

16 June 2011

Red 5 Limited

RED

\$0.12/share

Siana construction advances

Buy

After several months of extreme rainfall, construction activity at Siana has accelerated markedly in the last month. Critical concrete pours have been completed and the majority of the plant equipment has now been barged to port. Importantly, the SAG mill is now on site with installation to occur in the next 3 weeks at which point Red 5 will advise on first gold pour. We model production starting in October. Drilling at Siana has recommenced with two drill rigs targeting resource extensions. We recommend clients BUY RED 5 which is trading on FY12 & FY13 PEs of 3.4x & 2.1x backed by 125% upside to our NPV (A\$0.27/share).

Siana (100%) – project update

- Pre-strip of the open cut is well underway (Fig. 1).
- Crusher station foundation in place (Fig. 2).
- SAG mill platform and CIL tanks advanced (Fig 3-4).
- Majority of plant equipment now on site.
- 2.8MW SAG Mill ready to be installed.
- Standby power generators in place.
- Administration building fully occupied.
- Capex in line at A\$77M with A\$42M to spend.
- RED has cash at hand of A\$58.5M.
- Additional US\$8M standby credit facility in place.

Exploration recommenced

- Two drill rigs now operating at Siana.
- Targeting northern extensions of panels 1-3.
- First two holes to be completed by end of June.
- Mineralisation remains open at depth and along strike.

Opportunity – RED offers significant value

- Conservative NPV of \$0.27ps
- PEs 3.4x (2012), 2.1x (2013) & 1.7x (2014)
- PCFs 2.9x, 1.7x & 1.3x.
- EV/Reserve oz of \$130 vs. peer average ~\$400.
- Fully funded with no debt.
- Zero hedging.
- Significant re-rating as gold production approaches.

Key Dates

- July 2011 – Installation of ball mill.
- July 2011 – Advise on first gold pour.
- Q3 2011 – Drill results from Siana.
- Q3/4 2011 – Commission Siana plant.
- Q4 2011 – First gold production.

Company Data

Shares – ordinary (free float)	1288.7M
Unlisted Options	2.8M
Total (fully diluted)	1291.5M
Market capitalisation (fully diluted)	A\$155M
12 month low/high	\$0.11/ \$0.22
Monthly turnover	\$15.7M
Monthly volume	98M

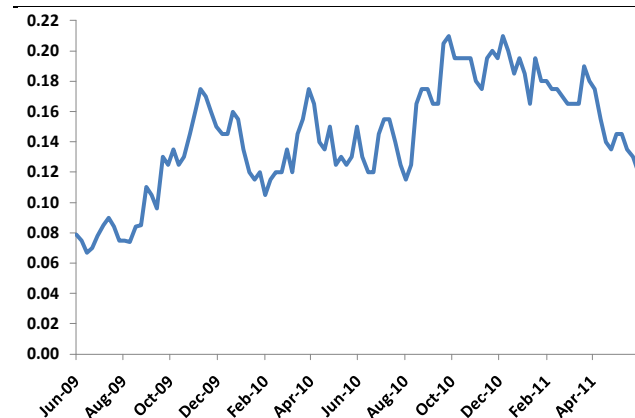
Financial Summary

Year end June	2010A	2011F	2012F	2013F	2014F
Revenue (\$M)	0.0	0.0	74.0	132.4	170.2
Costs (\$M)	2.2	5.5	24.3	47.8	67.6
EBITDA (\$M)	-2.2	-5.5	49.7	84.7	102.7
NPAT (\$M)	-0.4	-3.6	43.6	70.0	86.9
EPS (¢ps)	0.0	-0.3	3.4	5.4	6.7
PER (x)	na	na	3.4	2.1	1.7
Cashflow (Gross-\$M)	-0.1	-1.6	51.9	89.8	111.4
CFPS (¢/sh)	na	na	4.0	7.0	8.6
PCFPS (x)	na	na	2.9	1.7	1.3
Enterprise Value (\$M)	58.9	128.7	80.2	20.8	-56.7
EV / EBITDA (x)	na	na	1.6	0.2	-0.6

Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Mathews Capital	227.4	17.7%
Baker Steel	101.8	7.9%
JP Morgan	73.5	5.7%
Sprott Asset	71.2	5.5%

RED (A\$ps) – 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.

Andrew Richards
+61 (0)2 9239 9605

Analysis

RED 5 LIMITED (RED) 16-Jun-11 Year End 30 June A\$							Share Price	(\$)	0.12						
							Iss. Shares	(M)	1288.7						
							Unlisted Options	(M)	2.8						
							Mkt Cap.	(\$M)	148.5	Fully diluted for ops					
PROFIT & LOSS							RESERVES & RESOURCES								
	2009A	2010A	2011F	2012F	2013F	2014F		2009A	2010A	2011F	2012F	2013F	2014F		
Sales Revenue	\$M	0.0	0.0	0.0	74.0	132.4	170.2	Reserves							
Other Income	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	6.6	6.6	6.6	6.1	5.2	4.1
Operating Costs	\$M	1.4	1.7	3.5	24.3	47.8	67.6	Grade	g/t	4.30	4.30	4.30	4.37	4.51	4.59
Exploration	\$M	0.1	0.5	2.0	0.0	0.0	0.0	Contained Gold	oz	916,586	916,586	916,586	860,643	755,343	606,453
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Resources							
EBITDA	\$M	(1.7)	(2.2)	(5.5)	49.7	84.7	102.7	Tonnes	Mt	6.7	6.7	6.7	6.2	5.3	4.2
Dep. & Amort.	\$M	0.0	0.0	0.0	8.3	19.8	24.5	Grade	g/t	5.20	5.20	5.20	5.34	5.65	6.03
EBIT	\$M	(1.7)	(2.2)	(5.5)	41.4	64.8	78.2	Contained Gold	oz	1,118,460	1,118,460	1,118,460	1,062,518	957,218	808,328
Net Interest	\$M	(1.4)	(1.7)	(1.9)	(2.2)	(5.1)	(8.7)	PRODUCTION (100%)							
Pre-Tax Profit	\$M	(0.3)	(0.4)	(3.6)	43.6	70.0	86.9	Ore Milled	Mt	0.00	0.00	0.00	0.50	0.9	1.1
Tax	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t	0.0	0.0	0.0	3.5	3.6	4.2
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	0%	83%	86%	86%	86%
Net Profit	\$M	(0.3)	(0.4)	(3.6)	43.6	70.0	86.9	Gold Produced	oz	0	0	0	48,110	90,558	128,045
Abnormal	\$M	(0.4)	0.0	0.0	0.0	0.0	0.0	REVENUE (attributable)							
Reported Profit	\$M	(0.8)	(0.4)	(3.6)	43.6	70.0	86.9	Siana	\$M	0.0	0.0	0.0	74.0	132.4	170.2
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	30.4	Other	\$M	0.0	0.0	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	0.0	0.0	74.0	132.4	170.2
Retained Earning	\$M	(15.9)	(16.4)	(20.0)	23.7	93.6	150.1	COSTS (attributable)							
CASH FLOW															
Revenue	\$M	0.0	0.0	0.0	74.0	132.4	170.2	Cash costs (post credits' A\$/oz)		0	0	0	293	400	429
Costs	\$M	(1.6)	(2.0)	(3.5)	(24.3)	(47.8)	(67.6)	Cash costs	J\$/oz	0	0	0	278	350	354
Net Interest	\$M	1.6	1.9	1.9	2.2	5.1	8.7	Cash costs	\$M	0.0	0.0	0.0	18.0	39.0	57.3
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Royalties	\$M	0.0	0.0	0.0	2.9	5.3	6.8
Gross Cash Flow	\$M	(0.0)	(0.1)	(1.6)	51.9	89.8	111.4	Other	\$M	1.4	1.7	3.5	3.5	3.5	3.5
Net Capex	\$M	(6.0)	(2.8)	(81.5)	(3.5)	(30.3)	(3.5)	Total	\$M	1.4	1.7	3.5	24.3	47.8	67.6
Exploration	\$M	0.0	(2.9)	0.0	0.0	0.0	0.0	CAPEX (attributable)							
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	(30.4)	Siana	\$M	6.3	3.7	81.5	3.5	30.3	3.5
Other	\$M	0.0	(1.6)	0.0	0.0	0.0	0.0	Other	\$M	-0.3	-0.9	0.0	0.0	0.0	0.0
Free Cashflow	\$M	(6.0)	(7.4)	(83.1)	48.5	59.5	77.5	Total	\$M	6.0	2.8	81.5	3.5	30.3	3.5
Equity Issues	\$M	0.0	42.5	48.5	0.0	0.0	0.0	DEPRECIATION (attributable)							
Net Borrowings	\$M	(2.0)	0.0	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	0.0	8.3	19.8	24.5
Net Investments	\$M	0.0	0.0	(3.5)	0.0	0.0	0.0	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Surplus Cash Flo	\$M	(8.0)	35.1	(38.2)	48.5	59.5	77.5	Total	\$M	0.0	0.0	0.0	8.3	19.8	24.5
BALANCE SHEET							EBITDA (attributable)								
Cash	\$M	22.5	57.7	19.5	68.0	127.4	204.9	Siana	\$M	0.0	0.0	0.0	56.1	93.5	113.0
Other Current	\$M	0.3	1.5	0.0	3.7	6.6	8.5	Other (incl. writedowns)	\$M	-1.7	-2.2	0.0	0.0	0.0	0.0
Total Current	\$M	22.8	59.2	19.5	71.7	134.1	213.4	Total	\$M	-1.7	-2.2	0.0	56.1	93.5	113.0
Fixed Assets	\$M	1.3	39.8	121.3	116.5	127.0	106.0	HEDGING (attributable)							
Exploration	\$M	27.5	0.0	20.0	18.0	16.0	13.0	Gold hedged	oz	0	0	0	0	0	0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	J\$/oz	0	0	0	0	0	0
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	A\$/oz	0	0	0	0	0	0
Total NC Assets	\$M	28.8	39.9	141.4	134.5	143.0	119.1	Sales hedged	%	0%	0%	0%	0%	0%	0%
TOTAL ASSETS	\$M	51.6	99.1	160.9	206.2	277.1	332.5	Ave. deliverable price	J\$/oz	875	1093	1370	1413	1275	1100
Total Debt	\$M	0.3	0.0	0.0	0.0	0.0	0.0	Ave. deliverable price	A\$/oz	1,173	1,238	1,381	1,487	1,457	1,333
Current Liab	\$M	0.4	2.9	2.9	2.9	2.9	2.9	ASSUMPTIONS							
Non Current Liab	\$M	0.3	0.3	17.3	19.0	20.0	18.8	Exchange Rate	A\$/US:	0.75	0.88	0.99	0.95	0.88	0.83
TOTAL LIAB	\$M	1.0	3.3	20.2	21.9	22.9	21.8	Gold Price	J\$/oz	875	1093	1370	1413	1275	1100
NET ASSETS	\$M	50.6	95.8	140.6	184.3	254.2	310.7	Gold Price	A\$/oz	1173	1238	1381	1487	1457	1333
SH/HLDRS FUND	\$M	50.6	95.8	140.6	184.3	254.2	310.7	Silver price	US\$/oz	12.89	16.91	29.18	32.50	27.50	22.50
RATIO ANALYSIS															
EPS	¢	(0.1)	(0.0)	(0.3)	3.4	5.4	6.7	90 day Bank Bills	%	4.77	4.06	4.90	5.13	5.25	5.25
PER	x	na	na	na	3.4	2.1	1.7	10 Yr Bond rate	%	5.06	5.55	5.35	6.00	6.00	6.00
EPS Growth	%	(45.4)	(13.3)	520	(1,310)	60.3	24.2	Interest Rate Charged	%	5.56	6.05	5.85	6.50	6.50	6.50
EBITDA per share	¢	-0.3	-0.2	-0.4	3.9	6.6	8.0	VALUATION (fully diluted)							
EBITDA Multiple	x	-27.7	-54.1	-26.9	3.0	1.8	1.4	Siana					264.9	\$	0.21
EV/EBITDA	x	-14.8	-27.4	-23.4	1.6	0.2	-0.6	Exploration					20.0	\$	0.02
CFPS	¢	(0.0)	(0.0)	(0.1)	4.0	7.0	8.6	Other					0.0	\$	-
PCFR	x	na	na	na	2.9	1.7	1.3	Net Cash (Debt)					58.5	\$	0.05
DPS	¢	0.0	0.0	0.0	0.0	0.0	2.4	Total					343.4	\$	0.27
Yield	%	0.0	0.0	0.0	0.0	0.0	20.5								
Franking	%	0	0	0	0	0	0								
Payout Ratio	%	0%	0%	0%	0%	0%	35%								
Gearing D/E	%	na	na	na	na	na	na								
Interest Cover	x	1.2	1.3	2.9	na	na	na								
EBITDA Margin	%	na	na	na	67.1	63.9	60.3								
EBIT Margin	%	na	na	na	55.9	48.9	45.9								
Return On Assets	%	(3.3)	(2.2)	(3.4)	20.1	23.4	23.5								
Return On Equity	%	(0.7)	(0.5)	(2.6)	23.7	27.5	28.0								
Eff Tax rate	%	0	0	0	0	0	0								

Source: Petra Capital

Open pit cut back activity with pit dewatering in background.

Figure 1: Siana open pit



Source: Red 5

Figure 2: Crusher station foundation and supporting structure



Source: Red 5

Figure 3: SAG Mill platform and cyclone tower steelwork



Source: Source: Red 5

Figure 4: Carbon-in-leach tank train



Source: Source: Red 5

Petra Capital

Level 1, 343 George Street, Sydney NSW 2000

ABN 95 110 952 782

ACN 110 952 782

AFSL 317 944

Research (Resources):	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Andrew Richards	+61 (0)2 9239 9605	arichards@petracapital.com.au
Research (Resources):	Mark Cotton	+61 (0)2 9239 9614	mcotton@petracapital.com.au
Research (Resources):	Shaun Giacomo	+61 (0)2 9239 9615	sgiacomo@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	Richard Amland	+61 (0)2 9239 9607	ramland@petracapital.com.au
Sales:	Errol Penrose	+61 (0)2 9239 9602	epenrose@petracapital.com.au
Sales:	Kevin Curran	+61 (0)2 9239 9609	kcurran@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Kiera Brown	+61 (0)2 9239 9608	kbrown@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9600	lfalvo@petracapital.com.au

This document has been prepared in Australia by Petra Capital Pty Ltd who holds an Australian Financial Services License AFSL 317 944 and whose ABN is 95 110 952 782.

Disclosure

Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may hold securities in Red 5 Limited and may trade in these securities either as principal or agent. On 14th October 2010, Petra Capital was a broker to the issue of 300,000,000 shares at \$0.17/share to raise \$51.0M, for which Petra Capital received a fee.

Disclaimer

This report is published by Petra Capital Pty Ltd by way of general information or advice only. The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information or advice has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice. Petra Capital Pty Ltd accepts no liability or responsibility for any direct or indirect loss or damage caused by any error or omission within this report, or by persons relying on the contents of this report.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and "\$100 million investors" only and not the general investing public or retail customers. "\$100 million investors" means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case on an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Monarch Capital Group LLC, a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Limited or Monarch and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International Investors

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.