



ABN 73 068 647 610

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

RED 5 LIMITED

ABN 73 068 647 610

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Kevin Dundo (Chairman)
Mark Williams (Managing Director)
Ian Macpherson (Non-Executive Director)
Colin Loosemore (Non-Executive Director)

COMPANY SECRETARY

Frank Campagna

REGISTERED OFFICE

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35 Ventnor Avenue
West Perth WA 6005

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

SHARE REGISTRY

Security Transfer Australia Pty Ltd
770 Canning Highway
Applecross WA 6153

Telephone: 1300 992 916
Facsimile: (61-8) 9315 2233
E-mail: registrar@securitytransfer.com.au
Web-site: www.securitytransfer.com.au

BANKERS

National Australia Bank Limited

AUDITORS

KPMG

SOLICITORS

HopgoodGanim
Squire Patton Boggs
SyCip Salazar Hernandez & Gatmaitan (Philippines)

STOCK EXCHANGE LISTING

Shares in Red 5 Limited are quoted on the Australian Securities Exchange (Trading code: RED)

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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 2017.

DIRECTORS

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

Kevin Anthony Dundo
 Mark James Williams
 Ian Keith Macpherson
 John Colin Loosemore

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 the Group during the course of the financial year were gold production and mineral exploration in the Philippines.

OPERATING AND FINANCIAL REVIEW

The net loss of the consolidated entity after income tax was \$(110.2 million), inclusive of a non-cash impairment charge on property plant and equipment and mine properties for the Siana Gold Project of \$99.8 million (2016: Profit of \$21.6 million).

Project description

The Siana Gold Project, located on the southern Philippine Island of Mindanao, continued to be the main focus for the Group during the year. The Siana mine is currently in suspension following continuing delays in regulatory approvals for an amendment to the Environmental Compliance Certificate to enable construction of a long-term tailings storage facility..

Production summary

A total of 41,370 ounces (2016: 59,663) of gold was recovered for the 2017 financial year.

The Siana Gold Project processing plant performed well during the financial year, with a total of 587,461 tonnes (2016: 692,384) of ore processed for the year. The average head grade was 2.7 g/t Au (2016: 3.2 g/t Au) and average recovery was 82% (2016: 85%).

Processing costs averaged A\$26 per tonne (2016: A\$28).

Ore stockpiles on hand at the end of the 2017 financial year totalled approximately 181,344 tonnes (2016: 193,000) at an average grade of 0.94 g/t Au (2016:1.34 g/t Au).

	Units	2016/17	2015/16
Mine Production			
Waste mined	BCM '000s	1,349	3,258
Ore mined	T '000s	620	786
Mined grade – gold	g/t	2.1	2.9
Mill Production			
Ore processed	t	484,318	692,384
Head grade - gold	g/t	2.7	3.2
Head grade – silver	g/t	7.1	6.7
Recovery – gold	%	82	85
Recovery - silver	%	28	35
Gold recovered	oz	41,370	59,663
Silver recovered	oz	38,057	60,307
Gold sold	oz	41,296	60,354
Silver sold	oz	45,957	51,974
Average gold price received	US\$/oz	1,260	1,167

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REVIEW OF OPERATIONS (continued)

Gold sales

Gold sales for the reporting period totalled A\$68.5 million (2016: A\$97.3 million) from the sale of 41,296 ounces (2016: 60,354) at an average price received of US\$1,260 per ounce (2016: US\$1,167).

Financial summary

The consolidated entity recorded an operating loss before tax and impairment of \$10.3 million (2016: Profit of \$24.8 million).

Financial Summary	Year ended 30 June 2017 A\$M	Year ended 30 June 2016 A\$M
Sale proceeds	68.5	97.3
Cost of goods sold	(71.7)	(67.4)
Gross profit/(loss) from operations	(3.2)	29.9
Other income	1.0	-
Exploration	(1.5)	-
Administration and other expenses	(6.6)	(5.1)
Net profit/(loss) before tax and impairment	(10.3)⁽¹⁾	24.8

⁽¹⁾ Before impairment of \$99.8 million. Please refer to note 12 for additional detail.

DIVIDENDS

No amounts were paid by way of dividend since the end of the previous financial year (2016: Nil). At the time of this report the Directors do not recommend the payment of a dividend.

OPTIONS GRANTED OVER SHARES

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

PERFORMANCE RIGHTS

At the date of this report, there were 11,616,400 performance rights convertible into ordinary fully paid shares.

	Number
Vest date: 15 April 2018 (subject to performance conditions)	6,000,000
Vest date: 30 June 2020 (subject to performance conditions)	<u>5,616,400⁽¹⁾</u>
	<u>11,616,400</u>

⁽¹⁾ Approved by shareholders at the General Meeting of the Company held on 20th September 2017

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Company entered into binding agreements in August 2017 to acquire the operating Darlot Gold Mine ("Darlot") from Gold Fields Limited and the King of the Hills Gold Project ("King of the Hills") from Saracen Mineral Holdings Limited.

The structure of the consideration for the Darlot acquisition is:

- Cash payment of \$7 million on completion.
- 130 million shares issued at a deemed share price of 5 cents (\$6.5 million) on completion.
- \$5 million deferred consideration payable in cash 24 months after completion or in shares 12 or 24 months after completion at the vendor's election.

The structure of the King of the Hills acquisition is:

- Cash payment of \$7 million on completion.
- 90 million shares issued at a deemed share price of 5 cents (\$4.5 million) on completion.
- \$4.5 million deferred consideration payable in cash 12 months after completion or in shares at the vendor's election.

The acquisitions are scheduled for completion on 2 October 2017.

Shareholders approved the initial share consideration component of the acquisitions at a General Meeting held on 20 September 2017. A rights issue which closed on 25 September 2017 and which raised \$12.74 million.

The acquisition accounting treatment has not been finalised and is subject to the completion of the acquisitions on 2 October 2017.

LIKELY DEVELOPMENTS

The proposed acquisitions of the Darlot Gold Mine and the King of the Hills Project will provide Red 5 with immediate production and cash flow, an extensive strategic footprint in the Leonora-Leinster mineral district of Western Australia and the ability to leverage this position by pursuing a regional consolidation strategy aimed at establishing the Darlot mill as a central processing hub.

The Group will continue to monitor political and regulatory developments in the Philippines, with the expectation that the Red 5 Group may be in a position to either re-commence gold production from the Siana Gold Project in the future or pursue other strategies to maximise the inherent value of the Group's asset base in the Philippines.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

INFORMATION ON DIRECTORS

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

DIRECTORS' REPORT (continued)

Information on Company Secretary

Frank Campagna B.Bus (Acc), CPA

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

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

Director	Fully paid shares	Options	Performance rights
K Dundo	707,547	-	-
M Williams	3,756,970	-	11,616,400
I Macpherson	-	-	-
C Loosemore	4,813,776	-	-

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 2017 and the number of meetings attended by each Director whilst in office are as follows:

	Board meetings		Audit committee		Remuneration committee		HSEC committee ⁽¹⁾	
	Number held	Number attended	Number held	Number attended	Number held	Number attended	Number held	Number attended
K Dundo	11	11	2	2	3	3	2	2
M Williams	11	11	-	-	-	-	-	-
I Macpherson	11	11	2	2	3	3	-	-
C Loosemore	11	11	2	2	3	3	2	2

⁽¹⁾ Health, Safety, Environment and Community committee.

REMUNERATION REPORT (AUDITED)

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

Principles used to determine the nature and amount of remuneration

Directors and executives remuneration

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

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

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

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

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

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

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

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

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

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

Non-Executive Directors' remuneration

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

- the Chair receives fees of \$90,000 per annum plus superannuation;
- Non-Executive Directors receive \$70,000 per annum plus superannuation;
- Chairs of Board committees receive:
 - o \$10,000 per annum plus superannuation for the audit committee, and
 - o \$5,000 per annum plus superannuation for other committees;
- committee members are not paid any additional fee;
- Non-Executive Directors are entitled to statutory superannuation benefits; and

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

- 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 are not entitled to participate in performance based remuneration schemes. However, the Board proposes to seek annual shareholder reapproval for a Non-Executive Directors' share plan, under which Non-Executive Directors can elect to receive a portion of their existing Directors fees in shares in Red 5. All Directors are entitled to have premiums on indemnity insurance paid by Red 5. During the financial year, Red 5 paid premiums of \$202,369 (2016: \$134,284) to insure the Directors and other officers of the consolidated entity. The liabilities insured are for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

Share-based compensation

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

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

Group performance

The following table summarises key measures of Group performance for FY16 and the previous four financial years.

	2017 \$	2016 \$	2015 \$	2014 \$	2013 \$
Profit/(Loss) before income tax attributable to owners of the company	(110,124,206)	24,787,481	(60,304,510)	(6,935,115)	(8,813,753)
Dividends paid	-	-	-	-	-
Share price at 30 June	\$0.033	\$0.074	\$0.096	\$0.09	\$0.62

Gold production at the Siana Gold Project for the year ended 30 June 2017 up to the suspension of mining operations in April 2017 was 41,370 ounces of gold compared to 59,663 ounces in the previous financial year.

Details of remuneration

The following table discloses details of the nature and amount of each element of the remuneration paid to key management personnel including the Directors of Red 5 for the year ended 30 June 2017.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

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

2016 Name	Short Term			Super-annuation	Annual and long service leave	Share based payments	Total
	Salary or directors fees	Expenses	Bonus				
Executive Director	\$	\$	\$	\$	\$	\$	\$
M Williams	460,688	-	315,360 ⁽¹⁾	45,173 ⁽²⁾	23,865	74,471 ⁽³⁾	919,557
Non-Executive Directors							
K Dundo	95,000	-	-	9,025	-	-	104,025
I Macpherson	80,000	-	-	7,600	-	-	87,600
C Loosemore	70,000	-	-	6,650	-	-	76,650
M Milazzo ⁽⁴⁾	75,000	-	-	7,125	-	-	82,125
Executives							
J Mobilia	307,500	-	125,000 ⁽⁵⁾	35,000 ⁽⁶⁾	30,026	-	497,526
D Jerdin	412,504	22,084 ⁽⁷⁾	131,361 ⁽⁶⁾				565,949
Total	1,500,692	22,084	571,721	110,573	53,891	74,471	2,333,432

- (1) Short term incentive bonus component of remuneration based on achievement of group and specific role related operational targets for the year ended 30 June 2016 including completion of the underground feasibility study and related reserve and resource estimates, specified progress on the development of a long term tailings storage facility and the achievement of gold production and cost targets for the financial year. The amount vested represents 80% of the available bonus with the balance being forfeited due to performance criteria not being met. The financial gate of a minimum level of gold production based on a challenging work plan and operating budget was exceeded. 50% of the performance bonus is payable in share rights, subject to shareholder approval.
- (2) Includes \$13,110 superannuation on the cash component of the performance bonus paid to the Managing Director relating to the previous financial year.
- (3) Share based payment expense of \$74,741 relates to performance rights granted in prior financial year.
- (4) Resigned as a Director on 27 June 2016.
- (5) Short term incentive bonus relating to prior financial year, based on achievement of group and specific role related operational targets for the year ended 30 June 2015 including completion of construction projects under budget and within schedule and achievement of gold production and cost targets for the financial year. The amount vested for Mr Mobilia represents 71% of the available bonus and for Mr Jerdin the amount vested represents 68% of the available bonus, with the respective balances being forfeited due to performance criteria not being met.
- (6) Includes \$12,500 superannuation on the performance bonus paid to the Chief Financial Officer relating to the previous financial year reimbursement of travel expenses as per terms of employment agreement.
- (7) Reimbursement of travel expenses as per terms of employment agreement.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

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

	Fixed		At risk – short term incentives		At risk – long term incentives	
	2017	2016	2017	2016	2017	2016
Executive Directors						
M Williams	73%	58%	23%	34%	4%	8%
Non-Executive Directors						
K Dundo	100%	100%	-	-	-	-
I Macpherson	100%	100%	-	-	-	-
C Loosemore	100%	100%	-	-	-	-
M Milazzo	-	100%	-	-	-	-
Executives						
J Mobilia	78%	75%	22%	25%	-	-
D Jerdin	100%	86%	-	14%	-	-

Options granted to key management personnel

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

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

Share holdings of key management personnel

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

2017	Balance at 1 July 2016	Received during the year through the issue of shares	Other purchases during the year	Balance at 30 June 2017
M Williams	2,400,000	678,485	-	3,078,485
I Macpherson	-	-	-	-
K Dundo	-	707,547 ⁽¹⁾	-	707,547
C Loosemore	4,224,153	589,623 ⁽²⁾	-	4,813,776
J Mobilia	194,958	-	-	194,958
D Jerdin	-	-	-	-
Total	6,819,111	1,975,655	-	8,794,766

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

- (1) Mr Kevin Dundo was issued 707,547 ordinary shares at a deemed issue price of 3.18 cents in satisfaction of his March 2017 quarter's Directors fee pursuant to the Red 5 Limited Non-Executive Directors Share Plan (NED Share Plan) as approved by shareholders .
- (2) Mr Colin Loosemore was issued 589,623 ordinary shares at a deemed issue price of 3.18 cents in satisfaction of his March 2017 quarter's Directors fee pursuant to the NED Share Plan.

Option holdings of key management personnel

The numbers of options in Red 5 held during the financial year by key management personnel are set out below.

2017	Held at 1 July 2016	Granted as compensation	Exercised	Other changes ⁽¹⁾	Held at 30 June 2017	Vested during the year	Vested and exercisable at 30 June 2017
J Mobilia	40,000	-	-	(40,000)	-	-	-
Total	40,000	-	-	(40,000)	-	-	-

- (1) Other changes represent options that expired or were forfeited during the year.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

Shares issued, Service and Deferred Rights

	Grant Date	Vesting Date	Fair Value at Grant Date	Granted	Exercised
Managing Director Service Rights ⁽¹⁾	22-Nov-16	1-Jul-17	78,840	678,845	-
Managing Director Deferred Rights ⁽¹⁾⁽²⁾	22-Nov-16	22-Nov-16	78,840	678,845	(678,845)
Non Executive Director Shares ⁽³⁾	2-May-17	2-May-17	22,500	707,547	(707,547)
Non Executive Director Shares ⁽³⁾	2-May-17	2-May-17	18,750	589,623	(589,623)

- (1) Subject to and with shareholder approval granted at the AGM on 22 November 2016.
 (2) Deferred Rights issued under the Red 5 Limited Rights Plan which vest immediately upon issue and automatically exercised into restricted shares which are subject to disposal restrictions until 30 June 2018..
 (3) Mr Kevin Dundo was issued 707,547 ordinary shares and Mr Colin Loosemore was issued 589,623 ordinary shares at a deemed issue price of 3.18 cents in satisfaction of March 2017 quarter's Directors fee pursuant to the NED Share Plan.

Share based payments expense for shares issued, service and deferred rights was \$198,930 (2016: \$130,000).

Performance rights held by key management personnel

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

2017	Held at 30 June 2017	Vesting condition	Vesting date	Grant date	Fair value at grant date	Expiry Date
M Williams	6,000,000	TSR	14 April 2018	4 December 2014	\$0.0172	15 April 2019

Each performance right entitles the holder to be issued with one ordinary fully paid share subject to the satisfaction of vesting conditions. 50% of the performance rights vest after 3 years and 50% after 4 years from commencement or grant subject to satisfaction of performance hurdles including above median share price scaled performance against the S&P/ASX All Ordinaries Gold Index, a positive share price performance and minimum share price thresholds at the end of the performance period including that the Red 5's shares as quoted on ASX must be above \$0.125 per share at the end of the performance period.

The proportion of TSR performance rights which are eligible to vest at the end of the performance period will be determined as follows:

Red 5's TSR relative to the S&P/ASX All Ordinaries Gold Index	Proportion of TSR share performance rights that are eligible to vest
Less than 50 th percentile	0%
Between 50 th and 75 th percentile	50%
At or above 75 th percentile	100%

The LTI plan has been reviewed and a new structure was introduced in August 2017 based on Performance Rights which will be measured against TSR and strategic milestones in separate tranches. The milestones are intended to link to Red 5's strategy and the TSR measure is intended to link to Red 5's objective to create superior returns to shareholders. The Rights Plan was approved by shareholders at a general meeting of the Company held on 21 September 2017.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

Service agreements

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

Mark Williams – Managing Director

Term of agreement: no defined period.

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

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

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

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

Joe Mobilia – Chief Financial Officer (ceased employment on 30 June 2017)

Term of agreement: no defined period.

Remuneration: base salary of \$300,000 per annum plus 10% superannuation contributions.

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

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

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

David Jerdin – General Mining Operations Manager (ceased employment on 30th April 2017)

Remuneration: base salary of US \$290,000 per annum

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

Termination provisions: termination by the Company (other than for unsatisfactory performance, gross misconduct or long term incapacity) upon giving the legally required notice period or payment in lieu of notice and by Mr Jerdin giving 90 days' notice.

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

Term of agreement: no defined period.

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

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

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

REMUNERATION REPORT (AUDITED) (continued)

Other transactions with Directors

There were no other transactions during the year between the consolidated entity and Directors or their Director-related entities other than fees paid in the normal course of business to HopgoodGanim of which Kevin Dundo was a partner during the reporting period, for the provision of legal services to the Group on normal commercial terms. Mr Dundo is no longer a partner of HopgoodGanim.

	Transaction values		Balance outstanding	
	2017	2016	2017	2016
	\$	\$	\$	\$
HopgoodGanim	34,522	78,337	-	-

Services from remuneration consultants

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

End of Audited Remuneration Report

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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 \$30,188 (2016:\$33,333) for non audit services. Further details of remuneration of the auditors are set out in Note 21.

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

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

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

ENVIRONMENTAL REGULATIONS

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

Compliance with environmental obligations is monitored by the Board of Directors. No environmental breaches have been notified to the consolidated entity by any government agency during the year ended 30 June 2017.

Signed in accordance with a resolution of the Directors.



Kevin Dundo
Chairman

Perth, Western Australia
28 September 2017



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

To the Directors of Red 5 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Red 5 Limited for the financial year ended 30 June 2017 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

28 September 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED	
	NOTE	2017	2016
		\$	\$
Continuing operations			
Revenue		68,515,762	97,297,823
Cost of sales	5	<u>(71,696,241)</u>	<u>(67,357,758)</u>
Gross profit/(loss) from operations		(3,180,479)	29,940,065
Other income	5	1,048,177	44,315
Administration and other expense	5	(6,660,446)	(5,128,780)
Exploration expense	13	(1,551,203)	(77,963)
Impairment expense	5	<u>(99,799,920)</u>	<u>-</u>
Operating profit/(loss)		(110,143,871)	24,777,637
Financing income	5	24,539	20,734
Financing expenses	5	<u>(4,874)</u>	<u>(10,890)</u>
Net financing income		<u>19,665</u>	<u>9,844</u>
Profit/(loss) before income tax expense		(110,124,206)	24,787,481
Income tax expense	6	<u>(78,989)</u>	<u>(3,185,894)</u>
Net profit/(loss) after income tax for the year		<u>(110,203,195)</u>	<u>21,601,587</u>
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Movement in foreign currency translation reserve		(12,247,948)	(1,708,889)
Re-measurement of defined retirement benefit		252,429	(145,979)
Total comprehensive income/(loss) for the year		<u>(122,198,714)</u>	<u>19,746,719</u>
Net profit/(loss) after income tax attributable to:			
- Non-controlling interest		(2,644,877)	518,436
- Members of parent entity		<u>(107,558,318)</u>	<u>21,083,151</u>
		<u>(110,203,195)</u>	<u>21,601,587</u>
Total comprehensive income/(loss) attributable to:			
- Non-controlling interest		(2,938,827)	473,919
- Members of parent company		<u>(119,259,887)</u>	<u>19,272,800</u>
		<u>(122,198,714)</u>	<u>19,746,719</u>
		Cents	Cents
Basic and diluted profit/(loss) per share (cents per share)	26	(14.11)	2.77

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	CONSOLIDATED	
		2017	2016
		\$	\$
Current assets			
Cash and cash equivalents	7	5,393,463	18,189,210
Trade and other receivables	8	9,298,003	12,354,255
Inventory	9	13,915,306	10,770,146
Total current assets		28,606,772	41,313,611
Non-current assets			
Receivables	10	3,702,594	134,883
Property, plant and equipment	11	42,489,004	74,955,919
Mine development	12	4,291,715	91,833,116
Total non-current assets		50,483,313	166,923,918
Total assets		79,090,085	208,237,529
Current liabilities			
Trade and other payables	14	4,694,572	10,275,941
Income tax payable	15	-	2,752,893
Employee benefits	16	118,396	176,228
Provisions	17	1,116,104	1,116,104
Total current liabilities		5,929,072	14,321,166
Non-current liabilities			
Employee benefits	16	10,981	50,355
Provisions	17	3,692,206	2,439,118
Total non-current liabilities		3,703,187	2,489,473
Total liabilities		9,632,259	16,810,639
Net assets		69,457,826	191,426,890
Equity			
Contributed equity	18(a)(b)	236,674,602	236,554,512
Other equity	18 (c)	930,285	930,285
Reserves	19	21,836,580	33,525,976
Accumulated losses		(186,314,081)	(78,853,150)
Total equity attributable to equity holders of the Company		73,127,386	192,157,623
Non-controlling interest		(3,669,560)	(730,733)
Total equity		69,457,826	191,426,890

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Attributable to equity holders of the parent entity					Total
	Issued capital	Other equity ⁽ⁱⁱ⁾	Accumulated losses	Other reserves ⁽ⁱ⁾	Non controlling interest	
	\$	\$	\$	\$	\$	
Consolidated						
Balance at 1 July 2015	236,416,512	930,285	(99,988,195)	35,335,482	(1,226,387)	171,467,697
Net loss	-	-	21,083,151	-	518,436	21,601,587
Other comprehensive income for the year	-	-	-	(1,810,351)	(44,517)	(1,854,868)
Total comprehensive income for the year	-	-	21,083,151	(1,810,351)	473,919	19,746,719
Shares issued during the year	138,000	-	-	-	-	138,000
Issue of performance shares	-	-	-	74,472	-	74,472
Other reserves	-	-	-	(21,733)	21,733	-
Expired options – transfers from reserves	-	-	51,894	(51,894)	-	-
Balance at 30 June 2016	236,554,512	930,285	(78,853,150)	33,525,976	(730,733)	191,426,890
Balance at 1 July 2016	236,554,512	930,285	(78,853,150)	33,525,976	(730,733)	191,426,890
Net profit/(loss)	-	-	(107,558,318)	-	(2,644,877)	(110,203,195)
Other comprehensive loss for the year	-	-	-	(11,701,569)	(293,950)	(11,995,519)
Total comprehensive loss for the year	-	-	(107,558,318)	(11,701,569)	(2,938,827)	(122,198,714)
Shares issued during the year	120,090	-	-	-	-	120,090
Issue of performance shares	-	-	-	30,720	-	30,720
Issue of service rights expense	-	-	-	78,840	-	78,840
Expired options and performance rights – transfers from reserves	-	-	97,387	(97,387)	-	-
Balance at 30 June 2017	236,674,602	930,285	(186,314,081)	21,836,580	(3,669,560)	69,457,826

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

(ii) Refer to note 18 for further explanation.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	CONSOLIDATED	
		2017	2016
		\$	\$
Cash flows from operating activities			
Receipts from sale of gold		61,802,852	99,236,780
Payments to suppliers and employees		(57,391,957)	(44,887,833)
Payments for exploration and evaluation		(1,551,203)	(488,986)
Interest received		24,539	21,579
Interest paid		(4,874)	(10,890)
Payments for property and income taxes		(1,712,161)	-
Sundry receipts		548,177	44,315
		<u>548,177</u>	<u>44,315</u>
Net cash from operating activities	25	<u>1,715,373</u>	<u>53,914,965</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(8,093,780)	(8,122,226)
Payments for mine development		(5,320,595)	(37,105,288)
		<u>(5,320,595)</u>	<u>(37,105,288)</u>
Net cash used in investing activities		<u>(13,414,375)</u>	<u>(45,227,514)</u>
Cash flows from financing activities		-	-
Net increase/(decrease) in cash held		(11,699,002)	8,687,451
Cash at the beginning of the financial year		18,189,210	10,033,274
Effect of exchange rate fluctuations on cash held		(1,096,745)	(531,515)
		<u>(1,096,745)</u>	<u>(531,515)</u>
Cash at the end of the financial year	7	<u>5,393,463</u>	<u>18,189,210</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

1. REPORTING ENTITY

Red 5 Limited (the "Company") is a for profit company domiciled in Australia. The address of the Company's registered office is Level 2 35 Ventnor Avenue, West Perth, Western Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries, associates and jointly controlled entities (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the exploration and mining of gold.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 28 September 2017.

2.2 Going Concern

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

As disclosed in the financial statements, the Group recorded an operating loss after tax of \$110.2 million (inclusive of a non-cash impairment expense of \$99.8 million) and net cash outflows from operating and investing activities of \$11.7 million for the year ended 30 June 2017 and at balance date, had net working capital of \$22.7 million.

Management have prepared a cash flow forecast for the next twelve months based on:

- Continued suspension of mining operations at the Siana Gold Project
- Net cash inflows from the Darlot Gold Mine and King of the Hill Gold Project from 2 October 2017
- Rights issue inclusive of partial underwriting of \$12.74 which closed on 25 September 2017
- Working capital facility in the range of \$10 to \$15 million

The Directors have a reasonable expectation that the above cash flows will be achieved and in addition have further scope to raise additional equity capital or realise value from the Mt Cattlin royalty contractual entitlements. The Directors believe the Group will be able to continue as a going concern and recognise that:

- Mining operations at the Siana Gold Project project are currently suspended which has substantially reduced cash outflows. The Group can re-commence gold production once Governmental approval for an amendment to the Environmental Compliance Certificate is obtained to enable construction of a new long-term tailings storage facility or pursue other strategies to maximise the inherent value of the project;
- As at 30 June 2017 the Company had \$13.2 million in cash and in its metal account;
- The Company announced the acquisition of the Darlot Gold Mine and King of the Hills Gold Project in August 2017 (refer note 27) which will enable immediate cash flow generation for the Company;
- A rights issue which closed on 25 September 2017 and which raised \$12.74 million inclusive of partial underwriting, and
- The Company has commenced a formal process to obtain a working capital debt facility of between \$10 and \$15 million, and anticipate the successful completion of this process.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for share based payments. Share based payments are measured at fair value. The methods used to measure fair values of share based payments are discussed further in the Note 4.12. Rehabilitation provisions are based on net present value and are discussed in Note 4.14.

2.4 Functional and presentation currency

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

2.5 Use of estimates and judgements

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

2.5 Use of estimates and judgements (continued)

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 4.17.

3. REMOVAL OF PARENT ENTITY FINANCIAL STATEMENTS

The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 30.

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 2017 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4.9 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Income tax (continued)

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.

4.11 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.

4.12 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").

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Share based payments (continued)

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

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

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

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.

4.13 Foreign currency

Foreign currency transactions

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

The following significant exchange rates have been applied.

	Average Rate		Year-End	Spot Rate
	2017	2016	2017	2016
AUD				
Peso	37.04	31.36	38.77	34.98
USD	0.75	0.73	0.77	0.74

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.

4.14 Rehabilitation costs

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

Annual increases in the provision relating to the change in the net present value of the provision and inflationary increases are accounted for in the Statement of Profit and Loss as an interest

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Rehabilitation costs (continued)

expense. The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

4.15 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.

4.16 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.

4.17 Accounting estimates and judgements

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

Impairment of Assets

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

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

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

Rehabilitation and mine closure provisions

As set out in Note 4.14, 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Accounting estimates and judgements (continued)

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

Reserves and resources

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

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

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

Going Concern

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

4.18 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not effective for the 30 June 2017 reporting period. The Group does not intend to early adopt any of the new standards or interpretations.

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

AASB 15 establishes a model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled when control of the goods or services passes to the customer. The Group has not assessed the potential impact its consolidated financial statements resulting from the application of AASB15.

The Group plans to adopt the new standard during the 30 June 2019 reporting period.

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments – published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting instruments from IAS39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not assessed the potential impact its consolidated financial statements resulting from the application of AASB9.

IFRS 16 Leases (effective 1 January 2019)

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
5. REVENUE AND EXPENSES		
(a) Other income		
Other Income	47,239	44,315
Royalty	1,000,938	-
	<u>1,048,177</u>	<u>44,315</u>
(b) Administration and other expense		
Superannuation contributions	(159,486)	(152,753)
Employee and consultancy expenses	(3,024,838)	(2,842,300)
Occupancy costs	(284,803)	(336,602)
Regulatory expenses	(279,549)	(321,078)
Provision for doubtful debts	(26)	(182,868)
Foreign exchange gains/(losses)	88,539	192,744
Depreciation	(10,238)	(25,270)
Other administration overheads	(1,356,872)	(1,460,653)
Property tax expense	(1,633,173)	-
	<u>(6,660,446)</u>	<u>(5,128,780)</u>
(c) Impairment		
Property, plant and equipment (note 11)	(29,407,159)	-
Mine development (note 12)	(70,392,761)	-
	<u>(99,799,920)</u>	<u>-</u>
(d) Financing income/(expenses)		
Interest received	24,539	20,734
	<u>24,539</u>	<u>20,734</u>
Interest expense	(4,874)	(10,890)
	<u>(4,874)</u>	<u>(10,890)</u>
	<u>19,665</u>	<u>9,844</u>
(e) Cost of Sales		
External services	(17,124,200)	(11,951,326)
Materials and consumables used	(10,421,940)	(9,995,693)
Fuel and utilities	(9,168,996)	(5,740,152)
Employee benefit expenses	(6,571,945)	(4,730,859)
Excise tax and custom duties	(1,500,351)	(2,046,495)
Other costs of sales	(6,132,426)	(7,063,835)
Movement in stock	3,723,968	318,599
Depreciation and Amortisation	(24,500,351)	(26,147,997)
	<u>(71,696,241)</u>	<u>(67,357,758)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

6. INCOME TAX (Prima Facie)

	CONSOLIDATED	
	2017	2016
	\$	\$
Current income tax		
Current income tax charge	(78,989)	(3,185,894)
Deferred income tax	-	-
Income tax expense	<u>(78,989)</u>	<u>(3,185,894)</u>

A reconciliation between income tax expense and the numerical profit/(loss) before income tax at the applicable income tax rate is as follows:

Profit/(Loss) before income tax	<u>(110,124,206)</u>	<u>24,787,481</u>
At statutory income tax rate of 30% (2016: 30%)	(33,037,262)	(7,436,244)
Items not allowable for income tax purposes:		
Non-deductible expenses	3,761,115	(582,290)
Impairment for which no deferred tax asset was recognised	-	-
Utilisation of carry forward tax losses	-	6,016,528
Current year deferred tax not brought to account	<u>29,197,158</u>	<u>(1,183,888)</u>
Income tax expense	<u>(78,989)</u>	<u>(3,185,894)</u>
(b) Tax losses and temporary differences not brought to account (tax effected)		
Deductible temporary differences	46,801,056	12,379,144
Tax losses	<u>9,435,699</u>	<u>8,333,144</u>

Potential deferred tax assets attributable to tax losses and deductible temporary differences have not been brought to account at 30 June 2017. The Directors do not believe it is appropriate to regard realisation of the deferred tax assets at this point in time because (i) it is not probable that future Australian taxable profits will be available against which the Group can use the benefits there from or (ii) uncertainty with respect to recoverability in the Philippines.

7. CASH AND CASH EQUIVALENTS

Cash at bank	5,393,069	18,188,908
Cash on hand	394	302
	<u>5,393,463</u>	<u>18,189,210</u>

8. TRADE AND OTHER RECEIVABLES

Interest receivable	2,281	2,288
Prepayments	677,022	2,434,335
Debtors	7,709,386	1,583,930
Sundry debtors	857,780	881,324
VAT receivable	-	7,359,491
GST receivable	51,534	92,887
	<u>9,298,003</u>	<u>12,354,255</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
9. INVENTORY		
Consumables	4,553,011	5,131,819
Run of mine stockpiles	2,462,402	2,262,559
Crushed ore stockpile	-	169,091
Gold in circuit	1,532,681	2,269,001
Gold bullion	5,367,212 ⁽¹⁾	937,676
	<u>13,915,306</u>	<u>10,770,146</u>
(1) The value of inventory has been written down to net realisable value by \$3.2 million.		
10. RECEIVABLES		
Security deposit	134,883	134,883
VAT receivable	3,567,711	-
	<u>3,702,594</u>	<u>134,883</u>
11. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment - at cost		
Opening balance	87,784,349	75,651,605
Additions	9,482,277	8,123,504
Transferred from development	-	4,575,987
Disposal of plant and equipment	(418,576)	-
Foreign currency translation adjustment	(8,925,529)	(566,747)
Closing balance	<u>87,922,521</u>	<u>87,784,349</u>
 Accumulated depreciation		
Opening balance	12,828,430	6,592,709
Depreciation for the year	4,643,199	6,440,504
Impairment	29,407,159	-
Foreign currency translation adjustment	(1,445,271)	(204,783)
Closing balance	<u>45,433,517</u>	<u>12,828,430</u>
 Net book value	<u>42,489,004</u>	<u>74,955,919</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
12. MINE DEVELOPMENT		
(a) Mine development		
Opening balance	111,569,528	116,711,920
Development expenditure incurred in current year	5,223,807	100,597
Reclassification of mine development assets	-	(4,575,987)
Foreign currency translation adjustment	<u>(13,913,744)</u>	<u>(667,002)</u>
Closing balance	<u>102,879,591</u>	<u>111,569,528</u>
Accumulated amortisation		
Opening balance	42,554,875	36,889,830
Amortisation for the year	2,926,234	6,323,300
Impairment	65,625,288	-
Foreign currency translation adjustment	<u>(12,518,521)</u>	<u>(658,255)</u>
Closing balance	<u>98,587,876</u>	<u>42,554,875</u>
Mine development net book value	<u>4,291,715</u>	<u>69,014,653</u>
(b) Deferred mining waste costs		
Opening balance	71,611,128	36,061,179
Deferred waste mining expenditure incurred during the year	-	36,986,205
Foreign currency translation adjustment	<u>(7,073,058)</u>	<u>(1,436,256)</u>
Closing balance	<u>64,538,070</u>	<u>71,611,128</u>
Accumulated amortisation		
Opening balance	48,792,665	36,061,179
Amortisation for the period	16,941,156	13,389,006
Impairment	4,767,473	-
Foreign currency translation adjustment	<u>(5,963,224)</u>	<u>(657,520)</u>
Closing balance	<u>64,538,070</u>	<u>48,792,665</u>
Deferred mining waste costs net book value	<u>-</u>	<u>22,818,463</u>
Total development net book value	<u>4,291,715</u>	<u>91,833,116</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

12. MINE DEVELOPMENT (continued)

Following a review of impairment indicators required under the Accounting Standard AASB136, Impairment of Assets at 30 June 2017, an impairment expense has been recorded for the period. This impairment expense of \$99.8 million has been allocated to the plant and equipment \$29.4 million, mine development \$65.6 million and to deferred mining waste of \$4.8 million.

The events and circumstances that have led to the recognition of the impairment include:

- A revision of the open pit mine plan.
- Continuing delays in regulatory approvals for an amendment to the Environmental Compliance Certificate to enable construction of a long-term tailings storage facility resulting in the suspension of mining operations in April 2017.
- An increase in sovereign risk in the Philippines, asset risk and an increase in government bond rates, resulting in a higher discount rate used to calculate the recoverable amount of the mine asset.

The impairment charge results in the carrying values of assets being no more than their assessed recoverable amount.

The impairment expense was determined under AASB136 "Impairment of Assets" where the recoverable amount of the mine asset is the higher of fair value less cost of disposal (FVLCOD) and value in use (VIU). The Group has applied FVLCOD and determined using independent market assumptions to calculate the present value of the estimated value of future cash flows expected to arise from the continued use of the asset, including the anticipated cash flow effects of any capital expenditure to enhance production or reduce cost. Cash flows are discounted using an appropriate post tax market discount rate to arrive at a net present value (NPV) of the mine asset which is compared against the mine assets carrying value.

The key assumptions in the discounted cash flow model include:

- production levels and operating costs based on the most current mine plans;
- the short term and long term USD gold price was \$1,250 and \$1,200 per ounce over the life of mine;
- foreign exchange rates sourced from independent market analysts (AUD/PHP 39, USD/AUD 0.78); and
- a nominal post tax discount rate of 15%

The impairment expense is a non-cash item and does not have any impact on cash flow or mining operations.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
18. CONTRIBUTED EQUITY		
(a) Share capital		
763,826,663 (2016: 761,851,008) ordinary fully paid shares	236,674,602	236,554,512

(b) Movements in ordinary share capital

	CONSOLIDATED 2017		CONSOLIDATED 2016	
	Shares Number	\$	Shares Number	\$
On issue at 1 July	761,851,008	236,554,512	759,451,008	236,416,512
Shares issued	1,975,655	120,090	2,400,000	138,000
On issue at 30 June	763,826,663	236,674,602	761,851,008	236,554,512

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

(c) Other Equity	Shares Number	\$
Opening balance 1 July 2016	581,428	930,285
Balance 30 June 2017 ⁽¹⁾	581,428	930,285

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
19. RESERVES		
Foreign currency translation reserve	21,614,725	33,562,664
Defined retirement benefit	64,069	(182,302)
Share based payment reserve	157,786	145,614
	<u>21,836,580</u>	<u>33,525,976</u>

Foreign currency translation reserve

The foreign currency 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.

Defined retirement benefit

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

Share based payment reserve

The share based payment reserve arises on the granting and vesting of equity instruments. Refer to Note 28 for further details.

(a) Movements in share options

	Options Number	Options Reserve \$
Opening balance 1 July 2016	40,000	28,703
Expired options	<u>(40,000)</u>	<u>(28,703)</u>
Balance 30 June 2017	<u>-</u>	<u>-</u>

(b) Movement in performance rights

Opening balance 1 July 2016	12,000,000	116,911
Expense relating to rights issued during previous period ⁽¹⁾	<u>(6,000,000)</u>	<u>(60,020)</u>
Balance 30 June 2017	<u>6,000,000</u>	<u>56,890</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

20. RELATED PARTIES

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

Executive Directors

Mark Williams – Managing Director

Non-Executive Directors

Kevin Dundo

Ian Macpherson

Colin Loosemore

Other executives

Joe Mobilia – Chief Financial Officer

David Jerdin - General Mining Operations Manager

Compensation of key management personnel

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

	CONSOLIDATED	
	2017	2016
	\$	\$
Key management personnel		
Short term benefits	1,496,630	2,094,497
Post-employment benefits	93,750	110,573
Long term benefits	19,038	53,891
Share based payments	229,650	74,471
	<u>1,839,068</u>	<u>2,333,432</u>

Loans to key management personnel

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

Other transactions with Directors

There were no other transactions during the year between the consolidated entity and Directors or their Director-related entities other than fees werepaid in the normal course of business to HopgoodGanim of which Kevin Dundo was a partner during the reporting period, for the provision of legal services to the Group on normal commercial terms. Mr Dundo is no longer a partner of HopgoodGanim.

	Transaction values		Balance outstanding	
	2017	2016	2017	2016
	\$	\$	\$	\$
HopgoodGanim	34,522	78,337	-	-

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 24.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

	CONSOLIDATED	
	2017	2016
	\$	\$
21. REMUNERATION OF AUDITOR		
Amounts paid or due and payable to the auditor for:		
Auditing and reviewing financial reports		
– KPMG Australia	92,380	92,800
– overseas KPMG firms	29,664	23,650
Taxation advisory services		
– KPMG Australia	20,039	20,250
– overseas KPMG firms	7,491	9,556
Other advisory services		
– overseas KPMG firms	2,658	3,527
	<u>152,232</u>	<u>149,783</u>

22. EXPENDITURE COMMITMENTS

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

- not later than one year	<u>182,225</u>	<u>4,677,850</u>
	<u>182,225</u>	<u>4,677,850</u>

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

- not later than one year	357,460	438,756
- later than one year but not later than two years	149,710	140,802
- later than two years but not later than five years	<u>61,753</u>	<u>274,181</u>
	<u>568,923</u>	<u>853,739</u>

23. 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 and development being focused on the same mineral or type of mineral.
- Exploration and development 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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

23. SEGMENT INFORMATION (continued)

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.

	Philippines \$	Other \$	Total \$
(i) Segment performance			
Year ended 30 June 2017			
Revenue ⁽¹⁾	68,515,762	-	68,515,762
	68,515,762	-	68,515,762
Segment result	105,875,137	(4,328,058)	(110,203,195)
Included within segment result:			
Other Income	47,239	1,000,938	1,048,177
Interest Income	20,289	4,250	24,539
Interest Expenses	-	(4,874)	(4,874)
Exploration written off	(1,551,203)	-	(1,551,203)
Provision for doubtful debts	(26)	-	(26)
Impairment	(99,799,920)	-	(99,799,920)
Depreciation and Amortisation	(24,503,296)	(7,293)	(24,510,589)
Inventory Write Down	(3,255,513)	-	(3,255,513)
Year ended 30 June 2016			
Revenue ⁽¹⁾	97,297,823	-	97,297,823
Interest received	12,419	8,315	20,734
Other income	44,315	-	44,315
	97,354,557	8,315	97,362,872
Segment result	23,058,813	(1,457,226)	21,601,587
Included within segment result:			
Operating profit before other income/(expense)	29,940,065	-	29,940,065
Income tax expense	-	(3,185,894)	(3,185,894)
General administration and regulation costs	(1,619,346)	(3,306,108)	(4,925,454)
Other income	44,315	-	44,315
Provision for doubtful debts	(182,868)	-	(182,868)
Exploration written off	(77,963)	-	(77,963)
(ii) Segment assets			
As at 30 June 2017			
Segment assets	76,797,519	2,292,566	79,090,085
Additions to non-current assets:			
Deferred waste expenditure	-	-	-
Plant and equipment expenditure	9,482,277	-	9,482,277
Development expenditure	5,223,807	-	5,223,807

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

23. SEGMENT INFORMATION (continued)

As at 30 June 2016	Philippines \$	Other \$	Total \$
Segment assets	206,048,563	2,188,966	208,237,529
Additions to non-current assets:			
Deferred waste expenditure	36,986,205	-	36,986,205
Plant and equipment expenditure	8,108,908	14,596	8,123,504
Development expenditure	100,597	-	100,597
(iii) Segment liabilities			
As at 30 June 2017			
Segment liabilities	7,928,483	1,703,776	9,632,259
As at 30 June 2016			
Segment liabilities	11,958,747	4,851,892	16,810,639

⁽¹⁾ Revenue is attributable to one customer only.

24. INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entities	Country of incorporation	Class of shares	Equity holding	
			2017 %	2016 %
Bremer Resources Pty Ltd	Australia	Ordinary	100	100
Estuary Resources Pty Ltd	Australia	Ordinary	100	100
Greenstone Resources (WA) Pty Ltd	Australia	Ordinary	100	100
Oakborough Pty Ltd	Australia	Ordinary	100	100
Opus Resources Pty Ltd	Australia	Ordinary	100	100
Red 5 Philippines Pty Ltd	Australia	Ordinary	100	100
Red 5 Mapawa Pty Ltd	Australia	Ordinary	100	100
Red 5 Dayano Pty Ltd	Australia	Ordinary	100	100
Bremer Binaliw Corporation	Philippines	Ordinary	100	100
Red5 Mapawa Incorporated	Philippines	Ordinary	100	100
Red5 Dayano Incorporated	Philippines	Ordinary	100	100
Red 5 Asia Incorporated	Philippines	Ordinary	100	100
Greenstone Resources Corporation ⁽¹⁾	Philippines	Ordinary	40	40
Surigao Holdings and Investments Corporation ⁽¹⁾	Philippines	Ordinary	40	40

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

25. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2017	2016
	\$	\$
	<hr/>	<hr/>
Operating profit/(loss) after income tax	(110,203,195)	21,601,587
Amortisation and depreciation	24,510,589	26,173,267
Impairment expense	99,799,920	-
Loss on disposal of property plant and equipment	418,576	-
Doubtful debt expenses	26	182,868
Unrealised exchange gain	(88,539)	(177,154)
Provision for stock obsolescence	221,030	-
Share based payment	229,650	212,471
Changes in operating assets and liabilities		
(Increase)/decrease in inventories	(4,621,610)	(1,374,343)
(Increase)/decrease in receivables	(1,663,820)	1,706,890
Increase/(decrease) in payables	(3,939,147)	2,751,461
Increase/(decrease) in income tax payable	(2,752,893)	2,752,893
Increase/(decrease) in provisions	(195,214)	85,025
Net cash inflow/(outflow) from operating activities	<hr/> <u>1,715,373</u>	<hr/> <u>53,914,965</u>

26. EARNINGS PER SHARE

	2017	2016
	Number	Number
	<hr/>	<hr/>
Issued ordinary shares at commencement of financial year	761,851,008	759,451,008
Effect of shares issued 26 th November 2015	-	1,429,508
Effect of shares issued 6 th December 2016	383,733	-
Effect of shares issued 2 nd May 2017	<hr/> <u>212,651</u>	<hr/> <u>-</u>
Weighted average number of ordinary shares for the financial year	<hr/> <u>762,447,392</u>	<hr/> <u>760,880,516</u>

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

27. SUBSEQUENT EVENTS

The Company entered into binding agreements in August 2017 to acquire the operating Darlot Gold Mine ("Darlot") from Gold Fields Limited and the King of the Hills Gold Project ("King of the Hills") from Saracen Mineral Holdings Limited.

The structure of the consideration for the Darlot acquisition is:

- Cash payment of \$7 million on completion.
- 130 million shares issued at a deemed share price of 5 cents (\$6.5 million) on completion.
- \$5 million deferred consideration payable in cash 24 months after completion or in shares 12 or 24 months after completion at the vendor's election.

The structure of the King of the Hills acquisition is:

- Cash payment of \$7 million on completion.
- 90 million shares issued at a deemed share price of 5 cents (\$4.5 million) on completion.
- \$4.5 million deferred consideration payable in cash 12 months after completion or in shares at the vendor's election.

The acquisitions are scheduled for completion on 2 October 2017.

Shareholders approved the initial share consideration component of the acquisitions at a General Meeting held on 20 September 2017. A rights issue which closed on 25 September 2017 and which raised \$12.74 million.

The acquisition accounting treatment has not been finalised and is subject to the completion of the acquisitions on 2 October 2017.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

28. 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 ASX Limited over the five trading days immediately preceding the date of issue of any offer document in relation to the offer, or the date of resolving to issue the options or the date of issue of options by the Board, as the case may be.

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

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired/ forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
		\$	Number	Number	Number	Number	Number	Number
2017								
22.03.12	31.12.16	4.30	40,000	-	-	(40,000)	-	-
			40,000	-	-	(40,000)	-	-
Weighted average exercise price			\$4.30	-	-	\$4.30	-	-
2016								
28.04.11	30.04.16	4.00	70,000	-	-	(70,000)	-	-
22.03.12	31.12.16	4.30	40,000	-	-	-	40,000	40,000
			110,000	-	-	(70,000)	40,000	40,000
Weighted average exercise price			\$4.11	-	-	\$4.00	\$4.30	\$4.30

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

28. SHARE BASED PAYMENTS (continued)

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

Performance rights granted during the year

The performance rights issued to the Managing Director may only be exercised to the extent that the vesting conditions are met. On exercise, the Company will issue one ordinary share per performance right to the Managing Director for nil cash consideration. Vesting of the rights is dependent on the conditions detailed in the table below. Provided the Managing Director remains employed with the Company, each class of performance rights will vest immediately following the end of the relevant period, if the following criteria are met in respect of the period.

	Performance Period	
	Vesting 15 April 2017 (expired)	Vesting 15 April 2018
Tranche and number of performance rights	Tranche 1 6,000,000	Tranche 2 6,000,000
Vesting performance conditions		
TSR ranking ¹ 75% or higher	6,000,000	6,000,000
TSR ranking ¹ 50-75%	3,000,000	3,000,000
TSR ranking ¹ below 50%	nil	nil
In addition, vesting of performance rights is also conditional on:		
<ul style="list-style-type: none"> ▪ the market price of the Company's shares as quoted on the ASX being greater at the end of the relevant performance period compared to the share price at commencement of the relevant performance period; and ▪ the share price of the Company's shares as quoted on the ASX must be above \$0.125 per share at the end of the performance period. 		

¹ Performance of Company's share price relative to the S&P/ASX All Ordinaries Gold Index during the period prior to the third anniversary and fourth anniversary as applicable.

Information about the performance rights outstanding at year end

The following unvested performance rights were outstanding at year end:

	CONSOLIDATED	
	2017	2016
	\$	\$
Balance at the start of the year	12,000,000	12,000,000
Granted during the year	-	-
Vested during the year	-	-
Expired during the year	(6,000,000)	-
Balance at the end of the year	6,000,000	12,000,000

Share based payments expense for the year in relation to the performance rights was \$30,720 (2016: \$74,471).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

28. SHARE BASED PAYMENTS (continued)

Shares issued, Service and Deferred Rights

	Grant Date ⁽¹⁾	Vesting Date	Fair Value at Grant Date	Granted	Exercised
Managing Director Service Rights ⁽¹⁾	22-Nov-16	1-Jul-17	78,840	678,845	-
Managing Director Deferred Rights ^{(1) (2)}	22-Nov-16	22-Nov-16	78,840	678,845	(678,845)
Non Executive Director Shares ⁽³⁾	2 May 17	2 May 17	22,500	707,547	(707,547)
Non Executive Director Shares ⁽³⁾	2 May 17	2 May 17	18,750	589,623	(589,623)

- (1) Subject to and with shareholder approval subsequently granted at the AGM on 22 November 2016..
- (2) Deferred Rights issued under the Red 5 Limited Rights Plan which vest immediately upon issue and automatically exercised into restricted shares which are subject to disposal restrictions until 30 June 2018..
- (3) Mr Kevin Dundo was issued 707,547 ordinary shares and Mr Colin Loosemore was issued 589,623 ordinary shares at a deemed issue price of 3.18 cents in satisfaction of March 2017 quarter's Directors fee pursuant to the NED Share Plan.

Share based payments expense for shares issued, service and deferred rights was \$198,930 (2016: \$130,000). The fair value is based on observable market share price.

29. FINANCIAL RISK MANAGEMENT

Overview

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

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

Credit risk

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

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

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

Cash and cash equivalents

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

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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

29. FINANCIAL RISK MANAGEMENT (continued)

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	
	2017 \$	2016 \$
Trade and other receivables	9,298,003	12,354,255
Cash and cash equivalents	5,393,463	18,189,210
Non-current receivables	3,702,594	134,883

Liquidity risk

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

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

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

CONSOLIDATED 30 June 2017

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

CONSOLIDATED 30 June 2016

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	More than 1 year
Trade and other payables	13,028,834	(13,028,834)	(13,028,834)	-	-
	13,028,834	(13,028,834)	(13,028,834)	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

29. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

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

Exposure to currency risk

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

	CONSOLIDATED Carrying Amount	
	2017 A\$	2016 A\$
Cash	3,098,291	13,779,652
Trade debtors	6,938,448	-
Trade payables	(191,321)	(407,232)
Gross balance sheet exposure	9,845,418	13,372,420

Sensitivity analysis

A 10 per cent strengthening of the Australian dollar against the United States dollar on the 30 June 2017 would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

	CONSOLIDATED Profit or loss A\$
30 June 2017	
US\$	(984,542)
30 June 2016	
US\$	(1,337,242)

A 10 per cent weakening of the Australian dollar against the above currencies at 30 June 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

29. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

	CONSOLIDATED Carrying amount	
	2017 \$	2016 \$
Variable rate instruments		
Cash and cash equivalents ⁽ⁱ⁾	4,879,745	17,404,567
Security deposits	134,883	134,883
	5,014,628	17,539,450

(i) Amount excludes non-interest bearing bank accounts

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2016.

CONSOLIDATED	Profit or loss		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2017				
Variable rate instruments	50,146	(50,146)	50,146	(50,146)
30 June 2016				
Variable rate instruments	175,395	(175,395)	175,395	(175,395)

Net Fair values

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

Capital management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2017

30. PARENT ENTITY DISCLOSURES

(a) Financial position	2017	2016
	\$	\$
Assets		
Current assets	2,137,453	2,118,432
Non-current assets	68,017,593	191,407,457
Total assets	<u>70,155,046</u>	<u>193,525,889</u>
Liabilities		
Current liabilities	1,692,790	2,048,643
Non-current liabilities	10,986	50,356
Total liabilities	<u>1,703,776</u>	<u>2,098,999</u>
Contributed equity	236,674,602	236,554,512
Other equity	930,285	930,285
Reserves	157,787	145,614
Accumulated losses	(169,311,404)	(46,203,521)
Total equity	<u>68,451,270</u>	<u>191,426,890</u>
(b) Financial performance		
Profit/(Loss) for the year	(123,107,883)	19,803,234
Other comprehensive income	-	-
Total comprehensive profit/(loss) for the period	<u>(123,107,883)</u>	<u>19,803,234</u>
(c) Financial commitments		
Operating lease:		
- not later than one year	147,275	126,268
- later than one year but not later than two years	149,710	138,691
- later than two years but not later than five years	61,753	274,181
Total financial commitments	<u>350,738</u>	<u>539,140</u>

(d) The Parent entity did not have any contingent liabilities at 30 June 2017 (2016: \$nil).

DIRECTORS DECLARATION

30 JUNE 2017

The Board of Directors of Red 5 Limited declares that:

- (a) the consolidated financial statements, accompanying notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1; and
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

The Board of Directors has received the declaration by the Managing Director and Chief Financial Officer required by Section 295A of the Corporations Act 2001, for the year ended 30 June 2017.

Signed in accordance with a resolution of the Directors.



Kevin Dundo
Chairman

Perth, Western Australia
28 September 2017



Independent Auditor's Report

To the shareholders of Red 5 Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Consolidated statement of financial position* as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' *Declaration*.

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

Basis for opinion

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

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

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

Key Audit Matters

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

- Valuation of Property, plant and equipment and Mine development
- Going *Concern basis of accounting*

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

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



Valuation of Property, plant and equipment (\$42,489,004) and Mine development (\$4,291,715)

Refer to Note 11 Property, plant and equipment and Note 12 Mine development

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's impairment testing of property, plant and equipment and mine development, given mining operations at the Siana Gold Project have been suspended and the size of the balance (being 59% of total assets).</p> <p>In addition, the carrying amount of Group's net assets exceeded the Group's market capitalisation at year end, increasing the possibility of property, plant and equipment and mine development assets being impaired.</p> <p>These factors led to an impairment trigger and accordingly the Group has tested these assets for impairment to determine its recoverable amount.</p> <p>We focused on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal model, including:</p> <ul style="list-style-type: none"> • Forecast gold prices and foreign exchange rates - the Group and Gold sector have experienced fluctuating gold prices and foreign exchange rates, increasing the risk of future fluctuations and inaccurate forecasting. • Forecast cash flows - there is uncertainty regarding regulatory and government mining policy in the Philippines that has resulted in a delay in approval of the Environmental Compliance Certificate amendment for the long-term Tailings Storage Facility (TSF). This has led to the suspension of mining operations at the Siana Gold Project. These conditions increase the possibility that property, plant and equipment and mine development assets are impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider. • Discount rate - these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time, and the Group's approach to incorporating risks into the cash flows or discount rate. The group's modelling is highly sensitive to changes in the discount rate. We involve our valuations specialists with the assessment. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We considered the appropriateness of the fair value less costs of disposal method applied by the Group to perform the impairment test against the requirements of the accounting standards. • We assessed the integrity of the fair value less costs for disposal model used, including the accuracy of the underlying calculation formulas. • We considered the Group's determination of the CGU based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards. • We assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the fair value less costs for disposal model, for consistency with our understanding of the business and the criteria in the accounting standards. • We compared the forecast cash flows and capital expenditure contained in the fair value less costs for disposal model to approved forecasts and external feasibility study. • We considered the sensitivity of the model by varying key assumptions, such as gold price, foreign exchange and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • Working with our valuation specialists we compared the forecast gold prices and foreign exchange rates to published views of market commentators on future trends. • We challenged the Group's significant forecast cash flow assumptions in light of the uncertainty regarding regulatory and government mining policy in the Philippines that has resulted in a delay in approval of the Environmental Compliance Certificate amendment for the long-term Tailings Storage Facility (TSF). We used our knowledge of the Group, their past performance and our industry experience.

<p>In addition to the above, the Group recorded an impairment charge of \$99.8million against mine development and plant and equipment resulting from the revision of the open pit mine plan, delay in approval for the TSF application and increase in sovereign risk in the Philippines, asset risk and bond rates resulting in a higher discount rate. These factors have led to an increase in sensitivity of the model to small changes. This further increased our audit effort in this area.</p> <p>The Group uses a complex model to perform their impairment testing. The model uses a range of internal and external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved our valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> • Working with our valuation specialists we analysed the Group’s discount rate against publicly available data of a group of comparable entities. Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. • We recalculated the impairment charge against the recorded amount disclosed • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.
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Going concern basis of accounting	
Refer to Note 2.2 to the financial report	
The key audit matter	How the matter was addressed in our audit
<p>The Group’s use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group’s assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in note 2.2.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow forecasts. The preparation of these forecasts incorporated a number of assumptions and significant judgements and they have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the Group’s ability to continue as a going concern.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We analysed the cash flow projections by: <ul style="list-style-type: none"> ◦ Evaluating the underlying data used to generate the forecasts. We specifically looked for their consistency with the Group’s intentions, and their comparability to past practices. Information was sourced from mine plans and reserve reports. We tested forecast gold prices and foreign exchange rates used by management to published views from market commentators. We also evaluated the consistency of forecast sales, production volumes and production costs to historical seasonal production information; ◦ Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. We assessed the resultant impact to the ability of the Group to pay debts as and when they fall due

We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:

- The Group's forecast care and maintenance costs included within the Group's cash flow forecasts.
- Impact of expected gold prices and forecast US Dollar, Philippine Peso and Australian Dollar foreign exchange rates to cash flows projected.
- Expected cash outflows resulting from the acquisitions of the Darlot Gold Mine and King of the Hills Gold Project and subsequent cash flows from forecast sales, production volumes and production and capital costs once acquired.
- The Group's ability to raise additional funds from shareholders or other parties and the projected timing thereof. This included source of funds, availability of fund type, feasibility and status/progress of securing those funds.

In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.

and continue as a going concern. The specific areas we focused on were informed from our test results of the accuracy of previous Group cash flow projections and sensitivity analysis on key cash flow projection assumptions; and

- Assessing the planned levels of expenditures for consistency of relationships and trends to the Group's historical results, results since year end, and our understanding of the business, industry and economic conditions of the Group.
- We read correspondence with the Groups finance broker to understand and assess options available for additional funding arrangements.
- We read Directors minutes and relevant correspondence with the Group's advisors to understand and assess the Group's ability to raise additional shareholder funds.
- We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the *Corporate Directory and Directors' Report*. The *remaining Other Information* is expected to be made available to us after the date of the Auditor's Report.

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

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

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



Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Red 5 Limited for the year ended 30 June 2017, complies with *Section 300A of the Corporations Act 2001*.

KPMG

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2017.

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

Brent Steedman
Partner

Perth

28 September 2017