

31 October 2011

## Red 5 Limited

**RED**

**\$0.19/share**

**First gold pour only weeks away**

**Buy**

RED 5 reported solid progress at Siana with the first gold pour expected in coming weeks. Capex remains on budget at US\$86M and Siana is now 96% complete overall. RED is working on an updated reserve and mine plan following the recent 21% (231koz) increase in resources to 1.36Moz Au. This potentially extends open pit mine life by four years to nine years, and delays start of underground production from year three to year six. We have left our forecasts unchanged ahead of the upgrade due this quarter. We recommend clients buy RED which is trading on FY12 & FY13 PEs of 4.8x & 2.4x backed by 100% upside to NPV of 37c/share.

### Siana Gold Project (100%)

- Capex unchanged at US\$86M.
- Cash at hand of \$38.6M with \$23M to spend.
- Civil earthworks 99% complete.
- Structural/mechanical installation 99% complete.
- Piping and electrical installation 65% complete.
- Pit-dewatering complete.
- SAG mill and commissioning engineers on site.
- Pre-strip and cutback movement well advanced.

### Reserves and mine plan

- Ore reserve, mine plan and production schedule currently under review.
- Updated numbers targeted Nov/Dec this year.
- Reserves may potentially rise to ~900koz (708koz).
- RED 5 target cash costs to remain <US\$400/oz.

### Exploration

- Results: 6m @ 5.8g/t Au and 10m @ 1.7g/t Au.
- Highlights potential at depth and to the north in panels 1 and 3 respectively.
- Follow up drilling required for further evaluation.

### Attractive multiples, strong balance sheet

- NPV of A\$0.37/share.
- PEs 4.8x (2012), 2.4x (2013) & 1.8x (2014)
- PCFs 4.1x, 2.0x & 1.5x respectively.
- Fully funded with no debt and zero hedging.
- Significant re-rating as gold production approaches.

### Newsflow

- Nov/Dec – Reserve upgrade and mine plan.
- Nov 23 – AGM with vote on 10:1 share consolidation.
- Ongoing drilling results – two rigs at site.

### Company Data

Shares – ordinary (free float)	1283.7M
Unlisted Options	2.1M
Total (fully diluted)	1285.8M
Market capitalisation (fully diluted)	A\$237M
12 month low/high	\$0.11/ \$0.24
Monthly turnover	\$17.8M
Monthly volume	107M

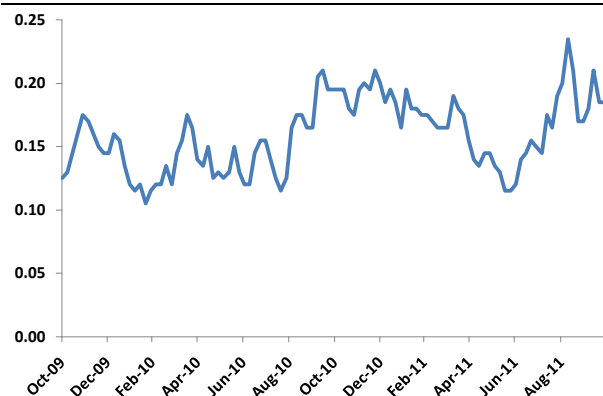
### Financial Summary

Year end June	2011A	2012F	2013F	2014F	2015F
Revenue (\$M)	0.6	75.4	154.7	210.7	170.4
Costs (\$M)	7.3	21.2	44.3	63.0	60.5
EBITDA (\$M)	-6.6	54.1	110.4	147.7	110.0
NPAT (\$M)	-8.1	49.7	99.9	131.3	102.0
EPS (¢ps)	-0.6	3.9	7.8	10.2	7.9
PER (x)	na	4.8	2.4	1.8	2.3
Cashflow (Gross-\$M)	-1.7	57.3	116.3	157.8	124.5
CFPS (¢/sh)	-0.1	4.5	9.1	12.3	9.7
PCFPS (x)	na	4.1	2.0	1.5	1.9
Enterprise Value (\$M)	95.1	161.9	84.7	3.2	-81.6
EV / EBITDA (x)	na	3.0	0.8	0.0	-0.7

### Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Baker Steel	110.9	8.6%
Matthews Capital	78.3	6.1%
Sprott Asset	69.3	5.4%

### RED (A\$/share) – performance over one year



### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 300M shares at \$0.17/share in October 2010, raising A\$51.0M. A fee was received.

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## Analysis

RED 5 LIMITED (RED) 31-Oct-11 Year End 30 June A\$							Share Price	(\$)	0.19								
							Iss. Shares	(M)	1283.7								
							Unlisted Options	(M)	2.1								
							Mkt Cap.	(\$M)	237.9 Fully diluted for ops								
PROFIT & LOSS							RESERVES & RESOURCES										
	2010A	2011A	2012F	2013F	2014F	2015F		2010A	2011A	2012F	2013F	2014F	2015F				
Sales Revenue	\$M	0.0	0.0	75.4	154.7	210.7	170.4	<b>Reserves</b>									
Other Income	\$M	0.0	0.6	0.0	0.0	0.0	0.0	Tonnes	Mt	6.1	6.1	5.7	4.8	3.7	2.8		
Operating Costs	\$M	1.7	4.3	21.2	44.3	63.0	60.5	Grade	g/t	4.30	4.30	4.37	4.52	4.61	4.68		
Exploration	\$M	0.5	2.0	0.0	0.0	0.0	0.0	Contained Gold	oz	846,079	846,079	795,731	690,431	541,541	415,066		
Other	\$M	0.0	1.0	0.0	0.0	0.0	0.0	<b>Resources</b>									
<b>EBITDA</b>	<b>\$M</b>	<b>(2.2)</b>	<b>(6.6)</b>	<b>54.1</b>	<b>110.4</b>	<b>147.7</b>	<b>110.0</b>	Tonnes	Mt	6.7	13.2	12.8	11.8	10.7	9.8		
Dep. & Amort.	\$M	0.0	0.0	7.7	16.3	26.6	22.5	Grade	g/t	5.20	3.20	3.19	3.16	3.05	2.93		
<b>EBIT</b>	<b>\$M</b>	<b>(2.2)</b>	<b>(6.7)</b>	<b>46.5</b>	<b>94.1</b>	<b>121.1</b>	<b>87.5</b>	Contained Gold	oz	1,118,460	1,358,048	1,307,699	1,202,399	1,053,509	927,035		
Net Interest	\$M	(1.7)	1.4	(3.2)	(5.9)	(10.2)	(14.5)	<b>PRODUCTION (100%)</b>									
<b>Pre-Tax Profit</b>	<b>\$M</b>	<b>(0.4)</b>	<b>(8.1)</b>	<b>49.7</b>	<b>99.9</b>	<b>131.3</b>	<b>102.0</b>	Ore Milled	Mt	0.00	0.00	0.45	0.9	1.1	0.9		
Tax	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t	0.0	0.0	3.5	3.6	4.2	4.4		
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	83%	86%	86%	86%	86%		
<b>Net Profit</b>	<b>\$M</b>	<b>(0.4)</b>	<b>(8.1)</b>	<b>49.7</b>	<b>99.9</b>	<b>131.3</b>	<b>102.0</b>	Gold Produced	oz	0	0	43,299	90,558	128,045	108,768		
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	0.0	<b>REVENUE (attributable)</b>									
<b>Reported Profit</b>	<b>\$M</b>	<b>(0.4)</b>	<b>(8.1)</b>	<b>49.7</b>	<b>99.9</b>	<b>131.3</b>	<b>102.0</b>	Siana	\$M	0.0	0.0	75.4	154.7	210.7	170.4		
Dividends Paid	\$M	0.0	0.0	0.0	35.0	45.9	35.7	Other	\$M	0.0	0.6	0.0	0.0	0.0	0.0		
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.6	75.4	154.7	210.7	170.4		
<b>Retained Earning</b>	<b>\$M</b>	<b>(16.4)</b>	<b>(24.5)</b>	<b>25.2</b>	<b>90.1</b>	<b>175.5</b>	<b>241.8</b>	<b>COSTS (attributable)</b>									
<b>CASH FLOW</b>							Cash costs (post credits' A\$/oz)	0	0	249	342	371	452				
Revenue	\$M	0.0	0.4	75.4	154.7	210.7	170.4	Cash costs	J\$/oz	0	0	258	337	344	396		
Costs	\$M	(2.0)	(4.8)	(21.2)	(44.3)	(63.0)	(60.5)	Cash costs	\$M	0.0	0.0	14.8	34.6	51.1	51.6		
Net Interest	\$M	1.9	2.8	3.2	5.9	10.2	14.5	Royalties	\$M	0.0	0.0	2.9	6.2	8.4	6.8		
Tax Paid	\$M	0.0	(0.2)	0.0	0.0	0.0	0.0	Other	\$M	1.7	4.3	3.5	3.5	3.5	2.0		
<b>Gross Cash Flow</b>	<b>\$M</b>	<b>(0.1)</b>	<b>(1.7)</b>	<b>57.3</b>	<b>116.3</b>	<b>157.8</b>	<b>124.5</b>	Total	\$M	1.7	4.3	21.2	44.3	63.0	60.5		
Net Capex	\$M	(2.8)	(45.8)	(34.3)	(4.0)	(30.4)	(4.0)	<b>CAPEX (attributable)</b>									
Exploration	\$M	(2.9)	0.0	0.0	0.0	0.0	0.0	Siana	\$M	3.7	44.9	34.3	4.0	30.4	4.0		
Dividends	\$M	0.0	0.0	0.0	(35.0)	(45.9)	(35.7)	Other	\$M	-0.9	0.9	0.0	0.0	0.0	0.0		
Other	\$M	(1.6)	0.0	0.0	0.0	0.0	0.0	Total	\$M	2.8	45.8	34.3	4.0	30.4	4.0		
<b>Free Cashflow</b>	<b>\$M</b>	<b>(7.4)</b>	<b>(47.5)</b>	<b>23.0</b>	<b>77.3</b>	<b>81.5</b>	<b>84.7</b>	<b>DEPRECIATION (attributable)</b>									
Equity Issues	\$M	42.5	48.8	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	7.7	16.3	26.6	22.5		
Net Borrowings	\$M	0.0	(0.3)	0.0	0.0	0.0	0.0	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0		
Net Investments	\$M	0.0	(4.5)	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.0	7.7	16.3	26.6	22.5		
<b>Surplus Cash Flow</b>	<b>\$M</b>	<b>35.1</b>	<b>(3.6)</b>	<b>23.0</b>	<b>77.3</b>	<b>81.5</b>	<b>84.7</b>	<b>EBITDA (attributable)</b>									
<b>BALANCE SHEET</b>							Siana	\$M	0.0	0.0	60.6	120.1	159.6	118.8			
Cash	\$M	57.7	52.5	75.5	152.8	234.3	319.1	Other (incl. writedowns)	\$M	-2.2	-6.6	0.0	0.0	0.0			
Other Current	\$M	1.5	3.3	11.3	12.4	14.7	15.3	Total	\$M	-2.2	-6.6	60.6	120.1	159.6	118.8		
<b>Total Current</b>	<b>\$M</b>	<b>59.2</b>	<b>55.8</b>	<b>86.8</b>	<b>165.2</b>	<b>249.1</b>	<b>334.4</b>	<b>HEDGING (attributable)</b>									
Fixed Assets	\$M	39.8	76.9	103.5	91.2	95.0	76.6	Gold hedged	oz	0	0	0	0	0	0		
Exploration	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	J\$/oz	0	0	0	0	0	0		
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	A\$/oz	0	0	0	0	0	0		
Other	\$M	0.0	3.5	3.5	3.5	3.5	3.5	Sales hedged	%	0%	0%	0%	0%	0%	0%		
<b>Total NC Assets</b>	<b>\$M</b>	<b>39.9</b>	<b>80.4</b>	<b>107.0</b>	<b>94.7</b>	<b>98.5</b>	<b>80.0</b>	Ave. deliverable price	J\$/oz	1093	1373	1745	1675	1525	1375		
<b>TOTAL ASSETS</b>	<b>\$M</b>	<b>99.1</b>	<b>136.1</b>	<b>193.8</b>	<b>259.9</b>	<b>347.5</b>	<b>414.4</b>	Ave. deliverable price	A\$/oz	1,238	1,386	1,682	1,701	1,649	1,571		
Total Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	<b>ASSUMPTIONS</b>									
Current Liab	\$M	2.9	6.3	6.3	6.3	6.3	6.3	Exchange Rate	\$/US:	0.88	0.99	1.04	0.99	0.93	0.88		
Non Current Liab	\$M	0.3	0.4	8.5	9.5	11.9	12.5	Gold Price	J\$/oz	1093	1373	1745	1675	1525	1375		
<b>TOTAL LIAB</b>	<b>\$M</b>	<b>3.3</b>	<b>6.7</b>	<b>14.8</b>	<b>15.8</b>	<b>18.2</b>	<b>18.8</b>	Gold Price	A\$/oz	1238	1386	1682	1701	1649	1571		
<b>NET ASSETS</b>	<b>\$M</b>	<b>95.8</b>	<b>129.4</b>	<b>179.1</b>	<b>244.0</b>	<b>329.3</b>	<b>395.6</b>	Silver price	US\$/oz	16.91	28.94	40.01	37.50	32.50	28.50		
<b>SH/HLDRS FUND:</b>	<b>\$M</b>	<b>95.8</b>	<b>129.4</b>	<b>179.1</b>	<b>244.0</b>	<b>329.3</b>	<b>395.6</b>	90 day Bank Bills	%	4.06	4.91	4.97	5.13	5.25	5.25		
<b>RATIO ANALYSIS</b>							10 Yr Bond rate	%	5.55	5.32	4.90	5.25	5.50	5.50	5.50		
EPS	¢	(0.0)	(0.6)	3.9	7.8	10.2	7.9	Interest Rate Charged	%	6.05	5.82	5.40	5.75	6.00	6.00		
PER	x	na	na	4.8	2.4	1.8	2.3	<b>VALUATION (fully diluted)</b>									
EPS Growth	%	(13.3)	1,300	(712)	101.2	31.3	(22.3)	Siana								A\$M	A\$ps
EBITDA per share	¢	-0.2	-0.5	4.2	8.6	11.5	8.6	Exploration								449.5	\$ 0.35
EBITDA Multiple	x	-54.1	-22.2	4.4	2.2	1.6	2.2	Other								10.0	\$ 0.01
EV/EBITDA	x	-27.4	-14.3	3.0	0.8	0.0	-0.7	Net Cash (Debt)								18.0	\$ 0.01
CFPS	¢	(0.0)	(0.1)	4.5	9.1	12.3	9.7	<b>Total</b>								<b>477.5</b>	<b>\$ 0.37</b>
PCFR	x	na	na	4.1	2.0	1.5	1.9										
DPS	¢	0.0	0.0	0.0	2.7	3.6	2.8										
Yield	%	0.0	0.0	0.0	14.7	19.3	15.0										
Franking	%	0	0	0	0	0	0										
Payout Ratio	%	0%	0%	0%	35%	35%	35%										
Gearing D/E	%	na	na	na	na	na	na										
Interest Cover	x	1.3	na	na	na	na	na										
EBITDA Margin	%	na	na	71.8	71.4	70.1	64.5										
EBIT Margin	%	na	na	61.7	60.8	57.5	51.3										
Return On Assets	%	(2.2)	(4.9)	24.0	36.2	34.8	21.1										
Return On Equity	%	(0.5)	(6.3)	27.7	41.0	39.9	25.8										
Eff Tax rate	%	0	0	0	0	0	0										

Source: Petra Capital

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