



ABN 73 068 647 610

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The Directors of Red 5 Limited ("Red 5", "Company" or "parent entity") present their report on the results and state of affairs of Red 5 and its subsidiaries ("the Group" or the "consolidated entity") for the financial year ended 30 June 2018.

DIRECTORS

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

Kevin Anthony Dundo
Mark James Williams
Ian Keith Macpherson
John Colin Loosemore
Steven Lloyd Tombs (appointed on 1 August 2018)

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

Subsequent to the year end the General Manager Operations, Steve Tombs retired from the Group's executive management team on 31 July 2018, and was appointed as a non-executive director effective from 1 August 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were gold mining and production and mineral exploration.

OPERATING AND FINANCIAL REVIEW

The net loss of the consolidated entity after income tax was \$11.9 million (2017: Loss of \$110.2 million, inclusive of a non-cash impairment charge on property plant and equipment and mine properties for the Siana Gold Project of \$99.8 million).

Project description

Darlot Mining Company Pty Ltd and the King of the Hills gold projects were acquired by the Group on 2 October 2017. Darlot gold mine located approximately 900 kilometres north-east of Perth in Western Australia and the King of the Hills gold project located approximately 80 kilometres south of the Darlot mine.

Subsequent to the end of the financial year the Company's Philippine-affiliated company Greenstone Resources Corporation (GRC), was issued a Clearance and Notice to Proceed from the Philippines Mines and Geoscience Bureau (MGB) to construct and operate Tailings Storage Facility 6 (TSF 6) at the Siana Gold Project in the Philippines.

The Philippines Environmental Management Bureau has also amended the co-ordinates of Greenstone Resources' Environmental Compliance Certificate for the Siana Gold Project to include the proposed area of TSF 6, which will allow construction and operation of TSF 6 to proceed, subject to the completion of standard local construction permitting requirements. TSF 6, which is the initial tailings storage facility planned for Siana, has an expected capacity of 1 million tonnes of tailings.

Production summary

A total of 48,259 ounces of gold was recovered for the 2018 financial year from the Australian operation (2017: 41,370 - Siana).

458,835 tonnes of ore were processed for the year (2017: 587,461 - Siana). The average head grade was 3.5 g/t Au and average recovery was 94% for the year.

Summary of Australian production:

	Units	2017/18
Mined tonnes	t	402,271
Mined grade	g/t	3.42
Tonnes milled	t	458,835
Average head grade	g/t	3.50
Recovery	%	93.5
Gold recovered	oz	48,259
Gold sales	oz	47,286

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REVIEW OF OPERATIONS (continued)

Gold sales

Gold sales for the reporting period totalled A\$77.1 million (2017: A\$68.5 million - Siana) which excludes \$13.7 million of sales from the King of the Hills operation which have been offset against mine development costs. 47,286 ounces (2017: 41,296 - Siana) were sold at an average price received of US\$1,315 per ounce (2017: US\$1,260 - Siana).

Financial summary

The consolidated entity recorded an operating loss before tax of \$13.8 million (2017: Loss of \$10.3 million).

Financial Summary	Year ended 30 June 2018 A\$M	Year ended 30 June 2017 A\$M
Sale proceeds	77.1	68.5
Cost of goods sold	(80.4)	(71.7)
Gross profit/(loss) from operations	(3.3)	(3.2)
Other income	13.9	1.0
Exploration	(5.6)	(1.5)
Administration and other expenses	(19.4)	(6.6)
Net profit/(loss) before tax and impairment	(14.4)	(10.3)⁽¹⁾

⁽¹⁾ Before impairment of \$99.8 million. Refer to Note 12 for additional detail.

DIVIDENDS

No amounts were paid by way of dividend since the end of the previous financial year (2017: Nil). At the time of this report the Directors do not recommend the payment of a dividend.

OPTIONS GRANTED OVER SHARES

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

PERFORMANCE RIGHTS

At the date of this report, there were 15,643,200 performance rights convertible into ordinary fully paid shares.

	Number
Vesting date: 30 June 2020 (subject to performance conditions)	<u>15,643,200</u>
	<u>15,643,200</u>

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Royalty sale:

In June 2018 the Company entered into an agreement for the sale of the Company's royalty entitlement from the Mt Cattlin mine in Western Australia to Canadian royalty company, Lithium Royalty Corporation (LRC). At year end the sale of the royalty was recognised as all material conditions to the Sale and Purchase Agreement had been satisfied. The total consideration for the transaction of \$11 million was received in July 2018.

Siana Gold Project approval:

Subsequent to the end of the financial year the Company's Philippine-affiliated company Greenstone Resources Corporation (GRC), was issued a Clearance and Notice to Proceed from the Philippines Mines and Geoscience Bureau (MGB) to construct and operate Tailings Storage Facility 6 (TSF 6) at the Siana Gold Project in the Philippines.

The Philippines Environmental Management Bureau has also amended the co-ordinates of Greenstone Resources' Environmental Compliance Certificate for the Siana Gold Project to include the proposed area of TSF 6, which will allow construction and operation of TSF 6 to proceed, subject to the completion of standard local construction permitting requirements. TSF 6, which is the initial tailings storage facility planned for Siana, has an expected capacity of 1 million tonnes of tailings.

Gold loan facility:

In September 2018 the Company entered into a gold loan facility of 5,015 ounces with Malaysian-based investment fund, Asian Investment Management Services Ltd (AIMSL). The gold loan facility was for the provision by AIMSL to the Company of a gold loan of 5,015 gold ounces available in one tranche. The facility has a term of 12 months and is secured by a security interest in Red 5's Australian operating subsidiary companies on a limited recourse basis.

This facility was drawn down in September 2018 for net proceeds of approximately A\$8.2 million and, together with cash-flow from existing operations will be used to advance development at Darlot and King of the Hills, maintain ongoing exploration momentum at both mines and for general working capital purposes.

LIKELY DEVELOPMENTS

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

INFORMATION ON DIRECTORS

Director	Qualifications, experience and special responsibilities
Kevin Dundo (Non-Executive Chairman)	B.Com, LLB, FCPA A Non-Executive Director since March 2010 and Chairman since November 2013. Mr Dundo practices as a lawyer and specialises in commercial and corporate areas with experience in the mining sector, the service industry and the financial services industry. Mr Dundo is a member of the remuneration and nomination committee, the audit committee and the health, safety, environment and community committee. Other current public listed company directorships: Imdex Limited (since January 2004) and Cash Converters International Limited (since February 2015).
Mark Williams (Managing Director)	Dip CSM Mining, GAICD A Non-Executive Director from January 2014 and Managing Director since April 2014. Mr Williams was previously General Manager of the Tampakan Copper-Gold Project in the southern Philippines from 2007 to 2013. He has over 20 years of mining experience operating within a diverse range of open cut, underground, quarrying and civil engineering environments across the developed markets of Australia, United Kingdom and New Zealand as well as the emerging markets of Philippines, Vietnam, Thailand and South Pacific. Mr Williams has not held directorships in any other listed companies in the last 3 years.
Ian Macpherson (Non-Executive Director)	B.Comm, CA A Non-Executive Director since April 2014. Mr Macpherson is a chartered accountant with over 35 years' experience in the provision of financial and corporate advisory services. He was a former partner at Arthur Anderson & Co managing a specialist practice providing corporate and financial advice to the mining and mineral exploration industry. Mr Macpherson established Ord Partners in 1990 (later to become Ord Nexia) and has specialised in the area of corporate advice with particular emphasis on capital structuring, equity and debt raising, corporate affairs and Stock Exchange compliance for publicly listed companies. Mr Macpherson is Chairman of the audit committee and the remuneration and nomination committee. Other current directorships: RBR Group Ltd (since October 2010). Former directorships in the last 3 years: Avita Medical Limited (March 2008-January 2016)
Colin Loosemore (Non-Executive Director)	B.Sc.Hons., M.Sc., DIC., FAusIMM A Non-Executive Director since December 2014. Mr Loosemore is a geologist with over 40 years' experience in multi-commodity exploration including over 30 years as a director of public exploration companies within Australia and overseas. He graduated from London University in 1970 and the Royal School of Mines in 1977. Mr Loosemore was most recently Managing Director of Archipelago Resources plc where he oversaw development of the Toka Tindung Gold Mine in Sulawesi, Indonesia. Mr Loosemore is a member of the remuneration and nomination committee and the audit committee and is Chairman of the health, safety, environment and community committee. Mr Loosemore has not held directorships in any other listed companies in the last 3 years.
Steve Tombs (Non-Executive Director) Appointed: 1 August 2018	B.Sc.Hons, FAusIMM A Non-Executive Director since August 2018. Mr Tombs is a Mining Engineer with over 40 years' experience in the mining industry in Australia and overseas. Mr Tombs graduated from Nottingham University in 1976 and was previously Red 5's General Manager at Darlot and the Underground Project Manager at Siana. Mr Tombs previously held Senior Management positions at AngloGold Ashanti, Placer Dome and Newcrest in the Eastern Goldfields. Mr Tombs has not held directorships in any other public companies in the last 3 years.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS' REPORT (continued)

Information on Company Secretary

Frank Campagna B.Bus (Acc), CPA

Company Secretary of Red 5 since June 2002. Mr Campagna is a Certified Practicing Accountant with over 25 years' experience as Company Secretary, Chief Financial Officer and Commercial Manager for listed resources and industrial companies. He presently operates a corporate consultancy practice which provides corporate secretarial and advisory services to both listed and unlisted companies.

Details of Directors' interests in the securities of Red 5 as at the date of this report are as follows:

Director	Fully paid shares	Options	Performance rights
K Dundo	1,430,409	-	-
M Williams	5,009,294	-	5,616,400
I Macpherson	459,957	-	-
C Loosemore	6,824,212	-	-
S Tombs	2,000,667	-	-

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of Red 5 and of each Board committee held during the year ended 30 June 2018 and the number of meetings attended by each Director whilst in office are as follows:

	Board meetings		Audit committee		Remuneration committee	
	Number held	Number attended	Number held	Number attended	Number held	Number attended
K Dundo	9	9	2	2	2	2
M Williams	9	9	-	-	-	-
I Macpherson	9	9	2	2	2	2
C Loosemore	9	9	2	1	2	2

REMUNERATION REPORT (AUDITED)

This report sets out the current remuneration arrangements for Directors and executives of Red 5. For the purposes of this report, key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling major activities of the consolidated entity, including any Director (whether Executive or Non-Executive) of Red 5.

Principles used to determine the nature and amount of remuneration

Directors and executives remuneration

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

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

Red 5's remuneration policy for the Managing Director and senior executives is designed to promote superior performance and long term commitment to Red 5, while building sustainable shareholder value. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing Red 5's operations. The Managing Director and senior executives receive a base remuneration which is market related, together with performance based remuneration linked to the achievement of pre-determined milestones and targets.

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

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

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

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

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

As the operations of the Group expand, the Board continues to progressively develop remuneration policies and practices that appropriately link remuneration to company performance and shareholder wealth, given the circumstances of Red 5 at the time. This includes a long term incentive scheme whereby Performance Rights will be granted with a measurement period of three years with vesting conditions comprising TSR and agreed operational measures including gold production and strategic targets. The TSR measure is subject to a positive TSR gate and that other measures are subject to a production or financial gate. The Group's Total Shareholder Return (TSR) is measured as a percentile ranking compared to the S&P/ASX All Ordinaries Gold Index.

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

Non-Executive Directors' remuneration

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

- the Chair receives fees of \$120,000 per annum plus superannuation;
- Non-Executive Directors receive \$90,000 per annum plus superannuation;
- Chairs of Board committees receive:
 - o \$10,000 per annum plus superannuation for the audit committee, and
 - o \$5,000 per annum plus superannuation for other committees;
- committee members are not paid any additional fee;
- Non-Executive Directors are entitled to statutory superannuation benefits; and
- the Board approves any consultancy arrangements for Non-Executive Directors who provide services outside of and in addition to their duties as Non-Executive Directors.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

Non-Executive Directors are not entitled to participate in performance based remuneration schemes. However, the Board proposes to seek annual shareholder reapproval for a Non-Executive Directors' share plan, under which Non-Executive Directors can elect to receive a portion of their existing Directors fees in shares in Red 5. All Directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of \$204,283 (2017: \$202,369) to insure the Directors and other officers of the consolidated entity. The liabilities insured are for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

Share-based compensation

The Board has adopted the Red 5 Employee Share Option Plan (ESOP) and a Rights Plan. The primary purposes of these plans are to increase the motivation of employees, promote the retention of employees, align employee interests with those of Red 5 and its shareholders and to reward employees who contribute to the growth of Red 5. The Red 5 Rights Plan is appropriately utilised for offers of both deferred short term incentives (Service and Deferred Rights) and long term incentives (Performance Rights). Specific performance hurdles or vesting schedules are determined by the Board at the time of grant under the ESOP or Rights Plan in the case of LTI, and are aligned with the stage of development and operations of the Group and market conditions and practices.

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

Group performance

The following table summarises key measures of Group performance for FY18 and the previous four financial years.

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Profit/(loss) before income tax attributable to owners of the company	(14,387,213)	(110,124,206)	24,787,481	(60,304,510)	(6,935,115)
Dividends paid	-	-	-	-	-
Share price at 30 June	\$0.08	\$0.033	\$0.074	\$0.096	\$0.09

Details of remuneration

The following table discloses details of the nature and amount of each element of the remuneration paid to key management personnel including the Directors of Red 5 for the year ended 30 June 2018.

2018 Name	Short term				Super-annuation	Annual and long service leave	Share based payments	Total
	Salary or directors fees	Expenses	Bonus	Termination benefits				
Executive Director	\$	\$	\$	\$	\$	\$	\$	\$
M Williams	455,634 ⁽¹⁾	-	265,602	-	25,000	20,115	73,636 ⁽²⁾	839,987
Non-Executive Directors								
K Dundo	90,000	-	-	-	10,688	-	22,500 ⁽³⁾	123,188
I Macpherson	78,750	-	-	-	9,500	-	21,250 ⁽⁴⁾	109,500
C Loosemore	71,250	-	-	-	8,550	-	18,750 ⁽⁵⁾	98,550
Executives								
J Tasovac	265,000 ⁽⁶⁾	-	118,045	-	25,092	22,197	41,962	472,296
S Tombs	248,750 ⁽⁷⁾	-	127,883	-	24,344	16,172	45,458	462,607
Total	1,209,384	-	511,530	-	103,174	58,484	223,556	2,106,128

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

- (1) Includes salary, superannuation contributions above concessional cap.
 (2) Relates to performance rights granted in the current financial year.
 (3) Mr Kevin Dundo was issued 487,013 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees.
 (4) Mr Ian Macpherson was issued 459,957 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees.
 (5) Mr Colin Loosemore was issued 405,844 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees.
 (6) Includes salary and superannuation contributions above the concessional cap from 15 August 2017 when Mr Tasovac was appointed as Chief Financial Officer.
 (7) Includes salary and superannuation contributions above the concessional cap from 1 October 2017 when Mr Tombs was appointed as General Manager Operations for Darlot Mining Company Pty Ltd.

Short term incentive bonus component of remuneration based on achievement of group and specific role related operational targets for the year ended 30 June 2018 including achievement of core EBITDA targets, completion of the acquisition of the Darlot and King of the Hills gold mines, the achievement of gold production and cost targets for the financial year and individual effectiveness. The amount vested represents 90% of the available target bonus with the balance being forfeited due to performance criteria not being met. The financial gate of a minimum level of gold production based on a challenging work plan and operating budget was exceeded. 50% of the performance bonus is payable in share rights for Mr Williams and Mr Tasovac, with the issue of share rights to Mr Williams subject to shareholder approval.

2017 Name	Short term				Super-annuation	Annual and long service leave	Share based payments	Total
	Salary or directors fees	Expenses	Bonus	Termination benefits				
Executive Director	\$	\$	\$	\$	\$	\$	\$	\$
M Williams	457,750 ⁽¹⁾	-	-	-	35,000	11,538	188,400 ⁽²⁾	692,688
Non-Executive Directors								
K Dundo	67,500	-	-	-	8,550	-	22,500 ⁽³⁾	98,550
I Macpherson	85,000	-	-	-	8,075	-	-	93,075
C Loosemore	56,250	-	-	-	7,125	-	18,750 ⁽⁴⁾	82,125
Executives								
J Mobilia	307,500 ⁽⁵⁾	-	125,000 ⁽⁶⁾	100,000	35,000	7,500	-	575,000
D Jerdin	283,121	14,509 ⁽⁷⁾	-	-	-	-	-	297,630
Total	1,257,121	14,509	125,000	100,000	93,750	19,038	229,650	1,839,068

- (1) Includes salary, superannuation contributions above concessional cap.
 (2) Relates to performance rights expense, deferred and service rights relating to the prior financial year and granted in the current financial year. No short term incentive bonus was awarded for the year ended 30 June 2017 as the financial gate was not met.
 (3) Mr Kevin Dundo was issued 707,547 ordinary shares at a deemed issue price of 3.18 cents in lieu of his March 2017 quarter's Directors fee.
 (4) Mr Colin Loosemore was issued 589,623 ordinary shares at a deemed issue price of 3.18 cents in lieu of his March 2017 quarter's Directors fee.
 (5) Includes salary, superannuation contributions above the concessional cap and on termination.
 (6) Short term incentive bonus relating to prior financial year based on achievement of group and specific role related operational targets for the year ended 30 June 2016.
 (7) Reimbursement of travel expenses as per terms of employment agreement.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

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

	Fixed		At risk – short term incentives		At risk – long term incentives	
	2018	2017	2018	2017	2018	2017
Executive Directors						
M Williams	60%	73%	31%	23%	9%	4%
Non-Executive Directors						
K Dundo	100%	100%	-	-	-	-
I Macpherson	100%	100%	-	-	-	-
C Loosemore	100%	100%	-	-	-	-
Executives						
J Tasovac	66%	-	25%	-	9%	-
S Tombs	63%	-	27%	-	10%	-

Options granted to key management personnel

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

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

Share holdings of key management personnel

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

2018	Balance at 1 July 2017	Received during the year through the issue of shares	Purchases during the year as part of rights issue	Balance at 30 June 2018
M Williams	3,078,485	678,485	1,252,324	5,009,294
K Dundo	707,547	487,013 ⁽¹⁾	235,849	1,430,409
I Macpherson	-	459,957 ⁽²⁾	-	459,957
C Loosemore	4,813,776	405,844 ⁽³⁾	1,604,592	6,824,212
Total	8,599,808	2,031,299	3,092,765	13,723,872

⁽¹⁾ Mr Kevin Dundo was issued 487,013 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the Non-Executive Directors Share Plan (NED Share Plan) as approved by shareholders.

⁽²⁾ Mr Ian Macpherson was issued 459,957 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the NED Share Plan.

⁽³⁾ Mr Colin Loosemore was issued 405,844 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the NED Share Plan.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

Shares issued, Service and Deferred Rights

	Grant date	Vesting date	Fair value at grant date	Granted/ issued	Exercised
Managing Director Service Rights	22-Nov-16	11-Aug-17	78,840	678,485	(678,485)
Non Executive Director Shares ⁽¹⁾	5-Oct-17	5-Oct-17	22,500	487,013	(487,013)
Non Executive Director Shares ⁽²⁾	5-Oct-17	5-Oct-17	21,250	459,957	(459,957)
Non Executive Director Shares ⁽³⁾	5-Oct-17	5-Oct-17	18,750	405,844	(405,844)

(1) Mr Kevin Dundo was issued 487,013 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the Non-Executive Directors Share Plan (NED Share Plan) as approved by shareholders.

(2) Mr Ian Macpherson was issued 459,957 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the NED Share Plan.

(3) Mr Colin Loosemore was issued 405,844 ordinary shares at a deemed issue price of 4.62 cents in lieu of his September 2017 quarter's Directors fees pursuant to the NED Share Plan.

Share based payments expense for shares issued, service and deferred rights was \$215,456 (2017: \$198,930).

Performance rights held by key management personnel

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

	Tranche A		Tranche B		Tranche C		Tranche D
Number of performance rights	6,313,400		2,525,360		2,525,360		1,262,680
Value per right	\$0.049		\$0.056		\$0.056		\$0.056
Valuation per tranche	\$309,357		\$141,420		\$141,420		\$70,710
Grant date	20 September 2017		20 September 2017		20 September 2017		20 September 2017
Commencement date	1 July 2017		1 July 2017		1 July 2017		1 July 2017
Vesting date	30 June 2020		30 June 2020		30 June 2020		30 June 2020
Condition criteria	TSR ranking relative to TSR of S&P/ASX All Ordinaries Gold Total Return Index		Growth in the Company's Ore Reserves		Operating Costs as % of Budgeted Operating Costs		Safety Compliance
	TSR > Index	100%	Stretch: 35%	100%	Stretch: 80%	100%	All criteria to be met: - No fatalities - Implement a Company-wide safety management system - Year on year improvement in safety performance
	TSR > Index +20%	50%	Target: 20%	50%	Target: 90%	50%	
	TSR > Index +10%						
	TSR < or equal to Index TSR	nil	Threshold: 15%	25%	Threshold: 95%	25%	
			< 15%	nil	> 95%	nil	

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

REMUNERATION REPORT (AUDITED) (continued)

Service agreements

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

Mark Williams – Managing Director

Term of agreement: no defined period.

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

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

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

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

John Tasovac – Chief Financial Officer (commenced employment on 15 August 2017)

Term of agreement: no defined period.

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

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

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

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

Steve Tombs – General Mine Manager

Term of agreement: no defined period.

Remuneration: base salary of \$325,000 per annum plus statutory superannuation contributions.

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

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

Termination provisions: termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) upon giving 6 months' notice or payment in lieu of notice. Subsequent to the end of the reporting period Steve Tombs announced his retirement and ceased to be an employee. He has taken up a position as a non-executive director from 1 August 2018.

Other transactions with Directors

Consulting fees of \$28,800 were paid to Ian Macpherson, a non-executive Director of the Company, for the provision of financial advisory and corporate support services during the period in relation to the acquisition of Darlot and King of the Hills. The consultancy agreement concluded on 15 September 2017.

There were no other transactions during the year between the consolidated entity and Directors or their Director-related entities.

Services from remuneration consultants

During the financial year, the Remuneration Committee engaged Godfrey Remuneration Group (GRG) as independent remuneration consultants to provide a market benchmarking report on chief executive officer remuneration levels and a review of short term and long term incentive schemes for senior executives and plan documents. Remuneration recommendations were provided to the Remuneration Committee as an input into the decision making process. The Remuneration Committee considered the recommendations in conjunction with other factors in making its remuneration determinations. The Remuneration Committee is satisfied that the advice received from GRG is free from undue influence from the KMP to whom the remuneration recommendations apply, as GRG were engaged by and reported directly to the Chair of the Remuneration Committee with no involvement by the KMP. GRG also made the required independence declarations in their reports, which indicated that the consultant viewed the advice as free from undue influence from the KMP that were the subject of the advice. The fee for this service was \$24,700.

End of Audited Remuneration Report

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

NON-AUDIT SERVICES

During the year, Red 5's external auditors, KPMG, have provided other services in addition to their statutory audit function. Non-audit services provided by the external auditors comprised \$544,200 (2017: \$30,188) for non audit services. Further details of remuneration of the auditors are set out in Note 22.

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

- All non-audit services were subject to the corporate governance guidelines adopted by Red 5;
- Non-audit services have been reviewed by the audit committee to ensure that they do not impact the impartiality or objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity, acting as an advocate for Red 5 or jointly sharing economic risks and rewards.

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

ENVIRONMENTAL REGULATIONS

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

Compliance with environmental obligations is monitored by the Board of Directors. No environmental breaches have been notified to the consolidated entity by any government agency during the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.



Kevin Dundo
Chairman

Perth, Western Australia
21 September 2018



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

To the Directors of Red 5 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Red 5 Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta'.

R Gambitta
Partner

Perth

21 September 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

		CONSOLIDATED	
	NOTE	2018	2017
		\$	\$
Revenue		77,149,429	68,515,762
Cost of sales	5	(80,487,906)	(71,696,241)
Gross profit/(loss) from operations		(3,338,477)	(3,180,479)
Other income	5	13,872,892	1,048,177
Administration and other expenses	5	(11,992,903)	(6,660,446)
Care and maintenance	5	(6,079,136)	-
Exploration expense	13	(5,559,594)	(1,551,203)
Impairment expense	5	-	(99,799,920)
Operating profit/(loss)		(13,097,218)	(110,143,871)
Finance income	5	46,874	24,539
Finance expenses	5	(1,336,869)	(4,874)
Net financing income		(1,289,995)	19,665
Profit/(loss) before tax		(14,387,213)	(110,124,206)
Income tax benefit/(expense)	6	2,459,639	(78,989)
Net profit/(loss) after tax for the year		(11,927,574)	(110,203,195)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Movement in foreign currency translation reserve		(760,883)	(12,247,948)
Re-measurement of defined retirement benefit		78,333	252,429
Effective portion of changes in fair value of cashflow hedges		497,966	-
Total comprehensive income/(loss) for the year		(12,112,158)	(122,198,714)
Net profit/(loss) after tax attributable to:			
- Non-controlling interests		(294,522)	(2,644,877)
- Owners of the Company		(11,633,052)	(107,558,318)
		(11,927,574)	(110,203,195)
Total comprehensive income/(loss) attributable to:			
- Non-controlling interests		(312,783)	(2,938,827)
- Owners of the Company		(11,799,375)	(119,259,887)
		(12,112,158)	(122,198,714)
		Cents	Cents
Basic and diluted profit/(loss) per share (cents per share)	27	(1.07)	(14.11)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2018

		CONSOLIDATED	
	NOTE	2018	2017
		\$	\$
Current assets			
Cash and cash equivalents	7	7,148,401	5,393,463
Trade and other receivables	8	21,023,209	9,298,003
Other financial assets	30	761,679	-
Inventories	9	16,656,227	13,915,306
Total current assets		45,589,516	28,606,772
Non-current assets			
Trade and other receivables	8	1,637,280	3,702,594
Property, plant and equipment	10	78,980,717	42,489,004
Intangible assets	11	30,723,465	-
Mine development	12	16,340,809	4,291,715
Total non-current assets		127,682,271	50,483,313
Total assets		173,271,787	79,090,085
Current liabilities			
Trade and other payables	14	38,971,154	4,694,572
Income tax payable	15	739,121	-
Employee benefits	16	5,218,185	118,396
Provisions	17	1,116,104	1,116,104
Finance lease liabilities	18	1,077,448	-
Total current liabilities		47,122,012	5,929,072
Non-current liabilities			
Trade and other payables	14	5,503,646	-
Employee benefits	16	349,465	10,981
Provisions	17	31,575,769	3,692,206
Deferred tax liability	6	6,069,001	-
Finance lease liabilities	18	1,400,597	-
Total non-current liabilities		44,898,478	3,703,187
Total liabilities		92,020,490	9,632,259
Net assets		81,251,297	69,457,826
Equity			
Contributed equity	19	260,364,664	236,674,602
Other equity	19	930,285	930,285
Reserves	20	21,806,876	21,836,580
Accumulated losses		(197,868,185)	(186,314,081)
Total equity attributable to equity holders of the Company		85,233,640	73,127,386
Non-controlling interests		(3,982,343)	(3,669,560)
Total equity		81,251,297	69,457,826

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Attributable to equity holders of the parent entity					Total
	Issued capital	Other equity ⁽ⁱⁱ⁾	Accumulated losses	Reserves ⁽ⁱ⁾	Non controlling interest	
	\$	\$	\$	\$	\$	\$
Consolidated						
Balance at 1 July 2016	236,554,512	930,285	(78,853,150)	33,525,976	(730,733)	191,426,890
Net loss	-	-	(107,558,318)	-	(2,644,877)	(110,203,195)
Other comprehensive income for the year	-	-	-	(11,701,569)	(293,950)	(11,995,519)
Total comprehensive income for the year	-	-	(107,558,318)	(11,701,569)	(2,938,827)	(122,198,714)
Shares issued during the year	120,090	-	-	-	-	120,090
Share based payments	-	-	-	30,720	-	30,720
Issue of service rights expense	-	-	-	78,840	-	78,840
Expired performance rights – transfers from reserves	-	-	97,387	(97,387)	-	-
Balance at 30 June 2017	236,674,602	930,285	(186,314,081)	21,836,580	(3,669,560)	69,457,826
Balance at 1 July 2017	236,674,602	930,285	(186,314,081)	21,836,580	(3,669,560)	69,457,826
Net profit/(loss)	-	-	(11,633,052)	-	(294,522)	(11,927,574)
Other comprehensive loss for the year	-	-	-	(166,321)	(18,261)	(184,582)
Total comprehensive loss for the year	-	-	(11,633,052)	(166,321)	(312,783)	(12,112,156)
Shares issued during the year	62,500	-	-	-	-	62,500
Share based payments	-	-	-	317,465	-	317,465
Service rights converted to ordinary shares	78,840	-	-	(78,840)	-	-
Expired performance rights – transfer from reserves	-	-	78,948	(102,008)	-	(23,060)
Rights issue	12,741,752	-	-	-	-	12,741,752
Shares issued on acquisition of Darlot & King of the Hills	11,000,000	-	-	-	-	11,000,000
Share issue expenses	(193,030)	-	-	-	-	(193,030)
Balance at 30 June 2018	260,364,664	930,285	(197,868,185)	21,806,876	(3,982,343)	81,251,297

(i) Other reserves represent foreign currency translation reserve, hedging reserve, defined retirement benefit, and the share based payment reserve. Refer note 20.

(ii) Refer to Note 20 for further explanation.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

		CONSOLIDATED	
	NOTE	2018	2017
		\$	\$
Cash flows from operating activities			
Receipts from sale of gold		78,415,614	61,802,852
Royalties received		2,329,733	-
Payments to suppliers and employees		(58,425,038)	(57,391,957)
Payments for exploration and evaluation		(4,127,877)	(1,551,203)
Payments for property and income taxes		-	(1,712,161)
Interest received		46,133	24,539
Interest paid		(38,726)	(4,874)
Sundry receipts		795,922	548,177
Net cash from / (used in) operating activities	26	18,995,761	1,715,373
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		(4,115,524)	(8,093,780)
Payments for mine development		(25,586,573)	(5,320,595)
Receipts from sales offset against mine development		13,718,264	-
Payments for acquisition of King of the Hills assets		(7,000,000)	-
Payments for acquisition of Darlot		(6,742,265)	-
Net cash used in investing activities		(29,726,098)	(13,414,375)
Cash flows from financing activities			
Proceeds from issue of shares		12,741,752	-
Payments for share issue transaction costs		(193,031)	-
Payments of finance lease liabilities		(561,147)	-
Net cash used in financing activities		11,987,574	-
Net increase/(decrease) in cash held		1,257,237	(11,699,002)
Cash at the beginning of the financial year		5,393,463	18,189,210
Effect of exchange rate fluctuations on cash held		497,701	(1,096,745)
Cash at the end of the financial year	7	7,148,401	5,393,463

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

1. REPORTING ENTITY

Red 5 Limited (the "Company") is a for profit company domiciled in Australia. The address of the Company's registered office is Level 2 35 Ventnor Avenue, West Perth, Western Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries, associates and jointly controlled entities (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the exploration and mining of gold.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 21 September 2018.

2.2 Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

As disclosed in the financial statements, the Group recorded an operating loss after tax of \$11.9 million and net cash outflows from operating and investing activities of \$10.7 million for the year ended 30 June 2018 and at balance date, had net working capital deficit of \$1.5 million.

Management have prepared a cash flow forecast for the next twelve months. Key assumptions in the cashflow forecast include:

- Continued suspension of mining operations at the Siana Gold Project;
- Net cash inflows being generated from the Darlot Gold Mine and King of the Hill Gold Project;
- Scheduled repayments of deferred consideration (refer note 14) either through a combination of funds from the gold loan as detailed in the subsequent event note and operations.

The Directors have a reasonable expectation that the cash flow forecasts will be achieved. The Directors believe the Group will be able to continue as a going concern and recognise that:

- Mining operations at the Siana Gold Project are currently suspended which has substantially reduced cash outflows;
- As at 30 June 2018 the Company had \$12.9 million in cash and gold bullion held in its metal account;
- The Darlot Gold Mine and King of the Hills Gold Project are expected to provide positive cash flow generation for the Company;
- The Company has entered into a gold loan facility for \$8.2 million which was drawn down in September 2018 and expires in September 2019 (refer note 28).

The Company has prepared a cashflow forecast for 12 month period ending 30 September 2019 which anticipates the group is able to pay its debts as and when they fall due during that period. The cashflow forecast is underpinned by key assumptions including gold production, A\$ gold price and operating costs of production. The forecast gold production is the critical assumption as production is expected to continue to increase as the King of the Hills project progresses through the development phase, and with higher levels of production expected at Darlot as higher grade areas are mined. If required, the Group has the ability to curtail certain expenditure or raise additional funding through debt or equity or a combination of both.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for share based payments. Share based payments are measured at fair value. The methods used to measure fair values of share based payments are discussed further in the Note 4.13. Rehabilitation provisions are based on net present value and are discussed in Note 4.15.

2.4 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

2. BASIS OF PREPARATION (continued)

2.5 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in Note 4.20.

3. REMOVAL OF PARENT ENTITY FINANCIAL STATEMENTS

The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 33.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Company as at 30 June 2018 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

4.2 Revenue recognition

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

Gold and silver sales

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

4.3 Finance income and expenses

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

4.4 Property, plant and equipment

Property, plant and equipment include land, buildings, plant and equipment, and fixtures and fittings. All assets acquired are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Land and buildings are measured at cost less accumulated depreciation on the buildings. Buildings are depreciated on a straightline basis over the life of mine.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Property, plant and equipment (continued)

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

Fixtures and fittings include office equipment and computer hardware and is depreciated on a straight-line basis over their expected useful lives between 3 and 13 years.

4.5 Intangible assets

Intangible assets 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. Capitalised software is amortised on a straight-line basis over three years commencing when it is available for use. Mineral rights acquired is amortised over the life of mine.

4.6 Inventories

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

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

4.7 Exploration and evaluation expenditure

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

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

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

4.8 Mine development

Pre-Production

Costs incurred in the development of a mine before production commences are capitalised as part of the mine development costs. Mine development costs are deferred until production commences, at which time they are amortised over the productive life of the project on a unit-of-production basis, based on reserves.

Post-Production

Costs incurred in the development of a mine after production commences are capitalised as part of the mine development costs and are amortised over the productive life of the project on a unit-of-production basis, based on reserves.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Mine development (continued)

Deferred waste mining costs

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

4.9 Impairment

At each reporting date, the consolidated entity reviews and tests the carrying value of assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Statement of Profit or Loss and Other Comprehensive Income.

Calculation of recoverable amount

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

4.10 Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income.

4.11 Financial instruments

Non-derivative financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial instruments (continued)

Non-derivative financial instruments (continued)

Trade and other receivables are carried at amortised cost. Trade receivables are non-interest bearing. Loans and borrowings are measured at amortised cost using the effective interest method, less any impairment losses. Liabilities for trade creditors and other amounts are carried at amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

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

Derivative financial instruments

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

Cashflow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

4.12 Employee benefits

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

Liabilities arising in respect of employee benefits expected to be settled within twelve months of the balance date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the balance date. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

4.13 Share based payments

The consolidated entity may provide benefits to employees (including Directors) and other parties as necessary in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity settled transactions").

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using a Black-Scholes model or equivalent valuation technique. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

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

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Share based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

4.14 Foreign currency

Foreign currency transactions

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

The following significant exchange rates have been applied.

	Average Rate		Year-End Spot Rate	
	2018	2017	2018	2017
AUD				
Peso	39.88	37.04	39.35	38.77
USD	0.77	0.75	0.74	0.77

Financial statements of foreign operations

Each entity in the consolidated entity determines its functional currency, being the currency of the primary economic environment in which the entity operates, reflecting the underlying transactions, events and conditions that are relevant to the entity. The functional currency of the Australian entities is the Australian dollar and the functional currency of the Philippine entities is the Philippine Peso. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

4.15 Rehabilitation costs

Full provision for rehabilitation costs is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance date. Increases due to additional environmental disturbances are capitalised and amortised over the remaining lives of the operations where they have future economic benefit, else they are expensed. These increases are accounted for on a net present value basis.

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

4.16 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Earnings per share

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

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

4.18 Leases

Assets held under finance leases are recognised as a finance lease obligation at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are recorded as a finance expense to profit and loss, unless they are attributable to qualifying assets, in which case they are capitalised.

4.19 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

4.20 Accounting estimates and judgements

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

Impairment of Assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Accounting estimates and judgements (continued)

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

Rehabilitation and mine closure provisions

As set out in Note 4.15, this provision represents the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of the Group's assessment of the costs of performing the work required, the timing of the cash flows and the discount rate.

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

Reserves and resources

The Group determines and reports ore reserves under the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves Code ("JORC") as revised December 2012 JORC for underground reserves and the JORC 2012 edition for open pit reserves. The JORC code requires the use of reasonable investment assumptions to calculate reserves. Reserves determined in this way are taken into account in the calculation of depreciation of mining plant and equipment (refer to note 10), amortisation of capitalised development expenditure (refer to note 12), and impairment relating to these assets.

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

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

Going Concern

A key assumption underlying the preparation of the financial statements is that the Group will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the Group is a going concern, as set out in note 2.2.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not effective for the 30 June 2018 reporting period. The Group does not intend to early adopt any of the new standards or interpretations.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 establishes a model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled when control of the goods or services passes to the customer. The Group has assessed the potential impact its consolidated financial statements resulting from the application of AASB15 and determined that it has no material impact.

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments – published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting instruments from IAS39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group has assessed the potential impact its consolidated financial statements resulting from the application of AASB9 and determined that it has no material impact.

IFRS 16 Leases (effective 1 January 2019)

AASB 16 will result in leases being recognised on the Balance Sheet as the distinction between operating and finance leases is removed. The standard will primarily affect the accounting for the Group's operating leases which will require the present value of the leases captured by the standard being recognised as right to use assets and lease liabilities on the balance sheet. The Group has not assessed the potential impact its consolidated financial statements resulting from the application of AASB16.

The Group plans to adopt the new standard during the 30 June 2020 reporting period.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

	CONSOLIDATED	
	2018 \$	2017 \$
5. REVENUE AND EXPENSES		
(a) Other income		
Gain on sale of Mt Cattlin Royalty	11,000,000	-
Royalty income	2,050,407	1,000,938
Other income	822,485	47,239
	<u>13,872,892</u>	<u>1,048,177</u>
(b) Cost of Sales		
Employee benefit expenses	(22,282,408)	(6,571,945)
External services	(19,069,956)	(17,124,200)
Depreciation and amortisation	(13,255,437)	(24,500,351)
Materials and consumables used	(10,922,785)	(10,421,940)
Fuel and utilities	(8,193,654)	(9,168,996)
Movement in stock	(4,683,573)	3,723,968
Other costs of sales	(1,738,274)	(6,132,426)
Excise tax and custom duties	(341,819)	(1,500,351)
	<u>(80,487,906)</u>	<u>(71,696,241)</u>
(c) Administration and other expenses		
Employee and consultancy expenses	(4,098,578)	(3,024,838)
VAT receivable impairment	(1,994,363)	(26)
Stamp duty on acquisitions	(845,596)	-
Acquisition related costs	(691,216)	-
Regulatory expenses	(506,084)	(279,549)
Legal fees	(443,611)	(217,587)
Gold Fields management fees	(425,124)	-
Royalties expense	(303,222)	(693,338)
Property tax expense	(260,951)	(1,633,173)
Occupancy costs	(228,545)	(284,803)
Depreciation	(139,520)	(10,238)
Superannuation contributions	(115,370)	(159,486)
Foreign exchange (losses)/gains	(7,961)	88,539
Other administration overheads	(1,932,762)	(445,947)
	<u>(11,992,903)</u>	<u>(6,660,446)</u>
(d) Care and maintenance ⁽¹⁾		
External services	(1,881,397)	-
Fuel and utilities	(1,493,627)	-
Employee benefit expenses	(1,302,457)	-
Other costs	(625,464)	-
Excise tax and custom duties	(578,656)	-
Materials and consumables used	(422,663)	-
Movement in stock	225,128	-
	<u>(6,079,136)</u>	<u>-</u>
<i>(1) Siana care and maintenance costs for the current year. During the prior year Siana's costs were reflected in (b) and (c) above as production costs while operations were wound down in the course of the 2017 financial year.</i>		
(e) Impairment		
Property, plant and equipment (note 10)	-	(29,407,159)
Mine development (note 12)	-	(70,392,761)
	<u>-</u>	<u>(99,799,920)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

	CONSOLIDATED	
	2018	2017
	\$	\$
5. REVENUE AND EXPENSES (continued)		
(f) Finance income/(expenses)		
Interest income	46,874	24,539
	<u>46,874</u>	<u>24,539</u>
Unwinding of discount on rehabilitation provision	(497,109)	-
Unwinding of discount on deferred consideration on acquisitions (refer note 31)	(453,501)	-
Realised losses on settlement of gold hedges	(287,241)	-
Interest expense	(99,018)	(4,874)
	<u>(1,336,869)</u>	<u>(4,874)</u>
	<u>(1,289,995)</u>	<u>19,665</u>
6. INCOME TAX (Prima Facie)		
Current income tax		
Current income tax charge	(739,121)	(78,989)
Deferred income tax	<u>3,198,760</u>	<u>-</u>
Income tax benefit/(expense)	<u>2,459,639</u>	<u>(78,989)</u>
A reconciliation between income tax expense and the numerical profit/(loss) before income tax at the applicable income tax rate is as follows:		
Profit/(loss) before income tax	<u>(14,387,213)</u>	<u>(110,124,206)</u>
At statutory income tax rate of 30% (2017: 30%)	(4,316,164)	(33,037,262)
Items not allowable for income tax purposes:		
Non-deductible expenses	729,990	3,761,115
Utilisation of carry forward tax losses not brought to account	(1,650,379)	-
Current year deferred tax not brought to account	<u>5,236,552</u>	<u>29,197,158</u>
Income tax expense	<u>2,459,639</u>	<u>(78,989)</u>
Tax losses and temporary differences not brought to account (tax effected)		
Deductible temporary differences	43,033,653	46,801,056
Tax losses	<u>13,599,522</u>	<u>9,435,699</u>

Potential deferred tax assets attributable to tax losses and deductible temporary differences have not been brought to account at 30 June 2018. The Directors do not believe it is appropriate to regard realisation of the deferred tax assets at this point in time because (i) it is not probable that future Australian taxable profits will be available against which the Group can use the benefits there from or (ii) uncertainty with respect to recoverability in the Philippines.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

6. INCOME TAX (Prima Facie) (continued)

Movement in deferred tax balances:

	Net balance at 1 July 2017 \$	Acquired in business combination ⁽¹⁾ \$	Recognised in profit or loss \$	Net balance at 30 June 2018 \$
Property, plant and equipment	-	(11,176,620)	2,550,323	(8,626,297)
Intangible assets	-	(1,213,099)	9,537	(1,203,562)
Inventories	-	(2,308,273)	338,165	(1,970,108)
Provisions and employee benefits	-	5,430,231	347,077	5,777,308
Finance leases	-	-	(46,342)	(46,342)
	-	(9,267,761)	3,198,760	(6,069,001)

(1) Deferred tax arising on acquisition of Darlot Mining Company Pty Ltd (refer note 31).

	CONSOLIDATED	
	2018 \$	2017 \$
7. CASH AND CASH EQUIVALENTS		
Cash at bank	7,147,804	5,393,069
Cash on hand	597	394
	<u>7,148,401</u>	<u>5,393,463</u>

8. TRADE AND OTHER RECEIVABLES

Current assets

Sundry debtors ⁽¹⁾	11,649,312	857,780
Trade debtors	5,889,446	7,709,386
GST receivable	1,756,180	51,534
Prepayments	1,725,991	677,022
Interest receivable	2,280	2,281
	<u>21,023,209</u>	<u>9,298,003</u>

Non-current assets

VAT receivable	1,452,397	3,567,711
Security deposit	184,883	134,883
	<u>1,637,280</u>	<u>3,702,594</u>

(1) Sundry debtors includes the amount receivable of \$11,000,000 for the sale of the Mt Cattlin royalty received in July 2018.

9. INVENTORY

Consumables	10,605,056	4,553,011
Run of mine stockpiles	3,222,496	2,462,402
Gold in circuit	2,828,675	1,532,681
Gold bullion ⁽¹⁾	-	5,367,212
	<u>16,656,227</u>	<u>13,915,306</u>

(1) During the year ended 30 June 2018 no gold was held on hand.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

10. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings \$	Plant and equipment \$	Fixtures and fittings \$	Under construction \$	Total \$
Balance at 1 July 2016	2,482,875	83,552,394	1,749,080	-	87,784,349
Additions	281,032	9,134,115	67,130	-	9,482,277
Impairment	-	(418,576)	-	-	(418,576)
Effect of movements in exchange rates	(255,981)	(8,512,986)	(156,562)	-	(8,925,529)
Balance at 30 June 2017	2,507,926	83,754,947	1,659,648	-	87,922,521
Balance at 1 July 2017	2,507,926	83,754,947	1,659,648	-	87,922,521
Acquired through business combinations and asset acquisition (note 31)	10,149,500	32,570,566	24,500	127,694	42,872,260
Additions	223,272	2,577,378	479,839	2,865,758	6,146,247
Disposals	-	-	(58,105)	-	(58,105)
Effect of movements in exchange rates	(36,452)	(1,219,724)	(21,601)	(4,813)	(1,282,590)
Balance at 30 June 2018	12,844,246	117,683,167	2,084,281	2,988,639	135,600,333

Accumulated depreciation	Land and buildings \$	Plant and equipment \$	Fixtures and fittings \$	Under construction \$	Total \$
Balance at 1 July 2016	1,070,960	10,367,206	1,390,264	-	12,828,430
Depreciation for the period	272,890	4,281,509	88,800	-	4,643,199
Impairment	-	29,407,159	-	-	29,407,159
Effect of movements in exchange rates	(118,611)	(1,257,841)	(68,819)	-	(1,445,271)
Balance at 30 June 2017	1,225,239	42,798,033	1,410,245	-	45,433,517
Balance at 1 July 2017	1,225,239	42,798,033	1,410,245	-	45,433,517
Depreciation for the period	994,420	10,742,095	166,368	-	11,902,883
Disposals	-	-	(58,095)	-	(58,095)
Effect of movements in exchange rates	(13,128)	(630,090)	(15,471)	-	(658,689)
Balance at 30 June 2018	2,206,531	52,910,038	1,503,047	-	56,619,616

Carrying amounts

At 1 July 2016	1,411,915	73,185,188	358,816	-	74,955,919
At 30 June 2017	1,282,687	40,956,914	249,403	-	42,489,004
At 30 June 2018	10,637,715	64,773,129	581,234	2,988,639	78,980,717

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

11. INTANGIBLE ASSETS

	Mineral Rights \$	Software \$	Total \$
Cost			
Balance at 1 July 2017	-	-	-
Acquired through business combinations and asset acquisition ⁽¹⁾ (refer note 31)	31,267,350	-	31,267,350
Additions	-	948,189	948,189
Balance at 30 June 2018	31,267,350	948,189	32,215,539
Accumulated amortisation			
Balance at 1 July 2017	-	-	-
Amortisation	(1,472,066)	(20,008)	(1,492,074)
Balance at 30 June 2018	(1,472,066)	(20,008)	(1,492,074)
Carrying amount at 30 June 2018	29,795,284	928,181	30,723,465

(1) Mineral rights of \$4,773,646 were acquired through the acquisition of Darlot Mining Company Pty Ltd and \$26,493,704 through the acquisition of assets of the King of the Hills project (refer note 31).

	CONSOLIDATED	
	2018 \$	2017 \$
12. MINE DEVELOPMENT		
(a) Mine development		
Opening balance	102,879,591	111,569,528
Development expenditure incurred in current year ⁽¹⁾	12,151,523	5,223,807
Foreign currency translation adjustment	(1,518,629)	(13,913,744)
Closing balance	113,512,485	102,879,591
Accumulated amortisation		
Opening balance	98,587,876	42,554,875
Amortisation for the year	-	2,926,234
Impairment ⁽²⁾	-	65,625,288
Foreign currency translation adjustment	(1,416,200)	(12,518,521)
Closing balance	97,171,676	98,587,876
Mine development net book value	16,340,809	4,291,715
(b) Deferred mining waste costs		
Opening balance	64,538,070	71,611,128
Deferred waste mining expenditure incurred during the year	-	-
Foreign currency translation adjustment	(963,875)	(7,073,058)
Closing balance	63,574,195	64,538,070

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

12. MINE DEVELOPMENT (continued)

(b) Deferred mining waste costs (continued)	CONSOLIDATED	
	2018	2017
	\$	\$
Accumulated amortisation		
Opening balance	64,538,070	48,792,665
Amortisation for the period	-	16,941,156
Impairment ⁽²⁾	-	4,767,473
Foreign currency translation adjustment	(963,875)	(5,963,224)
Closing balance	63,574,195	64,538,070
Deferred mining waste costs net book value	-	-
Total development net book value	16,340,809	4,291,715

(1) Mine development expenditure has been offset by \$13,718,264 of gold sales received and \$3,007,616 in processing costs incurred from the King of the Hills project while still in development phase.

(2) During the previous period, following a review of impairment indicators required under the Accounting Standard AASB136, Impairment of Assets, an impairment expense was recorded for the period in relation to the Siana gold project. During the current year, no impairment of assets was deemed necessary after reviewing the impairment indicators in terms of AASB136.

13. EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs expensed	5,559,594	1,551,203
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14. TRADE AND OTHER PAYABLES

<i>Current</i>		
Trade creditors ⁽¹⁾	25,169,340	3,233,767
Accruals	6,573,788	741,936
Other creditors	2,832,906	718,870
Deferred consideration relating to acquisitions (refer note 31)	4,395,120	-
	38,971,154	4,694,572
<i>Non-current</i>		
Deferred consideration relating to acquisitions (refer note 31)	5,503,646	-
	5,503,646	-

(1) Increase in trade creditors mainly reflects the acquisition of Darlot and King of the Hills operations.

15. INCOME TAX PAYABLE

Income tax payable	739,121	-
	739,121	-

16. EMPLOYEE BENEFITS

Provision for annual leave	1,749,626	110,270
Provision for long-service leave	1,842,890	10,981
Provision for bonuses	1,975,134	8,125
	5,567,650	129,377
Current	5,218,185	118,396
Non-current (Long service leave)	349,465	10,981
	5,567,650	129,377

(1) Employee benefits provision has increased following the acquisition of Darlot Mining Company Pty Ltd (refer note 31) by an amount of \$3,488,128.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

17. PROVISIONS

	Rehabilitation provision ⁽¹⁾	MCC final acquisition ⁽²⁾	Documentary stamp duty ⁽³⁾	Withholding tax ⁽²⁾	Other provisions	Total
	\$	\$	\$	\$	\$	\$
Opening balance	1,879,264	1,116,104	1,308,501	504,441	-	4,808,310
Assumed from a business combination and asset acquisition	27,338,826	-	-	-	200,178	27,539,004
Provisions made	-	-	-	-	133,387	133,387
Provisions utilised	(135,553)	-	(124,587)	-	-	(260,140)
Unwinding of discount	497,312	-	-	-	-	497,312
Foreign currency translation adjustment	(6,666)	-	(19,334)	-	-	(26,000)
Closing balance	29,573,183	1,116,104	1,164,580	504,441	333,565	32,691,873

	CONSOLIDATED	
	2018	2017
	\$	\$
Current	1,116,104	1,116,104
Non-current	31,575,769	3,692,206
	32,691,873	4,808,310

(1) *Rehabilitation provision*

The mining entities within the Group are required by law to undertake rehabilitation as part of their ongoing operations. The rehabilitation provision represents the present value of rehabilitation costs, which are expected to be incurred when the rehabilitation work following the cessation of operations is expected to be completed.

(2) *MCC final acquisition provision*

Provision for expected tax liability arising from the acquisition of Merrill Crow Corporation's (MCC) holding of Siana Gold Project in 2010.

(3) *Documentary stamp duty provision*

Provision for documentary stamp duty on cash advances to Philippines subsidiaries.

18. FINANCE LEASE LIABILITIES

Finance leases include obligations of the Company under vehicle finance leases and equipment hire leases. They expire between 31 December 2018 and 28 February 2020 and bear interest between 6% and 6.75%. Ownership of the vehicles and equipment will revert to the Company at the end of the leases at no additional cost. The Company's obligations under the finance leases are secured by the lessor's title to the leased assets. The fair value of the finance lease liabilities approximates their carrying values.

The following schedule outlines the total minimum loan payments due for the finance lease obligations over their remaining terms.

NOTES TO THE FINANCIAL STATEMENTS

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18. FINANCE LEASE LIABILITIES (continued)

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Present value of minimum lease payments
	2018	2018	2018	2017
	\$	\$	\$	\$
Less than one year	1,199,957	122,509	1,077,448	-
Between one and five years	1,493,137	92,540	1,400,597	-
More than five years	-	-	-	-
	<u>2,693,094</u>	<u>215,049</u>	<u>2,478,045</u>	<u>-</u>
Current	1,199,957	122,509	1,077,448	-
Non-current	1,493,137	92,540	1,400,597	-
	<u>2,693,094</u>	<u>215,049</u>	<u>2,478,045</u>	<u>-</u>

19. CONTRIBUTED EQUITY

	CONSOLIDATED	
	2018	2017
	\$	\$
(a) Share capital		
1,240,693,011 (2017: 763,826,663) ordinary fully paid shares	<u>260,364,664</u>	<u>236,674,602</u>

(b) Movements in ordinary share capital

	CONSOLIDATED 2018		CONSOLIDATED 2017	
	Shares Number	\$	Shares Number	\$
On issue at 1 July	763,826,663	236,674,602	761,851,008	236,554,512
Shares issued on acquisition of Darlot and King of the Hills	220,000,000	11,000,000	-	-
Rights issue	254,835,049	12,741,752	-	-
Shares issued to directors	1,352,814	62,500	1,975,655	120,090
Service rights vested	678,485	78,840	-	-
Share issue costs	-	(193,030)	-	-
On issue at 30 June	<u>1,240,693,011</u>	<u>260,364,664</u>	<u>763,826,663</u>	<u>236,674,602</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

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19. CONTRIBUTED EQUITY (continued)

(c) Other Equity	Shares Number	\$
Opening balance 1 July 2017	581,428	930,285
Balance 30 June 2018 ⁽¹⁾	581,428	930,285

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

	CONSOLIDATED	
	2018	2017
	\$	\$
20. RESERVES		
Foreign currency translation reserve	20,873,985	21,614,725
Defined retirement benefit	140,522	64,069
Share based payment reserve	294,403	157,786
Hedging reserve	497,966	-
	<u>21,806,876</u>	<u>21,836,580</u>

Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the reporting entity.

Defined retirement benefit

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

Share based payment reserve

The share based payment reserve arises on the granting and vesting of equity instruments. Refer to Note 29 for further details.

Hedging reserve

The hedging reserve comprises of the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss.

(a) Movement in performance rights

	CONSOLIDATED	
	2018	2017
	Rights	Rights
Opening balance 1 July 2017	6,000,000	12,000,000
Expense relating to rights issued during the period ⁽¹⁾	(6,000,000)	(6,000,000)
Issue of performance rights during the period ⁽²⁾	18,243,200	-
Balance 30 June 2018	<u>18,243,200</u>	<u>6,000,000</u>

(1) 6,000,000 performance rights lapsed during the period due to performance vesting conditions not being achieved.

(2) During the year 5,616,400 performance rights were issued to the managing director and 12,626,800 to senior management.

NOTES TO THE FINANCIAL STATEMENTS

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21. RELATED PARTIES

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

Executive Directors

Mark Williams – Managing Director

Non-Executive Directors

Kevin Dundo

Ian Macpherson

Colin Loosemore

Other executives

John Tasovac – Chief Financial Officer

Steve Tombs – General Manager Operations

Compensation of key management personnel

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

	CONSOLIDATED	
	2018	2017
	\$	\$
<i>Key management personnel</i>		
Short term benefits	1,720,914	1,496,630
Post-employment benefits	103,174	93,750
Long term benefits	58,484	19,038
Share based payments	223,556	229,650
	<u>2,106,128</u>	<u>1,839,068</u>

Loans to key management personnel

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

Other transactions with Directors

Consulting fees of \$28,800 were paid to Ian Macpherson, a non-executive Director of the Company, for the provision of financial advisory and corporate support services during the period in relation to the acquisition of Darlot and King of the Hills. The consultancy agreement concluded on 15 September 2017.

There were no other transactions during the year between the consolidated entity and Directors or their Director-related entities.

Transactions with related parties in the wholly owned group

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

NOTES TO THE FINANCIAL STATEMENTS

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	CONSOLIDATED	
	2018	2017
	\$	\$
22. REMUNERATION OF AUDITOR		
Amounts paid or due and payable to the auditor for:		
Auditing and reviewing financial reports		
– KPMG Australia	163,277	92,380
– overseas KPMG firms	34,017	29,664
Taxation advisory services		
– KPMG Australia	151,034	20,039
– overseas KPMG firms	8,366	7,491
Other advisory services		
– KPMG Australia fees paid on completion of royalty sale	384,800	2,658
	<u>741,494</u>	<u>152,232</u>
23. EXPENDITURE COMMITMENTS		
Commitments in relation to capital expenditure commitments are payable as follows:		
- not later than one year	672,822	182,225
	<u>672,822</u>	<u>182,225</u>
Commitments in relation to operating lease expenditure commitments are payable as follows:		
- not later than one year	371,805	357,460
- later than one year but not later than two years	61,375	149,710
- later than two years but not later than five years	-	61,753
	<u>433,180</u>	<u>568,923</u>
Commitments in relation to contractual expenditure commitments are payable as follows:		
- not later than one year	5,984,176	131,673
	<u>5,984,176</u>	<u>131,673</u>
Commitments in relation to tenement expenditure commitments are payable as follows:		
- not later than one year	4,005,135	-
- later than one year but not later than two years	63,396	-
	<u>4,068,531</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

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24. SEGMENT INFORMATION

The Group is managed primarily on the basis of its production, development and exploration assets in both Australia and the Philippines. Operating segments are therefore determined on the same basis.

During the year with the acquisition of Darlot Mining Company Pty Ltd and King of the Hills, both Australian operations, a new operating segment was added for Australia (refer note 31). The prior year comparatives include the previously reported segments only.

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

	Australia ⁽¹⁾ \$	Philippines \$	Other ⁽²⁾ \$	Total \$
(i) Segment performance				
Year ended 30 June 2018				
External revenue ⁽³⁾	66,756,930	10,392,499	-	77,149,429
	66,756,930	10,392,499	-	77,149,429
Segment result	(11,296,331)	(7,743,128)	4,652,246	(14,387,213)
Included within segment result:				
Other income	381,996	415,996	2,074,900	2,872,892
Sale of Mt Cattlin royalty	-	-	11,000,000	11,000,000
Interest income	26,972	10,575	9,327	46,874
Finance costs	(574,786)	(15,191)	(746,892)	(1,336,869)
Exploration costs expensed	(5,200,196)	(359,398)	-	(5,559,594)
VAT receivable impairment	-	(1,994,363)	-	(1,994,363)
Depreciation and amortisation	(12,633,504)	(751,476)	(9,977)	(13,394,957)
Year ended 30 June 2017				
External revenue ⁽³⁾	-	68,515,762	-	68,515,762
	-	68,515,762	-	68,515,762
Segment result	-	105,875,137	(4,328,058)	(110,203,195)
Included within segment result:				
Other income	-	47,239	1,000,938	1,048,177
Interest income	-	20,289	4,250	24,539
Interest expenses	-	-	(4,874)	(4,874)
Exploration costs expensed	-	(1,551,203)	-	(1,551,203)
Provision for doubtful debts	-	(26)	-	(26)
Impairment	-	(99,799,920)	-	(99,799,920)
Depreciation and amortisation	-	(24,503,296)	(7,293)	(24,510,589)
Inventory write down	-	(3,255,513)	-	(3,255,513)
(ii) Segment assets				
As at 30 June 2018				
Segment assets	99,265,860	60,997,918	13,008,009	173,271,787
Additions to non-current assets:				
Plant and equipment expenditure	48,576,622	423,553	18,330	49,018,507
Intangible assets	31,997,649	-	217,890	32,215,539
Development expenditure	12,042,638	108,885	-	12,151,523
Segment assets				
As at 30 June 2017				
Segment assets	-	76,797,519	2,292,566	79,090,085
Additions to non-current assets:				
Deferred waste expenditure	-	-	-	-
Plant and equipment expenditure	-	9,482,277	-	9,482,277
Development expenditure	-	5,223,807	-	5,223,807

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

24. SEGMENT INFORMATION (continued)

	Australia ⁽¹⁾ \$	Philippines \$	Other ⁽²⁾ \$	Total \$
(iii) Segment liabilities				
As at 30 June 2018				
Segment liabilities	72,924,962	7,486,764	11,608,765	92,020,490
As at 30 June 2017				
Segment liabilities	-	7,928,483	1,703,776	9,632,259

(1) Australia segment consists of the Darlot Mining Company Pty Ltd and the King of the Hills gold project.

(2) Includes corporate costs of the group. The segment liability includes the deferred consideration payable to the sellers relating to the acquisitions of Darlot and King of the Hills (refer note 31).

(3) Revenue is attributable to one customer only.

25. INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entities	Country of incorporation	Class of shares	Equity holding	
			2018 %	2017 %
Bremer Resources Pty Ltd	Australia	Ordinary	100	100
Estuary Resources Pty Ltd	Australia	Ordinary	100	100
Greenstone Resources (WA) Pty Ltd	Australia	Ordinary	100	100
Oakborough Pty Ltd	Australia	Ordinary	100	100
Opus Resources Pty Ltd	Australia	Ordinary	100	100
Red 5 Philippines Pty Ltd	Australia	Ordinary	100	100
Red 5 Mapawa Pty Ltd	Australia	Ordinary	100	100
Red 5 Dayano Pty Ltd	Australia	Ordinary	100	100
Darlot Mining Company Pty Ltd	Australia	Ordinary	100	0
Bremer Binaliw Corporation	Philippines	Ordinary	100	100
Red 5 Mapawa Incorporated	Philippines	Ordinary	100	100
Red 5 Dayano Incorporated	Philippines	Ordinary	100	100
Red 5 Asia Incorporated	Philippines	Ordinary	100	100
Greenstone Resources Corporation ⁽¹⁾	Philippines	Ordinary	40	40
Surigao Holdings and Investments Corporation ⁽¹⁾	Philippines	Ordinary	40	40

(1) The Company holds a 40% direct interest in Greenstone Resources Corporation (GRC) and a 40% interest in Surigao Holdings and Investments Corporation (SHIC) voting stock. Agreements are in place which deals with the relationship between Red 5 and other shareholders of these entities. In accordance with Australian accounting standard, AASB 10 Consolidated Financial Statements, Red 5 has consolidated these companies in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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26. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2018	2017
	\$	\$
Operating profit/(loss) after income tax	(11,927,574)	(110,203,195)
Amortisation and depreciation	13,394,957	24,510,589
VAT receivable impairment	1,994,363	-
Tax benefit	(2,459,639)	-
Share based payment	356,796	229,650
Finance expenses	792,885	-
Unrealised exchange (loss)/gain	7,961	(88,539)
Impairment expense	-	99,799,920
Loss on disposal of property plant and equipment	-	418,576
Provision for stock obsolescence	-	221,030
Doubtful debt expenses	-	26
Changes in operating assets and liabilities		
(Increase)/decrease in inventories	5,954,438	(4,621,610)
(Increase)/decrease in receivables	(12,405,710)	(1,663,820)
Increase/(decrease) in payables	21,675,623	(3,939,147)
Increase/(decrease) in income tax payable	-	(2,752,893)
Increase/(decrease) in provisions	1,611,661	(195,214)
Net cash inflow/(outflow) from operating activities	<u>18,995,761</u>	<u>1,715,373</u>

27. EARNINGS PER SHARE

	2018	2017
	Number	Number
Issued ordinary shares at commencement of financial year	763,826,663	761,851,008
Effect of shares issued 6 December 2016	-	383,733
Effect of shares issued 2 May 2017	-	212,651
Effect of shares issued 11 August 2017	602,272	-
Effect of shares issued 2 October 2017	353,849,680	-
Effect of shares issued 5 October 2017	<u>997,005</u>	<u>-</u>
Weighted average number of ordinary shares for the financial year	<u>1,119,275,620</u>	<u>762,447,392</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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28. SUBSEQUENT EVENTS

Royalty sale:

In June 2018 the Company entered into an agreement for the sale of the Company's royalty entitlement from the Mt Cattlin mine in Western Australia to Canadian royalty company, Lithium Royalty Corporation (LRC). At year end the sale of the royalty was recognised as all material conditions to the Sale and Purchase Agreement had been satisfied. The total consideration for the transaction of \$11 million was received in July 2018.

Siana Gold Project approval:

Subsequent to the end of the financial year the Company's Philippine-affiliated company Greenstone Resources Corporation (GRC), was issued a Clearance and Notice to Proceed from the Philippines Mines and Geoscience Bureau (MGB) to construct and operate Tailings Storage Facility 6 (TSF 6) at the Siana Gold Project in the Philippines.

The Philippines Environmental Management Bureau has also amended the co-ordinates of Greenstone Resources' Environmental Compliance Certificate for the Siana Gold Project to include the proposed area of TSF 6, which will allow construction and operation of TSF 6 to proceed, subject to the completion of standard local construction permitting requirements. TSF 6, which is the initial tailings storage facility planned for Siana, has an expected capacity of 1 million tonnes of tailings.

Gold loan facility:

In September 2018 the Company entered into a gold loan facility of 5,015 ounces with Malaysian-based investment fund, Asian Investment Management Services Ltd (AIMSL). The gold loan facility was for the provision by AIMSL to the Company of a gold loan of 5,015 gold ounces available in one tranche. The facility has a term of 12 months and is secured by a security interest in Red 5's Australian operating subsidiary companies on a limited recourse basis.

This facility was drawn down in September 2018 for net proceeds of approximately A\$8.2 million and, together with cash-flow from existing operations will be used to advance development at Darlot and King of the Hills, maintain ongoing exploration momentum at both mines and for general working capital purposes.

NOTES TO THE FINANCIAL STATEMENTS

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29. SHARE BASED PAYMENT ARRANGEMENT

Performance rights granted during the period

Performance rights were granted to the Managing Director and to Senior Management during the year. The rights of both offers are split into four tranches based on different performance conditions measured over a period commencing 1 July 2017 to the vesting date which is 30 June 2020 if the conditions are met. Details of the performance rights are summarised below:

(a) Managing Director:

	Tranche A		Tranche B		Tranche C		Tranche D
Number of performance rights	2,956,000		1,182,400		1,182,400		295,600
Fair value per right	\$0.037		\$0.042		\$0.042		\$0.042
Valuation per tranche	\$109,372		\$49,661		\$49,661		\$12,415
Condition criteria	TSR ranking relative to TSR of S&P/ASX All Ordinaries Gold Total Return Index		Growth in the Company's Ore Reserves		Operating Costs as % of Budgeted Operating Costs		Safety Compliance
	TSR > Index	100%	Stretch: 35%	100%	Stretch: 80%	100%	All criteria to be met: - No fatalities - Implement a Company-wide safety management system - Year on year improvement in safety performance
	TSR > Index	50%	Target: 20%	50%	Target: 90%	50%	
	TSR < or equal to Index	nil	Threshold: 15%	25%	Threshold: 95%	25%	
			< 15%	nil	> 95%	nil	

The table below details the terms and conditions of the grant and the assumptions used in estimating fair value:

Grant date	20 September 2017
Value of the underlying security at grant date	\$0.05
Exercise price	nil
Dividend yield	nil
Risk free rate	2.15%
Volatility	85%
Performance period (years)	3.00
Commencement of measurement period	1 July 2017
Vest date	30 June 2020
Remaining performance period (years)	2.78

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

29. SHARE BASED PAYMENT ARRANGEMENT (continued)

(b) Senior Management:

	Tranche A		Tranche B		Tranche C		Tranche D
Number of performance rights	6,313,400		2,525,360		2,525,360		1,262,680
Fair value per right	\$0.049		\$0.056		\$0.056		\$0.056
Valuation per tranche	\$309,357		\$141,420		\$141,420		\$70,710
Condition criteria	TSR ranking relative to TSR of S&P/ASX All Ordinaries Gold Total Return Index		Growth in the Company's Ore Reserves		Operating Costs as % of Budgeted Operating Costs		Safety Compliance
	TSR > Index	100%	Stretch: 35%	100%	Stretch: 80%	100%	All criteria to be met: - No fatalities - Implement a Company-wide safety management system - Year on year improvement in safety performance
	TSR > Index	50%	Target: 20%	50%	Target: 90%	50%	
	TSR < or equal to Index	nil	Threshold: 15%	25%	Threshold: 95%	25%	
			< 15%	nil	> 95%	nil	

The table below details the terms and conditions of the grant and the assumptions used in estimating fair value:

Grant date	23 March 2018
Value of the underlying security at grant date	\$0.064
Exercise price	nil
Dividend yield	nil
Risk free rate	2.02%
Volatility	80%
Performance period (years)	3.00
Commencement of measurement period	1 July 2017
Vest date	30 June 2020
Remaining performance period (years)	2.27

In addition, vesting of both offers of performance rights is also conditional on the following being exceeded:

1. A positive Company TSR for the measurement period; and
2. 80% of budgeted gold production by 30 June 2018.

The fair value at grant date of Tranche A which have market based performance conditions, was estimated using a Monte Carlo simulation. The fair value at grant date of Tranches B, C and D, which have market and non market based performance conditions, were valued using a single share price barrier model incorporating a Monte Carlo simulation.

NOTES TO THE FINANCIAL STATEMENTS

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29. SHARE BASED PAYMENT ARRANGEMENT (continued)

Information about the performance rights outstanding at year end

The following unvested performance rights were outstanding at year end:

	CONSOLIDATED	
	2018	2017
	\$	\$
Balance at the start of the year	6,000,000	12,000,000
Granted during the year	18,243,200	-
Vested during the year	-	-
Expired during the year	(6,000,000)	(6,000,000)
Balance at the end of the year	18,243,200	6,000,000

Share based payments expense for the year in relation to the performance rights was \$317,465 (2017: \$30,720).

Shares issued, Service and Deferred Rights

	Grant date	Vesting date	Fair value at grant date	Granted/ issued	Exercised
Managing Director Service Rights	22 Nov 16	11 Aug 17	78,485	678,485	(678,485)
Non-Executive Director Shares ⁽¹⁾	5 Oct 17	5 Oct 17	22,500	487,013	(487,031)
Non-Executive Director Shares ⁽¹⁾	5 Oct 17	5 Oct 17	18,750	405,844	(405,844)
Non-Executive Director Shares ⁽¹⁾	5 Oct 17	5 Oct 17	21,250	459,957	(459,957)

(1) In accordance with the Non-Executive Directors Share Plan approved by shareholders, Mr Kevin Dundo was issued 487,013 ordinary shares, Mr Colin Loosemore was issued 405,844 ordinary shares and Mr Ian Macpherson was issued 459,957 ordinary shares at a deemed issue price of 4.62 cents in lieu of the September 2017 quarter's Directors fees.

Share based payments expense for shares issued, service and deferred rights was \$215,456 (2017: \$198,930). The fair value is based on observable market share price.

30. FINANCIAL RISK MANAGEMENT

Overview

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

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

Credit risk

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

Presently, the consolidated entity undertakes exploration, mining and gold production activities.

The Group sells gold to one customer in Australia and has managed its exposure to credit risk by analysing the creditworthiness of the customer.

Cash and cash equivalents

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

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30. FINANCIAL RISK MANAGEMENT (continued)

Trade and other receivables

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

Exposure to credit risk

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

	CONSOLIDATED Carrying amount	
	2018	2017
	\$	\$
Trade and other receivables	21,023,209	9,298,003
Cash and cash equivalents	7,148,401	5,393,463
Non-current receivables	1,637,280	3,702,594

Liquidity risk

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

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

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

CONSOLIDATED 30 June 2018

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	44,474,800	(44,474,800)	(38,971,154)	-	(5,503,646)
Finance lease liabilities	2,478,045	(2,693,094)	(620,229)	(579,728)	(1,493,137)
	<u>46,952,845</u>	<u>(47,167,894)</u>	<u>(39,591,383)</u>	<u>(579,728)</u>	<u>(6,996,783)</u>

CONSOLIDATED 30 June 2017

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	4,694,572	(4,694,572)	(4,694,572)	-	-
	<u>4,694,572</u>	<u>(4,694,572)</u>	<u>(4,694,572)</u>	<u>-</u>	<u>-</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity income or the value of its holdings of financial instruments. Changes in the market gold price will affect the derivative valuation at each reporting date. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The consolidated entity enters into derivative financial instruments to hedge such transactions.

Hedge accounting

The Group's risk management policy is to hedge between 25 to 70% of gold sales in local currency over a rolling 24 month period.

NOTES TO THE FINANCIAL STATEMENTS

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30. FINANCIAL RISK MANAGEMENT (continued)

Hedge accounting (continued)

At 30 June 2018 the Group held gold forward contracts to hedge the exposure of future gold sales. The following table sets out the current hedge position and fair value as at 30 June 2018:

No. of contracts	Gold sold	Maturity		
		0-6 months	7-12 months	More than 1 year
19	24,500 oz	\$761,679	-	-

Currency risk

The consolidated entity is exposed to currency risk on investments and purchases that are denominated in a currency other than the respective functional currencies of the subsidiaries within the consolidated entity being Australian Dollar (A\$) and Philippine Pesos. The currencies in which these transactions primarily are denominated are United States dollars (US\$).

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

Exposure to currency risk

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

	CONSOLIDATED	
	Carrying Amount	
	2018	2017
	A\$	A\$
Cash	1,265,136	3,098,291
Trade debtors	3,264,296	6,938,448
Trade payables	(70,208)	(191,321)
Gross balance sheet exposure	4,459,224	9,845,418

Sensitivity analysis

A 10 per cent strengthening of the Australian dollar against the United States dollar on the 30 June 2018 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2017.

	CONSOLIDATED
	Profit or loss
	A\$
30 June 2018 – US\$	(445,922)
30 June 2017 – US\$	(984,542)

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

30. FINANCIAL RISK MANAGEMENT (continued)

	CONSOLIDATED Carrying amount	
	2018 \$	2017 \$
Variable rate instruments		
Cash and cash equivalents ⁽¹⁾	3,499,974	4,879,745
Security deposits	184,883	134,883
	<u>3,684,857</u>	<u>5,014,628</u>

(1) Amount excludes non-interest bearing bank accounts

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2017.

CONSOLIDATED	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2018				
Variable rate instruments	36,849	(36,849)	36,849	(36,849)
30 June 2017				
Variable rate instruments	50,146	(50,146)	50,146	(50,146)

Net Fair values

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

Capital management

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

Risk management is facilitated by regular monitoring and reporting by the board and key management personnel.

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

31. ACQUISITIONS

(a) Acquisition of Darlot Mining Company Pty Ltd

On 2 October 2017 the Group acquired 100% of the shares of Darlot Mining Company Pty Ltd (Darlot) from a subsidiary of Gold Fields Limited.

The acquisition provides the company with immediate production and cash-flow, an extensive strategic footprint in the Leonora-Leinster mineral district of Western Australia and the ability to leverage this position by pursuing a regional consolidation strategy aimed at establishing the Darlot mill as a central processing hub.

The Company has determined that the acquisition of Darlot was a business combination in accordance with AASB 3, Business Combinations, and as such has accounted for it in accordance with this standard using the acquisition method with the Company's wholly owned subsidiary Opus Resources Pty Limited being the acquirer. The Company incurred transaction costs of \$474,965 relating to the acquisition. Transaction costs are expensed in accordance with AASB 3, Business Combinations.

In the nine months to 30 June 2018, Darlot contributed revenue of \$66,613,710 and loss after tax of \$12,743,369 to the Group's results. If the acquisition had occurred on 1 July 2017, management estimates that consolidated revenue would have been \$100.8 million and consolidated loss for the year would have been \$12.4 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2017.

The following table summarizes the fair value of the consideration paid and the preliminary estimates of the fair values of identified assets acquired and liabilities assumed from Darlot.

	2018 \$
Purchase consideration:	
Cash	6,742,265
Shares issued (130,000,000 ordinary shares) ⁽¹⁾	6,500,000
Deferred consideration (payable as cash or shares at the seller's option) ^{(2) (3)}	5,199,982
	<u>18,442,247</u>

- (1) *The fair value of ordinary shares issued was based on the listed share price of the Company at 2 October 2017 of \$0.05 per share.*
- (2) *The deferred consideration payable for the acquisition of Darlot is payable in the future and has been discounted. The amount payable is \$5.0 million if the seller opts to receive cash due in one or two years from the date of acquisition at the vendor's election.*
- (3) *If the seller opts to receive shares in Red 5 Ltd, these will be issued at a 15% discount to the volume weighted average price (VWAP) in two years from the date of acquisition.*

	2018 \$
Fair value of net assets acquired:	
<i>Assets</i>	
Trade and other receivables	81,175
Inventory	8,695,359
Property, plant and equipment	40,155,560
Mineral rights	4,773,646
<i>Liabilities</i>	
Trade and other payables	(7,615,806)
Provisions	(200,178)
Employee benefits	(3,488,128)
Environmental rehabilitation and other provisions	(14,691,620)
Deferred tax liabilities	(9,267,761)
Net assets acquired	<u>18,442,247</u>
Goodwill / bargain purchase gain	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

31. ACQUISITIONS (continued)

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Inventories – Market comparison technique: the fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Property, plant and equipment – market value technique using an independent valuer: the valuation model considers market prices for similar items when they are available, and current replacement cost when appropriate. Current replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

Mineral rights – market comparison technique: the valuation considers the value of the resource acquired to comparative market values of similar resources.

Fair values have been measured on a provisional basis

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the time, then the accounting for the acquisition will be revised.

(b) Acquisition of King Of The Hills Gold Project

On 2 October 2017 the Group acquired the assets of the King Of The Hills gold project located in the Eastern Goldfields of Western Australia, from Saracen Minerals Holdings Limited.

The acquisition comprises an operational shaft and underground development together with supporting site infrastructure adjacent to the Goldfields Highway and mining centre of Leonora.

The Company has determined that the acquisition of King Of The Hills was an asset acquisition.

The following table summarises the fair value of the consideration paid:

	2018
	\$
Purchase consideration:	
Cash	7,000,000
Shares issued	4,500,000
Deferred consideration (payable as cash or shares at the seller's option)	4,245,283
	<u>15,745,283</u>
Fair value of net assets acquired:	
<i>Assets</i>	
Property, plant and equipment	2,716,700
Mineral rights	26,493,704
<i>Liabilities</i>	
Trade and other payables	(817,915)
Environmental rehabilitation and other provisions	(12,647,206)
Net assets acquired	<u>15,745,283</u>
Goodwill / bargain purchase gain	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

32. DEED OF CROSS GUARENTEE

Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Opus Resources Pty Ltd
- Darlot Mining Company Pty Ltd

Opus Resources Pty Ltd and Darlot Mining Company Pty Ltd both became party to the Deed of Cross Guarantee on 30 June 2018.

A consolidated statement of comprehensive income and a consolidated statement of financial position, comprising of the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2018 is set out as follows:

(a) Statement of other comprehensive income

	2018
	\$
Revenue	80,331,974
Cost of sales	<u>(85,416,690)</u>
Gross profit/(loss) from operations	(5,084,716)
Other income	13,338,005
Administration and other expenses	(16,699,344)
Exploration expense	<u>(4,727,541)</u>
Operating profit/(loss)	(13,173,596)
Finance income	34,103
Finance expenses	<u>(1,071,870)</u>
Net financing income	<u>(1,037,767)</u>
Profit/(loss) before tax	<u>(14,211,363)</u>
Income tax benefit/(expense)	<u>2,459,639</u>
Net profit/(loss) after tax for the year	<u>(11,751,724)</u>
Other comprehensive income/(loss)	
Items that may be reclassified subsequently to profit or loss:	
Gold hedge unrealised gain	<u>497,966</u>
Total comprehensive income/(loss) for the year	<u>(11,253,758)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

32. DEED OF CROSS GUARENTEE (continued)

	2018
	\$
(b) Statement of financial position	
Assets	
Cash and cash equivalents	3,159,373
Trade and other receivables	16,336,552
Other financial assets	761,679
Inventories	10,291,681
Total current assets	30,549,285
Trade and other receivables	83,031,598
Property, plant and equipment	33,934,769
Intangible assets	4,229,761
Investments	658,386
Total non-current assets	121,854,514
Total assets	152,403,799
Liabilities	
Trade and other payables	35,080,754
Employee benefits	5,214,697
Provisions	1,271,464
Income tax payable	739,121
Finance lease liabilities	667,476
Total current liabilities	42,973,512
Trade and other payables	5,503,646
Employee benefits	349,465
Provisions	15,125,662
Deferred tax liability	6,069,001
Finance lease liabilities	1,131,216
Total non-current liabilities	28,178,990
Total liabilities	71,152,502
Net assets	81,251,297
Equity	
Contributed equity	260,364,664
Other equity	930,285
Reserves	792,369
Accumulated losses	(180,836,021)
Total equity	81,251,297

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

33. PARENT ENTITY DISCLOSURES

(a) Financial position

	2018 \$	2017 \$
Assets		
Current assets	12,491,568	2,137,453
Non-current assets	94,384,458	68,017,593
Total assets	<u>106,876,026</u>	<u>70,155,046</u>
Liabilities		
Current liabilities	20,121,083	1,692,790
Non-current liabilities	5,503,646	10,986
Total liabilities	<u>25,624,729</u>	<u>1,703,776</u>
Equity		
Contributed equity	260,364,664	236,674,602
Other equity	930,285	930,285
Reserves	792,369	157,787
Accumulated losses	(180,836,021)	(169,311,404)
Total equity	<u>81,251,297</u>	<u>68,451,270</u>

(b) Financial performance

Profit/(loss) for the year	(11,388,001)	(123,107,883)
Other comprehensive income	497,966	-
Total comprehensive profit/(loss) for the period	<u>(10,890,035)</u>	<u>(123,107,883)</u>

(c) Financial commitments

Operating lease:		
- not later than one year	147,178	147,275
- later than one year but not later than two years	61,753	149,710
- later than two years but not later than five years	-	61,753
Total financial commitments	<u>208,931</u>	<u>350,738</u>

(d) Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2018 (2017: \$nil).

DIRECTORS DECLARATION

30 JUNE 2018

The Board of Directors of Red 5 Limited declares that:

- (a) the consolidated financial statements, accompanying notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
 - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1; and
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

The Board of Directors has received the declaration by the Managing Director and Chief Financial Officer required by Section 295A of the Corporations Act 2001, for the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.



Kevin Dundo
Chairman

Perth, Western Australia
21 September 2018



Independent Auditor's Report

To the shareholders of Red 5 Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Red 5 Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Acquisitions; and
- Going Concern basis of accounting;

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisitions	
Refer to Note 31 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>Acquisitions are a Key Audit Matter due to:</p> <ul style="list-style-type: none"> The size of the acquisitions having a pervasive impact on the Group's financial statements: the Group made two acquisitions during the year, being 100% of Darlot Mining Company Pty Ltd and the King of The Hills Gold Project (KOTH) Level of judgement required by us in evaluating whether the acquisitions were a business combination or an asset acquisition. The difference in the accounting for the acquisition as a business or an asset is significant and could impact the recognition and measurement of amounts reported in the consolidated financial statements. The judgement required by us in evaluating the fair value of deferred consideration and evaluating the Group's purchase price allocation. <p>These conditions and associated complex acquisition accounting required significant audit effort and greater involvement of senior team members.</p>	<p>For each acquisition, our procedures included:</p> <ul style="list-style-type: none"> Reading the sale and purchase agreements to understand the structure, key terms and the nature of consideration. Using this information, we evaluated the accounting treatment of the acquisition. Assessing the level of inputs, processes and outputs for both Darlot and KOTH to compare to the Group's conclusion that KOTH was an asset acquisition and Darlot a business combination We involved senior audit team members to assess the accounting treatment for the transaction. We researched and analysed the conclusions reached by the Group to accounting interpretations, industry practice and accounting literature Critically evaluating the model developed by the Group to determine the fair value of the assets and liabilities acquired in the acquisitions. In particular, we focused on significant judgements made by the directors in assessing the fair value of Property, Plant and Equipment, Mineral Rights, Deferred Tax and Rehabilitation Provisions Critically evaluating the independence and objectivity of experts used in assessing the fair value of Property, Plant and Equipment and Rehabilitation Provisions. Assessed the Group's determination of fair value measurement of deferred consideration. This involved: <ul style="list-style-type: none"> Checking key inputs and assumptions from the Group's calculation of deferred consideration to the Sale and Purchase Agreements; and Checking the mathematical accuracy of the deferred consideration liability and the net present value of future expected payment. We considered the adequacy of the Group's disclosures in respect of this acquisition against the criteria in the accounting standards.

Going Concern basis of accounting	
Refer to Note 2.2 to the financial report	
The key audit matter	How the matter was addressed in our audit
<p>The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in note 2.2.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow forecasts. The preparation of these forecasts incorporated a number of assumptions and significant judgements and they have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.</p> <p>We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:</p> <ul style="list-style-type: none"> • The Group's forecast care and maintenance costs included within the Group's cash flow forecasts with respect to the Siana Project. • Impact of expected gold prices and forecast US Dollar, Philippine Peso and Australian Dollar foreign exchange rates to cash flows projected. • The Group's planned levels of operational and capital expenditures, grade of resource, ability to increase production, and the ability of the Group to manage cash outflows within available funding. • The Group's ability to raise additional funds from shareholders or other parties and the projected timing thereof. This included source of funds, availability of fund type, feasibility and status/progress of securing those funds. <p>In assessing this key audit matter, we involved senior audit team members who understand the Group's business, the gold industry and the economic environment it operates in.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We analysed the cash flow projections by: <ul style="list-style-type: none"> ○ Evaluating the underlying data used to generate the forecasts. We specifically looked for their consistency with the Group's intentions, and their comparability to past practices. Information was sourced from mine plans and reserve reports. We tested forecast gold prices and foreign exchange rates used by management to published views from market commentators. We also evaluated the consistency of forecast sales, production volumes and production costs to historical production information; ○ Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. We assessed the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; ○ Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions of the Group. ○ We held discussions with senior management to understand and assess options available for additional funding arrangements. • We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Other Information

Other Information is financial and non-financial information in Red 5 Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report. The Chairman's Address, Managing Director's Review, Resources and Reserves Statement, Additional Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- Assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Red 5 Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included on pages 6 to 12 in the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

R Gambitta
Partner

Perth

21 September 2018