RED 5 LIMITED

ABN 73 068 647 610

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2004

RED 5 LIMITED
ABN 73 068 647 610

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Nicholas J Smith (Chairman)
Gregory C Edwards (Managing Director)
Allen L Govey (Exploration Director)
Colin G Jackson (Non-Executive Director)

COMPANY SECRETARY

Frank J Campagna

REGISTERED OFFICE

Level 1
43 Ventnor Avenue
West Perth
Western Australia 6005

Telephone: (61 8) 9322 4455
Facsimile: (61 8) 9481 5950
E-mail: info@red5limited.com
Web-site: www.red5limited.com

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

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

BANKERS

Bank of New Zealand, Australia

AUDITORS

KPMG

SOLICITORS

Pullinger Readhead Lucas

STOCK EXCHANGE LISTING

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

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

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

RED 5 LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The directors of Red 5 Limited ("Red 5" or "parent entity") present their report on the results and state of affairs of the parent entity and the consolidated entity for the financial year ended 30 June 2004.

DIRECTORS

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

Nicholas James Smith
Gregory Charles Edwards
Allen Lance Govey
Colin George Jackson (appointed on 5 December 2003)

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. There was no significant change in the nature of these activities during the year.

RESULTS OF OPERATIONS

The net loss of the consolidated entity after provision for income tax was $801,400.

REVIEW OF OPERATIONS

During the financial year the consolidated entity continued its strategy of divestment of non-core assets in order to focus on the early development of the Siana gold project located in the Philippines.

Red 5 raised equity funds during the year amounting to $10,176,300 (before costs) through a private share placement in July 2003, a fully underwritten pro-rata rights issue offer to shareholders and through the exercise of listed and unlisted options. A bonus issue of options was made by Red 5 in March 2004 on the basis of one option for every four shares held.

Red 5 disposed of its shareholding in a wholly owned subsidiary company, Opus Exploration Pty Ltd, to the listed gold explorer, Range River Gold Limited. Opus Exploration Pty Ltd holds interests in the Indee and Telfer projects, both of which are located in the Pilbara region of Western Australia. The sale consideration was $1.7 million and comprised $500,000 in cash and 9,132,420 shares in Range River Gold Limited.

In November 2003, the listed exploration company, Traka Resources Limited exercised its option to acquire Red 5's interests in the Ravensthorpe group of tenements. Proceeds from the sale of the tenements comprised a cash consideration of $350,000.

Exploration and evaluation activities on the Siana project continued during the year. Comprehensive drilling programmes were undertaken and an engineering scoping study commissioned. The consolidated entity entered into a variation to the joint venture agreement on the Siana project, whereby by payment of $79,023 (US$60,000) and subject to finalisation of the ownership structure under Philippine jurisdiction, Red 5 is entitled to take an 80% economic interest in the Siana project. Under the terms of the original agreement, the consolidated entity was required to complete a bankable feasibility study within 5 years to earn an 80% interest in the project.

The consolidated entity also entered into a joint venture agreement over the Mapawa gold project in the Philippines. The project covers an area of 1,400 hectares and is located 18 kilometres north of the Siana project. Under the terms of the agreement, Red 5 will own an 80% interest in the project (under the provisions of Philippine law) in return for reimbursement of tenement expenses, progression of the grant of a Mineral Production Sharing Agreement (MPSA) and the expenditure of $144,000 (US$100,000) within a period of 15 months.

In January 2004, the Supreme Court of the Republic of the Philippines handed down a decision which affected the validity of forms of tenure held under Financial and Technical Assistance Agreements. The Siana project is not directly affected by this decision as it operates under a granted MPSA held by the consolidated entity's local Philippine partner.

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

DIVIDENDS

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

LIKELY DEVELOPMENTS

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

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

OPTIONS GRANTED OVER UNISSUED SHARES

At the date of this report, 59,276,020 ordinary fully paid shares which are subject to options were unissued. The terms of these options are as follows:

Options granted over ordinary fully paid shares exercisable:

	Number
- at 35 cents each on or before 31 January 2005	55,076,020
- at 40 cents each on or before 31 December 2004	2,000,000
- at 15 cents each on or before 8 January 2005	100,000
- at 20 cents each on or before 17 June 2005	100,000
- at 60 cents each on or before 31 December 2005	2,000,000
	59,276,020

Details of options issued and exercised during the financial year are contained in Note 15(c) to the financial report. Subsequent to the end of the financial year, 250,000 unlisted options lapsed without being exercised.

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) Equity funds of $10,176,300 (before costs) were raised during the year through a private share placement, a fully underwritten pro-rata rights issue (on the basis of 3 new shares for every 10 shares held at a subscription price of 7.3 cents per share) and through the exercise of listed and unlisted options.

(b) A bonus issue of options was made in March 2004 on the basis of one option for every four shares held.

(c) Red 5 disposed of its interests in the Indee and Telfer projects for a consideration of $1.7 million, comprising $500,000 in cash and 9,132,420 shares in Range River Gold Limited (issued at a nominal value of 13.1 cents each). Red 5 also disposed of its Ravensthorpe nickel tenements for a cash consideration of $350,000.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since the end of the financial year, which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

INFORMATION ON DIRECTORS

DIRECTORS	QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES	SHARES BENEFICIALLY HELD IN PARENT ENTITY
Nicholas J Smith (Non-Executive Chairman)	LL.B A director since April 2002. Mr Smith is a solicitor with considerable international mining business experience, more recently spending 12 years as group general counsel for the Normandy Mining group. Mr Smith operates a corporate consultancy business and specialises in advice on sovereign risk issues in developing countries.	509,500 shares 4,102,375 options
Gregory C Edwards (Managing Director)	B.Sc. (Hons), AusIMM A director since November 2001. Mr Edwards is a geologist with 19 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.	7,500,000 shares 1,712,500 options
Allen L Govey (Exploration Director)	B.Sc. (Hons), M.Sc., MAusIMM A director since November 2001. Mr Govey is a senior geologist with wide ranging exploration and mining geology experience within Australia and Indonesia. He has been involved with the successful exploration and mining of Archean lode gold deposits for the last 16 years. Mr Govey spent 12 years with the Normandy Mining group, his most recent role being Principal Geologist responsible for project generation and evaluation of new business opportunities within Western Australia.	6,786,500 shares 1,676,625 options
Colin G Jackson (Non-Executive Director)	M.Sc., B.Sc. (Hons), DIC, Grad.Dip. Bus. Admin., MIMMM A director since December 2003. Mr Jackson graduated as a mineral process design engineer and spent 10 years with Selection Trust Limited and RGC Group, followed by a 12 year finance career with McIntosh Securities Limited and 10 years corporate/communications responsibility with Newcrest Mining and Normandy Mining. He is a member of the finance/taxation committee of the Australian Gold Council.	225,000 shares 56,250 options

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of Red 5 held during the year ended 30 June 2004 and the number of meetings attended by each director are as follows:

	Number held whilst in office	Number attended
N J Smith	12	12
G C Edwards	12	10
A L Govey	12	12
C G Jackson (appointed on 5 December 2003)	4	4

An audit committee was constituted in May 2004 with the members comprising Mr Colin Jackson (chairman of the committee) and Mr Nicholas Smith. No formal meetings of the audit committee were held during the year ended 30 June 2004. A remuneration committee was constituted in July 2004 comprising Mr Colin Jackson (chairman) and Mr Nicholas Smith.

DIRECTORS AND EXECUTIVES REMUNERATION

The remuneration committee considers remuneration policies and practices generally, and determines specific remuneration packages and other terms of employment for executive directors, senior management and non-executive directors. Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and independent expert advice.

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

Details of the nature and amount of each element of the emoluments of each director of Red 5 are as follows:

	Primary		Post-employment		
Name	Cash salary and fees	Other benefits	Superannuation	Retirement benefits	Total
	$	$	$	$	$
Directors					
Executive directors					
G C Edwards	194,561	6,244	16,200	-	217,005
A L Govey	140,907	6,244	11,700	-	158,851
Non-executive directors					
N J Smith	202,250	6,244	3,262	80,000	291,756
C G Jackson	52,183	6,243	750	-	59,176

Remuneration for Mr Jackson is from date of appointment as a director on 5 December 2003.

Other than directors of Red 5, there were no other executive officers of the consolidated entity during the year.

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

During the financial year, Red 5 paid premiums (other benefits) of $24,975 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.

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 a mineral production sharing agreement. 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 2004.

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia
27 September 2004

RED 5 LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Revenue from ordinary activities		250,154	12,053	250,154	12,011
Revenue from outside operating activities		2,065,000	30,000	2,065,000	30,000
Total revenue	2	2,315,154	42,053	2,315,154	42,011
Carrying value of investment and loans to controlled entity sold		-	-	1,932,073	-
Carrying value of mineral tenements sold		1,977,396	-	292,399	-
Depreciation expenses		12,436	6,681	12,436	6,681
Employee and consultancy expenses		725,744	441,577	725,744	441,577
Exploration expenditure written-off		54,238	969,003	23,790	518,417
Occupancy expenses		63,630	57,330	63,630	57,330
Provision for diminution in investments		-	50,000	-	50,000
Provision for non-recovery of loans		-	-	30,448	178,141
Regulatory expenses		123,786	59,781	123,786	59,781
Other expenses from ordinary activities		159,324	210,774	159,324	210,677
Loss from ordinary activities before income tax expense	3	(801,400)	(1,753,093)	(1,048,476)	(1,480,593)
Income tax expense	4	-	-	-	-
Net loss attributable to members of Red 5 Limited		(801,400)	(1,753,093)	(1,048,476)	(1,480,593)
Transfer from option premium reserve		640,590	-	640,590	-
Total changes in equity other than those resulting from transactions with owners as owners		(160,810)	(1,753,093)	(407,886)	(1,480,593)

		Cents	Cents
Basic and diluted loss per share	28	0.44	1.48

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	NOTE	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
CURRENT ASSETS					
Cash assets	5	8,097,035	367,834	7,998,404	198,056
Receivables	6	58,410	93,986	58,410	93,986
Other financial assets	7	1,205,000	-	1,205,000	-
TOTAL CURRENT ASSETS		9,360,445	461,820	9,261,814	292,042
NON-CURRENT ASSETS					
Receivables	8	-	17,000	3,627,442	1,813,403
Other financial assets	9	90,234	-	425,774	1,325,540
Property, plant and equipment	10	53,811	24,155	53,811	24,155
Deferred exploration expenditure	11	3,892,450	3,036,213	4,194	307,219
TOTAL NON-CURRENT ASSETS		4,036,495	3,077,368	4,111,221	3,470,317
TOTAL ASSETS		13,396,940	3,539,188	13,373,035	3,762,359
CURRENT LIABILITIES					
Payables	12	793,305	231,226	793,305	231,226
Provisions	13	57,002	31,072	57,002	31,072
TOTAL CURRENT LIABILITIES		850,307	262,298	850,307	262,298
NON-CURRENT LIABILITIES					
Borrowings	14	322,846	322,846	-	-
Provisions	13	80,000	-	80,000	-
TOTAL NON-CURRENT LIABILITIES		402,846	322,846	80,000	-
TOTAL LIABILITIES		1,253,153	585,144	930,307	262,298
NET ASSETS		12,143,787	2,954,044	12,442,728	3,500,061
EQUITY					
Contributed equity	15	23,434,632	14,084,079	23,434,632	14,084,079
Accumulated losses	16	(11,290,845)	(11,130,035)	(10,991,904)	(10,584,018)
TOTAL EQUITY	17	12,143,787	2,954,044	12,442,728	3,500,061

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Cash flows from operating activities					
Receipts from customers		-	30,000	-	30,000
Payments to suppliers and employees		(882,462)	(733,103)	(882,462)	(733,006)
Interest received		250,154	12,053	250,154	12,011
Net cash outflow from operating activities	26	(632,308)	(691,050)	(632,308)	(690,995)
Cash flows from investing activities					
Payments for controlled entities, net of cash acquired		-	-	-	(335,540)
Payments for purchase of investments		(87,831)	-	(87,831)	-
Payments for mineral exploration expenditure		(2,322,688)	(1,264,328)	(99,072)	(330,672)
Payments for plant and equipment		(42,092)	(12,008)	(42,092)	(12,008)
Payments for purchase of mining tenements		(79,023)	(43,553)	-	-
Proceeds on disposal of controlled entity		500,000	-	500,000	-
Proceeds on sale of mineral tenements		365,000	-	365,000	-
Proceeds on security deposits returned		17,000	-	17,000	-
Net cash outflow from investing activities		(1,649,634)	(1,319,889)	653,005	(678,220)
Cash flows from financing activities					
Proceeds from issues of shares		10,176,300	1,697,975	10,176,300	1,697,975
Payments for share issue expenses		(185,157)	(67,600)	(185,157)	(67,600)
Loans to controlled entities		-	-	(2,231,492)	(803,218)
Repayment of loans by other corporation		20,000	-	20,000	-
Net cash inflow from financing activities		10,011,143	1,630,375	7,779,651	827,157
Net increase/(decrease) in cash held		7,729,201	(380,564)	7,800,348	(542,058)
Cash at the beginning of the financial year		367,834	748,398	198,056	740,114
Cash at the end of the financial year	5	8,097,035	367,834	7,998,404	198,056
Non-cash financing and investing activities	27				

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF THE FINANCIAL REPORT

This financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report has been prepared on an accruals basis and is based on historical cost and does not take into account changing money values or, except where stated, fair values of non-current assets.

Cost is based on the fair values of the consideration given in exchange for assets. Accounting policies adopted are consistent with those applied in the previous financial year, except as specifically noted.

1.2 PRINCIPLES OF CONSOLIDATION

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Red 5 Limited ("parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Red 5 Limited and its controlled entities together are referred to in this financial report as the consolidated entity. A list of controlled entities appears in Note 25. 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 year, its results are included only from the date upon which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

1.3 INVESTMENTS

Investments classified as current assets represent securities in listed companies purchased for resale and are valued at the lower of cost or net realisable value as at balance date.

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

1.4 INCOME TAX

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit or loss, after allowing for permanent differences. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Tax consolidation legislation

The parent entity and its wholly-owned Australian controlled entities have not formally elected to implement the tax consolidation legislation. Accordingly, the Australian Taxation Office has not been notified that the parent entity will form a tax consolidated group. A review of the impact of the tax consolidation legislation on the consolidated entity is being undertaken to determine whether the consolidated entity will elect to adopt the legislation for the income tax year ending 30 June 2004. The financial effect, should it occur, will be recognised in the financial statements for the year ending 30 June 2005.

1.5 EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs are accumulated in respect of each separate area of interest.

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

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year in which the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated expenditure is written off to the extent that it is considered that the costs will not be recoverable in the future.

1.6 PROPERTY, PLANT AND EQUIPMENT

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

1.7 DEPRECIATION

Depreciation is calculated using a combination of the prime cost and diminishing value methods, to write off the net cost of each item of plant and equipment over its expected useful life to the consolidated entity. The expected useful lives of plant and equipment are between 3 and 13 years.

1.8 RECOVERABLE AMOUNT

Where the carrying value of an individual non-current asset, other than exploration and evaluation expenditure, is greater than its recoverable amount, the asset is written down to its recoverable amount. The directors review the carrying values of non-current assets at each year end and in determining recoverable amount, the expected net cash flows are not discounted to their present values.

1.9 EMPLOYEE ENTITLEMENTS

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. The provision is based on remuneration rates including related on-costs and is measured using undiscounted amounts expected to be paid when the liability is settled.

1.10 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.

1.11 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.

1.12 CASH

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

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
2. REVENUE				
(a) Revenue from ordinary activities				
- interest received	250,154	12,053	250,154	12,011
(b) Revenue from outside operating activities				
- proceeds on sale of controlled entity	1,700,000	-	1,700,000	-
- proceeds on sale of mineral tenements	360,000	-	360,000	-
- option fees on mineral tenements	5,000	30,000	5,000	30,000
	2,065,000	30,000	2,065,000	30,000
	2,315,154	42,053	2,315,154	42,011

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
3. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities before income tax expense includes the following specific net gains and expenses:				
Net gains				
Interest received - other corporations	250,154	12,053	25,0154	12,011
Profit on sale of mineral tenements	82,604	-	67,601	-
Expenses				
Deferred exploration expenditure written-off	54,238	-	23,790	-
Depreciation of property, plant and equipment	12,436	6,681	12,436	6,681
Provision for employee entitlements	105,930	20,428	105,930	20,428
Provision for diminution in investments	-	50,000	-	50,000
Provision for non-recovery of loans	-	-	30,448	178,141
Rental and outgoings relating to operating lease	52,865	57,330	52,865	57,330
Individually significant items				
Expenses				
Deferred exploration expenditure written-off	-	969,003	-	518,417
Loss on sale of controlled entity	-	-	232,073	-
4. INCOME TAX				
The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows:				
Operating loss	(801,400)	(1,753,093)	(1,048,476)	(1,480,593)
Prima facie tax benefit at 30%	(240,420)	(525,928)	(314,542)	(444,178)
Tax effect of permanent differences:				
Exploration expenditure written-off	16,271	216,592	7,137	155,525
Non-deductible expenses	16,997	13,215	16,997	13,215
Non-deductible capital items	-	920	-	920
Gain arising on option premiums	192,177	-	192,177	-
Other deductible items	(5,583)	(139,052)	(3,949)	(28,331)
	(20,558)	(434,253)	(102,180)	(302,849)
Timing differences not brought to account	44,813	87,668	44,813	87,668
Prior year losses brought to account	(25,889)	-	-	-
Current year tax losses not brought to account	1,634	346,585	57,367	215,181
Income tax expense	-	-	-	-
Income tax provision	-	-	-	-
The directors estimate that the potential future income tax benefit in respect of tax losses not brought to account is:	2,469,257	2,755,533	2,106,998	2,102,071

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 being virtually certain.

The potential future income tax benefit will be obtainable by the consolidated entity only if:

(a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit of the deductions for the loss to be realised;

(b) the consolidated entity complies with the conditions for deductibility imposed by income tax law; and

(c) no changes in income tax legislation adversely affects the consolidated entity in realising the benefit of the deduction for the loss.

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
CURRENT ASSETS				
5. CASH ASSETS				
Cash at bank	141,441	243,845	42,810	74,067
Cash on deposit	7,955,394	123,789	7,955,394	123,789
Cash on hand	200	200	200	200
	8,097,035	367,834	7,998,404	198,056
6. RECEIVABLES				
Sundry debtors - other corporations	58,410	93,986	58,410	93,986
	58,410	93,986	58,410	93,986
7. OTHER FINANCIAL ASSETS				
Quoted investments – at cost				
Shares in other corporations	1,255,000	-	1,255,000	-
Less provision for diminution	(50,000)	-	(50,000)	-
	1,205,000	-	1,205,000	-
Market value of investments quoted on prescribed stock exchange as at 30 June 2004				
- shares in other corporations	2,039,553	-	2,039,553	-
NON-CURRENT ASSETS				
8. RECEIVABLES				
Security deposits	-	17,000	-	17,000
Unsecured loans - wholly owned controlled entities	-	-	5,720,666	3,859,179
Provision for doubtful recovery	-	-	(2,093,224)	(2,062,776)
	-	-	3,627,442	1,796,403
	-	17,000	3,627,442	1,813,403

Unsecured loans to controlled entities are interest free and have no fixed terms of repayment.

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
9. OTHER FINANCIAL ASSETS				
Unquoted investments - at cost	90,234	50,000	90,234	50,000
Less provision for diminution	-	(50,000)	-	(50,000)
	90,234	-	90,234	-
Shares in controlled entities - at cost	-	-	935,540	1,925,540
Less provision for diminution	-	-	(600,000)	(600,000)
	-	-	335,540	1,325,540
	90,234	-	425,774	1,325,540
10. PROPERTY, PLANT AND EQUIPMENT				
Office furniture and equipment - at cost				
Opening balance	37,661	37,621	37,661	37,621
Additions	42,092	12,008	42,092	12,008
Plant and equipment written-off	-	(11,968)	-	(11,968)
Closing balance	79,753	37,661	79,753	37,661
Accumulated depreciation				
Opening balance	13,506	15,727	13,506	15,727
Depreciation for the year	12,436	6,681	12,436	6,681
Plant and equipment written-off	-	(8,902)	-	(8,902)
Closing balance	25,942	13,506	25,942	13,506
Net book value	53,811	24,155	53,811	24,155
11. DEFERRED EXPLORATION EXPENDITURE				
Opening balance	3,036,213	2,816,935	307,219	728,416
Acquisition costs	79,023	43,553	-	-
Exploration expenditure incurred in current year	2,808,848	1,144,728	13,164	97,220
Exploration expenditure written-off	(54,238)	(969,003)	(23,790)	(518,417)
Carrying value of mineral tenements sold	(1,977,396)	-	(292,399)	-
	3,892,450	3,036,213	4,194	307,219

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

CURRENT LIABILITIES

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
12. PAYABLES				
Sundry creditors and accruals	793,305	231,226	793,305	231,226
	793,305	231,226	793,305	231,226

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
13. PROVISIONS				
Current				
Provision for employee entitlements	57,002	31,072	57,002	31,072
	57,002	31,072	57,002	31,072
Non-current				
Provision for retirement benefits	80,000	-	80,000	-
	80,000	-	80,000	-

The consolidated entity makes superannuation contributions in compliance with superannuation guarantee legislation. Superannuation contributions are made to complying funds nominated by each employee. The average number of employees of the parent entity during the financial year was 4 (2003: 4). An additional average number of 65 employees were employed by a controlled entity operating in the Philippines.

NON-CURRENT LIABILITIES

14. BORROWINGS

Unsecured loans – other corporations	322,846	322,846	-	-
	322,846	322,846	-	-

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

15. CONTRIBUTED EQUITY

(a) Share capital

220,304,333 (2003: 127,558,467) ordinary fully paid shares	23,434,632	12,908,300	23,434,632	12,908,300
Nil (2003: 54,419,620) options over fully paid shares	-	1,175,779	-	1,175,779
	23,434,632	14,084,079	23,434,632	14,084,079

(b) Movements in ordinary share capital

	Number of shares	$
Opening balance 1 July 2003	127,558,467	12,908,300
Share placement	9,000,000	450,000
Pro-rata rights issue	40,967,509	2,990,628
Exercise of options	42,778,357	6,735,672
Transfer from option premium reserve	-	535,189
Less share issue expenses	-	(185,157)
Balance 30 June 2004	220,304,333	23,434,632

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

(c) Movements in share option reserve

	Number of options	$
Opening balance 1 July 2003	69,369,620	1,175,779
Placement	9,000,000	-
Issue of options for brokerage fee	1,000,000	-
Pro-rata bonus issue of options	55,076,020	-
Exercise of options	(42,778,357)	(535,189)
Lapse of options without being exercised	(32,141,263)	(640,590)
Balance 30 June 2004	59,526,020	-

As at 30 June 2004, the following options over ordinary fully paid shares were outstanding:

	Options
- exercisable at 20 cents each on or before 31 January 2005	55,076,020
- exercisable at 15 cents each on or before 31 July 2004	125,000
- exercisable at 20 cents each on or before 31 July 2004	125,000
- exercisable at 40 cents each on or before 31 December 2004	2,000,000
- exercisable at 15 cents each on or before 8 January 2005	100,000
- exercisable at 20 cents each on or before 17 June 2005	100,000
- exercisable at 60 cents each on or before 31 December 2005	2,000,000
	59,526,020

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
16. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	11,130,035	9,376,942	10,584,018	9,103,425
Net loss attributable to members of the parent entity	801,400	1,753,093	1,048,476	1,480,593
Transfer from option premium reserve	(640,590)	-	(640,590)	-
Accumulated losses at the end of the financial year	11,290,845	11,130,035	10,991,904	10,584,018
17. TOTAL EQUITY RECONCILIATION				
Total equity at the beginning of the financial year	2,954,044	3,076,762	3,500,061	3,350,279
Total changes in equity recognised in the statement of financial performance	(801,400)	(1,753,093)	(1,048,476)	(1,480,593)
Transactions with owners as owners:				
Contributions of equity, net of transaction costs	9,991,143	1,630,375	9,991,143	1,630,375
Total equity at the end of the financial year	12,143,787	2,954,044	12,442,728	3,500,061

18. DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

The following persons were directors of Red 5 Limited during the financial year:

Executive directors

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

Non-executive directors

Nicholas J Smith – Chairman
Colin G Jackson (appointed on 5 December 2003)

Executives (other than directors) with the greatest authority for strategic direction and management

The strategic direction and management of the consolidated entity is administered and managed by the board of directors. There are no individuals (other than the directors) who are responsible for the strategic direction and management of the consolidated entity and consequently no individuals meet the definition of specified executive for the purposes of AASB 1046 - Director and Executive Disclosures by Disclosing Entities.

Remuneration report

Principles used to determine the nature and amount of remuneration

Executive remuneration

The parent entity's remuneration policy for executive directors and senior management is designed to promote superior performance and long term commitment to the consolidated entity. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's Australian and overseas operations.

Executive remuneration and other terms of employment are reviewed annually having regard to performance, relevant comparative information and expert advice. The parent entity's reward policy aims to align executive's remuneration with shareholders' interests and to retain appropriately qualified personnel.

The total remuneration of executive directors consists of the following:

- base remuneration - fixed salary payable monthly in cash;
- bonus - eligible to receive cash bonuses based on pre-defined performance criteria and milestones.
- long term incentives - eligibility to participate in share option schemes with the prior approval of shareholders; and
- other benefits - participation in superannuation schemes.

Non-executive directors remuneration

Shareholders approve the maximum aggregate remuneration for non-executive directors. The remuneration committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations. Non-executive directors are entitled to statutory superannuation benefits. The Chairman is also entitled to a retirement allowance to a maximum of three years directors fees.

Non-executive directors may be entitled to participate in equity based remuneration schemes. All directors are entitled to have their indemnity insurance paid by the consolidated entity.

Details of remuneration

Directors of Red 5 Limited

2004

	Primary	Post-employment		Equity	Other benefits	
Name	Cash salary and fees	Superannuation	Retirement benefits	Options issued	Insurance premiums	Total
	$	$	$	$	$	$
G C Edwards	194,561	16,200	-	-	6,244	217,005
A L Govey	140,907	11,700	-	-	6,244	158,851
N J Smith	202,250	3,262	80,000	-	6,244	291,756
C G Jackson	52,183	750	-	-	6,243	59,176
Total	589,901	31,912	80,000	-	24,975	726,788

2003

	Primary	Post-employment		Equity	Other benefits	
Name	Cash salary and fees	Superannuation	Retirement benefits	Options issued	Insurance premiums	Total
	$	$	$	$	$	$
G C Edwards	142,917	12,862	-	-	4,080	159,859
A L Govey	95,000	8,550	-	-	4,080	107,630
N J Smith	103,000	1,688	-	183,000	4,080	291,768
J W Fraser	22,500	-	-	-	4,080	26,580
Total	363,417	23,100	-	183,000	16,320	585,837

The assessed fair value of options as at the date of grant has been determined using the Black Scholes option pricing model, which takes account of factors such as the option exercise price of 20 cents, 40 cents and 60 cents, the level and volatility of the underlying share price assessed as 100% to 140% and the time to maturity of the options of 1.5, 2.5 and 3.5 years.

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

	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
G C Edwards	6,055,000	400,000	395,000	6,850,000
A L Govey	6,055,000	-	651,500	6,706,500
N J Smith	65,000	-	344,500	409,500
C G Jackson	-	-	225,000	225,000

Other changes during the year include subscriptions under a pro-rata rights issue and off-market purchases and sales.

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

	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
G C Edwards	5,500,000	-	(400,000)	(3,387,500)	1,712,500	
A L Govey	5,500,000	-	-	(3,823,375)	1,676,625	
N J Smith	5,000,000	-	-	(897,625)	4,102,375	4,000,000
C G Jackson	-	-	-	56,250	56,250	

Other changes during the year include pro-rata bonus issues, expiry of options and off-market sales.

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

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
19. REMUNERATION OF AUDITORS				
Amounts paid or due and payable to the auditors for:				
Auditing the financial reports	21,055	20,596	21,055	20,596
Other assurance related services	1,700	-	1,700	-
	22,755	20,596	22,755	20,596
20. EXPENDITURE COMMITMENTS				
(a) Commitments in relation to non-cancellable operating leases are payable as follows:				
- not later than one year	27,000	26,051	27,000	26,051
- later than one year but not later than two years	-	19,104	-	19,104
	27,000	45,155	27,000	45,155
(b) Commitments for the payment of remuneration under long-term employment contracts in existence at balance date but not recorded as liabilities:				
- not later than one year	385,000	195,746	385,000	195,746
- later than one year but not later than two years	385,000	43,146	385,000	43,146
- later than two years but not later than five years	385,000	-	385,000	-
	1,155,000	238,892	1,155,000	238,892

(c) Under the terms of mineral tenement licences held by the consolidated entity, minimum annual expenditure obligations of $57,000 (2003: $1,940,000) may be required to be expended during the forthcoming financial year in order for the tenements to maintain a status of good standing. This expenditure may be incurred by the consolidated entity or its joint venture partners and may be subject to variation from time to time in accordance with Department of Industry and Resources regulations.

(d) The consolidated entity has entered into a subscription agreement to acquire a 50% shareholding in a company involved in mineral exploration activities. As at 30 June 2004, future contributions to be made under the subscription agreement amounted to $198,116 (US$137,414).

21. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES

	CONSOLIDATED		PARENT ENTITY	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies, calculated at year end exchange rates:				
Amounts payable				
United States dollars				
- current	552,123	113,852	552,123	113,852
	552,123	113,852	552,123	113,852

22. SEGMENT INFORMATION

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

	Australia 2004 $	Philippines 2004 $	Consolidated 2004 $	Australia 2003 $	Philippines 2003 $	Consolidated 2003 $
Geographical segments						
Segment revenue and expenses						
Revenue from ordinary activities	250,154	-	250,154	12,053	-	12,053
Revenue from other activities	2,065,000	-	2,065,000	30,000	-	30,000
Total segment revenue	2,315,154	-	2,315,154	42,053	-	42,053
Depreciation expenses	12,436	-	12,436	6,681	-	6,681
Exploration expenditure written-off	54,238	-	54,238	969,003	-	969,003
Acquisition of plant and equipment	42,092	-	42,092	12,008	-	12,008
Segment result	(803,497)	2,097	(801,400)	(1,721,348)	(31,745)	(1,753,093)
Income tax expense	-	-	-	-	-	-
Net loss	(803,497)	2,097	(801,400)	(1,721,348)	(31,745)	(1,753,093)
Segment assets	9,445,958	3,950,982	13,396,940	2,311,004	1,228,184	3,539,188
Segment liabilities	709,675	543,478	1,253,153	471,292	113,852	585,144
Net cash flow from operating activities	(632,308)	-	(632,308)	(689,305)	(31,745)	(721,050)

23. RELATED PARTIES

Transactions with related parties in the wholly owned group

During the financial year, unsecured loan advances were made between the parent entity and its controlled entities. All such loans were interest free. Loan balances between the parent entity and its controlled entities are disclosed in the financial report of the parent entity. Intra-entity loan balances have been eliminated in the financial report of the consolidated entity. The ownership interests in related parties in the wholly owned group are set out in Note 25.

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

24. FINANCIAL INSTRUMENTS

(a) Credit risk exposure

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

(b) Net fair values

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

(c) Interest rate risk exposure

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

30 June 2004

	Note	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Non-interest bearing $	Total $
Financial assets					
Cash assets	5	988,476	7,108,359	200	8,097,035
Receivables	6	-	-	58,410	58,410
Other financial assets	7, 9	-	-	1,295,234	1,295,234
		988,476	7,108,359	1,353,844	9,450,679
Weighted average interest rate		4.14%	5.36%		
Financial liabilities					
Payables	12	-	-	793,305	793,305
Provisions	13	-	-	137,002	137,002
Borrowings	14	-	-	322,846	322,846
		-	-	1,253,153	1,253,153
Weighted average interest rate		-	-		

30 June 2003

	Note	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Non-interest bearing $	Total $
Financial assets					
Cash assets	5	367,634	-	200	367,834
Receivables	6, 8	-	-	110,986	110,986
		367,634	-	111,186	478,820
Weighted average interest rate		2.1%	-		
Financial liabilities					
Payables	12	-	-	231,226	231,226
Provisions	13	-	-	31,072	31,072
Borrowings	14	-	-	322,846	322,846
		-	-	585,144	585,144
Weighted average interest rate		-	-		

25. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	Country of incorporation	Class of shares	Equity holding 2004 %	Equity holding 2003 %
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 Asia (Philippines) Pty Ltd	Australia	Ordinary	100	100
Opus Exploration Pty Ltd	Australia	Ordinary	-	100
Opus Resources Pty Ltd	Australia	Ordinary	100	100
Bremer Binaliw Corporation	Philippines	Ordinary	100	100
Greenstone Resources Corporation	Philippines	Ordinary	100	100

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

Disposal of controlled entity

On 22 September 2003, the parent entity disposed of its 100% interest in Opus Exploration Pty Ltd for a consideration of $1,700,000 comprising $500,000 in cash and the issue of 9,132,420 quoted shares in the purchaser (at a nominal value of 13.1 cents each). Contribution to the net loss of the consolidated entity from the loss of control of the controlled entity was a profit of $15,003.

	2004 $
Fair value of identifiable net assets of controlled entity disposed of	
Cash assets	-
Deferred exploration expenditure	1,684,997
	1,684,997
Less consideration	1,700,000
Profit on disposal of controlled entity	15,003
Inflow of cash on disposal of controlled entity, net of cash disposed of	
Cash consideration	500,000
Cash disposed of	-
Inflow of cash	500,000

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

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
Net cash outflow from operating activities	(632,308)	(691,050)	(632,308)	(690,995)
Depreciation	(12,436)	(6,681)	(12,436)	(6,681)
Exploration expenditure written-off	(54,238)	(969,003)	(23,790)	(518,417)
Loss on sale of controlled entity	-	-	(232,073)	-
Profit on sale of mineral tenements	82,604	-	67,601	-
Plant and equipment written-off	-	(3,066)	-	(3,066)
Provision for diminution in investments	-	(50,000)	-	(50,000)
Provision for non-recovery of loans	-	-	(30,448)	(178,141)
Changes in operating assets and liabilities				
Increase/(decrease) in receivables	(15,576)	118,612	(15,576)	118,612
Increase/(decrease) other operating assets	498,563	(233,452)	498,563	(233,452)
(Increase)/decrease in payables	(562,079)	101,975	(562,079)	101,975
(Increase)/decrease in provisions	(105,930)	(20,428)	(105,930)	(20,428)
Operating loss after income tax	(801,400)	(1,753,093)	(1,048,476)	(1,480,593)

27. NON CASH FINANCING AND INVESTING ACTIVITIES

Issue of shares as consideration for the sale of controlled entity	1,200,000	-	1,200,000	-

28. EARNINGS PER SHARE

Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	183,015,075	118,143,501
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	183,015,075	118,143,501

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

The following movements in ordinary shares and options occurred subsequent to balance date:
- 250,000 unlisted options lapsed on 31 July 2004.

29. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity’s financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed and the key differences in accounting policies that are expected to arise, is set out in below.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has commenced an internal analysis of key financial reporting differences as well as planning for the conversion to IFRS in relation to accounting policies and procedures, reporting systems, business processes and business structures. Expert external consultants will also be engaged to perform diagnostics and conduct impact assessments to identify key areas that will be impacted by the transition to IFRS.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

Exploration and evaluation expenditure on mineral resources
Uncertainty remains in relation to accounting for extractive industries within the IFRS regime with no specific standard finalised. If the stated “grandfathering” approach embodied in Exposure Draft 6 “Exploration for and Evaluation of Mineral Resources” is implemented, then the consolidated entity’s existing policy of accounting for exploration and evaluation activity will comply with IFRS requirements and therefore no difference is expected to result either from the recognition of exploration and evaluation assets or from impairment testing.

Income tax
Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

No immediate impact is likely as deferred tax balances are not currently recognised.

Equity-based compensation benefits
Under AASB 121 *Share-based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For those reasons it is not yet possible to quantify the impact of the transitions to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

DECLARATION BY DIRECTORS

The Board of Directors of Red 5 Limited declares that:

(a) the financial statements and associated notes comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

(b) the financial statements and associated notes give a true and fair view of the financial position as at 30 June 2004 and performance of the parent entity and the consolidated entity for the financial year ended on that date;

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

The consolidated financial report has been made out in accordance with Australian Accounting Standards and the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia
27 September 2004

KPMG

Independent audit report to members of Red 5 Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Red 5 Limited (the "Company") and the Consolidated Entity, for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of Red 5 Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

B C FULLARTON
Partner

Perth
27 September 2004