RED5 Limited

Company Insight
the intelligent market update

Red 5 Limited **Date of Lodgement: 21/9/12**

Title: "Company Insight – MD Explains Recent Performance & Outlook"

Highlights of Interview

- **Recent performance at Siana Gold Project – strong plant performance, mining improving.**
- **Explains why silt in pit won't be an issue in future.**
- **Argues company undervalued on fundamentals.**
- **Explains low cash operating cost.**
- **Discusses how pit re-design will add 3-5 years to mine life.**
- **Outlines growth opportunities now that Siana is commissioned.**
- **Strong financial position & more corporate management time to focus on that growth.**

Record of interview:

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Red 5 Limited (ASX code: RED; market cap of ~$195m) declared commercial production at its Siana Gold Project in the Philippines in April. Can you briefly outline how the operation has performed as the production ramp-up continues? When do you expect to reach stage one target output levels?

Managing Director, Greg Edwards
The plant is operating extremely well. In fact, since we declared commercial production it has exceeded nameplate capacity several times. One disappointment has been our ability to get enough ore onto the ROM pad to keep the mill full. This has been due to the high level of silt in the base of the pit. We had reduced ore production for nearly two months while we were removing the majority of the silt. We couldn't pump the silt out of the pit because it contained too many solids and we couldn't excavate it out because it contained too much water. We built a series of deep sumps to the side of the pit and allowed the water to filter from the silt. We then pumped the water out from the sumps and then were able to excavate the silt in the pit. That was slow going, but we have now removed approximately 80% of the silt. The ore body has now been exposed across the full width of the northern bench of the pit.

Certainly by the end of September we should be back into full production – that is, stage one target output levels.

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You've given production guidance of 75,000 ounces at cash costs of sub $340 per ounce for the 12 months ending June 2013. Given what you've just explained on the mining side, is that still your guidance? What do you see as the main hurdles to achieving that?

Greg Edwards
Guidance is reviewed by the board on a regular basis and we expect it will be reviewed at the next board meeting which is scheduled for next week. The current guidance assumes that the majority of this year's production will come in the second half of the year. Removing the remaining silt has been the priority and now that it has been cleared from the base of the pit we should have several months of mining at good grades. Our mining contractor has at times had lower availability of equipment than expected and therefore productivity. We've been working with them to improve their maintenance procedures and have put in place a number of initiatives to improve equipment availability. We have employed a Mine Manager with 14 years of experience with Leighton Contractors and have also employed additional mine foremen to augment the team. We have also embedded two ex-pat maintenance managers into the mining contractors team to ensure equipment availabilities are to international standards.

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Will the silt continue to be an intermittent problem?

Greg Edwards
No. The silt was a result of the pit being under water for the last twenty years and once it is removed there will be no further issues with silt. Our drainage areas and bore holes around the pit will prevent water and silt flowing into the pit in future. Normal, day to day pit dewatering will continue and that will pump water out that directly falls into the pit.

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Cash was A$6.3 million and gold inventory was approximately 1,100 ounces (~A$1.8 million at spot prices) at 31 August 2012 with no debt or hedging. Also, based on your production guidance for FY13, that implies an operating margin of over $90 million per annum (at a gold price of $1,600/oz). How do you reconcile that operating margin against your current market capitalization of ~$190 million? (Also capital costs have been incurred and mine life is at least 10 years – although capital development expenditure is expected at $25 million for the year and sustaining capital expenditure is $1.6 million for the year).

Greg Edwards
You mentioned a capital development expenditure figure of $25 million. That number reduces the free cash flow figure of $90 million per annum. However, even allowing for the capital development expenditure and sustaining capital expenditure we do seem undervalued relative to the strong free cash flows we expect to generate each year.

The apparent undervaluation is probably due to us missing a number of targets. Rain caused a delay in construction of the project. Then during the early commissioning we experienced

issues with the power station, we also had the issue with the sticky nature of the ore and the most recent issue of having to remove the silt from the pit.

The market has been disappointed by these events. We're not making excuses, but there will always be some issues as a new project commissions. We have overcome all these issues and the market is now probably waiting to see that we can deliver production and operating costs on a consistent basis. Once we do that we expect a re-rating of our share price.

A final point is that we raised equity of $15 million in late March. Some people may therefore perceive that we may have future funding issues and they are wary of a possible dilution in the share price. That may also be holding the share price down. The actual situation is that we have over $6 million in cash and gold inventory with no debt and should be generating good cash flows from now on.

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Can you explain Siana's low operating cost when gold mines around the world are increasingly higher cost?

Greg Edwards
There are a number of factors contributing to our low operating cost. Siana is an open pit with very good grades. The ore is soft which means there is less wear in the plant and less power is needed for processing the ore. When we looked at the liners in the mill it looked as though they had hardly been used. We pay less for power than we would in Australia because the diesel price is lower and power costs will decrease further when we take power from the main grid where power is generated by hydro. We link into the main grid from around the end of this year. We are using less reagents than we anticipated and obviously the cost of labour is lower than other parts of the world.

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You've been considering re-designs of the pit. How might a re-design add to Resources/Reserves?

Greg Edwards
We know that we can increase the mine life by altering the pit design. The original pit design was based on a $650/oz gold price with a cut-off grade of just over 1.2 g/t. We know that, at a gold price of $1,200/oz, we would not even have to go underground. We could mine the whole ore body by open pit. However, the problem with that option is there would be much more waste mined requiring a larger waste rock dump.

So, the option we are considering is to re-design the pit at a gold price of $900/oz at a slightly lower cut-off grade of around 0.8 g/t. This would extend the open pit mine life by 3-5 years and therefore also delay the move underground. Instead of around a five year open pit, we could have at least an eight year open pit.

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Onto exploration then. Siana Gold Project is located in Surigao del Norte on Mindanao Island, Philippines. Can you explain from a geological perspective why you consider the area has good growth potential? What is the history of mining in the area and the major companies currently operating/exploring there?

Greg Edwards
Our Siana and Mapawa projects sit right on a mineralized trend in the north part of the island of Mindanao where there are a number of reputable mining companies operating in the area. There are a number of projects located further along that trend including base metals deposits. We control two large tenements on the trend.

Mindanao is a minerals rich island and we believe we are located in a very good area for exploration in the north edge of the island. We have undertaken a number of surface geochemical surveys within our tenement areas and they have returned some very good results. There are several areas which we want to test further and potentially drill. Overall, there is good potential for exploration success regionally.

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What growth opportunities has Red5 identified? How will you approach these opportunities?

Greg Edwards
There are several areas we've identified for growth. There is the pit re-design which I've already explained. We think we can expand the current Reserve by drilling at the pit now that we have dewatered it. There are exploration opportunities along strike of Siana where we may be able to find another ore body similar to Siana. There are other areas where we think we could have exploration success where we have encountered significant surface geochemical anomalies. Then there is the Mapawa tenement where we had some really exciting drill results around 18 months ago. We're currently reviewing these results at Mapawa to get a better understanding of the geology so that we can drill specific targets there. Finally, we are reviewing opportunities around the Philippines outside of our current tenements.

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What has been your experience in engaging and fostering local communities and other stakeholders? Is it proving successful?

Greg Edwards
Mindanao is a mining region so the locals understand mining; they are used to it and generally are supportive of it. Engaging and supporting the local community is an essential part of mining anywhere in the world, but particularly where a company such as Red5 is operating in another country.

We therefore place a great deal of emphasis on engaging and fostering local communities. Our approach has been mutually beneficial. We have a community relations department and an environmental department which both work very closely with the local community. We have several initiatives to support local communities such as providing each village with clean water, free health care, scholarships to local students and we provide training for unskilled workers so that they can work in our operation. An example is we trained our control room operators from scratch. They are now running the plant using computers and other technology which they had never seen before. The contracts we award stipulate that the contractors have to employ a certain number of people from local regions. We have, for example, five female truck drivers which is very uncommon in the Philippines.

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On 20 March, Red 5 announced the completion of an equity placement of $15.0 million. Now that you have reached commercial production, is the Company sufficiently funded to achieve its current objectives without going to the equity market?

Greg Edwards
Yes we believe we are sufficiently funded to achieve our current growth objectives without going back to the equity markets. As I explained before, our balance sheet is solid and we are entering a phase of strong free cash flow generation. The setbacks I explained before put some strain on our cash flows and that forced us to raise the equity in March.

In future, if we think we need additional funds we have some debt facilities which we can draw on. Obviously it is now safer to draw down debt, if required, because we are now producing gold and operating cash flow, which would service any debt. It's unlikely we will need to go to the equity market.

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To what extent will the focus of Red 5's corporate management change as you move closer to nameplate capacity at Siana (i.e. with the aim of longer term growth)?

Greg Edwards
Corporate management will obviously need to focus less on the Siana operation as we believe it should be relatively smooth operating from here. We will let the operations team take day to day control of the operations. Corporate management can now focus on our other growth opportunities such as exploration in and around the mine, regional exploration and potential asset acquisition opportunities. We would like to build another Siana, preferably in the Philippines and preferably as quickly as possible, but we would also be happy to develop another operation somewhere within South East Asia.

We believe we are in a strong position to grow and add value for shareholders. We are well funded and that will only improve as we continue to produce more gold. Management now has more time, but also more financial resources, to focus on our growth strategy beyond Siana.

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Thank you Greg.