

# Stock Focus

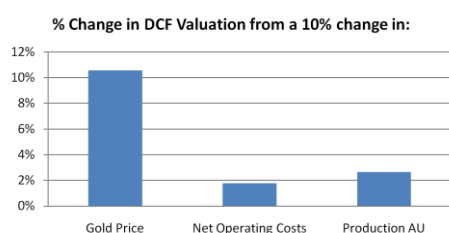
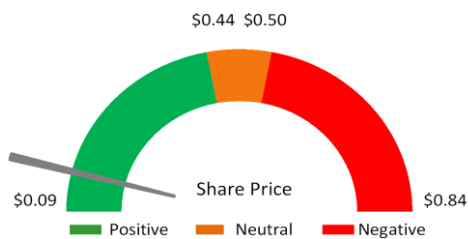
## Red 5 (RED)



EVANS & PARTNERS

### FIRST GOLD IMMINENT

#### RECOMMENDATION : POSITIVE



Following delays due to heavy rains, RED is on the cusp of producing its' first gold, with all key operating parameters remaining intact. The project is robust with exceptionally low operating costs and a long mine life. Trading at well below half valuation, Red 5 is presenting as a compelling small cap emerging gold producer.

**First gold pour targeted for November 2011.** Despite 4.9 metres of rain this calendar year, RED is only six months behind the production schedule targeted in its feasibility study. The SAG mill installation has commenced, with a 75 day schedule to completion, and the double ramp entry to the pit is also well advanced, with the road network from the pit ramp to waste dump complete.

#### Trading Data

Last Price	\$0.17
12 month range	\$0.11 - \$0.22
Market cap.	\$218m
Free Float	\$218m (100%)
Avg. daily volume	4.7m
Avg. daily value	\$0.8m
12m return (historical)	36.0%

**Production upside being investigated.** The feasibility study on Siana was based on a US\$800/oz gold price (and a US\$650/oz pit shell). RED are currently looking at re-optimising the production schedule based on a lower cut-off grade. The current mine plan also only provides for development to 400 metres vertical, with the deposit open beyond these depths. In the short term, we would expect this to result in an increase in the open-pit mineable envelope; longer term we do anticipate significant expansions to the current underground mineable envelope.

#### Earnings Forecasts

Yr to June	11E	12E	13E	14E
NPAT pre ab (US\$m)	(4)	38	71	133
EBITDA (US\$m)	(3)	39	92	152
EPS (¢)	(0.3)	2.9	5.7	10.9
EPS Gth (%)	N/A	N/A	91.8	93.6
<b>PER (x)</b>	-	<b>5.6</b>	<b>2.9</b>	<b>1.5</b>
Production (k oz)	0	35	77	121
Cost (US\$/oz)	0	355	362	384
DPS (¢)	0.0	0.0	0.0	0.0
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Franking (%)	0%	0%	0%	0%
NetDebt/EBITDA (x)	18.6	0.0	(1.6)	(2.0)

**Further significant exploration upside.** RED recently completed the first three holes at Siana for nearly three years, with assays pending. A fourth hole is underway. The aim of this exploration program is to extend the current resource at Siana at depth. Whilst little drilling has been undertaken recently at Mapawa (located 30km north of the Siana project), RED has US\$10m quarantined for further drilling here (the total spend being results driven). Initial shallow drilling confirmed a gold cap above a gold-copper porphyry. Recent relatively shallow drilling is to better understand the structural constraints of the underlying porphyry.

#### Valuation (DCF - \$ps)

**0.46**

#### Share Price History



**Philippines still viewed as high risk, but reducing.** The Philippines Government is actively promoting mining and exploration in their country, with competitive tax and royalty rates, and accelerated depreciation incentives. However, given the poor track record of significant environmental damage from projects such as Marcopper, there is a significant public opposition to mining, as evidenced by recent protests against Xstrata's Tampakan project. We feel this risk is manageable, particularly given the relatively small footprint of the Siana project.

**Cathy Moises**

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August 18, 2011

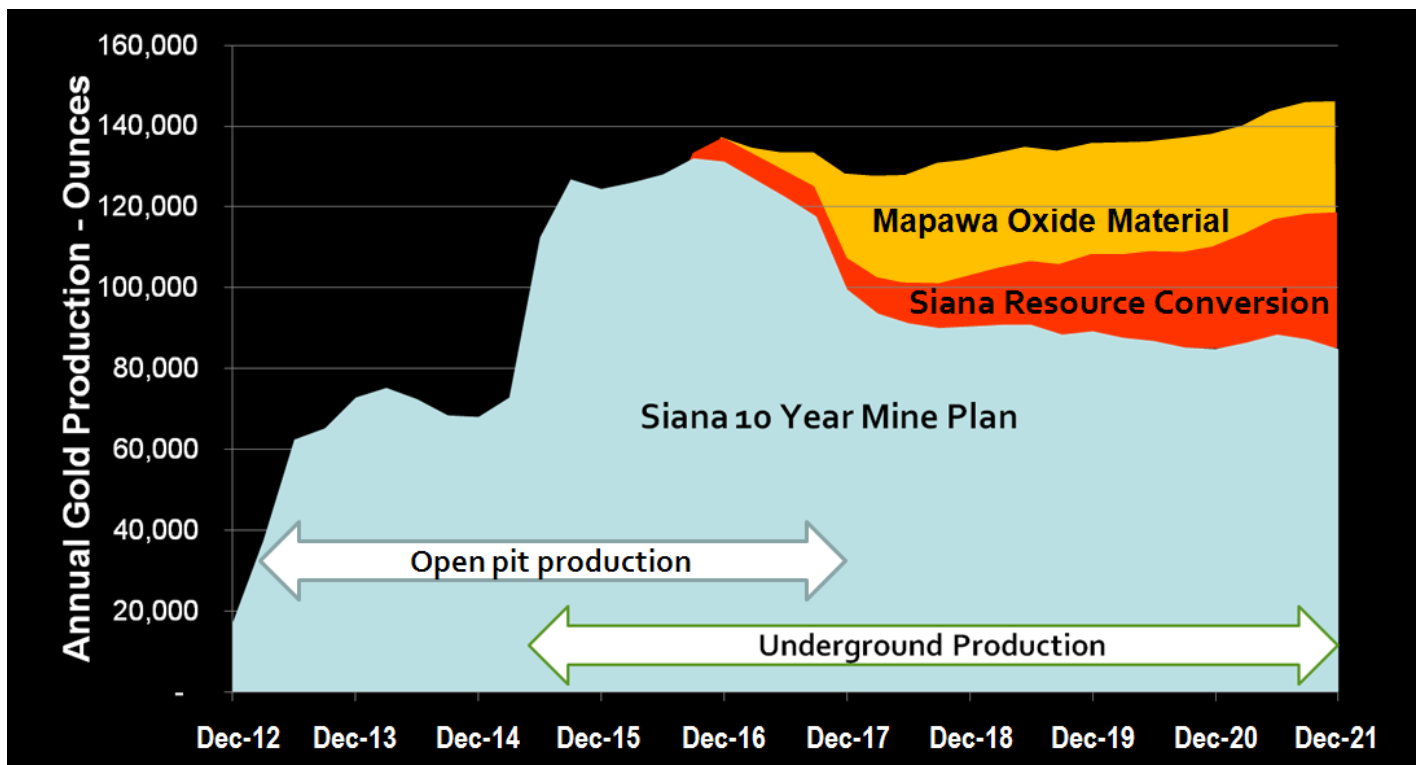
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### KEY METRICS

The Siana Gold project was formerly mined up until 1991, whereupon it closed down to a depressed gold price and undercapitalisation. The project is located in a richly endowed mineral field, with many epithermal gold systems and several known porphyry deposits. The key Siana mineralisation is unusual, as there is no quartz associated, and hence the ore has a very low work index (soft). Whilst the name plate capacity of the Siana Mill is 1.1mtpa, it has variable speed drive which enables easy slowing down of throughput and removing the need for costly campaign milling in times of low ore availability. To this end, initial production is expected to commence purely from open pit operations at a rate of 750ktpa, ramping up to design capacity upon commencement of production from underground mining approximately 3 years later. The diagram below shows the current planned production schedule, however this is currently the subject of a review, with underground likely to commence later, and the open pit being re-optimised at a lower cut-off grade (current pit design is based on a \$US650/oz, and is likely to be optimised at \$US900-\$US1,000/oz). RED has opted for the more conservative stance of planning for an overlap period between underground and open pit production, to reduce the likelihood of a hiatus period if any delays in the underground mining schedule occur. Given the current portal is designed to commence 75m above the ultimate pit floor, to the extent the pit is expanded, commencement of underground mining may also be delayed. A revised (larger) pit may also result in an increased mining rate justifying higher throughput than the initial forecast.

Whilst the current open pit has a LOM strip ratio of approximately 7:1, the high grade tenor (appr 3.5g/t) and soft nature of the ore results in operating costs in the bottom quartile of current sector averages (RED expects operating costs of below US\$400/oz). Whilst the average underground head grade is approximately 50% higher than the open pit head grade, the higher mining costs result in similar operating costs being forecast. However, we may see higher costs relating to a revised and larger pit shell in the open pit, and a far longer mine life from underground if future drilling proves successful.



Source: Red 5



## PROGRESS AGAINST BUDGET

Both timing and capital costs are running ahead of budget, with delays in the development schedule largely due to unseasonably heavy rains resulting in the commissioning running about six months behind original schedule. Similarly capital costs have increased largely due to the impact of FX variations, scope changes and development delays. However, the extent of the capital overrun is very small, at only \$US2.3m, or 3% of the original capex budget. We feel considering the prevailing conditions, RED have achieved an excellent result, holding delays and increased costs to such a small amount.

RED is now expecting first gold to be poured in November 2011. The pictures below show recent progress in both plant and pit development.



Open Pit cut-back activity  
(Source: RED 5)

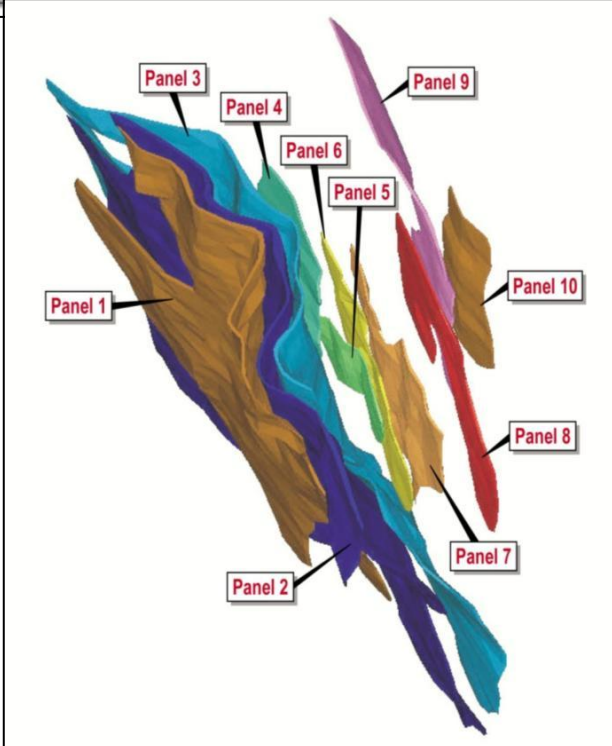
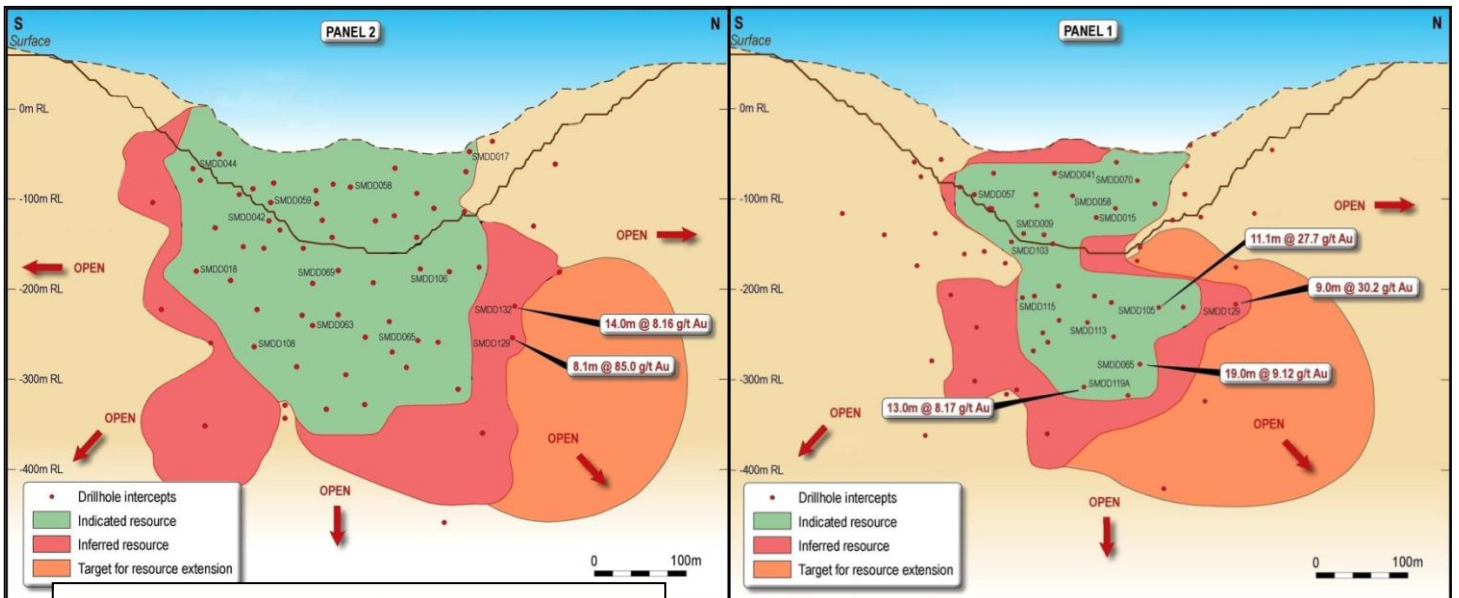


Final steel structural components for cyclone and gravity tower, and installation of SAG mill  
(Source: RED 5)

## UPSIDE POTENTIAL

The sections below highlight the potential for further extensions to both open pit and underground mine plans. Looking at the first two long sections on Siana. Panel 2 clearly shows the capacity for a significant upgrade to the current open pit mineable reserve through deepening the current pit, and with **no** additional exploration success. However, given the deposit remains open in all directions, with current drilling focussing on extending known resource, we would anticipate the ultimate open pit reserve will be significantly larger than that given in the feasibility study (336k ounces).

Similarly, both the long sections, and also the schematic of the underground mining panels, also show considerable upside potential for underground resources, where the current resource has only been drilling to 400m RL, and only three of the ten known panels have been fully drilled out. In the Siana feasibility study, RED had underground targeted extraction of 630k ounces. Whilst we have only included RED's targeted extraction in our valuation, we anticipate that ultimate underground production may be considerably higher than this figure.

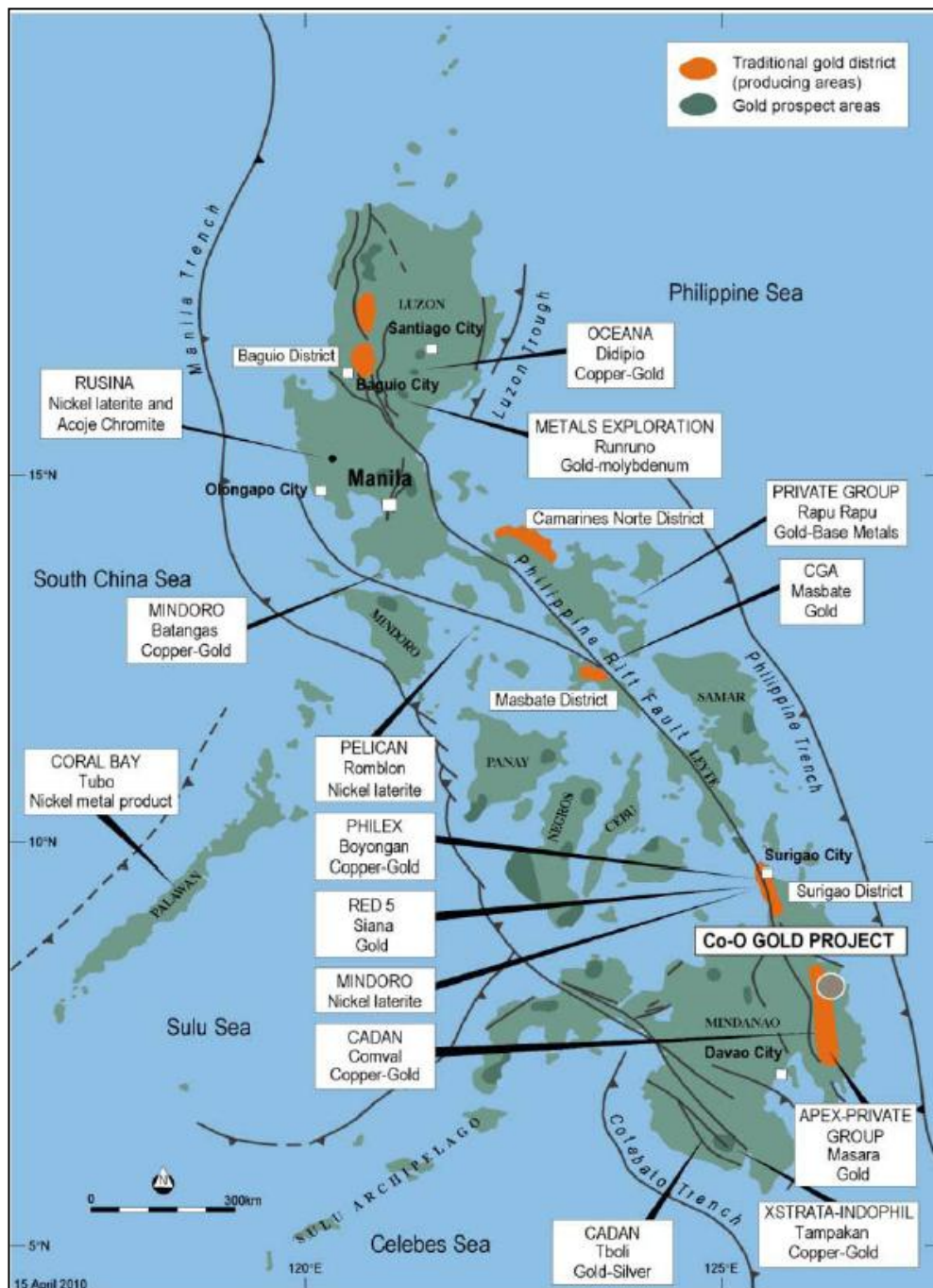


Source: Red 5



## MINING IN THE PHILIPPINES

Whilst the Philippines has generally been viewed as an exceptionally difficult place to operate, with a number of incidents such as shootings of individuals at the Tampakan project site (Indophil) and the closure of Lafayette's open pit gold operation, it is very much an issue of the location of the mine, and also the relationship with the locals in the area of the mine. Successful operations include Medusa's Co-O mine and CGA's Masbate operation – both companies are capitalised in excess of \$1 billion. Given Red 5's operation is located in an area of successful historic mining, with a predominantly Christian population and with very strong relationships with local land owners; we do not see a significant issue here.



Source: Medusa Mines



## FINANCIAL SUMMARY

Red5 Minerals **RED** Recommendation: **Positive** Share Price **\$0.17**  
 As at: **17/08/2011** DCF Valuation **\$0.46**

Year end	Jun	2011E	2012E	2013E	2014E	2015E
<b>INCOME STATEMENT</b>						
<b>Total Revenue</b>	\$USm	3.1	59.1	131.2	215.8	229.4
Operating Costs	\$USm	0.0	-12.5	-27.9	-46.3	-47.8
Royalty	\$USm	0.0	-1.4	-3.0	-4.7	-3.5
Exploration W/off	\$USm	-0.6	-1.2	-1.2	-1.2	-1.2
<b>Total Op. Costs</b>	\$USm	<b>-0.6</b>	<b>-15.1</b>	<b>-32.0</b>	<b>-52.3</b>	<b>-52.6</b>
D&A	\$USm	0.0	-3.5	-7.7	-12.1	-8.9
Interest Exp.	\$USm	-4.5	0.0	0.0	0.0	0.0
Corporate	\$USm	-2.5	-3.1	-3.1	-3.1	-3.1
Other	\$USm	0.0	0.0	0.0	0.0	0.0
<b>Total Costs</b>	\$USm	<b>-7.6</b>	<b>-21.6</b>	<b>-42.8</b>	<b>-67.4</b>	<b>-64.5</b>
<b>Pre+Tax Profit</b>	\$USm	<b>-4.5</b>	<b>37.5</b>	<b>88.4</b>	<b>148.4</b>	<b>164.8</b>
Tax Provision	\$USm	0.0	0.0	17.1	15.8	6.0
<b>Net Profit</b>	\$USm	<b>-4.5</b>	<b>37.5</b>	<b>71.2</b>	<b>132.5</b>	<b>158.8</b>
Minorities	\$USm	0.0	0.0	0.0	0.0	0.0
<b>Attrib Net Profit</b>	\$USm	<b>-4.5</b>	<b>37.5</b>	<b>71.2</b>	<b>132.5</b>	<b>158.8</b>
Abnormal	\$USm	0.0	0.0	0.0	0.0	0.0
<b>Reported profit</b>	\$USm	<b>-4.5</b>	<b>37.5</b>	<b>71.2</b>	<b>132.5</b>	<b>158.8</b>

<b>CASH FLOW</b>						
<b>Operating Cashflow</b>	\$USm	<b>-3.4</b>	<b>42.2</b>	<b>97.3</b>	<b>161.6</b>	<b>174.9</b>
-Capex	\$USm	<b>-45.1</b>	<b>-35.1</b>	<b>-3.9</b>	<b>-3.9</b>	<b>-2.9</b>
-Exploration	\$USm	-2.0	-4.0	-4.0	-4.0	-4.0
<b>Free Cashflow</b>	\$USm	<b>-50.5</b>	<b>3.1</b>	<b>89.3</b>	<b>153.7</b>	<b>167.9</b>
-Dividends	\$USm	0.0	0.0	0.0	0.0	0.0
+Equity Raised	\$USm	50.0	0.0	0.0	0.0	0.0
+Debt Drawdown	\$USm	-0.3	0.0	0.0	-25.0	25.0
-Other	\$USm	-4.4	0.0	0.0	0.0	0.0
<b>Net Change in Cash</b>	\$USm	<b>-5.2</b>	<b>3.1</b>	<b>89.3</b>	<b>128.7</b>	<b>192.9</b>
Cash at End Period	\$USm	52.5	55.6	144.9	273.7	466.6

<b>BALANCE SHEET</b>						
Cash	\$USm	52.5	55.6	144.9	273.7	466.6
<b>Total Assets</b>	\$USm	<b>143.3</b>	<b>180.9</b>	<b>269.2</b>	<b>392.6</b>	<b>582.4</b>
Total Debt	\$USm	0.0	0.0	0.0	-25.0	0.0
<b>Total Liabilities</b>	\$USm	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>-22.1</b>	<b>2.9</b>
<b>Shareholders Equity</b>	\$USm	<b>140.4</b>	<b>177.9</b>	<b>266.3</b>	<b>414.7</b>	<b>579.5</b>

Production		11E	12E	13E	14E	15E
<b>Siana</b>						
<b>Open Cut</b>						
Total Mined	(k t)		2,625	5,702	5,334	3,563
Ore Milled	(k t)		375	815	762	509
Head Grade - Au	(g/t)		3.5	3.5	3.6	3.6
Head grade _ Ag	(g/t)		10.1	8.0	7.6	5.9
Recovery - Au	(%)		86%	86%	86%	86%
Recovery - Ag	(%)		80%	80%	80%	80%
<b>Production - Au</b>	<b>(k oz)</b>		<b>36</b>	<b>79</b>	<b>77</b>	<b>51</b>
<b>Production - Ag</b>	<b>(k oz)</b>		<b>97</b>	<b>168</b>	<b>149</b>	<b>78</b>
<b>Underground</b>						
Ore Milled	(k t)			0	346	497
Head Grade - Au	(g/t)			0.0	4.8	5.1
Head grade _ Ag	(g/t)			0.0	6.9	6.0
Recovery - Au	(%)			0%	88%	88%
Recovery - Ag	(%)			0%	80%	80%
Production - Au	(k oz)			0	47	72
Production - Ag	(k oz)			0	62	76
<b>Total</b>						
Ore Milled	(k t)		375	815	1,108	1,006
Head Grade - Au	(g/t)		3.5	3.5	4.0	4.4
Recovery - Au	(%)		85.9%	85.8%	86.6%	87.0%
<b>Production - Au</b>	<b>(k oz)</b>		<b>36</b>	<b>79</b>	<b>124</b>	<b>123</b>
<b>Production - Ag</b>	<b>(k oz)</b>		<b>97</b>	<b>168</b>	<b>210</b>	<b>154</b>
<b>GROUP ATTRIBUTABLE</b>						
<b>Gold Production</b>	<b>(k oz)</b>		<b>35.2</b>	<b>76.9</b>	<b>120.6</b>	<b>119.8</b>
<b>Cash Cost</b>	<b>(\$US/oz)</b>		<b>355</b>	<b>362</b>	<b>384</b>	<b>###</b>
<b>Total Cost</b>	<b>(\$US/oz)</b>		<b>455</b>	<b>462</b>	<b>484</b>	<b>499</b>

Year end	Jun	2011E	2012E	2013E	2014E	2015E
<b>VALUATION METRICS</b>						
PER	x	Na	5.6	2.9	1.5	1.3
Dividend Yield	%	Na	Na	Na	Na	Na
P/FCF	x	Na	5.1	2.2	1.3	1.2
ROA	%	-3%	21%	26%	34%	27%
ROE	%	-3%	21%	27%	32%	27%
Net Debt to Equity	%	-37%	-31%	-54%	-72%	-81%
Debt to Assets	%	-37%	-31%	-54%	-76%	-80%

<b>Directors</b>	
Chairman	Colin Jackson
Managing Director	Greg Edwards
Non-Executive Director	Gary Scanlan
Non-Executive Director	Kevin Dundo
Non-Executive Director	Mark Milazzo
CFO	Joe Mobilia

Substantial Shareholders	Shares (m)	%
Mathews Capital	229.5	17.7%
Baker Steel	105.0	8.1%
JP Morgan Chase	75.2	5.8%
Sprott Asset Management	67.4	5.2%
Lujepa	66.1	5.1%

<b>Valuation Summary</b>		
	<b>BASE CASE</b>	
	\$AM	A\$/share
<b>Valuation per share</b>		
Siana	552	0.43
Exploration	20	0.02
<b>Sub Total Operations</b>	<b>572</b>	<b>0.44</b>
<b>Financial</b>		
Forward sales	-17	-0.01
Cash	52	0.04
Total Borrowings	0	0.00
Corporate/Other	-12	-0.01
<b>Sub Total Financial</b>	<b>23</b>	<b>0.02</b>
<b>Total Valuation</b>	<b>596</b>	<b>0.46</b>

Reserves (100%)	Mt	g/t Au	g/t Ag	Gold (k oz)	Silver (k oz)
Open Pit	3.1	3.4	8.7	336.2	840
Stockpile	0.1	1.3	10.7	3.5	29
Underground	1.94	5.82	9.1	362.8	566
<b>Total</b>	<b>5.1</b>	<b>4.3</b>	<b>8.8</b>	<b>708</b>	<b>1,434</b>

Resources (100%)	Mt	g/t Au	g/t Ag	Gold (k oz)	Silver (k oz)
Open Pit and Stockpiles	3.3	3.3	8.8	354	937
Underground	3.4	7.1	10.7	768	1,158
<b>Total</b>	<b>6.7</b>	<b>5.2</b>	<b>9.7</b>	<b>1,122</b>	<b>2,095</b>

Assumptions	11E	12E	13E	14E	15E	
Gold Price	(US\$/oz)	1,480	1,761	1,771	1,792	1,817



## RESEARCH RECOMMENDATION DEFINITIONS

Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
Suspended	Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.
Not Rated	Stock is not included in our investment research universe.

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Valuation	Rolling 12 month prospective multiples (composite of Price-to-Earnings Ratio, Dividend Yield and EV/EBITDA), or long-term NPV for resource stocks.
Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
Financial Transparency	If we don't understand it, we won't recommend it.

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