RED 5 LIMITED

ABN 73 068 647 610

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE DIRECTORY

BOARD OF DIRECTORS
Nicholas J Smith (Chairman)
Gregory C Edwards (Managing Director)
Allen L Govey (Exploration Director)
Colin G Jackson
Peter W Rowe

COMPANY SECRETARY
Frank J Campagna

REGISTERED OFFICE
Level 2
35 Ventnor Avenue
West Perth Western Australia 6005

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Facsimile: (61 8) 9481 5950
E-mail: info@red5limited.com
Web-site: www.red5limited.com

SHARE REGISTRY
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Telephone: (61 8) 9315 2333
Facsimile: (61 8) 9315 2233
E-mail: registrar@securitytransfer.com.au
Web-site: www.securitytransfer.com.au

BANKERS
Bank of New Zealand, Australia

AUDITORS
KPMG

SOLICITORS
Pullinger Readhead Lucas (Australia)
Quisumbing Torres (Philippines)

STOCK EXCHANGE LISTING
Shares in Red 5 Limited are quoted on Australian
Stock Exchange Limited. ASX code: RED

This financial report covers both Red 5 Limited as an individual entity and the consolidated entity, consisting of Red 5 Limited and its controlled entities. Red 5 Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and principal activities is included in the attached Directors' Report.

DIRECTORS' REPORT

The directors of Red 5 Limited ("Red 5" or "parent entity") present their report on the results and state of affairs of the parent entity and the consolidated entity for the financial year ended 30 June 2006.

DIRECTORS

The names of the directors of Red 5 in office during the course of the financial year and at the date of this report are as follows:

Nicholas James Smith
Gregory Charles Edwards
Allen Lance Govey
Colin George Jackson
Peter William Rowe

All directors held their position as a director throughout the entire financial year and up to the date of this report.

PRINCIPAL ACTIVITIES

The principal activities of Red 5 and the consolidated entity (which includes the controlled entities of Red 5) during the financial year were mineral exploration and evaluation. There was no significant change in the nature of these activities during the year.

RESULTS OF OPERATIONS

The net loss of the consolidated entity after provision for income tax and minority interests was $1,112,743.

REVIEW OF OPERATIONS

During the year the consolidated entity continued to focus on the development of the Siana gold project located in the Philippines. Comprehensive technical studies were undertaken, a pre-feasibility study was completed and work commenced on a bankable feasibility study. Completion of the feasibility study in the next financial year will enable development and financing decisions on the Siana project to be considered. Preliminary discussions with banking institutions have commenced.

In August 2005, the consolidated entity exercised its pre-emptive rights to acquire an additional 10% beneficial interest in the Siana project, plus a share of land access rights covering the area of the Siana mine foot print and the right to negotiate joint ventures on four early stage gold exploration properties on Mindanao Island in the Philippines, for a consideration of $2,171,052 (US$1,650,000), which was satisfied by the issue of 16,829,865 fully paid shares in Red 5.

In September 2005, Red 5 disposed of its shareholding in Range River Gold Limited for aggregate sale proceeds of $875,379. The carrying value of the investment was $860,014.

The consolidated entity entered into a farm-out joint venture agreement on the Montague project whereby Placer Dome Inc (now Barrick Gold Corporation) may earn up to a 70% interest in the project by spending $4,000,000 within a period of 5 years. As a consequence, the parent entity would dilute marginally to a 20% free-carried interest.

The directors are continuing to evaluate other resources projects and corporate opportunities in which the consolidated entity may participate.

DIVIDENDS

No amounts were paid by way of dividend since the end of the previous financial year. The directors do not recommend the payment of a dividend.

LIKELY DEVELOPMENTS

During the course of the next financial year, the consolidated entity will continue its mineral exploration and development activities and will investigate additional resources projects in which the consolidated entity may participate.

In the opinion of the directors there is no additional information available as at the date of this report on any likely developments which may materially affect the operations of the consolidated entity and the expected results of those operations in subsequent years.

OPTIONS GRANTED OVER UNISSUED SHARES

At the date of this report, there were no ordinary fully paid shares which are subject to options. Details of options issued and exercised during the financial year are contained in Note 15(c) to the financial report. All options issued were fully vested.

SIGNIFICANT CHANGES

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

(a) the consolidated entity acquired an additional 10% beneficial interest in the Siana project for a consideration of $2,171,052 (US$1,650,000).

(b) the consolidated entity disposed of its shareholding in Range River Gold Limited.

(c) a pre-feasibility study for the development of the Siana project was completed in May 2006.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Significant events which have occurred subsequent to the end of the financial year are set out in Note 28 to the financial report.

INFORMATION ON DIRECTORS

Director	Qualifications, experience and special responsibilities
Nicholas J Smith (Non-Executive Chairman)	LL.B A director since April 2002. Mr Smith is a solicitor with considerable international mining business experience, including 12 years as group general counsel for the Normandy Mining group. Mr Smith operates a corporate consultancy business and specialises in advice on sovereign risk issues in developing countries. Mr Smith is a member of the audit and remuneration committees. Other current directorships: Mindax Limited (since October 2003). Former directorships in the last three years: Ferraus Limited (May 2003 to December 2005).
Gregory C Edwards (Managing Director)	B.Sc. (Hons), MAusIMM A director since November 2001. Mr Edwards is a geologist with over 20 years experience. He has a broad gold and base metals exploration and development background, spending 13 years with the Normandy Mining group, holding various positions including Exploration Manager – Western Australia and Manager – Business Analysis, where he focussed on commercial evaluations of potential project and corporate acquisitions. Mr Edwards has not held directorships in any other listed companies in the last 3 years.
Allen L Govey (Exploration Director)	B.Sc. (Hons), M.Sc., MAusIMM A director since November 2001. Mr Govey is a senior geologist with wide ranging exploration and mining geology experience within Australia and Indonesia. He has been involved with the successful exploration and mining of Archean lode gold deposits for the last 16 years. Mr Govey spent 12 years with the Normandy Mining group, including as Principal Geologist responsible for project generation and evaluation of new business opportunities within Western Australia. Mr Govey has not held directorships in any other listed companies in the last 3 years.
Colin G Jackson (Non-Executive Director)	M.Sc., B.Sc. (Hons), DIC, Grad.Dip. Bus. Admin. A director since December 2003. Mr Jackson graduated as a mineral process design engineer and spent 10 years with Selection Trust Limited and RGC Group, followed by a 12 year finance career with McIntosh Securities Limited and 10 years corporate/communications responsibility with Newcrest Mining and Normandy Mining. He was a member of the finance/taxation committee of the Australian Gold Council until absorption into the Minerals Council of Australia. Mr Jackson is chairman of the audit and remuneration committees. Other current directorships: Intrepid Mines Limited (since December 2003) and EIM Capital Managers Pty Ltd. Former directorships in the last three years: Terramin Australia Limited (August 2003 to December 2005).

Peter W Rowe (Non-Executive Director)	B.Sc. (Chem Eng), FAusIMM, MAICD A director since October 2004. Mr Rowe spent 20 years with Anglo American and De Beers in South Africa before moving to Australia. He has held a number of senior managerial positions in Australia, including Project Director of the Kalgoorlie Super Pit (Fimiston) expansion and General Manager of the Boddington Gold Mine and of the Boddington Expansion Project. Mr Rowe is currently an executive officer of AngloGold Ashanti Limited, in charge of its corporate technical group. He is a past chairman of the Australian Gold Council. Mr Rowe is a member of the audit committee.

Information on Company Secretary

Frank J Campagna B.Bus (Acc), CPA
Company Secretary of Red 5 since June 2002. Mr Campagna is a Certified Practicing Accountant with over 20 years experience as Company Secretary, Financial Controller and Commercial Manager for listed resources and industrial companies. He presently operates a corporate consultancy practice which provides corporate secretarial and advisory services to both listed and unlisted companies.

Details of directors' interests in the securities of the parent entity as at the date of this report are as follows:

Director	Fully paid shares	Options
N J Smith	509,500	-
G C Edwards	7,500,000	-
A L Govey	6,876,500	-
C G Jackson	225,000	-
P W Rowe	-	-

Mr Rowe is a director of AngloGold Ashanti Australia Limited (AngloGold) which owns 37,833,945 fully paid shares in Red 5. Under the terms of a subscription agreement with AngloGold, for a period of two years from October 2004 and provided that AngloGold retains a minimum 12% interest, Red 5 must give AngloGold an opportunity to participate in any issue of shares or securities on the same terms as any third party participation, to the extent necessary for AngloGold to maintain its percentage interest in the share capital of Red 5.

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of Red 5 and of each Board committee held during the year ended 30 June 2006 and the number of meetings attended by each director are as follows:

	Board meetings		Audit committee		Remuneration committee	
	Number held	Number attended	Number held	Number attended	Number held	Number attended
N J Smith	8	7	2	2	1	1
G C Edwards	8	8				
A L Govey	8	8				
C G Jackson	8	7	2	2	1	1
P W Rowe	8	7	1	-		

REMUNERATION REPORT

This report sets out the current remuneration arrangements for directors and executives of Red 5.

Principles used to determine the nature and amount of remuneration (audited)

Directors and executives remuneration

Overall remuneration policies are determined by the Board and are adapted to reflect competitive market and business conditions. Within this framework, the remuneration committee considers remuneration policies and practices generally, and determines specific remuneration packages and other terms of employment for executive directors and senior management. Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and expert advice.

Red 5's remuneration policy for executive directors and senior management is designed to promote superior performance and long term commitment to Red 5. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's Australian and overseas operations. Executive directors receive a base remuneration which is market related, together with performance based remuneration linked to the achievement of pre-determined milestones and targets.

Red 5's remuneration policies are designed to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of Red 5. The main principles of the policy are:

- reward reflects the competitive market in which Red 5 operates;
- individual reward should be linked to performance criteria; and
- executives should be rewarded for both financial and non-financial performance.

The structure of remuneration packages for executive directors and other senior executives comprises:

- a fixed sum base salary payable monthly in cash;
- short term incentives through eligibility to participate in a performance bonus plan if deemed appropriate;
- long term incentives through executive directors being eligible to participate in share option schemes with the prior approval of shareholders. Other executives may also participate in employee share option schemes, with any option issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board considers it appropriate to retain the flexibility to issue options to executives outside of approved employee option plans in appropriate circumstances; and
- other benefits, including participation in superannuation schemes.

The proportion of fixed and variable remuneration is established for each executive director by the remuneration committee. The objective of short term incentives is to link achievement of Red 5's operational targets with the remuneration received by executives charged with meeting those targets. The objective of long term incentives is to reward executives in a manner which aligns this element of their remuneration with the creation of shareholder wealth.

Performance incentives may be offered to executive directors and senior management of Red 5 through the operation of performance bonus schemes. Performance and completion bonuses based on a percentage of annual salary are payable upon achievement of agreed operational milestones and targets.

Non-executive directors' remuneration
In accordance with current corporate governance practices, the structure for the remuneration of non-executive directors and senior executives is separate and distinct. Shareholders approve the maximum aggregate remuneration for non-executive directors. The remuneration committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations. The Board approves any consultancy arrangements for non-executive directors who provide services outside of and in addition to their duties as non-executive directors.

Non-executive directors are entitled to statutory superannuation benefits. The Chairman is also entitled to a retirement allowance to a maximum of three years director's fees.

Non-executive directors may be entitled to participate in equity based remuneration schemes. Shareholders must approve the framework for any equity based compensation schemes and if a recommendation is made for a director to participate in an equity scheme, that participation must be specifically approved by the shareholders.

All directors are entitled to have their indemnity insurance paid by Red 5.

Details of remuneration (parent entity and consolidated entity)
The following table discloses details of the nature and amount of each element of the emoluments of each director of Red 5 and each of the officers receiving the highest emoluments and other key management personnel for the year ended 30 June 2006. The information in this table has been audited.

2006	Short term				Post-employment		Other	
Name	Salary or directors fees	Cash bonuses	Consulting fees	Provisions	Super-annuation	Retirement benefits provided for	Insurance premiums	Total
	$	$	$	$	$	$	$	$
Directors								
Executive directors								
G C Edwards	256,629	16,286	-	86,004	25,487	-	5,650	390,056
A L Govey	195,000	24,000	-	74,905	21,900	-	5,650	321,455
Non-executive directors								
N J Smith	47,500	-	78,000	-	5,175	21,811	5,650	158,136
C G Jackson	32,500	-	94,200	-	3,488	-	5,650	135,838
P W Rowe	32,500	-	-	-	4,425	-	5,650	42,575
Other executives								
F J Campagna	-	-	69,850	-	-	-	-	69,850
Total	564,129	40,286	242,050	160,909	60,475	21,811	28,250	1,117,910

Provisions include amounts provided for in the financial report for annual and long service leave and a completion bonus. Executives only qualify for long service leave entitlements after a specified period of continuous service and completion bonus is only payable if the executive maintains employment until June 2007. Cash bonuses relate to performance measures in the previous financial year. Other than directors of Red 5, there were no other executive officers of the consolidated entity during the year, with the exception that the company secretary is deemed to be an executive by virtue of being an officer of the parent entity.

2005	Short term				Post-employment		Other	
Name	Salary or directors fees	Cash bonuses	Consulting fees	Provisions	Super-annuation	Retirement benefits provided for	Insurance premiums	Total
	$	$	$	$	$	$	$	$
Directors								
Executive directors								
G C Edwards	200,003	-	-	61,561	20,001	-	4,884	286,449
A L Govey	150,000	-	-	37,044	15,000	-	4,884	206,928
Non-executive directors								
N J Smith	40,000	-	91,050	-	3,600	40,000	4,884	179,534
C G Jackson	25,000	-	117,150	-	2,250	-	4,884	149,284
P W Rowe	16,667	-	-	-	-	-	4,884	21,551
Other executives								
F J Campagna	-	-	60,325	-	-	-	-	60,325
Total	431,670	-	268,525	98,605	40,851	40,000	24,420	904,071

Information on any benefits received by directors of Red 5 by reason of a contract made by the consolidated entity with a director or a director-related entity is contained in Note 18 of the financial report.

During the financial year, Red 5 paid premiums of $28,250 to insure the directors and other officers of the consolidated entity. The liabilities insured are for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

Service agreements
The terms of employment for executive and non-executive directors are formalised in service agreements. Major provisions of the agreements relating to duration and termination are set out below. This information has been audited.

G C Edwards – Managing Director
Term of agreement: 3 years from 1 July 2004.
Remuneration: base salary plus 10% superannuation contributions, to be reviewed annually by the remuneration committee.
Performance bonus: up to 25% of annual salary upon the achievement of agreed milestones and targets. Completion bonus of 25% of annual salary at the completion of the service agreement.
Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to the annual salary.

A L Govey – Exploration Director
Term of agreement: 3 years from 1 July 2004.
Remuneration: base salary plus 10% superannuation contributions, to be reviewed annually by the remuneration committee.
Performance bonus: up to 25% of annual salary upon the achievement of agreed milestones and targets. Completion bonus of 25% of annual salary at the completion of the service agreement.
Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to the annual salary.

Share-based compensation
The Board has adopted the Red 5 Employee Option Plan (Plan). The primary purposes of the Plan are to increase the motivation of employees, promote the retention of employees, align employee interests with those of Red 5 and its shareholders and to reward employees who contribute to the growth of Red 5. At the annual general meeting held on 24 November 2004, shareholders authorised the issue of options under the Plan. To date, no options have been issued under the Plan.

NON-AUDIT SERVICES

During the year, Red 5's external auditors, KPMG, has provided other services in addition to its statutory audit function. Non-audit services provided by the external auditors comprise $25,162 for tax and corporate structuring advice. Further details of remuneration of the auditors are set out in Note 19.

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those services is compatible with the general standard of independence for auditors imposed by the Corporations Act and did not compromise the auditor independence requirements of the Corporations Act, for the following reasons:

- all non-audit services were subject to the corporate governance guidelines adopted by Red 5;
- non-audit services have been reviewed by the audit committee to ensure that they do not impact the impartiality or objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1, Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity, acting as an advocate for Red 5 or jointly sharing economic risks and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act is included immediately following the Directors' Report and forms part of the Directors' Report.

ENVIRONMENTAL REGULATIONS

The consolidated entity is subject to significant environmental regulation in respect to its mineral exploration activities. These obligations are regulated under relevant government authorities within Australia and overseas. The consolidated entity is a party to exploration and development licences and has beneficial interests in Mineral Production Sharing Agreements. Generally, these licences and agreements specify the environmental regulations applicable to exploration and mining operations in the respective jurisdictions. The consolidated entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates.

Compliance with environmental obligations is monitored by the Board of Directors. No environmental breaches have been notified to the consolidated entity by any government agency during the year ended 30 June 2006.

Signed in accordance with a resolution of the directors.

G C Edwards
Managing Director

Perth, Western Australia
28 September 2006

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Red 5 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

B C FULLARTON
Partner

Perth
28 September 2006

RED 5 LIMITED
AND CONTROLLED ENTITIES

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Revenue from continuing operations					
Revenue		-	-	-	-
Other revenue		15,365	71,768	15,365	71,768
Total revenue	2	15,365	71,768	15,365	71,768
Expenses					
Amortisation and depreciation expenses		31,509	24,014	31,509	24,014
Employee and consultancy expenses	2	814,088	810,713	814,088	810,713
Exploration expenditure written-off		413,974	181,165	2,323	43,408
Impairment in investments		-	361,255	268,283	361,255
Impairment in loans		-	-	11,508	1,452
Occupancy expenses		106,638	75,960	106,638	75,960
Regulatory expenses		119,497	86,277	119,497	86,277
Other expenses		146,072	224,751	249,891	224,751
Operating loss before financing income		(1,616,413)	(1,692,367)	(1,588,372)	(1,556,062)
Financing income	2	303,670	473,281	302,017	473,281
Loss from ordinary activities before income tax expense		(1,312,743)	(1,219,086)	(1,286,355)	(1,082,781)
Income tax expense	3	-	-	-	-
Net loss after income tax		(1,312,743)	(1,219,086)	(1,286,355)	(1,082,781)
Attributable to:					
Equity holders of the parent entity		(1,112,743)	(1,150,803)	(1,286,355)	(1,082,781)
Minority interests		(200,000)	(68,283)	-	-
Net loss after income tax		(1,312,743)	(1,219,086)	(1,286,355)	(1,082,781)
		Cents	**Cents**		
Basic and diluted loss per share (cents per share)	27	(0.42)	(0.48)		

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 JUNE 2006

		CONSOLIDATED		PARENT ENTITY	
	NOTE	2006	2005	2006	2005
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	4	2,761,504	7,272,775	2,715,740	7,187,780
Trade and other receivables	5	81,863	99,744	81,863	99,744
Investments	6	287,850	1,130,422	287,850	1,130,422
TOTAL CURRENT ASSETS		3,131,217	8,502,941	3,085,453	8,417,946
NON-CURRENT ASSETS					
Receivables	7	25,094	-	15,468,168	8,850,413
Investments	8	-	-	335,540	603,823
Property, plant and equipment	9	500,599	74,967	51,153	74,967
Deferred exploration expenditure	10	15,431,936	9,051,016	-	5,776
TOTAL NON-CURRENT ASSETS		15,957,629	9,125,983	15,854,861	9,534,979
TOTAL ASSETS		19,088,846	17,628,924	18,940,314	17,952,925
CURRENT LIABILITIES					
Trade and other payables	11	743,356	769,250	732,358	769,250
Provisions	12	151,191	87,885	70,734	87,885
TOTAL CURRENT LIABILITIES		894,547	857,135	803,092	857,135
NON-CURRENT LIABILITIES					
Borrowings	13	305,191	322,846	-	-
Provisions	14	307,913	188,843	208,136	188,843
TOTAL NON-CURRENT LIABILITIES		613,104	511,689	208,136	188,843
TOTAL LIABILITIES		1,507,651	1,368,824	1,011,228	1,045,978
NET ASSETS		17,581,195	16,260,100	17,929,086	16,906,947
EQUITY					
Contributed equity	15	31,272,684	28,981,632	31,272,684	28,981,632
Reserves	16	(133,545)	(460,329)	17,442	-
Accumulated losses		(13,557,944)	(12,461,203)	(13,361,040)	(12,074,685)
Total parent entity interest		17,581,195	16,060,100	17,929,086	16,906,947
Minority interests	17	-	200,000	-	-
TOTAL EQUITY		17,581,195	16,260,100	17,929,086	16,906,947

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Attributable to equity holders of the parent entity				Minority interests	Total equity
	Issued capital	Accumulated losses	Other reserves	Total		
	$	$	$	$	$	$
Consolidated						
At 1 July 2004	23,434,632	(11,310,400)	(47,189)	12,077,043	-	12,077,043
Loss for the period	-	(1,150,803)	-	(1,150,803)	(68,283)	(1,219,086)
Share placement	5,487,000	-	-	5,487,000	-	5,487,000
Issue of shares for services provided	60,000	-	-	60,000	-	60,000
Foreign currency translation reserve	-	-	(413,140)	(413,140)	-	(413,140)
Acquisition of controlled entity	-	-	-	-	268,283	268,283
At 30 June 2005	28,981,632	(12,461,203)	(460,329)	16,060,100	200,000	16,260,100
Adjustment on initial adoption of AASB 132 and AASB 139	-	16,002	-	16,002	-	16,002
Loss for the period	-	(1,112,743)	-	(1,112,743)	(200,000)	(1,312,743)
Issue of shares for services provided	120,000	-	-	120,000	-	120,000
Issue of shares for additional interest in Siana project	2,171,052	-	-	2,171,052	-	2,171,052
Foreign currency translation reserve	-	-	309,342	309,342	-	309,342
Fair value reserve	-	-	17,442	17,442	-	17,442
At 30 June 2006	31,272,684	(13,557,944)	(133,545)	17,581,195	-	17,581,195
Parent						
At 1 July 2004	23,434,632	(10,991,904)	-	12,442,728	-	12,442,728
Loss for the period	-	(1,082,781)	-	(1,082,781)	-	(1,082,781)
Share placement	5,487,000	-	-	5,487,000	-	5,487,000
Issue of shares for services provided	60,000	-	-	60,000	-	60,000
At 30 June 2005	28,981,632	(12,074,685)	-	16,906,947	-	16,906,947
Loss for the period	-	(1,286,355)	-	(1,286,355)	-	(1,286,355)
Issue of shares for services provided	120,000	-	-	120,000	-	120,000
Issue of shares for additional interest in Siana project	2,171,052	-	-	2,171,052	-	2,171,052
Fair value reserve	-	-	17,442	17,442	-	17,442
At 30 June 2006	31,272,684	(13,361,040)	17,442	17,929,086	-	17,929,086

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Cash flows from operating activities					
Payments to suppliers and employees		(1,075,887)	(1,086,801)	(1,075,887)	(1,086,801)
Interest received		301,229	473,281	301,229	473,281
Net cash outflow from operating activities	25	(774,658)	(613,520)	(774,658)	(613,520)
Cash flows from investing activities					
Payments for controlled entities, net of cash acquired		-	(106,754)	-	(107,015)
Payments for mineral exploration expenditure		(4,130,545)	(5,327,026)	(23,288)	(46,609)
Payments for plant and equipment		(7,695)	(49,051)	(7,695)	(49,051)
Payments for deposit on plant and equipment		(449,446)	-	-	-
Payments for purchase of investments		-	(286,677)	-	(286,677)
Payments for security deposit		(24,306)	-	(24,306)	-
Proceeds on sale of investments		875,379	71,768	875,379	71,768
Net cash inflow/(outflow) from investing activities		(3,736,613)	(5,697,740)	820,090	(417,584)
Cash flows from financing activities					
Proceeds from issues of shares		-	5,487,000	-	5,487,000
Loans to controlled entities		-	-	(4,517,472)	(5,266,520)
Net cash inflow/(outflow) from financing activities		-	5,487,000	(4,517,472)	220,480
Net decrease in cash held		(4,511,271)	(824,260)	(4,472,040)	(810,624)
Cash at the beginning of the financial year		7,272,775	8,097,035	7,187,780	7,998,404
Cash at the end of the financial year	4	2,761,504	7,272,775	2,715,740	7,187,780

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements.

The financial report has been prepared on a historical cost basis and is presented in Australian dollars. The financial report was authorised for issue by the directors on the date of signing of the Directors' Report.

(b) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB and for the purposes of this report are called Australian equivalents to IFRS (AIFRS) to distinguish from previous Australian GAAP. The consolidated financial statements and notes also comply with IFRS and interpretations adopted by the International Accounting Standards Board. The financial statements of the parent entity do not comply with IFRS as the parent entity has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

This is the first financial report of the consolidated entity prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS and AASB1 "First Time Adoption of AIFRS" has been applied. An explanation of how transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the parent entity is detailed in Note 29. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet as at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, except for the adoption of AASB 132 *Financial Instruments: Presentation and Disclosure.* The parent entity and the consolidated entity have applied AASB 1.36A exemption and elected not to apply AASB 132 and AASB 139 to the comparative period. A reconciliation of opening balances impacted by AASB 132 and AASB 139 at 1 July 2005 has been provided in Note 29.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for group
2004 – 3	AASB 1 First-time Adoption of AIFRS; AASB 101 Presentation of Financial Statements; AASB 124 Related Party Disclosures	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 1	AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 4	AASB 1 "First Time Adoption of AIFRS"; AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 5	AASB 1 "First Time Adoption of AIFRS"; AASB 139 "Financial Instruments: Recognition and Measurement"	No change to accounting policy required. Therefore no impact.	01.01.06	01.07.06
2005 – 6	AASB 3 "Business Combinations"	No change to accounting policy required. Therefore no impact.	01.01.06	1 Jul 06

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for group
2005 – 10	AASB 132 “Financial Instruments: Disclosure and Presentation”; AASB 101 “Presentation of Financial Statements”; AASB114 “Segment Reporting”; AASB 117 “Leases” AASB 133 “Earnings Per Share”; AASB 139 “Financial Instruments: Recognition and Measurement”; AASB 1 “First Time Adoption of AIFRS”; AASB 4 “Insurance Contracts”; AASB 1023 “General Insurance Contracts”; AASB 1038 “Life Insurance Contracts”	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
New standard	AASB 7 “Financial Instruments: Disclosures”	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
New standard	AASB 119 Employee Benefits (Revised December 2004)	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
2005 – 2	AASB 1023 General Insurance Contracts	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
2005 – 4	AASB 132 Financial Instruments – Disclosure and Presentation; AASB 1023 General Insurance Contracts; AASB 1028 Life Insurance Contracts	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
2005 – 9	AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 139 Financial Instruments – Recognition and Measurement and AASB 132 Financial Instruments – Disclosure and Presentation	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
2005 – 12	AASB 1038 Life Insurance Contracts; AASB 1023 General Insurance Contracts	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07
2005 – 13	AAS 25 Financial Reporting by Superannuation Plans	No change to accounting policy required. Therefore no impact.	01.01.07	01.07.07

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

(c) Going concern

The consolidated entity recorded a loss of $1,312,743 for the year ended 30 June 2006 and has net working capital of $2,236,670 as at 30 June 2006. In the forthcoming year, the consolidated entity will be required to meet purchase instalments on a second hand ball mill and intends to progress a bankable feasibility study on the Siana project.

The financial statements have been prepared on the basis that the consolidated entity will continue to meet its commitments and can therefore continue normal business activities as well as the realisation of assets and settlement of liabilities in the ordinary course of business. In arriving at this position, the directors have considered the following relevant matters:

- subsequent to the end of the year, the parent entity agreed the terms of a finance facility of $2,000,000 from a financial institution. The facility may be drawn down at any time up until 31 March 2007 and can be used to fund the Siana bankable feasibility study and the purchase of the ball mill. Interest may be paid in cash or shares at the parent entity’s election. The facility is repayable on the earlier of 31 December 2008 or project financing of the Siana project. The facility is subject to completion of formal documentation and conditions precedent.
- the directors of the parent entity are investigating further funding initiatives to provide additional working capital.

The directors believe that at the date of signing the financial report there are reasonable grounds to believe that having regard to the matters set out above, the consolidated entity will be able to raise sufficient funds to meet its obligations as and when they fall due.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts, or to the amounts or classifications of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

(d) Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Red 5 Limited as at 30 June 2006 and the results of all controlled entities for the year then ended. Red 5 Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial period, its results are included only from the date upon which control commences. Where control of an entity ceases during a financial period, its results are included for that part of the period during which control existed. Outside interests in equity and results of the entities which are controlled by the consolidated entity are shown as a separate item in the consolidated financial statements.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(f) Investments

Current accounting policy

Financial instruments are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date. Financial instruments available-for-sale are recognised or derecognised by the consolidated entity on the date it commits to purchase or sell the investments.

Comparative period policy

Investments classified as current assets represent securities in listed companies purchased for resale and are valued at the lower of cost or net realisable value as at balance date. Investments classified as non-current assets represent securities in listed and unlisted companies acquired as investments and are shown at cost except where in the opinion of the directors there has been a permanent diminution in value, in which case the investments are written down to their recoverable amount.

(g) Property, plant and equipment

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value.

Plant and equipment is included at cost less provision for depreciation and any impairment (see accounting policy (i)) in value and depreciated using a combination of the prime cost and diminishing value methods commencing from the time the asset is held ready for use. The expected useful lives of plant and equipment are between 3 and 13 years.

(h) Exploration and evaluation expenditure

Exploration and evaluation costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs for each area of interest are carried forward where rights of tenure of the area of interest are current and the costs are expected to be recouped through the successful development and exploitation of the area of interest, or by its sale, or where exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit cannot be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

(i) Impairment

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Calculation of recoverable amount

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of the estimated cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

(j) Taxation

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. A deferred income tax asset is not recognised where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(k) Trade and other payables

Liabilities for trade creditors and other amounts are carried at amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable or payable are classified as operating cash flows.

(m) Employee benefits

Provision for employee entitlements represents the amount which the consolidated entity has a present obligation to pay resulting from employees' service provided up to the balance date.

Liabilities arising in respect of employee benefits expected to be settled within twelve months of the balance date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the balance date.

Obligations for contributions to defined contribution superannuation funds are recognised as en expense in the income statement as incurred.

(n) Share based payments

The consolidated entity may provide benefits to employees (including directors) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity settled transactions").
The cost of these equity settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using a binomial model. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors, will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.
Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(o) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

Each entity in the consolidated entity determines its functional currency, being the currency of the primary economic environment in which the entity operates, reflecting the underlying transactions, events and conditions that are relevant to the entity.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

(p) Restoration costs

Full provision for restoration costs is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance date. Increases due to additional environmental disturbances are capitalised and amortised over the remaining lives of the operations. These increases are accounted for on a net present value basis.

Annual increases in the provision relating to the change in the net present value of the provision and inflationary increases are accounted for in earnings as an interest expense. The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

(q) Provisions
A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risk specific to the liability.

(r) Earnings per share
Basic earnings per share is determined by dividing net operating results after income tax attributable to members of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to potential ordinary shares.

(s) Cash and cash equivalents
For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding bank overdrafts.

	CONSOLIDATED		PARENT ENTITY	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
2. REVENUE AND EXPENSES				
(a) Other revenue				
Gain on sale of investments	15,365	71,768	15,365	71,768
(b) Employee and consultancy expenses				
Provision for employee entitlements	96,373	139,726	96,373	139,726
Other employee benefits and consultancy expenses	717,715	670,987	717,715	670,987
	814,088	810,713	814,088	810,713
(c) Financing income				
Finance revenue - interest received	302,017	473,281	302,017	473,281
Other financing gains	1,653	-	-	-
	303,670	473,281	302,017	473,281
(d) Operating lease payments				
Rental and outgoings relating to operating lease	88,391	78,881	88,391	78,881
3. INCOME TAX				
(a) The major components of income tax expense are:				
Income statement				
Current income tax				
Current income tax charge	(384,914)	(247,759)	(296,947)	(206,432)
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Unused tax losses not recognised as deferred tax asset	384,914	247,759	296,947	206,432
	-	-	-	-
A reconciliation between income tax expense and the product of accounting loss before income tax at the applicable income tax rate is as follows:				
Accounting loss before income tax	(1,312,743)	(1,219,086)	(1,286,355)	(1,082,781)
At statutory income tax rate of 30% (2005: 30%)	(393,823)	(365,726)	(385,906)	(324,834)
Expenditure not allowable for income tax purposes:				
Impairment in investments	-	108,377	80,485	108,377
Non-deductible expenses	7,873	7,398	7,438	7,397
Other deductible items	1,036	2,192	1,036	2,628
	(384,914)	(247,759)	(296,947)	(206,432)
Current year tax losses not brought to account	384,914	247,759	296,947	206,432
Income tax expense	-	-	-	-
Income tax payable	-	-	-	-

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
(b) Deferred income tax				
Deferred income tax at balance date relates to the following:				
Deferred tax liabilities				
Capitalised expenditure	4,629,581	2,715,305	-	-
Set-off of tax assets	-	-	-	-
	4,629,581	2,715,305	-	-
Deferred tax assets				
Accrued expenses	7,050	4,200	7,050	4,200
Provisions	167,598	191,831	167,598	191,831
Tax value of losses recognised	4,454,933	2,517,541	-	-
Non-recognition of deferred taxes	-	-	(174,648)	(196,031)
	4,629,581	2,713,572	-	-
(c) Tax losses				
The directors estimate that the potential deferred tax assets in respect of tax losses not brought to account is:	913,821	639,992	881,737	607,908

The potential benefit of tax losses has not been brought to account in this financial report as realisation of the benefit cannot be regarded as probable. The potential future income tax benefit will be obtainable by the consolidated entity only if:

(a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit of the deductions for the loss to be realised;
(b) the consolidated entity complies with the conditions for deductibility imposed by income tax law; and
(c) no changes in income tax legislation adversely affects the consolidated entity in realising the benefit of the deduction for the loss.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
CURRENT ASSETS				
4. CASH AND CASH EQUIVALENTS				
Cash at bank	126,020	97,566	80,517	12,832
Cash on deposit	2,635,023	7,174,748	2,635,023	7,174,748
Cash on hand	461	461	200	200
	2,761,504	7,272,775	2,715,740	7,187,780
5. TRADE AND OTHER RECEIVABLES				
Sundry debtors - other corporations	81,863	99,744	81,863	99,744
6. INVESTMENTS				
Shares in other corporations – available for sale	287,850	1,130,422	287,850	1,130,422

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
NON-CURRENT ASSETS				
7. RECEIVABLES				
Security deposit	25,094	-	25,094	-
Unsecured loans - wholly owned controlled entities	-	-	17,549,258	10,945,089
Allowance for doubtful recovery	-	-	(2,106,184)	(2,094,676)
	-	-	15,443,074	8,850,413
	25,094	-	15,468,168	8,850,413

Security deposits represent funds held on deposit as security against a bank guarantee.

Unsecured loans to controlled entities are interest free and are repayable on demand. The parent entity is not expected to request repayment within the next 12 months.

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
8. INVESTMENTS				
Shares in controlled entities - at cost	-	-	1,203,823	1,203,823
Less allowance for impairment	-	-	(868,283)	(600,000)
	-	-	335,540	603,823
9. PROPERTY, PLANT AND EQUIPMENT				
Office furniture and equipment - at cost				
Opening balance	121,490	79,753	121,490	79,753
Additions	7,695	49,051	7,695	49,051
Deposit for plant and equipment	449,446	-	-	-
Plant and equipment written-off	-	(7,314)	-	(7,314)
Closing balance	578,631	121,490	129,185	121,490
Accumulated depreciation				
Opening balance	46,523	25,942	46,523	25,942
Depreciation for the year	31,509	24,014	31,509	24,014
Plant and equipment written-off	-	(3,433)	-	(3,433)
Closing balance	78,032	46,523	78,032	46,523
Net book value	500,599	74,967	51,153	74,967
10. DEFERRED EXPLORATION EXPENDITURE				
Opening balance	9,051,016	3,825,706	5,776	4,194
Acquisition costs	2,171,053	-		-
Exploration expenditure incurred in current year	4,623,841	5,060,017	(3,453)	44,990
Exploration expenditure written-off	(413,974)	(181,165)	(2,323)	(43,408)
Expenditure relating to controlled entity acquired	-	346,458	-	-
	15,431,936	9,051,016	-	5,776

The ultimate recoupment of deferred exploration expenditure carried forward is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

	CONSOLIDATED		PARENT ENTITY	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
CURRENT LIABILITIES				
11. TRADE AND OTHER PAYABLES				
Sundry creditors and accruals	743,356	769,250	732,358	769,250
12. PROVISIONS				
Provision for employee entitlements	151,191	87,885	70,734	87,885
NON-CURRENT LIABILITIES				
13. BORROWINGS				
Unsecured loans – other corporations	305,191	322,846	-	-

Loans due to other corporations are unsecured and interest free and are repayable six months after the occurrence of specified events, including shareholders funds of a controlled entity exceeding specified levels or commencement of gold production.

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
14. PROVISIONS				
Provision for employee entitlements	166,103	68,843	66,326	68,843
Provision for retirement benefits	141,810	120,000	141,810	120,000
	307,913	188,843	208,136	188,843
15. CONTRIBUTED EQUITY				
(a) Share capital				
269,288,043 (2005: 251,688,948) ordinary fully paid shares	31,272,684	28,981,632	31,272,684	28,981,632

(b) Movements in ordinary share capital	**Shares**	**Consolidated 2006 $**
Opening balance 1 July 2005	251,688,948	28,981,632
Issue for purchase of additional interest in Siana project	16,829,865	2,171,052
Issue for technical and financial services provided	769,230	120,000
Balance 30 June 2006	269,288,043	31,272,684

Ordinary shares entitle the holder to participate in dividends and proceeds on the winding up of the parent entity in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(c) Movements in share options	**Options**
Opening balance 1 July 2005	2,000,000
Lapse of options	(2,000,000)
Balance 30 June 2006	-

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
16. RESERVES				
Foreign currency translation reserve	150,987	460,329	-	-
Fair value reserve	(17,442)	-	(17,442)	-
	133,545	460,329	(17,442)	-

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the parent entity's net investment in a foreign subsidiary.

Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

17. MINORITY INTERESTS

Interest in:				
Share capital	268,283	268,283	-	-
Accumulated losses	(268,283)	(68,283)	-	-
	-	200,000	-	-

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated, were key management personnel for the entire reporting period:

Executive directors
Gregory C Edwards – Managing Director
Allen L Govey – Exploration Director

Non-executive directors
Nicholas J Smith – Chairman
Colin G Jackson
Peter W Rowe

There are no individuals (other than the directors) who are responsible for the strategic direction and management of the consolidated entity. There were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

Compensation of key management personnel
A summary of the compensation of key management personnel is as follows:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Key management personnel				
Short term benefits	937,524	738,475	578,605	738,475
Post-employment benefits	82,286	80,851	56,799	80,851
Other benefits	28,250	24,420	28,250	24,420
	1,048,060	843,746	663,654	843,746

The parent entity has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to key management personnel in annual financial reports by Accounting Standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the section of the Remuneration Report of the Directors' Report designated as audited.

Loans to key management personnel
There were no loans to key management personnel during the period.

Other transactions with directors
Other than as disclosed above, there were no specific transactions during the year between the consolidated entity and directors or their director-related entities.

Share holdings of key management personnel
The numbers of shares in the parent entity held during the financial year by key management personnel, including their personally-related entities, are set out below.

2006	Balance at 1 July 2005	Received during the year on the exercise of options	Other changes during the year	Balance at 30 June 2006
G C Edwards	7,500,000	-	-	7,500,000
A L Govey	6,786,500	-	-	6,786,500
N J Smith	509,500	-	-	509,500
C G Jackson	225,000	-	-	225,000
P W Rowe	-	-	-	-

2005	Balance at 1 July 2004	Received during the year on the exercise of options	Other changes during the year	Balance at 30 June 2005
G C Edwards	6,850,000	-	650,000	7,500,000
A L Govey	6,706,500	-	80,000	6,786,500
N J Smith	409,500	-	100,000	509,500
C G Jackson	225,000	-	-	225,000
P W Rowe	-	-	-	-

Other changes during the previous financial year comprised on-market purchases.

Option holdings
The numbers of options over fully paid shares in the parent entity held during the financial year by each director of the parent entity, including their personally-related entities, are set out below.

2006	Balance at 01.07.05	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at 30.06.06	Vested and exercisable at 30.06.06
G C Edwards	-	-	-	-	-	-
A L Govey	-	-	-	-	-	-
N J Smith	2,000,000	-	-	(2,000,000)	-	-
C G Jackson	-	-	-	-	-	-
P W Rowe	-	-	-	-	-	-

2005	Balance at 01.07.04	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at 30.06.05	Vested and exercisable at 30.06.05
G C Edwards	1,712,500	-	-	(1,712,500)	-	-
A L Govey	1,676,625	-	-	(1,676,625)	-	-
N J Smith	4,102,375	-	-	(2,102,375)	2,000,000	2,000,000
C G Jackson	56,250	-	-	(56,250)	-	-
P W Rowe	-	-	-	-	-	-

Other changes during the current and previous year comprise the expiry of listed and unlisted options.

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
19. REMUNERATION OF AUDITORS				
Amounts paid or due and payable to the auditors for:				
Auditing the financial reports	43,882	22,097	43,882	22,097
Taxation advisory services – KPMG Australia	15,500	11,000	15,500	11,000
– overseas KPMG firms	9,662	-	9,662	-
	69,044	33,097	69,044	33,097
20. EXPENDITURE COMMITMENTS				
(a) Commitments in relation to non-cancellable operating leases are payable as follows:				
- not later than one year	70,800	60,849	70,800	60,849
- later than one year but not later than two years	70,800	-	70,800	-
- later than two years but not later than five years	53,100	-	53,100	-
	194,700	60,849	194,700	60,849

(b) Capital expenditure commitments

The consolidated entity has entered into an agreement to purchase a second hand grinding mill for a consideration of US$1,330,000. A non-refundable deposit of $449,446 (US$332,500) has been paid (Refer Note 9), a second instalment of $446,900 (US$332,500) is payable on 30 September 2006 and the balance of $893,800 (US$665,000) is payable by 30 December 2006.

21. SEGMENT INFORMATION

The operations of the consolidated entity are located within Australia, the Philippines and Central Asia (the primary reportable segment) and it is involved in mineral exploration and evaluation activities on mining tenements (the secondary reportable segment).

Geographical segments	**Australia** $	**Philippines** $	**Central Asia** $	**Consolidated** $
30 June 2006				
Segment revenue and expenses				
Revenue from ordinary activities	303,670	-	-	303,670
Revenue from other activities	15,365	-	-	15,365
Total segment revenue	319,035	-	-	319,035
Amortisation and depreciation expenses	31,509	-	-	31,509
Exploration expenditure written-off	13,974	-	400,000	413,974
Acquisition of plant and equipment	7,695	-	-	7,695
Segment loss	(899,907)	(12,836)	(400,000)	(1,312,743)
Income tax expense	-	-	-	-
Net loss	(899,907)	(12,836)	(400,000)	(1,312,743)
Segment assets	3,185,462	15,903,123	261	19,088,846
Segment liabilities	434,743	1,021,704	51,204	1,507,651
Net cash flow from operating activities	(774,658)	-	-	(774,658)

Geographical segments	**Australia** $	**Philippines** $	**Central Asia** $	**Consolidated** $
30 June 2005				
Segment revenue and expenses				
Revenue from ordinary activities	473,281	-	-	473,281
Revenue from other activities	71,768	-	-	71,768
Total segment revenue	545,049	-	-	545,049
Depreciation expenses	24,014	-	-	24,014
Exploration expenditure written-off	14,103	-	167,062	181,165
Acquisition of plant and equipment	49,051	-	-	49,051
Segment loss	(1,058,775)	6,751	(167,062)	(1,219,086)
Income tax expense	-	-	-	-
Net loss	(1,058,775)	6,751	(167,062)	(1,219,086)
Segment assets	8,534,594	8,694,069	400,261	17,628,924
Segment liabilities	697,947	592,440	78,437	1,368,824
Net cash flow from operating activities	(613,520)	-	-	(613,520)

22. RELATED PARTIES

Transactions with related parties in the wholly owned group
During the financial year, unsecured loan advances were made between the parent entity and its controlled entities. All such loans were interest free. Loan balances between the parent entity and its controlled entities are disclosed in the financial report of the parent entity. Intra-entity loan balances have been eliminated in the financial report of the consolidated entity. The ownership interests in related parties in the wholly owned group are set out in Note 24.

Other transactions with directors and specified executives are set out in Note 18.

23. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies
The principal financial instruments of the consolidated entity, other than financial assets held for sale, are cash and short term deposits. The main purpose of these financial instruments is to provide finance for the operations of the consolidated entity. The consolidated entity holds various other financial assets and liabilities including receivables and trade payables, which arise directly from its operations. The main risks arising from the consolidated entity's financial instruments are foreign currency risk, interest rate risk and credit risk. The directors of the parent entity review management of each of these risks.

(a) Foreign currency risk
As a result of its operations in the Philippines, the balance sheet of the consolidated entity can be significantly effected by movements in the US$:A$ exchange rate. The consolidated entity does not seek to hedge this exposure as revenue and expenses from production will both be predominantly in US$.

(b) Credit risk exposure
Credit risk relates to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The exposure of the consolidated entity to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of the assets as indicated in the statement of financial position.

(c) Net fair values
The fair values of all financial assets and liabilities approximate their carrying values as indicated in the statement of financial position.

(d) Interest rate risk exposure
Interest rate risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The exposure of the consolidated entity to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below.

30 June 2006	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Between 1 to 2 years $	Non-interest bearing $	Total $
Financial assets					
Cash and cash equivalents	126,020	2,635,023	-	461	2,761,504
Trade and other receivables	-	25,094	-	81,863	106,957
	126,020	2,660,117	-	82,324	2,868,461
Effective interest rate	1.85%	5.73%			
Financial liabilities					
Payables	-	-	-	743,356	743,356
Provisions	-	-	-	459,104	459,104
Borrowings	-	-	-	305,191	305,191
	-	-	-	1,507,651	1,507,651
30 June 2005					
Financial assets					
Cash and cash equivalents	193,811	7,078,503	-	461	7,272,775
Trade and other receivables	-	-	-	99,744	99,744
	193,811	7,078,503	-	100,205	7,372,519
Effective interest rate	2.43%	5.70%			
Financial liabilities					
Payables	-	-	-	769,250	769,250
Provisions	-	-	-	276,728	276,728
Borrowings	-	-	-	322,846	322,846
	-	-	-	1,368,824	1,368,824

24. INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entities	Country of incorporation	Class of shares	Equity holding 2006 %	2005 %
Asia Gold Limited	United Kingdom	Ordinary	50	50
Bremer Resources Pty Ltd	Australia	Ordinary	100	100
Estuary Resources Pty Ltd	Australia	Ordinary	100	100
Greenstone Resources (WA) Pty Ltd	Australia	Ordinary	100	100
Oakborough Pty Ltd	Australia	Ordinary	100	100
Opus Resources Pty Ltd	Australia	Ordinary	100	100
Red 5 Philippines Pty Ltd	Australia	Ordinary	100	100
Bremer Binaliw Corporation	Philippines	Ordinary	100	100
Greenstone Resources Corporation	Philippines	Ordinary	100	100

Bremer Binaliw Corporation is a wholly owned subsidiary company of Bremer Resources Pty Ltd.

Business combination – acquisition of Asia Gold Limited

During the previous financial year the parent entity entered into a subscription agreement to acquire a 50% shareholding in Asia Gold Limited, which is a private company incorporated in the United Kingdom, by contributing $268,283 (US$200,000) in share capital subscriptions. Asia Gold Limited became a partly owned controlled entity in October 2004 following the allotment of shares to the parent entity. Details of the acquisition are as follows:

	Recognised on acquisition $
Fair value of identifiable net assets of controlled entity acquired	
Cash assets	261
Deferred exploration expenditure	536,305
Net assets	536,566
Less minority interests	(268,283)
Consideration	268,283
Outflow of cash to acquire controlled entity, net of cash acquired	
Cash consideration paid during current year	189,846
Deferred cash consideration	78,437
Less cash acquired	(261)
Consideration net of cash acquired	268,022

From the date of acquisition Asia Gold Limited contributed $Nil to the net loss of the consolidated entity for the year ended 30 June 2005. If the combination had taken place at the beginning of the year ended 30 June 2005, there would be no effect on the loss or revenue for the consolidated entity for that year.

25. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
Net cash outflow from operating activities	(774,658)	(613,520)	(774,658)	(613,520)
Amortisation and depreciation	(31,509)	(24,014)	(31,509)	(24,014)
Exploration expenditure written-off	(413,974)	(181,165)	(2,323)	(43,408)
Impairment of investments	-	(361,255)	(268,283)	(361,255)
Impairment of loans	-	-	(11,508)	(1,452)
Profit on sale of investments	15,365	71,768	15,365	71,768
Plant and equipment written-off	-	(3,881)	-	(3,881)
Translation loss on loan to controlled entity	-	-	(103,819)	-
Changes in operating assets and liabilities				
Increase/(decrease) in receivables	(2,845)	13,032	(2,845)	13,032
(Increase)/decrease in payables	(10,402)	19,675	(10,402)	19,675
(Increase)/decrease in provisions	(94,720)	(139,726)	(96,373)	(139,726)
Operating loss after income tax	(1,312,743)	(1,219,086)	(1,286,355)	(1,082,781)

26. NON CASH FINANCING AND INVESTING ACTIVITIES

Issue of shares for purchase of an additional beneficial interest in the Siana project	2,171,052	-	2,171,052	-
Issue of shares for technical and financial advisory services	120,000	60,000	120,000	60,000
	2,291,052	60,000	2,291,052	60,000

	CONSOLIDATED	
	2006	**2005**
27. LOSS PER SHARE		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	266,552,368	241,644,270

No dilutive potential ordinary shares existed as at balance date, therefore diluted earning per share has not been calculated or disclosed.

No movements in ordinary shares and options occurred subsequent to balance date.

28. SUBSEQUENT EVENTS

(a) Subsequent to the end of the financial year, the parent entity agreed the terms of a finance facility of $2,000,000 from a financial institution. The facility may be drawn down at any time up until 31 March 2007 and can be used to fund the Siana bankable feasibility study and the purchase of the ball mill. The facility is repayable on the earlier of 31 December 2008 or project financing of the Siana project. The facility is subject to completion of formal documentation and conditions precedent.

(b) In September 2006, AngloGold Ashanti Australia Limited gave formal notice of its election to farm-in to and earn an interest in the regional area of the Siana project (excluding the Siana mine development area).

29. EXPLANATION OF TRANSITION TO AIFRS

This financial report is the first annual consolidated financial statements prepared by the consolidated entity applying Australian equivalents of International Financial Reporting Standards (AIFRS) in accordance with Australian Accounting Standards.

The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 30 June 2006 and the comparative information for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet and comparative information for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

29. EXPLANATION OF TRANSITION TO AIFRS (continued)

Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) As at the date of transition to AIFRS on 1 July 2004

Consolidated	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			01.07.04	
Current assets				
Cash assets		8,097,035	-	8,097,035
Trade and other receivables		58,410	-	58,410
Other financial assets		1,205,000	-	1,205,000
Total current assets		9,360,445	-	9,360,445
Non-current assets				
Other financial assets		90,234	-	90,234
Property, plant and equipment		53,811	-	53,811
Deferred exploration expenditure	29(e)(i)	3,892,450	(66,744)	3,825,706
Total non-current assets		4,036,495	(66,744)	3,969,751
Total assets		13,396,940	(66,744)	13,330,196
Current liabilities				
Trade and other payables		793,305	-	793,305
Provisions		57,002	-	57,002
Total current liabilities		850,307	-	850,307
Non-current liabilities				
Borrowings		322,846	-	322,846
Provisions		80,000	-	80,000
Total non-current liabilities		402,846	-	402,846
Total liabilities		1,253,153	-	1,253,153
Net assets		12,143,787	(66,744)	12,077,043
Equity				
Contributed equity		23,434,632	-	23,434,632
Reserves	29(e)(i)	-	(47,189)	(47,189)
Accumulated losses	29(e)(i)	(11,290,845)	(19,555)	(11,310,400)
Total parent entity interest		12,143,787	(66,744)	12,077,043
Outside equity interests		-	-	-
Total equity		12,143,787	(66,744)	12,077,043

(b) As at the end of the previous reporting period under previous AGAAP, 30 June 2005

Consolidated	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			30.06.05	
Current assets				
Cash assets		7,272,775	-	7,272,775
Trade and other receivables		99,744	-	99,744
Other financial assets		1,130,422	-	1,130,422
Total current assets		8,502,941	-	8,502,941
Non-current assets				
Property, plant and equipment		74,967	-	74,967
Deferred exploration expenditure	29(e)(ii)	9,530,900	(479,884)	9,051,016
Total non-current assets		9,605,867	(479,884)	9,125,983
Total assets		18,108,808	(479,884)	17,628,924
Current liabilities				
Trade and other payables		769,250	-	769,250
Provisions		87,885	-	87,885
Total current liabilities		857,135	-	857,135

29. EXPLANATION OF TRANSITION TO AIFRS (continued)

(b) As at the end of the previous reporting period under previous AGAAP, 30 June 2005 (continued)

Consolidated	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			30.06.05	
Non-current liabilities				
Borrowings		322,846	-	322,846
Provisions		188,843	-	188,843
Total non-current liabilities		511,689	-	511,689
Total liabilities		1,368,824	-	1,368,824
Net assets		16,739,984	(479,884)	16,260,100
Equity				
Contributed equity		28,981,632	-	28,981,632
Reserves	29(e)(ii)	-	(460,329)	(460,329)
Accumulated losses	29(e)(ii)	(12,441,648)	(19,555)	(12,461,203)
Total parent entity interest		16,539,984	(479,884)	16,060,100
Outside equity interests		200,000	-	200,000
Total equity		16,739,984	(479,884)	16,260,100

(c) Reconciliation of loss for the year ended 30 June 2005

Consolidated	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		For the year ended 30.06.05		
Revenue from continuing operations				
Revenue from ordinary activities		473,281	-	473,281
Proceeds from sale of investments	29(e)(iii)	71,768	(71,768)	-
Total revenue		545,049	(71,768)	473,281
Other operating income				
Profit on sale of investments	29(e)(iii)	-	71,768	71,768
Expenses				
Depreciation expenses		24,014	-	24,014
Employee and consultancy expenses		810,713	-	810,713
Exploration expenditure written-off		181,165	-	181,165
Insurance expenses		56,744	-	56,744
Occupancy expenses		75,960	-	75,960
Provision for diminution in investments		361,255	-	361,255
Regulatory expenses		86,277	-	86,277
Other expenses from ordinary activities		168,007	-	168,007
Loss from ordinary activities before income tax expense		(1,219,086)	-	(1,219,086)
Income tax expense		-	-	-
Net loss from ordinary activities after income tax		(1,219,086)	-	(1,219,086)
Net loss attributable to outside equity interests		68,283	-	68,283
Net loss attributable to members of Red 5 Limited		(1,150,803)	-	(1,150,803)
		Cents		**Cents**
Basic earnings/(loss) per share		(0.48)		(0.48)
Diluted earnings/(loss) per share		(0.48)		(0.48)

29. EXPLANATION OF TRANSITION TO AIFRS (continued)

(d) Reconciliation of cash flow statement

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement in prior periods.

(e) Notes to the reconciliation of equity and loss

Effects of changes in foreign exchange rates

Under previous AGAAP, the consolidated entity elected to apply the temporal method for the translation of foreign currency operations, whereas this method is not available under AIFRS. AASB 121 does not distinguish between foreign operations that are integral and those that are self-sustaining and requires that the current rate method be applied in the translation of foreign currency operations. As a consequence, translation at transition date and each subsequent reporting date has been re-performed using the translation method required under AASB 121. The effect of this is as follows:

(i) At 1 July 2004

For the consolidated entity there has been a decrease in deferred exploration expenditure in the balance sheet of $66,744, and a corresponding increase in reserves of $47,189 and in accumulated losses of $19,555.

(ii) At 30 June 2005

For the consolidated entity there has been a decrease in deferred exploration expenditure in the balance sheet of $479,884, and a corresponding increase in other reserves of $74,410, in foreign exchange translation differences in reserves of $385,919 and in accumulated losses of $19,555.

Revenue

AASB 118 under AIFRS requires disclosure of the net gain or loss on sale of assets such as investments and plant and equipment, rather than including the gross sale proceeds in revenue as required under previous AGAAP. The effect of this is as follows:

(iii) Year ended 30 June 2005

For the parent entity and the consolidated entity, proceeds on sale of investments have been re-classified as profit on sale of investments. There is no affect on the loss for the period.

(f) Change in accounting policy

In the current financial period the consolidated entity adopted AASB 132: Financial Instruments - Disclosure and Presentation and AASB 139: Financial Instruments - Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value.

Under previous AGAAP, the consolidated entity recognised interest free borrowings at face value. An adjustment has been raised to recognise interest free borrowings at fair value at 1 July 2005 with the effect on the consolidated entity to decrease accumulated losses by $16,002 and decrease in non-current borrowings by $16,002.

Under previous AGAAP, the consolidated entity recorded available-for-sale financial instruments at cost. As the share prices of available-for-sale investments were below their original cost as 1 July 2005, under previous AGAAP the investments were written down to fair value. In accordance with AIFRS, available-for-sale financial investments are now recognised at fair value. As the carrying value of available-for-sale investments are the same under both previous AGAAP and AIFRS at 1 July 2005, no effect has occurred on adoption of AASB 139.

(g) Parent entity

No adjustments on transition to AIFRS by the parent entity were identified.

DECLARATION BY DIRECTORS

The Board of Directors of Red 5 Limited declares that:

(a) the financial statements and accompanying notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the financial position as at 30 June 2006 and performance of the parent entity and the consolidated entity for the financial year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001;

(b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

(c) at the date of this declaration and as set out in Note 1(c), there are reasonable grounds to believe that the parent entity will be able to pay its debts as and when they fall due.

The Board of Directors has received the declaration by the managing director and chief financial officer required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

G C Edwards
Managing Director

Perth, Western Australia
28 September 2006

Independent audit report to members of Red 5 Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Red 5 Limited (the "Company") and Red 5 Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in the directors' report and not in the financial report.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

KPMG

Audit opinion

In our opinion:

(1) the financial report of Red 5 Limited is in accordance with:

a) the *Corporations Act 2001*, including:

i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and;

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained under the heading "Remuneration report" in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures.*

KPMG

KPMG

B C Fullarton

B C FULLARTON
Partner

Perth
28 September 2006