

RED 5 LIMITED

ABN 73 068 647 610



NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date and time of meeting

20 November 2014 at 10.00 a.m.

Place of meeting

Celtic Club
48 Ord Street
West Perth, Western Australia

RED 5 LIMITED

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of shareholders of Red 5 Limited (Company) will be held at the Celtic Club, 48 Ord Street, West Perth, Western Australia on Thursday, 20 November 2014 at 10.00 a.m.

AGENDA

ORDINARY BUSINESS

Financial statements and reports

To receive and consider the annual financial report of the Company and the reports of the directors and auditors for the financial year ended 30 June 2014.

To consider and if thought fit to pass, with or without amendment, the following resolution as ordinary resolutions.

1. Re-election of Ian Macpherson as a director

“That Mr Ian Macpherson, having been appointed as a director of the Company on 15 April 2014 and being eligible for re-election in accordance with Clause 7.1(i) of the Constitution, is hereby re-elected as a director of the Company.”

2. Re-election of Kevin Dundo as a director

“That Mr Kevin Dundo, being a director of the Company, who retires in accordance with Clauses 7.1(d) and 7.1(e) of the Constitution and being eligible for re-election, is hereby re-elected as a director of the Company.”

3. Re-election of Mark Milazzo as a director

“That Mr Mark Milazzo, being a director of the Company, who retires in accordance with Clauses 7.1(d) and 7.1(e) of the Constitution and being eligible for re-election, is hereby re-elected as a director of the Company.”

To consider and if thought fit to pass, with or without amendment, the following resolution as an ordinary, non-binding resolution.

4. Remuneration report

“That for the purposes of Section 250R(2) of the Corporations Act, the Company adopts the Remuneration Report as contained in the annual financial report of the Company for the year ended 30 June 2014.”

In accordance with the Corporations Act, the Company will disregard any votes cast on Resolution 4 by or on behalf of either a member of Key Management Personnel (details of whose remuneration are included in the Remuneration Report) or a Closely Related Party of a member of Key Management Personnel, unless the vote is cast as proxy for a person entitled to vote on the resolution, and the voter is:

- (a) appointed as proxy in writing that specifies the way the proxy is to vote on the resolution; or*
- (b) the Chairman appointed pursuant to a proxy that does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.*

SPECIAL BUSINESS

The special business of the meeting is to consider and if thought fit to pass, with or without amendment, the following resolutions as ordinary resolutions.

5. Approval of Performance Rights Plan

“That for the purposes of ASX Listing Rule 7.2 (Exception 9) and for all other purposes, any issue of securities made under the Red 5 Limited Performance Rights Plan, a summary of the terms and conditions of which is set out in the explanatory memorandum accompanying this notice of meeting, within the period of 3 years from the date of passing this resolution, is approved as an exception to ASX Listing Rule 7.1.”

The Company will disregard any votes cast on this resolution by any executive director entitled to participate in the Performance Rights Plan and their associates.

The Company will disregard any votes cast (in any capacity) on Resolution 5 by or on behalf of members of Key Management Personnel or a Closely Related Party of such a member. However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote on Resolution 5 and the voter is:

- (a) appointed as proxy in writing that specifies the way the proxy is to vote on the resolution; or*
- (b) the Chairman of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.*

6. Approval for issue of Performance Rights

“That for the purposes of ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act and for all other purposes, approval is given for the issue of 12,000,000 Performance Rights to Mr Mark Williams (or his nominee) on the terms and conditions set out in the explanatory memorandum accompanying this notice of meeting.”

The Company will disregard any votes cast on this resolution by Mark Williams and any of his associates. In addition, the Company will disregard any votes cast (in any capacity) on Resolution 6 by or on behalf of members of Key Management Personnel or a Closely Related Party of such a member. However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote on Resolution 6, and the voter is:

- (a) appointed as proxy in writing that specifies the way the proxy is to vote on the resolution; or*
- (b) the Chairman of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.*

By order of the Board

Frank Campagna
Company Secretary

Perth, Western Australia
7 October 2014

Voting exclusion note

Where a voting exclusion applies, the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxy appointments

A member of the Company who is entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote for the member at the meeting. If a member appoints two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. A proxy need not be a member of the Company.

A proxy form is enclosed. If required it should be completed, signed and returned to the Company's share registry in accordance with the proxy instructions on that form.

Voting prohibition statement for key management personnel

Members of Key Management Personnel (which includes the directors) will not be able to vote as proxy on Resolutions 4, 5 and 6 unless you instruct them how to vote or, in the case of the Chairman of the meeting, unless you expressly authorise him to do so.

If you intend to appoint a member of Key Management Personnel (other than the Chairman) as your proxy, you should ensure that you direct the member of Key Management Personnel how to vote on Resolutions 4, 5 and 6.

If you intend to appoint the Chairman of the meeting as your proxy for Resolutions 4, 5 and 6, you can direct the Chairman how to vote by marking one of the boxes on the proxy form for Resolutions 4, 5 and 6 (for example, if you wish to vote For, Against or Abstain from voting). If you do not direct the Chairman how to vote, then by submitting the proxy form, you will be expressly authorising the Chairman to exercise the proxy in respect of Resolutions 4, 5 and 6 even though it is connected to the remuneration of members of Key Management Personnel.

Voting entitlements

In accordance with Regulation 7.11.37 of the Corporations Regulations, the directors have determined that the identity of those persons entitled to attend and vote at the meeting is to be taken as those persons who held Shares in the Company as at 4.00 p.m. WST on 18 November 2014.

RED 5 LIMITED
EXPLANATORY MEMORANDUM

This explanatory memorandum has been prepared for the information of shareholders of Red 5 Limited in connection with the business to be considered at the forthcoming annual general meeting of the Company and should be read in conjunction with the accompanying notice of meeting.

ANNUAL FINANCIAL REPORT

The financial report of the Company for the year ended 30 June 2014 (including the financial statements, directors' report and auditors' report) was included in the 2014 annual report of the Company, a copy of which is available on the Company's web-site at www.red5limited.com.

There is no requirement for shareholders to approve these reports. However, time will be allowed during the annual general meeting for consideration by shareholders of the financial statements and the associated directors' and auditors' reports.

RESOLUTION 1 – RE-ELECTION OF IAN MACPHERSON AS A DIRECTOR

Mr Ian Macpherson was appointed as an independent non-executive director of the Company since the last annual general meeting. In accordance with Clauses 7.1(c) and 7.1(i) of the Constitution and ASX Listing Rule 14.4, any director appointed to fill a casual vacancy or as an additional director holds office until the next annual general meeting of shareholders and is then eligible for re-election.

Mr Macpherson therefore retires at the forthcoming annual general meeting in accordance with the Constitution and being eligible, has offered himself for re-election at the meeting.

Mr Macpherson is a chartered accountant with over 30 years' experience in the provision of financial and corporate advisory services. He was a former partner at Arthur Anderson & Co managing a specialist practice providing corporate and financial advice to the mining and mineral exploration industry. Mr Macpherson established Ord Partners in 1990 (later to become Ord Nexia) and has specialised in the area of corporate advice with particular emphasis on capital structuring, equity and debt raising and corporate affairs for publicly listed companies in the mining and industrial areas.

The Board (other than Mr Macpherson) recommends that shareholders vote in favour of the re-election Mr Macpherson as a director of the Company.

RESOLUTION 2 – RE-ELECTION OF KEVIN DUNDO AS A DIRECTOR

In accordance Clause 7.1(d) of the Constitution, at every annual general meeting, one third of the directors in office (other than any managing director) must retire by rotation and are eligible for re-election. In addition, pursuant to ASX Listing Rule 14.4 and Clause 7.1(e) of the Constitution, no director may hold office without re-election beyond the third annual general meeting following the meeting at which the director was last re-elected.

Mr Kevin Dundo therefore retires at the annual general meeting in accordance with the Constitution and being eligible, has offered himself for re-election at the meeting.

Mr Dundo holds a Bachelor of Commerce from the University of Western Australia and a Bachelor of Laws from the Australian National University. Mr Dundo practices as a lawyer and specialises in the commercial and corporate areas, with experience in the mining sector, the service industry and the financial services industry.

The Board (other than Mr Dundo) recommends that shareholders vote in favour of the re-election Mr Dundo as a director of the Company.

RESOLUTION 3 – RE-ELECTION OF MARK MILAZZO AS A DIRECTOR

Mr Mark Milazzo also retires at the forthcoming annual general meeting in accordance ASX Listing Rule 14.4 and Clauses 7.1(d) and 7.1(e) of the Constitution and being eligible, has offered himself for re-election at the meeting.

Mr Milazzo is a mining engineer with over 30 years experience in mining operations. He was previously General Manager of the Olympic Dam mine and Kambalda Nickel Operations with WMC Limited and General Manager for HWE Mining Pty Ltd where he was responsible for managing a portfolio of surface and underground mining contracts for a wide range of clients across a range of commodities.

The Board (other than Mr Milazzo) recommends that shareholders vote in favour of the re-election Mr Milazzo as a director of the Company.

RESOLUTION 4 – REMUNERATION REPORT

The Remuneration Report is contained in the Directors' Report section of the Company's 2014 annual report. The Remuneration Report describes the underlying principles and structure of the remuneration policies of the Company and sets out the remuneration arrangements in place for directors and senior executives.

The Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of shareholders of the Company. Shareholders should note that the vote on Resolution 4 is advisory only and is not binding on the Company or the directors. However, the directors take the discussion at the meeting and the outcome of the vote into account when considering the Company's remuneration practices.

Voting exclusion

The Company will disregard any votes cast (in any capacity) on Resolution 4 by or on behalf of members of Key Management Personnel or a Closely Related Party of such a member. However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote on Resolution 4, and the voter is:

- (a) appointed as a proxy in writing that specifies the way the proxy is to vote on the resolution; or
- (b) the Chairman of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.

The Chairman of the meeting intends to vote all available proxies in favour of Resolution 4.

RESOLUTION 5 – APPROVAL OF PERFORMANCE RIGHTS PLAN

General

The Red 5 Limited Performance Rights Plan (PR Plan) was established in 2011 to assist in the recruitment and retention of key personnel of the Company or any of its subsidiaries (Eligible Participants). The PR Plan was last approved by shareholders in November 2011 and as at the date of this notice, 1,282,043 performance rights had been issued under the PR Plan all of which have subsequently lapsed.

ASX Listing Rule 7.1 prohibits a listed company from issuing equity securities representing more than 15% of its issued capital in any 12 month period without obtaining shareholder approval (subject to certain exceptions). ASX Listing Rule 7.2 (Exception 9) provides that securities issued under an employee incentive scheme are excluded from this restriction, provided that, within 3 years before the date of issue, issues of securities under the scheme have been approved by shareholders in general meeting.

If Resolution 5 is passed, the Company will be able to issue equity securities under the PR Plan without affecting the Company's ability to issue up to 15% of its total ordinary securities without shareholder approval in any 12 month period.

It should be noted that non-executive directors of the Company are not eligible to participate in the PR Plan.

The objective of the PR Plan is to attract, motivate and retain Eligible Participants by providing performance related incentives and rewards. The PR Plan will also:

- (a) link the reward of key personnel with the achievements of strategic goals and the long term performance of the Company;
- (b) align the financial interests of Eligible Participants with those of shareholders; and
- (c) provide additional incentives to Eligible Participants to focus on superior performance that creates shareholder value.

The directors consider this to be a cost effective and efficient means of providing targeted incentives and rewarding Eligible Participants and expects it to result in future benefits to both the Company and Eligible Participants.

The Company has previously established an Employee Share Option Plan (most recently approved by shareholders at the annual general meeting held on 22 November 2013) which operates in conjunction with the PR Plan.

A summary of the terms and conditions of the PR Plan are set out below. A copy of the full terms and conditions of the PR Plan is available on request.

Summary of the Performance Rights Plan

The material terms of the PR Plan are summarised as follows:

- (a) **Offer of rights:** The Board is responsible for administering and managing the PR Plan. When an Eligible Participant satisfies specified criteria imposed by the Board (including performance criteria and specified periods of tenure) the Board may make a written offer (Offer) of Performance Rights to an Eligible Participant. The Offer will specify the number of Performance Rights offered (as determined by the Board) and the conditions that must be met by the Eligible Participant before the Performance Rights will vest.
- (b) **Performance rights:** Performance Rights will not be quoted on ASX. Each Performance Right will, upon vesting, entitle the holder to one ordinary fully paid share in the capital of the Company.
- (c) **Vesting conditions:** The Performance Rights will not vest unless the vesting conditions imposed by the Board have been satisfied. These will typically be linked to the achievement of key performance indicators or other conditions relevant to the position of the Eligible Participant and may also include a total shareholder return (TSR) hurdle once the Company achieves full scale gold production operations.
- (d) **No consideration:** An Eligible Participant will not be required to make any payment in return for a grant of Performance Rights nor for the issue of shares upon the vesting of Performance Rights.
- (e) **Lapse of Performance Rights:** Performance Rights that have not vested will lapse on the earlier of:
 - (i) the seventh anniversary of the date of grant of the Performance Rights;
 - (ii) the performance conditions attaching to the Performance Right not being satisfied within the nominated prescribed period;
 - (iii) a purported transfer of the Performance Rights (other than a permitted transfer);
 - (iv) a determination by the Board, acting reasonably, that the Eligible Participant has acted fraudulently, dishonestly or is in breach of their obligations to the Company;

- (v) the Eligible Participant ceasing to be an Eligible Participant, other than by reason of retirement, permanent disability, redundancy or death;
- (vi) a resolution being passed to wind up the Company;
- (vii) in the event of a Takeover Bid for the Company's shares or a scheme of arrangement for the merger of the Company with another entity, unless the relevant Offer specifies, or the Board determines otherwise; or
- (viii) any other circumstances specified by the Board in the Offer.

If an Eligible Participant ceases to be an Eligible Participant by reason of retirement, permanent disability, redundancy or death, the Board may determine that some or all of an Eligible Participant's Performance Rights will vest even if a performance condition has not been satisfied. If no such determination is made by the Board within 3 months after the person ceases to be an Eligible Participant, all Performance Rights held by that Eligible Participant will automatically lapse.

- (f) **Shares allotted upon vesting of Performance Rights:** The Company will issue shares to the Eligible Participant as soon as practicable after the vesting of Performance Rights and in any event no later than 21 days after vesting (subject to obtaining any necessary shareholder or regulatory approvals). The shares allotted under the PR Plan will be of the same class and will rank equally with all other issued shares in the Company at the date of issue. The Company will apply for quotation of the new shares on ASX within the time required by ASX Listing Rules.
- (g) **Transfer of Performance Rights:** Performance Rights are not transferable except with the prior written consent of the Board or to a legal personal representative of the holder, following the holder's death.
- (h) **Reorganisation of capital:** If the Company reorganises its capital, Performance Rights on issue will be reorganised in accordance with the ASX Listing Rules, such that the holder of a Performance Right does not receive a benefit that holders of ordinary shares do not receive.
- (i) **Change of control:** In the event of a takeover bid, or a compromise or arrangement or the reconstruction of the Company or its amalgamation with any other company, the Board may in its absolute discretion determine that the performance conditions attaching to the Performance Rights have been satisfied on a pro-rata basis over the period of time from the grant date and therefore a proportion (as determined by the Board) of the Performance Rights may vest.
- (j) **No other rights:** A Performance Right gives the holder no rights other than as expressly provided in the PR Plan and those provided at law where such rights cannot be excluded. Holders of Performance Rights will not be entitled as a result of holding Performance Rights to vote at meetings of shareholders, receive dividends, participate in surplus profits or assets of the Company upon a winding up, or participate in new issues of securities offered to shareholders

Directors' recommendation

Non-executive directors are excluded from participating in the PR Plan. The non-executive directors recommend that shareholders vote in favour of Resolution 5 on the basis that they consider the grant of Performance Rights under the PR Plan allows the Company to appropriately reward and remunerate selected key personnel in a cost effective and efficient manner.

Executive directors in their capacity as employees of the Company may participate in the PR Plan (subject to specific shareholder approval). Accordingly, Mr Williams as an executive director of the Company makes no recommendation to shareholders in respect of voting on Resolution 5.

Voting exclusion

The Company will disregard any votes cast on Resolution 5 by any executive director entitled to participate in the PR Plan and their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, the Company will disregard any votes cast (in any capacity) on Resolution 5 by or on behalf of members of Key Management Personnel or a Closely Related Party of such a member. However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote on Resolution 5, and the voter is:

- (a) appointed as proxy in writing that specifies the way the proxy is to vote on the resolution; or
- (b) the Chairman of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.

RESOLUTION 6 – APPROVAL FOR ISSUE OF PERFORMANCE RIGHTS

Background

Mr Mark Williams was appointed as Managing Director of the Company on 15 April 2014 (Commencement Date). Mr Williams is a mining engineer with over 20 years' experience in mining operations. He was previously General Manager of the Tampakan copper-gold project based in the Philippines. Mr Williams has previously worked in a diverse range of open cut, underground, quarrying and civil engineering environments in both developed and emerging countries.

In accordance with the terms of his employment agreement, Mr Williams is entitled to participate in the Company's PR Plan. The Board proposes to issue 12,000,000 Performance Rights to Mr Williams (or his nominee) subject to the approval of shareholders.

Key terms and conditions of Performance Rights

Each Performance Right will entitle the holder to one ordinary fully paid share upon satisfaction of certain vesting conditions.

The Performance Rights will vest on the following basis:

- (a) 50% of the Performance Rights will vest on 15 April 2017, being the third anniversary from the Commencement Date;
- (b) 50% of the Performance Rights will vest on 15 April 2018, being the fourth anniversary from the Commencement Date;
- (c) vesting of the Performance Rights will also be based on the positive performance of the Company's share price relative to the S&P/ASX All Ordinaries Gold Index during the period prior to the third anniversary or fourth anniversary as applicable. This key performance indicator will determine the percentage of Performance Rights that vest as follows:
 - (i) top quartile performance: 100% (of the relevant 50% entitlement) of the Performance Rights will vest;
 - (ii) second quartile performance: 50% (of the relevant 50% entitlement) of the Performance Rights will vest;
 - (iii) median performance and below: 0% of the Performance Rights will vest;
- (d) in addition, vesting of the Performance Rights is also conditional on:
 - (i) the market price of the Company's shares as quoted on ASX being greater at the end of the performance period compared to the share price at the commencement of the relevant performance period; and
 - (ii) the share price of the Company's shares as quoted on ASX must be above \$0.125 per share at the end of the performance period. In the circumstances of a reconstruction of the share capital of the Company, the Performance Rights minimum vesting price shall be adjusted on the same proportion as the share capital reconstruction and otherwise as in accordance with the Corporations Act.

An unvested Performance Right will automatically lapse upon the earlier of:

- (a) a determination by the Board, acting reasonably, that Mr Williams has acted fraudulently, dishonestly or is in breach of his obligations to the Company or a subsidiary of the Company;
- (b) Mr Williams ceasing to be a director for any reason other than permanent disability or death;
- (c) five years from the Commencement Date;
- (d) a resolution being passed to wind up the Company; or
- (e) the occurrence of any other event as set out in the PR Plan.

The Performance Rights are otherwise to be granted on the terms of the PR Plan as summarised in the explanatory memorandum in relation to Resolution 5. There are no re-testing provisions if the Performance Rights fail to vest at the conclusion of the performance period.

In the event of a takeover bid, the Board may in its absolute discretion determine that the performance conditions attaching to the Performance Rights have been satisfied on a pro-rata basis over the period since the grant date and therefore a proportion (as determined by the Board) of the Performance Rights will vest.

In the event of a compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Board may, in its absolute discretion, vest all or a specified number of the Performance Rights where the Board is satisfied that the performance conditions applicable to those Performance Rights have been satisfied on a pro-rata basis over the period since the grant date.

The Company will not apply for official quotation by ASX of any Performance Rights. The Performance Rights will not be transferable except to a legal personal representative of Mr Williams, in the event of his death.

The Company will issue Shares to Mr Williams (or his nominee) as soon as practicable after the vesting of Performance Rights. The Shares allotted will be of the same class and will rank equally with all other issued Shares in the Company at the date of issue. The Company will apply for listing of the new Shares on ASX within the period required by the ASX Listing Rules.

If the Company reorganises its capital, Performance Rights on issue will also be reorganised in accordance with the ASX Listing Rules, such that Mr Williams does not receive a benefit that holders of ordinary shares do not receive.

There are no participating rights or entitlements inherent in the Performance Rights and Mr Williams will not be entitled as a result of holding Performance Rights to vote at meetings of shareholders, receive dividends or participate in surplus profits or assets of the Company upon a winding up or participate in new issues of securities offered to shareholders.

ASX Listing Rule 10.14

ASX Listing Rule 10.14 states that a listed company must not permit a director to acquire securities under an employee incentive scheme without the approval of shareholders by ordinary resolution. Mr Williams is a director of the Company. Accordingly, shareholder approval is being sought under ASX Listing Rule 10.14 for the issue of Performance Rights to Mr Williams.

The following information is provided to shareholders for the purposes of Listing Rule 10.15A:

- (a) the Performance Rights will be issued to Mr Mark Williams (or his nominee), a director of the Company;
- (b) the maximum number of Performance Rights to be issued is 12,000,000 and the maximum number of Shares to be issued upon vesting of the Performance Rights is 12,000,000;

- (c) the Performance Rights will be granted for nil consideration and the Shares to be issued upon vesting of the Performance Rights will be issued for nil consideration;
- (d) since the last approval of the PR Plan at the 2011 annual general meeting of the Company, 1,282,043 Performance Rights were granted to a former managing director, Mr Johannes (Steve) Norregaard for nil consideration. All of these Performance Rights lapsed on 1 May 2014;
- (e) Mr Williams is the only executive director of the Company and is the only director eligible to participate in the PR Plan;
- (f) no loan has been or will be given to Mr Williams in relation to the grant of Performance Rights under the PR Plan;
- (g) details of any Performance Rights issued under the PR Plan will be published in each annual report relating to a period in which Performance Rights have been issued and that approval for the issue of Performance Rights was obtained, if required, under ASX Listing Rule 10.14. Any additional personnel who become entitled to participate in the PR Plan will not participate until shareholder approval is obtained, if required, under ASX Listing Rule 10.14;
- (h) the Performance Rights will be issued no later than three years after the date of the meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules); and
- (i) a voting exclusion statement is included in the notice of meeting.

ASX Listing Rule 7.1

If shareholders approve Resolution 6 pursuant to ASX Listing Rule 10.14, then approval is not required for the purposes of ASX Listing Rule 7.1. Accordingly, if the Resolution is approved and the 12,000,000 Performance Rights are issued, these will not be included in the calculation of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

Chapter 2E Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a Related Party of the Company (which includes a director) unless either:

- (a) the giving of the financial benefit falls within one of the exceptions to the provisions; or
- (b) shareholder approval is obtained to the giving of the financial benefit.

The proposed issue of Performance Rights by the Company to Mr Williams constitutes the giving of a financial benefit to a Related Party of the Company. Accordingly, Resolution 6 seeks shareholder approval to the issue of Performance Rights to Mr Williams or his nominee for the purposes of Chapter 2E.

In accordance with the requirements of Chapter 2E and in particular with Section 219 of the Corporations Act, the following information is provided to shareholders, together with the other information contained in this explanatory memorandum, to allow them to assess the proposed grant of Performance Rights by the Company to Mr Williams:

- (a) Mr Williams is a Related Party of the Company to whom Resolution 6, if approved, would permit the financial benefit being given;
- (b) the nature of the financial benefit to be given to Mr Williams is the grant of 12,000,000 Performance Rights;
- (c) as at the date of this explanatory memorandum, the issued capital of the Company is 759,451,008 Shares and 150,000 options. If the Performance Rights are granted to Mr Williams then the Company's issued capital would include 12,000,000 Performance Rights. If all of the Performance Rights are granted and subsequently vest, the number of Shares on issue in the Company will increase to 771,451,008 (assuming no options were exercised or other securities were issued in the meantime);

- (d) if shareholders approve the grant of the 12,000,000 Performance Rights to Mr Williams, the vesting of those Performance Rights may result in a dilution of all other shareholders' holdings in the Company by approximately 1.56% based on the number of Shares on issue in the Company at the date of this explanatory memorandum (assuming all the Performance Rights vest and no options were exercised or other securities were issued in the meantime);
- (e) as at the date of this explanatory memorandum, Mr Williams does not hold any securities in the Company. If the Performance Rights are granted to Mr Williams and they subsequently vest in full, the number of Shares held by Mr Williams will increase to 12,000,000. Based on the number of Shares on issue at the date of this explanatory memorandum and assuming no options are exercised or other securities are issued, if the Performance Rights vest in full, Mr Williams's voting power will increase to 1.56%;
- (f) the 12,000,000 Performance Rights and any Shares issued on the vesting of the Performance Rights, will be issued by the Company to Mr Williams for nil consideration and therefore no funds will be raised by the grant or vesting of the Performance Rights. The only costs the Company will incur in respect of the Performance Rights (and the vesting of those Performance Rights) are legal, valuation and minimal administrative costs;
- (g) details of the indicative value of the Performance Rights is set out below;
- (h) Mr Williams' remuneration package currently comprises a base salary of \$420,000 per annum (plus statutory superannuation contributions) and an entitlement to a short term incentive bonus of up to a maximum 80% of the base salary inclusive of superannuation, based on the achievement of agreed key performance indicators. The short term incentive bonus is payable 50% in cash and 50% in Shares, with the share component being subject to shareholder approval and an escrow period of 2 years and is calculated on the 5-day volume weighted average price (VWAP) of the Company's shares during the period immediately prior to the award of those shares. If the relevant shareholder and regulatory approvals are not obtained, the short term incentive bonus is payable in cash.

In addition, subject to any necessary shareholder or regulatory approvals, on the fourth anniversary of the Commencement Date, Mr Williams will be entitled to be granted such number of additional Performance Rights so that the total number of Performance Rights held by Mr Williams has a value of not less than 3 times his annual base salary (plus superannuation) at that date (calculated on the 5 day VWAP of the Company's shares immediately prior to the fourth anniversary);

- (i) each of the director's interests in the outcome of and recommendation in respect of Resolution 6 is set out below; and
- (j) other than the information specified in this explanatory memorandum, the Company believes there is no other information that would be reasonably required by shareholders in order to decide whether it is in the best interests of the Company to approve Resolution 6.

Valuation of Performance Rights

An indicative valuation of the Performance Rights to be granted to Mr Williams has been assessed as at 19 September 2014 using Australian Accounting Standard AASB 2 (Share-based payment) and adopted by the Board. The indicative value of each Performance Right is in the range of 1.72 cents (discounted) to 8.6 cents (undiscounted). The valuation is based on the following assumptions:

- (a) each Performance Right will vest (otherwise the Performance Rights have nil value);
- (b) the initial undiscounted value of each Performance Right is effectively the value of an underlying Share in Red 5 which as at 19 September 2014 was 8.6 cents per share;
- (c) as the performance conditions of the Performance Rights are market based performance conditions, under International Financial Reporting Standards (IFRS), a discount is generally applied in valuing the Performance Rights at the grant date for not meeting the performance conditions. A discount is only applied where the performance conditions are market based or are predominantly market based;

- (d) the underlying volatility of the Company's share price over the last 10 months to 19 September 2014 was 104.41% but this does not affect fair value as no consideration is payable on vesting of the Performance Rights;
- (e) the determination of the probability and therefore discount to apply is subjective as it is dependent on the future prospects of the Company or the market. For the purposes of the valuation, the minimum discount to apply to the value of the Performance Rights with the 12.5 cent market based vesting hurdle has been estimated at 20%.

The remaining conditions attached to the Performance Rights include that the Performance Rights vest to ordinary shares based on a positive performance of the Company's share price relative to the S&P/ASX All Ordinaries Gold Index during the period prior to the third anniversary or fourth anniversary as applicable. A discount for such market based conditions can be applied under IFRS. Therefore, an assessed further discount of 60% to the 19 September 2014 share price can be applied so that the total discount to be applied is 80%; and

- (f) vesting periods have not been taken into account.

In relation to the Performance Rights that have the market conditions attached, the discounted value (for non-listed status and transferability restrictions and the market based vesting conditions) of one Performance Right based on a last market price of 8.6 cents is considered to be 1.72 cents.

If no market based discount was applied, the underlying value of a Red 5 Share would be the deemed value of one Performance Right. Using the last market price of 8.6 cents, results in an undiscounted value of one Performance Right of 8.6 cents.

It should be noted that the valuation is a representative valuation as at 19 September 2014, based on the subscription price of the last available market price of 8.6 cents per share. It is not a representative valuation as at the proposed grant date. If Resolution 6 is approved and the Red 5 share price is higher or lower than the indicative value of between 1.72 to 8.6 cents on the grant date, this will affect the value of the Performance Rights at the grant date.

The highest, lowest and last sale prices of Red 5's Shares on ASX during the six months immediately preceding the date of this explanatory memorandum and the respective dates of those sale prices were:

Highest: 9.8 cents on 19 August 2014
Lowest: 6.1 cents on 13 June 2014
Last: 8.4 cents per share on 6 October 2014

The Board (other than Mr Williams) considers that that the number and value of the Performance Rights to be granted to Mr Williams appropriately recognises and rewards the efforts of Mr Williams in his position of Managing Director and in leading the Company back into the proposed recommencement of gold production at the Siana gold mine.

Directors' interests and recommendations

No director, other than Mr Williams, has an interest in the outcome of Resolution 6.

The directors (other than Mr Williams) recommend that shareholders vote in favour of Resolution 6 on the basis that they consider the grant of the Performance Rights to be reasonable in the circumstances and allows the Company to appropriately reward and remunerate Mr Williams in a cost effective and efficient manner.

Mr Williams declines to make a recommendation in relation to Resolution 6 due to his material personal interest in the outcome of Resolution 6. Mr Williams has not voted on any Board resolution in respect of the grant of the Performance Rights to him.

The Board (other than Mr Williams) is not aware of any other information that would reasonably be required by shareholders to allow them to make a decision on whether it is in the best interests of the Company to approve Resolution 6. The Chairman intends to vote all available proxies in favour of Resolution 6.

Voting exclusion

The Company will disregard any votes cast on Resolution 6 by or on behalf of Mr Williams (and any of his associates). However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form.

In addition, the Company will disregard any votes cast (in any capacity) on Resolution 6 by or on behalf of members of Key Management Personnel or a Closely Related Party of such a member. However, the Company will not disregard a vote if it is cast by the person as proxy for a person who is entitled to vote on Resolution 6, and the voter is:

- (a) appointed as proxy in writing that specifies the way the proxy is to vote on the resolution; or
- (b) the Chairman of the meeting and the appointment of the chair as proxy does not specify the way the proxy is to vote on the resolution and expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of Key Management Personnel.

GLOSSARY OF TERMS

“ASX” means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange operated by ASX Limited, as the context requires.

“ASX Listing Rules” means the official listing rules of ASX.

“Board” means the board of directors of the Company.

“Closely Related Party” is defined in the Corporations Act and includes a spouse, dependant and certain other close family members, as well as any companies controlled by a member of Key Management Personnel.

“Company” or “Red 5” means Red 5 Limited (ABN 73 068 647 610).

“Constitution” means the constitution of the Company.

“Corporations Act” means the Corporations Act 2001 (Commonwealth).

“Corporations Regulations” means the Corporations Regulations 2001 (Commonwealth).

“Director” means a director of the Company.

“Key Management Personnel” or “KMP” means those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any director (whether executive or otherwise) of the Company.

“Remuneration Report” means the report contained in the annual financial report of the Company for the year ended 30 June 2014.

“Share” means an ordinary fully paid share in the capital of the Company.

“WST” means Western Standard Time being the time of Perth, Western Australia.

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RED 5 LIMITED

ABN: 73 068 647 610

REGISTERED OFFICE:

LEVEL 2
35 VENTNOR AVENUE
WEST PERTH WA 6005

SHARE REGISTRY:

Security Transfer Registrars Pty Ltd
All Correspondence to:
PO BOX 535, APPECROSS WA 6953
AUSTRALIA
770 Canning Highway, APPECROSS WA 6153
AUSTRALIA
T: +61 8 9315 2333 F: +61 8 9315 2233
E: registrar@securitytransfer.com.au
W: www.securitytransfer.com.au

« REF No. » « Mtg ID »

«HOLDER_NAME»
«ADDRESS_LINE_1»
«ADDRESS_LINE_2»
«ADDRESS_LINE_3»
«ADDRESS_LINE_4»
«ADDRESS_LINE_5»

Code:

RED

Holder Number:

«HOLDER_No.»

PROXY FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCK BROKER OR LICENSED PROFESSIONAL ADVISOR.

VOTE ONLINE

Lodge your proxy vote securely at www.securitytransfer.com.au

1. Log into the Investor Centre using your holding details.
2. Click on "Proxy Voting" and provide your Online Proxy ID to access the voting area.

Online Proxy ID:

«ONLINE PRX ID»

SECTION A: Appointment of Proxy

I/We, the above named, being registered holders of Red 5 Limited (Company) and entitled to attend and vote hereby appoint:

The meeting chairperson

OR

or failing the person named, or if no person is named, the Chairperson of the meeting, as my/our Proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the Annual General Meeting of the Company to be held at 10.00 am on 20 November 2014 at the Celtic Club, 48 Ord Street, West Perth, Western Australia and at any adjournment of that meeting.

Chairperson authorised to exercise undirected proxies on remuneration related Resolutions 4, 5 and 6: Where I/we have appointed the Chairperson of the meeting as my/our proxy (or the Chairperson of the meeting becomes my/our proxy by default) and I/we am/are entitled to vote on the relevant resolutions, I/we expressly authorise the Chairperson of the meeting to exercise my/our proxy in respect of each of proposed Resolutions 4, 5 and 6 even though each of those resolutions is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company, and even though the Chairperson of the meeting is a member of the key management personnel for the Company. **Please note:** If the Chairperson of the meeting is (or becomes) your proxy, you can direct the Chairperson of the meeting how to exercise your proxy on proposed Resolutions 4, 5 and 6 by marking the appropriate box in Section B below.

SECTION B: Voting Directions

Please mark "X" in the box to indicate your voting directions to your Proxy. The Chairperson of the Meeting intends to vote undirected proxies in FAVOUR of all the resolutions. In exceptional circumstances, the Chairperson of the meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

RESOLUTIONS

	FOR	AGAINST	ABSTAIN*
1. Re-election of Ian Macpherson as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Re-election of Kevin Dundo as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-election of Mark Milazzo as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Approval of Performance Rights Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Approval for issue of Performance Rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no directions are given my Proxy may vote as the Proxy thinks fit or may abstain. * If you mark the Abstain box for a particular resolution, you are directing your Proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SECTION C: Signature of Security Holder(s)

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Security Holder

Sole Director & Sole Company Secretary

Security Holder 2

Director

Security Holder 3

Director/Company Secretary

Proxies must be received by Security Transfer Registrars Pty Ltd no later than 10.00 am on 18 November 2014

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My/Our contact details in case of enquiries are:

Name:

Number:

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1. NAME AND ADDRESS

This is the name and address as it appears on the Share Register of the Company. If this information is incorrect, please make corrections on this form. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

2. APPOINTMENT OF A PROXY

If you wish to appoint the Chairperson of the meeting as your Proxy please mark "X" in the box in Section A. Please also refer to Section B of this proxy form and ensure you mark the box in that section if you wish to appoint the Chairperson as your Proxy. If the person you wish to appoint as your Proxy is someone other than the Chairperson of the meeting please write the name of that person in Section A. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairperson of the meeting will be your Proxy. A Proxy need not be a shareholder of the Company.

3. DIRECTING YOUR PROXY HOW TO VOTE

To direct the Proxy how to vote place an "X" in the appropriate box against each item in Section B. Where more than one Proxy is to be appointed and the proxies are to vote differently, then two separate forms must be used to indicate voting intentions.

4. APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two (2) persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second Proxy, an additional Proxy Form may be obtained by contacting the Company's share registry or you may photocopy this form.

To appoint a second Proxy you must:

- a) On each of the Proxy Forms, state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each Proxy may exercise, each Proxy may exercise half of your votes; and
- b) Return both proxy forms in the same envelope.

5. SIGNING INSTRUCTIONS

Individual: where the holding is in one name, the Shareholder must sign.

Joint Holding: where the holding is in more than one name, all of the Shareholders must sign.

Power of Attorney: to sign under Power of Attorney you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

Corporate Representatives: If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting. A form of the certificate may be obtained from the Company's share registry.

6. LODGEMENT OF PROXY

Proxy Forms (and any Power of Attorney under which it is signed) must be received by Security Transfer Registrars Pty Ltd no later than the date and time stated on the form overleaf. Any Proxy Form received after that time will not be valid for the scheduled meeting.

The proxy form does not need to be returned to the share registry if the votes have been lodged online.

Security Transfer Registrars Pty Ltd

Online www.securitytransfer.com.au

Postal Address PO Box 535
Applecross WA 6953 Australia

Street Address Alexandria House
Suite 1, 770 Canning Highway
Applecross WA 6153 Australia

Telephone +61 8 9315 2333

Facsimile +61 8 9315 2233

Email registrar@securitytransfer.com.au

PRIVACY STATEMENT

Personal information is collected on this form by Security Transfer Registrars Pty Ltd as the registrar for securities issuers for the purpose of maintaining registers of security holders, facilitating distribution payments and other corporate actions and communications. Your personal details may be disclosed to related bodies corporate, to external service providers such as mail and print providers, or as otherwise required or permitted by law. If you would like details of your personal information held by Security Transfer Registrars Pty Ltd or you would like to correct information that is inaccurate please contact them on the address on this form.

