RED 5 LIMITED

ABN 73 068 647 610

AND CONTROLLED ENTITIES

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2005

RED 5 LIMITED

ABN 73 068 647 610

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Nicholas J Smith (Chairman)
Gregory C Edwards (Managing Director)
Allen L Govey (Exploration Director)
Colin G Jackson (Non-Executive Director)
Peter W Rowe (Non-Executive Director)

COMPANY SECRETARY

Frank J Campagna

REGISTERED OFFICE

Level 2
35 Ventnor Avenue
West Perth
Western Australia 6005

Telephone: (61 8) 9322 4455
Facsimile: (61 8) 9481 5950
E-mail: info@red5limited.com
Web-site: www.red5limited.com

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

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

BANKERS

Bank of New Zealand, Australia

AUDITORS

KPMG

SOLICITORS

Pullinger Readhead Lucas (Australia)
Quisumbing Torres (Philippines)

STOCK EXCHANGE LISTING

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

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DIRECTORS' REPORT

The directors of Red 5 Limited ("Red 5" or "parent entity") present their report on the results and state of affairs of the consolidated entity (consisting of Red 5 and its controlled entities) for the half year ended 31 December 2005.

DIRECTORS

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

Nicholas James Smith
Gregory Charles Edwards
Allen Lance Govey
Colin George Jackson
Peter William Rowe

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

RESULTS OF OPERATIONS

The net loss of the consolidated entity after provision for income tax was $550,271.

REVIEW OF OPERATIONS

During the half year ended 31 December 2005 exploration and evaluation activities continued on the Siana gold project located in the Philippines.

Comprehensive technical studies on all aspects of the development of the Siana project were undertaken as part of the pre-feasibility study. The delay in the satisfactory completion by some consultants of capital and operating estimates hindered the commencement of financial modelling.

In August 2005, the consolidated entity exercised its pre-emptive rights to acquire an additional 10% beneficial interest in the Siana project, plus a share of land access rights covering the area of the Siana mine foot print and the right to negotiate joint ventures on four early stage gold exploration properties on Mindanao Island in the Philippines, for a consideration of $2,171,052 (US$1,650,000), which was satisfied by the issue of 16,829,865 fully paid shares in Red 5.

In September 2005, Red 5 disposed of its shareholding in Range River Resources Limited for aggregate sale proceeds of $875,379. The carrying value of the investment was $860,014.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' 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.

EVENTS SUBSEQUENT TO THE END OF THE HALF YEAR

Significant events which have occurred subsequent to the end of the half year are contained in Note 7 to the financial report.

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia
14 March 2006

KPMG

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

To: the directors of Red 5 Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005 there have been:

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

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

KPMG

KPMG

B C Fullarton

B C FULLARTON
Partner

Perth
15 March 2006

RED 5 LIMITED
AND CONTROLLED ENTITIES

CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	NOTE	CONSOLIDATED 31.12.05 $	31.12.04 $
Revenue from continuing operations			
Revenue		-	-
Other operating income			
Profit on sale of investments		15,365	71,768
Expenses			
Amortisation and depreciation expenses		15,505	10,408
Employee and consultancy expenses		494,972	361,123
Exploration expenditure written-off		6,321	107,475
Occupancy expenses		56,918	37,400
Regulatory expenses		82,791	63,397
Other expenses		116,309	127,003
Operating loss before financing income/expenses		(757,451)	(635,038)
Financing income		207,180	229,925
Loss from ordinary activities before income tax expense		(550,271)	(405,113)
Income tax expense		-	-
Net loss attributable to members of Red 5 Limited		(550,271)	(405,113)
		Cents	**Cents**
Basic earnings/(loss) per share	5	(0.21)	(0.17)
Diluted earnings/(loss) per share	5	(0.21)	(0.17)

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2005

	NOTE	CONSOLIDATED 31.12.05 $	CONSOLIDATED 30.06.05 $
CURRENT ASSETS			
Cash and cash equivalents		5,672,706	7,272,775
Trade and other receivables		59,460	99,744
Other financial assets		224,808	1,130,422
TOTAL CURRENT ASSETS		5,956,974	8,502,941
NON-CURRENT ASSETS			
Receivables		24,306	-
Property, plant and equipment		60,303	74,967
Deferred exploration expenditure		13,891,218	9,051,016
TOTAL NON-CURRENT ASSETS		13,975,827	9,125,983
TOTAL ASSETS		19,932,801	17,628,924
CURRENT LIABILITIES			
Trade and other payables		816,012	769,250
Provisions		65,061	87,885
TOTAL CURRENT LIABILITIES		881,073	857,135
NON-CURRENT LIABILITIES			
Borrowings		306,844	322,846
Provisions		358,626	188,843
TOTAL NON-CURRENT LIABILITIES		665,470	511,689
TOTAL LIABILITIES		1,546,543	1,368,824
NET ASSETS		18,386,258	16,260,100
EQUITY			
Contributed equity	3	31,212,684	28,981,632
Reserves		(30,954)	(460,329)
Accumulated losses		(12,995,472)	(12,461,203)
Total parent entity interest		18,186,258	16,060,100
Outside equity interests		200,000	200,000
TOTAL EQUITY		18,386,258	16,260,100

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED	
	31.12.05	**31.12.04**
	$	**$**
Cash flows from operating activities		
Payments to suppliers and employees	(540,881)	(580,328)
Interest received	179,755	229,925
Net cash outflow from operating activities	(361,126)	(350,403)
Cash flows from investing activities		
Payments for controlled entities, net of cash acquired	-	(66,566)
Payments for mineral exploration expenditure	(2,089,175)	(2,809,197)
Payments for plant and equipment	(841)	(25,529)
Payments for purchase of investments	-	(84,357)
Payments for security deposit	(24,306)	-
Proceeds on sale of investments	875,379	71,768
Net cash outflow from investing activities	(1,238,943)	(2,913,881)
Cash flows from financing activities		
Proceeds from issues of shares	-	5,487,000
Net cash inflow from financing activities	-	5,487,000
Net increase/(decrease) in cash held	(1,600,069)	2,222,716
Cash at the beginning of the financial period	7,272,775	8,097,035
Cash at the end of the financial period	5,672,706	10,319,751

The accompanying notes form part of these financial statements.

RED 5 LIMITED
AND CONTROLLED ENTITIES

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent entity				Minority interests	Total equity
Consolidated	**Issued capital**	**Accumulated losses**	**Other reserves**	**Total**		
	$	**$**	**$**	**$**	**$**	**$**
At 1 July 2004	23,434,632	(11,310,400)	(47,189)	12,077,043	-	12,077,043
Loss for the period	-	(405,113)	-	(405,113)	-	(405,113)
Share placement	5,487,000	-	-	5,487,000	-	5,487,000
Foreign currency translation reserve	-	-	(535,627)	(535,627)	-	(535,627)
Acquisition of controlled entity	-	-	-	-	74,970	74,970
At 31 December 2004	28,921,632	(11,715,513)	(582,816)	16,623,303	74,970	16,698,273
At 1 July 2005	28,981,632	(12,461,203)	(460,329)	16,060,100	200,000	16,260,100
Adjustment on initial adoption of AASB 132 and AASB 139 (Note 8.5)	-	16,002	-	16,002	-	16,002
Loss for the period	-	(550,271)	-	(550,271)	-	(550,271)
Issue of shares for services provided	60,000	-	-	60,000	-	60,000
Issue of shares for additional interest in Siana project	2,171,052	-	-	2,171,052	-	2,171,052
Foreign currency translation reserve	-	-	429,375	429,375	-	429,375
At 31 December 2005	31,212,684	(12,995,472)	(30,954)	18,186,258	200,000	18,386,258

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
The half year consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half year financial report is to be read in conjunction with the annual financial report as at 30 June 2005, which was prepared on the basis of Australian Accounting Standards applicable before 1 July 2005 ("AGAAP"). The half year financial report should also be read in conjunction with any public announcements made by Red 5 Limited and its controlled entities during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The half year financial report has been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, fair values of non-current assets and liabilities. Cost is based on the fair values of the consideration given in exchange for assets.

The half year financial report does not include full note disclosure of the type that would be normally included in an annual financial report.

Red 5 Limited ("parent entity") is a company domiciled in Australia. The condensed half year financial report for the six months ended 31 December 2005 comprises the parent entity and its controlled entities (together referred to as the "consolidated entity") and the consolidated entities' interests in associated entities. The half year financial report is presented in Australian dollars.

The preparation of an interim financial report in conformity with AASB 134: Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The half year financial report has been prepared on the basis of Australian equivalents to International Financial Reporting Standards ("AIFRS") on issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date of 30 June 2006. Based on these AIFRS, the directors of the parent entity have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ended 30 June 2006.

The preparation of the half year financial report in accordance with AASB 134 resulted in changes to accounting policies as compared with the most recent annual financial statements prepared under previous AGAAP. Except for the change in accounting policy relating to the classification and measurement of financial instruments (Refer Note 8.5), the accounting policies set out below have been applied consistently to all periods presented in this half year financial report. They have also been applied in preparing an opening AIFRS balance sheet as at 1 July 2004 for the purposes of transition to AIFRS, as required by AASB 1. The impact of the transition from previous AGAAP to AIFRS is explained in Note 8.

STATEMENT OF COMPLIANCE
The half year financial report complies with Australian Accounting Standards, which include AIFRS.

This is the first half year financial report prepared on the basis of AIFRS and AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards. A summary of the significant accounting policies of the consolidated entity under AIFRS is disclosed below. An explanation of how the transition to AIFRS has affected the reported financial position and financial performance of the consolidated entity is set out in Note 8.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Red 5 Limited as at 31 December 2005 and the results of all controlled entities for the half-year then ended. Red 5 Limited 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. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial 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. Outside 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.

(b) 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 also be met before revenue is recognised.

Interest

Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(c) Investments

Current accounting policy

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. The consolidated entity has not designated any other financial assets or liabilities as measured at fair value through profit or loss. The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Comparative period policy

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

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

(d) Property, plant and equipment

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value.

Plant and equipment is included at cost less provision for depreciation and any impairment in value and depreciated using a combination of the prime cost and diminishing value methods commencing from the time the asset is held ready for use. The expected useful lives of plant and equipment are between 3 and 13 years.

(e) Exploration and evaluation expenditure

Exploration and evaluation costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs for each area of interest are carried forward where rights of tenure of the area of interest are current and the costs are expected to be recouped through the successful development and exploitation of the area of interest, or by its sale, or where exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

The carrying value of exploration and evaluation expenditure carried forward in respect of each area of interest is assessed for impairment when facts and circumstances suggest the carrying amount may exceed its recoverable amount. Any resulting impairment loss is recognised as an expense in the income statement.

(f) Recoverable amount

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. 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 income statement 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 income statement.

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

The recoverable amount of the consolidated entity’s investments in held-to-maturity securities and 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.

(g) Taxation

Deferred income tax is provided 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 income statement.

(h) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(i) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as a current asset or liability in the balance sheet. 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.

(j) 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.

(k) Share based payments

The consolidated entity may provide benefits to employees (including directors) 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 binomial model. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

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

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

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

(l) Foreign currency transactions

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

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

(m) Restoration costs

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

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

(n) 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.

(o) Cash and cash equivalents

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.

(p) AASB transitional exemptions

The consolidated entity has made the following elections in relation to the transitional exemptions allowed by AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards:

- election not to expense share based payments vesting prior to 1 January 2005 and/or issued on or before 7 November 2002; and
- election not to restate comparative information such that it complies with the requirements of AASB 132 and AASB 139 (financial instruments standards). The consolidated entity will apply these standards from 1 July 2005.

	CONSOLIDATED	
	31.12.05	**31.12.04**
	$	**$**
2. LOSS FROM ORDINARY ACTIVITIES		
Loss from ordinary activities before income tax includes the following specific net gains and expenses:		
Net gains		
Interest received - other corporations	179,755	229,925
Financing income	27,425	-
Expenses		
Deferred exploration expenditure written-off	6,321	107,745
Provision for diminution in investments	45,600	-

	CONSOLIDATED	
	31.12.05	**30.06.05**
	$	**$**
3. CONTRIBUTED EQUITY		
(a) Share capital		
268,903,428 (30.06.05: 251,688,948) ordinary fully paid shares	31,212,684	28,981,632
	31,212,684	28,981,632

(b) Movements in ordinary share capital	**Shares**	**$**
Opening balance 1 July 2005	251,688,948	28,981,632
Issue of shares for acquisition of additional interest in the Siana project	16,829,865	2,171,052
Issue for technical and financial services rendered	384,615	60,000
Balance 31 December 2005	268,903,428	31,212,684

(c) Movements in share options	**Options**
Opening balance 1 July 2005	2,000,000
Lapse of options	(2,000,000)
	-

4. SEGMENT INFORMATION

Business segments

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

Geographical segments	**Australia**	**Philippines**	**Central Asia**	**Consolidated**
	$	**$**	**$**	**$**
31 December 2005				
Segment revenue				
Finance and other income	195,120	-	-	195,120
Total segment revenue	195,120	-	-	195,120
Segment result	(558,714)	8,443	-	(550,271)
Income tax expense	-	-	-	-
Net loss	(558,714)	8,443	-	(550,271)
31 December 2004				
Segment revenue				
Finance and other income	301,693	-	-	301,693
Total segment revenue	301,693	-	-	301,693
Segment result	(300,966)	1,292	(105,439)	(405,113)
Income tax expense	-	-	-	-
Net loss	(300,966)	1,292	(105,439)	(405,113)

	CONSOLIDATED	
	31.12.05	**31.12.04**
	$	**$**
5. EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	263,930,277	232,097,811

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

6. CONTINGENT LIABILITIES

There have been no material changes in any contingent liabilities of the consolidated entity since the last annual reporting date.

7. SUBSEQUENT EVENTS

In January 2006, the consolidated entity entered into a farm-out agreement whereby Placer Dome Inc (now Barrick Gold Corporation) can earn a 60% interest in the Montague joint venture by spending $2.5 million within 3 years and an additional 10% interest by spending a further $1.5 million within 5 years. The consolidated entity will retain a 20% free-carried interest (currently 25%) in the joint venture.

8. EXPLANATION OF TRANSITION TO AIFRS AND CHANGE IN ACCOUNTING POLICY

This financial report is the first condensed consolidated interim financial statements prepared by the consolidated entity for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards.

The accounting policies set out in Note 1 have been applied in preparing the financial statements for the half year ended 31 December 2005, the comparative information for the half year ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the half year ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP).

An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.1 RECONCILIATION OF EQUITY

Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) As at the date of transition to AIFRS on 1 July 2004.

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			01.07.04	
Current assets				
Cash assets		8,097,035	-	8,097,035
Receivables		58,410	-	58,410
Other financial assets		1,205,000	-	1,205,000
Total current assets		9,360,445	-	9,360,445
Non-current assets				
Other financial assets		90,234	-	90,234
Property, plant and equipment		53,811	-	53,811
Deferred exploration expenditure	8.4(a)	3,892,450	(66,744)	3,825,706
Total non-current assets		4,036,495	(66,744)	3,969,751
Total assets		13,396,940	(66,744)	13,330,196
Current liabilities				
Payables		793,305	-	793,305
Provisions		57,002	-	57,002
Total current liabilities		850,307	-	850,307
Non-current liabilities				
Borrowings		322,846	-	322,846
Provisions		80,000	-	80,000
Total non-current liabilities		402,846	-	402,846
Total liabilities		1,253,153	-	1,253,153
Net assets		12,143,787	(66,744)	12,077,043
Equity				
Contributed equity		23,434,632	-	23,434,632
Reserves	8.4(a)	-	(47,189)	(47,189)
Accumulated losses	8.4(a)	(11,290,845)	(19,555)	(11,310,400)
Total parent entity interest		12,143,787	(66,744)	12,077,043
Outside equity interests		-	-	-
Total equity		12,143,787	(66,744)	12,077,043

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.1 RECONCILIATION OF EQUITY

(b) As at the end of the previous half-year reporting period under previous AGAAP, 31 December 2004.

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			31.12.04	
Current assets				
Cash assets		10,319,751	-	10,319,751
Receivables		61,284	-	61,284
Other financial assets		1,205,000	-	1,205,000
Total current assets		11,586,035	-	11,586,035
Non-current assets				
Other financial assets		84,357	-	84,357
Property, plant and equipment		68,932	-	68,932
Deferred exploration expenditure	8.4(b)	6,533,458	(602,371)	5,931,087
Total non-current assets		6,686,747	(602,371)	6,084,376
Total assets		18,272,782	(602,371)	17,670,411
Current liabilities				
Payables		479,388	-	479,388
Provisions		62,925	-	62,925
Total current liabilities		542,313	-	542,313
Non-current liabilities				
Borrowings		322,846	-	322,846
Provisions		106,979	-	106,979
Total non-current liabilities		429,825	-	429,825
Total liabilities		972,138	-	972,138
Net assets		17,300,644	(602,371)	16,698,273
Equity				
Contributed equity		28,921,632	-	28,921,632
Reserves	8.4(b)	-	(582,816)	(582,816)
Accumulated losses	8.4(b)	(11,695,958)	(19,555)	(11,715,513)
Total parent entity interest		17,225,674	(602,371)	16,623,303
Outside equity interests		74,970	-	74,970
Total equity		17,300,644	(602,371)	16,698,273

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.1 RECONCILIATION OF EQUITY

(c) As at the end of the previous reporting period under previous AGAAP, 30 June 2005.

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
			30.06.05	
Current assets				
Cash assets		7,272,775	-	7,272,775
Receivables		99,744	-	99,744
Other financial assets		1,130,422	-	1,130,422
Total current assets		8,502,941	-	8,502,941
Non-current assets				
Property, plant and equipment		74,967	-	74,967
Deferred exploration expenditure	8.4(c)	9,530,900	(479,884)	9,051,016
Total non-current assets		9,605,867	(479,884)	9,125,983
Total assets		18,108,808	(479,884)	17,628,924
Current liabilities				
Payables		769,250	-	769,250
Provisions		87,885	-	87,885
Total current liabilities		857,135	-	857,135
Non-current liabilities				
Borrowings		322,846	-	322,846
Provisions		188,843	-	188,843
Total non-current liabilities		511,689	-	511,689
Total liabilities		1,368,824	-	1,368,824
Net assets		16,739,984	(479,884)	16,260,100
Equity				
Contributed equity		28,981,632	-	28,981,632
Reserves	8.4(c)	-	(460,329)	(460,329)
Accumulated losses	8.4(c)	(12,441,648)	(19,555)	(12,461,203)
Total parent entity interest		16,539,984	(479,884)	16,060,100
Outside equity interests		200,000	-	200,000
Total equity		16,739,984	(479,884)	16,260,100

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.2 RECONCILIATION OF LOSS FOR 2005

Reconciliation of loss reported under previous AGAAP to loss under Australian equivalents to IFRS (AIFRS)

(a) Reconciliation of loss for the half-year ended 31 December 2004.

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		For the six months ended 31.12.04		
Revenue from continuing operations				
Revenue from ordinary activities		229,925	-	229,925
Proceeds from sale of investments	8.4(d)	71,768	(71,768)	-
Total revenue		301,693	(71,768)	229,925
Other operating income				
Profit on sale of investments	8.4(d)	-	71,768	71,768
Expenses				
Depreciation expenses		10,408	-	10,408
Employee and consultancy expenses		361,123	-	361,123
Exploration expenditure written-off		107,475	-	107,475
Occupancy expenses		37,400	-	37,400
Regulatory expenses		63,397	-	63,397
Travelling expenses		47,759	-	47,759
Other expenses from ordinary activities		79,244	-	79,244
Loss from ordinary activities before income tax expense		(405,113)	-	(405,113)
Income tax expense		-	-	-
Net loss attributable to members of Red 5 Limited		(405,113)	-	(405,113)
		Cents		**Cents**
Basic earnings/(loss) per share		(0.17)		(0.17)
Diluted earnings/(loss) per share		(0.17)		(0.17)

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.2 RECONCILIATION OF LOSS FOR 2005

(b) Reconciliation of loss for the year ended 30 June 2005.

	Note	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		For the year ended 30.06.05		
Revenue from continuing operations				
Revenue from ordinary activities		473,281	-	473,281
Proceeds from sale of investments	8.4(e)	71,768	(71,768)	-
Total revenue		545,049	(71,768)	473,281
Other operating income				
Profit on sale of investments	8.4(e)	-	71,768	71,768
Expenses				
Depreciation expenses		24,014	-	24,014
Employee and consultancy expenses		810,713	-	810,713
Exploration expenditure written-off		181,165	-	181,165
Insurance expenses		56,744	-	56,744
Occupancy expenses		75,960	-	75,960
Provision for diminution in investments		361,255	-	361,255
Regulatory expenses		86,277	-	86,277
Other expenses from ordinary activities		168,007	-	168,007
Loss from ordinary activities before income tax expense		(1,219,086)	-	(1,219,086)
Income tax expense		-	-	-
Net loss from ordinary activities after income tax0		(1,219,086)	-	(1,219,086)
Net loss attributable to outside equity interests		68,283	-	68,283
Net loss attributable to members of Red 5 Limited		(1,150,803)	-	(1,150,803)
		Cents		**Cents**
Basic earnings/(loss) per share		(0.48)		(0.48)
Diluted earnings/(loss) per share		(0.48)		(0.48)

8. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

8.3 RECONCILIATION OF CASH FLOW STATEMENT

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement in prior periods.

8.4 NOTES TO THE RECONCILIATION OF EQUITY AND LOSS FOR 2005

Effects of changes in foreign exchange rates

Under previous AGAAP, the consolidated entity elected to apply the temporal method for the translation of foreign currency operations, whereas this method is not available under AIFRS. AASB 121 does not distinguish between foreign operations that are integral and those that are self-sustaining and requires that the current rate method be applied in the translation of foreign currency operations. As a consequence, translation at transition date and each subsequent reporting date has been re-performed using the translation method required under AASB 121. The effect of this is as follows:

(a) At 1 July 2004
For the consolidated entity there has been a decrease in deferred exploration expenditure in the balance sheet of $66,744, and a corresponding increase in reserves of $47,189 and in accumulated losses of $19,555.

(b) At 31 December 2004
For the consolidated entity there has been a decrease in deferred exploration expenditure in the balance sheet of $602,371, and a corresponding increase in other reserves of $80,275, in foreign exchange translation differences in reserves of $502,541 and in accumulated losses of $19,555.

(c) At 30 June 2005
For the consolidated entity there has been a decrease in deferred exploration expenditure in the balance sheet of $479,884, and a corresponding increase in other reserves of $74,410, in foreign exchange translation differences in reserves of $385,919 and in accumulated losses of $19,555.

Revenue

AASB 118 under AIFRS requires disclosure of the net gain or loss on sale of assets such as investments and plant and equipment, rather than including the gross sale proceeds in revenue as required under previous AGAAP. The effect of this is as follows:

(d) Half year ended 31 December 2004
For the parent entity and the consolidated entity, proceeds on sale of investments have been re-classified as profit on sale of investments. There is no affect on the loss for the period.

(e) Year ended 30 June 2005
For the parent entity and the consolidated entity, proceeds on sale of investments have been re-classified as profit on sale of investments. There is no affect on the loss for the period.

8.5 CHANGE IN ACCOUNTING POLICY

In the current financial period the consolidated entity adopted AASB 132: Financial Instruments - Disclosure and Presentation and AASB 139: Financial Instruments - Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity as at 1 July 2005.

Under previous AGAAP, the consolidated entity did not recognise derivative financial instruments at fair value on the balance sheet. In accordance with AIFRS, derivatives are now recognised at fair value. The effect on the consolidated entity is to decrease accumulated losses by $16,002 and a corresponding decrease in non-current borrowings of $16,002 at 1 July 2005.

DECLARATION BY DIRECTORS

In the opinion of the directors of Red 5 Limited:

1. the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

    (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

    (b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the parent entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

N J Smith
Chairman

Perth, Western Australia
14 March 2006

KPMG

Independent review report to the members of Red 5 Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim statement of income, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Red 5 Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Red 5 Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Red 5 Limited is not in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

B C FULLARTON
Partner

Perth
15 March 2006