranche Red Rock would receive in Colombia, as detailed in the May 2014 LOI with NMC. Once the transaction is completed, the first payment could be made shortly afterwards, followed by a second payment one year after the transaction and then a production royalty, discounted over a projected 15 year mine life. The final figure has been reduced by 10% to factor in the small risk of the deal not concluding, to arrive at a US$3.6m (£2.2m) valuation.

Tranche	**Payment** (US$)	**Payment net of Commission** (US$)	**Discount Period** (10% p.a.)	**Total** (US$)	**Total** US$/£1.60
1	2.5m	2.33m	0.1 to 0.25 yrs	2.29m	£1.43m
2	1.5m	1.40m	1.18 yrs	1.25m	£0.78m
3	1.0m	0.93m	over 15 yrs	0.42m	£0.26m
SUB TOTAL				**US$3.96m**	**£2.47m**
RISKED TOTAL (Less 10% Execution Risk) (x0.9)				**US$3.57m**	**£2.22m**

Table 3: *Projected discounted cash flows from Colombian asset sale.*

Ivory Coast - As this is a new and early stage project, we felt it prudent not to apply any value to these interests. Nevertheless, given their location and underlying geology, the licences offer considerable scope for exploration upside and value adding potential over the next 18 months.

Jupiter Mines - For the **equity stake** in Jupiter Mines, we have simply used the current NAV of Red Rock's holding of A$5.8m and deducted 20% as an asset realisation risk factor to arrive at a valuation of A$4.64m (£2.54m). Nevertheless this is probably substantially less than the break up value of Jupiter Mines if various Chinese and Indian suitors were to take an interest in the company's project assets. It is also much less than when Jupiter shares were quoted and Red Rock's investment reached a peak value of A$60m in 2011.

We have also estimated a value for Red Rock's 1.5% **royalty interest** in Mt Ida, by discounting potential future payments, as outlined in Table 4. The sale of a 0.75% royalty interest in Mt Ida to Anglo Pacific, as announced in April 2012, involves the payment of a second and third tranche payment totalling US$8m *(the US$6m first tranche has already been paid)*. These payments are triggered on a mine decision, a definitive feasibility study being completed and commercial production commencing. We estimate that with an improved commodity pricing environment and expansion of the Esperance port, a mine decision could be made in 2017, with commercial production starting two years later, once finance is secured. On the basis that Red Rock decides to sell its remaining 0.75% royalty interest to another party, once production starts, a consideration of at least US$9m could be achievable. This is fairly modest given that the other 0.75% interest was sold to Anglo Pacific for US$14m. To factor in the risk of production not commencing from Mt Ida within the foreseeable future, a 25% risk factor has been applied to compute a royalty valuation of US$2.8m (£1.7m). A final sum of £4.27m is computed by adding Red Rock's equity interest valuation of £2.54m to its £1.73m royalty valuation.

Royalty Payment	**Royalty Interest %**	**Payment Trigger**	**Estimate Year of Trigger**	**Discounted Consideration** *(10% dis' rate)*
US$4m-actual#	0.225	DFS & Mine Decision	2017	US$3.0m
US$4m-actual#	0.225	Commercial Production	2019	US$2.5m
US$9m-estimate##	0.75	Commercial Production	2019	US$5.6m
			TOTAL	**US$11.1m**
			RISKED (25%) US$ TOTAL (x0.25)	**US$2.78m**
			RISKED £ TOTAL	**£1.73m**

Table 4: *Mt Ida Royalty valuation.*
 # - Second and third tranche payments for 0.75% royalty already sold.
- Estimated payment that assumes remaining 0.75% royalty is sold.

Greenland - In 2012, an offer was received for the Greenland iron ore project that valued the Group's 60% stake at US$20.88m. Given the length of time it has taken to conclude this transaction, we have reduced the project's value by 75% to arrive at a valuation of US$5.22m (£3.26m). The valuation does not take into account the potential for any exploration upside that could be achieved, which represents a vast opportunity for any would be purchaser.

Resource Star

A figure of A$0.47m (£0.26m) is derived by valuing Red Rock's equity (A$0.46m) and option (A$0.0156m) holding at 0.7 cents per share (less cost of acquiring exercised options).

Valuation Summary

Asset *A$/£1.83* *US$/£1.60*	**A$ or US$ Valuation**	**£ Valuation**
Colombia	US$3.56m	£2.22m
Kenya	US$7.41m	£4.64m
Ivory Coast	*nil (see notes)*	
Greenland	US$5.22m	£3.26m
Jupiter Mines		
Equity Stake	A$4.64m	£2.54m
Mt Ida Royalty	US$2.78m	£1.73m
Resource Star	A$0.47m	£0.26m
Sub Total		**£14.65m**
Less estimated Group debt		*(£0.8m)*
Total		**£13.85m**
Price per share		**0.63p**

Table 5: *Group valuation summary.*

DOWGATE CONTACTS

Clive Mattock (Chairman)	01293 517744
Neil Badger (CEO)	01293 517744
Joe Drown (Broker/Dealer)	01293 643728
Peter Glancy (Broker)	01293 643731
Shahood Oozeerally (Broker)	01293 643737
Jock Paterson (Relationship Manager)	01293 643730
Darron Rixson (Broker)	01293 643723
Jason Robertson (Analyst/Corp Broking)	01293 643709
Ray Silvester (Broker)	01293 643727
David Trigg (Dealer)	01293 643719/643720
Sylvia Levi (Compliance)	01293 643714

Dowgate Capital Stockbrokers Limited
Talisman House
Jubilee Walk
Three Bridges, Crawley
West Sussex
RH10 1LQ

Tel: 01293 517744
Fax: 01293 521093
www.dowgatecapitalstockbrokers.co.uk

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