



**Red5 Limited**

**Date of Lodgement: 18/2/13**

**Title: “Company Insight – New MD Norregaard on Company Plans”**

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**Highlights of Interview**

- New Managing Director explains his mining experience which he will apply to Siana & Red5.
  - Company strategy under new MD.
  - Issues to resolve at Siana and how that will be achieved.
  - How Red5 will meet mine plan targets set out by consultants, AMC.
  - Gives an update on mining & processing operations at Siana.
  - Funding & exploration updates.
  - Operating in the Philippines.
  - Attractions of Red5 for investors & adding value to Red5.
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**Record of interview:**

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Red5 Limited (ASX code: RED; market cap of ~\$130m) appointed you as Managing Director, effective 1 February 2013. What mining background and skill set do you bring to the position, particularly now that Red5 has moved from explorer to producer at its Siana Gold Project in the Philippines?

**Managing Director, Steve Norregaard**

My two most relevant roles which will complement the Managing Director role at Red5 include that as Chief Operating Officer for Trelawney Mining and Exploration in Canada. I was involved in the feasibility and permitting for a very large scale gold project, the 8 million ounce Cote Lake gold project. We focused heavily on hydrogeology, hydrology, water management and tailings management, all particularly relevant to Siana. The project is in a very high rainfall environment with significant amounts of ground water to manage. Our operations staff are still in the process of final design and implementation of many aspects of the project so I believe my experience and knowledge will be invaluable.

I also had eight years as Managing Director of Tectonic Resources, mining both open pit and underground operations. Tectonic was an ASX-listed company and as the Managing Director, very

much aware of the responsibilities to various stakeholders and legal obligations such as ASX listing rules. Phillips River Mining (previously Tectonic) was taken over by Silver Lake Resources in 2012.

I've worked at various other operations all around Australia and Canada in addition to visiting many operations in the Americas. With this I've gained knowledge of different types of mines and ore bodies which I think I can apply to make Siana a successful operation.

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More specifically are there certain experiences from your other mining positions that you might be able to employ at Red5?

**Steve Norregaard**

I've been involved in mining operations where pumping and drainage were a big issue. That is one of the challenges for Siana, but one which I'm sure we can deal with. I've also been a manager at a couple of mines which had geotechnical issues. Once on top of the water management issue at Siana I believe the geotechnical management of the mine will be relatively straightforward. It's a fairly unique operation in that the host rock and mineralization are very soft. We need to be very attentive in the way we mine it and we have to be careful with the host rock so that it does not adversely impinge on mining the deeper sections of the ore body.

Having an appreciation of what lies ahead through my experience in mining will make the operation more successful.

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It's early days for you as Managing Director, but broadly do you envisage any significant changes in Company strategy?

**Steve Norregaard**

I don't think we need to change the strategy put in place before I joined in any great way. Clearly the market has punished the Company for not reaching stated targets. What I need to do is provide a framework in which the rest of the organization can function as effectively as possible.

If you review the history of the operation it has often been external factors which have restricted the operation and Red5's ability to deliver. My job as Managing Director is to identify those issues which could impinge on production whether those issues are a few months out or years out so that the operations team can deliver the appropriate amount of ore to the mill on a consistent basis. Then Red5 will be able to consistently deliver the targets it sets out to the market.

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For various reasons, several of which have been largely out of the Company's control, Siana has fallen short of production forecasts. AMC Consultants wrote a report for Red5 (ASX announcement 11 December 2012) which delivered an independent mine plan for the next three years at Siana Gold Project. You weren't at Red5 then. Are you comfortable with the 'targets' that the report has effectively set for Siana?

**Steve Norregaard**

The key point here is that the report was formulated when there were certain issues which needed to be addressed and the Company now has plans in place to do that. This included changing the earthmoving contractor, which is in hand. We will have the first units of a new fleet on site this

week with the aim of that operating in March, replacing some inefficient units in the fleet. At that time I think it would be fair to say that we should be able to achieve the production rates outlined in the AMC report.

At this point we are a little behind on the mining side, but I'm optimistic we can mine the upper areas of the open pit which are not influenced by dewatering issues and thus we should be able to hit the production rates required to gain access to the deeper ore as required for each cutback without significant breaks in ore flow to the processing plant.

The AMC report indicated that over 12 months there was to be accelerated waste rock movement and we're not underestimating what is required. The new contractor and new mining equipment, with slightly increased capacity, should get us there.

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Can you give an update on how the mining and processing operations are currently performing at Siana including the effectiveness of on-site reviews conducted at the site such as by The Renoir Group last year?

**Steve Norregaard**

I touched on mining briefly in the previous answer. We're not yet mining at the rates that AMC specified, but for February to date we are between 60% and 75% of those rates, on a daily basis. That said, we are confident of increasing this pretty quickly from March.

There have been significant challenges at the bottom of the open pit where the in-pit dewatering has reached the bottom working face. We're finding that there is still minor ingress of silt with groundwater inflows during intense rain periods. That material has now been removed and we are starting to get into some ore although we still have the challenge of maintaining a dry pit floor. An added complication is the incidence of significant amounts of mine support timbers from the old underground operation. These timbers affect the efficiency and availability of the in-pit pumps, but again that will be solved as we progressively move away from in-pit pumping to dewatering bores. We are ramping up our pumping from dewatering bores and installing additional units. Our aim is to reduce the level of the water table to below the floor of the open pit to give us a dry working area. This has been a significant issue which has clearly contributed to below forecast ore production rates. Once resolved there is no impediment to achieving our targets.

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With Siana previously falling short of production targets, with subsequently lower than anticipated revenues, are you comfortable with the current funding available to you as Managing Director to fulfill your current ambitions for the Company?

**Steve Norregaard**

We secured a US\$25 million loan facility with Credit Suisse at the end of 2012 and as at 31 December we had nearly \$20 million in cash. This includes repayment of the US\$8 million facility with Sprott Resources.

It means that we are certainly not capital constrained in being able to address the required operational improvement programme at Siana. Once we do that our free cash flow generation will improve and add to our bank balance. The current funding will be used to address the improvements

required at Siana and quickly turn it into a cash positive operation, but it will also go some way to contributing to our medium to longer term plans for the Company.

Our feasibility study predicted cash operating costs of sub \$400/ounce (this excludes the cost of waste movement as required under IFRIC20) and at current gold prices of roughly US\$1,650 per ounce it will provide a very healthy operating margin. That assumes the processing plant is operating at close to capacity of course.

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Will your immediate focus be heavily geared towards achieving acceptable targets at Siana or will there be a continued focus on brownfield and greenfield exploration? Can you outline the main activities in exploration for 2013?

**Steve Norregaard**

Certainly the key focus for 2013 is Siana. If Siana is operating well and meeting acceptable targets then it gives us much more flexibility to grow the Company.

One thing that is becoming apparent from my short time at the Company is there is a lot of in-pit exploration we can do and of course that is usually the most efficient and rewarding way to spend exploration dollars. There are areas which have been very lightly drilled or not drilled at all. As we're mining the open pit, we're getting indications that we could extend the Resource say 100 metres further down vertically. We'll therefore be devoting some time to in-pit exploration and also to drilling on the periphery of the pit. That will give us a clearer indication of the long term potential of the Siana open pit and therefore the time available before we transition to underground.

In terms of greenfield exploration, whilst I haven't had a discussion with the rest of the Board, the nearby Mapawa project has great potential as a possible second project. There hasn't been any significant exploration there for nearly two years and I'd certainly like to recommence the exploration effort there. We certainly know that we have a resource in the making and it's a matter of applying the appropriate time and money to that project. However, I'd like to use free cash flow from Siana to do that.

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Investor relations is an increasingly important part of a listed company's activities. What approach will you take to investor relations?

**Steve Norregaard**

As the Managing Director of Tectonic Resources for 8 years, I think I have a pretty good understanding of what is required in investor relations. The Company currently has a very good spread of high calibre institutional, high net worth and retail shareholders. I think we have recognition in the market as owning a differentiated asset with low cash cost potential and much unfinished work in near mine site exploration. Our approach with investor relations will really be steady as she goes, but we'll always be looking for new long term investors to add positive tension to the share price. Results at Siana will certainly translate into share price appreciation.

We will be conducting several of the accepted investor relations activities, with in particular an increasing frequency of site visits for shareholders and analysts. Our next visitors will be a large contingent of professional investors who are travelling to the Mines and Money Conference in Hong

Kong, next month. Our Chairman, Colin Jackson, has known many of our institutional shareholders for decades. He is currently working on an OTCQX listing.

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Australian companies have had mixed success operating in the Philippines for various reasons. What's your view on operating in that part of the World in terms of opportunities and threats?

**Steve Norregaard**

In terms of opportunities, the Philippines is a proven region for mineral endowment despite not having as much exploration or mining activity as one might expect. That has increased though in the last 5 to 10 years. It's a top ranking destination from a geological perspective and there have been huge resources discovered and no doubt there will be in the future. So it's a great location to operate in terms of opportunity.

It has a stable political regime however companies entering the Philippines for the first time have to understand that you need to excel as a corporate citizen. It's very important that the local stakeholders are supportive of mining companies' activities and that the locals are supported in terms of contributions to areas such as health and education and also that they are given opportunities to work in the operations along with being provided with appropriate training. This has been a strength of the company and my objective will be to continue to build on this excellent platform.

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How would you summarise, as a new Managing Director, the attractions of Red5 for investors?

**Steve Norregaard**

I think investors are attracted to Red5 for exactly the reasons I joined. I see tremendous upside. Siana is a magnificent asset which should perform very well with strong margins and cash flows after we make the necessary improvements.

As noted, there are tremendous near mine exploration opportunities, the ability to advance a possible second project in Mapawa and other greenfield exploration opportunities in the Philippines and then maybe longer term in other countries in the Asia-Pacific region. We would also consider acquiring assets in the longer term at the right price, but only once we have a strong bank balance from Siana operations and are meeting the expectations of shareholders with respect to returns.

I think we should see good share price appreciation if we can meet these objectives, with the first catalyst being a successful operation at Siana.

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Thank you Steve.

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