
RED 5 LIMITED
ABN 73 068 647 610
AND CONTROLLED ENTITIES

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

CORPORATE DIRECTORY

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Frank Campagna

REGISTERED OFFICE

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35 Ventnor Avenue
West Perth Western Australia 6005

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

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

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

BANKERS

National Australia Bank Limited

AUDITORS

KPMG

SOLICITORS

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

STOCK EXCHANGE LISTING

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

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

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

DIRECTORS' REPORT

The directors of Red 5 Limited (“Red 5” or “parent entity”) present their report on the results and state of affairs of Red 5 and its subsidiaries (“the Group” or the “consolidated entity”) for the financial year ended 30 June 2012.

DIRECTORS

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

Colin Jackson
Gregory Edwards
Gary Scanlan
Kevin Dundo
Mark Milazzo

All directors held their position as a director throughout the entire financial year and up to the date of this report.

PRINCIPAL ACTIVITIES

The principal activities of Red 5 and the consolidated entity (which includes the controlled entities of Red 5) during the financial year were completion of the mine development and construction phase of the Siana gold project. During the latter half of the year, the Siana gold project moved into the production phase.

RESULTS OF OPERATIONS

The net loss of the consolidated entity after income tax was \$1,682,914 (2011: \$8,111,524).

REVIEW OF OPERATIONS

Mine development and construction of the gold processing plant at the Siana project in the Philippines were completed during the year. Preliminary commissioning of the process plant commenced in November 2011 and was initially impacted by interruptions to on-site power generation capability. Minor engineering modifications to the plant circuit were also required to overcome materials handling issues related to the sticky nature of the ore sourced from the existing low grade stockpile, which had been used as the initial feed to the mill.

An initial gold and silver doré bar was produced at the Siana mine in early February 2012. A total of 5,586 ounces were produced to 30 June 2012, of which 2,079 ounces were produced after “commercial production” (defined as 30 continuous days at an average of 60% of the interim processing throughput rate of 750,000 tonnes per annum) was declared on the Siana project in mid-April 2012.

Dewatering of the open pit was impacted by higher than expected ground water inflows at the base of the open pit. This was compounded by operational difficulties in the excavation and removal of a significant volume of accumulated silt material from the base of the pit, in order to expose the ore body and enable ore extraction. Consequently, delays were encountered in the consistent delivery of ore feed to the processing plant.

By mid-September 2012, the open pit was successfully dewatered and the majority of the silt material had been removed, enabling the commencement of full scale mining of the ore body with mine production planned to ramp up in the December quarter.

The Siana project recorded gold sales of 2,742 ounces in May and June. The average price received for the sale of gold bullion was US\$1,626 per ounce.

The production schedule for the Siana mine is under review in order to investigate opportunities to lower the cut-off grade based on prevailing gold prices rather than the original feasibility study base line schedule.

**RED 5 LIMITED
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DIRECTORS' REPORT (continued)

Exploration activities during the year focussed on testing extensions of known mineralised zones around the Siana ore body. Soil sampling and reconnaissance were conducted at the nearby Dayano and Ferrer prospects to identify priority targets for follow-up drilling. No drilling activity occurred at the Mapawa project whilst analytical work on previous samples was undertaken and priority given to near-mine resource extension opportunities.

Red 5 received royalties of \$1,081,059 from Galaxy Resources Ltd for the year ending 30 June 2012.

DIVIDENDS

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

LIKELY DEVELOPMENTS

During the course of the next financial year, the consolidated entity intends to ramp up gold production from the Siana gold mine, evaluate an expansion of the original open pit operation and resume mineral exploration activities in its other project areas.

Working capital was drawn down in the June and September quarters because of the delayed ore production from the Siana pit. Since 30 June 2012, the Group has completed the execution of a US \$8,000,000 credit facility with Sprott Resource Lending Partnership.

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

OPTIONS GRANTED OVER SHARES

The only grant of options during the year was 80,000 options granted to the CFO. At the date of this report, there were 290,000 options granted over ordinary fully paid shares. The terms of these options are as follows:

	Number
- at \$2.50 each on or before 30 June 2013	70,000
- at \$2.50 each on or before 30 April 2014	70,000
- at \$2.70 each on or before 31 December 2014	40,000
- at \$4.00 each on or before 30 April 2016	70,000
- at \$4.30 each on or before 31 December 2016	40,000
	<hr/>
	290,000
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No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of the parent entity or any other corporation.

SIGNIFICANT CHANGES

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

- (a) On the 23 November 2011, the Company completed a share consolidation resulting in one new share for every ten existing shares.
- (b) Gross equity funds of \$15,000,000 were raised through a share placement of 7,075,472 ordinary shares at an issue price of \$2.12 per share in March 2012.
- (c) In April 2012, the Company declared the commencement of commercial production on the Siana project.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 30 June 2012, the Group has completed the execution of a US \$8,000,000 credit facility with Sprott Resource Lending Partnership.

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DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

Director	Qualifications, experience and special responsibilities
Colin G Jackson (Non-Executive Chairman)	M.Sc., B.Sc. (Hons), DIC, Grad. Dip. Bus. Admin. A director since December 2003 and Chairman since April 2007. Mr Jackson graduated as a mineral process design engineer and spent 10 years with Selection Trust Limited and RGC Group, followed by a 12 year finance career with McIntosh Securities Limited and 10 years corporate/communications responsibility with Newcrest Mining and Normandy Mining. Mr Jackson is a member of the audit, remuneration and health, safety, environment and community committees. Other current directorships: Intrepid Mines Limited (since December 2003). Mr Jackson has not held directorships in any other listed companies in the last 3 years.
Gregory C Edwards (Managing Director)	B.Sc. (Hons), MAusIMM A director since November 2001. Mr Edwards is a geologist with over 25 years' experience. He has a broad gold and base metals exploration and development background, spending 13 years with the Normandy Mining group, holding various positions including Exploration Manager – Western Australia and Manager – Business Analysis, where he focussed on commercial evaluations of potential project and corporate acquisitions. Mr Edwards has not held directorships in any other listed companies in the last 3 years.
Gary F Scanlan (Non-Executive Director)	FAusIMM, CA A director since November 2006. Mr Scanlan has over 28 years' experience in the mining industry preceded by 10 years' experience with PricewaterhouseCoopers. His previous roles include Executive General Manager – Finance for Newcrest Mining Limited and Managing Director of Castlemaine Goldfields Limited. Mr Scanlan is chairman of the audit committee and is a member of the remuneration committee. Other current directorships: Castlemaine Goldfields Limited (since June 2005, chairman since December 2010). Mr Scanlan was a director of Citadel Resource Group between December 2009 and March 2011. Mr Scanlan has not held other directorships in any other listed companies in the last 3 years.
Kevin A Dundo (Non-Executive Director)	B.Com, LLB, FCPA A director since March 2010. Mr Dundo practices as a lawyer and specialises in commercial and corporate areas (in particular mergers and acquisitions) with experience in the mining sector, the service industry and the financial services industry. Mr Dundo is chairman of the remuneration committee and is a member of the audit committee. Other current directorships: Imdex Limited (since January 2004) and Synergy Plus Limited (since July 2006). Former directorships in the last 3 years: Intrepid Mines Limited (April 2002 to May 2009).
Mark F Milazzo (Non-Executive Director)	B.Eng. Mining, FAusIMM A director since May 2011. Mr Milazzo is a mining engineer with 30 years' experience in mining operations. He was previously General Manager of HWE Mining Pty Ltd where he was responsible for managing a portfolio of surface and underground mining contracts for a wide range of clients across a range of commodities. Mr Milazzo is a chairman of the health, safety, environment and community committee. Other current directorships: Cortona Resources Limited (since May 2011) and YTC Resources Limited (since August 2012).

Information on Company Secretary

Frank J Campagna B.Bus (Acc), CPA

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

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DIRECTORS' REPORT (continued)

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

Director	Fully paid shares	Options
C Jackson	22,500	-
G Edwards	1,065,111	-
G Scanlan	50,000	-
K Dundo	-	-
M Milazzo	25,000	-

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of Red 5 and of each Board committee held during the year ended 30 June 2012 and the number of meetings attended by each director whilst in office are as follows:

	Board meetings			Audit committee			Remuneration committee		
	Number held	Number eligible	Number attended	Number Held	Number eligible	Number attended	Number held	Number eligible	Number attended
C Jackson	14	14	14	3	3	2	2	2	2
G Edwards	14	14	13	3	-	-	2	-	-
G Scanlan	14	14	14	3	3	3	2	2	2
K Dundo	14	14	13	3	3	3	2	2	2
M Milazzo	14	14	13	3	-	-	2	-	-

A health, safety, environment and community committee was established on 1 January 2012. There were no formal meetings of this committee during the reporting period.

REMUNERATION REPORT (AUDITED)

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

Principles used to determine the nature and amount of remuneration

Directors and executives remuneration

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 management. Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and expert advice.

Red 5's remuneration policy for the managing director and senior management is designed to promote superior performance and long term commitment to Red 5. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing Red 5's operations. 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.

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

- Reward reflects the competitive market in which Red 5 operates; and
- Individual reward should be linked to performance criteria.

The structure of remuneration packages for the managing director and other senior executives comprises:

- A fixed sum base salary plus superannuation benefits;
- Short term incentives through eligibility to participate in a performance bonus scheme if deemed appropriate; and

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DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

- Long term incentives through the managing director and other senior executives being eligible to participate in share option schemes or performance rights plans with the prior approval of shareholders as required.

The proportion of fixed and variable remuneration is established for the managing director and senior executives by the remuneration committee. The objective of short term incentives is to link achievement of Red 5's operational targets with the remuneration received by executives charged with meeting those targets. The objective of long term incentives is to reward executives in a manner which aligns this element of their remuneration with the creation of shareholder wealth.

In considering the consolidated entity's performance and benefits for shareholder wealth, the Board believe that at this stage of development there is no relevant direct link between revenue and profitability and the advancement of shareholders wealth. For this reason, the group does not currently link revenue and profitability against shareholder wealth.

	2012	2011	2010	2009	2008
Loss attributable to owners of the company	(\$1,682,914)	(\$8,111,524)	(\$438,421)	(\$850,076)	(\$627,705)
Dividends paid	-	-	-	-	-
Share price at 30 June	\$1.46	\$1.15	\$1.20	\$0.72	\$0.84
Return on capital employed	(0.85%)	(5.49%)	(0.38%)	(1.79%)	(1.13%)

Performance incentives may be offered to the managing director and senior management through the operation of performance bonus schemes. The performance bonus, based on a percentage of annual salary, may be payable upon achievement of agreed key performance indicators (KPIs), which are weighted equally between agreed milestones and relative peer group share price performance. A declared bonus may be payable in a proportion of cash and shares, subject to shareholder approval, if required. KPIs are reviewed and agreed annually by the remuneration committee and include financial and non-financial objectives for example, performance against the annual operating budget, health and safety measures and other operations-related criteria. Measures chosen directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

Non-executive directors' remuneration

In accordance with current corporate governance practices, the structure for the remuneration of non-executive directors and senior executives is separate and distinct. Shareholders approve the maximum 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 Chairman receives fees of \$70,000 per annum and non-executive directors receive \$50,000 per annum, with additional amounts for chairing of board committees, namely \$10,000 per annum for audit committees and \$5,000 per annum for other committees, all exclusive of superannuation. Committee members are not paid a fee. Non-executive directors are entitled to statutory superannuation benefits. Directors' fees have remained unchanged since the year ending 30 June 2010. The Board approves any consultancy arrangements for non-executive directors who provide services outside of and in addition to their duties as non-executive directors.

Non-executive directors may be entitled to participate in equity based remuneration schemes. Shareholders must approve the framework for any equity based compensation schemes and if a recommendation is made for a director to participate in an equity scheme, that participation must be specifically approved by the shareholders.

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DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Details of remuneration

The following table discloses details of the nature and amount of each element of the remuneration of each key management personnel including the directors of Red 5 for the year ended 30 June 2012. There have been no bonuses, options or performance shares granted in relation to the 2012 financial year.

2012 Name	Short term			Post-employment	Equity		Other	Prior Year Bonus	Total	Performance related	Value of options as a proportion
	Salary or directors fees	Consulting fees	Performance cash bonus	Super-annuation	Shares	Options	Expenses	Cash/Shares ⁽³⁾			
Executive director	\$	\$	\$	\$			\$	\$	\$	%	%
G Edwards ⁽¹⁾	436,065	-	-	45,425	-	-	20,073	59,250	560,813	10.6	-
Non-executive directors											
C Jackson	70,000	138,563	-	6,300	-	-	-	-	214,863	-	-
G Scanlan	60,000	-	-	5,400	-	-	-	-	65,400	-	-
K Dundo	55,000	-	-	4,950	-	-	-	-	59,950	-	-
M Milazzo	52,500	-	-	4,725	-	-	-	-	57,225	-	-
Executives											
J Mobilia ⁽¹⁾	248,556	-	-	25,259	-	55,139	-	15,094	344,048	4.4	16.0
R Pyatt ⁽¹⁾	255,305	-	-	23,514	-	-	11,237	-	290,056	-	-
R Williams ⁽¹⁾⁽²⁾	217,247	-	-	20,000	-	-	-	-	237,247	-	-
Total	1,394,673	138,563	-	135,573	-	55,139	31,310	74,344	1,829,602	4.1	3.0

(1) Salary as noted in the table includes adjustment for movements in the current value of employee leave provisions (as a consequence of increased base salary) - being \$41,065 for Mr Edwards, \$11,056 for Mr Mobilia, \$20,033 for Mr Pyatt and \$17,247 for Mr Williams. For clarity, Mr Edwards' 2012 base salary was \$395,000.

(2) Appointed 1 July 2011.

(3) Prior year bonuses represent short term incentive bonuses relating to executive performance during the year to 30 June 2011. The bonus is satisfied 50% in cash and 50% by the issue of shares. The bonuses were determined by the remuneration committee after performance reviews and were based on achievement of pre-determined key performance indicators for example, performance against the annual operating budget, health and safety measures, other operations-related criteria ("the agreed KPIs") and relative peer group share price performance. The bonus is weighted 50% to the agreed KPIs and 50% to the share price performance (for more detail refer to service agreements). The component relating to share price performance was forfeited during the year ended 30 June 2011 in its entirety. The cash bonus of \$29,625 plus 24,688 vested shares (\$29,625) for Mr Edwards represents 40% of the available bonus for the agreed KPIs and for Mr Mobilia the cash bonus of \$7,547 plus 6,287 vested shares (\$7,547) represents 37.5% of the available bonus for the agreed KPIs, with the remaining component being forfeited due to KPIs not being met. Mr Pyatt and Mr Williams were not entitled to any bonus for the year ending 30 June 2011 as Mr Pyatt had only been with the company for one month and Mr Williams was not appointed until 1 July 2011.

All directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of \$70,831 (2011: \$61,758) 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.

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DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

2011 Name	Short term			Post-employment	Equity		Other	Total	Perform- ance related ⁽⁶⁾	Value of options as a proportion
	Salary or directors fees	Consulting fees	Perform- ance cash bonus ⁽⁶⁾	Super- annuation	Shares ⁽⁷⁾	Options	Expenses			
Executive director	\$	\$	\$	\$			\$	\$	%	%
G Edwards ⁽¹⁾	440,825	-	28,437	45,368	59,859	-	18,849	593,338	14.9	-
Non-executive directors										
C Jackson	70,000	165,751	-	6,300	-	-	-	242,051	-	-
G Scanlan	60,000	-	-	5,400	-	-	-	65,400	-	-
K Dundo	52,743	-	-	5,578	-	-	-	58,321	-	-
M Milazzo ⁽²⁾	8,333	-	-	750	-	-	-	9,083	-	-
B Bolitho ⁽³⁾	27,500	-	-	2,475	-	-	-	29,975	-	-
Executives										
J Mobilia ⁽¹⁾	240,084	-	15,710	25,142	15,710	55,840	-	352,486	8.9	15.8
W Darcey ⁽⁴⁾	122,766	-	-	8,333	-	-	-	131,099	-	-
R Pyatt ⁽⁵⁾	39,897	-	-	3,710	-	-	129	43,736	-	-
Total	1,062,148	165,751	44,147	103,056	75,569	55,840	18,978	1,525,489	7.8	3.7

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

(2) Appointed 1 May 2011.

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

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

(5) Appointed 9 May 2011.

(6) Short term incentive bonuses relate to executive performance during the period to 31 December 2010. The amounts were determined by the remuneration committee after performance reviews and were based on achievement of pre-determined key performance indicators. The amount vested for Mr Edwards represents 25% of the available bonus and for Mr Mobilia the amount vested represents 57% of the available bonus, with the respective balances being forfeited due to performance criteria not being met. The bonus comprised 50% in cash and 50% to be satisfied by the issue of shares. Mr Edwards' component of the bonus includes the shares relating to the prior financial year (approved during the year) in addition to those relating to the 2011 year (which remains subject to shareholder approval).

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

Share-based compensation

The Board has adopted the Red 5 Employee Share Option Plan (ESOP) and a Performance Rights Plan (PR 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.

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 has been prohibited by law since 1 July 2011.

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DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Options granted to key management personnel

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

2012	Granted Number	Terms and conditions for each grant			Vested		
		Grant date	Fair value per option \$	Exercise price per option \$	Expiry date	Number	%
Executives							
J Mobilia	40,000	22.03.2012	0.6609	2.70	31.12.2014	40,000	100
	40,000	22.03.2012	0.7176	4.30	31.12.2016	40,000	100

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

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

	Value of options granted during the period \$	Value of options exercised during the period \$	Value of options lapsed during the period \$	Total \$	Value of options as a percentage of remuneration %
Executives					
J Mobilia	55,139	-	-	55,139	16.0

Options granted vest immediately to the holder and therefore are not subject to the fulfilment of any performance criteria.

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

	Options 31.12.14	Options 31.12.16
Grant date	22.03.12	22.03.12
Option life	2.778 years	4.778 years
Exercise price	\$2.70	\$4.30
Share price on grant date	\$1.93	\$1.93
Expected volatility	0.65	0.65
Risk free interest rate	3.43%	3.55%
Dividend yield	Nil	Nil

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

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DIRECTORS' REPORT (continued)

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 relating to duration and termination are set out below.

G Edwards – Managing Director

Term of agreement: no defined period.

Remuneration: base salary of \$395,000 per annum plus 10% superannuation contributions, to be reviewed annually by the remuneration committee.

Performance bonus: up to 75% of annual salary weighted equally between the achievement of the agreed KPIs and relative peer group share price performance. To receive 100% of the peer group share price performance component the Red 5 share price must be in the top quartile of the ASX All Ordinaries gold index. To receive 50% of the share price performance component the Red 5 share price must be in the second quartile of the ASX All Ordinaries gold index. No component is received for below median performance. Payment of a performance bonus is 50% cash and 50% shares (escrowed for two years).

Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 3 months of the annual salary.

J Mobilia – Chief Financial Officer

Term of agreement: no defined period.

Remuneration: base salary of \$245,000 per annum plus 10% superannuation contributions, to be reviewed annually.

Performance bonus: up to 45% (2011 – 35%) of annual salary weighted equally between the achievement of the agreed KPIs and relative peer group share price performance.

Equity compensation: entitlement to participate in the ESOP or PR Plan.

Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 2 months of the annual salary.

R Pyatt - Operations Director

Term of agreement: no defined period.

Remuneration: base salary of US\$250,000 per annum plus 10% superannuation contributions, to be reviewed annually.

Performance bonus: up to 50% of annual salary upon the achievement of the agreed KPIs and relative peer group share price performance.

Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 3 months of the annual salary.

R Williams – Group Exploration and Technical Manager

Term of agreement: no defined period.

Remuneration: base salary of \$200,000 per annum plus 10% superannuation contributions, to be reviewed annually.

Performance bonus: up to 35% of annual salary weighted equally between the achievement of the agreed KPIs and relative peer group share price performance.

Termination provisions: payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to all remuneration (including salary and any performance bonus) accrued up to and including the date of termination.

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 \$44,462 for taxation services and \$18,405 for advisory services. Further details of remuneration of the auditors are set out in Note 19.

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

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DIRECTORS' REPORT (continued)

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity, acting as an advocate for Red 5 or jointly sharing economic risks and rewards.

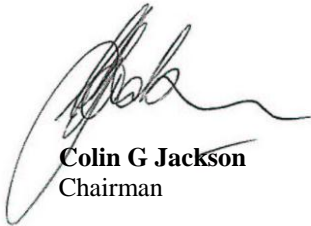
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included immediately following the Directors' Report and forms part of the Directors' Report.

ENVIRONMENTAL REGULATIONS

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

Compliance with environmental obligations is monitored by the Board of Directors. No environmental breaches have been notified to the consolidated entity by any government agency during the year ended 30 June 2012.

Signed in accordance with a resolution of the directors.



Colin G Jackson
Chairman

Perth, Western Australia
26 September 2012



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

To: the directors of Red 5 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there has been:

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

KPMG.

KPMG

R. Gambitta
Partner

Perth

26 September 2012

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	NOTE	CONSOLIDATED	
		2012	2011
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	6	13,463,345	52,504,956
Trade and other receivables	7	3,379,697	3,263,346
Inventory	8	<u>6,907,113</u>	<u>-</u>
TOTAL CURRENT ASSETS		<u>23,750,155</u>	<u>55,768,302</u>
NON-CURRENT ASSETS			
Receivables	9	8,917,025	3,481,359
Property, plant and equipment	10	50,926,893	36,386,015
Mine development expenditure	11(a) (b)	<u>77,457,637</u>	<u>40,497,382</u>
TOTAL NON-CURRENT ASSETS		<u>137,301,555</u>	<u>80,364,756</u>
TOTAL ASSETS		<u>161,051,710</u>	<u>136,133,058</u>
CURRENT LIABILITIES			
Trade and other payables	13	8,748,138	5,056,848
Employee benefits	14	203,070	136,287
Provisions	15	<u>1,116,104</u>	<u>1,116,104</u>
TOTAL CURRENT LIABILITIES		<u>10,067,312</u>	<u>6,309,239</u>
NON-CURRENT LIABILITIES			
Employee benefits	14	115,506	104,614
Provisions	15	<u>1,326,084</u>	<u>307,940</u>
TOTAL NON-CURRENT LIABILITIES		<u>1,441,590</u>	<u>412,554</u>
TOTAL LIABILITIES		<u>11,508,902</u>	<u>6,721,793</u>
NET ASSETS		<u>149,542,808</u>	<u>129,411,265</u>
EQUITY			
Contributed equity	16	177,124,726	163,041,013
Other equity	16	930,285	930,285
Reserves	17	(2,343,638)	(10,258,597)
Accumulated losses		<u>(25,752,817)</u>	<u>(24,009,155)</u>
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>149,958,556</u>	<u>129,703,546</u>
Non-controlling interest		<u>(415,748)</u>	<u>(292,281)</u>
TOTAL EQUITY		<u>149,542,808</u>	<u>129,411,265</u>

The accompanying notes form part of these financial statements.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Attributable to equity holders of the parent entity					Total
	Issued capital	Other equity	Accumulated losses	Other reserves ⁽ⁱ⁾	Non controlling interest	
	\$	\$	\$	\$	\$	\$
Consolidated						
Balance at 1 July 2010	113,322,069	930,285	(16,445,378)	(1,971,306)	(40,497)	95,795,173
Net loss	-	-	(8,053,877)	-	(57,647)	(8,111,524)
Other comprehensive income for the period	-	-	-	(7,894,910)	(194,137)	(8,089,047)
Total comprehensive income for the period	-	-	(8,053,877)	(7,894,910)	(251,784)	(16,200,571)
Shares issued during the year	51,000,000	-	-	-	-	51,000,000
Transaction costs	(3,139,203)	-	-	-	-	(3,139,203)
Issue of employee performance shares	60,554	-	-	-	-	60,554
Issue of options	-	-	-	97,719	-	97,719
Exercised options	900,000	-	-	-	-	900,000
Treasury shares (re-issued)	897,593	-	-	-	-	897,593
Transfers from reserves	-	-	490,100	(490,100)	-	-
Balance at 30 June 2011	163,041,013	930,285	(24,009,155)	(10,258,597)	(292,281)	129,411,265
Balance at 1 July 2011	163,041,013	930,285	(24,009,155)	(10,258,597)	(292,281)	129,411,265
Net loss	-	-	(1,743,662)	-	60,748	(1,682,914)
Other comprehensive income for the period	-	-	-	7,859,820	(184,215)	7,675,605
Total comprehensive income for the period	-	-	(1,743,662)	7,859,820	(123,467)	5,992,691
Shares issued during the year	15,000,000	-	-	-	-	15,000,000
Transaction costs	(981,903)	-	-	-	-	(981,903)
Issue of employee performance shares	65,616	-	-	-	-	65,616
Issue of options	-	-	-	55,139	-	55,139
Balance at 30 June 2012	177,124,726	930,285	(25,752,817)	(2,343,638)	(415,748)	149,542,808

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

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED	
		2012	2011
		\$	\$
Cash flows from operating activities			
Receipts from sale of gold		4,277,750	-
Payments to suppliers and employees		(5,972,275)	(2,897,194)
Payments for exploration and evaluation expenditure		(19,540)	(1,920,988)
Interest received		1,338,904	2,876,814
Interest paid		(1,046)	(2,846)
Tax payments		-	(155,359)
Royalty receipts		1,081,059	265,000
Sundry receipts		<u>27,493</u>	<u>117,391</u>
Net cash from operating activities	23	<u>732,345</u>	<u>(1,717,182)</u>
Cash flows from investing activities			
Payments for plant and equipment		(19,743,010)	(37,689,432)
Payments for development		<u>(33,677,350)</u>	<u>(8,108,399)</u>
Net cash from/(used in) investing activities		<u>(53,420,360)</u>	<u>(45,797,831)</u>
Cash flows from financing activities			
Proceeds from issues of shares		15,000,000	51,900,000
Payments for share issue expenses		(981,903)	(3,085,006)
Finance facility expenses		-	(4,536,714)
Repayment of borrowings		<u>-</u>	<u>(322,846)</u>
Net cash from/(used in) financing activities		<u>14,018,097</u>	<u>43,955,434</u>
Net increase/(decrease) in cash held		(38,669,918)	(3,559,579)
Cash at the beginning of the financial year		52,504,956	57,681,899
Effect of exchange rate fluctuations on cash held		<u>(371,693)</u>	<u>(1,617,364)</u>
Cash at the end of the financial year	6	<u><u>13,463,345</u></u>	<u><u>52,504,956</u></u>

The accompanying notes form part of these financial statements.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 26 September 2012.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for share based payments and rehabilitation provisions. Share based payments are measured at fair value. The methods used to measure fair values of share based payments are discussed further in the Note 3.14. Rehabilitation provisions are based on net present value and are discussed in Note 3.16.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in Note 3.19.

2.5 Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 28.

2.6 Changes in accounting policies

In preparing the consolidated financial statements, the Group has adopted one year early IFRIC 20 Stripping costs in the Production Phase of a Surface Mine. Mandatory adoption would have applied to the Group's financial statements for the year ending 30 June 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Company as at 30 June 2012 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.

RED 5 LIMITED AND CONTROLLED ENTITIES

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

3.2 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. Income received by the consolidated entity for silver sales is deducted from the cost of sales.

3.3 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.

3.4 Investments

Financial instruments are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the statement of comprehensive income.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at balance sheet date. Financial instruments available-for-sale are recognised or derecognised by the consolidated entity on the date it commits to purchase or sell the investments.

3.5 Property, plant and equipment

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

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

3.6 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.

3.7 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.

RED 5 LIMITED AND CONTROLLED ENTITIES

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 comprehensive income in the year in which the decision to abandon the area is made.

3.8 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.

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.

3.9 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 comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income.

Calculation of recoverable amount

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

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of the estimated cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

3.10 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 comprehensive income.

RED 5 LIMITED AND CONTROLLED ENTITIES

3.11 Financial instruments

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

Liabilities for trade creditors and other amounts are carried at amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

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

3.12 Goods and services tax

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

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

3.13 Employee benefits

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

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

3.14 Share based payments

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

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

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

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

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

3.15 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign

RED 5 LIMITED AND CONTROLLED ENTITIES

currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

Each entity in the consolidated entity determines its functional currency, being the currency of the primary economic environment in which the entity operates, reflecting the underlying transactions, events and conditions that are relevant to the entity.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

3.16 Rehabilitation costs

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

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

3.17 Provisions

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

3.18 Earnings per share

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

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

3.19 Accounting estimates and judgements

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

Impairment of Assets

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

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

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

RED 5 LIMITED AND CONTROLLED ENTITIES

impaired. Impairment losses are recognised in the Statement of Comprehensive Income unless the asset has previously been revalued.

Rehabilitation and mine closure provisions

As set out in Note 3.16, 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 Comprehensive Income.

Reserves and resources

The Group determines and reports ore reserves under the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised December 2004, known as the JORC Code. 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 11), 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 income statement 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.

3.20 New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report.

- (i) AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB will become mandatory for the Group's 30 June 2016 financial statements. The Group has not yet determined the potential impact of the standard.
- (ii) AASB 11 Joint Arrangements, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- (iii) Amended AASB 119 Employee Benefits, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

	CONSOLIDATED	
	2012	2011
	\$	\$
4. REVENUE AND EXPENSES		
(a) Other income		
Royalty income	1,181,657	492,687
Insurance receipts	14,584	1,887
Sundry revenue	12,909	117,391
	<u>1,209,150</u>	<u>611,965</u>
(b) Administration and other expenses		
Superannuation contributions	(66,532)	(56,244)
Other employee and consultancy expenses	(1,869,033)	(1,419,758)
Occupancy costs	(299,238)	(368,547)
Regulatory expenses	(347,457)	(355,233)
Provision for doubtful debts	(483,678)	-
Foreign exchange losses	(774,300)	(529,557)
Depreciation	(41,950)	(26,987)
Other administration overheads	(2,033,853)	(1,554,809)
	<u>(5,916,041)</u>	<u>(4,311,135)</u>
(c) Impairment reversal/(impairment) of PP&E		
Impairment of ball mill	-	(950,000)
Proceeds from sale of ball mill	612,495	-
Written down value of ball mill on sale	(350,000)	-
	<u>262,495</u>	<u>(950,000)</u>
(d) Financing income/(expenses)		
Interest received	1,139,265	2,989,172
Interest expense	(1,046)	(2,846)
Other financing expenses	-	(53,576)
Funding extinguishment costs	-	(4,369,011)
	<u>1,138,219</u>	<u>(1,436,261)</u>
5. INCOME TAX		
(a) Major components of income tax expense are:		
Statement of comprehensive income		
<i>Current income tax</i>		
Current income tax charge/(credit)	(826,455)	(1,657,665)
Adjustment for prior year	-	181,395
<i>Deferred income tax</i>		
Origination and reversal of temporary differences – current year	334,256	421,585
Origination and reversal of temporary differences – prior year adjustment	-	880,669
Unused tax losses not recognised as deferred tax asset	492,199	174,016
	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>
A reconciliation between income tax expense and the numerical loss before income tax at the applicable income tax rate is as follows:		
Profit/(loss) before income tax	<u>(1,682,914)</u>	<u>(8,111,524)</u>
At statutory income tax rate of 30% (2011: 30%)	(504,874)	(2,433,457)

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

INCOME TAX (continued)

	CONSOLIDATED	
	2012	2011
	\$	\$
Items not allowable for income tax purposes:		
Non-deductible expenses	12,675	1,197,377
Current year tax losses not brought to account	492,199	1,236,080
	<u> -</u>	<u> -</u>

(b) Deferred income tax

Deferred income tax at balance date relates to the following (these are not brought to account):

Deferred tax liabilities

Accrued interest and prepayments	(8,474)	(67,630)
	<u> -</u>	<u> -</u>

Deferred tax assets

Doubtful debt	150,342	-
Net pre-commissioning revenue	143,753	-
Accrued expenses	335,319	38,844
Black hole expenditure	1,092,579	1,381,776
Tax value of losses recognised	-	28,786
	<u>1,721,993</u>	<u>1,449,406</u>
Net deferred income tax balances	<u>1,713,519</u>	<u>1,381,776</u>

(c) Tax losses and temporary differences not brought to account

The directors estimate that the potential deferred tax assets:

In respect of tax losses not brought to account	3,620,411	2,866,876
In respect of deductible temporary differences not brought to account	1,713,519	1,381,776

The potential benefit of tax losses has not been brought to account in this financial report as realisation of the benefit cannot be regarded as probable. The potential future income tax benefit will be obtainable by the consolidated entity only if:

- (a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit of the deductions for the loss to be realised;
- (b) the consolidated entity complies with the conditions for deductibility imposed by income tax law; and
- (c) no changes in income tax legislation adversely affects the consolidated entity in realising the benefit of the deduction for the loss.

6. CASH AND CASH EQUIVALENTS

Cash at bank	7,463,230	19,504,656
Cash on deposit	6,000,000	33,000,000
Cash on hand	115	300
	<u>13,463,345</u>	<u>52,504,956</u>

Cash on deposit represent short-term deposits that mature within three months of acquisition date.

7. TRADE AND OTHER RECEIVABLES

Interest receivable	22,708	222,347
Prepayments	2,357,765	2,064,959
Sundry debtors	950,072	928,427
GST receivable	49,152	47,613
	<u>3,379,697</u>	<u>3,263,346</u>

**RED 5 LIMITED
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	CONSOLIDATED	
	2012	2011
	\$	\$
8. INVENTORIES		
Raw materials and consumables	5,672,274	-
Ore stocks	125,136	-
Gold in circuit	1,109,703	-
	<u>6,907,113</u>	<u>-</u>
9. RECEIVABLES		
Prepayments	11,250	389,477
Security deposit	106,397	134,265
VAT receivable	8,799,378	2,957,617
	<u>8,917,025</u>	<u>3,481,359</u>
Security deposits represent funds held on deposit as security against bank guarantees.		
10. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment - at cost		
Opening balance	36,819,658	758,542
Additions	25,928,552	34,867,205
Transferred to Mine Development	(13,740,271)	1,880,908
Transferred from assets held for sale	-	1,300,000
Impairment loss	-	(950,000)
Disposals	(350,000)	-
Foreign currency translation adjustment	3,010,776	(1,036,997)
Closing balance	<u>51,668,715</u>	<u>36,819,658</u>
Accumulated depreciation		
Opening balance	433,643	311,130
Depreciation for the year	278,038	151,088
Foreign currency translation adjustment	30,141	(28,575)
Closing balance	<u>741,822</u>	<u>433,643</u>
Net book value	<u>50,926,893</u>	<u>36,386,015</u>
11. MINE DEVELOPMENT		
(a) Pre-production		
Opening balance	40,497,382	39,386,037
Transferred to property, plant and equipment	-	(1,880,908)
Transferred from property, plant and equipment	13,740,271	-
Development expenditure incurred in current year	21,232,097	8,352,808
Pre-production gold sales	(3,900,406)	-
Foreign currency translation adjustment	3,963,595	(5,360,555)
	<u>75,532,939</u>	<u>40,497,382</u>
Accumulated amortisation		
Opening balance	-	-
Amortisation for the year	133,030	-
Foreign currency translation adjustment	4,609	-
Closing balance	<u>137,639</u>	<u>-</u>
Pre-production net book value	<u>75,395,300</u>	<u>40,497,382</u>

**RED 5 LIMITED
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	CONSOLIDATED	
	2012	2011
	\$	\$
(b) Deferred Mining Waste Costs		
Opening balance	-	-
Deferred waste mining expenditure incurred during the year	2,372,402	-
Foreign currency translation adjustment	82,195	-
	<u>2,454,597</u>	<u>-</u>
Accumulated amortisation		
Opening balance	-	-
Amortisation for the period	379,125	-
Foreign currency translation adjustment	13,135	-
Closing balance	<u>392,260</u>	<u>-</u>
Deferred mining waste costs net book value	<u>2,062,337</u>	<u>-</u>
Total development net book value	<u>77,457,637</u>	<u>40,497,382</u>
12. EXPLORATION AND EVALUATION EXPENDITURE		
Opening balance	-	-
Exploration and evaluation expenditure incurred	10,557	2,026,093
Exploration expenditure written-off	<u>(10,557)</u>	<u>(2,026,093)</u>
	<u>-</u>	<u>-</u>
Exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves. The ultimate recoupment of deferred exploration and evaluation expenditure carried forward is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.		
13. TRADE AND OTHER PAYABLES		
Creditors and accruals	<u>8,748,138</u>	<u>5,056,848</u>
14. EMPLOYEE BENEFITS		
Provision for employee entitlements		
Opening balance	240,901	144,244
Increase in provision during the period	77,675	87,100
Net present value discount adjustment	-	9,557
	<u>318,576</u>	<u>240,901</u>
Current	203,070	136,287
Non-current	<u>115,506</u>	<u>104,614</u>
	<u>318,576</u>	<u>240,901</u>
15. PROVISIONS		
MCC final acquisition	1,116,104	1,116,104
Rehabilitation provision	347,305	307,940
Other	978,779	-
	<u>2,442,188</u>	<u>1,424,044</u>
Current	1,116,104	1,116,104
Non-current	<u>1,326,084</u>	<u>307,940</u>
	<u>2,442,188</u>	<u>1,424,044</u>

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

CONSOLIDATED

2012 **2011**
\$ **\$**

16. CONTRIBUTED EQUITY

(a) Share capital

135,488,008 (2011: 128,367,673)

ordinary fully paid shares ⁽ⁱ⁾

177,124,726	163,041,013
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(b) Movements in ordinary share capital

	CONSOLIDATED 2012		CONSOLIDATED 2011	
	Shares Number	\$	Shares Number	\$
On issue at 1 July ⁽ⁱ⁾	128,367,673	163,041,013	97,168,098	113,322,069
Share placements	7,075,472	15,000,000	30,000,000	51,000,000
Less share issue expenses	-	(981,903)	-	(3,139,203)
Exercised options	-	-	600,000	900,000
Re-issued treasury shares	-	-	560,956	897,593
Shares issued to management	44,863	65,616	38,619	60,554
On issue at 30 June	135,488,008	177,124,726	128,367,673	163,041,013

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

(c) Other Equity

	Shares Number	\$
Opening balance 1 July 2011 ^{(i) (ii)}	581,428	930,285
Balance 30 June 2012	581,428	930,285

(d) Movements in share options

	Options Number	Option Reserve \$
Opening balance 1 July 2011 ⁽ⁱ⁾	210,000	126,139
Issue of options to employees	80,000	55,139
Balance 30 June 2012	290,000	181,278

(i) On the 7th December 2011, Red 5 Limited completed a shareholder approved consolidation that resulted in every Ten (10) existing shares being consolidated into one (1) new share. Where the consolidation resulted in a fraction of a share being held by a shareholder, that fraction has been rounded up to the nearest whole number. Numbers of shares prior to this date have been presented on a post-consolidation basis.

(ii) Red 5 has provided for 581,428 shares to be issued at a fair value of \$930,285 to settle the outstanding tax liability in relation to the prior year acquisition of the Merrill Crowe Corporation (MCC). If the estimated tax liability is greater than provided, Red 5 will issue fewer shares to the vendor. If the tax liability is lower, it will issue up to 1.2 million shares to the vendor. This calculation is made based on \$1.51 per share.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

	CONSOLIDATED	
	2012	2011
	\$	\$
17. RESERVES		
Foreign currency translation reserve	(2,524,916)	(10,384,736)
Share based payment reserve	<u>181,278</u>	<u>126,139</u>
	<u>(2,343,638)</u>	<u>(10,258,597)</u>

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where the functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the parent entity's net investment in a foreign subsidiary.

Share based payment reserve

The share based payment reserve arises on the granting and vesting of equity instruments. Refer to Note 26 for further details.

18. RELATED PARTIES

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

Executive directors

Gregory Edwards – Managing Director

Non-executive directors

Colin Jackson

Gary Scanlan

Kevin Dundo

Mark Milazzo

Other executives

Joe Mobilia – Chief Financial Officer

Ron Pyatt – Operations Director

Rohan Williams – Group Exploration and Technical Manager

Compensation of key management personnel

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

	CONSOLIDATED	
	2012	2011
	\$	\$
<i>Key management personnel</i>		
Short term benefits	1,570,408	1,272,046
Post-employment benefits	135,573	103,056
Share based payments	92,311	131,409
Other benefits	<u>31,310</u>	<u>18,978</u>
	<u>1,829,602</u>	<u>1,525,489</u>

Loans to key management personnel

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

Other transactions with directors

As at 30 June 2012, unpaid salaries of \$136,460 are recognised and payable to Mr G Edwards. The unpaid salaries to Mr G Edwards were paid out in full in July 2012. Other than as disclosed in the remuneration report, there were no other transactions during the year between the consolidated entity and directors or their director-related entities.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

Share holdings of key management personnel

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

2012	Balance at 1 July 2011	Received during the year through the issue of shares to meet bonus payment	Other purchases during the year	Balance at 30 June 2012
G Edwards ⁽¹⁾	1,026,535	38,576	-	1,065,111
C Jackson	22,500	-	-	22,500
G Scanlan	50,000	-	-	50,000
K Dundo	-	-	-	-
M Milazzo	25,000	-	-	25,000
J Mobilia ⁽²⁾	38,671	6,287	-	44,958
R Pyatt	-	-	-	-
R Williams ⁽³⁾	-	-	-	-
Total	1,162,706	44,863	-	1,207,569

⁽¹⁾ a prior period bonus payment consisting of 38,576 fully paid shares was approved by shareholders during the year. 13,888 of the fully paid shares were for the period to 31 December 2010 and are disclosed in the 2011 remuneration table. The remainder of 24,688 fully paid shares were for the period to 30 June 2011 and are disclosed in the 2012 remuneration table.

⁽²⁾ a prior period bonus payment consisting of 6,287 fully paid shares for the period to 30 June 2011 was paid during the year.

⁽³⁾ appointed 1 July 2011.

2011	Balance at 1 July 2010	Received during the year through the issue of shares to meet bonus payment	Other purchases during the year	Balance at 30 June 2011*
G Edwards ⁽¹⁾	1,010,000	16,535	-	1,026,535
C Jackson	22,500	-	-	22,500
G Scanlan	-	-	50,000	50,000
K Dundo	-	-	-	-
M Milazzo ⁽²⁾	-	-	25,000	25,000
B Bolitho ⁽³⁾	-	-	710	710
J Mobilia	10,000	7,671	21,000	38,671
R Pyatt ⁽⁴⁾	-	-	-	-
W Darcey ⁽⁵⁾	-	-	-	-
Total	1,042,500	24,206	96,710	1,163,416

⁽¹⁾ a bonus payment consisting of 16,534 fully paid shares for the period to 31 December 2009 was approved by shareholders during the year. A bonus payment of 13,888 fully paid shares is yet to be approved by shareholders and has not been included in this table.

⁽²⁾ appointed 1 May 2011.

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

⁽⁴⁾ appointed 9 May 2011.

⁽⁵⁾ resigned 31 October 2010.

* Numbers of shares on issue for the year ending 30 June 2011 have been presented on a post-consolidation basis that resulted in every ten (10) existing shares being consolidated into one (1) new share.

**RED 5 LIMITED
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Option holdings of key management personnel

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

2012	Held at 1 July 2011	Granted as compensation	Exercised	Other changes	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
J Mobilia	80,000	80,000	-	-	160,000		160,000
Total	80,000	80,000	-	-	160,000	-	160,000

2011	Held at 1 July 2010	Granted as compensation	Exercised	Other changes	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011*
J Mobilia	-	80,000	-	-	80,000	-	80,000
F Campagna	-	60,000	-	-	60,000	-	60,000
Total	-	140,000	-	-	140,000	-	140,000

* Numbers of options on issue for the year ending 30 June 2011 have been presented on a post-consolidation basis that resulted in every ten (10) existing shares being consolidated into one (1) new shares.

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 22.

Individual directors and executives compensation disclosures

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

CONSOLIDATED
2012 **2011**
\$ **\$**

19. REMUNERATION OF AUDITOR

Amounts paid or due and payable to the auditor for:

Auditing and reviewing financial reports - KPMG Australia	110,473	108,950
- overseas KPMG firms	34,912	26,104
Other services – advisory (KPMG Australia)	18,405	28,663
Taxation advisory services – KPMG Australia	37,750	61,372
– overseas KPMG firms	<u>6,712</u>	<u>5,859</u>
	<u>208,252</u>	<u>230,948</u>

20. EXPENDITURE COMMITMENTS

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

- not later than one year	<u>3,480,667</u>	<u>19,106,547</u>
	<u>3,480,667</u>	<u>19,106,547</u>

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

- not later than one year	321,068	292,516
- later than one year but not later than two years	72,665	231,673
- later than two years but not later than five years	<u>28,636</u>	<u>134,649</u>
	<u>422,369</u>	<u>658,838</u>

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

21. SEGMENT INFORMATION

Identification of reportable segments

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

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

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Unallocated items

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

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

Comparative information

Comparative information has been stated to conform to the requirements of AASB 8: Operating Segments.

	Philippines	Reconciliation to Group	Total
	\$	\$	\$
(i) Segment performance			
Year ended 30 June 2012			
External sales	4,277,750	-	4,277,750
Interest revenue	25,250	1,114,015	1,139,265
Other income	27,493	1,181,657	1,209,150
Segment revenue	4,330,493	2,295,672	6,626,165
Segment result	(1,359,210)	(323,704)	(1,682,914)
Included within segment result:			
Depreciation and amortisation	(526,209)	(9,486)	(535,695)
Option issue expense	-	(55,139)	(55,139)
Exploration written off	(10,557)	-	(10,557)
Reversal of impairment of assets	-	262,495	262,495
Provision for doubtful debts	(483,678)	-	(483,678)
Year ended 30 June 2011			
Interest revenue	37,078	2,952,094	2,989,172
Other income	48,860	563,105	611,965
Segment revenue	85,938	3,515,199	3,601,137
Segment result	(3,484,855)	(4,626,669)	(8,111,524)

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

(i) Segment results (continued)

Included within segment result:			
Depreciation	(10,018)	(16,907)	(26,987)
Option issue expense	-	(97,719)	(97,719)
Exploration written off	(2,026,093)	-	(2,026,093)
Impairment of assets	(950,000)	-	(950,000)

(ii) Segment assets

As at 30 June 2012

Segment assets	150,161,198	10,890,512	161,051,710
Additions to non-current assets:			
Capital expenditure	25,927,653	899	25,928,552
Exploration expenditure	10,557	-	10,557
Development expenditure	19,704,093	-	19,704,093

As at 30 June 2011

Segment assets	90,331,568	45,801,490	136,133,058
Additions to non-current assets:			
Capital expenditure	34,856,708	10,497	34,867,205
Exploration expenditure	2,026,093	-	2,026,093
Development expenditure	8,352,808	-	8,352,808

(iii) Segment liabilities

As at 30 June 2012

Segment liabilities	10,809,257	699,645	11,508,902
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As at 30 June 2011

Segment liabilities	5,453,517	1,268,276	6,721,793
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22. INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entities	Country of incorporation	Class of shares	Equity holding	
			2012 %	2011 %
Bremer Resources Pty Ltd	Australia	Ordinary	100	100
Estuary Resources Pty Ltd	Australia	Ordinary	100	100
Greenstone Resources (WA) Pty Ltd	Australia	Ordinary	100	100
Oakborough Pty Ltd	Australia	Ordinary	100	100
Opus Resources Pty Ltd	Australia	Ordinary	100	100
Red 5 Philippines Pty Ltd	Australia	Ordinary	100	100
Red 5 Mapawa Pty Ltd	Australia	Ordinary	100	100
Red 5 Dayano Pty Ltd	Australia	Ordinary	100	100
Bremer Binaliw Corporation	Philippines	Ordinary	100	100
Red5 Mapawa Incorporated	Philippines	Ordinary	100	100
Red5 Dayano Incorporated	Philippines	Ordinary	100	100
Red 5 Asia Incorporated	Philippines	Ordinary	100	100
Greenstone Resources Corporation (i)	Philippines	Ordinary	40	40
Surigao Holdings and Investments Corporation (i)	Philippines	Ordinary	40	40

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

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

23. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2012	2011
	\$	\$
Operating (loss) after income tax	(1,682,914)	(8,111,524)
Amortisation and depreciation	535,695	26,987
Share and options	120,755	134,315
Impairment of property, plant and equipment	(262,495)	950,000
Royalty income	(100,598)	-
Doubtful debt expenses	483,678	-
Financing expenses	-	53,576
Exchange loss	774,300	529,557
Funding extinguishment costs	-	4,369,011
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(22,169)	(399,188)
Increase/(decrease)in payables	(176,950)	817,443
Increase/(decrease)in provisions	1,063,043	(87,359)
Net cash inflow/(outflow) from operating activities	<u>732,345</u>	<u>(1,717,182)</u>

	CONSOLIDATED	
	2012	2011
	\$	\$
24. EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<u>130,305,678</u>	<u>116,141,405</u>
Issued ordinary shares at commencement of financial year	128,367,673	97,167,809
Effect of share placement 21 October 2010	-	7,070,137
Effect of share placement 29 November 2010	-	11,554,521
Effect of shares issued 16 December 2010	-	16,704
Effect of exercise of unlisted options 9 February 2011	-	233,425
Effect of reissued treasury shares 21 April 2011	-	97,260
Effect of shares issued 10 May 2011	-	1,072
Effect of re-issued treasury shares 27-30 June 2011	-	477
Effect of shares issued 16 December 2011	24,148	-
Effect of share placement 23 March 2012	<u>1,913,857</u>	<u>-</u>
Weighted average number of ordinary shares for the financial year	<u>130,305,678</u>	<u>116,141,405</u>

Numbers of ordinary shares on issue for the financial year ending 30 June 2011 have been presented on a post-consolidation basis that resulted in every ten (10) existing shares being consolidated into one (1) new share.

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

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

25. SUBSEQUENT EVENTS

Since 30 June 2012, the Group has completed the execution of a US \$8,000,000 credit facility with Sprott Resource Lending Partnership.

**RED 5 LIMITED
AND CONTROLLED ENTITIES**

26. SHARE BASED PAYMENTS

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

Shares and options are issued on the following terms:

- (a) The Board may from time to time determine that any eligible person is entitled to participate in the plan and the extent of that participation. In making that determination, the Board may consider, where appropriate:
- the seniority of the eligible person and the position the eligible person occupies within the consolidated entity;
 - the length of service of the eligible person with the consolidated entity;
 - the record of employment or engagement of the eligible person with the consolidated entity;
 - the contractual history of the eligible person with the consolidated entity;
 - the potential contribution of the eligible person to the growth of the consolidated entity;
 - the extent (if any) of the existing participation of the eligible person (or any permitted nominee in relation to that eligible person in the plan; and
 - any other matters which the Board considers relevant.
- (b) A 5% limit is imposed on the number of shares to be received on exercise of the options issued under the plan. This includes all shares issued (or which might be issued pursuant to the exercise of an option under each outstanding offer), the number of shares in the same class that would be issued if offers under the plan were accepted or if options over them were exercised and the number of shares in the same class issued under the previous five years pursuant to the plan. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights.
- (c) When exercisable, each option is convertible into one ordinary share. The exercise price of options is determined by the Board when it resolves to offer the option and will be not less than 80% of the average closing sale price of the shares on the ASX Limited over the five trading days immediately preceding the date of issue of any offer document in relation to the offer, or the date of resolving to issue the options or the date of issue of options by the Board, as the case may be.

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

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired/ forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year ⁽ⁱ⁾
		\$	Number	Number	Number	Number	Number	Number
Consolidated – 2012								
16.06.08	30.06.13	2.50	70,000	-	-	-	70,000	70,000
28.04.11	30.04.14	2.50	70,000	-	-	-	70,000	70,000
28.04.11	30.04.16	4.00	70,000	-	-	-	70,000	70,000
22.03.12	31.12.14	2.70	-	40,000	-	-	40,000	40,000
22.03.12	31.12.16	4.30	-	40,000	-	-	40,000	40,000
			210,000	80,000	-	-	290,000	290,000
Weighted average exercise price			\$3.00	\$3.50	-	-	\$3.25	\$3.25
Consolidated – 2011								
12.12.07	31.12.12	1.50	600,000	-	(600,000) ⁽ⁱⁱ⁾	-	-	-
16.06.08	30.06.11	1.50	70,000	-	-	(70,000)	-	-
16.06.08	30.06.13	2.50	70,000	-	-	-	70,000	70,000
28.04.11	30.04.14	2.50	-	70,000	-	-	70,000	70,000
28.04.11	30.04.16	4.00	-	70,000	-	-	70,000	70,000
			740,000	140,000	(600,000)	(70,000)	210,000	210,000
Weighted average exercise price			\$1.60	\$3.25	\$1.50	\$1.50	\$3.00	\$3.00

- (i) Numbers of options for the financial year ending 30 June 2011 have been presented on a post-consolidation basis that resulted in every (10) existing shares being consolidated into one (1) new share.
- (ii) 600,000 options were issued as part commission for a share placement and are not employee shares.

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26. SHARE BASED PAYMENTS (continued)

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. In estimating the expected volatility of the underlying shares, the consolidated entity has considered the extent to which past experience is expected to be reasonably predictive of future experience. Consequently, the expected share price volatility has been calculated using daily closing share price observations for the most recent twelve month period from grant date of the underlying shares.

During the period, the parent entity granted 80,000 unlisted options as share based payments to executives. These options were issued on 22 March 2012, with 40,000 options expiring on 31 December 2014 and 40,000 options expiring on 31 December 2016. The exercise price of the options is \$2.70 and \$4.30 respectively and must be settled in cash. The fair value at grant date is determined using a Black-Scholes option pricing model with the following terms:

	CONSOLIDATED	
	2012	2011
Weighted average exercise price	\$3.50	\$0.325
Average life of the option	3.778 years	4.005 years
Underlying share price	\$1.93	\$0.16
Expected share price volatility (based on historic volatility)	65%	75%
Dividend yield	Nil	Nil
Risk free interest rate	3.43%	5.09%
Total expenses arising from share-based payment transactions recognised as part of employee benefit expense	\$55,139	\$97,719

During the year shares relating to prior period performance were issued to management in accordance with key performance indicators set by the Remuneration Committee for example, performance against the annual operating budget, health and safety measures and other operations-related criteria. Subsequent to the approval at the Annual General Meeting on 23 November 2011, Mr G Edwards was issued on 16 December 2011, 13,888 fully paid ordinary shares relating to performance during the period to 31 December 2010 at a market price of \$1.80 and 24,688 fully paid ordinary shares relating to performance during the period to 30 June 2011 at a market price of \$1.80. On 16 December 2011, 6,287 fully paid ordinary shares relating to performance during the period to 30 June 2011 were issued to Mr J Mobilia at a market price of \$1.80.

27. FINANCIAL RISK MANAGEMENT

Overview

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

The consolidated entity does not currently use any form of derivatives. Exposure risks are reviewed by management on a continuous basis. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Credit risk

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

Exposure to credit risk

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

	CONSOLIDATED	
	Carrying amount	
	2012	2011
	\$	\$
Trade and other receivables	3,379,697	3,263,346
Cash and cash equivalents	13,463,345	52,504,956
Non-current receivables	8,917,025	3,481,359

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 2012**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	8,748,138	(8,748,138)	(8,748,138)	-	-
Provisions	2,760,764	(3,398,940)	(101,535)	(1,217,639)	(2,079,766)
	11,508,902	(12,147,078)	(8,849,673)	(1,217,639)	(2,079,766)

**CONSOLIDATED
30 June 2011**

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	5,056,848	(5,056,848)	(5,056,848)	-	-
Provisions	1,664,945	(2,318,417)	(1,184,248)	(68,143)	(1,066,026)
	6,721,793	(7,375,265)	(6,241,096)	(68,143)	(1,066,026)

Market risk

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

Currency risk

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

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

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Exposure to currency risk

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

	30 June 2012		30 June 2011	
	USD \$AUD	Total \$AUD	USD \$AUD	Total \$AUD
Cash	145,025	145,025	210,144	210,144
Trade payables	(177,917)	(177,917)	(75,278)	(75,278)
Gross balance sheet exposure	(32,892)	(32,892)	134,866	134,866

Sensitivity analysis

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June 2012 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

**CONSOLIDATED
Profit or loss
\$AUD**

30 June 2012

USD 3,289

30 June 2011

USD (13,487)

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

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

	CONSOLIDATED Carrying amount	
	2012 \$	2011 \$
Variable rate instruments		
Cash and cash equivalents	13,463,345	52,504,956
Interest bearing bonds	106,397	134,265
	<u>13,569,742</u>	<u>52,639,221</u>

Profile

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

CONSOLIDATED

	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2012				
Variable rate instruments	135,697	(135,697)	135,697	(135,697)
30 June 2011				
Variable rate instruments	526,392	(526,392)	526,392	(526,392)

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Net Fair values

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

Capital management

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

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

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

28. PARENT ENTITY DISCLOSURES

(a) Financial Position	2012	2011
	\$	\$
Assets		
Current assets	10,762,526	45,298,781
Non-current assets	140,932,034	91,429,056
Total assets	<u>151,694,560</u>	<u>136,727,837</u>
Liabilities		
Current liabilities	1,971,109	2,539,740
Non-current liabilities	-	-
Total liabilities	<u>1,971,109</u>	<u>2,539,740</u>
Contributed equity	177,124,726	163,041,013
Other equity	930,285	930,285
Reserves	181,278	126,139
Accumulated losses	(28,512,838)	(29,909,340)
Total equity	<u>149,723,451</u>	<u>134,188,097</u>
(b) Financial Performance		
Profit/(loss) for the year	1,396,502	(12,671,147)
Other comprehensive income	-	-
Total comprehensive income	<u>1,396,502</u>	<u>(12,671,147)</u>
(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries		
Guarantee provided under the deed of cross guarantee	-	-
(d) Contingent liabilities of the parent entity	-	-
(e) Commitments for the acquisition of property, plant and equipment by the parent entity	-	-

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DECLARATION BY DIRECTORS

The Board of Directors of Red 5 Limited declares that:

- (a) the financial statements, accompanying notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the financial position as at 30 June 2012 and performance of the consolidated entity for the financial year ended on that date; and
 - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1;
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) there are reasonable grounds to believe that the parent entity will be able to pay its debts as and when they fall due.

The Board of Directors has received the declaration by the Managing Director and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Colin G Jackson
Chairman

Perth, Western Australia
26 September 2012



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

Report on the financial report

We have audited the accompanying financial report of Red 5 Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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



Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Red 5 Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG.

KPMG

R. Gambitta
Partner

Perth

26 September 2012