Red5Limited


*The next Philippines gold producer*

# Annual Report 2011

# Corporate Profile

Red 5 Limited (ABN 73 068 647 610) is listed on the Australian Securities Exchange (ticker RED) with nearly 4,000 shareholders.

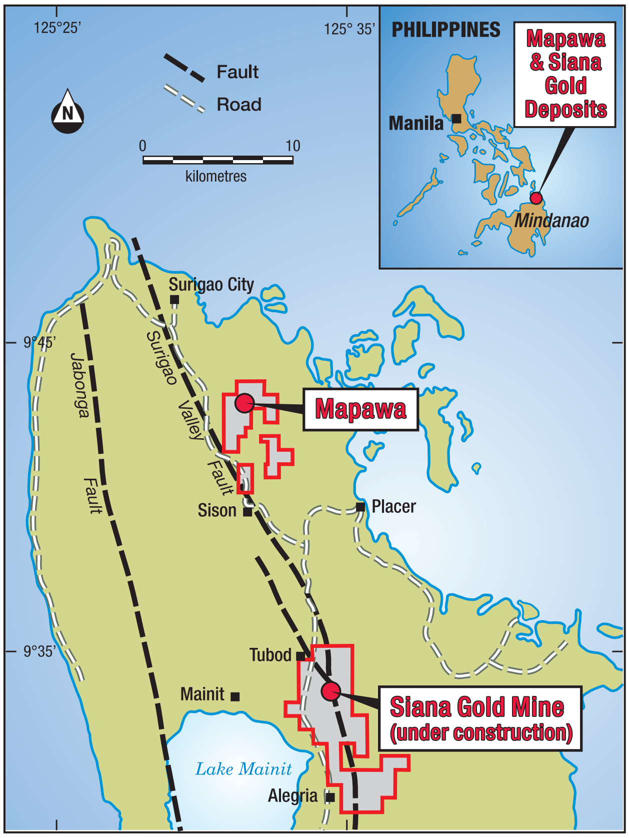
The largest shareholders are Baker Steel Capital Managers with a 8.6% interest, Mathews Capital Partners with a 6.6% interest and Sprott Asset Management with a 5.0% interest. There are also a further thirty institutional shareholders based in Toronto, New York, Boston, San Francisco, London, Melbourne and Sydney.

The Company's principal asset is the Siana Gold Mine in the Philippines, held under a Mineral Production Sharing Agreement by a Philippine compliant company.

The Siana mine development comprises an open pit operation, followed by an underground mine, with ore treated through a conventional modern gravity and carbon-in-leach plant to produce gold dore.

The project has more than a ten year mine life and is expected to deliver 849,000 ounces of gold production at a cash cost of below US$400 per ounce.

The second asset is the Mapawa MPSA, 20km north of Siana which has the potential to provide satellite ore to the Siana development. The property is also prospective for a gold-porphyry discovery.

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# Mine Construction

## September 2010













## September 2011

# Address to Shareholders

## from the Chairman

***Dear Shareholder,***

*At the time of writing this report, Red5 Limited is only weeks away from delivering on its dream and promise to shareholders to transition from explorer to gold producer from the one million ounce Siana deposit in the Surigao del Norte region of Mindanao, in the Philippines. The first gold pour will occur nearly nine years after the tenement was acquired and would not have been possible without total focus on the project throughout this period and the managing director domiciling himself in-country.*

*A strong equities market in November 2010 allowed the Company to comfortably raise the balance of the funds needed to develop the mine and build a process plant using all new equipment. The strong balance sheet beneficially allowed the inclusion of increased risk mitigation features, in particular the double ramp in the pit and a 6MW back-up power station.*

*The original financing expectation included a component of debt. Whilst two major international banks satisfactorily completed technical, corporate and legal due diligence, no drawdown was necessary and the facilities, which included physical gold prepayments, were allowed to lapse. These facilities, originally discussed, not that long ago when the gold price was in the range US$1,050 to US$1,300 per ounce, would have been very expensive at today's prevailing spot price.*

*Extraordinary and sustained rain events severely delayed construction in the early stages of the build, as described in the Managing Director's report to shareholders. Despite these abnormal events, and despite the increased project scope, the capital cost to first gold pour in Australian dollars is lower than forecast at the time of project go-ahead. This was a consequence of Company treasury funds being held predominantly in Australian dollars which appreciated against the Filipino peso in which 80% of development expenditures are incurred, and appreciating strongly against the US dollar which is the cost reporting currency.*

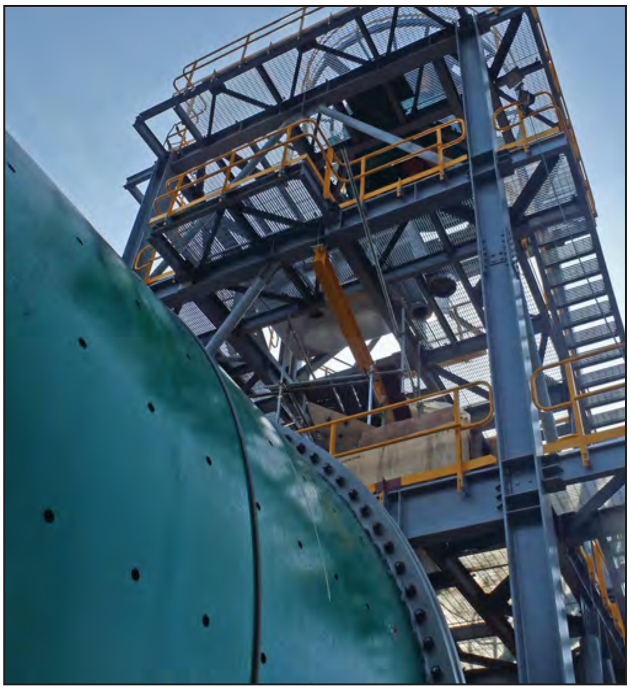
*Employment opportunities for local residents have been maximised during construction with training now commenced for the production phase. The availability of experienced Filipino mining professionals, including those with Australian operating experience has significantly reduced the need for expensive expats and avoided the handover dislocation that inevitably occurs with fly-in fly-out rotations.*

*In short, developing, constructing and operating a gold mine in the Philippines is less costly when compared to Australia where mining developments are now becoming extraordinarily expensive to establish and operate.*

*In the coming year Red5 will continue to aggressively explore the Siana and Mapawa tenements, and post commissioning and ramp-up, will allocate resources to review other opportunities in the Philippines. The Company also recognises that Siana will have been built with equity risk capital and that returns to shareholders are equally important.*

*In summary, Red5 will commence production in an enviable position, with cash on the balance sheet, a gross margin exceeding US$1,000 per ounce and no debt and no gold hedging.*

***Colin G Jackson***
*Chairman*



# from the Managing Director

***Dear Shareholder,***

*Red 5 made significant progress during the year in the development and construction of the Siana Gold mine and is now positioned to move from an explorer to becoming the next Philippine gold producer, with production at Siana scheduled to commence in November 2011.*

*Although site construction and pit dewatering was severely hampered by record sustained rainfall which exceeded five metres in the Surigao region over a five month period, significant progress was still made. The existing open pit was largely dewatered, the mining pre-strip and cutback commenced and heavy plant and equipment was delivered to site by ocean barge and by road.*

*At the date of this report the project has achieved 85% completion of the plant and infrastructure construction.*

*Further progressive refinements were made to site access roads, mine haul roads and site drainage systems so the rain impact on future operational activities will be minimised.*

*Wherever possible, the Company continued to maximise the participation of local communities, contractors and suppliers. This allowed for a cost effective development schedule with no sacrifice on quality and at the same time has provided significant support to the local economy.*

*The workforce on site generally exceeded one thousand personnel and peaked at 1,443. Safety attitudes were rigorously reinforced with the project eclipsing 5 million hours without a Lost Time Injury.*

*In addition, the Company has continued to assist the local community through occupational training, employment, infrastructure development, education and health services.*

*The Company recently competed in competitions held at a Mining and Safety Conference in Surigao. This was the first time the Company's employees have competed in such a competition and achieved outstanding results with a first in the fire fighting event, a second in the first aid event and being awarded the "most organised and dynamic" company in the competition.*

*During the year the Company recruited a number of personnel for the key operational roles. An experienced Operations Director, Ron Pyatt, was appointed in May 2011 and a Process Superintendent and Senior Metallurgist were employed to complement the Mining Superintendent who was already in place.*

*The Company is particularly proud of the fact that nearly all management positions are held by Philippine nationals.*

***Greg Edwards***
*Managing Director*


## Project description

The Siana project is located on the southern Philippine island of Mindinao and covers an area of approximately 39 square kilometres around the former Siana gold mine in the established gold mining province of Surigao del Norte. The Siana tenements cover 12 kilometres of strike on the Surigao Valley fault which is a richly endowed mineral field with many epithermal gold systems and several known porphyry copper-gold deposits.

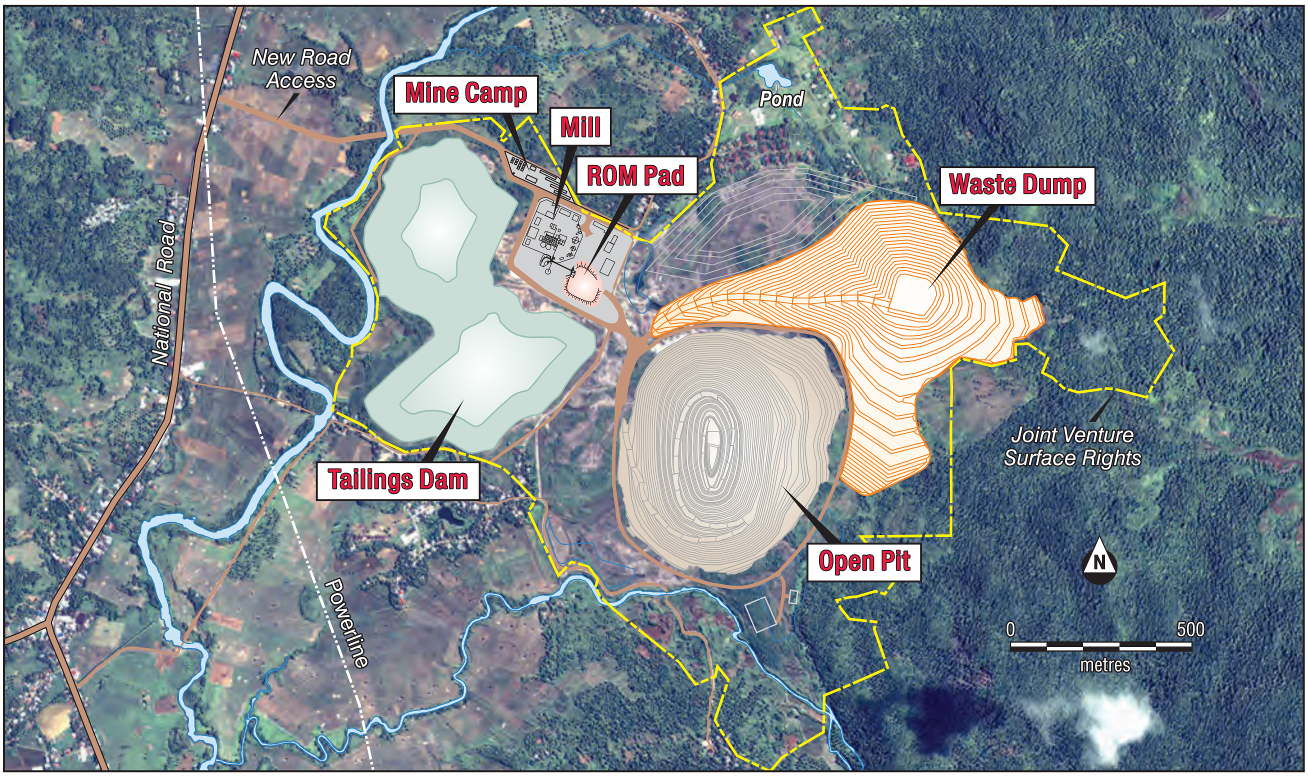
There is substantial infrastructure near the mine including grid power, easy access to the national sealed highway, close proximity to shipping and airport facilities and good modern telecommunications coverage.

Local government and community leaders are familiar with the previous history of the mine and support the new development.

The Siana project comprises an initial open pit operation which will be followed by an underground mine. Ore will be treated through a conventional modern gravity and carbon-in-leach plant to produce gold dore.

The project is expected to have a minimum ten year mine life with the open pit expected to operate for at least 5 years and a transition period of 18 months where both underground mining and open pit mining will operate simultaneously.

The project over a ten year mine life is expected to produce 849,000 ounces of gold at an average cash cost below US$400 per ounce. In addition the project is forecast to produce over 1.4 million ounces of silver.




### Summary production schedule (subject to update)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 to 10 | Total |
|---|---|---|---|---|---|---|
| Ore Milled ('000 tonnes) | 594 | 750 | 921 | 1,092 | 3,199 | **6,556** |
| Grade (g/t) - Gold | 2.88 | 3.48 | 3.56 | 4.21 | 5.90 | **4.63** |
| Grade (g/t) - Silver | 15.0 | 10.1 | 6.2 | 5.9 | 10.0 | **9.0** |
| Plant Recovery - Gold (%) | 83.0 | 85.9 | 85.7 | 86.1 | 88.3 | **87.1** |
| Gold Produced (ounces) | 45,700 | 72,200 | 90,300 | 127,100 | 513,600 | **849,000** |
| Silver Produced (ounces) | 245,800 | 191,900 | 120,000 | 134,600 | 750,300 | **1,443,000** |

*Note: - based on a open pit optimised at US$650 per ounce gold price and subject to review using prevailing gold prices.*

## Construction

The main focus for the Company this year has been the construction of the processing plant and associated infrastructure together with pit dewatering and mine pre-stripping.

Site construction activity commenced in June 2010 but was severely hampered by record rainfall during the Philippine wet season, which caused several delays including a nine week period in pouring the concrete foundation for the crusher and the SAG mill.

With the abatement of the rain in early May 2011 the construction rate accelerated and as at the date of this report, the vast majority of the process plant mechanical installations are complete and the focus is on installing the pipe work and electrics. The project is on schedule for an inaugural gold pour in November 2011.

The projected capital cost of the project has been revised to US$86.4 million which compares with the original approved budget of US$72.5 million.

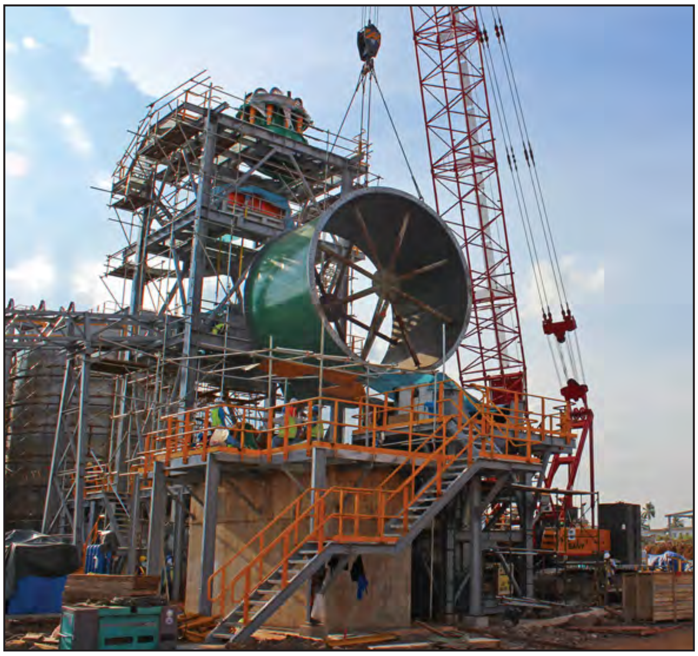
The increase in the capital cost compared to budget mainly relates to the scope changes made to the design and during construction. Major changes include increasing the capacity of the plant to be able to process up to 1.1 million tonnes of ore from the start compared to the BFS budget start-up rate of 750,000 tonnes; construction of a power plant with the ability to run the operating plant at 100% capacity removing the reliance on grid power and purchasing a new SAG mill rather than refurbishing a used mill.

Capital cost also increased due to the additional construction time resulting from the delays and civils rework caused by the rain. Access roads needed to be continually maintained and in some cases re-built. Project support costs also increased due to the extra time required to complete the project. Many costs associated with the project delays were mitigated by changing the construction strategy, whereby plant items normally constructed on site were constructed offsite and then modularised for transportation to site for erection.

However, the Company maintained its treasury position in Australian dollars, which over the construction period appreciated against the Philippines peso in which most of the costs were incurred. As a consequence of the favourable movement in exchange rates, the revised forecast capital cost is A$81.0 million compared to an original budget of A$96.0 million.

### Capital to first gold production

| Capital Item | US$m |
|---|---|
| Mining Open Cut | |
| Dewatering | 4.0 |
| Equipment & pre-strip | 17.1 |
| Total Mining Open Cut | 21.1 |
| Process Plant | 50.3 |
| Infrastructure | 9.0 |
| Misc Capital | 5.9 |
| **Total** | **86.4** |



## Mining

During the year, Delta Earthmoving Inc., a Philippines based contractor, commenced the mining cut-back and pre-strip for the open pit phase of the project. Delta are now performing at average movement rates above forecast after a difficult start due to the heavy rains and plastic nature of some of the clays near the surface. Operator training and machine maintenance have been accorded high priority with the majority of the operators sourced from the surrounding villages. The de-watering of the pit has exposed parts of the original mine ramp which remain in good condition and will be able to be re-used during the initial production phase. As part of continued risk mitigation measures, the mine design has been changed and a second access ramp included.

With the abatement of the heavy rains and with the mining pre-strip reaching a stage where suitable fresh rock became available, the mining department was able to properly sheet the haul roads to allow operations to continue during rainy periods. In addition the drainage system around the pit and the haul roads was improved with the installation of culverts in areas particularly affected by the rain. These improvements have allowed the mining operations to gradually increase the production rate and to maintain the targeted BCM movement during periods of rain.

Under the current approved mine plan, an open pit to a maximum depth of 215 metres below surface will be established following the dewatering of the 8.2Gl of clean water in the existing open pit. Benches will be blasted on 5 metre lifts and excavated on 2.5 metre lifts using Komatsu PC800 and PC850 excavators and Komatsu six wheel drive 35 tonne and 40 tonne articulated trucks.

The open pit is expected to operate for five years, however, the production schedule is being reviewed to investigate opportunities to lower the cut-off grade and extend the life of the open pit and fully utilise the process plant installed capacity earlier than originally scheduled. Initial feed for the mill will comprise the existing low grade stock pile, scheduled cut back ore exposures and a recently designed box cut, up to 70 metres wide, in the floor of the existing pit, once dewatered.

An underground portal, 75 metres above the final pit floor will be established with a 5 metre by 5 metre decline heading at a 1:7 gradient.

The underground mining method will utilise jumbo drill and blast for the decline and road headers for ore production using underhand cut and fill. A paste fill, comprising cycloned tailings and local cement, will be used for ground support.

## Operating Cost Estimate

The life of mine operating costs for the Siana project has been revised to reflect current fuel and power charges. The revised life of mine average operating costs are summarised below.

### Summary Operating Costs

| | LOM |
|---|---|
| Mining Operating | 30.57 [1,2] |
| Processing | 12.75 |
| Administration | 4.00 |
| Excise Tax [3] | 2.25 |
| **Total Cost (US$/t)** | **49.58** |
| **Total Cash Cost (US$/oz)** [4] | **364** |

*Notes:*

1 *Open pit mine operating costs $15.79 per tonne, underground mine operating costs $45.01 per tonne, includes escalation on underground mining capital cost at 2% per annum from project commencement*

2 *Base Case long term mine plan at 400,000 tonnes per annum underground rate*

3 *Includes 1% community tax on processing/administration costs*

4 *Cash costs per ounce based on Au produced net of Ag by-product credits*

## Revised Production Schedule

The mine plan and production schedule are being reviewed following the release of an increased Mineral Resource statement in October 2011.

Initial feed for the mill will comprise the existing low grade stock pile, the scheduled cut back ore exposures and a recently designed box cut, up to 70 metres wide, in the floor of the existing pit, once dewatered.

The revised Resource offers the option to extend the open pit operating life and as a consequence delay commencement of the underground phase. The revised Resource also offers the potential to stockpile intermediate grade material for future processing.

## Financing

In October 2010, Red 5 undertook a strongly supported equity raising with gross proceeds of $51 million raised through an oversubscribed share placement. As a consequence, the Company was in a position to cancel a previously announced intention to proceed with gold prepay facility.

Whilst the project build, working capital and exploration programmes are fully funded from the successful equity raise, the Board deemed it prudent to guarantee access to additional funding in light of the continued heavy rains during construction and on-going uncertainty in the world economy and banking system. A standby facility of US$8.0 million was therefore negotiated with Sprott Resource Lending, a Toronto, Canada based existing equity shareholder.

A final credit agreement for the stand-by facility is in the process of being finalised and no funds have been drawn down from the facility. In addition to Red 5 not having any debt, the Company has no current gold hedging or foreign exchange contracts.

## Community, Environment and Safety

During the year the company continued to work with local communities, providing assistance in many areas including:

- Provision of clean water to surrounding communities.
- Continuing with the nutrition programme for special needs children.
- Assistance with agricultural farming trials.
- Support to local schools and introduction of a scholarship system for children in the community.
- Environmental greening

Once the mine becomes operational, the Company will operate under the terms of the Social Development Management Plan where 1% of annual processing and mining costs will be set aside for community development and livelihood improvement programmes.

During the year the Company operated in accordance with the provisions of the approved Environmental Protection and Enhancement Program, which describes the potential impacts on project land, water and air. This also includes control measures and monitoring programmes that the Company uses to ensure the project has a minimal impact on the environment.

The record rainfall during the year has proved the reliability and effectiveness of the drainage systems established by the Company, with all run off water being contained in specially designed settling ponds to remove silt and contaminants ensuring only clean water leaves the mine site.

The Company is committed to providing a safe working environment and encourages a culture where all employees are safety aware and work towards keeping the mine accident free. To date, over 5.1 million hours have been worked at Siana in exploration and construction activities without a Lost Time Injury (LTI).

The Company recently competed in competitions held at a Mining and Safety Conference in Surigao. This was the first time the Company's employees have competed in such a competition and achieved outstanding results with a first in the fire fighting event, a second in the first aid event and being awarded the "most organised and dynamic" company in the competition.

## Exploration

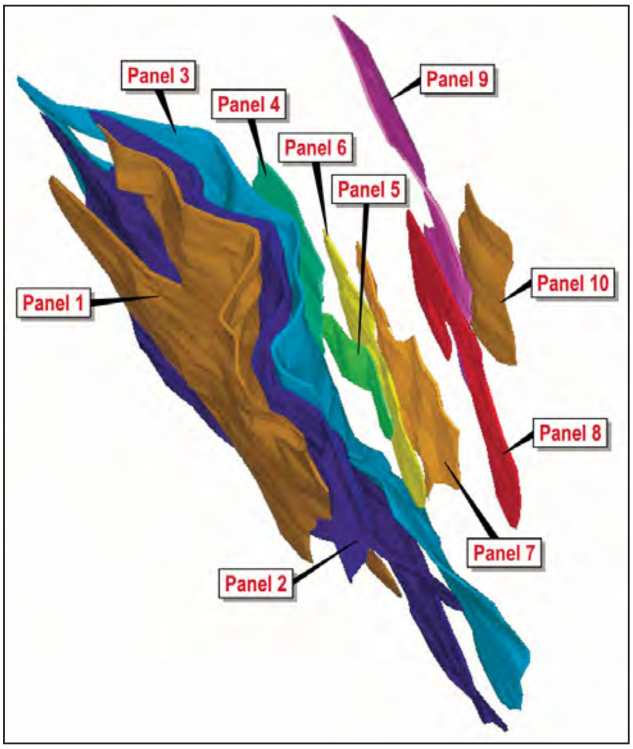
### Siana and near mine

Drilling at the mine site recommenced in June 2011 for the first time in over two years. Holes are targeting northern and southern extensions to known mineralisation in Panels 1, 2 and 3 which remain open at depth, together with along strike extensions.

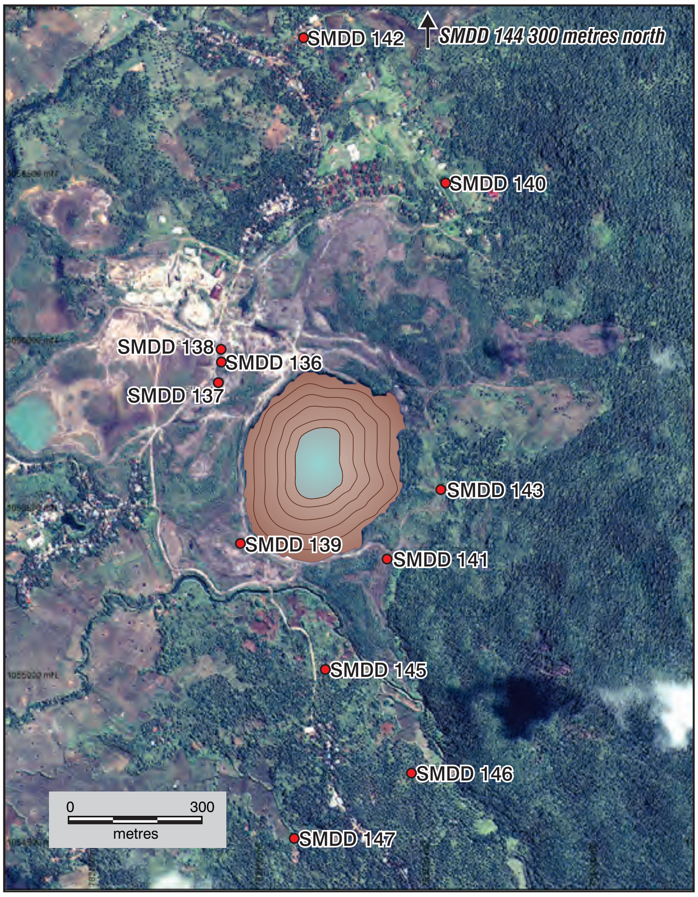
Six resource extension and two near mine holes have been completed with a further two holes in progress. Only partial results are available due to a major deterioration in assay turnaround, resulting from a dramatic exploration resurgence in the Philippines.

Holes SMDD136, 137 and 138 were targeting northern extensions and were drilled prior to the location being excavated as part of the pit exit ramp road. These holes intersected narrow alteration and disseminated pyrite mineralisation zones consistent with the adjacent mineralised panels. Holes SMDD139, 141 and143 targeted southern extensions. Hole SMDD141 was abandoned due to unfavourable lithology. Holes SMDD139 and 143 look encouraging with the latter just completed at 659 metres down the hole, after encountering Siana style alteration over a 40 metre intersection.

The near mine holes are targeting geophysical and structural interpretations hypothesised to be similar to the Siana mineralisation. Hole SMDD140 was abandoned due to unfavourable lithology and SMDD142 is near target depth.




Surface sampling in the surrounding region has commenced to follow-up historical stream sediment results of up to 3.54 g/t gold in the Dayano region to the south of Siana. Upon receipt of confirmatory sample results and grid soil sampling, drilling is expected to commence in the December 2011 quarter.




### Competent Person Declaration

*The information in this Public Report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on, and accurately reflects, information compiled by Mr Rohan D Williams who is a full-time employee of Red 5 Limited and is a Member of The Australasian Institute of Mining and Metallurgy.*

*Mr Williams has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr Williams consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# Exploration

## Mapawa

Exploration work at Mapawa was suspended in March 2011 due to the heavy rains experienced in the region which made the site inaccessible and dangerous for drilling operations.

Since the suspension of drilling the Company has taken the opportunity to conduct a thorough review of the data collected along with the previous work done on the project.

It is proposed to conduct further geophysical techniques over the area to better target drill holes before a resumption of exploration drilling occurs.

### Down hole analytical results (above 0.5g/t gold equivalent[(1)])

| Drill hole Number | From (m) | Interval (m) | Cu % | Au g/t | Ag ppm |
|---|---|---|---|---|---|
| MDD010 | 26 | 55 | 0.08% | 0.3 | 1.2 |
| MDD011 | 72 | 56 | 0.14% | 0.7 | 5.0 |
| *including* | *104* | *10* | *0.26%* | *1.6* | *6.0* |
| MDD011 | 179 | 11 | 0.04% | 1.3 | 1.5 |
| MDD012 | 137 | 11 | 0.09% | 0.7 | 2.8 |
| MDD012 | 169 | 19 | 0.03% | 1.6 | 4.2 |
| MDD012 | 203 | 89 | 0.07% | 0.6 | 2.5 |
| MDD013 | 146 | 269 | 0.02% | 0.7 | 1.9 |
| MDD013 | 146 | 269 | 0.02% | 0.7 | 1.9 |
| *including* | *146* | *19* | *0.02%* | *1.0* | *1.6* |
| *including* | *194* | *18* | *0.02%* | *1.1* | *3.0* |
| *including* | *209* | *2* | *0.02%* | *6.5* | *5.5* |
| *including* | *241* | *7* | *0.02%* | *2.3* | *3.8* |
| *including* | *378* | *37* | *0.02%* | *3.0* | *3.6* |
| MDD015 | 332 | 7 | 0.05% | 0.7 | 32.6 |
| MDD015 | 813 | 12 | 0.04% | 1.6 | 24.2 |
| MDD015 | 840 | 45.5 | 0.03% | 1.8 | 9.0 |
| MDD016 | 492 | 7 | 0.02% | 0.5 | 0.6 |
| MDD016 | 579 | 25 | 0.01% | 0.6 | 1.5 |
| MDD017 | 607 | 7 | 0.00% | 1.3 | 22.0 |
| MDD017 | 632 | 36 | 0.07% | 2.1 | 44.1 |
| MDD017 | 712 | 4.5 | 0.06% | 0.7 | 6.2 |
| MDD018 | 197 | 5 | 0.00% | 0.7 | 0.6 |
| MDD018 | 285 | 8 | 0.00% | 3.9 | 0.8 |
| MDD018 | 371 | 8 | 0.00% | 1.6 | 1.1 |
| MDD018 | 440 | 6 | 0.02% | 0.9 | 1.2 |
| MDD019 | 554 | 7 | 0.01% | 0.6 | 1.1 |

(1) *Gold equivalent is calculated using prices of $3.50/lb Cu, $1,200/oz Au and $17/oz Ag*

### Drillhole collar coordinates

| Drill hole Number | Easting (m) | Northing (m) | RL (m) | Collar Azimuth | Collar Dip | Depth (m) |
|---|---|---|---|---|---|---|
| MDD010 | 777966 | 75197 | 254 | 260 | -50 | 165 |
| MDD011 | 777798 | 75320 | 237 | 90 | -70 | 200 |
| MDD012 | 777794 | 75252 | 237 | 40 | -80 | 365 |
| MDD013 | 777691 | 75230 | 213 | 45 | -80 | 585 |
| MDD014 | 777784 | 75391 | 213 | 90 | -60 | 512 |
| MDD015 | 777799 | 75368 | 237 | 180 | -60 | 886 |
| MDD016 | 778066 | 75384 | 246 | 180 | -60 | 744 |
| MDD017 | 777220 | 75640 | 172 | 180 | -50 | 717 |
| MDD018 | 776901 | 75530 | 189 | 180 | -50 | 484 |
| MDD019 | 777598 | 75702 | 216 | 180 | -60 | 600 |


*Typical Mapawa alteration and veining.*

## Siana Resource & Reserve Statement

In October 2011 the Company announced an increase to the Mineral Resource at the Siana gold project. The Mineral Resource estimate utilised new resources definition drill hole data and re-optimised the open pit portion of the resource using a US$900 per ounce gold price.

The new JORC compliant Mineral Resource of 13.2Mt at 3.2g/t gold and 5.7g/t silver for 1,357,000 ounces of gold and 2,417,000 of silver represents an increase of 231,000 ounces of contained gold (or 21%) over the previous estimate. A cut-off grade of 0.8g/t gold was used to define the Mineral Resource in the open pit and 2.0g/t gold was used for the cut-off grade in the underground portion of the deposit. The open pit portion of the Resource was defined using a optimised pit shell at a US$900 per ounce gold price.

At the time of writing, the Ore Reserve of the Siana Project remains unchanged whilst Modifying Factors such as a new pit and underground design are being prepared.
As such, the open pit being currently implemented is based on a conservative gold price of US$650 per ounce.

### Mineral Resource (as at September 2011)

| Category | Tonnes (million) | Gold Grade (g/t) | Contained Gold ('000 oz) | Silver Grade (g/t) | Contained Silver ('000 oz) |
|---|---|---|---|---|---|
| **Indicated Resource** | | | | | |
| Stockpiles | 0.1 | 1.2 | 4 | 8.7 | 31 |
| Open Pit | 9.6 | 2.5 | 765 | 4.5 | 1,379 |
| Underground | 0.9 | 6.7 | 199 | 12.2 | 359 |
| **Total Indicated Resource** | **10.7** | **2.8** | **969** | **4.6** | **1,775** |
| **Inferred Resource** | | | | | |
| Open Pit | 1.4 | 2.6 | 112 | 4.8 | 209 |
| Underground | 1.1 | 7.6 | 276 | 11.9 | 433 |
| **Total Inferred Resource** | **2.5** | **4.8** | **388** | **8.0** | **642** |
| **Total Mineral Resource** | **13.2** | **3.2** | **1,357** | **5.7** | **2,417** |

*Note:- contains minor rounding adjustments; - Open pit cut-off grade 0.8g/t Au; - Underground Resources are defined as the region below the optimised Open Pit at a US$900 gold price (nominally below -270mRL) using a +2g/t Au cut-off*

### Mining Reserve (as at February 2009 - update pending)

| Category | Tonnes (million) | Gold Grade (g/t) | Contained Gold ('000 oz) | Silver Grade (g/t) | Contained Silver ('000 oz) |
|---|---|---|---|---|---|
| **Stockpiles** | 0.08 | 1.33 | 3.5 | 10.7 | 28.5 |
| **Open Pit** | 3.11 | 3.42 | 341 | 8.7 | 870 |
| **Underground** | 1.94 | 5.82 | 363 | 9.1 | 566 |
| **Total Reserve** | **5.13** | **4.3** | **708** | **8.9** | **1,465** |

### Mineral Resource

*Mineral Resource estimates described in this report are consistent with the guidelines and definitions of the 2004 Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code).*

*They are assumed to have a reasonable prospect for eventual economic extraction according to the analysis of the known data, and from which Ore Reserves have been derived by the application of appropriate Modifying Factors including mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations.*

***Open Pit Mineral Resource***

*The open pit Mineral Resource was estimated by Hellman & Schofield Pty Ltd using the method of Multiple Indicator Kriging with block support correction.*

***Underground Mineral Resource***

*The underground Mineral Resource was estimated by Cube Consulting Pty Ltd based on drill data available at December 2008. The Mineral Resource remains open to the north, south and at depth below 500 metres vertical.*

### Mining Reserve

*The Mining Ore Reserve extends to approximately 400 metres below surface.*

# Financial Statements

for the year ended 30 June 2011

The directors of Red 5 Limited ("Red 5" or "parent entity") present their report on the results and state of affairs of Red 5 and its subsidiaries ("the Group" or the "consolidated entity") for the financial year ended 30 June 2011.

## 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:

Colin George Jackson
Gregory Charles Edwards
Gary Francis Scanlan
Kevin Anthony Dundo
Mark Francis Milazzo (appointed on 1 May 2011)
Barry Colin Bolitho (resigned on 23 November 2010)

Unless otherwise indicated, 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. During the latter half of the year, the Siana gold project moved into the mine development and construction phase.

## Results of Operations

The net loss of the consolidated entity after income tax was $8,111,524 (2010: $438,421).

## Review of Operations

During the year, Red 5 moved into the development and construction of the Siana gold project in the Philippines. The project will initially be mined as an open pit and will then convert to an underground mining operation with an expected total mine life of 10 years. Life of mine production is currently estimated at 850,000 ounces of gold plus 1.5 million ounces of silver.

Project development activities during the year comprised site earthmoving and civil works, construction of a mine access road, grid power connection and site reticulation, mining pre-stripping, dewatering of the existing open pit, mine site infrastructure and facilities, SAG mill and processing plant fabrication and installation. Recruitment of personnel for mining operations commenced including senior management positions of Operations Director and Plant Superintendent.

The progress of site construction and pit dewatering activities were severely impacted during the year by abnormal levels of rainfall in the Siana region which surpassed rainfall records of the last 100 years. Following an abatement of the weather conditions in May 2011, site activities resumed at full capacity and a revised construction schedule was implemented.

Red 5 raised equity funds of $51.0 million (gross) through an oversubscribed share placement of 300,000,000 ordinary fully paid shares at an issue price of 17 cents per share. The placement was conducted in two tranches with the first tranche of $17.34 million completed in October 2010 and the second tranche of $33.66 million completed following shareholder approval in November 2010.

Following completion of the equity raising, Red 5 accepted a term sheet and entered into discussions for a revised US$8 million standby credit facility to replace a commitment to a US$25 million gold prepayment facility. The credit facility is a non-revolving standby facility for 24 months maturing in March 2013. Red 5 issued 5,000,000 treasury shares in satisfaction of the establishment fee and a break fee was paid to extinguish the gold prepayment commitment. The final terms and conditions of the standby credit facility remained under consideration at the time of signing the accounts.

An exploration programme was commenced around the Siana open pit and surrounding region to test the northern extension of a number of ore panels which had been identified within the Siana resource model. A drilling programme was also undertaken at the Mapawa project, located 20 kilometres north of the Siana project, to test the potential for porphyry copper-gold mineralisation and to evaluate the extent of near surface oxide mineralisation.

Red 5 received royalties of $492,687 as at the date of this report from Galaxy Resources Ltd for the year ending 30 June 2011. Furthermore, Red 5 accrued $600,000 in related royalties to extinguish it's liability to the Wanless syndicate.

## 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 intends to complete the development and construction of the Siana project allowing the commencement of gold production. The consolidated entity will continue its mineral exploration activities in its other project areas.

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 Shares

At the date of this report, there were 2,100,000 options granted over ordinary fully paid shares. The terms of these options are:

| Options over ordinary fully paid shares exercisable: | Number |
|---|---|
| at 25 cents each on or before 30 June 2013 | 700,000 |
| at 25 cents each on or before 30 April 2014 | 700,000 |
| at 40 cents each on or before 30 April 2016 | 700,000 |
| | **2,100,000** |

No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of the parent entity or any other corporation.

## Significant Changes

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

(a) Gross equity funds of $17,340,000 were raised through a share placement of 102,000,000 ordinary shares at an issue price of 17 cents per share on 21 October 2010.

(b) Gross equity funds of $33,660,000 were raised through a share placement of 198,000,000 ordinary shares at an issue price of 17 cents per share on 29 November 2010.

(c) On 24 March 2011 the Company terminated its commitment to a US$25M gold prepay arrangement.

(d) On 8 April 2011 the Company accepted a term sheet and commenced discussions for a US$8M standby credit facility.

## Events Subsequent to the End of the Financial Year

There have been no significant events which have occurred subsequent to the end of the financial year.

## Information on Directors

**Colin G Jackson**
*(Non-Executive Chairman)*
M.Sc., B.Sc. (Hons), DIC, Grad. Dip. Bus. Admin.

A director since December 2003 and Chairman since April 2007. 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. Mr Jackson is a member of the audit and remuneration committees.
*Other current directorships:*
Intrepid Mines Limited (since December 2003).
Mr Jackson has not held directorships in any other listed companies in the last 3 years.

**Gregory C Edwards**
*(Managing Director)*
B.Sc. (Hons), MAusIMM

A director since November 2001. Mr Edwards is a geologist with over 25 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.

**Gary F Scanlan**
*(Non-Executive Director)*
FAusIMM, CA

A director since November 2006. Mr Scanlan has over 20 years experience in the mining industry preceded by 10 years experience with PricewaterhouseCoopers. His previous roles include Executive General Manager – Finance for Newcrest Mining Limited and until recently, Managing Director of Castlemaine Goldfields Limited. Mr Scanlan is chairman of the audit committee and a member of the remuneration committee.
*Other current directorships:*
Castlemaine Goldfields Limited (since June 2005, chairman since December 2010). Mr Scanlan was a director of Citadel Resource Group between December 2009 and March 2011.
Mr Scanlan has not held other directorships in any other listed companies in the last 3 years.

**Kevin A Dundo**
*(Non-Executive Director)*
B.Com, LLB, FCPA

A director since March 2010. Mr Dundo practices as a lawyer and specialises in commercial and corporate areas (in particular mergers and acquisitions) with experience in the mining sector, the service industry and the financial services industry. Mr Dundo is chairman of the remuneration committee and is a member of the audit committee.
*Other current directorships:*
Imdex Limited (since January 2004) and Synergy Plus Limited (since July 2006).
*Former directorships in the last 3 years:*
Intrepid Mines Limited (April 2002 to May 2009).

**Mark F Milazzo**
*(Non-Executive Director)*
B.Eng. Mining, FAusIMM

A director since May 2011. Mr Milazzo is a mining engineer with 30 years experience in mining operations. Until recently he was General Manager of HWE Mining Pty Ltd where he was responsible for managing a portfolio of surface and underground mining contracts for a wide range of clients across a range of commodities.
*Other current directorships:*
Cortona Resources Limited (since May 2011).
*Former directorships in the last 3 years:*
None.

**Barry C Bolitho**
Resigned on 23 November 2010.

## 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 Red 5 as at the date of this report are as follows:

| Director | Fully paid shares | Options |
|---|---|---|
| C Jackson | 225,000 | – |
| G Edwards | 10,265,342 | – |
| G Scanlan | 500,000 | – |
| K Dundo | – | – |
| M Milazzo | 250,000 | – |

## 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 2011 and the number of meetings attended by each director whilst in office are as follows:

| | Board meetings | | | Audit Committee meetings | | | Remuneration Committee meetings | | |
|---|---|---|---|---|---|---|---|---|---|
| | held | eligible | attended | held | eligible | attended | held | eligible | attended |
| C Jackson | 11 | 11 | 11 | 2 | 2 | 2 | 2 | 2 | 2 |
| G Edwards | 11 | 11 | 11 | 2 | – | – | 2 | – | – |
| G Scanlan | 11 | 11 | 11 | 2 | 2 | 2 | 2 | 2 | 2 |
| K Dundo | 11 | 11 | 10 | 2 | 2 | 2 | 2 | 2 | 2 |
| M Milazzo | 11 | 1 | 1 | 2 | – | – | 2 | – | – |
| B Bolitho | 11 | 4 | 4 | 2 | – | – | 2 | – | – |

## Remuneration Report (audited)

This report sets out the current remuneration arrangements for directors and executives of Red 5. For the purposes of this report, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling major activities of the consolidated entity, including any director (whether executive or non-executive) of Red 5, and includes the executives in the consolidated entity receiving the highest remuneration.

### Principles used to determine the nature and amount of remuneration

***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 Red 5's operations. Executive directors and senior executives receive a base remuneration which is market related, together with performance based remuneration linked to the achievement of pre-determined milestones and targets. As Red 5's principal activities during the year were mineral exploration and evaluation, measurement of financial performance will become relevant when mining operations commence.

Red 5's remuneration policies are designed to align executives' 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; and
- individual reward should be linked to performance criteria.

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

- a fixed sum base salary plus superannuation benefits;
- short term incentives through eligibility to participate in a performance bonus scheme if deemed appropriate; and
- long term incentives through executive directors and other senior executives being eligible to participate in share option schemes with the prior approval of shareholders.

Fixed and variable remuneration is established for executive directors 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 through the operation of performance bonus schemes. The performance bonus, based on a percentage of annual salary, may be payable upon achievement of agreed key performance indicators (KPIs). KPIs are reviewed and agreed annually by the remuneration committee and include financial and non-financial objectives. Measures chosen directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

### *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 fees payable to non-executive directors, with the current approved limit being $270,000 per annum. The remuneration committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations. The Chairman receives fees of $70,000 per annum and non-executive directors receive $50,000 per annum, with additional amounts for chairing of board committees, namely $10,000 per annum for audit committees and $5,000 per annum for remuneration committees, all exclusive of superannuation. Non-executive directors are entitled to statutory superannuation benefits. 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 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.

## Details of remuneration

The following table discloses details of the nature and amount of each element of the remuneration of each director of Red 5 and each of the officers receiving the highest remuneration and other key management personnel for the year ended 30 June 2011.

| 2011 | Short term | | | Post-employment | Equity | | Other | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Salary or directors fees | Consulting fees | Performance cash bonus (6) | Super-annuation | Shares (7) | Options | Expenses | Total | Performance related (6) |
| | $ | $ | $ | $ | $ | $ | $ | $ | % |
| **Executive director** | | | | | | | | | |
| G Edwards (1) | 440,825 | – | 28,437 | 45,368 | 59,859 | – | 18,849 | 593,338 | 14.9 |
| **Non-executive directors** | | | | | | | | | |
| C Jackson | 70,000 | 165,751 | – | 6,300 | – | – | – | 242,051 | – |
| G Scanlan | 60,000 | – | – | 5,400 | – | – | – | 65,400 | – |
| K Dundo | 52,743 | – | – | 5,578 | – | – | – | 58,321 | – |
| M Milazzo (2) | 8,333 | – | – | 750 | – | – | – | 9,083 | – |
| B Bolitho (3) | 27,500 | – | – | 2,475 | – | – | – | 29,975 | – |
| **Executives** | | | | | | | | | |
| J Mobilia (1) | 240,084 | – | 15,710 | 25,142 | 15,710 | 55,840 | – | 352,486 | 8.9 |
| W Darcey (4) | 122,766 | – | – | 8,333 | – | – | – | 131,099 | – |
| R Pyatt (5) | 39,897 | – | – | 3,710 | – | – | 129 | 43,736 | – |
| F Campagna | – | 115,420 | – | – | – | 41,879 | – | 157,299 | – |
| **Total** | **1,062,148** | **281,171** | **44,147** | **103,056** | **75,569** | **97,719** | **18,978** | **1,682,788** | **7.1** |

*(1) Salary includes adjustment for movements in the current value of employee leave provisions of $68,325 for Mr Edwards and $20,084 for Mr Mobilia.*

*(2) Appointed 1 May 2011.*

*(3) Up to date of resignation on 23 November 2010.*

*(4) Up to date of resignation on 31 October 2010.*

*(5) Appointed 9 May 2011.*

*(6) Short term incentive bonuses relate to executive performance during the period to 31 December 2010. The amounts were determined by the remuneration committee after performance reviews and were based on achievement of pre-determined key performance indicators. The amount vested for Mr Edwards represents 25% of the available bonus and for Mr Mobilia the amount vested represents 57% of the available bonus, with the respective balances being forfeited due to performance criteria not being met. The bonus comprised 50% in cash and 50% to be satisfied by the issue of shares. Mr Edwards' component of the bonus includes the shares relating to the prior financial year (approved during the year) in addition to those relating to this year (which remains subject to shareholder approval).*

*(7) Shares issued are the equity component of short term incentive bonuses. These include 165,342 shares issued to Mr Edwards relating to a bonus for the period to 31 December 2009, 76,711 shares issued to Mr Mobilia relating to a bonus for the period to 31 December 2010, and a provision for 138,885 shares to be issued to Mr Edwards (subject to shareholder approval) for the period to 31 December 2010. Excluded from the 2011 remuneration table are 144,141 shares that were issued to Lance Govey in 2011, previously a director of the Company, relating to a bonus for the period ended 31 December 2009.*

The company secretary is deemed to be an executive by virtue of being an officer of the parent entity. The role performed by the company secretary does not meet the definition of key management person under AASB 124, hence this officer has been excluded from the key management personnel disclosures in the financial report.

All directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of $61,758 (2010: $60,354) 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.

| 2010 | Short term | | | Post-employment | Other | | |
|---|---|---|---|---|---|---|---|
| Name | Salary or directors fees | Consulting fees | Performance cash bonus (4) | Super-annuation | Expenses | Total | Performance related (4) |
| | $ | $ | $ | $ | $ | $ | % |
| **Executive directors** | | | | | | | |
| G Edwards | 290,920 | – | 28,751 | 30,931 | – | 350,602 | 8.2 |
| A Govey (1) | 207,630 | – | 22,975 | 19,744 | – | 250,349 | 9.2 |
| **Non-executive directors** | | | | | | | |
| C Jackson | 55,000 | 105,225 | – | 4,950 | – | 165,175 | – |
| G Scanlan | 41,250 | – | – | 3,713 | – | 44,963 | – |
| K Dundo (2) | 12,500 | – | – | 1,125 | – | 13,625 | – |
| B Bolitho (2) | 13,750 | – | – | 1,238 | – | 14,988 | – |
| P Rowe (1) | 26,250 | – | – | 2,363 | – | 28,613 | – |
| **Executives** | | | | | | | |
| J Mobilia (3) | 41,397 | – | – | 3,823 | – | 45,220 | – |
| W Darcey | 254,300 | – | – | 25,000 | – | 279,300 | – |
| F Campagna | – | 95,925 | – | – | – | 95,925 | – |
| **Total** | **942,997** | **201,150** | **51,726** | **92,887** | **–** | **1,288,760** | **4.0** |

*(1) Up to date of resignation on 29 March 2010.*

*(2) Appointed 29 March 2010.*

*(3) Appointed 27 April 2010.*

*(4) Short term incentive bonuses relate to executive performance during the period to 31 December 2009. The amounts were determined by the remuneration committee after performance reviews and were based on achievement of pre-determined key performance indicators. The amount vested for Mr Edwards represents 69% of the available bonus and for Mr Govey the amount vested represents 77% of the available bonus, with the respective balances being forfeited due to performance criteria not being met. The bonus comprised 50% in cash and 50% to be satisfied by the issue of shares. Mr Edwards' component of the bonus excludes the share component which was subject to shareholder approval.*

### *Options granted to officers*

During the year the parent entity granted options over ordinary shares to the following executive officers of the parent entity as part of their remuneration.

| 2011 | Granted | Terms and conditions for each grant | | | | Vested | |
|---|---|---|---|---|---|---|---|
| | Number | Grant date | Fair value per option | Exercise price per option | Expiry date | Number | % |
| | | | $ | $ | | | |
| **Executives** | | | | | | | |
| J Mobilia | 400,000 | 28.04.2011 | 0.0655 | 0.25 | 30.04.2014 | 400,000 | 100 |
| | 400,000 | 28.04.2011 | 0.0741 | 0.40 | 30.04.2016 | 400,000 | 100 |
| F Campagna | 300,000 | 28.04.2011 | 0.0655 | 0.25 | 30.04.2014 | 300,000 | 100 |
| | 300,000 | 28.04.2011 | 0.0741 | 0.40 | 30.04.2016 | 300,000 | 100 |

No shares were issued during the year as a result of the exercise of options granted as part of remuneration. There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period. There were no options granted in the prior year.

### *Share-based compensation*

The Board has adopted the Red 5 Employee Option Plan (Plan). Shareholders authorised the issue of options under the Plan at the annual general meeting held on 27 November 2007. 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.

### *Options granted as part of remuneration*

Details of options over ordinary shares in the consolidated entity that were granted as compensation to executives during the reporting period are as follows:

| | Value of options granted during the period | Value of options exercised during the period | Value of options lapsed during the period | Total | Value of options as a percentage of remuneration |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | % |
| **Executives** | | | | | |
| J Mobilia | 55,840 | – | – | 55,840 | 15.8 |
| F Campagna | 41,879 | – | – | 41,879 | 26.6 |

Options granted as part of executive remuneration have been valued using a Black Scholes option-pricing model. The following factors were used in determining the fair value of options on the grant date:

| | Options 30.04.14 | Options 30.04.16 |
|---|---|---|
| Grant date | 28.04.11 | 28.04.11 |
| Option life | 3.005 years | 5.005 years |
| Exercise price | $0.25 | $0.40 |
| Share price on grant date | 0.16 | 0.16 |
| Expected volatility | 0.75 | 0.75 |
| Risk free interest rate | 5.09% | 5.27% |
| Dividend yield | Nil | Nil |

Information on any benefits received by directors of Red 5 by reason of contract made with the consolidated entity with a director or a director-related entity is contained in Note 19 of the financial report.

### *Service agreements*

The terms of employment for executive directors and key management personnel are formalised in service agreements. Major provisions of the agreements relating to duration and termination are set out below.

G Edwards – Managing Director

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of $395,000 per annum plus 10% superannuation contributions, to be reviewed annually by the remuneration committee.
***Performance bonus:*** up to 75% of annual salary weighted equally between the achievement of agreed milestones and relative peer group share price performance. To receive 100% of the peer group share price performance component the Red 5 share price must be in the top quartile of the ASX All Ordinaries gold index. To receive 50% of the share price performance component the Red 5 share price must be in the second quartile of the ASX All Ordinaries gold index.
No component is received for below median performance.
Payment of a performance bonus is 50% cash and 50% shares (escrowed for two years).
***Termination provisions:*** payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 3 months of the annual salary.

J Mobilia – Chief Financial Officer

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of $230,000 per annum plus 10% superannuation contributions, to be reviewed annually.
***Performance bonus:*** up to 35% of annual salary weighted equally between the achievement of agreed milestones and relative peer group share price performance.
***Equity compensation:*** entitlement to participate in the employee share option plan.
***Termination provisions:*** payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 2 months of the annual salary.

R Pyatt – Operations Director

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of US$250,000 per annum plus 10% superannuation contributions, to be reviewed annually.
***Performance bonus:*** up to 50% of annual salary upon the achievement of agreed milestones and relative peer group share price performance.
***Termination provisions:*** payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 3 months of the annual salary.

## Non-Audit Services

During the year, Red 5's external auditors, KPMG, have provided other services in addition to their statutory audit function. Non audit services provided by the external auditors comprised $67,232 for taxation services and $35,000 for advisory services. Further details of remuneration of the auditors are set out in Note 20.

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 APES 110 Code of Ethics for Professional Accountants, 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 auditor's 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 2011.

Signed in accordance with a resolution of the directors.

**Colin G Jackson**
*Chairman*

Perth, Western Australia
26 September 2011

**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 2011 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**

**R Gambitta**
*Partner*

Perth
26 September 2011

# Statement of Comprehensive Income

## for the year ended 30 June 2011

| | Note | CONSOLIDATED 2011 $ | 2010 $ |
|---|---|---|---|
| Royalty income | | **492,687** | – |
| Sundry income | | **119,278** | – |
| Amortisation and depreciation expenses | | **(26,987)** | (6,157) |
| Employee and consultancy expenses | *4* | **(1,476,002)** | (1,069,828) |
| Exploration expenditure written-off | | **(2,026,093)** | (503,791) |
| Royalty release | | **(600,000)** | – |
| Impairment of property, plant and equipment | | **(950,000)** | – |
| Occupancy expenses | | **(368,547)** | (189,057) |
| Regulatory expenses | | **(355,233)** | (183,411) |
| Foreign exchange gains/(losses) | | **(529,557)** | 155,499 |
| Other expenses | | **(954,809)** | (363,618) |
| Operating loss before financing income/(expenses) | | **(6,675,263)** | (2,160,363) |
| Financing income | *4* | **2,989,172** | 1,721,942 |
| Financing expenses | *4* | **(4,425,433)** | – |
| Net financing income | | **(1,436,261)** | 1,721,942 |
| Profit/(loss) before income tax expense | | **(8,111,524)** | (438,421) |
| Income tax (expense)/benefit | *5* | **–** | – |
| **Net loss after tax** | | **(8,111,524)** | (438,421) |
| Movement in foreign currency translation reserve | | **(8,089,047)** | (1,295,785) |
| **Total comprehensive income** | | **(16,200,571)** | (1,734,206) |
| **Net loss after income tax** | | | |
| To non-controlling interest | | **(57,647)** | (9,398) |
| To members of parent entity | | **(8,053,877)** | (429,023) |
| | | **(8,111,524)** | (438,421) |
| **Total comprehensive income** | | | |
| To non-controlling interest | | **(251,784)** | (40,497) |
| To members of parent company | | **(15,948,787)** | (1,693,709) |
| | | **(16,200,571)** | (1,734,206) |
| | | ***Cents*** | *Cents* |
| Basic and diluted loss per share (cents per share) | *25* | **(0.69)** | (0.05) |

*The accompanying notes form part of these financial statements.*

# Statement of Financial Position

## as at 30 June 2011

| | | CONSOLIDATED | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | **$** | $ |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | *6* | **52,504,956** | 57,681,899 |
| Trade and other receivables | *7* | **3,263,346** | 212,139 |
| Held for sale assets | *8* | **–** | 1,300,000 |
| **Total current assets** | | **55,768,302** | 59,194,038 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | *9* | **3,481,359** | 24,306 |
| Property, plant and equipment | *10* | **36,386,015** | 447,412 |
| Mine development expenditure | *11* | **40,497,382** | 39,386,037 |
| **Total non-current assets** | | **80,364,756** | 39,857,755 |
| **TOTAL ASSETS** | | **136,133,058** | 99,051,793 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *13* | **5,056,848** | 1,571,642 |
| Employee benefits | *14* | **136,287** | 70,730 |
| Provisions | *15* | **1,116,104** | 1,271,464 |
| **Total current liabilities** | | **6,309,239** | 2,913,836 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | *16* | **–** | 269,270 |
| Provisions | *15* | **307,940** | – |
| Employee benefits | *14* | **104,614** | 73,514 |
| **Total non-current liabilities** | | **412,554** | 342,784 |
| **TOTAL LIABILITIES** | | **6,721,793** | 3,256,620 |
| **NET ASSETS** | | **129,411,265** | 95,795,173 |
| **EQUITY** | | | |
| Contributed equity | *17* | **163,041,013** | 113,322,069 |
| Other equity | *17* | **930,285** | 930,285 |
| Reserves | *18* | **(10,258,597)** | (1,971,306) |
| Accumulated losses | | **(24,009,155)** | (16,445,378) |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **129,703,546** | 95,835,670 |
| Non controlling interest | | **(292,281)** | (40,497) |
| **TOTAL EQUITY** | | **129,411,265** | 95,795,173 |

*The accompanying notes form part of these financial statements.*

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT ENTITY | | | | | |
|---|---|---|---|---|---|---|
| | Issued Capital $ | Other Equity $ | Accumulated Losses $ | Other Reserves $ | Non-Controlling Interest $ | Total $ |
| **CONSOLIDATED** | | | | | | |
| **Balance at 1 July 2009** | 67,221,875 | – | (16,016,355) | (706,620) | – | 50,498,900 |
| Net loss | – | – | (429,023) | – | (9,398) | (438,421) |
| Other comprehensive income for the period | – | – | – | (1,264,686) | (31,099) | (1,295,785) |
| Total comprehensive income for the period | – | – | (429,023) | (1,264,686) | (40,497) | (1,734,206) |
| Shares issued during the year | 49,430,000 | – | – | – | – | 49,430,000 |
| Transaction costs | (2,432,213) | – | – | – | – | (2,432,213) |
| Other equity | – | 930,285 | – | – | – | 930,285 |
| Treasury shares acquired | (897,593) | – | – | – | – | (897,593) |
| **Balance at 30 June 2010** | **113,322,069** | **930,285** | **(16,445,378)** | **(1,971,306)** | **(40,497)** | **95,795,173** |
| | | | | | | |
| **Balance at 1 July 2010** | 113,322,069 | 930,285 | (16,445,378) | (1,971,306) | (40,497) | 95,795,173 |
| Net loss | – | – | (8,053,877) | – | (57,647) | (8,111,524) |
| Other comprehensive income for the period | – | – | - | (7,894,910) | (194,137) | (8,089,047) |
| Total comprehensive income for the period | – | – | (8,053,877) | (7,894,910) | (251,784) | (16,200,571) |
| Shares issued during the year | 51,000,000 | – | – | – | – | 51,000,000 |
| Transaction costs | (3,139,203) | – | – | – | – | (3,139,203) |
| Issue of employee performance shares | 60,554 | – | – | – | – | 60,554 |
| Issue of options | – | – | – | 97,719 | – | 97,719 |
| Exercised options | 900,000 | – | – | – | – | 900,000 |
| Treasury shares (re-issued) | 897,593 | – | – | – | – | 897,593 |
| Transfers from reserves | – | – | 490,100 | (490,100) | – | – |
| **Balance at 30 June 2011** | **163,041,013** | **930,285** | **(24,009,155)** | **(10,258,597)** | **(292,281)** | **129,411,265** |

*The accompanying notes form part of these financial statements.*

# Statement of Cash Flows

## for the year ended 30 June 2011

| | Note | CONSOLIDATED 2011 $ | 2010 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | **(2,897,194)** | (1,973,569) |
| Payments for exploration and evaluation expenditure | | **(1,920,988)** | (2,919,214) |
| Interest received | | **2,876,814** | 1,876,872 |
| Interest paid | | **(2,846)** | – |
| Tax payments | | **(155,359)** | – |
| Royalty receipts | | **265,000** | – |
| Sundry receipts | | **117,391** | – |
| **Net cash from operating activities** | *24* | **(1,717,182)** | (3,015,911) |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | **(37,689,432)** | (12,314) |
| Payments for development | | **(8,108,399)** | (2,796,597) |
| Acquisition of exploration assets | | **–** | (1,607,454) |
| **Net cash from/(used in) investing activities** | | **(45,797,831)** | (4,416,365) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | **51,900,000** | 44,950,000 |
| Payments for share issue expenses | | **(3,085,006)** | (2,432,313) |
| Funds received from non-controlling interests | | **–** | 10,116 |
| Finance facility expenses | | **(4,536,714)** | – |
| Repayment of borrowings | | **(322,846)** | – |
| **Net cash from/(used in) financing activities** | | **43,955,434** | 42,527,803 |
| **Net increase/(decrease) in cash held** | | **(3,559,579)** | 35,095,527 |
| Cash at the beginning of the financial year | | **57,681,899** | 22,453,445 |
| Effect of exchange rate fluctuations on cash held | | **(1,617,364)** | 132,927 |
| **Cash at the end of the financial year** | *6* | **52,504,956** | 57,681,899 |

*The accompanying notes form part of these financial statements.*

## 1. REPORTING ENTITY

Red 5 Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, 35 Ventnor Avenue, West Perth, Western Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the exploration and mining of gold.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 26 September 2011.

### 2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for share based payments and rehabilitation provisions. Share based payments are measured at fair value. The methods used to measure fair values of share based payments are discussed further in the Note 3.12. Rehabilitation provisions are based on net present value and are discussed in Note 3.14.

### 2.3 Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

### 2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in Note 3.17.

### 2.5 Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 29.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the consolidated entity. No additional standards or amendments have been early adopted in the current year.

### 3.1 Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Company as at 30 June 2011 and the results of all controlled entities for the year then ended. The Company 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. Non-controlling 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.

### 3.2 Finance income and expenses

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. Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest rate method. Finance expenses comprise interest expense on borrowings and amortisation of loan borrowing costs. Loan borrowing costs are amortised using the effective interest rate method.

### 3.3 Investments

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 statement of comprehensive income.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at 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.

### 3.4 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.

Plant and equipment is included at cost less provision for depreciation and any impairment in value and depreciated using a combination of the straight line 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.

### 3.5 Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated at cost in respect of each identifiable area of interest. Costs incurred in respect of generative, broad scale exploration activities are expensed in the period in which they are incurred. Costs incurred for each area of interest where a JORC compliant resource or reserve has been identified are capitalised. The costs are only carried forward to the extent they are expected to be recouped through the successful development of the area, or where further work is to be performed to provide additional information.

Accumulated costs in relation to an abandoned area will be written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest..

### 3.6 Mine development

Costs incurred in the development of a mine before production commences are capitalised as part of the mine development costs. Mine development costs are deferred until production commences, at which time they are transferred to mine properties and amortised on a unit-of-production basis.

### 3.7 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 statement of comprehensive income 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 statement of comprehensive income.

***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 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.

### 3.8 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustment to tax payable in respect of previous years. 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 statement of comprehensive income.

## 3.9 Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other creditors. Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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. 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.

## 3.10 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 statement of financial position. 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.

## 3.11 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 an expense in the statement of comprehensive income as incurred.

## 3.12 Share based payments

The consolidated entity may provide benefits to employees (including directors) and other parties as necessary 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 Black-Scholes 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.

## 3.13 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 statement of financial position 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 statement of comprehensive income. 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.

### 3.14 Rehabilitation costs

Full provision for rehabilitation 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.

### 3.15 Provisions

A provision is recognised in the statement of financial position 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.

### 3.16 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.

### 3.17 Accounting estimates and judgements

The selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies, estimates and judgements is the responsibility of the Board of Directors. The estimates and judgements that may have a significant impact on the carrying amount of assets and liabilities are discussed below.

***Impairment of JORC compliant exploration and evaluation assets***

Ultimate recoupment of the value of exploration and evaluation assets, the Company's investment in subsidiaries and loans to subsidiaries is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying mineral exploration properties. The consolidated entity undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest is tested for impairment. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation and judgement in determining recoverable amounts include:

- recent drilling results and reserves and resources estimates.
- environmental issues that may impact the underlying tenements.
- the estimated market value of assets at the review date.
- independent valuations of underlying assets at the review date.
- fundamental economic factors such as the gold price, exchange rates and current and anticipated operating costs in the industry.
- the consolidated entity's market capitalisation compared to its net assets.

Information used in the review process is rigorously tested to externally available information as appropriate.

### 3.18 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

(i) AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard

(ii) AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

(iii) AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have significant impact on the financial statements.

(iv) AASB 11 Joint Arrangements, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(v) Amended AASB 119 Employee Benefits, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |

## 4. REVENUE AND EXPENSES

**(a) Employee and consultancy expenses**

| | **2011 $** | 2010 $ |
|---|---|---|
| Provision for employee entitlements | **23,529** | 6,663 |
| Superannuation contributions | **56,244** | 65,365 |
| Other employee benefits and consultancy expenses | **1,396,229** | 997,800 |
| | **1,476,002** | 1,069,828 |

**(b) Financing income/(expenses)**

| | **2011 $** | 2010 $ |
|---|---|---|
| Finance revenue - interest received | **2,989,172** | 1,721,942 |
| Interest expense | **(2,846)** | – |
| Other financing expenses | **(53,576)** | – |
| Funding extinguishment costs | **(4,369,011)** | – |
| Net financing income/(expense) | **(1,436,261)** | 1,721,942 |

**(c) Operating lease payments**

| | **2011 $** | 2010 $ |
|---|---|---|
| Rental and outgoings relating to operating lease | **340,519** | 147,559 |

## 5. INCOME TAX

**(a) The major components of income tax expense are:**

**Statement of comprehensive income**

| | **2011 $** | 2010 $ |
|---|---|---|
| *Current income tax* | | |
| Current income tax charge/(credit) | **(1,657,665)** | (31,036) |
| Adjustment for prior year | **181,395** | – |
| *Deferred income tax* | | |
| Origination and reversal of temporary differences – current year | **421,585** | – |
| Origination and reversal of temporary differences – prior year adjustment | **880,669** | – |
| Unused tax losses not recognised as deferred tax asset | **174,016** | 31,036 |
| Income tax expense | **–** | – |

A reconciliation between income tax expense and the numerical loss before income tax at the applicable income tax rate is as follows:

| | **2011 $** | 2010 $ |
|---|---|---|
| Loss before income tax | **(8,111,524)** | (438,421) |
| At statutory income tax rate of 30% (2010: 30%) | **(2,433,457)** | (131,526) |
| Items not allowable for income tax purposes: | | |
| Unearned income | **–** | (32,997) |
| Non-deductible expenses | **1,197,377** | 191,644 |
| Other deductible items | **–** | (58,157) |
| Current year tax losses not brought to account | **1,236,080** | 31,036 |
| Income tax expense/(benefit) | **–** | – |

## 5. INCOME TAX (continued)

| | CONSOLIDATED 2011 $ | 2010 $ |
|---|---|---|
| **(b) Deferred income tax** | | |
| Deferred income tax at balance date relates to the following: | | |
| *Deferred tax liabilities* | | |
| Non-assessable income | **67,630** | 32,997 |
| | **67,630** | 32,997 |
| *Deferred tax assets* | | |
| Accrued expenses | **38,844** | 17,300 |
| Provisions | **–** | 12,348 |
| Other | **–** | 3,349 |
| Tax value of losses recognised | **28,786** | – |
| | **67,630** | 32,997 |
| Net deferred income tax balances | **–** | – |
| **(c) Tax losses** | | |
| The directors estimate that the potential deferred tax assets: | | |
| In respect of tax losses not brought to account | **2,866,876** | 1,783,784 |
| In respect of deductible temporary differences not brought to account | **1,381,776** | 876,388 |

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.

## 6. CASH AND CASH EQUIVALENTS

| | 2011 $ | 2010 $ |
|---|---|---|
| Cash at bank | **19,504,656** | 26,539,836 |
| Cash on deposit | **33,000,000** | 31,141,768 |
| Cash on hand | **300** | 295 |
| | **52,504,956** | 57,681,899 |

## 7. TRADE AND OTHER RECEIVABLES

| | 2011 $ | 2010 $ |
|---|---|---|
| Interest receivable | **222,347** | 109,989 |
| Prepayments | **2,064,959** | 69,128 |
| Sundry debtors | **928,427** | 33,022 |
| GST receivable | **47,613** | – |
| | **3,263,346** | 212,139 |

## 8. HELD FOR SALE ASSETS

| | 2011 $ | 2010 $ |
|---|---|---|
| Property, plant and equipment (i) | **–** | 1,300,000 |
| | **–** | 1,300,000 |

(i) Relates to an item of property, plant & equipment which has been reclassified as a fixed asset rather than held for sale on the basis a sale of the equipment is not probable within the next twelve months. An impairment expense was recognised during the year of $950,000.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |

## 9. RECEIVABLES

| | | |
|---|---|---|
| Prepayments | **389,477** | – |
| Security deposit | **134,265** | 24,306 |
| VAT receivable | **2,957,617** | – |
| | **3,481,359** | 24,306 |

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

## 10. PROPERTY, PLANT AND EQUIPMENT

| | | |
|---|---|---|
| Plant and equipment - at cost | | |
| Opening balance | **758,542** | 1,437,078 |
| Additions | **34,867,205** | 12,314 |
| Transferred from mine development | **1,880,908** | – |
| Reclassified from assets held for sale | **1,300,000** | – |
| Impairment expense | **(950,000)** | – |
| Reclassified to assets held for sale (i) | **–** | (1,300,000) |
| Reclassified from exploration & evaluation expenditure (ii) | **–** | 609,150 |
| Foreign currency translation adjustment | **(1,036,997)** | – |
| Closing balance | **36,819,658** | 758,542 |
| | | |
| Accumulated depreciation | | |
| Opening balance | **311,130** | 117,899 |
| Depreciation for the year | **151,088** | 6,157 |
| Reclassified from exploration & evaluation expenditure (ii) | **–** | 187,074 |
| Foreign currency translation adjustment | **(28,575)** | – |
| Closing balance | **433,643** | 311,130 |
| Net book value | **36,386,015** | 447,412 |

(i) Refer to Note 8.

(ii) Exploration and evaluation assets were re-classified during the prior year following the commitment to progress the Siana project to development. Specific plant and equipment items were identified and therefore reclassified.

## 11. MINE DEVELOPMENT

| | | |
|---|---|---|
| Opening balance | **39,386,037** | – |
| Reclassified from exploration and evaluation expenditure (i) | **–** | 26,054,947 |
| Acquisition of exploration assets (ii) | **–** | 7,376,900 |
| Transferred to property, plant and equipment | **(1,880,908)** | – |
| Development expenditure incurred in current year | **8,352,808** | 3,997,881 |
| Foreign currency translation adjustment | **(5,360,555)** | 1,956,309 |
| | **40,497,382** | 39,386,037 |

## 11. MINE DEVELOPMENT (continued)

(i) Siana project was moved to development in March 2010. Accordingly expenditures were transferred from exploration and evaluation (see Note 12) to development expenditure in the prior year. This balance will be further reclassified to mine properties as the Siana project moves to production.

(ii) This relates to the acquisition of 10% of the Siana project via the acquisition of Merrill Crowe Corporation (MCC). The consideration for the acquisition was cash of US$1,800,000 (AUD 1,944,874) and 40,000,000 ordinary shares of Red 5 with a total consideration valued at $8,289,203. Of the consideration, a value of $7,376,900 was ascribed to MCC's 10% share of the Siana project and $912,303 was attributed to identifiable assets and liabilities.

The Group has paid $1,310,256 into an escrow account and $297,198 has been paid towards outstanding taxes of MCC. A further provision of $1,271,464 (56,432,022 Pesos) has been made for additional taxes. Red 5 has provided for 5,814,280 shares to be issued at a fair value of $930,285 (Other Equity) once the transaction is complete.

If the estimated tax liability is greater than provided, Red 5 will issue fewer shares to the vendor. If the tax liability is lower, it will issue up to 12 million shares to the vendor. This calculation is made based on 15.1 cents per share.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |
| **12. EXPLORATION AND EVALUATION EXPENDITURE** | | |
| Opening balance | **–** | 27,348,354 |
| Exploration and evaluation expenditure incurred | **2,026,093** | 2,842,326 |
| Exploration expenditure written-off | **(2,026,093)** | (503,791) |
| Re-classified as development | **–** | (26,054,947) |
| Re-classified as plant and equipment | **–** | (422,076) |
| Foreign currency translation adjustment | **–** | (3,209,866) |
| | **–** | – |

Exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves. The ultimate recoupment of deferred exploration and evaluation 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.

## 13. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Creditors and accruals | **5,056,848** | 1,571,642 |

Creditors and accruals have increased due to the Siana project development and construction costs.

## 14. EMPLOYEE BENEFITS

| | | |
|---|---|---|
| Provision for employee entitlements | | |
| Opening balance | **144,244** | 411,679 |
| Increase/(decrease) in provision during the period | **87,100** | (268,520) |
| Net present value discount adjustment | **9,557** | 1,085 |
| | **240,901** | 144,244 |
| Current | **136,287** | 70,730 |
| Non-current | **104,614** | 73,514 |
| | **240,901** | 144,244 |

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |

## 15. PROVISIONS

| | | |
|---|---|---|
| MCC final acquisition | **1,116,104** | 1,271,464 |
| Rehabilitation provision | **307,940** | – |
| | **1,424,044** | 1,271,464 |
| Current | **1,116,104** | 1,271,464 |
| Non-current | **307,940** | – |
| | **1,424,044** | 1,271,464 |

The MCC acquisition is the expected tax liabilities of Merrill Crowe Corporation acquired by the Group during the 2010 financial year. See Note 11 for more information.

## 16. BORROWINGS

| | | |
|---|---|---|
| Unsecured loans – other corporations | **–** | 269,270 |

Loans due to other corporations were repaid in full during the 2011 financial year.

## 17. CONTRIBUTED EQUITY

**(a) Share capital**

| | | |
|---|---|---|
| 1,283,674,237 (2010: 971,678,088) ordinary fully paid shares | **163,041,013** | 113,322,069 |

| | CONSOLIDATED 2011 | | CONSOLIDATED 2010 | |
|---|---|---|---|---|
| | ***Shares*** | ***$*** | *Shares* | *$* |
| **(b) Movements in ordinary share capital** | | | | |
| Opening balance 1 July | **971,678,088** | **113,322,069** | 659,288,043 | 67,221,875 |
| Share placements | **300,000,000** | **51,000,000** | 290,000,000 | 44,950,000 |
| Less share issue expenses | **–** | **(3,139,203)** | – | (2,432,213) |
| Exercised options | **6,000,000** | **900,000** | – | – |
| Issue of shares for MCC acquisition | **–** | **–** | 28,000,000 | 4,480,000 |
| Acquisition of treasury shares | **–** | **–** | (5,609,955) | (897,593) |
| Re-issued treasury shares | **5,609,955** | **897,593** | – | – |
| Shares issued to management | **386,194** | **60,554** | – | – |
| Balance 30 June | **1,283,674,237** | **163,041,013** | 971,678,088 | 113,322,069 |

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.

| | CONSOLIDATED 2011 | |
|---|---|---|
| | ***Shares*** | ***$*** |
| **(c) Other equity** | | |
| Opening balance 1 July 2010 | **5,814,280** | **930,285** |
| Balance 30 June 2011 | **5,814,280** | **930,285** |

See Note 11 for more information.

## 17. CONTRIBUTED EQUITY (continued)

| | Options Number | Option Reserve $ |
|---|---|---|
| **(d) Movements in share options** | | |
| Opening balance 1 July 2010 | **7,400,000** | **518,520** |
| Exercised options | **(6,000,000)** | **(465,600)** |
| Issue of options to employees | **1,400,000** | **97,719** |
| Lapse of unlisted options | **(700,000)** | **(24,500)** |
| Balance 30 June 2011 | **2,100,000** | **126,139** |

## 18. RESERVES

| | CONSOLIDATED 2011 $ | CONSOLIDATED 2010 $ |
|---|---|---|
| Foreign currency translation reserve | **(10,384,736)** | (2,489,826) |
| Share based payment reserve | **126,139** | 518,520 |
| | **(10,258,597)** | (1,971,306) |

***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.

***Share based payment reserve***

The share based payment reserve arises on the granting and vesting of equity instruments.
Refer to Note 27 for further details.

## 19. RELATED PARTIES

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 Edwards – Managing Director

***Other executives***

Joe Mobilia – Chief Financial Officer

Ron Pyatt – Operations Director (appointed on 9 May 2011)

William Darcey – Project Manager (resigned 31 October 2010

***Non-executive directors***

Colin Jackson

Gary Scanlan

Kevin Dundo

Mark Milazzo (appointed 1 May 2011)

Barry Bolitho (resigned 23 November 2010)

***Compensation of key management personnel***

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

| | CONSOLIDATED 2011 $ | CONSOLIDATED 2010 $ |
|---|---|---|
| **Key management personnel** | | |
| Short term benefits | **1,272,046** | 1,031,312 |
| Post-employment benefits | **103,056** | 86,023 |
| Share based payments | **131,409** | – |
| Other benefits | **18,978** | 60,354 |
| | **1,525,489** | 1,177,689 |

## 19. RELATED PARTIES (continued)

### *Loans to key management personnel*

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

### *Other transactions with directors*

As at 30 June 2011, unpaid salaries of $283,243 are recognised and payable to Mr Gregory Edwards. Other than as disclosed in the remuneration report, there were no other 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.

| 2011 | Balance at 1 July 2010 | Received during the year through the issue of bonus shares | Other purchases during the year | Balance at 30 June 2011 |
|---|---|---|---|---|
| G Edwards (1) | 10,100,000 | 165,342 | – | 10,265,342 |
| C Jackson | 225,000 | – | – | 225,000 |
| G Scanlan | – | – | 500,000 | 500,000 |
| K Dundo | – | – | – | – |
| M Milazzo (2) | – | – | 250,000 | 250,000 |
| B Bolitho (3) | – | – | 7,100 | 7,100 |
| J Mobilia | 100,000 | 76,711 | 210,000 | 386,711 |
| R Pyatt (4) | – | – | – | – |
| W Darcey (5) | – | – | – | – |
| **Total** | **10,425,000** | **242,053** | **967,100** | **11,634,153** |

*(1) a bonus payment consisting of 165,342 fully paid shares for the period to 31 December 2009 was approved by shareholders during the year. A bonus payment of 138,885 fully paid shares is yet to be approved by shareholders and has not been included in this table.*

*(2) appointed 1 May 2011.*

*(3) resigned on 23 November 2010 and his holding represents the number held at resignation.*

*(4) appointed 9 May 2011.*

*(5) resigned 31 October 2010.*

| 2010 | Balance at 1 July 2009 | Received during the year on the exercise of options | Other purchases during the year | Balance at 30 June 2010 |
|---|---|---|---|---|
| G Edwards (1) | 10,100,000 | – | – | 10,100,000 |
| C Jackson | 225,000 | – | – | 225,000 |
| G Scanlan | – | – | – | – |
| K Dundo (2) | – | – | – | – |
| B Bolitho (2) | – | – | – | – |
| A Govey (3) | 6,786,500 | – | – | 6,786,500 |
| P Rowe (3) | – | – | – | – |
| J Mobilia (4) | – | – | 100,000 | 100,000 |
| W Darcey | – | – | – | – |
| **Total** | **17,111,500** | **–** | **100,000** | **17,211,500** |

*(1) a bonus payment consisting of 165,342 fully paid shares was yet to be approved by shareholders and was not included in this table but was paid during the 2011 financial year.*

*(2) appointed 29 March 2010 and their holding represents the number held at appointment.*

*(3) resigned on 29 March 2010 and their holding represents the number held at resignation. A bonus payment of 144,141 fully paid shares to Mr Govey was yet to be approved by shareholders and was not included in this table but was paid during the 2011 financial year.*

*(4) appointed 27 April 2010.*

## 19. RELATED PARTIES (continued)

***Option holdings of key management personnel***

The numbers of options in the parent entity held during the financial year by key management personnel are set out below.

| 2011 | Held at 1 July 2010 | Granted as compensation | Exercised | Other changes | Held at 30 June 2011 | Vested during the year | Vested and exercisable at 30 June 2011 |
|---|---|---|---|---|---|---|---|
| J Mobilia | – | 800,000 | – | – | 800,000 | – | 800,000 |
| F Campagna | – | 600,000 | – | – | 600,000 | – | 600,000 |
| **Total** | **–** | **1,400,000** | **–** | **–** | **1,400,000** | **–** | **1,400,000** |

| 2010 | Held at 1 July 2009 | Granted as compensation | Exercised | Held at resignation | Held at 30 June 2010 | Vested during the year | Vested and exercisable at 30 June 2010 |
|---|---|---|---|---|---|---|---|
| W Darcey | 700,000 | – | – | 700,000 | – | – | – |
| **Total** | **700,000** | **–** | **–** | **700,000** | **–** | **–** | **–** |

***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. 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 23.

***Individual directors and executives compensation disclosures***

Information regarding individual director's and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the directors' report.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |

## 20. REMUNERATION OF AUDITOR

| | | |
|---|---|---|
| Amounts paid or due and payable to the auditor for: | | |
| Auditing and reviewing financial reports – KPMG Australia | **108,950** | 65,879 |
| – overseas KPMG firms | **26,104** | – |
| Other services – advisory (KPMG Australia) | **28,663** | – |
| Taxation advisory services – KPMG Australia | **61,372** | 14,200 |
| – overseas KPMG firms | **5,859** | 3,528 |
| | **230,948** | 83,607 |

## 21. EXPENDITURE COMMITMENTS

Commitments in relation to capital expenditure commitments are payable as follows:

| | | |
|---|---|---|
| - not later than one year | **19,106,547** | 7,315,039 |
| | **19,106,547** | 7,315,039 |

Commitments in relation to operating lease expenditure commitments are payable as follows:

| | | |
|---|---|---|
| - not later than one year | **292,516** | 356,318 |
| - later than one year but not later than two years | **231,673** | 314,786 |
| - later than two years but not later than five years | **134,649** | 349,693 |
| | **658,838** | 1,020,797 |

## 22. SEGMENT INFORMATION

### *Identification of reportable segments*

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of its development assets in the Philippines. Operating segments are therefore determined on the same basis. Reportable segments disclosed are based on aggregating tenements where the development and exploration interests are considered to form a single project. This is indicated by:

- Having the same ownership structure.
- Exploration being focused on the same mineral or type of mineral.
- Exploration programs targeting the tenements as a group, indicated by the use of the same exploration team, shared geological data and knowledge across the tenements.
- Shared mining economic considerations such as mineralisation, metallurgy, marketing, legal, environmental, social and government factors.

**Basis of accounting for purposes of reporting by operating segments**

### *Accounting policies adopted*

Unless otherwise stated, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

### *Unallocated items*

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense
- Deferred tax assets and liabilities
- Discontinuing operations

### *Comparative information*

This is the first period in which AASB 8: Operating Segments has been adopted.
Comparative information has been stated to conform to the requirements of the Standard.

| | | Philippines<br>$ | Reconciliation to Group<br>$ | Total<br>$ |
|---|---|---|---|---|
| (i) | **Segment performance**<br>**Year ended 30 June 2011** | | | |
| | Interest revenue | 37,078 | 2,952,094 | 2,989,172 |
| | Other income | 48,860 | 563,105 | 611,965 |
| | **Segment revenue** | **85,938** | **3,515,199** | **3,601,137** |
| | **Segment result** | **(3,484,855)** | **(4,626,669)** | **(8,111,524)** |
| | Included within segment result: | | | |
| | Depreciation | (10,080) | (16,907) | (26,987) |
| | Option issue expense | – | (97,719) | (97,719) |
| | Exploration written off | (2,026,093) | – | (2,026,093) |
| | Impairment of assets | (950,000) | – | (950,000) |
| | **Year ended 30 June 2010** | | | |
| | Interest revenue | 32,474 | 1,689,468 | 1,721,942 |
| | **Segment revenue** | **32,474** | **1,689,468** | **1,721,942** |
| | **Segment result** | **(471,317)** | **32,896** | **(438,421)** |
| | Included within segment result: | | | |
| | Depreciation | – | (6,157) | (6,157) |
| | Exploration written off | (503,791) | – | (503,791) |

## 22. SEGMENT INFORMATION (continued)

| | | Philippines $ | Reconciliation to Group $ | Total $ |
|---|---|---|---|---|
| (ii) | **Segment assets as at 30 June 2011** | | | |
| | **Segment assets** | **90,331,568** | **45,801,490** | **136,133,058** |
| | Additions to non-current assets: | | | |
| | Capital expenditure | 34,856,708 | 10,497 | 34,867,205 |
| | Exploration expenditure | 2,026,093 | – | 2,026,093 |
| | Development expenditure | 8,352,808 | – | 8,352,808 |
| | **Period ended 30 June 2010** | | | |
| | **Segment assets** | **47,792,069** | **51,259,724** | **99,051,793** |
| | Additions to non-current assets: | | | |
| | Capital expenditure | – | 12,314 | 12,314 |
| | Exploration expenditure | 503,791 | – | 503,791 |
| | Acquisition of development assets | 7,376,900 | – | 7,376,900 |
| | Development expenditure | 6,336,158 | – | 6,336,158 |
| (iii) | **Segment liabilities as at 30 June 2011** | | | |
| | **Segment liabilities** | **5,453,517** | **1,268,276** | **6,721,793** |
| | **As at 30 June 2010** | | | |
| | **Segment liabilities** | **2,916,065** | **340,555** | **3,256,620** |

## 23. INVESTMENTS IN CONTROLLED ENTITIES

| Name of controlled entities | Country of incorporation | Class of shares | Equity holding 2011 % | Equity holding 2010 % |
|---|---|---|---|---|
| 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 |
| Red 5 Mapawa Pty Ltd | Australia | Ordinary | 100 | 100 |
| Red 5 Dayano Pty Ltd | Australia | Ordinary | 100 | 100 |
| Bremer Binaliw Corporation | Philippines | Ordinary | 100 | 100 |
| Red 5 Mapawa Incorporated (i) | Philippines | Ordinary | 100 | – |
| Red 5 Dayano Incorporated (i) | Philippines | Ordinary | 100 | – |
| Red 5 Asia Incorporated | Philippines | Ordinary | 100 | 100 |
| Greenstone Resources Corporation (ii) | Philippines | Ordinary | 40 | 40 |
| Surigao Holdings and Investments Corporation (ii) | Philippines | Ordinary | 40 | 40 |

*(i) Red 5 Mapawa Incorporated and Red 5 Dayano Incorporated were incorporated on 4 April 2011.*

*(ii) The Company holds a 40% direct interest in Greenstone Resources Corporation (GRC) and a 40% interest in Surigao Holdings and Investments Corporation (SHIC) voting stock. Agreements are in place which deals with the relationship between Red 5 and other shareholders of these entities. In accordance with Australian accounting standard, AASB 127 Consolidated and Separate Financial Statements, relating to company control, Red 5 has consolidated these companies as subsidiaries in these financial statements.*

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |

## 24. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

| | **2011 $** | 2010 $ |
|---|---|---|
| Operating profit/(loss) after income tax | **(8,111,524)** | (438,421) |
| Amortisation and depreciation | **26,987** | 6,157 |
| Share and options | **134,315** | – |
| Impairment of property, plant and equipment | **950,000** | – |
| Financing expenses | **53,576** | – |
| Exchange loss/(gain) | **529,557** | (132,927) |
| Funding extinguishment costs | **4,369,011** | – |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in receivables | **(399,188)** | 119,577 |
| Increase/(decrease)in payables | **817,443** | (2,394,111) |
| Increase/(decrease)in provisions | **(87,359)** | (176,186) |
| Net cash outflow from operating activities | **(1,717,182)** | (3,015,911) |

## 25. EARNINGS PER SHARE

| | **2011 $** | 2010 $ |
|---|---|---|
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | **1,161,414,034** | 798,863,943 |
| Issued ordinary shares at commencement of the financial year | **971,678,088** | 659,288,043 |
| Effect of share placement 10 December 2009 | **–** | 54,504,110 |
| Effect of share placement 28 January 2010 | **–** | 81,008,219 |
| Effect of treasury shares acquired 12 April 2010 | **–** | (1,229,579) |
| Effect of shares issued 23 April 2010 | **–** | 5,293,150 |
| Effect of share placement 21 October 2010 | **70,701,370** | – |
| Effect of share placement 29 November 2010 | **115,545,205** | – |
| Effect of shares issued 16 December 2010 | **167,036** | – |
| Effect of exercise of unlisted options 9 February 2011 | **2,334,247** | – |
| Effect of reissued treasury shares 21 April 2011 | **972,603** | – |
| Effect of shares issued 10 May 2011 | **10,719** | – |
| Effect of re-issued treasury shares 27-30 June 2011 | **4,767** | – |
| Weighted average number of ordinary shares for the financial year | **1,161,414,035** | 798,863,943 |

The potential ordinary shares existing as at balance date are not dilutive, therefore diluted earnings per share is equal to basic earnings per share.

There were no movements in ordinary shares or options subsequent to balance date.

## 26. SUBSEQUENT EVENTS

Since 30 June 2011 there have been no material events which may significantly affect the operations of the Group.

## 27. SHARE BASED PAYMENTS

An Employee Option Plan (Plan) was approved by shareholders at the annual general meeting of the parent entity held on 27 November 2007. All staff, (including executive directors), are eligible to participate in the scheme.

Shares and options are issued on the following terms:

(a) the Board may from time to time determine that any eligible person is entitled to participate in the plan and the extent of that participation. In making that determination, the Board may consider, where appropriate:
- the seniority of the eligible person and the position the eligible person occupies within the consolidated entity;
- the length of service of the eligible person with the consolidated entity;
- the record of employment or engagement of the eligible person with the consolidated entity;
- the contractual history of the eligible person with the consolidated entity;
- the potential contribution of the eligible person to the growth of the consolidated entity;
- the extent (if any) of the existing participation of the eligible person (or any permitted nominee) in relation to that eligible person in the plan; and
- any other matters which the Board considers relevant.

(b) a 5% limit is imposed on the number of shares to be received on exercise of the options issued under the plan. This includes all shares issued (or which might be issued pursuant to the exercise of an option under each outstanding offer), the number of shares in the same class that would be issued if offers under the plan were accepted or if options over them were exercised and the number of shares in the same class issued under the previous five years pursuant to the plan. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights.

(c) when exercisable, each option is convertible into one ordinary share. The exercise price of options is determined by the Board when it resolves to offer the option and will be not less than 80% of the average closing sale price of the shares on the ASX Limited over the five trading days immediately preceding the date of issue of any offer document in relation to the offer, or the date of resolving to issue the options or the date of issue of options by the Board, as the case may be.

Amounts receivable on the exercise of options are recognised as share capital. Set out below are summaries of options granted under the scheme.

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Expired/ forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| | | *$* | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* |
| **Consolidated and parent entity - 2011** | | | | | | | | |
| 12.12.07 | 31.12.12 | 0.15 | 6,000,000 | – | (6,000,000)(i) | – | – | – |
| 16.06.08 | 30.06.11 | 0.15 | 700,000 | – | – | (700,000) | – | – |
| 16.06.08 | 30.06.13 | 0.25 | 700,000 | – | – | – | 700,000 | 700,000 |
| 28.04.11 | 30.04.14 | 0.25 | – | 700,000 | – | – | 700,000 | 700,000 |
| 28.04.11 | 30.04.16 | 0.40 | – | 700,000 | – | – | 700,000 | 700,000 |
| | | | **7,400,000** | **1,400,000** | **(6,000,000)** | **(700,000)** | **2,100,000** | **2,100,000** |
| Weighted average exercise price | | | $0.16 | $0.325 | $0.15 | $0.15 | $0.30 | $0.30 |
| **Consolidated and parent entity - 2010** | | | | | | | | |
| 12.12.07 | 31.12.12 | 0.15 | 6,000,000 | – | – | – | 6,000,000 | 6,000,000 (i) |
| 16.06.08 | 30.06.11 | 0.15 | 350,000 | – | – | – | 350,000 | 350,000 |
| 16.06.08 | 30.06.13 | 0.25 | 350,000 | – | – | – | 350,000 | 350,000 |
| 16.06.08 | 30.06.11 | 0.15 | 350,000 | – | – | – | 350,000 | 350,000 |
| 16.06.08 | 30.06.13 | 0.25 | 350,000 | – | – | – | 350,000 | 350,000 |
| | | | **7,400,000** | **–** | **–** | **–** | **7,400,000** | **7,400,000** |
| Weighted average exercise price | | | $0.16 | – | – | – | $0.16 | $0.16 |

*(i) 6,000,000 options were issued as part commission for a share placement and are not employee shares.*

## 27. SHARE BASED PAYMENTS (continued)

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

During the period, the parent entity granted 1,400,000 unlisted options as share based payments to executives. These options were issued on 10 May 2011, with 700,000 options expiring on 30 April 2014 and 700,000 options expiring on 30 April 2016. The exercise price of the options is 25 cents and 40 cents respectively and must be settled in cash. The fair value at grant date is determined using a Black-Scholes option pricing model with the following terms:

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | 2010 |
| Weighted average exercise price | **$0.325** | – |
| Average life of the option | **4.005 years** | – |
| Underlying share price | **$0.16** | – |
| Expected share price volatility (based on historic volatility) | **75%** | – |
| Dividend yield | **Nil** | – |
| Risk free interest rate | **5.09%** | – |
| Total expenses arising from share-based payment transactions recognised as part of employee benefit expense | **$97,719** | – |

During the year shares were issued to management in accordance with key performance indicators set by the Remuneration Committee. Subsequent to the approval at the annual general meeting on 23 November 2010, Mr G Edwards and Mr A Govey were issued on 16 December 2010, 165,342 and 144,141 fully paid ordinary shares respectively at a market price of 20 cents. On 10 May 2011, 76,711 fully paid ordinary shares were issued to Mr J Mobilia at a market price of 14 cents. Subject to shareholder approval, a further 138,885 fully paid ordinary shares will be issued to Mr G Edwards at market price.

During the 2011 year 5,000,000 Red 5 shares valued at $875,000 were issued as part consideration for the US$8,000,000 credit facility currently being finalised.

Up to 12,000,000 Red 5 shares may be issued as part consideration for the acquisition of Merrill Crowe Corporation subject to the finalisation of outstanding taxes (during the 2010 financial year, 28,000,000 Red 5 shares were issued as part consideration for this acquisition). Refer to Note 11 for more information.

## 28. FINANCIAL RISK MANAGEMENT

### Overview

This note presents information about the consolidated entity's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The consolidated entity do not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the consolidated entity through regular reviews of the risks.

### Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity receivables from customers and investment securities. For the company it arises from receivables due from subsidiaries.

Presently, the consolidated entity undertakes development and construction activities exclusively in the Philippines. At the balance sheet date there were no significant concentrations of credit risk.

#### *Cash and cash equivalents*

The consolidated entity limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating. Excess cash and cash equivalents are maintained in short terms deposit with more than one major Australian commercial bank at interest rates maturing over 30 to 120 day rolling periods.

## 28. FINANCIAL RISK MANAGEMENT (continued)

### *Trade and other receivables*

As the consolidated entity operates primarily in development activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

The consolidated entity have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables (mainly relate to unsecured loans to controlled entities) and diminution of investments in wholly owned entities.  Management does not expect any counterparty to fail to meet its obligations.

### *Exposure to credit risk*

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | CONSOLIDATED Carrying amount | |
|---|---|---|
| | **2011** **$** | 2010 $ |
| Trade and other receivables | **3,263,346** | 212,139 |
| Cash and cash equivalents | **52,504,956** | 57,681,899 |

### Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entities reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | More than 1 year |
|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | |
| **30 June 2011** | | | | | |
| Trade and other payables | 5,056,848 | (5,056,848) | (5,056,848) | – | – |
| Contractual provisions | 1,664,945 | (2,318,417) | (1,184,248) | (68,143) | (1,066,026) |
| | 6,721,793 | (7,375,265) | (6,241,096) | (68,143) | (1,066,026) |
| **CONSOLIDATED** | | | | | |
| **30 June 2010** | | | | | |
| Trade and other payables | 1,571,642 | (1,571,642) | (1,571,642) | – | – |
| Acquisition liabilities | 1,271,464 | (1,271,464) | (1,271,464) | – | – |
| Non-interest bearing loan | 269,270 | (322,846) | – | – | (322,846) |
| | 3,112,376 | (3,165,952) | (2,843,106) | – | (322,846) |

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

## 28. FINANCIAL RISK MANAGEMENT (continued)

### Currency risk

The consolidated entity is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the subsidiaries within the consolidated entity. The currencies in which these transactions primarily are denominated are United States dollars (USD).

The consolidated entity has not entered into any derivative financial instruments to hedge such transactions. The Company's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

#### *Exposure to currency risk*

The consolidated entity's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

| | **30 June 2011** | | 30 June 2010 | |
|---|---|---|---|---|
| | **USD *$AUD*** | **Total *$AUD*** | USD *$AUD* | Total *$AUD* |
| Cash | **210,144** | **210,144** | 6,815,773 | 6,815,773 |
| Trade payables | **75,278** | **75,278** | – | – |
| Gross balance sheet exposure | **285,422** | **285,422** | 6,815,773 | 6,815,773 |

#### *Sensitivity analysis*

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

| | **CONSOLIDATED Profit or Loss $AUD** |
|---|---|
| **30 June 2011** | |
| USD | **(28,542)** |
| **30 June 2010** | |
| USD | (681,577) |

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

The consolidated entity is exposed to interest rate risk, primarily on its cash and cash equivalents which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The consolidated entity does not use derivatives to mitigate these exposures.

The consolidated entity adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short term deposit with more than one counterparty at interest rates maturing over 90 day rolling periods. At the reporting date the interest rate profile of the consolidated entity and the Company's interest-bearing financial instruments were:

| | **CONSOLIDATED Carrying amount** | |
|---|---|---|
| | **2011 *$*** | 2010 *$* |
| **Variable rate instruments** | | |
| Cash and cash equivalents | **52,504,956** | 57,681,899 |
| Interest bearing bonds | **134,265** | – |
| | **52,639,221** | 57,681,899 |

## 28. FINANCIAL RISK MANAGEMENT (continued)

### Profile

***Cash flow sensitivity analysis for variable rate instruments***

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

| | Profit or Loss | | Equity | |
|---|---|---|---|---|
| | 100bp increase $ | 100bp decrease $ | 100bp increase $ | 100bp decrease $ |
| **CONSOLIDATED** | | | | |
| **30 June 2011** | | | | |
| Variable rate instruments | 526,392 | (526,392) | 526,392 | (526,392) |
| **30 June 2010** | | | | |
| Variable rate instruments | 576,819 | (576,819) | 576,819 | (576,819) |

### Net fair values

The carrying value of financial assets and liabilities equates their fair value. There are no financial assets and liabilities carried at fair value and therefore the hierarchy in AASB 7 is not applicable.

### Capital management

The consolidated entity's objective when managing capital is to safeguard its ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the consolidated entity may return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the consolidated entity's approach to capital management during the year. Risk management is facilitated by regular monitoring and reporting by the board and key management personnel.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 29. PARENT ENTITY DISCLOSURES

| | PARENT ENTITY | |
|---|---|---|
| | **2011** **$** | 2010 $ |
| **(a) Financial position** | | |
| Assets | | |
| Current assets | **45,298,781** | 51,210,082 |
| Non-current assets | **91,429,056** | 49,485,707 |
| Total assets | **136,727,837** | 100,695,789 |
| Liabilities | | |
| Current liabilities | **2,539,740** | 3,706,784 |
| Non-current liabilities | **–** | – |
| Total liabilities | **2,539,740** | 3,706,784 |
| Contributed equity | **163,041,013** | 113,322,069 |
| Other equity | **930,285** | 930,285 |
| Reserves | **126,139** | 518,520 |
| Accumulated losses | **(29,909,340)** | (17,781,869) |
| Total equity | **134,188,097** | 96,989,005 |

## 29. PARENT ENTITY DISCLOSURES (continued)

| | PARENT ENTITY 2011 $ | PARENT ENTITY 2010 $ |
|---|---|---|
| **(b) Financial performance** | | |
| (Loss)/profit for the year | **(12,671,147)** | (1,631,529) |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **(12,671,147)** | (1,631,529) |
| **(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries** | | |
| Guarantee provided under the deed of cross guarantee | **–** | – |
| **(d) Contingent liabilities of the parent entity** | **–** | – |
| **(e) Commitments for the acquisition of property, plant and equipment by the parent entity** | **–** | – |

# Declaration by Directors

The Board of Directors of Red 5 Limited declares that:

(a) the financial statements, 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 2011 and performance of the consolidated entity for the financial year ended on that date; and
- complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.1;

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) 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.

**Colin G Jackson**
*Chairman*

Perth, Western Australia
26 September 2011

KPMG

## Report on the financial report

We have audited the accompanying financial report of Red 5 Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Red 5 Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

**KPMG**
Perth, 26 September 2011

**R Gambitta**
*Partner*

# Corporate Governance Statement

A description of Red 5's main corporate governance practices is set out below. These practices, unless otherwise stated, were in place for the entire financial year. Copies of relevant corporate governance policies and charters are available in the corporate governance section of the Company's web-site at www.red5limited.com.

The Company's Board and management are committed to high standards of corporate governance practices. Good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances.

## BOARD OF DIRECTORS

The Board has the responsibility for protecting the rights and interests of shareholders and the enhancement of long-term shareholder value. The Board's primary role is to formulate the strategic direction of the Company and to oversee the Company's business activities and management. Day to day management of the Company's affairs and the implementation of corporate strategies are formally delegated by the Board to the Managing Director.

The Company has established functions reserved for the Board and those delegated to senior management, as set out in the Company's Board charter. The Board charter states that the Board is responsible for:

- the corporate governance of the Company;
- the overall strategic direction and leadership of the Company;
- approving and monitoring management implementation of objectives and strategies;
- reviewing performance against stated objectives by receiving regular management reports on the business situation, opportunities and risks; and
- the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

### Board composition and independence

The Company has a five member Board comprising one executive director and four non-executive directors, including the Chairman. The roles of Chairman and Managing Director are not combined. Mr Edwards is not considered independent by virtue of his executive role in the Company, neither is Mr Jackson by virtue of financial remuneration during the year. Messrs Scanlan, Dundo and Milazzo are independent non-executive directors based on the principles set out below.

The current composition of the Board is considered suitable for the Company's current size and level of operations and includes an appropriate mix of skills, expertise and experience relevant to the Company's business. Details of the experience, qualifications and term of office of directors are set out in the Directors' Report.

Having regard to the structure of the Board and of executive management based in the Philippines, it is considered appropriate by the Board to utilise the Chairman's expertise as a consultant to assist with corporate and commercial aspects of the Company's operations. The Chairman is expected to bring independent thought and judgement to his role in all circumstances. Where matters arise in which there is a perceived conflict of interest in relation to any director, that director must declare his interest and abstain from any consideration or voting on the relevant matter.

The Board has adopted ASX recommended principles in relation to the assessment of directors' independence, which identifies shareholdings, executive roles and contractual relationships which may affect independent status. Financial materiality thresholds used in the assessment of directors' independence are set at 5% of the annual gross expenditure of the Company and/or 25% of the annual income or business turnover of the director.

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman, which will not be unreasonably withheld.

The audit committee comprises three non-executive directors, Mr Scanlan (chairman), Mr Jackson and Mr Dundo. The remuneration committee comprises three non-executive directors, Mr Dundo (chairman), Mr Jackson and Mr Scanlan. Details of the qualifications of committee members and attendance at committee meetings are set out in the Directors' Report.

The current size of the full Board permits it to act as the nomination committee and to regularly review membership. When a Board vacancy occurs, the Board identifies the particular skills, experience and expertise that will best complement Board effectiveness and then undertakes a process to identify candidates who can meet those criteria. The Board will give consideration at an appropriate time in the Company's development to the creation of a separate nomination committee.

### Performance assessment

The Board has adopted a formal process for an annual self assessment of its collective performance, the performance of individual directors and of Board committees. The Board is required to meet annually with the purpose of reviewing the role of the Board, assessing its performance over the previous 12 months and examining ways in which the Board can better perform its duties. A formal assessment was undertaken in July 2011, using a self-assessment checklist as the basis for evaluation of performance against the requirements of the Board charter.

The performance of senior executives is reviewed annually by the Managing Director through a formal performance appraisal meeting, incorporating measurement against pre-determined key performance indicators. Executive remuneration and other terms of employment are reviewed annually by the remuneration committee having regard to performance, relevant comparative information and where appropriate, expert advice. A formal evaluation of senior executives was undertaken during the year in accordance with the Company's performance appraisal procedures.

## AUDIT COMMITTEE

The audit committee charter sets out the responsibilities of the audit committee as including:

- reviewing and approving statutory financial reports and all other financial information distributed externally;
- reviewing the effectiveness of the Company's internal control environment including compliance with applicable laws and regulations;
- the nomination of the external auditors and the review of the adequacy of the existing external audit arrangements; and
- considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence.

The Managing Director and Chief Financial Officer provide a declaration to the Board that the Company's external financial reports present a true and fair view of the Company's financial condition and operational results and that the declaration in relation to the integrity of the Company's external financial reports is founded on sound risk management and internal control systems and that those systems are operating effectively in relation to financial reporting risks.

The external auditors provide an annual declaration of their independence to the Board. KPMG were appointed as external auditors in 1998. The current audit engagement partner has conducted the audit since 2008 with rotation due no later than five years from that date. The performance of the external auditors is reviewed annually.

## REMUNERATION COMMITTEE

The remuneration committee operates in accordance with a formal written charter. The committee advises the Board on remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for executive and non-executive directors and in respect of all equity based remuneration plans. Details of the Company's remuneration policies are set out in the Remuneration Report section of the Directors' Report.

## RISK MANAGEMENT

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

The Company's risk management systems and internal control systems are continuing to be developed and it is recognised that the extent of these systems will evolve with the growth in the Company's activities.

The Managing Director is required to formally report to the Board regarding material business risks and whether those risks are being managed effectively. Changes to key risk factors and mitigation actions are reported at each board meeting. All existing and potential new risk factors are reviewed on a periodic basis. The effectiveness of the Company's management of material business risks is monitored and reported on a regular basis and accordingly, no formal report is required from management.

## RESPECT THE RIGHTS OF SHAREHOLDERS AND STAKEHOLDERS

The Board has adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings. The external auditor is requested to attend annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

The Board has established a code of conduct to guide compliance with the legitimate interests of all stakeholders. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Company has established a whistleblower policy which provides a mechanism for legitimate reporting of illegal or unethical practices.

## TIMELY AND BALANCED DISCLOSURES

The Board recognises the obligations of continuous disclosure and the Company has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. A record of the circumstances surrounding each material continuous disclosure announcement is maintained.

Material information is lodged immediately with the ASX and then disseminated by posting to the Company's web-site. Shareholders, potential investors and interested parties can avail themselves of an email alert facility. A strict protocol is practiced for all investor/analyst/media meetings, group briefings and conference calls.

## DEALINGS IN COMPANY SHARES

The Company's share trading policy prohibits the purchase or disposal of shares by directors, officers and specified employees in the period of two weeks prior to the release of quarterly reports and four weeks prior to the release of half year and full year results and for one business day thereafter. Any proposed transactions to be undertaken must be notified to the Chairman or Managing Director in advance.

Where the Company grants securities under an equity based remuneration scheme, participants are prohibited from entering into arrangements for the hedging, or otherwise limiting their exposure to risk in relation to unvested shares, options or rights issued or acquired under the scheme.

# Statement of Shareholders

## as at 26 September 2011

### Distribution of share and option holders

| | | | Number of Holders | |
|---|---|---|---|---|
| | | | Fully paid shares | Unlisted options |
| 1 | – | 1,000 | 68 | – |
| 1,001 | – | 5,000 | 363 | – |
| 5,001 | – | 10,000 | 595 | – |
| 10,001 | – | 100,000 | 2,186 | – |
| 100,001 | | and over | 663 | 6 |
| | | | 3,875 | 6 |

Including holdings of less than a marketable parcel 94

### Classes of shares and voting rights

At meetings of members or classes of members, each member entitled to vote may vote in person or by proxy or attorney. 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 on a poll, every person present in person or by proxy has one vote for each ordinary share held.

### Substantial shareholders

The following shareholders have lodged a notice of substantial shareholding in the Company.

| Shareholder | Number of shares | % |
|---|---|---|
| Baker Steel Capital Managers LLP | 110,956,323 | 8.64 |
| Mathews Capital Partners Pty Ltd | 104,281,880 | 8.12 |
| J P Morgan Chase & Co. | 73,482,350 | 5.72 |
| Sprott Asset Management LP | 66,220,674 | 5.16 |

### Twenty largest holders of fully paid shares

| | Shareholder | Number of shares | % |
|---|---|---|---|
| 1. | National Nominees Limited | 257,163,938 | 20.03 |
| 2. | HSBC Custody Nominees (Australia) Limited | 102,729,650 | 8.00 |
| 3. | JP Morgan Nominees Australia Limited | 97,970,943 | 7.63 |
| 4. | Merrill Lynch (Australia) Nominees Pty Ltd | 82,550,588 | 6.43 |
| 5. | Citicorp Nominees Pty Ltd | 61,117,586 | 4.76 |
| 6. | Lujeta Pty Ltd | 57,500,000 | 4.48 |
| 7. | Equitas Nominees Pty Ltd | 39,897,061 | 3.11 |
| 8. | Equity Trustees Limited | 37,511,593 | 2.92 |
| 9. | JP Morgan Nominees Australia Limited | 29,746,133 | 2.32 |
| 10. | Bond Street Custodians Limited | 19,460,042 | 1.52 |
| 11. | Bell Potter Nominees Limited | 17,600,000 | 1.37 |
| 12. | Gary B Branch Pty Ltd | 10,000,000 | 0.78 |
| 13. | RBC Dexia Investor Services Australia Nominees Pty Ltd | 8,000,000 | 0.62 |
| 14. | HSBC Custody Nominees (Australia) Limited | 7,498,324 | 0.58 |
| 15. | Seng Teoh and Sin Wong | 7,348,775 | 0.57 |
| 16. | Allen Lance Govey | 7,030,641 | 0.55 |
| 17. | Gregory Charles Edwards | 6,850,000 | 0.53 |
| 18. | Eau Rouge Pty Ltd | 6,750,000 | 0.53 |
| 19. | Southbridge Resources Inc | 6,400,000 | 0.50 |
| 20. | Escor Investments Pty Ltd | 6,000,000 | 0.47 |
| | | 869,125,274 | 67.70 |

## Unquoted securities

The following classes of unquoted securities are on issue:

| Security | Number on issue | Holders of greater than 20% of each class of security | | |
|---|---|---|---|---|
| | | Name of holder | Number | % |
| Options over fully paid shares exercisable: | | | | |
| – at 25 cents each on or before 30.06.13 | 700,000 | William Darcey | 350,000 | 50.00 |
| | | Raj Surendran | 350,000 | 50.00 |
| – at 25 cents each on or before 30.04.14 | 700,000 | Mobilia Enterprises Pty Ltd | 400,000 | 57.14 |
| | | Gabrielle Metcalf | 300,000 | 42.86 |
| – at 40 cents each on or before 30.04.16 | 700,000 | Mobilia Enterprises Pty Ltd | 400,000 | 57.14 |
| | | Gabrielle Metcalf | 300,000 | 42.86 |

# Investor Information

## Announcements

The Company makes both statutory announcements (Activities or quarterly reports, financial reports, Appendix 5B cash statements, changes to Directors' interests) and specific announcements under Continuous Disclosure provisions on a timely basis. Significant announcements made during the financial year include:

| Release date | Announcement subject |
|---|---|
| 12/07/2010 | Mapawa porphyry potential confirmed |
| 14/07/2010 | Presentation to Emerging Asia Gold Conference |
| 21/07/2010 | Becoming a substantial holder - Baker Steel Capital Managers |
| 23/07/2010 | June 2010 quarter activities report |
| 23/07/2010 | Ceasing to be a substantial shareholder - Ross Stanley |
| 27/07/2010 | Investor presentation - North America |
| 28/07/2010 | Becoming a substantial holder - Lujeta Pty Ltd |
| 28/07/2010 | June 2010 quarter cash flow report |
| 05/08/2010 | Debt financing package under review |
| 07/09/2010 | Mapawa drilling results |
| 28/09/2010 | Annual financial statements |
| 05/10/2010 | Siana gold mine - build progress |
| 08/10/2010 | Siana project gold mine build and Mapawa exploration funding |
| 14/10/2010 | Equity placement completed |
| 21/10/2010 | 2010 annual report |
| 21/10/2010 | Completion of first tranche of placement |
| 29/10/2010 | September 2010 quarter activities and cash flow reports |
| 23/11/2010 | AGM Chairman`s address |
| 23/11/2010 | Results of AGM and director retirement |
| 26/11/2010 | Becoming a substantial holding - Sprott Asset Management |
| 29/11/2010 | Completion of share placement |
| 01/12/2010 | Becoming a substantial holder - JP Morgan |
| 23/12/2010 | Share trading policy |
| 31/01/2011 | December 2010 quarter activities and cash flow reports |
| 03/03/2011 | Siana mine build update |
| 07/03/2011 | Half year accounts |
| 24/03/2011 | Financing and Siana mine build update |
| 29/03/2011 | Transcript of interview with Red 5 Managing Director |
| 18/04/2011 | Mr Mark Milazzo appointed director |
| 20/04/2011 | March 2011 quarter activities and cash flow reports |
| 10/05/2011 | Siana mine construction update |
| 16/06/2011 | Siana mine build - construction accelerates |
| 15/07/2011 | Siana mine build - momentum accelerates |
| 29/07/2011 | June 2011 quarter activities and cash flow reports |
| 29/08/2011 | Change in substantial holding - Baker Steel Capital Managers |
| 31/08/2011 | Change in substantial holding - Matthews Capital Partners |
| 07/09/2011 | Siana gold mine build - mechanical installation nears completion |

## Share Price Movements

Share prices on the Australian Securities Exchange during the 2010–11 year were:

| Quarter ended | High (cents) | Low (cents) |
|---|---|---|
| September 2010 | 19.5 | 15.5 |
| December 2010 | 21.5 | 16.5 |
| March 2011 | 20.5 | 15.5 |
| June 2011 | 19.0 | 11.0 |

The closing price on 30 June 2011 was 11.5 cents (12.0 cents in 2010) and on the date of this report was 15.5 cents (16.5 cents in 2010).

## Investor Relations

This annual report has been produced with the objective of ensuring that shareholders are informed on company strategy and performance sufficient to make or retain an investment in the Company. Announcements, statutory reports and the latest information on the Company's projects are available on the Red 5 Limited website: www.red5limited.com.

Financial institutions, stockbrokers and other non-shareholder entities requiring copies of this report, Activities Reports and other corporate information should contact the Directors at:

Red 5 Limited
Level 2, 35 Ventnor Avenue, West Perth 6005
Western Australia, Australia
Telephone: +61 8 9322 4455
Facsimile: +61 8 9481 5950

## Shareholder Enquiries

Enquiries relating to shareholding, tax file number and notification of change of address should be directed to:

Security Transfer Registrars Pty Ltd
770 Canning Highway, Applecross, Western Australia 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233
Email: registrar@securitytransfer.com.au

## Tenement Directory

| Project | Tenement Number | Registered Holder | Equity Interest Red 5 | Other |
|---|---|---|---|---|
| **Philippines** | | | | |
| Siana | MPSA 184-2002-XIII | Greenstone | 40% | SHIC 60% |
| | APSA 46-XIII | Greenstone | 40% | SHIC 60% |
| Mapawa | MPSA 280-2009-XIII | Greenstone | 40% | SHIC 60% |
| **Western Australia** | | | | |
| Montague | ML 57/429, ML 57/485 | | 25% free carried | |

***Abbreviations:***

| | |
|---|---|
| Greenstone | *Greenstone Resources Corporation* |
| SHIC | *Surigao Holdings and Investments Corporation* |
| MPSA | *Mineral Production Sharing Agreement* |
| APSA | *Application for MPSA* |
| ML | *Mining Lease* |

## Board of Directors

Colin Jackson (Chairman)
Gregory Edwards (Managing Director)
Gary Scanlan (Non-executive Director)
Kevin Dundo (Non-executive Director)
Mark Milazzo (Non-executive Director)

## Company Secretary

Frank Campagna

## Registered Office

Level 2, 35 Ventnor Avenue,
West Perth, Western Australia, 6005

Telephone: (61-8) 9322 4455
Facsimile: (61-8) 9481 5950
Email: info@red5limited.com
Website: www.red5limited.com

## Manila Office

5th Floor, NOL Building,
Cnr Acacia / Commerce Avenue,
Madrigal Business Park
Ayala Alabang
Muntinlupa City
Philippines, 1770

Telephone: (63-2) 807 2790
Facsimile: (63-2) 807 6658

## Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway,
Applecross, Western Australia, 6153

Telephone: (61-8) 9315 2333
Facsimile: (61-8) 9315 2233
Email: registrar@securitytransfer.com.au
Website: www.securitytransfer.com.au

## Bankers

National Australia Bank Limited

## Auditors

KPMG

## Solicitors

Freehills (Australia)
SyCip Salazar Hernandez & Gatmaitan (Philippines)

## Stock Exchange Listing

Shares in Red 5 Limited are quoted on ASX Limited.
ASX code: RED

Red5Limited ABN 73 068 647 610

www.red5limited.com