



ABN 73 068 647 610

## **ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2016**

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# RED 5 LIMITED

ABN 73 068 647 610

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

Kevin Dundo (Chairman)  
Mark Williams (Managing Director)  
Ian Macpherson (Non-Executive Director)  
Colin Loosemore (Non-Executive Director)

### COMPANY SECRETARY

Frank Campagna

### REGISTERED OFFICE

Level 2  
35 Ventnor Avenue  
West Perth WA 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  
Web-site: www.securitytransfer.com.au

### BANKERS

National Australia Bank Limited

### AUDITORS

KPMG

### SOLICITORS

Squire Patton Boggs  
HopgoodGanim  
SyCip Salazar Hernandez & Gatmaitan (Philippines)

### STOCK EXCHANGE LISTING

Shares in Red 5 Limited are quoted on:

Australian Securities Exchange  
Trading code: RED

OTCQX International  
Trading code: RDFLY

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

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

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 2016.

### **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:

Kevin Anthony Dundo  
Mark James Williams  
Ian Keith Macpherson  
John Colin Loosemore  
Mark Francis Milazzo (resigned 27 June 2016)

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 the Group during the course of the financial year were gold production and mineral exploration in the Philippines.

### **OPERATING AND FINANCIAL REVIEW**

The net profit of the consolidated entity after income tax was \$21,601,587 (2015: Loss of \$60,304,510).

#### ***Project description***

The Siana Gold Project, located on the southern Philippine Island of Mindanao, continued to be the main focus for the Group during the year. The Siana mine is currently in the open pit phase and following the completion of a feasibility study during the year, approval was given for the development of an underground mining operation. Ore is treated through a conventional modern gravity and carbon-in-leach plant to produce gold ore.

#### **Production summary**

A total of 59,663 ounces (2015: 23,645) of gold was recovered for the 2016 financial year.

The Siana Gold Project processing plant performed well during the financial year, with a total of 692,384 tonnes (2015: 298,163) of ore processed for the year. The average head grade was 3.2 g/t Au (2015: 2.9 g/t Au) and average recovery was 85% (2015: 84%).

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REVIEW OF OPERATIONS (continued)

Processing costs averaged A\$28 per tonne (2015: A\$30), reflecting a reduction in costs due to increased production volumes.

Ore stockpiles on hand at the end of the 2016 financial year totalled approximately 193,000 tonnes (2015: 87,000) at an average grade of 1.34 g/t Au (2015:1.8 g/t Au).

	Units	2015/16	2014/15 (six months)
<b>Mine Production</b>			
Waste mined	BCM '000s	3,258	898
Ore mined	T '000s	786	340
Mined grade – gold	g/t	2.9	2.4
<b>Mill Production</b>			
Ore processed	t	692,384	298,163
Head grade - gold	g/t	3.2	2.9
Head grade – silver	g/t	6.7	6.0
Recovery – gold	%	85	84
Recovery - silver	%	35	45
Gold recovered	oz	59,663	23,645
Silver recovered	oz	60,307	25,341
Gold sold	oz	60,354	19,382
Silver sold	oz	51,974	18,559
Average gold price received	US\$/oz	1,167	1,187
Cash Operating Cost	A\$/oz	683	752
Total Operating Cost	A\$/oz	1,116	1,354
All in Sustaining Cost	A\$/oz	1,458	1,666

### Production costs

Total Operating Cost for the financial year (comprising Cash Operating Cost plus depreciation and amortisation charges) was A\$1,116 per ounce (2015: A\$1,354). The All-In Sustaining Cost (AISC) (comprising Cash Operating Cost plus waste removal costs, corporate costs and sustaining capital) was A\$1,458 per ounce (2015: A\$1,666), mainly due to the higher volume of waste material moved including a material movement in the east wall of the open pit in July 2015.

	2015/16		2014/15 (six months)	
	A\$M	A\$/oz	A\$M	A\$/oz
Mining costs open pit	5.3	88	2.9	143
Processing costs	19.4	322	8.7	450
G&A costs (site administration)	17.3	286	3.4	173
Other costs (including selling costs)	0.4	7	0.1	6
Silver credits	(1.2)	(20)	(0.4)	(20)
<b>Total Cash Operating Cost</b>	<b>41.2</b>	<b>683</b>	<b>14.7</b>	<b>752</b>
Depreciation	6.4	107	2.7	141
Amortisation – mine development	19.7	326	8.9	461
<b>Total depreciation and amortisation</b>	<b>26.1</b>	<b>433</b>	<b>11.6</b>	<b>602</b>
<b>Total Operating Cost</b>	<b>67.3</b>	<b>1,116</b>	<b>26.3</b>	<b>1,354</b>

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REVIEW OF OPERATIONS (continued)

#### Gold sales

Gold sales for the reporting period totalled A\$97.3 million (2015: A\$27.6 million) from the sale of 60,354 ounces (2015: 19,382) at an average price received of US\$1,167 per ounce (2015: US\$1,187).

#### Financial summary

The consolidated entity recorded an operating profit of A\$24.8 million (2015: Loss of A\$60.3 million) before tax and spent a total of A\$45.2 million (2015: A\$37.8 million) on capital expenditure during the year.

Financial Summary	Year ended 30 June 2016 A\$M	Year ended 30 June 2015 A\$M
Sale proceeds	97.3	27.6
Cost of goods sold	(67.4)	(26.3)
Gross profit from operations	29.9	1.3
Administration and other expenses	(5.1)	(5.3)
<b>Net profit/(loss) before tax</b>	<b>24.8</b>	<b>(3.7)<sup>(1)</sup></b>
<b>Capital expenditure</b>		
Waste stripping costs	37.0	14.8
Plant and equipment and development	8.2	23.0

<sup>(1)</sup> Before impairment of \$56.6 million

#### Underground development

During the year an updated Feasibility Study for the Siana underground development was completed, indicating a financially and technically viable underground project based on a maiden JORC 2012 compliant underground ore reserve.

Based on the positive outcomes of the updated Feasibility Study, the Siana underground mine was approved for development, with underground development commencing in the second half of the 2016 calendar year.

#### Exploration

Significant progress was made at the Mapawa Project during the year, with the delivery of a maiden JORC 2012 Indicated and Inferred Mineral Resource estimate for the Mapawa LSY deposit.

High-grade assay results were also received during the year from geotechnical drill hole SMDD159 and from hole SMDD161, which were geotechnical drill-holes targeting the area under the North East pit wall. The assay results confirm the continuation of narrow high grade lenses occurring in the hanging wall of the main resource.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REVIEW OF OPERATIONS (continued)

#### **Future strategy**

Following the completion of an updated feasibility, approval was given for the commencement of an underground mine development. The results of the study confirmed a technically viable project with robust economic outcomes which has the potential to significantly extend the life of the operation well beyond the current open pit.

Following completion of a scoping study to assess the Mapawa Project's potential to provide a source of satellite ore feed for the Siana processing plant, the Group has commenced a Feasibility Study on the potential for an open pit development.

Planning commenced for an exploration drilling campaign over the area to the south of the Siana open pit in the southern Siana tenement, known as Alegria. Previous exploration programs identified three significant prospects within the Alegria area – the Alipao, Madja and Budlingin prospects

#### **DIVIDENDS**

No amounts were paid by way of dividend since the end of the previous financial year (2015: Nil). At the time of this report the Directors do not recommend the payment of a dividend.

#### **OPTIONS GRANTED OVER SHARES**

At the date of this report, there were 40,000 options granted over ordinary fully paid shares which are exercisable at \$4.30 each on or before 31 December 2016.

No options were granted during or since the end of the financial year. No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of Red 5 or any other corporation.

#### **PERFORMANCE RIGHTS**

At the date of this report, there were 12,000,000 performance rights convertible into ordinary fully paid shares.

	<b>Number</b>
Vest date: 15 April 2017 (subject to performance conditions)	6,000,000
Vest date: 15 April 2018 (subject to performance conditions)	<u>6,000,000</u>
	<u>12,000,000</u>

#### **EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

No matters have arisen since 30 June 2016 which have significantly affected, or may significantly affect the operations of the group, the results of the operations, or the state of affairs of the Group in subsequent financial years.

#### **LIKELY DEVELOPMENTS**

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

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### INFORMATION ON DIRECTORS

Director	Qualifications, experience and special responsibilities
Kevin Dundo (Non-Executive Chairman)	B.Com, LLB, FCPA A Non-Executive Director since March 2010 and Chairman since November 2013. Mr Dundo practices as a lawyer and specialises in commercial and corporate areas with experience in the mining sector, the service industry and the financial services industry. Mr Dundo is a member of the remuneration and nomination committee, the audit committee and the health, safety, environment and community committee (with effect from 27 June 2016). Other current public listed company directorships: Imdex Limited (since January 2004) and Cash Converters International Limited (since February 2015). Former directorships in the last 3 years: ORH Limited (March 2013 to December 2013).
Mark Williams (Managing Director)	Dip CSM Mining, GAICD A Non-Executive Director from January 2014 and Managing Director since April 2014. Mr Williams was previously General Manager of the Tampakan Copper-Gold Project in the southern Philippines from 2007 to 2013. He has over 20 years of mining experience operating within a diverse range of open cut, underground, quarrying and civil engineering environments across the developed markets of Australia, United Kingdom and New Zealand as well as the emerging markets of Philippines, Vietnam, Thailand and South Pacific. Mr Williams has not held directorships in any other listed companies in the last 3 years.
Ian Macpherson (Non-Executive Director)	B.Comm, CA A Non-Executive Director since April 2014. Mr Macpherson is a chartered accountant with over 35 years' experience in the provision of financial and corporate advisory services. He was a former partner at Arthur Anderson & Co managing a specialist practice providing corporate and financial advice to the mining and mineral exploration industry. Mr Macpherson established Ord Partners in 1990 (later to become Ord Nexia) and has specialised in the area of corporate advice with particular emphasis on capital structuring, equity and debt raising, corporate affairs and Stock Exchange compliance for publicly listed companies. Mr Macpherson is Chairman of the audit committee and the remuneration and nomination committee. Other current directorships: RBR Group Ltd (since October 2010). Former directorships in the last 3 years: Avita Medical Limited (March 2008-January 2016)
Colin Loosemore (Non-Executive Director)	B.Sc.Hons., M.Sc., DIC., FAusIMM A Non-Executive Director since December 2014. Mr Loosemore is a geologist with over 40 years' experience in multi-commodity exploration including over 30 years as a director of public exploration companies within Australia and overseas. He graduated from London University in 1970 and the Royal School of Mines in 1977. Mr Loosemore was most recently Managing Director of Archipelago Resources plc where he oversaw development of the Toka Tindung Gold Mine in Sulawesi, Indonesia. Mr Loosemore is a member of the remuneration and nomination committee and the audit committee and is Chairman of the health, safety, environment and community committee. Mr Loosemore has not held directorships in any other listed companies in the last 3 years.
Mark Milazzo (Non-Executive Director) (Resigned 27 June 2016)	B.Eng. Mining, FAusIMM A Non-Executive Director since May 2011. Mr Milazzo is a mining engineer with 30 years' experience in mining operations. He was previously General Manager of the Olympic Dam mine and Kambalda Nickel Operations with WMC Limited and General Manager for HWE Mining Pty Ltd where he was responsible for managing a portfolio of surface and underground mining contracts for a wide range of clients across a range of commodities.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### DIRECTORS' REPORT (continued)

#### Information on Company Secretary

Frank Campagna B.Bus (Acc), CPA

Company Secretary of Red 5 since June 2002. Mr Campagna is a Certified Practising Accountant with over 25 years' experience as Company Secretary, Chief Financial Officer 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	Performance rights
K Dundo	-	-	-
M Williams	2,400,000	-	12,000,000
I Macpherson	-	-	-
C Loosemore	4,224,153	-	-

#### 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 2016 and the number of meetings attended by each Director whilst in office are as follows:

	Board meetings		Audit committee		Remuneration committee		HSEC committee <sup>(1)</sup>	
	Number held	Number attended	Number held	Number attended	Number held	Number attended	Number held	Number attended
K Dundo	12	12	2	2	2	2	-	-
M Williams	12	12	-	-	-	-	-	-
I Macpherson	12	12	2	2	2	2	-	-
C Loosemore	12	11	-	-	2	2	2	2
M Milazzo	12	11	2	2	-	-	2	2

<sup>(1)</sup> Health, Safety, Environment and Community committee.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### **Letter from the Chair of the Remuneration Committee**

Dear Shareholder

During the 2016 financial year (FY16) the Board tasked the Remuneration Committee with reviewing the remuneration of the Managing Director and the design and implementation of short and long term incentives for all executives, in detail. To that end the Remuneration Committee approved and engaged Godfrey Remuneration Group Pty Ltd (GRG) to provide independent advice to the Committee on these aspects of Key Management Personnel (KMP) remuneration. Following the receipt of GRG's advice, the Committee considered Red 5's circumstances and worked with the consultant to design and implement new incentive plans.

The Short Term Incentive (STI) plan was introduced during FY16, for FY16. It is a target based incentive plan which outlines a clear set of objectives (key performance indicators or KPIs) linked to Red 5's strategy and which are expected to directly contribute to value creation for shareholders in both the short and longer terms, as measured during the financial year. 50% of any award is to be deferred into equity (Rights) under Red 5's Rights Plan.

The Long Term Incentive (LTI) will be introduced for the 2018 financial year (FY18). It is anticipated that this will occur at the 2017 annual general meeting. The LTI will be offered in the form of Performance Rights which are subject to a three year Measurement Period. Three tranches are contemplated, one with an indexed TSR vesting condition (TSR), which is scaled), one with a gold production target vesting condition (binary) and one with a strategic milestone condition (binary).

More information on the incentive plans will be made available as part of the 2017 financial year (FY17) Remuneration Report, which is the period during which the first grants of LTI will be made.

Sincerely

Mr Ian Macpherson

### **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.*

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

##### *Directors and executives remuneration*

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:

- fixed remuneration should be set around the middle of the relevant market data, at P50/50<sup>th</sup> percentile;
- reward reflects the competitive market in which Red 5 operates;
- for executives, individual reward should be linked to performance criteria through variable remuneration, and
  - o at target, which is intended to be a challenging but achievable performance, the combination of fixed remuneration and the outcomes of variable remuneration should position Total Remuneration Packages between P50 and P75 of the market,
  - o variable remuneration should generally be offered in the form of separate short (1 year) and long term (3 year) incentives; and
- Non-Executive Directors should not receive remuneration related to performance or participate in any executive incentive plan.

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 the Managing Director and senior executives. 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 the Managing Director and senior executives is designed to promote superior performance and long term commitment to Red 5, while building sustainable shareholder value. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing Red 5's operations. The Managing Director 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.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

The structure of remuneration packages for the Managing Director and other senior executives comprises:

- a fixed sum base salary plus superannuation benefits;
- short term incentives linked to annual planning and longer term objectives; and
- long term incentives through participation in performance based equity plans, with the prior approval of shareholders to the extent required.

The proportion of fixed and variable remuneration is established for the Managing Director and senior executives by the remuneration committee and is linked to both relevant market practices and the degree to which the Board intends participants to focus on short and long term outcomes.

The objective of short term incentives is to link achievement of Red 5's annual targets for outcomes linked to Red 5's strategy, or which clearly build shareholder value, with the remuneration received by executives charged with meeting those targets. The short term incentive is an "at risk" component of remuneration for key management personnel and is payable based on performance against key performance indicators set at the beginning of each financial year. Targets are intended to be challenging but achievable and may or may not be linked to budget, depending on whether or not the budget is viewed by the Board as meeting this definition.

The objective of long term incentives is to promote alignment between executives and shareholders through the holding of equity. As such, long term incentives are only granted to executives who are able to directly influence the generation of shareholder wealth, or who are in a position to contribute to shareholder wealth creation.

As the operations of the Group expand, the Board continues to progressively develop remuneration policies and practices that appropriately link remuneration to company performance and shareholder wealth, given the circumstances of Red 5 at the time. This includes a proposed long term incentive scheme whereby Performance Rights will be granted with a Measurement Period of three years with vesting conditions comprising indexed TSR (rather than ranked or absolute TSR) and agreed operational measures including gold production and strategic targets. It is proposed that the TSR measure be subject to a positive TSR gate and that other measures are subject to a production or financial gate.

Performance incentives may be offered to the Managing Director and senior executives through the operation of incentive schemes. The short term incentive is offered annually, set as a percentage of annual salary, payment of which is conditional upon the achievement of agreed key performance indicators (KPIs) for each executive, which comprise a combination of agreed milestones and financial measures. These milestones are selected from group, functional/unit and individual level objectives, each weighted to reflect their relative importance and each with targets linked to the Board's expectations and with threshold, target and stretch levels set where possible (some KPIs are binary and are either achieved or not achieved). The KPIs comprise financial and non-financial objectives and include out-performance against the annual operating budget, health and safety targets and specific operations-related milestones. Measures chosen directly align the individual's reward to the KPIs of the group and to its strategy and performance. The plan also has a financial gate to ensure that no performance bonus is payable when it would be inappropriate or unaffordable to do so. Any award under the STI is subject to deferral at a rate of 50% of the award, to be delivered in the form of Service or Deferred Rights, subject to shareholder approval, if required. The Service and Deferred Rights are intended to prevent the equity being sold for a period of 12 to 24 months (respectively). The purpose of deferral is to manage the risk of short-termism inherent in setting short term objectives, to promote sustainable value creation and to build further alignment with shareholders.

#### *Non-Executive Directors' remuneration*

In accordance with current corporate governance practices, the structure for the remuneration of Non-Executive Directors and senior executives is separate and distinct. Shareholders approve the maximum aggregate remuneration payable to Non-Executive Directors, with the current approved limit being \$500,000 per annum. The remuneration committee recommends the actual payments to Directors and the Board is responsible for ratifying any recommendations. The current fee policy is as follows:

- the Chair receives fees of \$90,000 per annum plus superannuation;
- Non-Executive Directors receive \$70,000 per annum plus superannuation;
- Chairs of Board committees receive:
  - o \$10,000 per annum plus superannuation for the audit committee, and
  - o \$5,000 per annum plus superannuation for other committees;
- committee members are not paid any additional fee;
- Non-Executive Directors are entitled to statutory superannuation benefits; and
- the Board approves any consultancy arrangements for Non-Executive Directors who provide services outside of and in addition to their duties as Non-Executive Directors.

Non-Executive Directors are not entitled to participate in performance based remuneration schemes. However, the Board proposes to seek shareholder approval for a Non-Executive Directors' share plan, under which Non-Executive Directors can elect to receive a portion of their existing Directors fees in shares in Red 5.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

All Directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of \$134,284 (2015: \$135,569) 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.

#### Share-based compensation

The Board has adopted the Red 5 Employee Share Option Plan (ESOP) and a Rights Plan. The primary purposes of these plans 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.

The Red 5 Rights Plan is appropriately utilised for offers of both deferred short term incentives (Service and Deferred Rights) and long term incentives (Performance Rights). Specific performance hurdles or vesting schedules are determined by the Board at the time of grant under the ESOP or Rights Plan in the case of LTI, and are aligned with the stage of development and operations of the Group and market conditions and practices.

Red 5's share trading policy prohibits key management personnel that are granted share-based payments as part of their remuneration, from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangements is also prohibited by law.

#### Group performance

The following table summarises key measures of Group performance for FY16 and the previous four financial years.

	2016	2015	2014	2013	2012
Profit/(Loss) before income tax attributable to owners of the company	\$24,787,481	(\$60,304,510)	(\$6,935,115)	(\$8,813,753)	(\$1,682,914)
Dividends paid	-	-	-	-	-
Share price at 30 June	\$0.074	\$0.096	\$0.09	\$0.62	\$1.46

Gold production at the Siana Gold Project for the year ended 30 June 2016 was 59,663 ounces of gold compared to 23,645 ounces in the previous financial period, following implementation of a revised open pit mining strategy. An updated feasibility study was completed for the development of an underground operation at the Siana Gold Project. The Siana underground mine was approved for development, with underground development commencing in the second half of 2016.

#### Details of remuneration

The following table discloses details of the nature and amount of each element of the remuneration paid to key management personnel including the Directors of Red 5 for the year ended 30 June 2016.

2016 Name	Short Term			Super-annuation	Annual and long service leave	Share based payments	Total
	Salary or directors fees	Expenses	Bonus				
<b>Executive Director</b>	\$	\$	\$	\$	\$	\$	\$
M Williams	460,688	-	315,360 <sup>(1)</sup>	45,173 <sup>(2)</sup>	23,865	74,471 <sup>(3)</sup>	919,557
<b>Non-Executive Directors</b>							
K Dundo	95,000	-	-	9,025	-	-	104,025
I Macpherson	80,000	-	-	7,600	-	-	87,600
C Loosemore	70,000	-	-	6,650	-	-	76,650
M Milazzo <sup>(4)</sup>	75,000	-	-	7,125	-	-	82,125
<b>Executives</b>							
J Mobilia	307,500	-	125,000 <sup>(5)</sup>	35,000 <sup>(6)</sup>	30,026	-	497,526
D Jerdin	412,504	22,084 <sup>(7)</sup>	131,361 <sup>(5)</sup>	-	-	-	565,949
<b>Total</b>	<b>1,500,692</b>	<b>22,084</b>	<b>571,721</b>	<b>110,573</b>	<b>53,891</b>	<b>74,471</b>	<b>2,333,432</b>

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

- (1) Short term incentive bonus component of remuneration based on achievement of group and specific role related operational targets for the year ended 30 June 2016 including completion of the underground feasibility study and related reserve and resource estimates, specified progress on the development of a long term tailings storage facility and the achievement of gold production and cost targets for the financial year. The amount vested represents 80% of the available bonus with the balance being forfeited due to performance criteria not being met. The financial gate of a minimum level of gold production based on a challenging work plan and operating budget was exceeded. 50% of the performance bonus is payable in share rights, subject to shareholder approval.
- (2) Includes \$13,110 superannuation on the cash component of the performance bonus paid to the Managing Director relating to the previous financial year.
- (3) Share based payment expense of \$74,741 relates to performance rights granted in prior financial year.
- (4) Resigned as a Director on 27 June 2016.
- (5) Short term incentive bonus relating to prior financial year, based on achievement of group and specific role related operational targets for the year ended 30 June 2015 including completion of construction projects under budget and within schedule and achievement of gold production and cost targets for the financial year. The amount vested for Mr Mobilia represents 71% of the available bonus and for Mr Jerdin the amount vested represents 68% of the available bonus, with the respective balances being forfeited due to performance criteria not being met.
- (6) Includes \$12,500 superannuation on the performance bonus paid to the Chief Financial Officer relating to the previous financial year.
- (7) Reimbursement of travel expenses as per terms of employment agreement.

2015 Name	Short Term			Super-annuation	Annual and long service leave	Share based payments	Total
	Salary or directors fees	Expenses	Bonus				
<b>Executive Director</b>	\$	\$		\$	\$	\$	\$
M Williams	446,325	-	276,000 <sup>(1)</sup>	50,425	11,398	42,439	826,587
<b>Non-Executive Directors</b>							
K Dundo	95,000	-	-	9,025	-	-	104,025
M Milazzo	75,000	-	-	7,125	-	-	82,125
I Macpherson	80,000	-	-	7,600	-	-	87,600
C Loosemore <sup>(2)</sup>	37,917	-	-	3,602	-	-	41,519
<b>Executives</b>							
J Mobilia <sup>(3)</sup>	360,625	-	-	31,250	49,156	-	441,031
D Jerdin <sup>(4)</sup>	185,687	10,786	-	-	11,111	-	207,584
<b>Total</b>	<b>1,280,554</b>	<b>10,786</b>	<b>276,000</b>	<b>109,027</b>	<b>71,665</b>	<b>42,439</b>	<b>1,790,471</b>

- (1) Short term incentive bonus component of remuneration based on achievement of group and specific role related operational targets for the year ended 30 June 2015 including completion of construction projects under budget and within schedule, lifting of the Cease and Desist Order on the Siana gold project, recommencement of gold production and achievement of gold production and cost targets for the financial year. The amount vested represents 70% of the available bonus with the balance being forfeited due to performance criteria not being met. 50% of the performance bonus is payable in shares, subject to shareholder approval and which are escrowed for a period of two years.
- (2) Appointed as a Non-Executive Director on 12 December 2014.
- (3) One-off recognition payment of \$68,750 was paid to Mr Mobilia relating to the 2013/2014 financial year.
- (4) Appointed General Mining Operations Manager on 1 January 2015.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed		At risk – short term incentives		At risk – long term incentives	
	2016	2015	2016	2015	2016	2015
<b>Executive Directors</b>						
M Williams	58%	62%	34%	33%	8%	5%
<b>Non-Executive Directors</b>						
M Williams	100%	100%	-	-	-	-
K Dundo	100%	100%	-	-	-	-
I Macpherson	100%	100%	-	-	-	-
C Loosemore	100%	100%	-	-	-	-
M Milazzo	100%	100%	-	-	-	-
<b>Executives</b>						
J Mobilia	75%	100%	25%	-	-	-
D Jerdin	86%	100%	14%	-	-	-

#### **Options granted to key management personnel**

No options over ordinary shares were granted during the year to executive officers of Red 5 as part of their remuneration.

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. 70,000 options held by Mr Mobilia expired during the year at a fair value of nil. No options have been granted since the end of the financial year.

#### **Share holdings of key management personnel**

The numbers of shares in Red 5 held during the financial year by key management personnel, including personally-related entities are set out below.

2016	Balance at 1 July 2015	Received during the year through the issue of shares	Other purchases during the year	Balance at 30 June 2016
M Williams	-	2,400,000 <sup>(1)</sup>	-	2,400,000
I Macpherson	-	-	-	-
K Dundo	-	-	-	-
C Loosemore	4,224,153	-	-	4,224,153
M Milazzo	175,000	-	-	175,000 <sup>(2)</sup>
J Mobilia	194,958	-	-	194,958
D Jerdin	-	-	-	-
<b>Total</b>	<b>4,594,111</b>	<b>2,400,000</b>	<b>-</b>	<b>6,994,111</b>

<sup>(1)</sup> Shares issued following shareholder approval and vested during the period in relation to the STI award for the 2015 financial year at a value of \$138,000 (5.75 cents per share).

<sup>(2)</sup> Shares held as at the date of resignation.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

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

The numbers of options in Red 5 held during the financial year by key management personnel are set out below.

2016	Held at 1 July 2015	Granted as compensation	Exercised	Other changes <sup>(1)</sup>	Held at 30 June 2016	Vested during the year	Vested and exercisable at 30 June 2016
J Mobilia	80,000	-	-	(40,000)	40,000	-	40,000
<b>Total</b>	<b>80,000</b>	<b>-</b>	<b>-</b>	<b>(40,000)</b>	<b>40,000</b>	<b>-</b>	<b>40,000</b>

<sup>(1)</sup> Other changes represent options that expired or were forfeited during the year.

#### *Performance rights held by key management personnel*

The number of performance rights in Red 5 held during the financial year by key management personnel are set out below.

2016	Held at 1 July 2015	Vesting condition	Vesting date	Grant date	Fair value at grant date	Expiry Date
M Williams	6,000,000	TSR	14 April 2017	4 December 2014	\$0.0172	15 April 2019
M Williams	6,000,000	TSR	14 April 2018	4 December 2014	\$0.0172	15 April 2019

- (a) The value of rights and options granted in the year is the fair value of the rights calculated at grant date. The total value of the rights granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (b) The value of rights and options exercised during the year is calculated as the market price of shares in Red 5 as at close of trading on the date the options were exercised after deducting the price paid to exercise the right, if any.

Each performance right entitles the holder to be issued with one ordinary fully paid share subject to the satisfaction of vesting conditions. 50% of the performance rights vest after 3 years and 50% after 4 years from commencement or grant subject to satisfaction of performance hurdles including above median share price scaled performance against the S&P/ASX All Ordinaries Gold Index, a positive share price performance and minimum share price thresholds at the end of the performance period including that the Red 5's shares as quoted on ASX must be above \$0.125 per share at the end of the performance period.

The Group's Total Shareholder Return (TSR) is measured as a percentile ranking compared to the S&P/ASX All Ordinaries Gold Index. The proportion of TSR performance rights which are eligible to vest at the end of the performance period will be determined as follows:

Red 5's TSR relative to the S&P/ASX All Ordinaries Gold Index	Proportion of TSR share performance rights that are eligible to vest
Less than 50 <sup>th</sup> percentile	0%
Between 50 <sup>th</sup> and 75 <sup>th</sup> percentile	50%
At or above 75 <sup>th</sup> percentile	100%

As noted elsewhere in this report, the LTI plan has been reviewed and a new structure will be introduced in FY18 based on Performance Rights which will be measured against indexed TSR (iTSR) and strategic milestones in separate tranches. The milestones are intended to link to Red 5's strategy and the TSR measure is intended to link to Red 5's objective to create superior returns to shareholders. More information will be provided in future Remuneration Reports as the plan is implemented.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

#### **Service agreements**

The terms of employment for Executive Directors and Key Management Personnel are formalised in service agreements. Major provisions of the agreements are set out below.

#### **Mark Williams – Managing Director**

Term of agreement: no defined period.

Remuneration: base salary of \$450,000 per annum plus statutory superannuation contributions.

Performance bonus: short term incentive bonus determined as a percentage of annual salary and based on the achievement of pre-determined milestones which are selected from group, functional and individual level objectives, each weighted to reflect their relative importance. One half of any performance bonus is payable in cash and one half is to be satisfied by the issue of Share Rights which are subject to service or escrow conditions.

Equity compensation: entitlement to be granted indeterminate rights which can be delivered in either cash or shares. The rights will be granted annually with a measurement period of three years with vesting conditions comprising outperformance against an indexed TSR and agreed operational measures including gold production targets.

Termination provisions: termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) upon giving 12 months' notice or payment in lieu of notice and by Mr Williams giving 3 months' notice.

#### **Joe Mobilia – Chief Financial Officer**

Term of agreement: no defined period.

Remuneration: base salary of \$300,000 per annum plus 10% superannuation contributions.

Performance bonus: short term incentive bonus determined as a percentage of annual salary and based on the achievement of pre-determined milestones which are selected from group, functional and individual level objectives, each weighted to reflect their relative importance.

Equity compensation: entitlement to participate in the ESOP or PR Plan with performance hurdles or vesting schedules determined at time of grant.

Termination provisions: termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) upon giving 6 months' notice or payment in lieu of notice and by Mr Mobilia giving 2 months' notice.

#### **David Jerdin – General Mining Operations Manager**

Term of agreement: 2 years from 1 January 2015.

Remuneration: base salary of US \$290,000 per annum

Performance bonus: short term incentive bonus determined as a percentage of annual salary and based on the achievement of pre-determined milestones which are selected from group, functional and individual level objectives, each weighted to reflect their relative importance.

Termination provisions: termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) upon giving the legally required notice period or payment in lieu of notice and by Mr Jerdin giving 90 days' notice.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### REMUNERATION REPORT (AUDITED) (continued)

#### ***Services from remuneration consultants***

During the financial year, the Remuneration Committee engaged Godfrey Remuneration Group (GRG) as independent remuneration consultants to provide a market benchmarking report on chief executive officer remuneration levels and a review of short term and long term incentive schemes for senior executives and plan documents. The fees paid to GRG for the remuneration reports and recommendations were \$41,000. Remuneration recommendations were provided to the Remuneration Committee as an input into the decision making process. The Remuneration Committee considered the recommendations in conjunction with other factors in making its remuneration determinations. The Remuneration Committee is satisfied that the advice received from GRG is free from undue influence from the KMP to whom the remuneration recommendations apply, as GRG were engaged by and reported directly to the Chair of the Remuneration Committee with no involvement by the KMP. GRG also made the required independence declarations in their reports, which indicated that the consultant viewed the advice as free from undue influence from the KMP that were the subject of the advice.

***End of Audited Remuneration Report***

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2016

### 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 \$33,333 (2015:\$41,730) for taxation services. Further details of remuneration of the auditors are set out in Note 21.

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 Philippines. 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 2016.

Signed in accordance with a resolution of the Directors.



**Kevin Dundo**  
Chairman

Perth, Western Australia  
28 September 2016



*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 2016 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

Rt SW

Brent Steedman  
*Partner*

Perth

28 September 2016

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED	
	NOTE	2016	2015
		\$	\$
<b>Continuing operations</b>			
Revenue		97,297,823	27,658,941
Cost of sales	5	<u>(67,357,758)</u>	<u>(26,311,449)</u>
Gross profit from operations		29,940,065	1,327,492
Other income	5	44,315	23,399
Administration and other expense	5	(5,128,780)	(5,347,427)
Exploration expense	13	(77,963)	(55,482)
Impairment expense	5	<u>-</u>	<u>(56,612,988)</u>
<b>Operating profit/(loss)</b>		<b>24,777,637</b>	<b>(60,665,006)</b>
Financing income	5	20,734	364,976
Financing expenses	5	<u>(10,890)</u>	<u>(4,480)</u>
Net financing income		<u>9,844</u>	<u>360,496</u>
<b>Profit/(loss) before income tax expense</b>		<b>24,787,481</b>	<b>(60,304,510)</b>
Income tax expense	6	<u>(3,185,894)</u>	<u>-</u>
<b>Net profit/(loss) after income tax for the year</b>		<b><u>21,601,587</u></b>	<b><u>(60,304,510)</u></b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Movement in foreign currency translation reserve		(1,708,889)	33,270,899
Re-measurement of defined retirement benefit		(145,979)	-
<b>Total comprehensive income/(loss) for the year</b>		<b><u>19,746,719</u></b>	<b><u>(27,033,611)</u></b>
<b>Net profit/(loss) after income tax attributable to:</b>			
- Non-controlling interest		518,438	(1,447,308)
- Members of parent entity		<u>21,083,149</u>	<u>(58,857,202)</u>
		<b><u>21,601,587</u></b>	<b><u>(60,304,510)</u></b>
<b>Total comprehensive income/(loss) attributable to:</b>			
- Non-controlling interest		473,921	(648,806)
- Members of parent company		<u>19,272,798</u>	<u>(26,384,805)</u>
		<b><u>19,746,719</u></b>	<b><u>(27,033,611)</u></b>
		<b>Cents</b>	<b>Cents</b>
Basic and diluted profit/(loss) per share (cents per share)	26	2.77	(7.75)

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016	2015
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents	7	18,189,210	10,033,274
Trade and other receivables	8	12,354,255	12,152,836
Inventory	9	10,770,146	9,395,803
<b>Total current assets</b>		<b>41,313,611</b>	<b>31,581,913</b>
<b>Non-current assets</b>			
Receivables	10	134,883	2,226,060
Property, plant and equipment	11	74,955,919	69,058,896
Mine development	12	91,833,116	79,822,090
<b>Total non-current assets</b>		<b>166,923,918</b>	<b>151,107,046</b>
<b>Total assets</b>		<b>208,237,529</b>	<b>182,688,959</b>
<b>Current liabilities</b>			
Trade and other payables	14	10,275,941	7,524,480
Income tax payable	15	2,752,893	-
Employee benefits	16	176,228	113,108
Provisions	17	1,116,104	1,116,104
<b>Total current liabilities</b>		<b>14,321,166</b>	<b>8,753,692</b>
<b>Non-current liabilities</b>			
Employee benefits	16	50,355	32,195
Provisions	17	2,439,118	2,435,375
<b>Total non-current liabilities</b>		<b>2,489,473</b>	<b>2,467,570</b>
<b>Total liabilities</b>		<b>16,810,639</b>	<b>11,221,262</b>
<b>Net assets</b>		<b>191,426,890</b>	<b>171,467,697</b>
<b>Equity</b>			
Contributed equity	18(a)(b)	236,554,512	236,416,512
Other equity	18 (c)	930,285	930,285
Reserves	19	33,525,976	35,335,482
Accumulated losses		(78,853,150)	(99,988,195)
<b>Total equity attributable to equity holders of the Company</b>		<b>192,157,623</b>	<b>172,694,084</b>
Non-controlling interest		(730,733)	(1,226,387)
<b>Total equity</b>		<b>191,426,890</b>	<b>171,467,697</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Attributable to equity holders of the parent entity					Total
	Issued capital	Other equity <sup>(ii)</sup>	Accumulated losses	Other reserves <sup>(i)</sup>	Non controlling interest	
	\$	\$	\$	\$	\$	
<b>Consolidated</b>						
Balance at 1 July 2014	236,416,512	930,285	(41,157,429)	1,981,376	(577,580)	197,593,164
Net loss	-	-	(58,857,202)	-	(1,447,308)	(60,304,510)
Other comprehensive income for the year	-	-	-	32,472,397	798,502	33,270,899
Total comprehensive income for the year	-	-	(58,857,202)	32,473,397	(648,807)	(27,033,611)
Issue of performance shares	-	-	-	42,439	-	42,439
Other Reserves	-	-	-	865,706	-	865,706
Expired options – transfers from reserves	-	-	26,436	(26,436)	-	-
<b>Balance at 30 June 2015</b>	<b>236,416,512</b>	<b>930,285</b>	<b>(99,988,195)</b>	<b>35,335,482</b>	<b>(1,226,387)</b>	<b>171,467,697</b>
Balance at 1 July 2015	236,416,512	930,285	(99,988,195)	35,335,482	(1,226,387)	171,467,697
Net profit	-	-	21,083,151	-	518,436	21,601,587
Other comprehensive loss for the year	-	-	-	(1,810,351)	(44,517)	(1,854,868)
Total comprehensive loss for the year	-	-	21,083,151	(1,810,351)	473,919	19,746,719
Shares issued during the year	138,000	-	-	-	-	138,000
Issue of performance shares	-	-	-	74,472	-	74,472
Non-controlling interest movement	-	-	-	(21,733)	21,733	-
Expired options – transfers from reserves	-	-	51,894	(51,894)	-	-
<b>Balance at 30 June 2016</b>	<b>236,554,512</b>	<b>930,285</b>	<b>(78,853,150)</b>	<b>33,525,976</b>	<b>(730,733)</b>	<b>191,426,890</b>

(i) Other reserves represent foreign currency translation reserve, defined retirement benefit, and the share based payment reserve.

(ii) Refer to note 18 for further explanation.

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016	2015
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from sale of gold		99,236,780	23,684,445
Payments to suppliers and employees		(44,887,833)	(19,786,152)
Payments for exploration and evaluation		(488,986)	(55,482)
Interest received		21,579	481,023
Interest paid		(10,890)	(4,480)
Sundry receipts		44,315	23,399
<b>Net cash from operating activities</b>	25	<b>53,914,965</b>	<b>4,342,752</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(8,122,226)	(644,584)
Payments for development		(37,105,288)	(33,824,813)
<b>Net cash used in investing activities</b>		<b>(45,227,514)</b>	<b>(34,469,397)</b>
<b>Cash flows from financing activities</b>		-	-
<b>Net increase/(decrease) in cash held</b>		<b>8,687,451</b>	<b>(30,126,645)</b>
Cash at the beginning of the financial year		10,033,274	37,913,020
Effect of exchange rate fluctuations on cash held		(531,515)	2,246,900
<b>Cash at the end of the financial year</b>	7	<b>18,189,210</b>	<b>10,033,274</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 1. REPORTING ENTITY

Red 5 Limited (the "Company") is a for profit 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 2016 comprise the Company and its subsidiaries, associates and jointly controlled entities (together referred to as the "Group" and individually as "Group 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 28 September 2016.

### 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 4.12. Rehabilitation provisions are based on net present value and are discussed in Note 4.14.

### 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 4.17.

## 3. 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 30.

## 4. 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.

### 4.1 Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Company as at 30 June 2016 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. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.1 Principles of consolidation (continued)

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.

### 4.2 Revenue recognition

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

#### *Gold and silver sales*

Revenue from the sale of gold and silver is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have transferred to the buyer upon receipt of doré in the gold room. Income received by the consolidated entity for silver sales is deducted from the cost of sales.

### 4.3 Finance income and expenses

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.

### 4.4 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 measured at cost less accumulated depreciation and any accumulated impairment losses. Items of plant and equipment are depreciated using a combination of the straight line and diminishing value methods commencing from the time they are installed and ready for use, or in respect of internally constructed assets, from the date the asset is completed and ready for use. Depreciation of the processing plant is based on life of mine. The expected useful lives of plant and equipment are between 3 and 13 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 4.5 Inventories

Gold in circuit, bullion on hand and ore stockpiles are physically measured or estimated and valued at the lower of cost and net realisable value. Cost represents the weighted average cost and comprises direct material, labour and an appropriate portion of fixed and variable production overhead expenditure on the basis of normal operating capacity, including depreciation and amortisation incurred in converting materials to finished products.

Inventories of consumable supplies and spare parts expected to be used in production are valued at the lower of cost and net realisable value. Any provision for obsolescence or damage is determined by reference to specific stock items identified. The carrying value of those items identified, if any, is written down to net realisable value.

### 4.6 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 resource or reserve, estimated in accordance with JORC guidelines 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.6 Exploration and evaluation expenditure (continued)

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.

Accumulated costs in relation to an abandoned area will be written off in full to the Statement of Profit or Loss and Other Comprehensive Income in the year in which the decision to abandon the area is made.

### 4.7 Mine development

#### *Pre-Production*

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 amortised over the productive life of the project on a unit-of-production basis, based on reserves.

#### *Deferred waste mining costs*

In the production phase all costs associated with waste removal are capitalised and amortised over the productive life of the open pit on a unit-of-production basis based on reserves and current mine schedule.

### 4.8 Impairment

At each reporting date, the consolidated entity reviews and tests the carrying value of assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 Profit or Loss and Other 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 Profit or Loss and Other 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 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.

### 4.9 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.9 Income tax (continued)

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 Profit or Loss and Other Comprehensive Income.

### 4.10 Financial instruments

#### *Non-derivative 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.

Trade and other receivables are carried at amortised cost. Trade receivables are non-interest bearing. Loans and borrowings are measured at amortised cost using the effective interest method, less any impairment losses. 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.

#### *Derivative financial instruments*

Derivatives financial instruments are recognised initially at fair value; any attributable transaction costs are recognised in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair-value.

### 4.11 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 Profit or Loss and Other Comprehensive Income as incurred.

### 4.12 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 or equivalent valuation technique. 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.12 Share based payments (continued)

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.

### 4.13 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 Profit or Loss and Other 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 functional currency of the Australian entities is the Australian dollar and the functional currency of the Philippine entities is the Philippine Peso.

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.

### 4.14 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 where they have future economic benefit, else they are expensed. 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 the Statement of Profit and Loss and other comprehensive income as an interest expense. The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

### 4.15 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.16 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.

### 4.17 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 Assets*

At each reporting date, the group makes an assessment for impairment of all assets if there has been an impairment indicator by evaluating conditions specific to the Group and to the particular assets that may lead to impairment. The recoverable amount of Property, Plant & Equipment and Mine Development Expenditure relating to the Siana gold project is determined as the higher of value-in-use and fair value less costs to sell. Value-in-use is generally determined as the present value of the estimated future cash flows. Present values are determined using a risk adjusted discount rate appropriate to the risks inherent in the asset.

Given the nature of the Group's mining activities, future changes in assumptions upon which these estimates are based may give rise to a material adjustment to the carrying value. This could lead to the recognition of impairment losses in the future. The inter-relationship of the significant assumptions upon which estimated future cash flows are based is such that it is impracticable to disclose the extent of the possible effects of a change in a key assumption in isolation.

Future cash flow estimates are based on expected production volumes and grades, gold price and exchange rate estimates, budgeted and forecasted development levels and operating costs. Management is required to make these estimates and assumptions which are subject to risk and uncertainty. As a result there is a possibility that changes in circumstances may alter these projections, which could impact on the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income unless the asset has previously been revalued.

#### *Rehabilitation and mine closure provisions*

As set out in Note 4.14, this provision represents the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of the Group's assessment of the costs of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset. Where the provisions are for assets no longer in use or for obligations arising from the production process, the adjustment is reflected directly in the Statement of Profit or Loss and Other Comprehensive Income.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.17 Accounting estimates and judgements (continued)

#### *Reserves and resources*

The Group determines and reports ore reserves under the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves Code ("JORC") as revised December 2012 JORC for underground reserves and the JORC 2012 edition for open pit reserves. The JORC code requires the use of reasonable investment assumptions to calculate reserves. Reserves determined in this way are taken into account in the calculation of depreciation of mining plant and equipment (refer to note 12), amortisation of capitalised development expenditure (refer to note 12), and impairment relating to these assets.

Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- \* Asset carrying values may be impacted due to changes in estimated cash flows;
- \* Depreciation and amortisation charged in the statement of profit or loss and other comprehensive income may change where such charges are calculated using the units of production basis.
- \* Deferred waste amortisation, based on estimates of reserve to waste ratios.
- \* Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves alter expectations about the timing or cost of these activities.

### 4.18 New standards and interpretations not yet adopted

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting period, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- *AASB 9 Financial Instruments*

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

*The entity has not yet assessed the full impact of AASB 9 as this standard is not mandatory before 1 July 2018. The IASB is yet to finalise the remaining phases of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 in Australia).*

- *AASB 15 Revenue from Contracts with Customers*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application without restating the comparative period. They will only need to apply the new standard to contracts that are not completed as of the date of initial application.

*The entity has not yet assessed the full impact of AASB 15. AASB 15 is effective for annual reporting periods on or after 1 July 2018 with early adoption permitted.*

- *AASB 2014-1 Amendments to Australian Accounting Standards (Part D: Consequential Amendment arising from AASB 14)*

*When these amendments become effective for the first time for the year ending 30 June 2017, the standard will not have any impact on the entity.*

- *AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*

The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.18 New standards and interpretations not yet adopted (continued)

The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly.

*When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.*

- **AASB 16 Leases**

AASB16 removes the classification of the leases as either operating leases or finance leases for the lessee, effectively treating all leases as finance leases. This replaces the current accounting guidance in AASB 17 Leases, and when applied, would result in an increase in assets and liabilities for lease arrangements and potential increase in depreciation and amortisation expenses and a reduction in other operating expenses.

*AASB16 is effective for annual reporting periods beginning on or after 1 January 2019 with early adoption permitted.*

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>5. REVENUE AND EXPENSES</b>		
<b>(a) Other income</b>		
Sundry revenue	44,315	23,399
	<u>44,315</u>	<u>23,399</u>
<b>(b) Administration and other expense</b>		
Superannuation contributions	(152,753)	(130,049)
Employee and consultancy expenses	(2,842,300)	(2,096,130)
Occupancy costs	(336,602)	(324,639)
Regulatory expenses	(321,078)	(729,940)
Provision for doubtful debts	(182,868)	(1,891,820)
Foreign exchange gains/(losses)	192,744	1,406,051
Depreciation	(25,270)	(102,711)
Other administration overheads	(1,460,653)	(1,478,189)
	<u>(5,128,780)</u>	<u>(5,347,427)</u>
<b>(c) Impairment</b>		
Mine development (refer to note 12)	-	(56,612,988)
	<u>-</u>	<u>(56,612,988)</u>
<b>(d) Financing income/(expenses)</b>		
Interest received	20,734	364,976
	<u>20,734</u>	<u>364,976</u>
Interest expense	(10,890)	(4,480)
	<u>(10,890)</u>	<u>(4,480)</u>
	<u>9,844</u>	<u>(360,496)</u>
<b>(e) Cost of Sales</b>		
Operating Costs	(41,209,761)	(14,636,093)
Depreciation and Amortisation	(26,147,997)	(11,675,356)
	<u>(67,357,758)</u>	<u>(26,311,449)</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 6. INCOME TAX (Prima Facie)

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current income tax</b>		
Current income tax charge	(3,185,894)	-
<b>Deferred income tax</b>	-	-
Income tax expense	<u>(3,185,894)</u>	<u>-</u>

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

Profit/(Loss) before income tax	<u>24,787,481</u>	<u>(60,304,510)</u>
At statutory income tax rate of 30% (2015: 30%)	(7,436,244)	18,091,353
<b>Items not allowable for income tax purposes:</b>		
Non-deductible expenses	(582,290)	(710,163)
Impairment for which no deferred tax asset was recognised	-	(16,983,896)
Utilisation of carry forward tax losses	6,016,528	-
Current year deferred tax not brought to account	<u>(1,183,888)</u>	<u>(397,293)</u>
Income tax expense	<u>(3,185,894)</u>	<u>-</u>

### (b) Tax losses and temporary differences not brought to account

Deductible temporary differences	12,379,144	11,405,872
Tax losses	<u>8,333,144</u>	<u>11,658,813</u>

Prior year tax losses from Greenstone Resources Corporation have been utilised in determining the income tax expense. Tax losses which have not been brought to account relate to other companies in Australia and the Philippines.

Potential deferred tax assets attributable to tax losses and deductible temporary differences have not been brought to account at 30 June 2016. The Directors do not believe it is appropriate to regard realisation of the deferred tax assets at this point in time because (i) it is not probable that future Australian taxable profits will be available against which the Group can use the benefits there from or (ii) uncertainty with respect to recoverability in the Philippines.

## 7. CASH AND CASH EQUIVALENTS

Cash at bank	18,188,908	10,032,974
Cash on hand	302	300
	<u>18,189,210</u>	<u>10,033,274</u>

## 8. TRADE AND OTHER RECEIVABLES

Interest receivable	2,288	3,133
Prepayments	2,434,335	1,621,670
Debtors	1,583,930	3,181,173
Sundry debtors	881,324	688,772
VAT receivable	7,359,491	6,580,582
GST receivable	92,887	77,506
	<u>12,354,255</u>	<u>12,152,836</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
	<hr/>	<hr/>
<b>9. INVENTORY</b>		
Consumables	5,131,819	4,076,075
Run of mine stockpiles	2,262,559	1,045,645
Crushed ore stockpile	169,091	12,925
Gold in circuit	2,269,001	2,161,344
Gold bullion – at cost	937,676	2,099,814
	<hr/>	<hr/>
	<b>10,770,146</b>	<b>9,395,803</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>10. RECEIVABLES</b>		
Security deposit	134,883	134,883
VAT receivable	-	2,091,177
	<hr/>	<hr/>
	<b>134,883</b>	<b>2,226,060</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>Plant and equipment - at cost</b>		
Opening balance	75,651,605	63,188,591
Additions	8,123,504	644,585
Transferred from development	4,575,987	-
Foreign currency translation adjustment	(566,747)	11,818,429
	<hr/>	<hr/>
Closing balance	<b>87,784,349</b>	<b>75,651,605</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Accumulated depreciation</b>		
Opening balance	6,592,709	3,122,098
Depreciation for the year	6,440,504	2,741,304
Foreign currency translation adjustment	(204,783)	729,307
	<hr/>	<hr/>
Closing balance	<b>12,828,430</b>	<b>6,592,709</b>
	<hr/> <hr/>	<hr/> <hr/>
Net book value	<b>74,955,919</b>	<b>69,058,896</b>
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>12. MINE DEVELOPMENT</b>		
<b>(a) Mine development</b>		
Opening balance	116,711,920	81,059,664
Development expenditure incurred in current year	100,597	22,323,619
Reclassification of mine development assets	(4,575,987)	-
Foreign currency translation adjustment	(667,002)	13,328,637
Closing balance	<u>111,569,528</u>	<u>116,711,920</u>
Accumulated amortisation		
Opening balance	36,889,830	1,791,609
Amortisation for the year	6,323,300	3,445,153
Impairment	-	31,443,757
Foreign currency translation adjustment	(658,255)	209,311
Closing balance	<u>42,554,875</u>	<u>36,889,830</u>
Mine development net book value	<u>69,014,653</u>	<u>79,822,090</u>
<b>(b) Deferred mining waste costs</b>		
Opening balance	36,061,179	17,649,275
Deferred waste mining expenditure incurred during the year	36,986,205	14,861,162
Foreign currency translation adjustment	(1,436,256)	3,550,742
Closing balance	<u>71,611,128</u>	<u>36,061,179</u>
Accumulated amortisation		
Opening balance	36,061,179	4,844,173
Amortisation for the period	13,389,006	5,488,899
Impairment	-	25,169,231
Foreign currency translation adjustment	(657,520)	558,876
Closing balance	<u>48,792,665</u>	<u>36,061,179</u>
Deferred mining waste costs net book value	<u>22,818,463</u>	<u>-</u>
Total development net book value	<u>91,833,116</u>	<u>79,822,090</u>

During the 2015 financial year, the Group completed a review of the Siana Gold Project including preparation of a new mine plan for both the open pit and underground operations. This resulted in an impairment expense in the previous financial year of \$56.6 million allocated \$31.4 million to pre-production mine development and \$25.2 million to deferred mining waste. The Siana Gold Project is an independent cash generating unit and is included in the Philippines reported segment. The impairment expense was determined applying a value in use discounted cash flows. The key assumptions in the discounted cash flow model included:

- production levels and operating costs based on the mine plans;
- gold prices based on a USD average consensus price sourced independently. The average USD gold price was \$1,216 per ounce over the life of mine;
- foreign exchange rates sourced from consensus broker reports; and
- a nominal post tax discount rate of 12.2%.

The impairment expense is a non-cash item and does not have any impact on cash flow or mining operations.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>13. EXPLORATION AND EVALUATION EXPENDITURE</b>		
Opening balance	-	-
Exploration and evaluation expenditure capitalised	77,963	55,482
Exploration expenditure written-off	<u>(77,963)</u>	<u>(55,482)</u>
Closing balance	<u>-</u>	<u>-</u>
<b>14. TRADE AND OTHER PAYABLES</b>		
Creditors and accruals	<u>10,275,941</u>	<u>7,524,480</u>
	<u>10,275,941</u>	<u>7,524,480</u>
<b>15. INCOME TAX PAYABLE</b>		
Income tax payable	<u>2,752,893</u>	<u>-</u>
	<u>2,752,893</u>	<u>-</u>
<p>Income tax payable by Greenstone Resources Corporation will be satisfied by using a portion of the VAT receivable included in note 8. A portion of the expense of \$3,185,894 has already been offset during the year.</p>		
<b>16. EMPLOYEE BENEFITS</b>		
Provision for employee entitlements		
Opening balance	145,303	72,745
Increase in provision during the period	<u>81,280</u>	<u>72,558</u>
Closing balance	<u>226,583</u>	<u>145,303</u>
Current	176,228	113,108
Non-current (Long service leave)	<u>50,355</u>	<u>32,195</u>
	<u>226,583</u>	<u>145,303</u>
<b>17. PROVISIONS</b>		
MCC final acquisition	1,116,104	1,116,104
Rehabilitation provision	484,304	472,310
Documentary stamp duty	1,450,373	1,458,624
Withholding tax	<u>504,441</u>	<u>504,441</u>
	<u>3,555,222</u>	<u>3,551,479</u>
Current	1,116,104	1,116,104
Non-current	<u>2,439,118</u>	<u>2,435,375</u>
	<u>3,555,222</u>	<u>3,551,479</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>18. CONTRIBUTED EQUITY</b>		
<b>(a) Share capital</b>		
761,851,008 (2015: 759,451,008) ordinary fully paid shares	236,554,512	236,416,512

**(b) Movements in ordinary share capital**

	CONSOLIDATED 2016		CONSOLIDATED 2015	
	Shares Number	\$	Shares Number	\$
On issue at 1 July	759,451,008	236,416,512	759,451,008	236,416,512
Shares issued	2,400,000	138,000	-	-
On issue at 30 June	761,851,008	236,554,512	759,451,008	236,416,512

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.

<b>(c) Other Equity</b>	Shares Number	\$
Opening balance 1 July 2015	581,428	930,285
Balance 30 June 2016 <sup>(i)</sup>	581,428	930,285

<sup>(i)</sup> Red 5 has provided for 581,428 shares to be issued at a value of \$930,285 to settle the outstanding tax liability in relation to a prior year acquisition of Merrill Crowe Corporation (MCC).

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>19. RESERVES</b>		
Foreign currency translation reserve	33,562,664	34,346,740
Other reserves	-	905,535
Defined retirement benefit	(182,302)	(39,829)
Share based payment reserve	145,614	123,036
	<u>33,525,976</u>	<u>35,335,482</u>

### **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.

### **Defined retirement benefit**

The reserve relates to retirement benefits. The movement in the reserve arises from the re measurement of liabilities resulting from a change in assumptions used in an actuarial report calculation.

### **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.

### **(a) Movements in share options**

	Options Number	Options Reserve \$
Opening balance 1 July 2015	110,000	80,597
Expired options	(70,000)	(51,894)
Balance 30 June 2016	<u>40,000</u>	<u>28,703</u>

### **(b) Movement in performance rights**

Opening balance 1 July 2015	12,000,000	42,439
Expense relating to rights issued during previous period	-	74,472
Balance 30 June 2016	<u>12,000,000</u>	<u>116,911</u>

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 20. 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**

Mark Williams – Managing Director

### **Non-Executive Directors**

Kevin Dundo

Ian Macpherson

Colin Loosemore

Mark Milazzo (resigned 27 June 2016)

### **Other executives**

Joe Mobilia – Chief Financial Officer

David Jerdin - General Mining Operations Manager

### **Compensation of key management personnel**

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

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>Key management personnel</b>		
Short term benefits	2,094,497	1,567,340
Post-employment benefits	110,573	109,027
Long term benefits	53,891	71,665
Share based payments	74,471	42,439
	<u>2,333,432</u>	<u>1,790,471</u>

### **Loans to key management personnel**

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

### **Other transactions with Directors**

There were no other transactions during the year between the consolidated entity and Directors or their Director-related entities other than fees paid in the normal course of business to HopgoodGanim of which Kevin Dundo is a partner, for the provision of legal services to the Group on normal commercial terms

	Transaction values		Balance outstanding	
	2016	2015	2016	2015
	\$	\$	\$	\$
HopgoodGanim	78,337	116,585	-	12,109

### **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 24.

### **Individual Directors and executives compensation disclosures**

Information regarding individual Directors and executives' 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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>21. REMUNERATION OF AUDITOR</b>		
Amounts paid or due and payable to the auditor for:		
Auditing and reviewing financial reports		
– KPMG Australia	92,800	92,830
– overseas KPMG firms	23,650	33,863
Taxation advisory services		
– KPMG Australia	20,250	23,850
– overseas KPMG firms	9,556	7,867
Other advisory services		
– overseas KPMG firms	3,527	-
	<u>149,783</u>	<u>158,410</u>

## 22. EXPENDITURE COMMITMENTS

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

- not later than one year	<u>4,677,850</u>	<u>1,391,303</u>
	<u>4,677,850</u>	<u>1,391,303</u>

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

- not later than one year	438,756	366,082
- later than one year but not later than two years	140,802	2,232
- later than two years but not later than five years	<u>274,181</u>	<u>-</u>
	<u>853,739</u>	<u>368,314</u>

## 23. 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 Siana gold 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 23. SEGMENT INFORMATION (continued)

### 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:

- Interest and other revenue.
- Income tax expense.
- Deferred tax assets and liabilities.

	Philippines \$	Unallocated \$	Total \$
<b>(i) Segment performance</b>			
<b>Year ended 30 June 2016</b>			
Revenue <sup>(i)</sup>	97,297,823	-	97,297,823
Interest received	12,419	8,315	20,734
Other income	44,315		44,315
	<b>97,354,557</b>	<b>8,315</b>	<b>97,362,872</b>
<b>Segment result</b>	<b>23,058,813</b>	<b>(1,457,226)</b>	<b>21,601,587</b>
Included within segment result:			
Operating profit before other income/(expense)	29,940,065	-	29,940,065
Income tax expense	-	(3,185,894)	(3,185,894)
General administration and regulation costs	(1,619,346)	(3,306,108)	(4,925,454)
Other income	44,315		44,315
Provision for doubtful debts	(182,868)	-	(182,868)
Exploration written off	(77,963)	-	(77,963)
<b>Year ended 30 June 2015</b>			
Revenue <sup>(i)</sup>	27,658,941	-	27,658,941
Interest received	10,338	354,638	364,976
Other income	1,376	22,023	23,399
	<b>27,670,655</b>	<b>376,661</b>	<b>28,047,316</b>
<b>Segment result</b>	<b>(58,313,536)</b>	<b>(1,990,974)</b>	<b>(60,304,510)</b>
Included within segment result:			
Impairment	(56,612,988)	-	(56,612,988)
Exploration written off	(55,482)	-	(55,482)
Other income – sundry revenue	1,376	22,023	23,399
Provision for doubtful debts	(1,891,820)	-	(1,891,820)
<b>(ii) Segment assets</b>			
<b>As at 30 June 2016</b>			
<b>Segment assets</b>	206,048,563	2,188,966	208,237,529
Additions to non-current assets:			
Deferred waste expenditure	36,986,205	-	36,986,205
Plant and equipment expenditure	8,108,908	14,596	8,123,504
Development expenditure	100,597	-	100,597

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 23. SEGMENT INFORMATION (continued)

As at 30 June 2015	Philippines \$	Unallocated \$	Total \$
<b>Segment assets</b>	<b>177,413,840</b>	<b>5,275,119</b>	<b>182,688,959</b>
Additions to non-current assets:			
Deferred waste expenditure	14,861,162	-	14,861,162
Plant and equipment expenditure	639,594	4,991	644,585
Development expenditure	22,323,619	-	22,323,619
<b>(iii) Segment liabilities</b>			
As at 30 June 2016			
Segment liabilities	11,958,747	4,851,892	16,810,639
As at 30 June 2015			
Segment liabilities	10,598,983	622,279	11,221,262

<sup>(i)</sup> Revenue is attributable to one customer only.

## 24. INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entities	Country of incorporation	Class of shares	Equity holding	
			2016 %	2015 %
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
Red5 Mapawa Incorporated	Philippines	Ordinary	100	100
Red5 Dayano Incorporated	Philippines	Ordinary	100	100
Red 5 Asia Incorporated	Philippines	Ordinary	100	100
Greenstone Resources Corporation <sup>(i)</sup>	Philippines	Ordinary	40	40
Surigao Holdings and Investments Corporation <sup>(i)</sup>	Philippines	Ordinary	40	40

<sup>(i)</sup> 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*, Red 5 has consolidated these companies as subsidiaries in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

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

	CONSOLIDATED	
	2016	2015
	\$	\$
Operating profit/(loss) after income tax	21,601,587	(60,655,006)
Amortisation and depreciation	26,173,267	11,675,356
Impairment expense	-	56,612,988
Doubtful debt expenses	182,868	1,891,820
Unrealised exchange loss	(177,154)	(1,406,051)
Cost of sales adjustment	-	1,194,149
Share based payment	212,471	42,439
Changes in operating assets and liabilities		
(Increase)/decrease in inventories	(1,374,343)	(5,004,676)
(Increase)/decrease in receivables	1,706,890	(6,569,171)
Increase/(decrease) in payables	2,751,461	5,929,445
Increase/(decrease) in income tax payable	2,752,893	-
Increase/(decrease) in provisions	85,025	631,459
Net cash inflow/(outflow) from operating activities	<u>53,914,965</u>	<u>4,342,752</u>

## 26. EARNINGS PER SHARE

	2016	2015
	Number	Number
Issued ordinary shares at commencement of financial year	759,451,008	759,451,008
Effect of shares issued 26 November 2015	<u>1,429,508</u>	<u>-</u>
Weighted average number of ordinary shares for the financial year	<u>760,880,516</u>	<u>759,451,008</u>

The existing options to purchase ordinary shares are not sufficient in number to be dilutive. Consequently the diluted earnings per share is equal to basic earnings per share.

## 27. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2016 which have significantly affected, or may significantly affect the operations of the group, the results of the operations, or the state of affairs of the Group in subsequent financial years.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 28. 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 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
<b>2016</b>								
28.04.11	30.04.16	4.00	70,000	-	-	(70,000)	-	-
22.03.12	31.12.16	4.30	40,000	-	-	-	40,000	40,000
			110,000	-	-	(70,000)	40,000	40,000
Weighted average exercise price			\$4.11	-	-	\$4.00	\$4.30	\$4.30
<b>2015</b>								
28.04.11	30.04.16	4.00	70,000	-	-	-	70,000	70,000
22.03.12	31.12.14	2.70	40,000	-	-	(40,000)	-	-
22.03.12	31.12.16	4.30	40,000	-	-	-	40,000	40,000
			150,000	-	-	(40,000)	110,000	110,000
Weighted average exercise price			\$3.73	-	-	\$2.70	\$4.11	\$4.11

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 28. 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. In estimating the expected volatility of the underlying shares, the consolidated entity has considered the extent to which past experience is expected to be reasonably predictive of future experience. Consequently, the expected share price volatility has been calculated using daily closing share price observations for the most recent twelve month period from grant date of the underlying shares.

### Performance rights granted during the year

The performance rights issued to the Managing Director may only be exercised to the extent that the vesting conditions are met. On exercise, the Company will issue one ordinary share per performance right to the Managing Director for nil cash consideration. Vesting of the rights is dependent on the conditions detailed in the table below. Provided the Managing Director remains employed with the Company, each class of performance rights will vest immediately following the end of the relevant period, if the following criteria are met in respect of the period.

	Performance Period	
	Vesting 15 April 2017	Vesting 15 April 2018
<b>Tranche and number of performance rights</b>	Tranche 1 6,000,000	Tranche 2 6,000,000
<b>Vesting performance conditions</b>		
TSR ranking <sup>1</sup> 75% or higher	6,000,000	6,000,000
TSR ranking <sup>1</sup> 50-75%	3,000,000	3,000,000
TSR ranking <sup>1</sup> below 50%	nil	nil
In addition, vesting of performance rights is also conditional on:		
<ul style="list-style-type: none"> <li>▪ the market price of the Company's shares as quoted on the ASX being greater at the end of the relevant performance period compared to the share price at commencement of the relevant performance period; and</li> <li>▪ the share price of the Company's shares as quoted on the ASX must be above \$0.125 per share at the end of the performance period.</li> </ul>		

<sup>1</sup> Performance of Company's share price relative to the S&P/ASX All Ordinaries Gold Index during the period prior to the third anniversary and fourth anniversary as applicable.

### Information about the performance rights outstanding at year end

The following unvested performance rights were outstanding at year end:

	CONSOLIDATED	
	2016	2015
	\$	\$
Balance at the start of the year	12,000,000	-
Granted during the year	-	12,000,000
Vested during the year	-	-
Expired during the year	-	-
<b>Balance at the end of the year</b>	<b>12,000,000</b>	<b>12,000,000</b>

Share based payments expense for the year in relation to the performance rights was \$74,471 (2015: \$42,439).

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 29. 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 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 exploration, mining and gold production activities exclusively in the Philippines.

### 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. Any excess cash and cash equivalents are maintained in short term deposits with more than one major Australian commercial bank at interest rates maturing over 30 to 120 day rolling periods.

### Trade and other receivables

The Group's trade and other receivables relate mainly to gold sales and VAT refunds. The Group has determined that its exposure to trade receivable credit risk is low, given that it sells gold bullion to a single reputable refiner with short contractual payment terms and VAT refunds are due from a Government tax body namely the Philippines Bureau of Internal Revenue.

### 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	
	2016	2015
	\$	\$
Trade and other receivables	12,354,255	12,152,836
Cash and cash equivalents	18,189,210	10,033,274
Non-current receivables	134,883	2,226,060

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### 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 entity.

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:

### CONSOLIDATED

30 June 2016

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	13,028,834	(13,028,834)	(13,028,834)	-	-
Provisions	3,654,115	(3,654,115)	(1,116,104)	-	(2,538,011)
	16,682,949	(16,682,949)	(14,144,938)		(2,538,011)

### CONSOLIDATED

30 June 2015

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	7,524,480	(7,524,480)	(7,524,480)	-	-
Provisions	3,551,479	(3,551,479)		(1,116,104)	(2,435,375)
	11,075,959	(11,075,959)	(7,524,480)	(1,116,104)	(2,435,375)

Greenstone Resources Corporation, an associate company, has an approved, undrawn, short term loan facility to the value of 300 million Philippine Pesos from Metrobank.

### 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 changes in the market gold price will affect the derivative valuation at each reporting date. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### 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 being Australian Dollar (A\$) and Philippine Pesos. The currencies in which these transactions primarily are denominated are United States dollars (US\$).

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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### *Exposure to currency risk*

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

	CONSOLIDATED Carrying Amount	
	2016 A\$	2015 A\$
Cash	13,779,652	5,682,629
Trade payables	(407,232)	(344,232)
Gross balance sheet exposure	<u>13,372,420</u>	<u>5,338,397</u>

### *Sensitivity analysis*

A 10 per cent strengthening of the Australian dollar against the United States dollar on the 30 June 2016 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

	CONSOLIDATED Profit or loss A\$
<b>30 June 2016</b>	
US\$	(1,337,242)
<b>30 June 2015</b>	
US\$	(533,840)

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2016 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 29. FINANCIAL RISK MANAGEMENT (continued)

### 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:

	<b>CONSOLIDATED</b>	
	<b>Carrying amount</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	17,404,567 <sup>(i)</sup>	10,033,274
Security deposits	134,883	134,883
	<u>17,539,450</u>	<u>10,168,157</u>

(i) Amount excludes non-interest bearing bank accounts

### 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 was performed on the same basis for 2015.

<b>CONSOLIDATED</b>	<b>Profit or loss</b>		<b>Equity</b>	
	<b>100bp increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>30 June 2016</b>				
Variable rate instruments	175,395	(175,395)	175,395	(175,395)
<b>30 June 2015</b>				
Variable rate instruments	101,682	(101,682)	101,682	(101,682)

### Net Fair values

The carrying value of financial assets and liabilities equates their fair value.

### 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.

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

## 30. PARENT ENTITY DISCLOSURES

<b>(a) Financial position</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Assets		
Current assets	2,118,432	5,130,626
Non-current assets	191,407,457	168,226,196
Total assets	<u>193,525,889</u>	<u>173,356,822</u>
Liabilities		
Current liabilities	2,048,643	1,861,549
Non-current liabilities	50,356	32,195
Total liabilities	<u>2,098,999</u>	<u>1,893,744</u>
Contributed equity	236,554,512	236,416,512
Other equity	930,285	930,285
Reserves	145,614	123,036
Accumulated losses	(46,203,521)	(66,006,755)
Total equity	<u>191,426,890</u>	<u>171,463,078</u>
<b>(b) Financial performance</b>		
Profit/(Loss) for the year	19,803,234	(35,095,944)
Other comprehensive income	-	-
Total comprehensive profit/(loss) for the period	<u>19,803,234</u>	<u>(35,095,944)</u>

# DIRECTORS DECLARATION

30 JUNE 2016

The Board of Directors of Red 5 Limited declares that:

- (a) the consolidated 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 Group's financial position as at 30 June 2016 and of its performance 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 2.1; and
- (c) there are reasonable grounds to believe that the Group 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, for the year ended 30 June 2016.

Signed in accordance with a resolution of the Directors.



**Kevin Dundo**  
Chairman

Perth, Western Australia  
28 September 2016



## **Independent auditor's report to the members of Red 5 Limited**

### **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 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 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 2016 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 2016. 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 2016, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Rt St

Brent Steedman  
*Partner*

Perth

28 September 2016