# Red5Limited

Annual Report 2004

# Corporate Profile

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## Annual General Meeting

The ninth Annual General Meeting will be held at 3.00pm, 24 November 2004 at: Level 1, The Celtic Club, 48 Ord Street, West Perth 6005

All shareholders are invited to attend.

## Corporate Profile

Red 5 Limited (ABN 73 068 647 610) is listed on the Australian Stock Exchange (ticker RED) with over 1,600 shareholders.

The Company's principal asset is an 80 percent interest in the Siana Gold Project in the Philippines held under a Mineral Production Sharing Agreement.

Exploration this year upgraded and extended the open pit resource and a Scoping Study (1.25Mtpa/130,000 ounces per annum) has been completed. The prospective Boyongan Corridor has been extended to a distance of over 9 kilometres with further exploration scheduled.

A copper-gold porphyry has been discovered on the southern portion of the MPSA and is the subject of on going evaluation.

The Company also has a 10.5 percent interest in listed gold explorer Range River Gold NL.

The Company objective is to advance Siana to bankable feasibility in the coming year.

**"Record drill metres below the open pit, plus the East zone and copper-gold porphyry discoveries have further advanced the probability of a major gold development at Siana"**

**Nicholas Smith**
Chairman

**Background Photo:** Siana 1,000 ton per day carbon-in-pulp plant 1986

**Red 5 recorded continued exploration success at the Siana Gold Project, with extensions to Main Zone below the pit and at the resource perimeter, and with new discoveries at East Zone and a copper-gold porphyry in the south.**

Importantly, Red 5 has now earned an 80 percent beneficial interest in the Siana Gold project, and earlier than originally anticipated. The Company was also delighted to be a recipient, along with our Philippines partner, of the first Free and Prior Informed Consent (Indigenous Peoples') Compliance Certificate to be awarded to a mining company.

The eighteen diamond hole resource upgrade and extension programme targeting Main Zone was completed post year end. A number of strong results (higher grades and widths) between 40 and 70 metres below the pit, including 38 metres at 5.3g/t, 54 metres at 4.5g/t, 41 metres at 5.0g/t, 19 metres at 5.2g/t and 86 metres at 3.1g/t, and results at the perimeter of the resource, including 22 metres at 6.1g/t, 24 metres at 3.6g/t and 38 metres at 1.9g/t, auger well for a positive outcome to the resource update.

The Siana orebody, to approximately 200 metres below surface, appears to exhibit relatively high tonnes and ounces per vertical metre, and together with a strip ratio below five to one should deliver attractive investment arithmetic. This was confirmed in the project Scoping Study (1.25 million tonnes per annum producing approximately 130,000 ounces per annum) just completed. This study focused on formulating the guidelines and supporting documentation for a smooth transition through the feasibility and stringent bank due diligence processes. Several international banks with country experience have already made unsolicited offers to provide financial advice and debt arranger services.

Several holes also penetrated the previously postulated East Zone basalt sequence recording encouraging intersections, including 3 metres at 15.1g/t, 6 metres at 13.1g/t, 5 metres at 7.4g/t, and 7 metres at 5.6g/t. Some of these intersections aggregate to broad widths, for example 48 metres at 2.5g/t. Accordingly, a programme of an additional ten to fifteen holes was authorised and is currently in progress from the eastern side of the pit.

These holes have three concurrent objectives: shallow testing of the East Zone, further intersections in Main Zone and geotechnical testing of the eastern pit walls. Results will be included into the new resource model currently being estimated.

The exploration appeal of the tenement area in the south was highlighted by the discovery of two copper-gold porphyry targets in work conducted under Confidentiality Agreement by AngloAmerican Group. The presence of a porphyry system was substantiated when Red 5 sole funded the drilling of two diamond holes into the Madja prospect.

Both holes encountered copper and precious metals with the grades considered highly encouraging when put in the context of the number of holes and the grade tenor of the early exploration holes in the nearby Boyongan deposit. Substantial drilling over two years has now identified this to be a 13 million ounce equivalent resource. Interpretation of the Madja lithological data indicates the encountered mineralisation is peripheral to a higher grade core zone. Unsolicited offers from copper majors to joint venture the property have been received.

Our progress at Siana is testament to the rapport achieved between Managing Director Greg Edwards, Exploration Director Lance Govey, our local consultants, and the local authorities. The Board is cognisant of the vital support of the people of the Province of Surigao Del Norte, the Directors and staff of the Mines and Geosciences Bureau (Region XIII), the Department of Environment and Natural Resources, local government including the office of the Governor, municipal Mayors and Councillors of Tubod, Mainit, Alegria and Bacuag, Barangay Capitans, and the members of the Community and Technical Working Groups. Congratulations are also due to the appointment of our Managing Director to Board membership of the Chamber of Mines, Caraga Region.

The continued exploration success at Siana and the many quality untested targets encouraged the Board to continue the policy of rationalising the Company tenement portfolio divesting smaller, non-core assets. Tenement sales generated $0.85 million in cash and with other relinquishments diminished on-going obligations to spend a further $1.0 million.

Again the Board and management acknowledge the vital support of shareholders who contributed a total of $10.2 million through a placement, rights issue and option exercises. Shareholder numbers have doubled and we welcomed Scudder Gold and Precious Metals Fund (New York) as a substantial shareholder to the register. Daily share turnover is nearly ten times higher than two years ago.

Whilst the share price has nearly doubled this year it may not always reflect underlying fundamental value. At the date of this report the enterprise value of an attributable ounce of gold in the ground at Siana is US$15 per ounce, considerably lower than the global average.

Approaches by gold majors and copper majors, attracted by the tenement prospectivity and continuing exploration results, and maybe the modest Company valuation, confirm this view. Your Board will continue to assess the risk-reward opportunities of sole funding or joint venturing with companies possessing technical expertise, cash flow and a strong balance sheet.

**I remain confident of continued exploration success and the project advancing through feasibility to a development commitment in the next twelve months.**

**Nicholas Smith**

Chairman

## SIANA GOLD PROJECT (Philippines) (RED 5 - 80 percent interest)

Major achievements in 2004 include:

- 80 percent interest in project earned ahead of original agreement
- Award of the first Free and Prior Informed Consent (Indigenous Peoples') Compliance Certificate
- Eighteen diamond holes completed in the upgrade and extension resource programme
- Main Zone results wider and higher in grade, stope in-fill grades higher than anticipated and resource extensions at perimeter of current outline.
- New resource estimate of 1.1 million ounces (subject to current upgrade)
- Scoping Study completed
- Postulated East Zone mineralisation confirmed and the subject of a current drill programme
- Additional intersections at Crackerjack along the Boyongan Corridor
- Copper – gold porphyry discovered on southern portion of the MPSA and confirmed by drilling

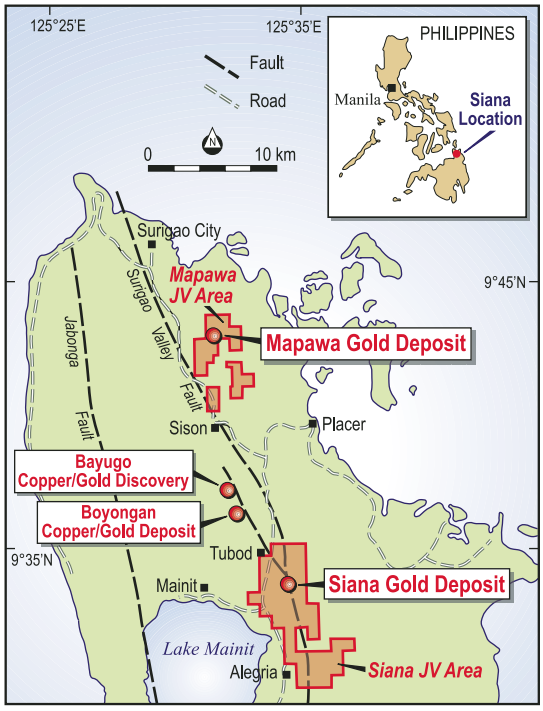
### Background

Following execution of a Joint Venture Heads of Agreement with JCG Resources Corporation in June 2002 the Company has achieved several highly significant milestones towards development of the gold resource at Siana, located in Northern Mindanao.

Red 5 has earned an 80% equity interest in the project and is progressing towards completing a feasibility study by June 2005.

Red 5 is manager of the joint venture through Greenstone Resources Corporation, a Philippine registered wholly owned subsidiary.

An Inferred and Indicated Mineral Resource of 1.1 million ounces of gold is estimated within the mine environs and there is now demonstrated potential to extend this resource.



## Location and Logistics

The project covers an area of approximately 39 km$^2$ focused around the Siana Gold Mine in the established gold mining province of Surigao del Norte.

Excellent infrastructure includes nearby grid power, easy access from National Highway One, a large cement factory, two ports and modern mobile phone network coverage. The mine-site is located 30 kms south of the major regional centre and shipping port of Surigao City. The local airport has daily flights to Cebu International Airport. The province is stable, with a predominantly Christian population.

Local government and community leaders, familiar with the long history of gold mining in the area have indicated their support for a new development. Another advantage is the availability of experienced personnel, many of whom were employed at the mine when it closed prematurely in 1990.

Siana is located in a richly endowed mineral field with many epithermal gold systems and several known porphyry copper-gold deposits. The project area is located three kms south-east of the world-class Boyongan porphyry copper-gold discovery by the AngloAmerican-Philex Gold Joint Venture, and covers 12 kms of strike of the Surigao Valley Fault, the same regional structure with which Boyongan is associated.

In 2003, AngloAmerican discovered the nearby Bayugo porphyry and in 2004 Philex Gold declared an Inferred Mineral Resource at Boyongan of 219 Mt containing over 13 million ounces gold equivalent.

## Historic Production

Past production from underground and open pit operations at Siana totalled approximately 4.9 million tonnes at an average grade of 6.3g/t gold for production of approximately one million ounces of gold.

Narrow vein underground development was carried out from 1938 to 1960 and produced 1.6 million tonnes at an average grade of 11.8 g/t gold (~610,000 ounces). Open pit mining from 1980 to 1990 produced 3.3 million tonnes at an average grade of 3.6 g/t (~380,000 ounces).

## Secure Mineral Title

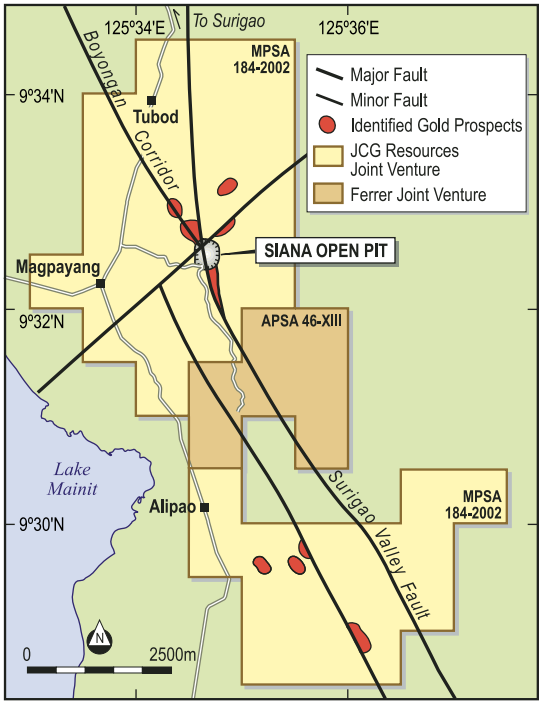
A Mineral Production Sharing Agreement (MPSA 184-2002-XIII) was registered in December 2002, one of only six such titles granted for metalliferous mining in the Philippines that year.

The MPSA is a legally binding contract with the national government and allows for exploration, feasibility studies and mining. The MPSA is held by local partner JCG Resources Corporation.

The MPSA area represented 38% of the national total granted for precious and base metals exploration in 2002.

A second licence area is covered under an application with progress to grant anticipated in the near future.

The Mapawa licence application is progressing satisfactorily through the normal statutory processes.



**FPIC Compliance Certificate**

Siana JV partners, JCG Resources and Red 5 were awarded the first Compliance Certificate issued by the National Commission of Indigenous Peoples to a mining company in the Philippines.

The Compliance Certificate was issued by The Office of the President, NCIP, at the request of the Mines and Geosciences Bureau in Surigao City, following satisfactory completion of the procedure and process under Free and Prior Informed Consent (FPIC) legislation.

The issue follows the landmark Memorandum of Understanding which was signed earlier in the year with the local Mamanwa Tribe to effect access to a small area in the south of the MPSA.

The Compliance Certificate identifies the basis, expectations and social responsibilities (employment, education and health) during exploration, mine development and operating phases.

It is similar in nature and intent to Native Title Agreements in Australia.

COMPLIANCE CERTIFICATE

(Certificate of Compliance to FPIC Process and Certification that the Community has given its Consent)

TO WHOM IT MAY CONCERN:

## Exploration Results

Highly successful diamond coring and reverse circulation (RC) drill programmes were completed at Siana, along the Boyongan Corridor and at Madja. A total of 32 diamond holes and 17 RC holes were completed by 20 August 2004 for a total of 13,754 metres.

## Siana Open Pit

Diamond drilling from the east and west sides of the pit had the dual purpose of extending and upgrading the Indicated and Inferred Resources. In particular, the zone below the open pit to a vertical depth of 225 metres below surface was targeted as the most likely to fall within an expanded pit design.

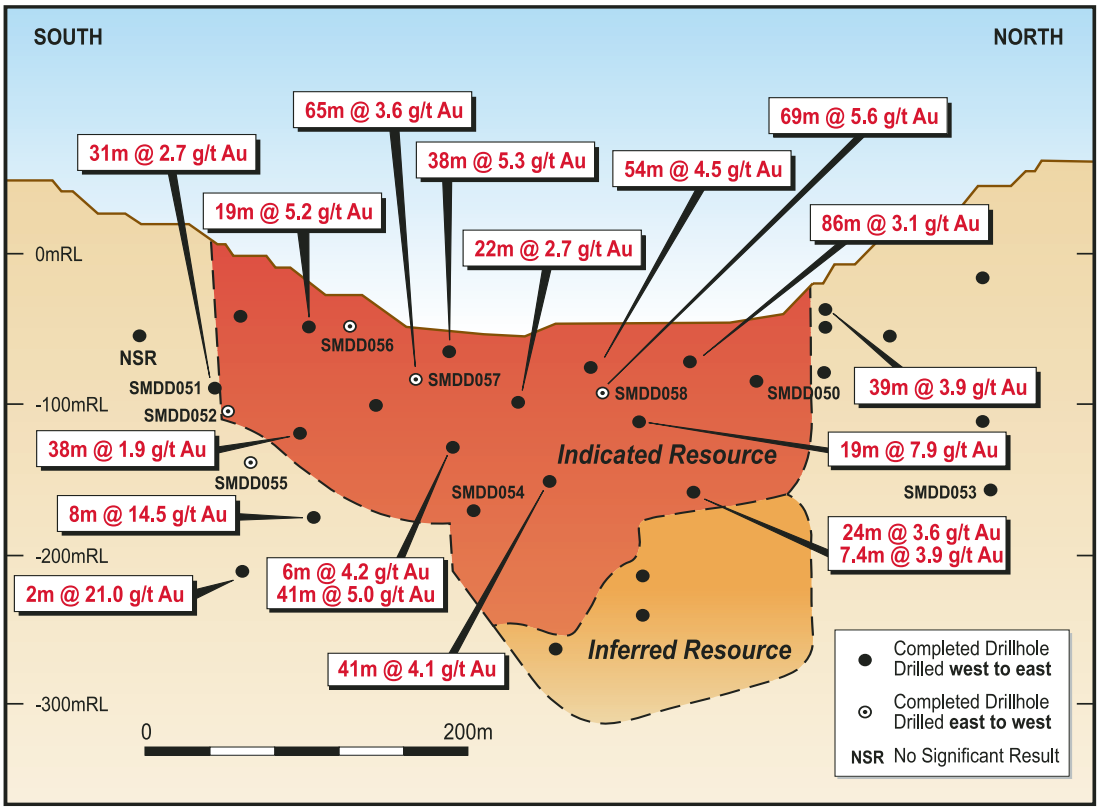
Numerous Main Zone intersections were made with gold grades and widths exceeding expectations, for example 38m at 5.3 g/t, 54m at 4.5 g/t and 86m at 3.1 g/t at modest depths below the pit floor.

Northern and southern extensions to the January 2004 Indicated Resource were evidenced by high grade intersections in SMDD17, SMDD18 and SMDD49.

Mineralisation in the East Zone, first observed in the early 2003 drilling, was confirmed in the deeper portions of many of the holes drilled from the west side of the pit, with better intersections including up to 48m at 2.5 g/t in SMDD34.

Subsequently, a programme of up to 15 holes was planned and initiated using four rigs from the east side of the pit to concurrently test for shallow East Zone mineralisation, to generate geotechnical data for the eastern pit wall, and to provide additional Main Zone intersections.

This programme is still in progress at the time of writing with encouraging observations of mineralisation and all results pending.




*Siana longitudinal projection.*

### Scoping Study

The Company appointed the Hardrock Mining Group based in Perth to commence initial scoping work ahead of formal pre-feasibility and feasibility studies.

The Scoping Study is based on a mine output and plant throughput of 1.25 Mtpa. Capital cost estimates are to plus/minus 30-35% accuracy, manning and operating estimates to plus/minus 20-25% accuracy and geotechnical implementation plan and construction schedule to plus/minus 30-35%.

Documentation is completed for distribution of comprehensive work packages to a number of specialist consulting groups.

Priorities are engineering, process design and geotechnical issues, and a detailed investigation of permitting requirements.

A large suite of mineralised core samples has been submitted for petrographic and mineragraphic studies ahead of detailed metallurgical testwork.

BFP Consultants Pty Ltd visited site and reviewed geotechnical data.

### Metallurgy

The Main Zone gold mineralisation is accompanied by lead, zinc and silver credits. Historically, the Siana Mine produced separate lead and zinc concentrates as a by-product of the gold operation.

The gold mineralisation was free milling, and in excess of 30% of the total gold was recovered from a gravity circuit before conventional cyanide leaching. Total gold recovery averaged approximately 90%.

It is considered a modern operation would likely improve the process design and overall gold recovery (particularly in the gravity circuit), and also recover lead and zinc in a modest scale flotation circuit adding to the economics of the operation.

### Environmental Studies

Regular monitoring of surface and groundwater quality in the mine area and surrounding district continued to establish baseline levels ahead of future development.

### Community Relations

Two Community Technical Working Groups continued throughout the year to foster effective bilateral communication with all local stakeholders through regular meetings and site visits.

These groups represent, amongst others municipal governments, religious groups, environmentalists, Indigenous Peoples, the regional mines department, local development committees and other non-government organisations.

## MAPAWA JOINT VENTURE

Red 5, through Greenstone Resources Corporation will have an 80 percent interest in the Mapawa Gold project on grant of the MPSA.

The project is located 18 kms north of Siana and covers an area of 1,400 hectares.

The area is highly mineralised with considerable potential for gold, silver and possibly copper resources.

Gold is associated with swarms of stockwork quartz veins hosted in intensely altered andesite porphyry. A shallow, trial mining programme over a small part of the area produced 80,000 tonnes at 2.1 g/t.

The area remains under-explored by modern methods and may ultimately provide satellite resources to the main Siana development.

## BOYONGAN CORRIDOR

RC and diamond drilling were completed along a 700 metre north west trending section of the Boyongan Corridor, between the open pit and Fritz Weber area.

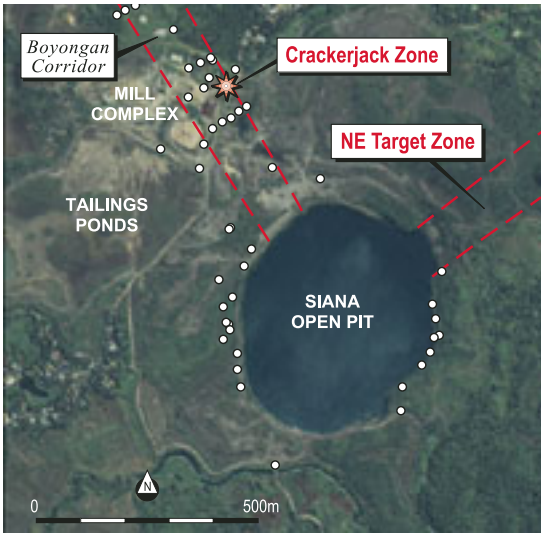
RC hole SMRC10 confirmed the original Crackerjack intersection recorded last year with a gold result of 9 metres at 6.2 g/t and silver,lead,zinc credits from 56 metres, while SMRC31 drilled 150m to the south along strike intersected 5 metres at 5.0 g/t Au from 37 metres in sediments adjacent to a porphyry contact, and 15 metres at 2.0 g/t Au from 75 metres hosted in the porphyry.

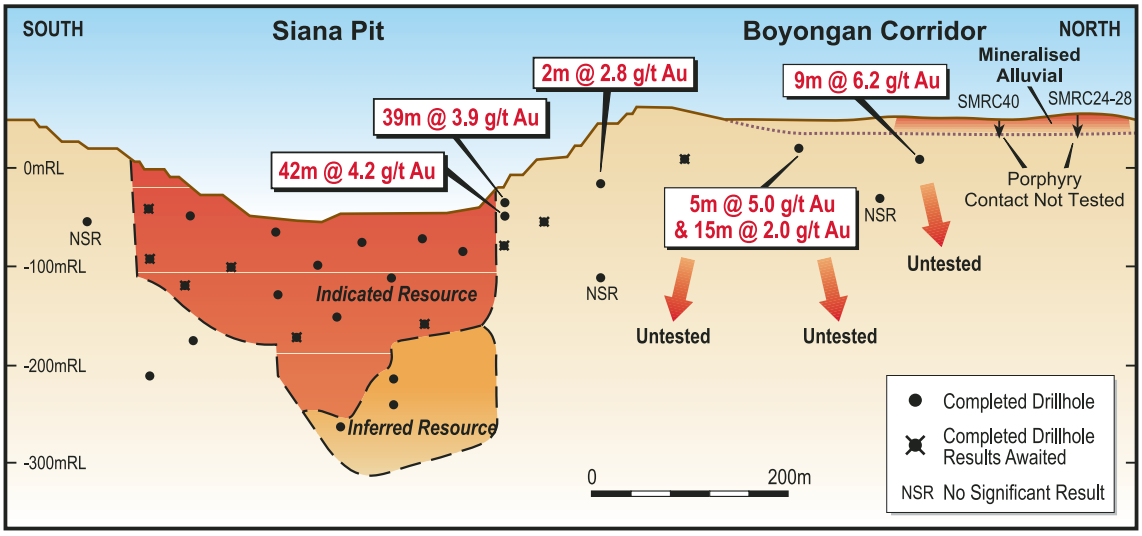
Crackerjack has shallow resource potential and will be tested by diamond drilling during 2004 on completion of the open pit programme.

Auger soil sampling conducted along the Crackerjack to Fritz Weber areas indicated a large area highly anomalous in gold and base metals. Subsequent RC drill testing indicated the presence of a shallow blanket of transported alluvial material carrying widespread gold and base metal values with better gold intersections of 7metres at 1.1 g/t from 16 metres, and 6 metres at 1.9 g/t from 15 metres in SMRC27 and SMRC40 respectively.

Reconnaissance stream sediment sampling was completed over much of the MPSA area defining nine target areas characterised by anomalous gold or gold/copper values. These targets remain to be investigated in detail.

More intensive surface geochemical testing was completed in the southern portion of the MPSA by the Anglo American Group, including a large area surrounding the high grade Alegria gold-base metal vein swarm sampled last year. The Anglo sampling is described in the following section on copper-gold porphyry exploration.



**Exploration Status**

In late 2003 two outstanding, drill ready copper-gold targets were defined by AngloAmerican Group (under Confidentiality Agreement) from soil sampling in the Madja area, located approximately 7km south of Siana in the southern part of the Permit area.

Follow-up rock chip assays to 6.1 g/t gold and 2.1% copper in stream float, and 0.74 g/t gold with 1,740ppm copper in outcrop, demonstrated the porphyry copper-gold potential of these substantial areas associated with the Boyongan Corridor.

The first diamond hole to test these targets, ALDD1, sole funded by Red 5, commenced late January 2004 and was terminated at the practical limit of rig capacity at 380 metres.

Seven intersections between 41 metres and 361 metres exceeded a nominal 0.2 percent copper cut-off. They aggregate 162 metres at a weighted average grade of 0.32% Cu, 0.26 g/t Au and 1.5 g/t Ag.

Observations from the entire geological package were confirmatory of a fertile copper porphyry system.

The copper-gold mineralisation is in strongly fractured multiphase diorite intrusive rock and minor basalts. Propylitic alteration of variable intensity is present over most of the hole length.

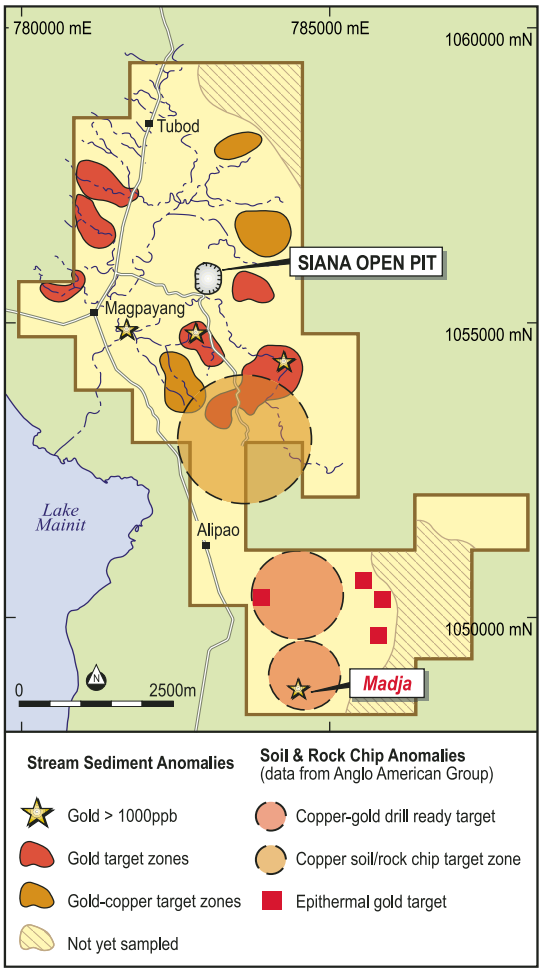
The grades encountered in this first hole were considered highly encouraging given the discovery chronology of the nearby Boyongan copper-gold porphyry system.

Management interpretation of the lithological data is that the encountered mineralisation is peripheral to a higher grade core zone.

A second diamond hole, ALDD2, also sole funded by Red 5, commenced May 2004 using a more powerful rig and was completed at the target depth of 557 metres in altered breccias and basalts.

Assaying of the core is outstanding at the date of this report, with sample preparation priorities assigned to the Siana project.

A number of international mining majors have made unsolicited expressions of interest to participate in future exploration. Each has signed a combined Confidentiality and Share Trading Restriction Agreement.



*To allow the Madja results to be put in context characteristics of porphyry style deposits follow, together with comment on exploration challenges and examples of the chronology of two discoveries*

### *Porphyry deposit model*

Porphyry deposits provide over 50 percent of the world's annual copper production.

The porphyry copper-gold deposit type is one of the most intensely researched deposit types in the world and as such is reasonably defineable as to the size, grade, alteration and mineralisation assemblages that might be encountered during the exploration process.

Because this deposit type is typically large (+100 million tonnes to several billion tonnes) they have long mine lives when economic and are sought after as priority targets by the major copper producers.

Porphyry copper–gold deposits worldwide contain average grades of 0.5% Cu, 0.38 g/t Au and 1.7g/t Ag. The precious metal components can impact significantly on economic viability.

Typical porphyry systems are cylindrical composite masses up to 1.5-2 km in diameter. Mineralisation may be hosted in either the intrusive porphyry rocks, the surrounding country rocks, or in both. Surrounding country rocks may vary greatly from deposit to deposit and their mineral composition and mechanical properties can affect the ultimate size and style of system.

Porphyry systems often have associated marginal skarn deposits (Cu-Au), epithermal deposits (Au-Ag), carbonate replacement deposits (Au, Ag, base metals) or polymetallic base metal vein deposits.

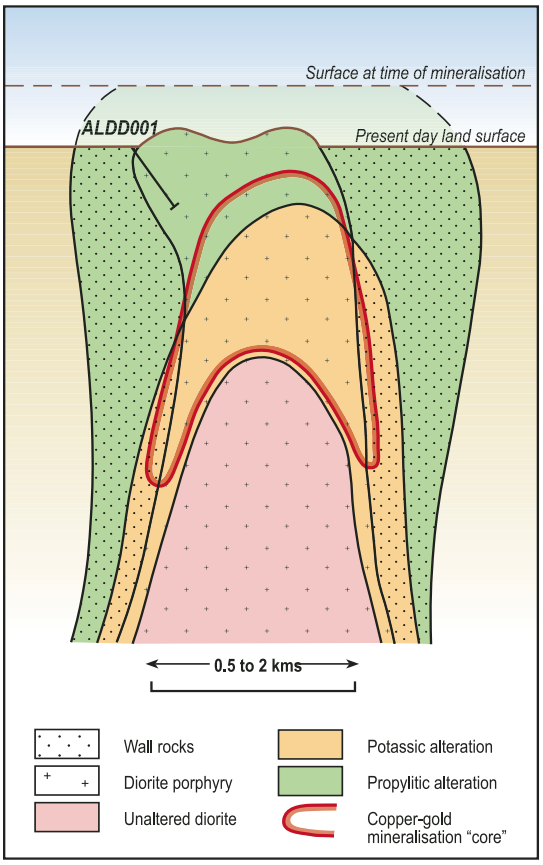
Porphyry deposits often occur in clusters within a district, adding to the potential for the occurrence of numerous marginal precious and base metal deposits as described above.

Porphyry systems in most of the circum-Pacific volcanic island arcs, including the Philippines, are associated with diorite intrusive rocks. One of the best examples is the giant Grasberg copper-gold deposit in Irian Jaya.

The Anglo American discovered Boyongan (219 million tonnes) and Bayugo deposits located six kilometres north-west of Siana are also hosted in diorite.

The diorite hosted copper-gold deposits typically display two characteristic alteration zones, a "potassic" inner core which hosts much of the economic metal grades and usually develops at depths greater than 500m below the original land surface, and a broad outer halo or "propylitic" zone that may host economic grade, but is generally of lower overall tenor.

Porphyry copper deposits also display characteristic zoning of the economic minerals, often from an iron sulphide dominated periphery to increasingly copper rich sulphides (chalcopyrite /bornite) in the core.




*Schematic Porphyry deposit model*

### *Exploration Model*

The propylitic alteration and fracturing that develops above, or adjacent to the potassic zone provides a valuable clue to the possible existence of economic mineralisation. Where erosion has occurred the propylitic zone may be much reduced in vertical thickness, or removed completely to expose the inner potassic core.

Exploration complexity is increased if younger sediments or volcanics are deposited, concealing the propylitic zone or partly exposed potassic core. These barren cover sequences often prevent the successful use of conventional exploration techniques such as geochemistry and geophysics.

In these circumstances drilling is the best recourse, with the early holes used to recognise the alteration and mineral zoning, thereby providing vectors toward the higher grade inner core.

### *Recent Discoveries*

Two case histories provide examples of the exploration commitment required for successful porphyry copper exploration.

In the first 23 diamond holes drilled at Ivanhoe's Oyu Tolgoi deposit in Mongolia eight holes were barren and eleven contained mineralised intersections of less than 50 metres with copper grades in the range 0.28%-1.6%, and gold generally less than 0.3 g/t.

Similarly, at Boyongan results from the first five deep holes, drilled through barren cover, were less than spectacular – three were barren, one intersected 15m at 0.18% Cu, and the best was 204m at 0.38% Cu and 0.05 g/t Au.

### Madja results

Madja is located within a partly exposed diorite complex with diameter of approximately one kilometre. The diorite intrudes a larger mass of feldspar porphyry known to extend over a minimum area of 2.5 km by 1.2 km that contains the two strong geochemical targets.

The area is partly overlain by younger volcanic ash and andesitic volcanics, partially obscuring and thereby disrupting the geochemical response.

Hole ALDD1 averaged 379.9 metres at 0.2% Cu, 0.14 g/t Au and 0.92 g/t Ag, (with no copper cut-off applied), over its entire length.

Seven intersections at a nominal 0.2% copper cut-off between 41 metres and 361 metres aggregate to 162 metres at a weighted average grade of 0.32% Cu, 0.26 g/t Au and 1.5 g/t Ag.

ALDD1 intersected copper-gold mineralisation in strongly fractured multiphase diorite intrusive rocks and minor basalts with "classic" propylitic alteration of variable intensity over most of its length.

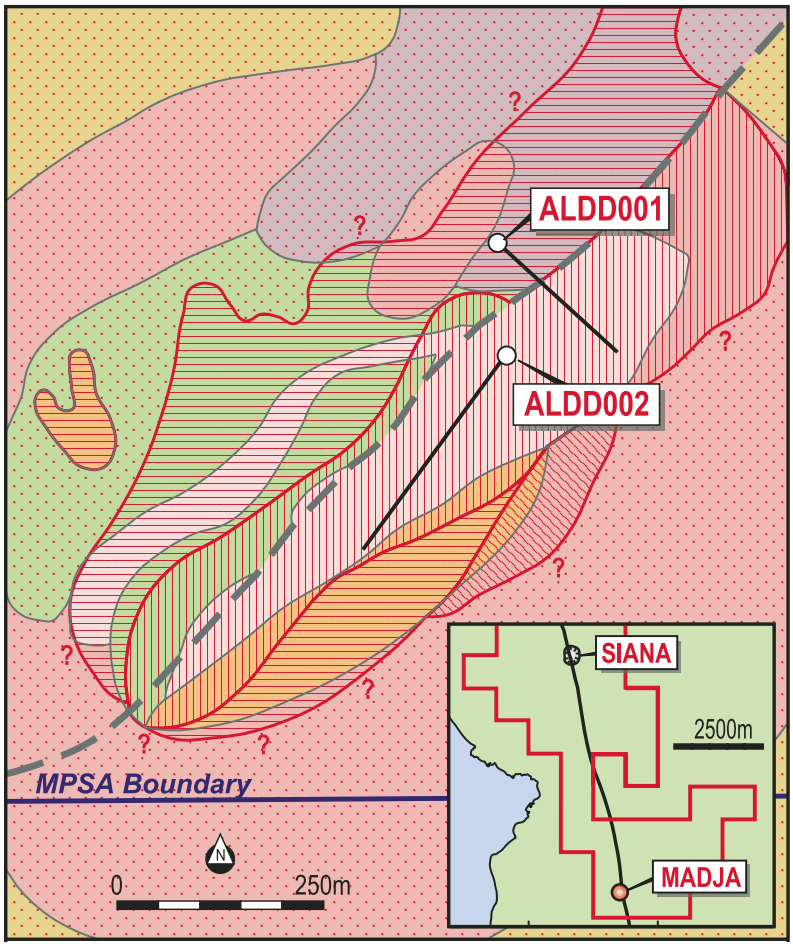
Sulphide minerals are dominated by chalcopyrite, bornite, and lesser pyrite. Bornite, a mineral containing higher percentages of copper than chalcopyrite, is more apparent in the mid to lower portions of the hole.

The combination of copper and gold grade, and presence of significant silver, indicate a fertile copper-gold mineralised system with characteristics typical of the major diorite hosted copper-gold porphyry deposits.

More drilling is required to further establish vectors relating to alteration, grade, metal ratios and mineral speciation. A larger capacity rig completed drilling ALDD2.

## Madja Porphyry Copper-Gold Diamond Drill Results

| Hole ID | WGS84 UTMEast | WGS84 UTMNorth | Az (Mag) | Dip | From (Metres) | Interval (Metres) | Cu (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| ALDD01 | 785062 | 1049101 | 135 | -60 | 0 | 379.9 | 0.20 | 0.14 | 0.92 |
| | | | | | incl | | | | |
| | | | | | 41 | 63 | 0.36 | 0.30 | 2.24 |
| | | | | | 147 | 37 | 0.37 | 0.39 | 1.13 |
| | | | | | 205 | 12 | 0.41 | 0.25 | 1.73 |
| | | | | | 255 | 22 | 0.22 | 0.14 | 1.03 |
| | | | | | 281 | 12 | 0.21 | 0.09 | 0.67 |
| | | | | | 316 | 12 | 0.23 | 0.12 | 0.47 |
| | | | | | 357 | 4 | 0.26 | 0.08 | 0.64 |




**Lithological Legend**

- Diorite breccia
- Fine grained diorite
- Coarse-grained hornblende diorite
- Birdseye porphyry
- Basalt/sediment wallrocks
- Basalt/andesites

**Alteration Legend**

- Propylitic alteration - intense clay/epidote
- Propylitic alteration - chlorite/clay
- Propylitic alteration - epidote/clay
- Weak propylitic alteration
- Major fault

**Siana Open Pit Diamond Drill Results – Main Zone (0.5 g/t Au cut-off)**

| Hole ID | WGS84 UTMEast | WGS84 UTMNorth | Az (Mag) | Dip | From (metres) | Interval (metres) | Gold Grade g/t | Vertical Depth Below Surface (metres) |
|---|---|---|---|---|---|---|---|---|
| SMDD002 | 782931 | 1055511 | 060 | -45 | 343 | 121 | 0.9 | 250 |
| | | | | incl | 386 | 78 | 1.2 | |
| SMDD009 | 782903 | 1055624 | 090 | -33 | 256 | 128 | 2.0 | 155 |
| | | | | incl | 296 | 41 | 4.1 | |
| SMDD015 | 782918 | 1055687 | 087 | -34 | 275 | 19 | 7.9 | 165 |
| SMDD016 | 782949 | 1055767 | 090 | -40 | 229 | 6 | 1.7 | 155 |
| | | | | | 240 | 1 | 14.3 | 160 |
| SMDD017 | 782964 | 1055807 | 090 | -33 | 153 | 42 | 4.2 | 90 |
| | | | | incl | 153 | 17 | 7.0 | |
| SMDD018 | 782931 | 1055509 | 090 | -38 | 336 | 8 | 14.5 | 230 |
| SMDD034 | 782897 | 1055585 | 090 | -23 | 267 | 38 | 5.3 | 130 |
| SMDD039 | 782901 | 1055626 | 090 | -26 | 277 | 22 | 2.7 | 175 |
| SMDD041 | 782895 | 1055664 | 091 | -24 | 268 | 54 | 4.5 | 120 |
| SMDD042 | 782896 | 1055585 | 090 | -33 | 278 | 41 | 5.0 | 155 |
| SMDD043 | 782931 | 1055509 | 090 | -23 | 257 | 86 | 3.1 | 110 |
| SMDD044 | 782887 | 1055730 | 090 | -23 | 242 | 19 | 5.2 | 110 |
| SMDD045 | 783335 | 1055409 | 270 | -40 | | | NSR | |
| SMDD046 | 782929 | 1055509 | 090 | -33 | 285 | 24 | 3.6 | 160 |
| | | | | | 333.6 | 7.4 | 3.9 | 190 |
| SMDD047 | 782885 | 1055730 | 090 | -28 | 247 | 38 | 1.9 | 125 |
| SMDD048 | Abandoned | | | | | | | |
| SMDD049 | 782965 | 1055807 | 090 | -30 | 134 | 39 | 3.9 | 70 |
| | | | | incl | 134 | 22 | 6.1 | |
| SMDD050 | 782964 | 1055806 | 090 | -40 | 179.7 | 16.3 | 1.0 | 115 |
| SMDD051 | 782931 | 1055549 | 087 | -30 | 239 | 31 | 2.7 | 130 |
| SMDD052 | 783337 | 1055467 | 270 | -35 | 247 | 4 | 1.8 | 130 |
| SMDD053 | 782964 | 1055808 | 070 | -33 | | | NSR | |
| SMDD054 | 782908 | 1055608 | 090 | -33 | 338 | 1 | 1.7 | 225 |
| SMDD055 | 783338 | 1055468 | 270 | -45 | 256 | 9 | 0.7 | 185 |
| SMDD056 | 783390 | 1055520 | 270 | -25 | 237 | 20 | 0.9 | 95 |
| SMDD057 | 783411 | 1055551 | 270 | -25 | 265 | 65 | 3.6 | 120 |
| SMDD058 | 783408 | 1055670 | 270 | -26 | 248 | 69 | 5.6 | 130 |
| | | | | incl | 287 | 11 | 14.0 | |

*Note: DGPS Coordinates rounded to nearest metre*
*NSR: No significant result*

## Siana Open Pit Diamond Drill Results – East Zone (0.5 g/t Au cut-off)

| Hole ID | WGS84 UTMEast | WGS84 UTMNorth | Az (Mag) | Dip | From (metres) | Interval (metres) | Gold Grade g/t | Vertical Depth Below Surface (metres) |
|---|---|---|---|---|---|---|---|---|
| SMDD009 | 782903 | 1055624 | 090 | -33 | 419.1 | 28.9 | 0.9 | 265 |
| | | | | | 502 | 16 | 0.6 | 320 |
| | | | | | 529 | 15 | 0.6 | 340 |
| SMDD014 | 783440 | 1055591 | 267 | -58 | 300 | 10 | 2.5 | 255 |
| SMDD015 | 782918 | 1055687 | 087 | -34 | 344 | 11 | 1.5 | 210 |
| | | | | | 465 | 5 | 2.1 | 290 |
| SMDD016 | 782949 | 1055767 | 090 | -40 | 317 | 5 | 1.7 | 220 |
| | | | | | 433 | 12 | 1.3 | 310 |
| | | | | | 455 | 12 | 1.6 | 325 |
| SMDD017 | 782964 | 1055807 | 090 | -33 | 295 | 6 | 1.0 | 185 |
| | | | | | 314 | 8 | 1.2 | 200 |
| | | | | | 394 | 7 | 0.8 | 255 |
| SMDD019 | 782940 | 1055469 | 090 | -40 | 390 | 14 | 0.9 | 270 |
| | | | | | 414 | 6 | 7.2 | 285 |
| | | | | | 455 | 6 | 1.1 | 315 |
| | | | | | 484 | 6 | 1.5 | 335 |
| SMDD034 | 782897 | 1055585 | 090 | -23 | 376 | 48 | 2.5 | 195 |
| | | | | incl | 410 | 14 | 3.5 | |
| SMDD039 | 782901 | 1055626 | 090 | -26 | 320 | 10 | 1.8 | 170 |
| | | | | | 366 | 24 | 1.3 | 200 |
| | | | | | 399 | 10 | 2.0 | 220 |
| | 782895 | 1055664 | 091 | -24 | 382 | 15 | 2.7 | 180 |
| | | | | | 435 | 15 | 1.7 | 210 |
| | | | | | 471 | 8 | 4.8 | 235 |
| | | | | | 486 | 12 | 7.0 | 245 |
| SMDD042 | 782896 | 1055585 | 090 | -33 | 325 | 120 | 0.8 | 185 |
| SMDD043 | 782931 | 1055509 | 090 | -23 | 367 | 4 | 1.7 | 165 |
| | | | | | 384 | 7 | 1.1 | 170 |
| SMDD047 | 782885 | 1055730 | 090 | -28 | 367 | 3 | 0.7 | 195 |
| SMDD050 | 782964 | 1055806 | 090 | -40 | 269 | 7 | 2.4 | 180 |
| SMDD051 | 782931 | 1055549 | 090 | -30 | 363 | 8 | 1.8 | 210 |
| SMDD053 | 782964 | 1055808 | 070 | -33 | 328 | 30 | 0.8 | 195 |

*Note: DGPS Coordinates rounded to nearest metre*

## Boyongan Corridor RC Drill Results

| Hole ID | WGS84 UTMEast | WGS84 UTMNorth | Az (Mag) | Dip | From (Metres) | Interval (Metres) | Gold Grade g/t | VerticalDepth Below Surface (metres) |
|---|---|---|---|---|---|---|---|---|
| SMRC010 | 782837 | 1056267 | 060 | 60 | 56 | 9 | 6.2 | 48 |
| SMRC031 | 782916 | 1056132 | 060 | 60 | 37 | 5 | 5.0 | 32 |
| | | | | | 54 | 36 | 1.4 | |
| | | | | incl | 55 | 4 | 2.8 | |
| | | | | incl | 75 | 15 | 2.0 | |
| SMRC027 | 782702 | 1056421 | 060 | 60 | 16 | 7 | 1.1 | 13 |
| SMRC040 | 782773 | 1056349 | 060 | 60 | 15 | 6 | 1.9 | 12 |

*Note: DGPS Coordinates rounded to nearest metre*

**2005 Programme**

Following completion of the comprehensive Scoping Study in September 2004 the priority focus for financial year 2004 – 05 is completion of the pre-feasibility study scheduled for the first quarter of calendar 2005 and the final feasibility study by mid 2005.

Exploration activity will see completion of the current East Zone drill programme – up to 12 shallow angle holes (also targeting Main zone) and three holes at 45 degrees targeting deeper intersections. The inclusion of results into the current resource upgrade estimate will depend on completion and assaying prior to the cut-off date.

The four rigs are expected to be retained for the balance of the year generating additional data towards declaration of a mining reserve. Two rigs would be initially sited on the western side of the pit to generate additional geotechnical data, one on the eastern side targeting the East Zone, and one in the Boyongan Corridor environs.

Geotechnical evaluation during the Scoping Study suggested the east wall failure in 1988 and 1990 which cut the main ramp and was instrumental in the pit closure may have been partially due to instability caused by previous underground mining. Current studies will review increasing the pit wall angles (reducing the strip ratio) and repositioning the ramp to the west wall.

Environmental studies will progress the planning and management of discharging 8.7 GL of pit water into Lake Mainit. The engineers will also advance the possible use of external perimeter bores to dewater an estimated 1.5 KL per annum of rainwater inflow and 6.0 GL per annum of groundwater inflow.

Although there is substantial production history confirmatory metallurgical test work will be conducted on representative samples. Investigation will include a review of modern gravity equipment.

In addition to technical evaluation, legal and financial aspects will be advanced to ensure the time taken to complete the process of bank due diligence and syndication is minimised.

Whilst the Madja copper-porphyry is a second priority to the Siana pit feasibility study, further work is contemplated. An extensive Induced Polarisation geophysical survey is under consideration for both Madja and a second larger area to the north.

Targets elsewhere in the MPSA will be investigated and tested by drilling where warranted.

The company continues to seek new opportunities for gold projects within Australia and overseas.

*East Zone drilling*

## MONTAGUE GOLD PROJECT
**(RED 5 25% free carried)**

The Company has a 25% free carried interest to feasibility in the Montague Joint Venture, located 80km NNE of Sandstone, Western Australia, in the Gum Creek Greenstone Belt. The project is managed by Gateway Mining NL.

The RED 5 tenements cover a 7km northern extension of the stratigraphy and structures that host Gateway's high-grade gold discovery at the Airport Prospect.

Latest broad spaced RAB drilling located 1km west of the interpreted Hypotenuse shear zone in an area overlain by transported sediments, and where little previous exploration has been completed. Hole GRB3073 intersected 24 metres at 1.87 g/t Au from 20 metres downhole, including 5 metres at 5.3 g/t Au, with mineralisation open in all directions. A follow-up drilling programme is near completion.

### Other projects

The operator of Rabbit Well Joint Venture in the northern Yandal Belt, Mines and Resources Australia, withdrew from the project. Red 5 has retained the area under a new Exploration Licence application.

No progress has been reported for the Kooline West gold prospect in the Ashburton Province (under farm out offer to St Barbara Mines).

## DIVESTMENTS
**Opus Exploration Pty Ltd**
**(Indee and Telfer Gold Projects)**

The Company accepted an offer from Range River Gold NL to purchase Opus Exploration Pty Ltd and its underlying assets, including the rights under the Indee Joint Venture, and the tenement holdings near Telfer in northern West Australia.

At the time, approximately $1.0 million had been spent at Indee on exploration and evaluation, with a further $0.85 million to be incurred prior to earning a 51% interest in the project.

The consideration comprised $0.5 million cash and 9,132,420 Range River Gold Ltd shares. The total value of the consideration on execution of the sale agreement was $1.7 million.

At the date of this report the market value of the shares is $2.2 million and the holding represents 10.5% of the issued capital. Red 5 therefore continues to retain a significant indirect interest in both assets whilst simultaneously eliminating the on-going financial commitments and allowing total focus on the Siana project.

Range River advise that the Indee resource and exploration programme comprising in-fill drilling at Withnell and Camel, and exploration at Hector, Connector and Roe has been completed. The results of 440 RC holes (28,773 metres) were incorporated into a new JORC compliant resource estimate. The Combined Indicated and Inferred Resource estimate of 451,000 contained ounces was compiled by Snowden Mining Consultants. A feasibility study is well advanced.

### Other divestments

The Ravensthorpe nickel tenements were sold mid year for a cash consideration of $350,000.

Black Shale (three remaining properties south of Ravensthorpe with scope for lead-zinc mineralisation) was terminated and Ajana (located near Northampton - primary target at 1,000 metres) was relinquished after failure to secure farminees.

# A proud history

**An extract from the 1990 Annual Report**

"1990 marked the 55th year of operation of Surigao Consolidated Mining Co., Inc. (SURICON). The company was registered with the Securities and Exchange Commission in 1935 and started mining operations in 1938 with the opening of the Siana Gold Mine in Mainit, Surigao del Norte. After being closed during the Second World War, the mine was reopened in 1948 and was rehabilitated until the following year. It resumed production in 1950. From 1951 to 1953, gold production continued to increase reaching a high of 52,260 ounces in 1953, then the highest in the history of the mine since the start of operations.

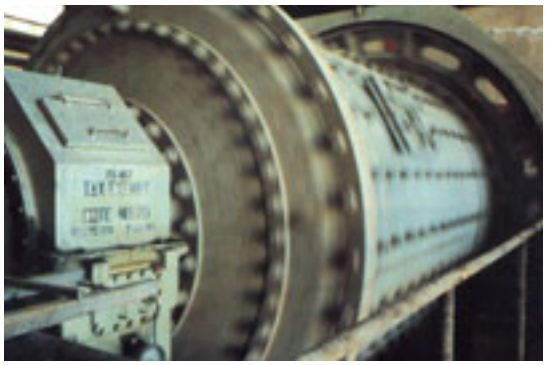
Although continually beset with operational problems in the 50's resulting in intermittent suspension of operations, Siana was operating profitable due mainly to the high assay of recovered ore (0.345 ounce per ton) and the high metallurgical recovery (89%) for the plant. However, severe operational problems, increasing cost of operation and low price of gold forced the closing of the mine in 1960.

In 1975, SURICON engaged the services of Eikon Minerals, Inc. as exploration managers for the Siana Gold Mine and subsequently as General Managers in 1976. In 1978, after completion of the exploratory work done by Eikon on the Siana property, the result of which showed the presence of 4,572,092 DMT of positive (proven) ore reserves with a life span of 12 years and an average grade of 5.20 gms of gold per ton, the Board of Directors of SURICON decided to reopen the Siana Mine for a 1,000 TPD operation.

By the end of 1980, the mine was prepared for open pit operations and contractors were engaged for stripping.

To further improve its recovery and lower production costs, the company adopted the carbon-in-pulp (CIP) process. Production indicated an improvement until 1987 when the company posted a Peso70 million net profit as a result of higher grade production and improved metal prices. This enabled the company to declare cash and stock dividends.

*Open pit prior to closure in 1990*



*Ball mill operating 1988*

*Counter current thickeners 1988*

# …and fond memories

Operational problems again beset the mine's performance starting 1988. The pit was flooded and a major landslide occurred, cutting the main access ramp and hindering recovery of the ore. Another major slide occurred in 1990 compounding the problem. The extremely high cost of moving the slide coupled with the continuing decline in gold price has led the company to search for near surface ore and temporarily suspend operations in the mine pit at year end".

The presence of the Siana Gold Mine has contributed significantly to the social and economic development of the area. Basically a labour-intensive company, SURICON has provided employment to more than 500 residents of the area since the company started operations.

A company hospital has been extending medical services to the employees and the community since the 1950's. Aside from this, various community development and health projects have been continually undertaken by the company in coordination with other government and civic organizations especially during the 80's.

Notable among these, are the Operation Dugtong Buhay, the various Labor-Management Coordinating Council livelihood projects such as duck raising, golden snail raising, cabbage and mango farming and planting of various fruit trees.

The company also undertook the construction of playground facilities, tennis courts, gymnasium with a basketball court, bowling alley and a concrete stage for the employees and residents in the neighbouring community.

To a considerable extent, SURICON has helped improve the way of life of the employees and residents in Siana and the neighbouring areas. The company has so far done a fine task in fulfilling its corporate commitment of contributing to the social and economic betterment of the country".

*Minesite school playground*

*Livelihood project - Kalamansi trees 1986*

*Medical Department Head, Suricon Hospital 1986*

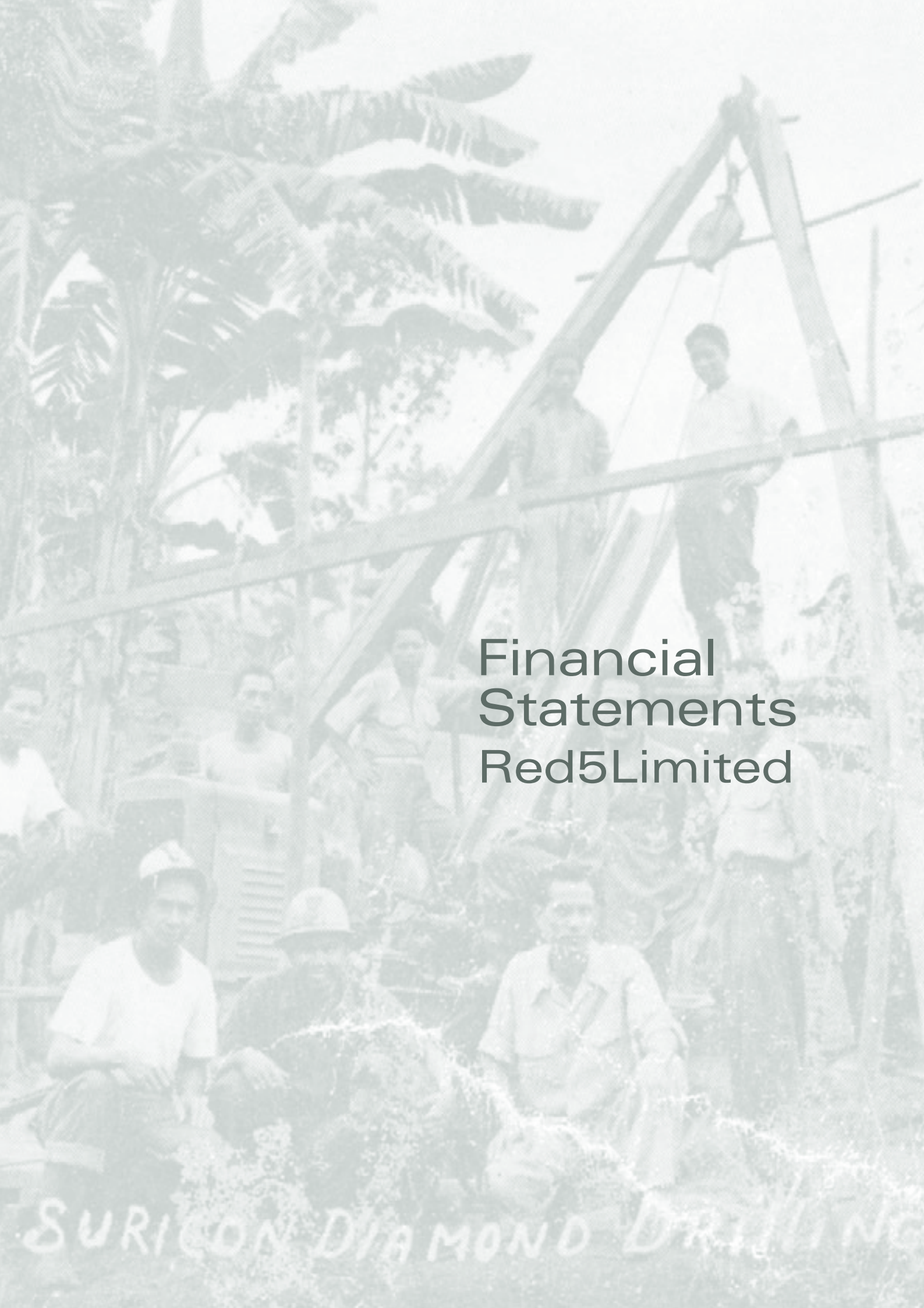
**Siana Gold Project Resource Statement**
**January 2004 (0.5 g/t gold cut-off)**

| Resource Category (JORC) | Tonnes | Grade g/t Gold | Contained Ounces Gold |
|---|---|---|---|
| Indicated | 12,403,000 | 2.2 | 885,000 |
| Inferred | 6,376,000 | 1.2 | 252,000 |
| Total | 18,779,000 | 1.9 | 1,137,000 |

*Notes: Figures are 100% of project*
*The estimates of Identified Mineral Resources shown in the table above have been prepared as per the JORC Code guidelines for reporting Mineral Resources and Ore Reserves.*
*The information in this report that relates to Mineral Resources or Ore Reserves is based on information compiled by Mr Govey and Mr Edwards, who are full-time employees of Red 5 Limited and are Members of The Australasian Institute of Mining and Metallurgy.*

*Mr Govey and Mr Edwards have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking to qualify as Competent Person(s) as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Govey and Mr Edwards consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

*Core logging at Siana*




# Financial Statements

## Red5Limited

# Directors' Report



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

**DIRECTORS**

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

Nicholas James Smith

Gregory Charles Edwards

Allen Lance Govey

Colin George Jackson (appointed on 5 December 2003)

Unless otherwise indicated, all directors held their position as a director throughout the entire financial year and up to the date of this report.

**PRINCIPAL ACTIVITIES**

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

**RESULTS OF OPERATIONS**

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

**REVIEW OF OPERATIONS**

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

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

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

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

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

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

In January 2004, the Supreme Court of the Republic of the Philippines handed down a decision which affected the validity of forms of tenure held under Financial and Technical Assistance Agreements.

The Siana project is not directly affected by this decision as it operates under a granted MPSA held by the consolidated entity's local Philippine partner.

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

**DIVIDENDS**

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

**LIKELY DEVELOPMENTS**

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

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

**OPTIONS GRANTED OVER UNISSUED SHARES**

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

Options granted over ordinary fully paid shares exercisable:

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

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

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

**SIGNIFICANT CHANGES**

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

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

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

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

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

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

**INFORMATION ON DIRECTORS**

| DIRECTORS | QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES | SHARES BENEFICIALLY HELD IN PARENT ENTITY |
|---|---|---|
| Nicholas J Smith<br>(Non-Executive Chairman) | LL.B<br>A director since April 2002.<br>Mr Smith is a solicitor with considerable international mining business experience, more recently spending 12 years as group general counsel for the Normandy Mining group. Mr Smith operates a corporate consultancy business and specialises in advice on sovereign risk issues in developing countries. | 509,500 shares<br>4,102,375 options |
| Gregory C Edwards<br>(Managing Director) | B.Sc. (Hons), MAusIMM<br>A director since November 2001.<br>Mr Edwards is a geologist with 19 years experience. He has a broad gold and base metals exploration and development background, spending 13 years with the Normandy Mining group, holding various positions including Exploration Manager – Western Australia and Manager – Business Analysis, where he focussed on commercial evaluations of potential project and corporate acquisitions. | 7,500,000 shares<br>1,712,500 options |
| Allen L Govey<br>(Exploration Director) | B.Sc. (Hons), M.Sc., MAusIMM<br>A director since November 2001.<br>Mr Govey is a senior geologist with wide ranging exploration and mining geology experience within Australia and Indonesia. He has been involved with the successful exploration and mining of Archean lode gold deposits for the last 16 years.<br>Mr Govey spent 12 years with the Normandy Mining group, his most recent role being Principal Geologist responsible for project generation and evaluation of new business opportunities within Western Australia. | 6,786,500 shares<br>1,676,625 options |
| Colin G Jackson<br>(Non-Executive Director) | M.Sc., B.Sc. (Hons), DIC, Grad.Dip.Bus.Admin.,MIMMM<br>A director since December 2003.<br>Mr Jackson graduated as a mineral process design engineer and spent 10 years with Selection Trust Limited and RGC Group, followed by a 12 year finance career with McIntosh Securities Limited and 10 years corporate/communications responsibility with Newcrest Mining and Normandy Mining.<br>He is a member of the finance/taxation committee of the Australian Gold Council. | 225,000 shares<br>56,250 options |

## MEETINGS OF DIRECTORS

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

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

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

## DIRECTORS AND EXECUTIVES REMUNERATION

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

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

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

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

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

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

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

During the financial year, Red 5 paid premiums (other benefits) of $24,975 to insure the directors and other officers of the consolidated entity. The liabilities insured are for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

**ENVIRONMENTAL REGULATIONS**

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

Compliance with environmental obligations is monitored by the Board of Directors. No environmental breaches have been notified to the consolidated entity by any government agency during the year ended 30 June 2004.

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia

27 September 2004

# Statement of Financial Performance for the year ended 30 June 2004

| | | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | 2004 | 2003 | 2004 | 2003 |
| | NOTE | $ | $ | $ | $ |
| Revenue from ordinary activities | | 250,154 | 12,053 | 250,154 | 12,011 |
| Revenue from outside operating activities | | 2,065,000 | 30,000 | 2,065,000 | 30,000 |
| Total revenue | 2 | 2,315,154 | 42,053 | 2,315,154 | 42,011 |
| Carrying value of investment and loans to controlled entity sold | | - | - | 1,932,073 | - |
| Carrying value of mineral tenements sold | | 1,977,396 | - | 292,399 | - |
| Depreciation expenses | | 12,436 | 6,681 | 12,436 | 6,681 |
| Employee and consultancy expenses | | 725,744 | 441,577 | 725,744 | 441,577 |
| Exploration expenditure written-off | | 54,238 | 969,003 | 23,790 | 518,417 |
| Occupancy expenses | | 63,630 | 57,330 | 63,630 | 57,330 |
| Provision for diminution in investments | | - | 50,000 | - | 50,000 |
| Provision for non-recovery of loans | | - | - | 30,448 | 178,141 |
| Regulatory expenses | | 123,786 | 59,781 | 123,786 | 59,781 |
| Other expenses from ordinary activities | | 159,324 | 210,774 | 159,324 | 210,677 |
| Loss from ordinary activities before income tax expense | 3 | (801,400) | (1,753,093) | (1,048,476) | (1,480,593) |
| Income tax expense | 4 | - | - | - | - |
| Net loss attributable to members of Red 5 Limited | | (801,400) | (1,753,093) | (1,048,476) | (1,480,593) |
| Transfer from option premium reserve | | 640,590 | - | 640,590 | - |
| Total changes in equity other than those resulting from transactions with owners as owners | | (160,810) | (1,753,093) | (407,886) | (1,480,593) |
| | | Cents | Cents | | |
| Basic and diluted loss per share | 28 | 0.44 | 1.48 | | |

The accompanying notes form part of these financial statements.

# Statement of Financial Position as at 30 June 2004

Red 5 Limited and Controlled Entities

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

The accompanying notes form part of these financial statements.

# Statement of Cash Flows for the year ended 30 June 2004

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

The accompanying notes form part of these financial statements.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### 1.1 BASIS OF PREPARATION OF THE FINANCIAL REPORT

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

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

### 1.2 PRINCIPLES OF CONSOLIDATION

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Red 5 Limited ("parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Red 5 Limited and its controlled entities together are referred to in this financial report as the consolidated entity. A list of controlled entities appears in Note 25. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included only from the date upon which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

### 1.3 INVESTMENTS

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

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

### 1.4 INCOME TAX

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

*Tax consolidation legislation*

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

### 1.5 EXPLORATION AND EVALUATION EXPENDITURE

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

Exploration and evaluation costs for each area of interest are carried forward where rights of tenure of the area of interest are current and the costs are expected to be recouped through the successful development and exploitation of the area of interest, or by its sale, or where exploration and evaluation activities in the area of interest have not yet reached a stage which

permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

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

### 1.6 PROPERTY, PLANT AND EQUIPMENT

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

### 1.7 DEPRECIATION

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

### 1.8 RECOVERABLE AMOUNT

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

### 1.9 EMPLOYEE ENTITLEMENTS

Provision for employee entitlements represents the amount which the consolidated entity has a present obligation to pay resulting from employees' service provided up to the balance date. The provision is based on remuneration rates including related on-costs and is measured using undiscounted amounts expected to be paid when the liability is settled.

### 1.10 EARNINGS PER SHARE

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

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

### 1.11 GOODS AND SERVICES TAX

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

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

### 1.12 CASH

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

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

**3. LOSS FROM ORDINARY ACTIVITIES**

Loss from ordinary activities before income tax expense includes the following specific net gains and expenses:

| | | | | |
|---|---|---|---|---|
| Net gains | | | | |
| Interest received - other corporations | 250,154 | 12,053 | 250,154 | 12,011 |
| Profit on sale of mineral tenements | 82,604 | - | 67,601 | - |
| Expenses | | | | |
| Deferred exploration expenditure written-off | 54,238 | - | 23,790 | - |
| Depreciation of property, plant and equipment | 12,436 | 6,681 | 12,436 | 6,681 |
| Provision for employee entitlements | 105,930 | 20,428 | 105,930 | 20,428 |
| Provision for diminution in investments | - | 50,000 | - | 50,000 |
| Provision for non-recovery of loans | - | - | 30,448 | 178,141 |
| Rental and outgoings relating to operating lease | 52,865 | 57,330 | 52,865 | 57,330 |
| Individually significant items | | | | |
| Expenses | | | | |
| Deferred exploration expenditure written-off | - | 969,003 | - | 518,417 |
| Loss on sale of controlled entity | - | - | 232,073 | - |

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |

## 4. INCOME TAX

| | | | | |
|---|---|---|---|---|
| The difference between income tax expense provided in the financial statements and the prima facie income tax expense is reconciled as follows: | | | | |
| Operating loss | (801,400) | (1,753,093) | (1,048,476) | (1,480,593) |
| Prima facie tax benefit at 30% | (240,420) | (525,928) | (314,542) | (444,178) |
| Tax effect of permanent differences: | | | | |
| Exploration expenditure written-off | 16,271 | 216,592 | 7,137 | 155,525 |
| Non-deductible expenses | 16,997 | 13,215 | 16,997 | 13,215 |
| Non-deductible capital items | - | 920 | - | 920 |
| Gain arising on option premiums | 192,177 | - | 192,177 | - |
| Other deductible items | (5,583) | (139,052) | (3,949) | (28,331) |
| | (20,558) | (434,253) | (102,180) | (302,849) |
| Timing differences not brought to account | 44,813 | 87,668 | 44,813 | 87,668 |
| Prior year losses brought to account | (25,889) | - | - | - |
| Current year tax losses not brought to account | 1,634 | 346,585 | 57,367 | 215,181 |
| Income tax expense | - | - | - | - |
| Income tax provision | - | - | - | - |
| The directors estimate that the potential future income tax benefit in respect of tax losses not brought to account is: | 2,469,257 | 2,755,533 | 2,106,998 | 2,102,071 |

The potential benefit of tax losses has not been brought to account in this financial report as realisation of the benefit cannot be regarded as being virtually certain.

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

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

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

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

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

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

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

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

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |
| CURRENT LIABILITIES | | | | |
| **12. PAYABLES** | | | | |
| Sundry creditors and accruals | 793,305 | 231,226 | 793,305 | 231,226 |
| | 793,305 | 231,226 | 793,305 | 231,226 |
| **13. PROVISIONS** | | | | |
| Current | | | | |
| Provision for employee entitlements | 57,002 | 31,072 | 57,002 | 31,072 |
| | 57,002 | 31,072 | 57,002 | 31,072 |
| Non-current | | | | |
| Provision for retirement benefits | 80,000 | - | 80,000 | - |
| | 80,000 | - | 80,000 | - |

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

| | | | | |
|---|---|---|---|---|
| NON-CURRENT LIABILITIES | | | | |
| **14. BORROWINGS** | | | | |
| Unsecured loans – other corporations | 322,846 | 322,846 | - | - |
| | 322,846 | 322,846 | - | - |

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

| | | | | |
|---|---|---|---|---|
| **15. CONTRIBUTED EQUITY** | | | | |
| (a) Share capital | | | | |
| 220,304,333 (2003: 127,558,467) ordinary fully paid shares | 23,434,632 | 12,908,300 | 23,434,632 | 12,908,300 |
| Nil (2003: 54,419,620) options over fully paid shares | - | 1,175,779 | - | 1,175,779 |
| | 23,434,632 | 14,084,079 | 23,434,632 | 14,084,079 |

## 15. CONTRIBUTED EQUITY *(continued)*

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

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

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

| As at 30 June 2004, the following options over ordinary fully paid shares were outstanding: | Options |
|---|---|
| - exercisable at 35 cents each on or before 31 January 2005 | 55,076,020 |
| - exercisable at 15 cents each on or before 31 July 2004 | 125,000 |
| - exercisable at 20 cents each on or before 31 July 2004 | 125,000 |
| - exercisable at 40 cents each on or before 31 December 2004 | 2,000,000 |
| - exercisable at 15 cents each on or before 8 January 2005 | 100,000 |
| - exercisable at 20 cents each on or before 17 June 2005 | 100,000 |
| - exercisable at 60 cents each on or before 31 December 2005 | 2,000,000 |
| | 59,526,020 |

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

## 18. DIRECTOR AND EXECUTIVE DISCLOSURES

### Directors

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

*Executive directors*

Gregory C Edwards – Managing Director

Allen L Govey – Exploration Director

*Non-executive directors*

Nicholas J Smith – Chairman

Colin G Jackson (appointed on 5 December 2003)

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

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

## 18. DIRECTOR AND EXECUTIVE DISCLOSURES *(continued)*

**Remuneration report**

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

*Executive remuneration*

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

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

The total remuneration of executive directors consists of the following:

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

*Non-executive directors remuneration*

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

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

**Details of remuneration**

Directors of Red 5 Limited

| | Primary | Post-employment | | Equity | Other benefits | |
|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Superannuation $ | Retirement Benefits $ | Options issued $ | Insurance premiums $ | Total $ |
| 2004 | | | | | | |
| G C Edwards | 194,561 | 16,200 | - | - | 6,244 | 217,005 |
| A L Govey | 140,907 | 11,700 | - | - | 6,244 | 158,851 |
| N J Smith | 202,250 | 3,262 | 80,000 | - | 6,244 | 291,756 |
| C G Jackson | 52,183 | 750 | - | - | 6,243 | 59,176 |
| Total | 589,901 | 31,912 | 80,000 | - | 24,975 | 726,788 |
| 2003 | | | | | | |
| G C Edwards | 142,917 | 12,862 | - | - | 4,080 | 159,859 |
| A L Govey | 95,000 | 8,550 | - | - | 4,080 | 107,630 |
| N J Smith | 103,000 | 1,688 | - | 183,000 | 4,080 | 291,768 |
| J W Fraser | 22,500 | - | - | - | 4,080 | 26,580 |
| Total | 363,417 | 23,100 | - | 183,000 | 16,320 | 585,837 |

**18. DIRECTOR AND EXECUTIVE DISCLOSURES** *(continued)*

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

**Share holdings**

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

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

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

**Option holdings**

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

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

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

**Other transactions with directors**

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

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

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

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

| | | | | |
|---|---|---|---|---|
| **21. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES** | | | | |
| Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies, calculated at year end exchange rates: | | | | |
| Amounts payable | | | | |
| United States dollars | | | | |
| - current | 552,123 | 113,852 | 552,123 | 113,852 |
| | 552,123 | 113,852 | 552,123 | 113,852 |

## 22. SEGMENT INFORMATION

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

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

## 23. RELATED PARTIES

### Transactions with related parties in the wholly owned group

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

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

## 24. FINANCIAL INSTRUMENTS

(a) Credit risk exposure

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

(b) Net fair values

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

(c) Interest rate risk exposure

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

| | Note | Floating interest rate | Fixed interest maturing in: 1 year or less | Non-interest bearing | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **30 June 2004** | | | | | |
| Financial assets | | | | | |
| Cash assets | 5 | 988,476 | 7,108,359 | 200 | 8,097,035 |
| Receivables | 6 | - | - | 58,410 | 58,410 |
| Other financial assets | 7,9 | - | - | 1,295,234 | 1,295,234 |
| | | 988,476 | 7,108,359 | 1,353,844 | 9,450,679 |
| Weighted average interest rate | | 4.14% | 5.36% | | |
| Financial liabilities | | | | | |
| Payables | 12 | - | - | 793,305 | 793,305 |
| Provisions | 13 | - | - | 137,002 | 137,002 |
| Borrowings | 14 | - | - | 322,846 | 322,846 |
| | | - | - | 1,253,153 | 1,253,153 |
| Weighted average interest rate | | - | - | | |
| **30 June 2003** | | | | | |
| Financial assets | | | | | |
| Cash assets | 5 | 367,634 | - | 200 | 367,834 |
| Receivables | 6,8 | - | - | 110,986 | 110,986 |
| | | 367,634 | - | 111,186 | 478,820 |
| Weighted average interest rate | | 2.1% | - | | |
| Financial liabilities | | | | | |
| Payables | 12 | - | - | 231,226 | 231,226 |
| Provisions | 13 | - | - | 31,072 | 31,072 |
| Borrowings | 14 | - | - | 322,846 | 322,846 |
| | | - | - | 585,144 | 585,144 |
| Weighted average interest rate | | - | - | | |

## 25. INVESTMENTS IN CONTROLLED ENTITIES

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

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

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

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

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |
| **26. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX** | | | | |
| Net cash outflow from operating activities | (632,308) | (691,050) | (632,308) | (690,995) |
| Depreciation | (12,436) | (6,681) | (12,436) | (6,681) |
| Exploration expenditure written-off | (54,238) | (969,003) | (23,790) | (518,417) |
| Loss on sale of controlled entity | - | - | (232,073) | - |
| Profit on sale of mineral tenements | 82,604 | - | 67,601 | - |
| Plant and equipment written-off | - | (3,066) | - | (3,066) |
| Provision for diminution in investments | - | (50,000) | - | (50,000) |
| Provision for non-recovery of loans | - | - | (30,448) | (178,141) |
| Changes in operating assets and liabilities | | | | |
| Increase/(decrease) in receivables | (15,576) | 118,612 | (15,576) | 118,612 |
| Increase/(decrease) other operating assets | 498,563 | (233,452) | 498,563 | (233,452) |
| (Increase)/decrease in payables | (562,079) | 101,975 | (562,079) | 101,975 |
| (Increase)/decrease in provisions | (105,930) | (20,428) | (105,930) | (20,428) |
| Operating loss after income tax | (801,400) | (1,753,093) | (1,048,476) | (1,480,593) |

## 27. NON CASH FINANCING AND INVESTING ACTIVITIES

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

## 28. EARNINGS PER SHARE

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

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

The following movements in ordinary shares and options occurred subsequent to balance date:

- 250,000 unlisted options lapsed on 31 July 2004.

## 29. INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

# Declaration by Directors

The Board of Directors of Red 5 Limited declares that:

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

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

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

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

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia
27 September 2004

# Independent Audit Report



**Independent Audit Report to the members of Red 5 Limited**

SCOPE

*The financial report and directors' responsibility*

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

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

*Audit approach*

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

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

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

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

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

INDEPENDENCE

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

AUDIT OPINION

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

(a) the Corporations Act 2001, including:

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

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

(b) other mandatory professional reporting requirements in Australia.

KPMG

**B C FULLARTON**
Partner

Perth
27 September 2004

# Tenement Schedule as at 27 September 2004

| Project | Tenement number | Beneficial interest or joint venture details |
|---|---|---|
| **Philippines** | | |
| Siana gold project | MPSA 184-2002-XIII | 80% beneficial interest |
| | APSA 46-XIII | Right to earn an 80% interest |
| | APSA 30-XIII (Mapawa) | Right to earn an 80% interest |
| **Western Australia** | | |
| Rabbit Well | ELA69/1936 | 100% |
| Montague | EL57/239, ELA57/561 | 25% free carried |
| | MLA57/429, MLA57/485 | 25% free carried |
| | ELA 57/390 | 100% |
| Kooline West | EL08/1287 | 100% (joint venture partner funding) |

**Abbreviations**

EL Exploration Licence

ELA Exploration Licence Application

MLA Mining Lease Application

MPSA Mineral Production Sharing Agreement

APSA Application for MPSA

# Corporate Governance Statement

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurism, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved.

Good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances. Red 5 is a junior exploration company. The current executive directors gained management control in November 2001 and over the ensuing period have focused the Company's activities on the Siana Project in the Philippines. The Company currently operates with limited permanent staff, relying on specialist consultants and casual field staff to assist in the implementation of exploration programmes.

The Company's Board and management are committed to a high standard of corporate governance practices, ensuring that the Company complies with the Corporations Act 2001, Australian Stock Exchange (ASX) Listing Rules, Company Constitution and other applicable laws and regulations.

However, at this stage of the Company's corporate development, implementation of the ASX Corporate Governance Council ten core principles, whilst wholeheartedly supported, is not practical in every instance given the modest size and simplicity of the business. The core principles are noted as follows:

The core principles are establishment of the role of the Board, its composition (with a balance of skills, experience and independence appropriate to the nature and extent of operations), and the need for integrity (among those who influence strategy and financial performance, together with responsible and ethical decision-making). Presenting the Company's financial and non-financial position requires processes that safeguard, both internally and externally, the integrity of Company reporting and its provision in a timely and balanced manner. The rights of shareholders must be recognised and upheld. Risk must be managed through effective oversight and internal control. Board and management effectiveness must be encouraged. Remuneration must attract and retain talented and motivated directors and employees with a clear relationship to corporate and individual performance. And finally, the legitimate interests of all stakeholders must be recognised.

The details of the current and evolving corporate governance practices are identified in the following pages.

## BOARD OF DIRECTORS

### Role of the Board

The Board has the responsibility of protecting the rights and interests of shareholders and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for:

- the corporate governance of the Company;
- the overall strategic direction and leadership of the Company;
- approving and monitoring management implementation of objectives and strategies; and
- reviewing the performance against stated objectives by receiving regular management reports on the business situation, opportunities and risks.

### Structure of the Board

The Company has a four member Board comprising two executive directors and two non-executive directors, including the Chairman. The roles of Chairman and Managing Director are not combined. Three directors are resident in Perth, Western Australia and one in Adelaide, South Australia. The two executive directors spend considerable time in the Philippines. Messrs Edwards and Govey are not considered independent by virtue of their executive roles in the Company, neither is Mr Smith by virtue of financial remuneration during the year. Mr Jackson is an independent non-executive director.

Board members should possess complementary business disciplines and experience aligned with the Company objectives. The experience and qualifications of directors are noted in the Directors' Report.

Where any director has a material personal interest in a matter, the director is not permitted to be present during discussions or to vote on the matter. The enforcement of this requirement ensures that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent directors.

Financial materiality thresholds used in the assessment of independence are 5% of the annual gross expenditure of the Company and/or 25% of the annual income of the director.

Having regard to the structure of the Board and of senior management, it is considered appropriate by the Board to effectively utilise the Chairman's skills as a consultant to provide crucial peer review of the corporate, legal and commercial aspects of the Company's operations.

The Board recently formed an Audit committee (May 2004) and a Remuneration committee (July 2004) comprising the non-executive directors, with Mr Jackson Chairman of both.

The Company will give consideration at an appropriate juncture in the Company's development, for the creation of a Nomination committee. The current size of the full Board permits it to act as the nomination committee and to regularly review membership.

The Board intends to introduce a formal process for an annual self assessment of its collective performance, the performance of individual directors and of Board committees. No formal assessment was undertaken during the year ended 30 June 2004.

## AUDIT PROCESSES AND POLICIES

The Board is responsible for the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. A charter (terms of reference) has been formulated and posted to the website.

The responsibilities include:

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

The minutes of all committee meetings are circulated to all directors.

The external auditor, KPMG has engagement terms refreshed annually and have indicated their independence to the Board. KPMG were appointed as auditors in 1998. The current engagement partner has conducted the audit since 2003 with rotation due no later than 2008.

## SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Audit committee is responsible for reviewing and reporting to the Board on the Company's financial reports and external audit processes

The Managing Director and Chief Financial Officer provide a certification to the Board on the integrity of the Company's external financial reports. This reporting structure was adopted for the financial year ended 30 June 2004.

The Managing Director and Chief Financial Officer are not specifically required to provide additional certification that the financial statements are founded on sound risk management systems and that compliance and control systems are operating efficiently and effectively.

The Board considers that risk management and internal compliance and control systems are sufficiently robust for the Board to place reliance on the integrity of the financial statements without the need for an additional certification by management.

## RESPECT THE RIGHTS OF SHAREHOLDERS AND STAKEHOLDERS

The Board formally adopted in September 2004 (such practices being informally in place for the preceding 12 months), communications strategies and practices to promote communication with shareholders, in language capable of interpretation, and to encourage effective participation at general meetings. The external auditor will attend the meeting to respond to specific questions from shareholders relating to the conduct of the audit and the preparation and content of the auditors' report. In parallel, the Board has established a code of conduct to guide compliance with the legitimate interests of all stakeholders.

## TIMELY AND BALANCED DISCLOSURES

The Board supports the Australasian Investor Relations Association "Best Practice Guidelines for Communication between Listed Entities and the Investment Community". The Board endorses a culture in favour of continuous disclosure and recognises the benefits of consistency to be achieved through a dedicated communications officer and authorised spokesperson.

This is complemented by the National Investor Relations Institute (USA) "Code of Ethics" which amongst other elements demands the timely communication of information, whether favourable or unfavourable to the Company.

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

## DEALINGS IN COMPANY SHARES.

The Board formally instituted a Company requirement in July 2004 that prohibits the purchase or disposal of shares by directors, officers and employees in the period of 2 to 4 weeks prior to the release of quarterly reports, half year and full year results and for 48 hours after release of those reports.

Directors, officers and employees with any non-public, price sensitive information are prohibited from purchasing or disposing of Company shares, in accordance with the Corporations Act 2001.

Directors must also advise the Company of any transactions conducted by them in the shares of the Company, in accordance with the Corporations Act 2001 and ASX Listing Rules.

## REMUNERATE FAIRLY AND RESPONSIBLY

The Remuneration committee operates in accordance with a formal written charter adopted in September 2004. The remuneration committee advises the Board on remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for executive and non-executive directors and in respect of all equity based remuneration plans.

The remuneration policy states that executive directors may participate in share option schemes with the prior approval of shareholders. Other executives may also participate in employee share option schemes, with any option issues normally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved employee option plans in appropriate circumstances.

In addition to statutory superannuation benefits, the Chairman is entitled to a retirement benefit of up to three years directors fees upon resignation or loss of office.

## ACCESS TO PROFESSIONAL ADVICE

Issues of substance are considered by the Board with external advice from its professional advisers as required. The Board's individual members can seek independent professional advice at the Company's expense in carrying out their duties. Prior written approval of the Chairman is required, but will not be unreasonably withheld.

## SUMMARY

Red 5 has adopted or is in the process of adopting the following policies and charters: Board Charter, Code of Conduct, Security Trading Policy, Audit Committee Charter, Continuous Disclosure Policy, Shareholder Communication Policy and Remuneration Committee Charter.

The Company is non-compliant with respect to the majority of directors nor the Chairman are considered independent for reasons stated. Similarly the Company does not have a Nomination Committee. Other corporate governance practices continue to evolve.

# Statement of Shareholders

The following information was reflected in the records of the Company as at 27 September 2004.

**Distribution of share and optionholders**

| | Number of holders | | |
|---|---|---|---|
| | Fully paid shares | Listed options | Unlisted options |
| 1 - 1,000 | 23 | 63 | - |
| 1,001 - 5,000 | 113 | 475 | - |
| 5,001 - 10,000 | 234 | 243 | - |
| 10,001 - 100,000 | 992 | 446 | - |
| 100,001 and over | 288 | 85 | 6 |
| | 1,650 | 1,312 | 6 |
| Including less than a marketable parcel | 63 | | |

**Classes of shares and voting rights**
At meetings of members or classes of members, each member entitled to vote may vote in person or by proxy or attorney. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll, every person present in person or by proxy has one vote for each ordinary share held.

**Substantial shareholders**
The following shareholder has lodged a notice of substantial shareholding in the Company.

| Shareholder | Shares | % |
|---|---|---|
| Deutsche Bank AG | 11,850,000 | 5.38 |

**Twenty largest holders of fully paid shares**

| | Shareholder | Shares | % |
|---|---|---|---|
| 1. | National Nominees Limited | 14,355,000 | 6.52 |
| 2. | Abbotsleigh Pty Ltd | 11,220,000 | 5.09 |
| 3. | Mark Kennard Connell | 7,895,800 | 3.58 |
| 4. | Gregory Charles Edwards | 6,105,000 | 2.77 |
| 5. | Allen Lance Govey | 6,055,000 | 2.75 |
| 6. | Bruce Neville Tomich (Tomich Family Fund Account) | 6,005,000 | 2.73 |
| 7. | Ian William Hodgson | 5,500,000 | 2.50 |
| 8. | Berne No. 132 Nominees Pty Ltd (325489 Account) | 5,150,000 | 2.34 |
| 9. | Breamlea Pty Ltd | 5,000,000 | 2.27 |
| 10. | Berne No. 132 Nominees Pty Ltd (323731 Account) | 3,953,000 | 1.79 |
| 11. | Bryan Welch | 3,600,000 | 1.63 |
| 12. | Jeffrey Brookman & Barbara Brookman | 2,749,900 | 1.25 |
| 13. | RBC Global Services Australia Nominees Pty Ltd | 2,467,813 | 1.12 |
| 14. | Geraldton Agricultural Services Pty Ltd | 2,401,811 | 1.09 |
| 15. | Karari Australia Pty Ltd | 2,195,750 | 1.00 |
| 16. | Glenn McKay | 1,718,300 | 0.78 |
| 17. | Raymond Butler | 1,667,500 | 0.76 |
| 18. | Au Alliance Pty Ltd | 1,596,500 | 0.72 |
| 19. | Bruce Neville Tomich | 1,500,000 | 0.68 |
| 20. | Chin Chu Tomich | 1,500,000 | 0.68 |
| | | 92,636,374 | 42.05 |

**Twenty largest holders of listed options**

| Optionholder | | Options | % |
|---|---|---|---|
| 1. | National Nominees Limited | 3,051,250 | 5.54 |
| 2. | Abbotsleigh Pty Ltd | 2,805,000 | 5.09 |
| 3. | Geraldton Agricultural Services Pty Ltd | 2,609,647 | 4.74 |
| 4. | Gregory Charles Edwards | 1,526,250 | 2.77 |
| 5. | Allen Lance Govey | 1,513,750 | 2.75 |
| 6. | Bruce Neville Tomich (Tomich Family Fund Account) | 1,501,250 | 2.73 |
| 7. | Breamlea Pty Ltd | 1,250,000 | 2.27 |
| 8. | Dacoma Holdings Pty Ltd | 1,135,000 | 2.06 |
| 9. | Berne No. 132 Nominees Pty Ltd (325489 Account) | 1,000,000 | 1.82 |
| 10. | Mark Kennard Connell | 995,000 | 1.81 |
| 11. | Berne No. 132 Nominees Pty Ltd (323731 Account) | 988,250 | 1.79 |
| 12. | Bryan Welch | 900,000 | 1.63 |
| 13. | David Lewis Nichols | 859,734 | 1.56 |
| 14. | John William Anderberg | 778,303 | 1.41 |
| 15. | Bruce Neville Tomich | 756,250 | 1.37 |
| 16. | Jyrki Olavi Hilakari | 700,000 | 1.27 |
| 17. | Amarilo Investments Pty Ltd | 667,500 | 1.21 |
| 18. | Avela Pty Ltd | 519,625 | 0.94 |
| 19. | Borden Holdings Pty Ltd | 500,000 | 0.91 |
| 20. | Pontre Securities Pty Ltd | 475,000 | 0.87 |
| | | 24,531,809 | 44.54 |

**Unquoted securities**

The following classes of unquoted equity securities are on issue:

| Security | Exercise price | Number on issue | Holders of greater than 20% of each class of security | | |
|---|---|---|---|---|---|
| | | | Name of holder | Number | % |
| Options over fully paid shares exercisable on or before: | | | | | |
| 31 December 2004 | 40 cents | 2,000,000 | Nicholas James Smith | 1,000,000 | 50.00 |
| | | | Gandalf Holdings Pty Ltd | 1,000,000 | 50.00 |
| 8 January 2005 | 15 cents | 100,000 | Geoffrey Davis and Susan Davis | 100,000 | 100.00 |
| 17 June 2005 | 20 cents | 100,000 | Ernesto Apostol | 100,000 | 100.00 |
| 31 December 2005 | 60 cents | 2,000,000 | Nicholas James Smith | 1,000,000 | 50.00 |
| | | | Gandalf Holdings Pty Ltd | 1,000,000 | 50.00 |

# Investor Information

**INVESTOR INFORMATION**
As at 27 September 2004

Share Price Movements

Share price ranges on the Australian Stock Exchange during the 2003-2004 year were:

| Quarter Ended | High (cents) | Low (cents) |
|---|---|---|
| September 2003 | 9.4 | 5.1 |
| December 2003 | 23.5 | 7.8 |
| March 2004 | 25.0 | 16.0 |
| June 2004 | 18.0 | 10.5 |

The closing share price on 30 June 2004 and on the date of this report was 11.5 cents (7.9 cents 2003) and 13.5 cents (8.0 cents 2003) respectively.

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

| Date | Announcement |
|---|---|
| 26/07/2004 | June 2004 Quarterly Report |
| 23/07/2004 | Perimeter drill results |
| 9/07/2004 | Bigger widths higher grades |
| 14/05/2004 | Change in substantial shareholding |
| 30/04/2004 | March 2004 Quarterly Report |
| 13/02/2004 | FPIC Compliance Certificate award |
| 2/02/2004 | Supreme Court decision |
| 22/01/2004 | December 2003 Quarterly Report |
| 19/01/2004 | Bonus option issue |
| 16/01/2004 | Siana resource upgrade |
| 22/12/2003 | AngloAmerican discussions |
| 8/12/2003 | Appointment of Director |
| 6/11/2003 | AngloAmerican discussions |
| 31/10/2003 | September 2003 Quarterly Report |
| 24/10/2003 | Siana-80% interest earned |
| 23/09/2003 | Full year accounts |
| 8/09/2003 | Underwritten rights issue |
| 20/08/2003 | Portfolio rationalisation |
| 31/07/2003 | Share placement |
| 31/07/2003 | June 2003 Quarterly Report |

**Investor Relations**
This Annual report has been produced with the objective of ensuring that shareholders are informed on Company strategy and performance sufficient to make or retain an investment in the Company.

Announcements, statutory reports and the latest information on the Company's projects are available on the Red 5 Limited website: www.red5limited.com

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

Red 5 Limited
Level 1, 43 Ventnor Avenue
West Perth 6005
Western Australia
Australia

Phone +61 8 9322 4455
Facsimile +61 8 9481 5950

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

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

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

# Corporate Directory

## BOARD OF DIRECTORS

Nicholas J Smith (Chairman)

Gregory C Edwards (Managing Director)

Allen L Govey (Exploration Director)

Colin G Jackson (Non-Executive Director)

## COMPANY SECRETARY

Frank J Campagna

## REGISTERED OFFICE

Level 1
43 Ventnor Avenue
West Perth
Western Australia 6005
Telephone: (61 8) 9322 4455
Facsimile: (61 8) 9481 5950
E-mail: info@red5limited.com
Web-site: www.red5limited.com

## SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: (61 8) 9315 2333
Facsimile: (61 8) 9315 2233
E-mail: registrar@securitytransfer.com.au

## BANKERS

Bank of New Zealand, Australia

## AUDITORS

KPMG

## SOLICITORS

Pullinger Readhead Stewart

## STOCK EXCHANGE LISTING

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

*Gold grain (50 microns) on margin of sphalerite all interstitial within pyrite aggregrate.*

www.red5limited.com