Red 5 Limited

# 2013 Annual Report

# Corporate Profile

Red 5 Limited (ABN 73 068 647 610) is listed on the Australian Securities Exchange (ticker RED) and the OTCQX (ticker RDFLY) with nearly 4,000 shareholders.

The largest shareholders are Baker Steel Capital Managers, Franklin Templeton and Van Eck Global. There are also a further twenty institutional shareholders based in New York, Connecticut, London, Europe, Hong Kong, Melbourne and Sydney.

The Company's principal asset is the Siana Gold Mine in the Philippines, held under a 25 year (renewable) Mineral Production Sharing Agreement by a Philippine compliant company.

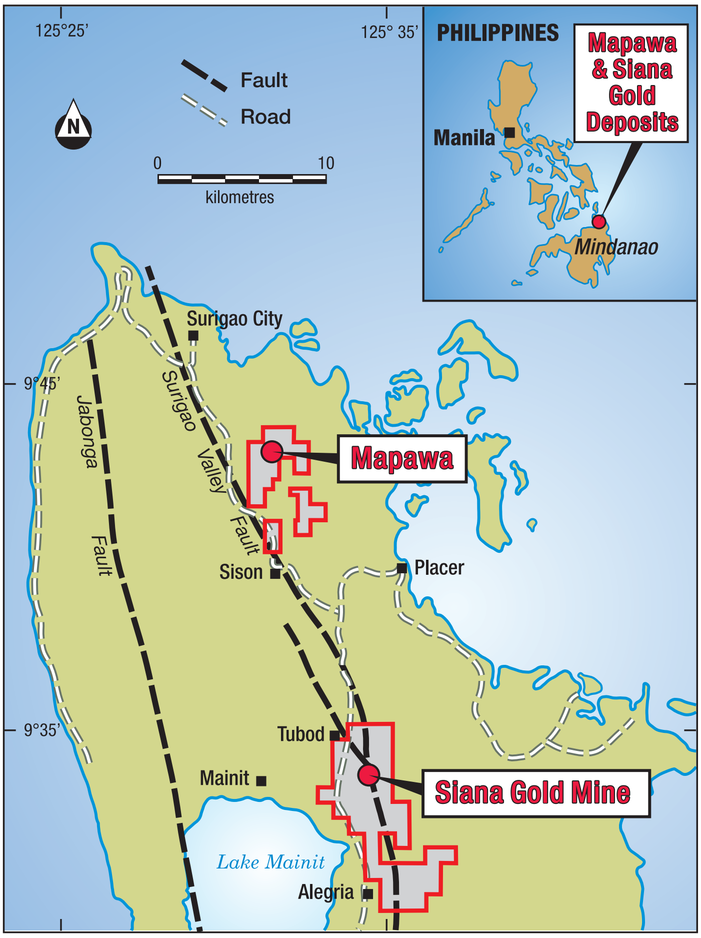
The Siana mine development comprises an open pit operation to be followed by an underground mine. Ore is treated through a conventional modern gravity and carbon-in-leach plant to produce gold doré, which is shipped to Metalore in Geneva for refining.

Commercial production was declared mid-April 2012, however difficult conditions in the pit and poor operating performance by the earthmoving contractor resulted in a slow ramp-up. Numerous changes were implemented early in calendar 2013 and performance met or exceeded forecasts in April 2013.

In late April 2013, operations were suspended due to early detection of a minor disturbance of a small portion of the tailings dam wall. No spill occurred but the operation is currently on care-and-maintenance until a financing is approved by shareholders.

The value of the Siana asset has been maintained and the forecast low cash cost of gold production remains intact.

A second asset is the Mapawa MPSA, 20 kilometres north of Siana which has the potential to provide satellite ore to the Siana development. The property is also prospective for a gold-porphyry discovery.




## Contents

# ... ready to recommence production

# Message to shareholders

## from the Chairman

*The last twelve months has seen the business fall well short of expectations due to a combination of poor operating performance and misfortune.*

*A year ago, the then Managing Director noted that with the silt and debris cleared from the open pit, a significant improvement in mine contractor performance was anticipated. This did not eventuate. The process plant operated at well below nameplate throughput design rates, and although at an operating level, the mine actually ran at cash breakeven, the treasury position continued to decline as sustaining capital was committed to meet the waste removal schedule.*

*In mid- November 2012, the Managing and founding director resigned and Gary Scanlan, a non-executive director took over the lead operational duties whilst a permanent replacement was found. However, late December 2012, Gary tendered his resignation.*

*With the operation still under performing by the calendar year end, the Company drew on a US$25 million debt facility. This facility which was mandated in August 2012 was at the time considered as a stand-by facility only, with no expectation that it would ever be drawn upon. The funds were allocated to retiring a small debt facility and on-going working capital.*

*Major changes were made to senior mine site management. Additional power and pumping was installed and a new earthmoving contractor mobilised. The operations turned around and by April 2013 the mine had achieved record and above forecast performance in tonnes moved, record mill throughput and importantly, record gold doré outturn. There was even a stockpile of ore awaiting processing.*

*And then on 25 April 2013, a minor soil disturbance was detected at the toe of the tailings dam wall. Management immediately ceased milling operations. Within twenty days, the downstream area was stabilised and risk mitigation activities comprising a 900 metre long containment bund and 700 metres long river diversion were completed. To be absolutely clear, there was no leak from the tailings dam and no environmental damage.*

*However, it was quickly determined that to recommence operations using the same tailings storage facility was neither a sensible nor a commercial proposition. This has led to the site operations remaining on care and maintenance for the last six months, necessitating the lay-off of over 700 employees, and standstill arrangements with contractors and suppliers.*

*Siana, however, remains a valuable asset. Less than 5 percent of the one million resource has been mined to date, and the mine and process plant have operated at nameplate (albeit for a short time period only).*

*Our new Managing Director, who commenced duties on 1 February 2013, Steve Norregaard, outlines the route back to sustainable low cost gold production in his message.*

*There were three changes to the board during the year which today is comprised of four members. An additional non-executive director position, with a finance background skill-set, will be sought once the gold revenues recommence.*

*The Company shares were placed in a trading halt on the ASX late April 2013 and will remain in voluntary suspension until after the completion of the shareholder meeting on 21 October 2013 which is set to consider a re-financing of the balance sheet. The board recognises that this may have limited shareholder flexibility to deal with their own financial affairs. However, to remain listed during this period of great uncertainty would have led to uninformed and speculative trading, to the detriment of existing shareholders.*

*At the time of going to press, the Company's future is in the hands of its shareholders. At the October 2013 meeting, approval is being sought for Tranche 2 of the placement equity raise - $48 million.*

*If approval is not given, then the Company will be unable to meet its repayment obligations to the bank nor will it be able to re-commence mine operations which will see the opportunity to participate in a profitable business lost to Red5 shareholders.*

***Colin G Jackson***
*Chairman*

## from the Managing Director

*From any perspective this has been a challenging year. Whilst I have only been personally involved for a short period of time, I have come to appreciate the unique challenges the Philippines and Siana presents, none of which should be underestimated. That said, the unique situation we have currently doesn't diminish the very favorable investment case that remains.*

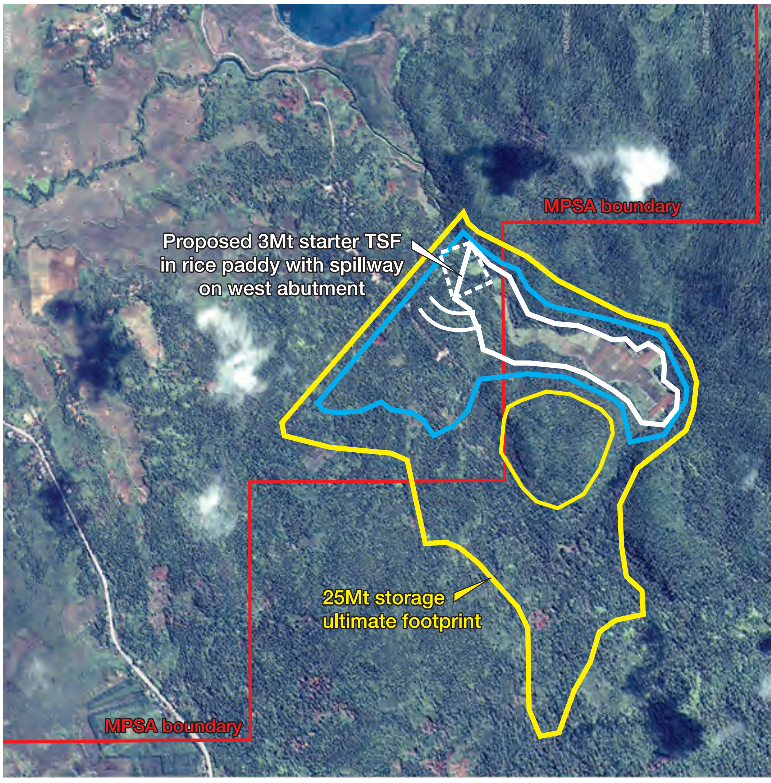
- *We have maintained the intrinsic value of the asset*
- *A core management team remain intact for a prompt recommencement of mining*
- *The project is ideally placed for a smooth startup*
  - *there is a substantial ore stockpile on the ROM pad*
  - *prior waste movement has lowered the remaining open pit strip ratio*
- *Less than 5% of the mining reserve and resource base has been exploited to date, and*
- *The processing plant and mine have demonstrated nameplate statistics - the mine and mill are largely de-risked.*

*What we do not have today, is an operational tailings storage facility. However, I can report that at the time of writing the Company and its various specialist consultants are nearing completion of the required engineering and design work to provide a detailed execution plan for the recommencement of mining and processing in the shortest timeframe possible.*

*Whilst many options have been considered, we have concluded the following plan as being the most appropriate dealing with the short term future and, providing capacity in the longer term to cater for any mine life extensions or additional sources of mill feed.*

*Our immediate interim solution is confined to the existing mine footprint. We have devised a two stage solution utilising the area occupied by the former tailings storage areas and the 10Ha of land acquired to divert the Magpayang River and establish a containment bund. Initial works will comprise a 400,000 tonne plus capacity conventional style tailings facility within the containment bund area, immediate upon the lifting of the Cease and Desist Order and achieving shareholder approval for the placement funding. Specific design features include a plastic (HDPE) liner to minimise the opportunity of the embankment material to become saturated.*

*We anticipate up to a three month construction timeframe with an effective life for the facility of four months plus. During this period, a thickener and a paste plant will be constructed. This will achieve a thickened tail to which cement will be added to generate material with a toothpaste consistency. This material will then be co-deposited or integrated with waste for up to two years. One associated benefit will be markedly reduced haulage distance for waste placement.*




*The interim solution delivers the shortest period to recommence operations. The resulting landform will be a stable water shedding feature, able to be revegetated and achieving an earlier closure of the historic tailings facilities on the property.*

*In the longer term, there are excellent prospects to see the operating life at Siana grow, either from satellite resources at Mapawa or even Alegria to the south. For this, a larger permanent tailing storage solution outside of the current footprint will be required. This entails the purchase of 150Ha of land from multiple local landowners and permitting approval. The interim tailings storage strategy gives the Company a two year window for this to be completed.*

*In summary, the Company has an excellent resource base capable of producing gold very economically, a differentiating attribute in what is a peer group landscape dotted with many high cost producers with little upside. Whilst Siana has had its challenges in the past, with a well-funded, well-engineered and well executed mine plan, investors can look forward with a high degree of optimism.*

***Steve Norregaard***
*Managing Director*

# Discussion & Analysis

## Siana Gold Mine

### Production Summary

Production statistics relate to the 10 months ending 25 April 2013, prior to when the Siana mine was placed under care and maintenance.

| *Key Indicators* | *Units* | *Year ending June 2012* | *Year ending * June 2013* |
|---|---|---|---|
| **Mine Production** | | | |
| Waste Mined | *BCM '000s* | 1,248 | 1,978 |
| Ore Mined | *t* | 157,184 | 411,512 |
| Mining cost per tonne | *$/t* | 5.11 | 4.06 |
| **Mill Production** | | | |
| Ore Processed | *t* | 153,353 | 369,864 |
| Head Grade - Gold | *g/t* | 1.6 | 2.2 |
| Head Grade - Silver | *g/t* | 11.5 | 7.8 |
| Processing cost per tonne | *$/t* | 30.80 | 29.92 |
| Recovery - Gold | *%* | 70 | 71 |
| Recovery - Silver | *%* | 55 | 37 |
| Gold Recovered | *oz* | 5,586 | 18,255 |
| Silver Recovered | *oz* | 35,604 | 36,719 |
| Gold Sold | *oz* | 5,119 | 18,141 |
| Silver Sold | *oz* | 35,496 | 37,870 |
| Average Gold Price received | *US$/oz* | 1,626 | 1,604 |
| Cash Operating Costs *(i)* | *A$/oz* | 829 | 1,002 |
| Total Operating Costs *(ii)* | *A$/oz* | 1,002 | 1,376 |

** The mine was on care and maintenance during May and June 2013*

*(i) Includes all site expenditure, royalties, dore shipping & refining costs, silver credits and inventory movement adjustments. Does not include actual waste stripping costs which are deferred and amortised over the life of the open pit.*

*(ii) Includes all cash operating costs plus plant & equipment depreciation and amortisation of waste stripping costs and capitalised pre production mining and exploration costs.*


*E-pad stockpile*

***See pages 8 to 10 of the Directors' Report, Review of Operations, for further details.***

### Production Cost Summary

Total operating costs for the year were A$22.5 million of which A$4.3 million was related to care and maintenance costs incurred during the months of May and June 2013.

Cash costs per ounce for the year were A$1,002/oz and total production costs (including depreciation and amortisation) were A$1,376/oz.

No gold was produced in May and June 2013, however 1,294 ounces of gold recovered from in-circuit stocks was sold in May 2013.

| | *Year ending June 2012* | | *Year ending * June 2013* | |
|---|---|---|---|---|
| | *A$m* | *A$/oz* | *A$m* | *A$/oz* |
| Mining Costs | 0.56 | 88 | 1.7 | 92 |
| Processing Costs | 3.82 | 526 | 11.1 | 610 |
| G&A Costs | 2.01 | 300 | 5.2 | 287 |
| Other Costs | 0.37 | 28 | 1.2 | 65 |
| Silver Credits | (0.41) | (113) | (1.0) | (52) |
| Care and Maintenance Costs | | | 4.3 | |
| **Cash Operating Costs** | **6.35** | **829** | **22.5** | **1,002** |
| Depreciation | 0.37 | 52 | 1.5 | 80 |
| Amortisation | 1.98 | 121 | 5.3 | 294 |
| Care and Maintenance Costs | | | 0.7 | |
| **Depreciation and Amortisation** | **2.35** | **173** | **7.5** | **374** |
| **Total Costs** | **8.70** | **1,002** | **30.0** | **1,376** |

** the mine was under care and maintenance during the months of May 2013 and June 2013.*

### Financial Summary

| | *Year ending June 2012 A$m* | *Year ending * June 2013 A$m* |
|---|---|---|
| Sales Proceeds | 9.2 | 28.5 |
| Cost of Sales | (6.3) | (18.2) |
| Care and Maintenance Costs | | (4.3) |
| **EBITDA from Operations** | 2.9 | 6.0 |
| Depreciation and Amortisation | (2.4) | (7.5) |
| **Net Earnings from Operations** | 0.5 | (1.5) |
| Philippine and Australian Corporate costs | (1.6) | (7.2) |
| **Net Earnings/(Loss)** | (1.0) | (8.7) |
| **Capital Expenditure** | | |
| Waste Stripping Costs *(i)* | 2.45 | 14.2 |
| Plant and Equipment | 0.52 | 7.2 |
| Exploration | 0.20 | 0.5 |

** The mine was on care and maintenance during May and June 2013*

*(i) All waste stripping costs for the period are capitalised and amortised over the life of the open pit.*

# dam wall compromised ... mitigation actions promptly executed

Tailings dam wall crack over 200 metres

900m long x 3m high retaining embankment

Backfill 700m original water course

River diversion 240m long x 30m wide

# Resource & Reserve

## Siana Mineral Resource and Reserve Statement

The Mineral Resource, dated as at the end of July 2012, and calculated using a US$900 per ounce gold price, has not been updated to include drill results recorded during the 2011/2012 drilling campaign in and adjacent to the Siana pit. It has however been depleted to account for open pit mining up to the end of June 2013.

The Mineral Resource, calculated in accordance with JORC guidelines is 12.6Mt at 3.3g/t gold and 5.5g/t silver for 1,318,000 ounces of gold and 2,222,000 ounces of silver.

A cut-off grade of 0.8g/t gold was used to define the Mineral Resource in the open pit and 2.0g/t gold was used for the cut-off grade in the underground portion of the deposit.

The Ore Reserve of the Siana Project has been depleted to the end of month survey at the end of June 2013 to reflect open pit mining at Siana and includes the ROM pad surface stockpile. It has been updated to reflect the September 2011 Mineral Resource and therefore reflects an open pit currently being implemented based on a gold price of US$650 per ounce and an underground mining operation following the completion of the open pit phase.

### Mineral Resource (depleted to the end of June 2013)

| Category | Tonnes (million) | Gold Grade (g/t) | Contained Gold ('000 oz) | Silver Grade (g/t) | Contained Silver ('000 oz) |
|---|---|---|---|---|---|
| **Indicated Resource** | | | | | |
| Open Pit | 9.3 | 2.5 | 740 | 4.2 | 1,254 |
| Underground | 0.9 | 6.7 | 199 | 12.2 | 359 |
| **Total Indicated Resource** | **10.2** | **2.9** | **939** | **4.9** | **1,613** |
| **Inferred Resource** | | | | | |
| Open Pit | 1.2 | 2.7 | 104 | 4.5 | 176 |
| Underground | 1.1 | 7.6 | 276 | 12.0 | 433 |
| **Total Inferred Resource** | **2.3** | **5.0** | **380** | **8.1** | **609** |
| **Total Mineral Resource** | **12.6** | **3.3** | **1,318** | **5.5** | **2,222** |

*Note: contains minor rounding adjustments; open pit cut-off grade 0.8g/t Au.*
*Underground resources are defined as the region below the optimised open pit at a US$900 gold price (nominally below -270mRL) using a >2g/t Au cut-off*

### Ore Reserve (as at June 2013)

| Category | Tonnes (million) | Gold Grade (g/t) | Contained Gold ('000 oz) | Silver Grade (g/t) | Contained Silver ('000 oz) |
|---|---|---|---|---|---|
| **Probable Reserve** | | | | | |
| Open Pit | 3.59 | 2.79 | 322 | 5.7 | 658 |
| Underground | 1.94 | 5.82 | 363 | 9.1 | 566 |
| Stockpiles | 0.04 | 2.80 | 4 | | |
| **Total Ore Reserve** | **5.57** | **3.83** | **689** | **6.8** | **1,224** |

*Note: contains minor rounding adjustments; open pit cut-off grade 0.9g/t Au.*
*Underground reserves are defined as the region below the open pit using a >2g/t Au cut-off and does not include a crown pillar beneath the open pit*

### Mineral Resource

Mineral Resource estimates described in this report are consistent with the guidelines and definitions of the 2004 Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code). They are assumed to have a reasonable prospect for eventual economic extraction according to the analysis of the known data and from which Ore Reserves have been derived by the application of appropriate Modifying Factors including mining, metallurgical, economic, marketing, legal, environmental, social and governmental considerations.

#### *Open Pit Mineral Resource*

The open pit Mineral Resource was estimated by Hellman & Schofield Pty Ltd using the method of Multiple Indicator Kriging with block support correction.

#### *Underground Mineral Resource*

The underground Mineral Resource was estimated by Cube Consulting Pty Ltd based on drill data available at December 2008. The Mineral Resource remains open to the north, south and at depth below 500 metres vertical.

### Ore Reserve

The Ore Reserve extends to approximately 400 metres below surface.

### Competent Person Declaration

*The information in this Public Report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on, and accurately reflects, information compiled by Mr Rohan D Williams who is a full-time employee of Red 5 Limited and is a Member of The Australasian Institute of Mining and Metallurgy.*

*Mr Williams has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr Williams consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# Financial Statements

for the year ended
30 June 2013

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 2013.

## 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 George Jackson
Gregory Charles Edwards (resigned on 15 November 2012)
Gary Francis Scanlan (resigned on 31 December 2012)
Johannes Norregaard (appointed 1 February 2013)
Kevin Anthony Dundo
Mark Francis Milazzo

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

## Principal Activities

The principal activities of Red 5 and the consolidated entity (which includes controlled entities of Red 5) during the financial period were development, mining and gold production at the Philippine based Siana gold project.

## Results of Operations

The net loss of the consolidated entity after income tax was $8,813,753 (2012: $1,682,914).

## Review of Operations

### Project description

The Siana gold project located on the southern Philippine island of Mindinao continued to be the main focus for the Group during the year. The project covers an area of approximately 39 square kilometres in the established gold mining province of Surigao del Norte. The Siana tenements cover 12 kilometres of strike on the Surigao Valley fault which is a richly endowed mineral field with many epithermal gold systems and several known porphyry copper-gold deposits.

The Siana gold project is currently in the open pit phase and will be followed by an underground mine. Ore is treated through a conventional modern gravity and carbon-in-leach plant to produce gold doré. The project is expected to have a ten year mine life with the open pit mining to continue for approximately 2.5 years and processing of stockpiled open pit ore for an additional 2.5 years during which the mine will transition to underground mining.

On 25 April 2013 the Group suspended all operations at the Siana mine due to the discovery of a minor subsidence over a minor distance of the tailings dam wall. Subsequent investigations from technical experts found that the tailings dam wall had been compromised and rectification to re-instate the facility to operational status was not recommended. Within 25 days of discovery of the crack, the Group implemented a rectification program to mitigate against any possible failure of the tailings dam wall. As a result of the remedial works there has been no spill or environmental damage.

Although there was no spill or environmental damage from the compromised tailings dam wall, on 6 June 2013 the Philippines Mines and Geoscience Bureau (MGB) issued the Group with a Cease and Desist Order (CDO) which effectively stopped the Group from continuing with any operating activities until the remedial works have been completed to the satisfaction of the MGB and an alternate method for disposing of tails has been approved by the MGB.

As at the date of this report the Cease and Desist Order was still in place and the Siana operations remained under care and maintenance. The Group has complied with all the requirements contained in the CDO and has made a formal representation to the MGB to have the CDO rescinded.

### Production and operating results

Mine production during the year was severely impacted by a number of factors including:

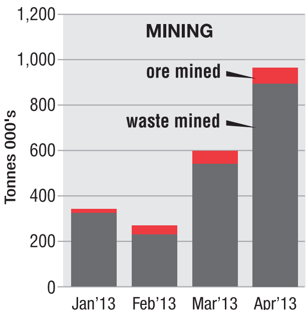
- removal of silt from the bottom of the pit floor;
- inadequate dewatering arrangements for the open pit after periods of heavy rain;
- inadequate power to operate continuously both the processing plant and the pit dewatering pumps;
- lack of mining equipment availability due to inefficient maintenance practices of the mining contractor; and
- poor productivity from the mining contractor.

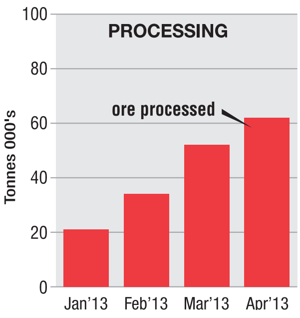
The Group implemented a number of initiatives during the year to address the problems impacting production performance including:

- purchase of an in-pit diesel driven pump;
- installation of additional power generating capacity;
- employment of additional experienced mining personnel;
- deployment of experienced maintenance personnel into the mining contractors maintenance team; and
- taking control of the mining by cancelling the mining contract and renting an additional mining fleet from a new mining contractor.

During the year the Group initiated a new approach to dewatering the open pit with the objective of having less reliance on in-pit dewatering by drilling a series of water bores around the periphery of the open pit aiming to intersect major sources of water inflow and the old underground mine workings to draw water well below the operating pit floor.

The mining and processing ramp up achieved from January 2013 (when the new strategies and production initiatives were implemented) up until when operations ceased in April 2013 are reflected in the following graphs. Up until 25 April 2013 when operating activities were suspended, the Group had achieved its best and most consistent month of operations with the most tonnes mined, most tonnes processed and the most ounces produced for a single period.




The Siana operation was under care and maintenance for the months of May 2013 and June 2013, with 1,294 ounces sold in May relating to inventory drawdown from previous periods. A total of 18,141 ounces were sold during the year at a total cost of A$1,376 per ounce (excluding care and maintenance costs of A$4.3 million).

### *Production Summary*

| | *Units* | *2011/2012* | *2012/2013* |
|---|---|---|---|
| **Mine Production** | | | |
| Waste Mined | *BCM '000s* | 1,248 | 1,978 |
| Ore Mined | *t* | 157,184 | 411,512 |
| Mined Grade – Gold | *g/t* | 2.09 | 2.55 |
| **Mill Production** | | | |
| Ore Processed | *t* | 153,353 | 369,864 |
| Head Grade - Gold | *g/t* | 1.61 | 2.15 |
| Head Grade - Silver | *g/t* | 11.5 | 7.77 |
| Recovery - Gold | *%* | 70 | 71.2 |
| Recovery - Silver | *%* | 55 | 36.9 |
| Gold Recovered | *oz* | 5,586 | 18,255 |
| Silver Recovered | *oz* | 35,604 | 36,719 |
| Gold Sold | *oz* | 5,119 | 18,141 |
| Silver Sold | *oz* | 35,496 | 37,870 |
| Average Gold Price received | *US$/oz* | 1,626 | 1,604 |
| Cash Operating Costs | *A$/oz* | 829 | 1,002 |
| Total Operating Costs | *A$/oz* | 1,002 | 1,376 |

### *Production Costs Summary*

| | *2012/2013* | |
|---|---|---|
| | *A$m* | *A$/oz* |
| Mining Costs Open Pit | 1.7 | 92 |
| Processing Costs | 11.1 | 610 |
| G&A Costs | 5.2 | 287 |
| Other Costs (including selling costs) | 1.2 | 65 |
| Silver Credits | (1.0) | (52) |
| Care and Maintenance Costs | 4.3 | |
| **Total Cash Operating Costs** | **22.5** | **1,002** |
| Depreciation P&E | 1.5 | 80 |
| Amortisation - MPD | 5.3 | 294 |
| Care and Maintenance Costs | 0.7 | |
| **Total Depreciation and Amortisation** | **7.5** | **374** |
| **Total Costs** | **30.0** | **1,376** |
| **Ounces Sold** | **18,141** | |

As shown in the following table, the consolidated entity made an operating loss of A$8.7 million before tax and spent a total of A$21.9 million on capital expenditure during the year.

### *Financial Summary*

| | *CONSOLIDATED 2013 A$m* |
|---|---|
| Sales Proceeds | 28.5 |
| Cost of Sales | (18.2) |
| Care and Maintenance Costs | (4.3) |
| **EBITDA from Operations** | 6.0 |
| Depreciation and Amortisation | (7.5) |
| **Net Loss from Operations** | (1.5) |
| Philippine and Australian Corporate costs | (7.2) |
| **Net Profit/(Loss)** | (8.7) |
| **Capital Expenditure** | |
| Waste Stripping Costs | 14.2 |
| Plant and Equipment | 7.2 |
| Exploration | 0.5 |

## Financing

In December 2012, the company announced that its Philippine associate company Greenstone Resources Corporation (GRC) entered into a 3 year pre-paid swap facility with Credit Suisse AG. The facility was repayable over 30 months commencing from the end of July 2013.

After production activities ceased at Siana, Credit Suisse issued GRC with a breach notice on 3 July 2013 and notified GRC that an event of default had occurred. Credit Suisse and the Group then entered into a standstill agreement allowing the Group time to raise additional funds through a rights issue. The rights issue did not achieve the minimum subscription of $35 million and as a result the Group announced a share placement of 500 million shares at 10 cents per share to raise $50 million. The shares were mainly placed with existing share-holders. In addition to the placement the Group announced a plan to raise up to an additional $15 million via a share purchase plan. Credit Suisse AG agreed to extend the standstill agreement until 23 October 2013 to allow the Group to obtain the necessary shareholder approvals for the share placement.

Under the new standstill agreement with Credit Suisse AG, the Group will repay a portion of the loan facility interest and principal using the proceeds of closing out the gold hedge (US$3.2 million) and releasing of the retention fund (US$5.0 million). The balance of the facility will be repaid from the proceeds of the share placement.

## Exploration

As a result of the production problems encountered during the year which resulted in a reduction in cash available for exploration, the Group restricted activity to geochemical soil sampling in areas surrounding the Siana open pit. A number of gold anomalies were identified and seven priority areas have been identified for further investigation. During the year the Group purchased a TerraSpec Hi Resolution mineral analyser and commenced spectral clay analysis on Mapawa drill hole pulps.

### Future Strategy

During the year the Group increased the capacity of its ore stockpile area to allow much faster mining of the open pit. With a larger area available to store ore, the open pit will now be mined over a much shorter period (2.5 years) and up to 2.5 million tonnes of ore will remain on the stock pile at completion of open pit mining. This facilitates the Group commencing the transition into underground mining within the next 3 years as there will be sufficient ore on the stock pile to continue feeding the processing plant for another 2.5 years after open pit mining ceases and while development of the underground mine progresses. During the development of the underground mine, any underground ore which is mined will be processed in preference to the lower grade stockpile ore.

The Group's main focus during the next financial year will be to restart mining and milling operations at the Siana mine and ramping up to full production within a few months of having the CDO lifted.

The Group has devised a new operating strategy to handle tailings involving a three step process as follows:

- Establishment of a High Density Poly Ethylene (HDPE) lined dam to allow approximately four months of tailings storage.
- Installation of a thickener and filter plant to create a tailings paste product which can be co-disposed with normal mine waste rock. Up to 2 million tonnes of tailings could be disposed using this strategy.
- Establishment of a new larger permanent tailings dam facility.

The design and construction of a new tailings storage facility with capacity of up to 25 million tonnes provides the most technically viable long-term tailings storage solution for the Siana mine. Although this would result in a delayed re-commencement of mining and milling operations at the Siana project, this is a proven tailings storage method which provides the most favourable operational outcome and lowest technological risk.

The utilisation of a small lined tailings facility, followed by thickening and filtering within 4 months, results in an earlier recommencement of operations and, at a lower capital cost, when compared with the land purchases, tailings dam construction route and resultant standing costs in the interim period to establish the permanent tailings storage facility.

The key risks to the Group include:

- Timing of the Cease and Desist Order being withdrawn.
- Failure to receive shareholder approval at the general meeting scheduled for 21 October 2013 for tranche 2 of the share placement.
- Timing of the construction of the interim tailings pond and thickener installation due to adverse weather conditions.

## Dividends

No amounts were paid by way of dividend since the end of the previous financial year (2012: nil). The directors do not recommend the payment of a dividend.

## Options Granted Over Shares

At the date of this report, there were 220,000 options granted over ordinary fully paid shares. The terms of these options are as follows:

| Options over ordinary fully paid shares exercisable: | Number |
|---|---|
| - 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 |
| | **220,000** |

No options were granted during or since the end of the financial year. No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of 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 28 December 2012 the Group drew down a US$25,000,000 loan facility provided by Credit Suisse AG. The proceeds were used to repay the existing US$8,000,000 facility with Sprott Resource Lending Partnership with the balance funding accelerated waste removal, hiring a new mining fleet and working capital requirements.

(b) On 6 June 2013, having informed the Central Office of the Mines and Geosciences Bureau of minor subsidence in the wall of the tailings storage facility on 26 April 2013, the Group was issued with a Cease and Desist Order requiring a complete cessation of gold ore mineral processing. After extensive geotechnical investigation, the Group was advised that rectification works to re-instate the tailings storage facility to operational status was not economically viable. As a consequence, the mine has been and still is, in a state of care-and-maintenance until such time as the application to have the Order rescinded is approved.

## Events Subsequent to the End of the Financial Year

On 3 July 2013, Credit Suisse AG notified the Group that an event of default had occurred in relation to a failure to comply with a minimum financial ratio under the Facility Agreement. With no revenue from operations, the Group was unable to meet the first principal and interest repayment due on 2 August 2013. Pursuant to discussions with the Group, Credit Suisse AG agreed to an initial standstill arrangement up to 15 September 2013. Further negotiations between the Group and its Senior Lender secured an extended standstill agreement to 23 October 2013, post completion of the share placement.

On 9 September 2013, the Group successfully concluded a private share placement of 500,000,000 ordinary fully paid shares at an issue price of 10 cents per share that raised $50,000,000. Settlement of the first tranche of the share placement of $2,030,000 (20,300,000 shares) occurred on 13 September 2013. Settlement of the second tranche of the share placement of $47,970,000 (479,700,000 shares) is subject to the approval of shareholders of the Group at the general meeting to be held on 21 October 2013. A further $10,000,000 is proposed to be raised through a share purchase plan (SPP) offer to eligible shareholders also at 10 cents per share with the directors reserving the right to accept oversubscriptions of up to a further $5,000,000. The record date for the SPP is 4 September 2013. The combined equity raising replaces the non-renounceable entitlements offer (at an issue price of 35 cents per share) which closed on 30 August 2013 without achieving the $35,000,000 minimum subscription threshold.

On 19 September 2013, the proceeds from the close out of the gold hedge (US$3,171,224) together with the funds held on retention (US$5,000,000) was repaid against the principal and accumulated interest components of the Credit Suisse AG facility.

No other matters have arisen since 30 June 2013, which have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

## Likely Developments

During the course of the next financial year, the Group intends to use the funds raised through the share placement (subject to shareholder approval) and the SPP to repay in full the outstanding debt facility with Credit Suisse AG. In addition, the Group intends to construct a new short term High Density Poly Ethylene (HDPE) lined tailings pond to enable the mine operation, which is currently on care-and-maintenance, to recommence production. It is anticipated remaining funds will be used to repay outstanding creditors, continue with the in-pit dewatering improvement initiatives, design and construct a thickener and filter plant and commence design and construction works for a new long term tailings storage facility.

The Group has an ongoing business interruption insurance claim relating to the tailings dam subsidence which will be resolved in the 2014 financial year.

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 Group and the expected results of those operations in subsequent years.

## Information on Directors

**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.

**Johannes S Norregaard**
*(Managing Director)*
B.Eng. Mining, WASM, MAusIMM

A director since February 2013. Mr Norregaard is a mining engineer with over 25 years experience. Mr Norregaard spent 8 years as Managing Director of Tectonic Resources NL and 12 years with Macmahon Holdings Ltd/National Mine Management Pty Ltd holding various positions including Project Manager, Resident Mine Manager and Operations Manager at in excess of a dozen mines, culminating in over four years as General Manager – Underground. Most recently, he was Chief Operating Officer for Trelawney Mining and Exploration Inc. in charge of the development of the Cote Lake gold project in Ontario, Canada. Mr Norregaard has not held 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), Synergy Plus Limited (since July 2006) and ORH Limited (since March 2013).
Mr Dundo has not held directorships in any other listed companies in the last 3 years.

**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 the Olympic Dam mine and Kambalda Nickel Operations with WMC Limited and General Manager for HWE Mining Pty Ltd where he was responsible for managing a portfolio of surface and underground mining contracts for a wide range of clients across a range of commodities. Mr Milazzo is chairman of the health, safety, environment and community committee.
*Other current directorships:*
YTC Resources Limited (since August 2012).
*Former directorships in the last 3 years:*
Cortona Resources Limited (May 2011 to January 2013).

**Gregory C Edwards**
B.Sc. (Hons), MAusIMM

A director from November 2001 to 15 November 2012. 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**
FAusIMM, CA

A director from November 2006 to 31 December 2012. 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 was chairman of the audit committee and was 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.

## Information on Company Secretary

**Frank J Campagna**
B.Bus (Acc), CPA

Company Secretary of Red 5 since June 2002. Mr Campagna is a Certified Practicing Accountant with over 25 years experience as Company Secretary, 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.

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 | – |
| S Norregaard | – | – |
| 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 2013 and the number of meetings attended by each director whilst in office are as follows:

| | Board meetings | | | Audit Committee meetings | | | Remuneration Committee meetings | | |
|---|---|---|---|---|---|---|---|---|---|
| | held | eligible | attended | held | eligible | attended | held | eligible | attended |
| C Jackson | 14 | 14 | 14 | 2 | 2 | 2 | 2 | 2 | 2 |
| G Edwards | 4 | 4 | 4 | 2 | – | – | 2 | – | – |
| S Norregaard | 8 | 8 | 8 | 2 | – | – | 2 | – | – |
| G Scanlan | 14 | 6 | 6 | 2 | 1 | 1 | 2 | 2 | 2 |
| K Dundo | 14 | 14 | 14 | 2 | 2 | 2 | 2 | 2 | 2 |
| M Milazzo | 14 | 14 | 13 | 2 | 1 | 0 | 2 | – | – |

The health, safety, environment and community committee held a meeting on 10 October 2012 attended by Mr Milazzo (Chairman) and Mr Jackson.

## 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
- 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.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Loss attributable to owners of the company | ($8,813,753) | ($1,682,914) | ($8,111,524) | ($438,421) | ($850,076) |
| Dividends paid | – | – | – | – | – |
| Share price at 30 June | $0.62 (i) | $1.46 | $1.15 | $1.20 | $0.72 |
| Return on capital employed | (10.49%) | (0.85%) | (5.49%) | (0.38%) | (1.79%) |

*(i) Share price of the Company at suspension of ASX trading on 25 April 2013.*

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.

Other benefits include housing and motor vehicle expenses in the Philippines.

## 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 2013. There have been no bonuses, options, or performance shares granted in relation to the 2013 financial year.

| 2013 | Short term | | | Post-employment | Equity | | Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary or directors fees | Consulting fees | Ex-gratia payment | Super-annuation | Shares | Options | Expenses | Total | Performance related | Value of options as a proportion |
| | $ | $ | $ | $ | | | $ | $ | % | % |
| **Executive directors** | | | | | | | | | | |
| G Edwards [2] | 263,494 | – | – | 14,813 | – | – | 13,213 | 291,520 | – | – |
| S Norregaard [1][3] | 182,968 | – | – | 16,875 | – | – | – | 199,843 | – | – |
| **Non-executive directors** | | | | | | | | | | |
| C Jackson | 70,000 | 201,501 | – | 6,300 | – | – | – | 277,801 | – | – |
| G Scanlan [4] | 95,000 | – | – | 8,396 | – | – | – | 103,396 | – | – |
| K Dundo | 55,000 | – | – | 4,950 | – | – | – | 59,950 | – | – |
| M Milazzo | 58,333 | – | – | 5,250 | – | – | – | 63,583 | – | – |
| **Executives** | | | | | | | | | | |
| J Mobilia [1] | 303,615 | – | 30,000 | 25,000 | – | – | – | 358,615 | – | – |
| R Pyatt [5] | 62,357 | – | – | 5,907 | – | – | 2,953 | 71,217 | – | – |
| R Williams [1] | 253,733 | – | 20,000 | 25,000 | – | – | – | 298,733 | – | – |
| **Total** | **1,344,500** | **201,501** | **50,000** | **112,491** | **–** | **–** | **16,166** | **1,724,658** | **–** | **–** |

*(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 $14,218 for Mr Norregaard, $23,115 for Mr Mobilia and $12,733 for Mr Williams. For clarity, Mr Norregaard's 2013 annual base salary was $405,000, exclusive of superannuation.*

*(2) Up to date of resignation on 15 November 2012. For clarity, $115,369 is the termination component of Mr Edwards' salary of which $98,751 can be attributed to payment in lieu of notice and $16,618 can be attributed to the adjustment for movements in the current value of accumulated leave provisions up to the date of resignation.*

*(3) Appointed 1 February 2013.*

*(4) Up to date of resignation on 31 December 2012.*

*(5) Up to date of resignation on 4 October 2012. For clarity, $3,936 is the termination component of Mr Pyatt's salary of which $20,042 can be attributed to payment in lieu of notice and $16,106 can be attributed to the adjustment for movements in the current value of accumulated leave provisions up to the date of resignation.*

All directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of $129,710 (2012: $70,831) to insure the directors and other officers of the consolidated entity. The increase in premium is reflective of the Group's progression to production status in the 2013 financial year. 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.

| 2012 | Short term | | | Post-employment | Equity | | Other | Prior year bonus | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary or directors fees | Consulting fees | Performance cash bonus | Super-annuation | Shares | Options | Expenses | Cash/ Shares [3] | Total | Performance related | Value of options as a proportion |
| | $ | $ | $ | $ | | | $ | $ | $ | % | % |
| **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 | 20.4 | 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** | **7.1** | **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, exclusive of superannuation.*

(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 ended 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.*

### *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.

### *Options granted to key management personnel*

During the year the parent entity granted no options over ordinary shares to executive officers of the parent entity as part of their remuneration.

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

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 21 of the financial report.

### *Service agreements*

The terms of employment for executive directors and key management personnel are formalised in service agreements. Major provisions of the agreements are set out below.

J Norregaard – Managing Director

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of $405,000 per annum plus 10% superannuation contributions, to be reviewed annually by the remuneration committee.
***Performance bonus:*** up to 80% of annual salary. Entitlement is weighted between the achievement of Company budget, production and costs targets as well as agreed KPIs (80%) and relative peer group share price performance (20%). To receive 100% of the peer group share price performance component, the Red 5 share price must be in the top quartile of the S&P/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 S&P/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). 100% of the performance bonus will be paid in cash in the event necessary shareholder or regulatory approvals are not obtained for the share component of the performance bonus.
***Termination provisions:*** payment upon early termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) equal to 6 months of the annual salary.

J Mobilia – Chief Financial Officer

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of $275,000 (2012: $245,000) per annum plus 10% superannuation contributions, to be reviewed annually.
***Performance bonus:*** up to 45% 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 6 months of the annual salary.

R Williams – Group Exploration and Technical Manager

***Term of agreement:*** no defined period.
***Remuneration:*** base salary of $240,000 (2012: $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.

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.

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.

***End of Audited Remuneration Report.***

## 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 $35,290 for taxation services. Further details of remuneration of the auditors are set out in Note 22.

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

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

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

## Environmental Regulations

The consolidated entity is subject to significant environmental regulation in respect to its mineral exploration activities. These obligations are regulated under relevant government authorities within Australia and 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 2013.

Signed in accordance with a resolution of the directors.

**Colin G Jackson**
*Chairman*
Perth, Western Australia
26 September 2013

# Auditor's Independence Declaration

KPMG

**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 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

**KPMG**

**Brent Steedman**
*Partner*

Perth
26 September 2013

# Statement of Profit or Loss and Other Comprehensive Income

## for the year ended 30 June 2013

| | Note | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | | **28,508,389** | 4,277,750 |
| Cost of sales | | **(29,957,840)** | (2,643,930) |
| Gross (loss)/profit | | **(1,449,451)** | 1,633,820 |
| Other income | *5(a)* | **66,085** | 1,209,150 |
| Administration and other expenses | *5(b)* | **(5,109,770)** | (5,916,041) |
| Exploration expenses | | **(2,352)** | (10,557) |
| (Impairment)/impairment reversal of property, plant and equipment | *5(c)* | **(7,228,733)** | 262,495 |
| **Operating loss before financing income/(expenses)** | | **(13,724,221)** | (2,821,133) |
| Financing income | *5(d)* | **7,219,710** | 1,139,265 |
| Financing expenses | *5(d)* | **(2,176,180)** | (1,046) |
| Net financing income | | **5,043,530** | 1,138,219 |
| **Loss before income tax expense** | | **(8,680,691)** | (1,682,914) |
| Income tax expense | *6* | **(133,062)** | – |
| **Net loss after income tax for the year** | | **(8,813,753)** | (1,682,914) |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Movement in foreign currency translation reserve | | **11,679,864** | 7,675,605 |
| **Total comprehensive income for the year** | | **2,866,111** | 5,992,691 |
| **Net profit/(loss) after income tax attributable to:** | | | |
| Non-controlling interest | | **(101,831)** | 60,748 |
| Members of parent entity | | **(8,711,922)** | (1,743,662) |
| | | **(8,813,753)** | (1,682,914) |
| **Total comprehensive income attributable to:** | | | |
| Non-controlling interest | | **178,486** | (123,467) |
| Members of parent company | | **2,687,625** | 6,116,158 |
| | | **2,866,111** | 5,992,691 |
| | | ***Cents*** | *Cents* |
| Basic and diluted loss per share (cents per share) | *27* | **(6.51)** | (1.29) |

*The accompanying notes form part of these financial statements.*

# Statement of Financial Position

## as at 30 June 2013

| | Note | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | *7* | **7,582,253** | 13,463,345 |
| Restricted cash | *8* | **5,499,388** | – |
| Trade and other receivables | *9* | **1,270,564** | 3,379,697 |
| Derivatives | *9* | **7,629,663** | – |
| Inventory | *10* | **5,590,406** | 6,907,113 |
| **Total current assets** | | **27,572,274** | 23,750,155 |
| **NON-CURRENT ASSETS** | | | |
| Receivables | *11* | **12,830,080** | 8,917,025 |
| Property, plant and equipment | *12* | **58,563,021** | 50,926,893 |
| Mine development expenditure | *13* | **92,572,814** | 77,457,637 |
| **Total non-current assets** | | **163,965,915** | 137,301,555 |
| **TOTAL ASSETS** | | **191,538,189** | 161,051,710 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *15* | **8,398,949** | 8,748,138 |
| Employee benefits | *16* | **126,390** | 203,070 |
| Provisions | *17* | **1,116,104** | 1,116,104 |
| Borrowings | *18* | **27,752,520** | – |
| **Total current liabilities** | | **37,393,963** | 10,067,312 |
| **NON-CURRENT LIABILITIES** | | | |
| Employee benefits | *16* | **–** | 115,506 |
| Provisions | *17* | **1,735,307** | 1,326,084 |
| **Total non-current liabilities** | | **1,735,307** | 1,441,590 |
| **TOTAL LIABILITIES** | | **39,129,270** | 11,508,902 |
| **NET ASSETS** | | **152,408,919** | 149,542,808 |
| **EQUITY** | | | |
| Contributed equity | *19(a)(b)* | **177,124,726** | 177,124,726 |
| Other equity | *19(c)* | **930,285** | 930,285 |
| Reserves | *20* | **9,027,489** | (2,343,638) |
| Accumulated losses | | **(34,436,319)** | (25,752,817) |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **152,646,181** | 149,958,556 |
| Non controlling interest | | **(237,262)** | (415,748) |
| **TOTAL EQUITY** | | **152,408,919** | 149,542,808 |

*The accompanying notes form part of these financial statements.*

# Statement of Changes in Equity

## for the year ended 30 June 2013

| | Issued Capital $ | Other Equity(2) $ | Accumulated Losses $ | Other Reserves(1) $ | Non-Controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|
| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT ENTITY | | | | | |
| **CONSOLIDATED** | | | | | | |
| **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** |
| | | | | | | |
| **Balance at 1 July 2012** | 177,124,726 | 930,285 | (25,752,817) | (2,343,638) | (415,748) | 149,542,808 |
| Net loss | – | – | (8,711,922) | – | (101,831) | (8,813,753) |
| Other comprehensive income for the period | – | – | – | 11,399,547 | 280,317 | 11,679,864 |
| Total comprehensive income for the period | – | – | (8,711,922) | 11,399,547 | 178,486 | 2,866,111 |
| Expired options – transfers from reserves | – | – | 28,420 | (28,420) | – | – |
| **Balance at 30 June 2013** | **177,124,726** | **930,285** | **(34,436,319)** | **9,027,489** | **(237,262)** | **152,408,919** |

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

*(2) Refer to note 19 (c) for further explanation.*

*The accompanying notes form part of these financial statements.*

# Statement of Cash Flows

## for the year ended 30 June 2013

| | Note | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from sale of gold | | **29,194,644** | 4,277,750 |
| Payments to suppliers and employees | | **(24,721,625)** | (5,972,275) |
| Payments for exploration and evaluation expenditure | | **(49,954)** | (19,540) |
| Interest received | | **145,276** | 1,338,904 |
| Interest paid | | **(233,144)** | (1,046) |
| Tailings dam remedial works | | **(2,966,144)** | – |
| Royalty receipts | | **392,944** | 1,081,059 |
| Sundry receipts | | **1,425** | 27,493 |
| **Net cash from operating activities** | *26* | **1,763,422** | 732,345 |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | **(9,463,464)** | (19,743,010) |
| Payments for development | | **(16,773,238)** | (33,677,350) |
| **Net cash used in investing activities** | | **(26,236,702)** | (53,420,360) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | **–** | 15,000,000 |
| Payments for share issue expenses | | **–** | (981,903) |
| Proceeds from issue of borrowings | | **30,858,340** | – |
| Proceeds from issue of borrowings placed on retention | | **(4,766,951)** | – |
| Repayment of borrowings | | **(7,824,082)** | – |
| Finance facility expenses | | **(703,630)** | – |
| **Net cash from financing activities** | | **17,563,677** | 14,018,097 |
| **Net (decrease) in cash held** | | **(6,909,603)** | (38,669,918) |
| Cash at the beginning of the financial year | | **13,463,345** | 52,504,956 |
| Effect of exchange rate fluctuations on cash held | | **1,028,511** | (371,693) |
| **Cash at the end of the financial year** | *7* | **7,582,253** | 13,463,345 |

*The accompanying notes form part of these financial statements.*

## 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 2013 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 2013.

### 2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for share based payments, derivative financial instruments and rehabilitation provisions. Share based payments are measured at fair value. The methods used to measure fair values of share based payments are discussed further in the Note 4.13. Derivative financial instruments are measured at fair value and are discussed in Note 4.10. Rehabilitation provisions are based on net present value and are discussed in Note 4.15.

### 2.3 Functional and presentation currency

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

### 2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in Note 4.18.

### 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 31.

## 3. GOING CONCERN

The consolidated financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation and settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2013, the Group incurred a loss of $8,813,753 (2012: loss of $1,682,914) and had a net working capital deficit of $9,821,689 (2012: surplus of $13,682,843), which includes secured interest bearing liabilities of $27,752,520. The Group had a net cash outflow from investing activities of $21,974,113 (2012: outflow of $53,420,360), reflecting the increase in waste removal activity and hiring a new mining fleet. These investing activities were financed by available cash balances and a secured US$25,000,000 loan facility provided by Credit Suisse AG.

On 25 April 2013, milling operations were suspended at the Siana gold mine following early detection of subsidence on a portion of the external wall of the tailings dam. Remedial works to repair the subsidence were successfully completed on 13 June 2013. There was no environmental damage as a result of this subsidence. Notwithstanding the corrective actions taken to restore the stability and integrity of the tailings dam and that operations had been suspended, the Central Office of the Mines and Geosciences Bureau (MGB) issued a Cease and Desist Order (the Order) to the Group on 6 June 2013 requiring a complete cessation of gold ore mineral processing. As a consequence, the mine has been and still is, in a state of care-and-maintenance until such time the Order is withdrawn. The Group is currently in discussions with the MGB to have the Order withdrawn.

Consistent with the terms of the facility agreement, Credit Suisse AG issued the Group with a breach notice after production activities at Siana ceased on 25 April 2013. Furthermore, on 3 July 2013, Credit Suisse AG notified the Group that an event of default had occurred in relation to a failure to comply with a minimum financial ratio under the Facility Agreement. Pursuant to discussions with the Group, Credit Suisse AG agreed to an extended standstill arrangement up to 23 October 2013 which is two days after the shareholders meeting to approve the share placement described below.

On 9 September 2013, the Group completed a private share placement (Placement) of 500,000,000 ordinary fully paid shares at an issue price of 10 cents per share to raise $50,000,000. Settlement of the first tranche of the Placement of $2,030,000 (20,300,000 shares) occurred on 13 September 2013. Settlement of the second tranche of the Placement of $47,970,000 (479,700,000 shares) is subject to the approval of shareholders of the Group at the general meeting to be held on 21 October 2013.

The Group intends to raise up to a further $10,000,000 through a share purchase plan (SPP) to eligible shareholders also at 10 cents per share with the directors reserving the right to accept oversubscriptions of up to a further $5,000,000. The record date for the SPP is 4 September 2013. Key dates in respect of the SPP were outlined in the SPP offer document sent to shareholders with the notice of general meeting seeking shareholder approval for completion of the second tranche of the Placement and the SPP.

The combined equity raising replaces the non-renounceable entitlements offer which closed on 30 August 2013 which did not achieve the $35,000,000 minimum subscription at an issue price of 35 cents per share.

On completion of the second tranche of the Placement being $47,970,000 approximately US$18,414,099 will be paid to Credit Suisse AG. This payment will settle the outstanding principal of $US25,000,000 and accumulated interest components of the facility after offsetting the retention funds (US$5,000,000) held with Credit Suisse AG and the $US3,171,224 from closing the gold hedge.

The Group intends to use the balance of the proceeds raised from the Placement and the proceeds raised from the SPP to provide working capital to implement the planned interim tailings storage solutions at the Siana gold mine ahead of planned recommencement of mining operations (subject to the MGB withdrawing the existing Cease and Desist Order).

The directors are aware that the ability to continue as a going concern is dependent upon one or more of the following uncertain events:

- The approval by shareholders on 21 October 2013 for the successful completion of capital raising through Tranche 2 of the Placement;
- If shareholders do not vote in favour of the second tranche and the period of the Credit Suisse AG loan standstill arrangement expires, and the Group fails to fulfil its repayment obligation or continues to not meet its required financial ratio obligations, then Credit Suisse AG may place the Group in default under the pre-paid swap facility and have the right to take control of the Siana gold project and related assets held by the Group;
- The successful completion of capital raising through the SPP;
- The withdrawal of the Cease and Desist Order;
- Successful land acquisition and approvals so that the new tailings storage facility can be built;
- The successful ramp up of production and sales of gold to achieve forecast cash flows.

In the unlikely event that the shareholders do not approve Tranche 2 of the Placement at the meeting on 21 October 2013, the directors intend to renegotiate the standstill arrangement with Credit Suisse AG and its major creditors in order to have enough time to seek sufficient funding.

The Board acknowledges that the Group's operating funding requirements and the scheduled repayment in full of interest bearing liabilities represents a significant funding requirement for the coming 12 months. However, the Board believes that the going concern basis of preparation remains appropriate for the following reasons:

- The Group anticipates shareholder approval for the Placement;
- In management's view the requirements of the MGB as set out in the Cease and Desist Order have been fulfilled by the Company and the Board anticipates that the MGB will withdraw the Cease and Desist Order;
- The group is forecasting positive cash flows for the next 18 months with the recommencement of production of gold;
- Historically, the Group has successfully arranged sufficient financing facilities and raised equity as required.

Should the Group not be successful in its efforts to raise sufficient funds through an approved Placement and SPP and withdraw the Cease and Desist Order, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in this financial report.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Company as at 30 June 2013 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

### 4.2 Revenue recognition

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

***Gold and silver sales***

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

### 4.3 Finance income and expenses

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

### 4.4 Property, plant and equipment

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

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

### 4.5 Inventories

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

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

### 4.6 Exploration and evaluation expenditure

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

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

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

### 4.7 Mine Development

***Pre-production***

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

***Deferred waste mining costs***

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

### 4.8 Impairment

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

***Calculation of recoverable amount***

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

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.

### 4.9 Income tax

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

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

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

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

### 4.10 Financial instruments

#### *Non-derivative financial instruments*

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

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

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

#### *Derivative financial instruments*

Derivatives financial instruments are recognised initially at fair value; any attributable transaction costs are recognised in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair-value, and changes therein are accounted for as described below. The gold collar derivative financial instrument is not recognised in a hedge relationship that qualifies for hedge accounting, as such all changes in its fair value are recognised immediately in profit and loss.

### 4.11 Goods and services tax and other indirect taxes

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.

### 4.12 Employee benefits

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

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

### 4.13 Share based payments

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

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date they are granted. The value is determined using a Black-Scholes model. 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.

### 4.14 Foreign currency

***Foreign currency transactions***

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

***Financial statements of foreign operations***

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

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

### 4.15 Rehabilitation costs

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

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

### 4.16 Provisions

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

### 4.17 Earnings per share

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

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

### 4.18 Accounting estimates and judgements

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

### *Impairment of Assets*

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

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

Future cash flow estimates are based on expected production volumes and grades, gold price and exchange rate estimates, budgeted and forecasted development levels and operating costs. Management is required to make these estimates and assumptions which are subject to risk and uncertainty. As a result there is a possibility that changes in circumstances may alter these projections, which could impact on the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income unless the asset has previously been revalued (refer Note 13 for further detail).

### *Rehabilitation and mine closure provisions*

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

A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset. Where the provisions are for assets no longer in use or for obligations arising from the production process, the adjustment is reflected directly in the Statement of Profit or Loss and Other 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 12), amortisation of capitalised development expenditure (refer to note 13), and impairment relating to these assets.

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

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

## 4.19 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 2013, 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, however, the Group is currently assessing the impact of this standard and it is not expected to have a significant impact.

(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, however, the Group is currently assessing the impact of this standard and it is not expected to have a significant impact.

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **5. REVENUE AND EXPENSES** | | |
| **(a) Other income** | | |
| Royalty income | **64,660** | 1,181,657 |
| Insurance receipts | **–** | 14,584 |
| Sundry revenue | **1,425** | 12,909 |
| | **66,085** | 1,209,150 |
| **(b) Administration and other expenses** | | |
| Superannuation contributions | **(83,648)** | (66,532) |
| Other employee and consultancy expenses | **(2,873,278)** | (1,869,033) |
| Occupancy costs | **(349,148)** | (299,238) |
| Regulatory expenses | **(290,996)** | (347,457) |
| Provision for doubtful debts | **(32,075)** | (483,678) |
| Foreign exchange gains/(losses) | **535,205** | (774,300) |
| Depreciation | **(110,876)** | (41,950) |
| Other administration overheads | **(1,904,954)** | (2,033,853) |
| | **(5,109,770)** | (5,916,041) |
| **(c) Impairment reversal/(impairment) of PP&E** | | |
| Tailings dam write-off [(i)] | **(7,228,733)** | – |
| Proceeds from sale of ball mill | **–** | 612,495 |
| Written down value of ball mill on sale | **–** | (350,000) |
| | **(7,228,733)** | 262,495 |
| **(d) Financing income/(expenses)** | | |
| Interest received | **125,561** | 1,139,265 |
| Fair value of gold collar derivative [(ii)] | **7,094,149** | – |
| | **7,219,710** | 1,139,265 |
| Interest expense | **(1,459,326)** | (1,046) |
| Finance facility fees | **(716,854)** | – |
| | **(2,176,180)** | (1,046) |
| | **5,043,530** | 1,138,219 |

*(i) Due to the failure of tailings dam TSF4 all costs inclusive of development, deferred waste and remedial works expenditure have been written off.*

*(ii) Recognition at fair value of gold collar derivative related to Credit Suisse loan agreement (refer to note 18).*

| | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|

## 6. INCOME TAX

**(a) Major components of income tax expense are:**

| | 2013 $ | 2012 $ |
|---|---|---|
| **Statement of Profit or Loss and Other Comprehensive Income** | | |
| *Current income tax* | | |
| Current income tax charge | – | (826,455) |
| Adjustment for prior year (under provided) | (133,062) | – |
| *Deferred income tax* | | |
| Origination and reversal of temporary differences – current year | – | 334,256 |
| Origination and reversal of temporary differences – prior year adjustment | – | – |
| Unused tax losses not recognised as deferred tax asset | – | 492,199 |
| Income tax expense | (133,062) | – |
| 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 | (8,680,691) | (1,682,914) |
| At statutory income tax rate of 30% (2012: 30%) | 2,604,207 | (504,874) |
| Items not allowable for income tax purposes: | | |
| Non-deductible expenses | 5,347 | 12,675 |
| Adjustment for prior year | 17,986 | – |
| Current year tax losses not brought to account | (2,760,602) | 492,199 |
| Income tax expense/(benefit) | (133,062) | – |

**(b) Deferred income tax**

| | 2013 $ | 2012 $ |
|---|---|---|
| Deferred income tax at balance date relates to the following (these are not brought to account): | | |
| *Deferred tax liabilities* | | |
| Accrued interest and prepayments | (898) | (8,474) |
| Gold collar derivative | (2,128,245) | – |
| | (2,129,143) | (8,474) |
| *Deferred tax assets* | | |
| Doubtful debt | 1,528 | 150,342 |
| Net pre-commissioning revenue | 50,091 | 143,753 |
| Accrued expenses | 172,392 | 335,319 |
| Impairment loss | 2,168,620 | – |
| Black hole expenditure | 699,379 | 1,092,579 |
| | 3,092,010 | 1,721,993 |
| Net deferred income tax balances not brought to account as not probable | 962,867 | 1,713,519 |

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

| | 2013 $ | 2012 $ |
|---|---|---|
| The directors estimate that the potential deferred tax assets: | | |
| In respect of tax losses not brought to account | 6,933,620 | 3,620,411 |
| In respect of deductible temporary differences not brought to account | 962,867 | 1,713,519 |

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **7. CASH AND CASH EQUIVALENTS** | | |
| Cash at bank | **7,582,122** | 7,463,230 |
| Cash on deposit | **–** | 6,000,000 |
| Cash on hand | **131** | 115 |
| | **7,582,253** | 13,463,345 |
| **8. RESTRICTED CASH** | | |
| Credit Suisse retention (i) | **5,499,388** | – |
| | **5,499,388** | – |

*(i) In accordance with the three year US$25 million loan agreement entered into between Greenstone Resources Corporation (Philippine subsidiary company) and Zurich based bank Credit Suisse AG on 28 December 2012, Greenstone Resources Corporation agreed to maintain a minimum cash balance of US$5.0 million in a separate retention account as security in respect of their obligations under the agreement (refer to note 18).*

| | | |
|---|---|---|
| **9. TRADE AND OTHER RECEIVABLES** | | |
| Interest receivable | **2,993** | 22,708 |
| Prepayments | **821,157** | 2,357,765 |
| Sundry debtors | **397,287** | 950,072 |
| GST receivable | **49,127** | 49,152 |
| | **1,270,564** | 3,379,697 |
| Fair value of gold collar derivative (i) | **7,629,663** | – |
| | **8,900,227** | 3,379,697 |

*(i) Recognition at fair value of gold collar derivative related to Credit Suisse loan agreement.*

| | | |
|---|---|---|
| **10. INVENTORIES** | | |
| Raw materials and consumables – at cost | **5,156,565** | 5,672,274 |
| Ore stocks – at cost | **298,582** | 125,136 |
| Gold in circuit – at cost | **–** | 1,109,703 |
| Gold bullion – at cost | **135,259** | – |
| | **5,590,406** | 6,907,113 |
| **11. RECEIVABLES** | | |
| Prepayments | **–** | 11,250 |
| Security deposit | **134,883** | 106,397 |
| VAT receivable | **12,695,197** | 8,799,378 |
| | **12,830,080** | 8,917,025 |

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | | |
|---|---|---|
| **Plant and equipment - at cost** | | |
| Opening balance | **51,668,715** | 36,819,658 |
| Additions | **6,784,632** | 25,928,552 |
| Transferred to mine development | **–** | (13,740,271) |
| Disposals | **–** | (350,000) |
| Tailings dam write-off (i) | **(2,394,717)** | – |
| Foreign currency translation adjustment | **5,096,316** | 3,010,776 |
| Closing balance | **61,154,946** | 51,668,715 |
| **Accumulated depreciation** | | |
| Opening balance | **741,822** | 433,643 |
| Depreciation for the year | **1,669,704** | 278,038 |
| Foreign currency translation adjustment | **180,399** | 30,141 |
| Closing balance | **2,591,925** | 741,822 |
| Net book value | **58,563,021** | 50,926,893 |

## 13. MINE DEVELOPMENT

| | | |
|---|---|---|
| **(a) Pre-production** | | |
| Opening balance | **75,532,939** | 40,497,382 |
| Transferred from property, plant and equipment | **–** | 13,740,271 |
| Development expenditure incurred in current year | **1,706,244** | 21,232,097 |
| Pre-production gold sales | **–** | (3,900,406) |
| Tailings dam write-off (i) | **(2,583,538)** | – |
| Foreign currency translation adjustment | **6,372,391** | 3,963,595 |
| | **81,028,036** | 75,532,939 |
| Accumulated amortisation | | |
| Opening balance | **137,639** | – |
| Amortisation for the year | **1,606,401** | 133,030 |
| Foreign currency translation adjustment | **133,995** | 4,609 |
| Closing balance | **1,878,035** | 137,639 |
| Pre-production net book value | **79,150,001** | 75,395,300 |

## 13. MINE DEVELOPMENT *(continued)*

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **(b) Deferred mining waste costs** | | |
| Opening balance | **2,454,597** | – |
| Deferred waste mining expenditure incurred during the year | **16,898,324** | 2,372,402 |
| Tailings dam write-off [i] | **(2,189,641)** | – |
| Foreign currency translation adjustment | **1,337,384** | 82,195 |
| | **18,500,664** | 2,454,597 |
| Accumulated amortisation | | |
| Opening balance | **392,260** | – |
| Amortisation for the period | **4,322,976** | 379,125 |
| Foreign currency translation adjustment | **362,615** | 13,135 |
| Closing balance | **5,077,851** | 392,260 |
| Deferred mining waste costs net book value | **13,422,813** | 2,062,337 |
| Total development net book value | **92,572,814** | 77,457,637 |

*(i) Represents write-off of total development, deferred waste and remedial works expenditure incurred in relation to the failure of tailings dam TSF4.*

The recoverability of the carrying amounts of property, plant and equipment and mine development is dependent upon the successful development and commercial exploitation or sale of the respective area of interest.

## 14. EXPLORATION AND EVALUATION EXPENDITURE

| | | |
|---|---|---|
| Opening balance | **–** | – |
| Exploration and evaluation expenditure incurred | **2,352** | 10,557 |
| Exploration expenditure written-off | **(2,352)** | (10,557) |
| | **–** | – |

## 15. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Creditors and accruals | **8,398,949** | 8,748,138 |

## 16. EMPLOYEE BENEFITS

| | | |
|---|---|---|
| Provision for employee entitlements | | |
| Opening balance | **318,576** | 240,901 |
| Increase in provision during the period | **–** | 77,675 |
| Decrease in provision during the period | **(192,186)** | – |
| | **126,390** | 318,576 |
| Current | **126,390** | 203,070 |
| Non-current | **–** | 115,506 |
| | **126,390** | 318,576 |

## 17. PROVISIONS

| | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|
| MCC final acquisition | **1,116,104** | 1,116,104 |
| Rehabilitation provision | **357,914** | 347,305 |
| Documentary stamp duty | **1,148,252** | 978,779 |
| Withholding tax | **229,141** | – |
| | **2,851,411** | 2,442,188 |
| Current | **1,116,104** | 1,116,104 |
| Non-current | **1,735,307** | 1,326,084 |
| | **2,851,411** | 2,442,188 |

## 18. BORROWINGS

| | 2013 $ | 2012 $ |
|---|---|---|
| Current | | |
| Credit Suisse secured loan facility | **27,752,520** | – |
| | **27,752,520** | – |

On 28 December 2012, Greenstone Resources Corporation (Philippine subsidiary company) entered into a three year US$25 million loan agreement with Zurich based bank Credit Suisse AG. Greenstone Resources Corporation has agreed to provide the following security in respect of their obligations under the agreement:

(i) a mortgage of its real properties and chattels in respect of the Siana Gold project;

(ii) a pledge over its share stock; and

(iii) maintain a minimum cash balance of US$5 million (A$5,499,388 at 30.06.13) in a separate retention account.

US$8.0 million of the proceeds was used to repay in full and without penalty the Sprott Resource Lending Partnership facility drawn down on 8 October 2012. The Credit Suisse AG facility attracts an interest rate of 7.0% per annum plus a fixed US Libor rate of 0.635% over the life of the facility. The loan is currently in default due to non-compliance with a minimum financial ratio under the Facility Agreement, therefore the facility is due and payable as at 30 June 2013. However, Credit Suisse AG has provided an extended standstill arrangement to 23 October 2013 until after completion of the share placement (refer to Note 3 for Going Concern).

## 19. CONTRIBUTED EQUITY

| | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|
| **(a) Share capital** | | |
| 135,488,008 (2012: 135,488,008) ordinary fully paid shares | **177,124,726** | 177,124,726 |

| | CONSOLIDATED 2013 Shares | CONSOLIDATED 2013 $ | CONSOLIDATED 2012 Shares | CONSOLIDATED 2012 $ |
|---|---|---|---|---|
| **(b) Movements in ordinary share capital** | | | | |
| On issue at 1 July | **135,488,008** | **177,124,726** | 128,367,673 | 163,041,013 |
| Share placement | **–** | **–** | 7,075,472 | 15,000,000 |
| Less share issue expenses | **–** | **–** | – | (981,903) |
| Shares issued to management | **–** | **–** | 44,863 | 65,616 |
| On issue at 30 June | **135,488,008** | **177,124,726** | 135,488,008 | 177,124,726 |

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.

## 19. CONTRIBUTED EQUITY *(continued)*

| | Shares | $ |
|---|---|---|
| **(c) Other equity** | | |
| Opening balance 1 July 2012 (i) | **581,428** | **930,285** |
| Balance 30 June 2013 | **581,428** | **930,285** |

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

## 20. RESERVES

| | CONSOLIDATED | |
|---|---|---|
| | **2013 $** | 2012 $ |
| Foreign currency translation reserve | **8,874,631** | (2,524,916) |
| Share based payment reserve | **152,858** | 181,278 |
| | **9,027,489** | (2,343,638) |

***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 29 for further details.

| Movements in share options | Options Number | Options Reserve $ |
|---|---|---|
| Opening balance 1 July 2012 | 290,000 | 181,278 |
| Expired options | (70,000) | (28,420) |
| Balance 30 June 2013 | **220,000** | **152,858** |

## 21. RELATED PARTIES

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

***Executive directors***

Johannes (Steve) Norregaard – Managing Director (appointed 1 February 2013)
Gregory Edwards – Managing Director (resigned 15 November 2012)

***Non-executive directors***

Colin Jackson
Gary Scanlan (resigned 31 December 2012)
Kevin Dundo
Mark Milazzo

***Other executives***

Joe Mobilia – Chief Financial Officer
Ron Pyatt – Operations Director (resigned 4 October 2012)
Rohan Williams – Group Exploration and Technical Manager

## 21. RELATED PARTIES *(continued)*

| | CONSOLIDATED 2013 $ | 2012 $ |
|---|---|---|
| ***Compensation of key management personnel*** | | |
| A summary of the compensation of key management personnel is as follows: | | |
| **Key management personnel** | | |
| Short term benefits | **1,596,001** | 1,570,408 |
| Post-employment benefits | **112,491** | 135,573 |
| Share based payments | **–** | 92,311 |
| Other benefits | **16,166** | 31,310 |
| | **1,724,658** | 1,829,602 |

***Loans to key management personnel***

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

***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.

| 2013 | Balance at 1 July 2012 | Received during the year through the issue of shares to meet bonus payment | Other purchases during the year | Balance at 30 June 2013 |
|---|---|---|---|---|
| J Norregaard (1) | – | – | – | – |
| G Edwards (2) | 1,065,111 | – | – | 1,065,111 |
| C Jackson | 22,500 | – | – | 22,500 |
| G Scanlan (3) | 50,000 | – | – | 50,000 |
| K Dundo | – | – | – | – |
| M Milazzo | 25,000 | – | – | 25,000 |
| J Mobilia | 44,958 | – | – | 44,958 |
| R Pyatt (4) | – | – | – | – |
| R Williams | – | – | – | – |
| **Total** | **1,207,569** | **–** | **–** | **1,207,569** |

*(1) appointed 1 February 2013.*
*(2) resigned on 15 November 2012 and his holding represents the number held at resignation.*
*(3) resigned on 31 December 2012 and his holding represents the number held at resignation.*
*(4) resigned on 4 October 2012 with nil held at the date of resignation.*

| 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 |
| P 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.*

## 21. RELATED PARTIES *(continued)*

***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.

| 2013 | Held at 1 July 2012 | Granted as compensation | Exercised | Other changes | Held at 30 June 2013 | Vested during the year | Vested and exercisable at 30 June 2013 |
|---|---|---|---|---|---|---|---|
| J Mobilia | 160,000 | – | – | – | 160,000 | – | 160,000 |
| **Total** | **160,000** | **–** | **–** | **–** | **160,000** | **–** | **160,000** |

| 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** |

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

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

***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** | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **22. REMUNERATION OF AUDITOR** | | |
| Amounts paid or due and payable to the auditor for: | | |
| Auditing and reviewing financial reports – KPMG Australia | **115,380** | 110,473 |
| – overseas KPMG firms | **32,846** | 34,912 |
| Other services – advisory (KPMG Australia) | **–** | 18,405 |
| Taxation advisory services – KPMG Australia | **24,125** | 37,750 |
| – overseas KPMG firms | **11,165** | 6,712 |
| | **183,516** | 208,252 |

## 23. EXPENDITURE COMMITMENTS

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

| | | |
|---|---|---|
| - not later than one year | **1,359,188** | 3,480,667 |
| | **1,359,188** | 3,480,667 |

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

| | | |
|---|---|---|
| - not later than one year | **509,684** | 321,068 |
| - later than one year but not later than two years | **193,424** | 72,665 |
| - later than two years but not later than five years | **152,625** | 28,636 |
| | **855,733** | 422,369 |

## 24. 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.

### *Comparative information*

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

| | Philippines<br>$ | Australia<br>$ | Total<br>$ |
|---|---|---|---|
| **(i) Segment performance** | | | |
| **Year ended 30 June 2013** | | | |
| External sales [(i)] | 28,508,389 | – | 28,508,389 |
| Interest revenue | 14,045 | 111,516 | 125,561 |
| Other income | 1,425 | 64,660 | 66,085 |
| **Segment revenue** | **28,523,859** | **176,176** | **28,700,035** |
| **Segment result** | **(5,955,085)** | **(2,858,668)** | **(8,813,753)** |
| Included within segment result: | | | |
| Depreciation and amortisation | (7,645,120) | (4,649) | (7,649,769) |
| Exploration written off | (2,352) | – | (2,352) |
| Assets written off | (7,228,733) | – | (7,228,733) |
| Provision for doubtful debts | (32,075) | – | (32,075) |
| **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) |

## 24. SEGMENT INFORMATION *(continued)*

| | Philippines $ | Australia $ | Total $ |
|---|---|---|---|
| **(ii) Segment assets as at 30 June 2013** | | | |
| **Segment assets** | **189,884,834** | **1,653,355** | **191,538,189** |
| Additions to non-current assets: | | | |
| Capital expenditure | 6,784,229 | 403 | 6,784,632 |
| Exploration expenditure | 2,352 | – | 2,352 |
| Development expenditure | 18,094,204 | – | 18,094,204 |
| **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 |
| **(iii) Segment liabilities As at 30 June 2013** | | | |
| **Segment liabilities** | **38,612,845** | **516,425** | **39,129,270** |
| **As at 30 June 2012** | | | |
| **Segment liabilities** | **10,809,257** | **699,645** | **11,508,902** |

*(i) Total external sales are attributable to one customer only.*

## 25. INVESTMENTS IN CONTROLLED ENTITIES

| Name of controlled entities | Country of incorporation | Class of shares | Equity holding 2013 % | Equity holding 2012 % |
|---|---|---|---|---|
| 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 |
| Red 5 Mapawa Incorporated | Philippines | Ordinary | 100 | 100 |
| Red 5 Dayano Incorporated | Philippines | Ordinary | 100 | 100 |
| Red 5 Asia Incorporated | Philippines | Ordinary | 100 | 100 |
| Greenstone Resources Corporation (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.*

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

| | CONSOLIDATED | |
|---|---|---|
| | **2013** | 2012 |
| | ***$*** | *$* |
| Operating (loss) after income tax | **(8,813,753)** | (1,682,914) |
| Amortisation and depreciation | **7,649,769** | 535,695 |
| Share and options | **–** | 120,755 |
| Impairment of property, plant and equipment | **–** | (262,495) |
| Royalty income | – | (100,598) |
| Doubtful debt expenses | **32,075** | 483,678 |
| Superannuation accrual | **5,850** | – |
| Exchange (gain)/loss | **(535,205)** | 774,300 |
| Cost of sales | **2,555,545** | – |
| Income tax expense | **133,062** | – |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in inventories | **1,707,044** | – |
| (Increase)/decrease in receivables | **(1,468,284)** | (22,169) |
| Increase/(decrease) in payables | **403,060** | (176,950) |
| Increase/(decrease) in provisions | **94,259** | 1,063,043 |
| Net cash inflow/(outflow) from operating activities | **1,763,422** | 732,345 |

## 27. EARNINGS PER SHARE

| | **2013** | 2012 |
|---|---|---|
| | ***Number*** | *Number* |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | **135,488,008** | 130,305,678 |
| Issued ordinary shares at commencement of the financial year | **135,488,008** | 128,367,673 |
| Effect of shares issued 16 December 2011 | **–** | 24,148 |
| Effect of share placement 23 March 2012 | **–** | 1,913,857 |
| Weighted average number of ordinary shares for the financial year | **135,488,008** | 130,305,678 |

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

## 28. SUBSEQUENT EVENTS

On 3 July 2013, Credit Suisse AG notified the Group that an event of default had occurred in relation to a failure to comply with a minimum financial ratio under the Facility Agreement. With no revenue from operations, the Group was unable to meet the first principal and interest repayment due on 2 August 2013. Pursuant to discussions with the Group, Credit Suisse AG agreed to a standstill arrangement up to 15 September 2013 inclusive. Further negotiations between the Group and its Senior Lender secured an extended standstill agreement to 23 October 2013 until after the completion of a share placement.

On 9 September 2013, the Group successfully concluded a private share placement of 500,000,000 ordinary fully paid shares at an issue price of 10 cents per share that raised $50,000,000. Settlement of the first tranche of the share placement of $2,030,000 (20,300,000 shares) occurred on 13 September 2013. Settlement of the second tranche of the share placement of $47,970,000 (479,700,000 shares) is subject to the approval of shareholders of the Group at the general meeting to be held on 21 October 2013. A further $10,000,000 is proposed to be raised through a share purchase plan (SPP) offer to eligible shareholders also at 10 cents per share with the directors reserving the right to accept oversubscriptions of up to a further $5,000,000. The record date for the SPP is 4 September 2013. The combined equity raising replaces the non-renounceable entitlements offer which closed on 30 August 2013 without achieving the $35,000,000 minimum subscription threshold.

On 19 September 2013, the proceeds from the close out of the gold hedge (US$3,171,224) together with the funds held on retention (US$5,000,000) was repaid against the principal and accumulated interest components of the Credit Suisse AG facility.

No other matters have arisen since 30 June 2013, which have significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

## 29. 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.

## 29. SHARE BASED PAYMENTS *(continued)*

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 *Number* | Granted during the year *Number* | Exercised during the year *Number* | Expired/ forfeited during the year *Number* | Balance at end of the year *Number* | Vested and exercisable at end of the year(i) *Number* |
|---|---|---|---|---|---|---|---|---|
| **Consolidated - 2013** | | | | | | | | |
| 16.06.08 | 30.06.13 | 2.50 | 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 |
| | | | **290,000** | **–** | **–** | **(70,000)** | **220,000** | **220,000** |
| Weighted average exercise price | | | $3.25 | – | – | $2.50 | $3.375 | $3.375 |
| **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 |

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 no options or shares to executives.

## 30. FINANCIAL RISK MANAGEMENT

### Overview

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

The Group holds derivative financial instruments to hedge a portion of its gold sales as a condition under the loan facility with Credit Suisse AG. Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### *Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

#### *Other non-trading derivatives*

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

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

## 30. FINANCIAL RISK MANAGEMENT *(continued)*

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

#### *Trade and other receivables*

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

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 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| Trade and other receivables | **1,270,564** | 3,379,697 |
| Derivatives | **7,629,663** | – |
| Cash and cash equivalents | **7,582,253** | 13,463,345 |
| Restricted cash | **5,499,388** | – |
| Non-current receivables | **12,830,080** | 8,917,025 |

The derivative is included in the Level 2 in the fair value hierarchy.

### 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.

Refer to note 3 with respect to current liquidity issues.

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

| | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | More than 1 year |
|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | |
| **30 June 2013** | | | | | |
| Trade and other payables | 8,398,949 | (8,398,949) | (8,398,949) | – | – |
| Provisions | 2,977,801 | (3,534,830) | (63,195) | (1,408,440) | (2,063,195) |
| Secured bank loans | 27,752,520 | (27,752,520) | (27,752,520) | – | – |
| | 39,129,270 | (39,686,299) | (36,214,664) | (1,408,440) | (2,063,195) |

## 30. FINANCIAL RISK MANAGEMENT *(continued)*

| | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | More than 1 year |
|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | |
| **30 June 2012** | | | | | |
| 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) |

### Market risk

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

### Currency risk

The consolidated entity is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the subsidiaries within the consolidated entity being 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.

#### *Exposure to currency risk*

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

| | CONSOLIDATED Carrying amount | |
|---|---|---|
| | **2013** | 2012 |
| | ***$AUD*** | *$AUD* |
| Cash | **10,788,302** | 145,025 |
| Trade payables | **(99,197)** | (177,917) |
| Secured bank loans | **(27,752,520)** | – |
| Gross balance sheet exposure | **(17,063,415)** | (32,892) |

#### *Sensitivity analysis*

A 10 per cent strengthening of the Australian dollar against the following currencies at 30 June 2013 would have increased/(decreased) 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 2012.

| | CONSOLIDATED Profit or Loss $AUD |
|---|---|
| **30 June 2013 –** USD | **1,706,341** |
| **30 June 2012 –** USD | 3,289 |

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2013 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.

## 30. FINANCIAL RISK MANAGEMENT *(continued)*

### Interest rate risk

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

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

| | CONSOLIDATED Carrying amount | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **Variable rate instruments** | | |
| Cash and cash equivalents | **7,582,253** | 13,463,345 |
| Restricted cash | **5,499,388** | – |
| Interest bearing bonds | **134,883** | 106,397 |
| | **13,216,524** | 13,569,742 |

***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 2012.

| | Profit or Loss | | Equity | |
|---|---|---|---|---|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| **CONSOLIDATED** | $ | $ | $ | $ |
| **30 June 2013** | | | | |
| Variable rate instruments | 132,165 | (132,165) | 132,165 | (132,165) |
| **30 June 2012** | | | | |
| Variable rate instruments | 135,697 | (135,697) | 135,697 | (135,697) |

### Net fair values

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

### Capital management

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

Refer to note 3 with respect to capital management plan. 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.

## 31. PARENT ENTITY DISCLOSURES

| | PARENT ENTITY 2013 $ | 2012 $ |
|---|---|---|
| **(a) Financial position** | | |
| **Assets** | | |
| Current assets | **1,512,379** | 10,762,526 |
| Non-current assets | **150,664,806** | 140,932,034 |
| Total assets | **152,177,185** | 151,694,560 |
| **Liabilities** | | |
| Current liabilities | **1,787,889** | 1,971,109 |
| Non-current liabilities | **–** | – |
| Total liabilities | **1,787,889** | 1,971,109 |
| Contributed equity | **177,124,726** | 177,124,726 |
| Other equity | **930,285** | 930,285 |
| Reserves | **152,858** | 181,278 |
| Accumulated losses | **(27,818,573)** | (28,512,838) |
| Total equity | **150,389,296** | 149,723,451 |
| **(b) Financial performance** | | |
| Profit for the year | **665,845** | 1,396,502 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **665,845** | 1,396,502 |

# 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 2013 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 2013

# Independent Audit Report

## to the members of Red 5 Limited

KPMG

### 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 2013, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 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 2013 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.

*Emphasis of matter regarding going concern*

Without modification to the conclusion expressed above, we draw attention to the following matter. As a result of facts set out in note 3, there is a material uncertainty which may cast significant doubt regarding the ability of the Company to continue as a going concern and therefore whether it will be able to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

### Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

**KPMG**
Perth, 26 September 2013

**Brent Steedman**
*Partner*

# Corporate Governance Statement

A description of Red 5's main corporate governance practices is set out below. These practices, unless otherwise stated, were in place for the entire financial year. Copies of relevant corporate governance policies and charters are available in the corporate governance section of the Company's web-site at www.red5limited.com.

The Company's Board and management are committed to high standards of corporate governance practices. Good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances.

## BOARD OF DIRECTORS

The Board has the responsibility for protecting the rights and interests of shareholders and the enhancement of long-term shareholder value. The Board's primary role is to formulate the strategic direction of the Company and to oversee the Company's business activities and management. The Company has established functions reserved for the Board and those delegated to senior management. Day to day management of the Company's affairs and the implementation of corporate strategies are formally delegated by the Board to the Managing Director.

The Board charter states that the Board is responsible for:

- the corporate governance of the Company;
- the overall strategic direction and leadership of the Company;
- approving and monitoring management implementation of objectives and strategies;
- reviewing performance against stated objectives by receiving regular management reports on the business situation, opportunities and risks; and
- the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

### Board composition and independence

The Company has a four member Board comprising one executive director and three non-executive directors, including the Chairman. The roles of Chairman and Managing Director are not combined. Mr Norregaard is not considered independent by virtue of his executive role in the Company, neither is Mr Jackson due to additional consulting services provided during the year. Messrs Dundo and Milazzo are independent non-executive directors based on the principles set out below.

The current composition of the Board is considered suitable for the Company's current size and level of operations and includes an appropriate mix of skills, expertise and experience relevant to the Company's business. Consideration is being given to the appointment of an additional non-executive director. Details of the experience, qualifications and term of office of directors are set out in the Directors' Report.

Having regard to the structure of the Board and of executive management based in the Philippines, it is considered appropriate by the Board to utilise the Chairman's expertise as a consultant to assist with corporate and commercial aspects of the Company's operations. The Chairman is expected to bring independent thought and judgement to his role in all circumstances. Where matters arise in which there is a perceived conflict of interest in relation to any director, that director must declare his interest and abstain from any consideration or voting on the relevant matter.

The Board has adopted ASX recommended principles in relation to the assessment of directors' independence, which identifies shareholdings, executive roles and contractual relationships which may affect independent status. Financial materiality thresholds used in the assessment of directors' independence are set at 5% of the annual gross expenditure of the Company and/or 25% of the annual income or business turnover of the director.

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman, which will not be unreasonably withheld.

The Audit Committee comprises three non-executive directors, Mr Milazzo (chairman), Mr Jackson and Mr Dundo. The Remuneration and Nomination Committee comprises two non-executive directors, Mr Dundo (chairman) and Mr Jackson. Details of the qualifications of committee members and attendance at committee meetings are set out in the Directors' Report.

### Performance assessment

The Board has adopted a formal process for an annual self assessment of its collective performance, the performance of individual directors and of Board committees. The Board is required to meet annually with the purpose of reviewing the role of the Board, assessing its performance over the previous 12 months and examining ways in which the Board can better perform its duties. A formal assessment was last undertaken in September 2012, using a self-assessment checklist as the basis for evaluation of performance against the requirements of the Board charter. With three Board changes occurring during the year no formal assessment was undertaken in the current period.

The performance of senior executives is reviewed annually by the Managing Director through a formal performance appraisal meeting, incorporating measurement against pre-determined key performance indicators. Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to performance, relevant comparative information and where appropriate, expert advice. Following changes in senior management personnel during the year, no formal evaluation of senior executives was undertaken in the reporting period.

## AUDIT COMMITTEE

The Audit Committee charter sets out the responsibilities of the Audit Committee, including:

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

The Managing Director and Chief Financial Officer provide a declaration to the Board that the Company's external financial reports present a true and fair view of the Company's financial condition and operational results and that the declaration in relation to the integrity of the Company's external financial reports is founded on sound risk management and internal control systems and that those systems are operating effectively in relation to financial reporting risks.

The external auditors provide an annual declaration of their independence to the Board. KPMG were appointed as external auditors in 1998. The current audit engagement partner has conducted the audit since December 2012. The performance of the external auditors is reviewed annually.

## REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee operates in accordance with a formal written charter. The Remuneration and Nomination Committee advises the Board on remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for executive and non-executive directors and in respect of all equity based remuneration plans. Details of the Company's remuneration policies are set out in the Remuneration Report section of the Directors' Report.

The Remuneration and Nomination Committee is also responsible for regularly reviewing the composition and membership of the Board and when a Board vacancy exists, initiating the selection process for potential directors. This includes an assessment of the necessary and desirable competencies of Board members, Board succession plans and an evaluation of the Board's performance.

The appropriate mix of skills and diversity for membership of the Board is considered by the Remuneration and Nomination Committee as part of ongoing nomination and succession planning and which recognises the value of balanced gender representation.

## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY COMMITTEE

A Health, Safety, Environment and Community (HSEC) Committee has been established to assist the Board in its oversight and review of issues relating to health, safety, the environment and sustainable development as they affect the Company's employees, contractors and the communities in which the Company operates. The HSEC operates under a written charter. Membership of the HSEC Committee comprises two non-executive directors, Mr Milazzo (chairman) and Mr Jackson, with the permanent invitation and participation of the Managing Director.

## DIVERSITY AND EMPLOYMENT PRACTICES

The Board has adopted a formal diversity policy which is designed to encourage diversity in employment and in the composition of the Board, as a means of enhancing the Company's performance and organisational capabilities.

### Diversity objectives

A summary of the proportion of females employed by the Company is as follows:

| | Actual 30 June 2013 | Objectives 2014/2015 |
|---|---|---|
| Whole organisation | 16% | 15 to 25% |
| In senior management positions | 18% | 20 to 30% |
| Appointed to the Board | 0% | 20% |

The Company recognises that the mining and exploration industry is intrinsically male dominated in many of the operational sectors and the pool of women with appropriate skills may be limited in some instances. The Company also recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within each geographic location in which it operates.

The Remuneration Committee monitors and reports on the progress of achieving diversity objectives.

## RISK MANAGEMENT

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

The Company's risk management systems and internal control systems are continuing to be developed and it is recognised that the extent of these systems will evolve with the growth in the Company's activities.

The Managing Director is required to formally report to the Board regarding material business risks and whether those risks are being managed effectively. Changes to key risk factors and mitigation actions are reported at each board meeting. All existing and potential new risk factors are reviewed on a periodic basis. The effectiveness of the Company's management of material business risks is monitored and reported on a regular basis and accordingly, no formal report is required from management.

## RESPECT THE RIGHTS OF SHAREHOLDERS AND STAKEHOLDERS

The Board has adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings. The external auditor is requested to attend annual general meetings and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

The Board has established a code of conduct to guide compliance with the legitimate interests of all stakeholders. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Company has established a whistleblower policy which provides an independent mechanism for legitimate reporting of illegal or unethical practices by company employees.

## TIMELY AND BALANCED DISCLOSURES

The Board recognises the obligations of continuous disclosure and the Company has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. A record of the circumstances surrounding each material continuous disclosure announcement is maintained and presented at the next board meeting.

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

## DEALINGS IN COMPANY SHARES

The Company's share trading policy prohibits the purchase or disposal of shares by directors, officers and specified employees in the period of two weeks prior to the release of quarterly reports and four weeks prior to the release of half year and full year results and for one business day thereafter. Any proposed transactions to be undertaken must be notified to the Chairman or Managing Director in advance.

Where the Company grants securities under an equity based remuneration scheme, participants are prohibited from entering into arrangements for the hedging, or otherwise limiting their exposure to risk in relation to unvested shares, options or rights issued or acquired under the scheme.

# Statement of Shareholders

## as at 26 September 2013

### Distribution of share and option holders

| | | | Number of Holders | |
|---|---|---|---|---|
| | | | Fully paid shares | Unlisted options |
| 1 | – | 1,000 | 995 | – |
| 1,001 | – | 5,000 | 1,528 | – |
| 5,001 | – | 10,000 | 570 | – |
| 10,001 | – | 100,000 | 744 | 6 |
| 100,001 | | and over | 101 | – |
| | | | 3,938 | 6 |

| | |
|---|---|
| Including holdings of less than a marketable parcel<br>*(Based on last available market price prior to voluntary suspension)* | 658 |

### Classes of shares and voting rights

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

### Substantial shareholders

The following shareholders have lodged a notice of substantial shareholding in the Company.

| Shareholder | Number of shares | % |
|---|---|---|
| Van Eck Associates Corporation | 13,303,379 | 8.54 |
| Franklin Resources Inc | 12,389,995 | 7.95 |
| Baker Steel Capital Managers LLP | 11,095,633 | 7.12 |

### Twenty largest holders of fully paid shares

| | Shareholder | Number of shares | % |
|---|---|---|---|
| 1. | National Nominees Limited | 43,222,884 | 27.74 |
| 2. | HSBC Custody Nominees (Australia) Limited | 15,357,964 | 9.86 |
| 3. | JP Morgan Nominees Australia Limited | 13,524,113 | 8.68 |
| 4. | Citicorp Nominees Pty Ltd | 8,252,481 | 5.30 |
| 5. | Equitas Nominees Pty Ltd | 3,989,707 | 2.56 |
| 6. | CS Fourth Nominees Pty Ltd | 3,811,112 | 2.45 |
| 7. | RBC Investor Services Australia Nominees Pty Ltd | 2,809,035 | 1.80 |
| 8. | Lujeta Pty Ltd | 2,300,000 | 1.48 |
| 9. | BBY Nominees Limited | 2,030,000 | 1.30 |
| 10. | Seng Teoh and Sin Wong | 1,781,665 | 1.14 |
| 11. | Bell Potter Nominees Limited | 1,760,000 | 1.13 |
| 12. | Lujeta Pty Ltd | 1,700,000 | 1.09 |
| 13. | HSBC Custody Nominees (Australia) Limited | 1,355,114 | 0.87 |
| 14. | BNP Paribas Noms Pty Ltd | 1,221,891 | 0.78 |
| 15. | Suncorp Custodian Services Pty Ltd | 783,575 | 0.50 |
| 16. | Allen Lance Govey | 703,065 | 0.45 |
| 17. | Gregory Charles Edwards | 685,000 | 0.44 |
| 18. | Southbridge Resources Inc | 640,000 | 0.41 |
| 19. | HSBC Custody Nominees (Australia) Limited | 639,729 | 0.41 |
| 20. | JP Morgan Nominees Australia Limited | 612,994 | 0.39 |
| | | 107,180,329 | 68.78 |

## Unquoted securities

The following classes of unquoted securities are on issue:

| Security | Number on issue | Holders of greater than 20% of each class of security | | |
|---|---|---|---|---|
| | | Name of holder | Number | % |
| Options over fully paid shares exercisable: | | | | |
| – at $2.50 each on or before 30.04.14 | 70,000 | Mobilia Enterprises Pty Ltd | 40,000 | 57.14 |
| | | Gabrielle Metcalf | 30,000 | 42.86 |
| – at $2.70 each on or before 31.12.14 | 40,000 | Mobilia Enterprises Pty Ltd | 40,000 | 100.00 |
| – at $4.00 each on or before 30.04.16 | 70,000 | Mobilia Enterprises Pty Ltd | 40,000 | 57.14 |
| | | Gabrielle Metcalf | 30,000 | 42.86 |
| – at $4.30 each on or before 31.12.16 | 40,000 | Mobilia Enterprises Pty Ltd | 40,000 | 100.00 |

# Investor Information

## Announcements

The Company makes both statutory announcements (quarterly activities reports, financial reports, Appendix 5B cash flow statements, changes to directors' interests) and specific announcements under continuous disclosure provisions on a timely basis. Significant announcements made during the financial year include:

| Release date | Announcement subject |
|---|---|
| 31.07.12 | June 2012 quarter activities and cash flow reports |
| 20.09.12 | Response to ASX price and volume query |
| 21.09.12 | Company Insight – MD on performance and outlook |
| 26.09.12 | Annual financial statements |
| 02.10.12 | Siana production ramp-up progress |
| 08.10.12 | Sprott facility drawdown |
| 09.10.12 | Siana mine site personnel changes |
| 22.02.12 | 2012 annual report |
| 22.02.12 | Notice of annual general meeting |
| 31.10.12 | September 2012 quarter activities and cash flow reports |
| 15.11.12 | Managing Director steps down |
| 22.11.12 | Investor presentation |
| 27.11.12 | AGM chairman's address |
| 27.11.12 | Results of annual general meeting |
| 05.12.12 | Siana mine site – Typhoon Pablo |
| 11.12.12 | Siana mine site – new production forecast |
| 27.12.12 | Becoming a substantial shareholder – Van Eck Associates |
| 31.12.12 | US$25 million financing complete |
| 31.12.12 | Retirement of non-executive director |
| 23.01.13 | Managing Director appointment |
| 29.01.13 | December 2012 quarter activities and cash flow reports |
| 18.02.13 | Company insight – New MD on company plans |
| 12.03.13 | Half year accounts |
| 13.03.13 | Siana mine site progress |
| 08.04.13 | Siana mine productivity improvements |
| 15.04.13 | Siana process plant improvements – update |
| 26.04.13 | Trading halt |
| 30.04.13 | Voluntary suspension |
| 30.04.13 | Siana operational update |
| 30.04.13 | March 2013 quarter activities and cash flow reports |
| 13.05.13 | Siana milling operations suspended |
| 27.05.13 | Siana operations update |
| 13.06.13 | Siana operations further update |
| 19.07.13 | Rights issue to recommence production |
| 19.07.13 | Rights issue prospectus |
| 23.07.13 | Letter to shareholders – rights issue |
| 31.07.13 | June 2013 quarter activities and cash flow reports |

## Share Price Movements

Share prices on the Australian Securities Exchange during the 2012–13 year were:

| Quarter ended | High | Low |
|---|---|---|
| September 2012 | $1.67 | $1.09 |
| December 2012 | $1.27 | $0.87 |
| March 2013 | $1.29 | $0.78 |
| June 2013 | * | * |

* *Red 5 shares were suspended from trading on the Australian Securities Exchange on 26 April 2013 at the request of the Company. The last closing price prior to the suspension was $0.62.*

## Investor Relations

This annual report has been produced with the objective of ensuring that shareholders are informed on company strategy and performance sufficient to make or retain an investment in the Company. Announcements, statutory reports and the latest information on the Company's projects are available on the Red 5 web-site at www.red5limited.com.

Financial institutions, stockbrokers and other non-shareholder entities requiring copies of this report, activities reports and other corporate information should contact the directors at:

Red 5 Limited
Level 2, 35 Ventnor Avenue, West Perth 6005
Western Australia, Australia
Telephone: +61 8 9322 4455
Facsimile: +61 8 9481 5950

## Shareholder Enquiries

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

Security Transfer Registrars Pty Ltd
770 Canning Highway, Applecross, Western Australia 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233
Email: registrar@securitytransfer.com.au

## Tenement Directory

| Project | Tenement Number | Registered Holder | Equity Interest Red 5 | Other |
|---|---|---|---|---|
| **Philippines** | | | | |
| Siana | MPSA 184-2002-XIII | Greenstone | 40% | SHIC 60% |
| | APSA 46-XIII | Greenstone | 40% | SHIC 60% |
| Mapawa | MPSA 280-2009-XIII | Greenstone | 40% | SHIC 60% |
| **Western Australia** | | | | |
| Montague | ML 57/429, ML 57/485 | | 25% free carried | |

***Abbreviations:***

| | |
|---|---|
| Greenstone | *Greenstone Resources Corporation* |
| SHIC | *Surigao Holdings and Investments Corporation* |
| MPSA | *Mineral Production Sharing Agreement* |
| APSA | *Application for MPSA* |
| ML | *Mining Lease* |

# Corporate Directory

## Board of Directors

Colin Jackson (Chairman)
Johannes (Steve) Norregaard (Managing Director)
Kevin Dundo (Non-executive Director)
Mark Milazzo (Non-executive Director)

## Company Secretary

Frank Campagna

## Registered Office

Level 2, 35 Ventnor Avenue,
West Perth, Western Australia, 6005
Telephone: (61-8) 9322 4455
Facsimile: (61-8) 9481 5950
Email: info@red5limited.com
Website: www.red5limited.com

## Manila Office

5th Floor, NOL Building,
Cnr Acacia / Commerce Avenue,
Madrigal Business Park
Ayala Alabang
Muntinlupa City
Philippines, 1770
Telephone: (63-2) 807 2790
Facsimile: (63-2) 807 6658

## Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway,
Applecross, Western Australia, 6153
Telephone: (61-8) 9315 2333
Facsimile: (61-8) 9315 2233
Email: registrar@securitytransfer.com.au
Website: www.securitytransfer.com.au

## Bankers

National Australia Bank Limited

## Auditors

KPMG

## Solicitors

Minter Ellison (Australia)
SyCip Salazar Hernandez & Gatmaitan (Philippines)

## Stock Exchange Listing

Australian Securities Exchange
Trading code: RED

OTCQX International
Trading code: RDFLY

Red 5 Limited ABN 73 068 647 610

www.red5limited.com