



RED BACK MINING INC.

Annual Report
For the year ended June 30, 2005

RED BACK MINING INC.
ANNUAL REPORT TO SHAREHOLDERS
For the year ended June 30, 2005

The Board of Directors is pleased to present the following report to shareholders on the activities of the Company during fiscal 2005 and its plans for the coming year.

Chirano Gold Project

In October, 2004, the Company announced its formal decision to develop the Chirano Gold Project. Since that time, construction has proceeded full steam ahead, building Ghana's newest gold mine.

Reserves have been calculated on a US\$375 per ounce gold price and form the basis of the final feasibility study carried out by AMC Consultants (July, 2004). Proven and probable reserves are estimated at 17.8 Mt @ 1.9 g/t gold, for a total of 1,090,000 ounces with annual production estimated at 123,000 ounces over an 8.5 year mine life. Approximately 145,000 ounces per year is scheduled for the first three years of full production.

The primary crusher at Chirano started operations in early September, 2005. This was followed by the commissioning of the SAG and Ball mills. Commercial gold production is anticipated in early October, 2005.

As at August 31, 2005 the construction status at Chirano was as follows:

Plant and Infrastructure

- Project Design and Engineering 100% complete
- All major construction contracts awarded
- Procurement 98% complete, with the focus now on spares and logistics
- Concrete work is complete
- Plant offices are complete
- Leach tanks are complete
- Ball Mill + SAG Mill and motors are in place with commissioning scheduled for first week of September
- Primary crusher is complete with commissioning in the first week of September
- Overland power line is connected
- Water Storage Facility is complete and ready for plant start-up
- Site earthworks complete
- Tailings Storage Facility – main embankment complete
- Tailings and water overland piping 70% complete
- Commissioning Manager is on site and pre-commissioning has commenced

Mining

Mining operations at the Obra, Obra South and Tano pits at Chirano have progressed well. The mined ore currently stands at 297,996 tonnes, containing 16,765 ounces of gold. Grade control and mining continues to show a material improvement over projections in the Bankable Feasibility Study ("BFS"), with an overall 18% increase in ounces to date.

	DEPLETED				MINED				VARIANCE		
	Exploration Reserve				Grade Control				% Difference		
	Density	Tonnes	g/t	Ounces	Density	Tonnes	g/t	Ounces	Tonnes	g/t	Ounces
Obra	1.72	265,326	1.66	14,136	1.92	291,575	1.75	16,448	10%	6%	16%
Tano	1.72	1,423	1.53	70	1.57	6,421	1.54	317	351%	0%	352%
Total	-	266,749	1.66	14,207	-	297,996	1.75	16,765	12%	6%	18%

With continued mining and an extensive ongoing grade control drilling program, a reconciliation of reserves will be completed and restated by year end against revised gold pricing.

Capital Cost

The capital cost estimate for development of Chirano was revised from US \$61.6 million to US \$73.4 million as a result of increased commodity prices (steel, concrete, fuel), transportation costs, delivery timetables due to high global shipping demand and negative foreign exchange variations. Despite such major project impacts, the Company has contained such variations to a 19% increase over the original capital cost. Nearing completion, the capital cost of Chirano has remained at US\$73.4 million and the Company has completed the necessary funding for commencement of production at Chirano.

Exploration at Chirano

Drilling at and around Chirano has indicated potential for significantly higher grade at depth below the existing open pit resources and reserves and identified a number of targets on strike with Chirano.

At the Akwaaba pit, drilling has suggested a high grade core (with grades increasing at depth) averaging 15-60 g/t gold with predominantly shallow to moderate 30°-50° northerly plunge. The deposit remains open at depth and along strike to the north and south. Significant results are as follows:

HOLE	COORDINATES	DEPTH (m)	INTERCEPT (m)	GRADE (g/t gold)	COMMENTS
CHRC316	31469N 17020E	78-93	15	5.19	Including 4m @ 11.92g/t
CHRC538	31496N 16997E	80-97	17	3.33	Including 5m @ 7.3 g/t
CHRC540	31522N 17045E	81-96	15	10.74	Including 6m @ 25.5 g/t
CHRC655	31518N 17003E	103-114	11	4.3	Including 3m @ 11.64 g/t
CHRC702	31542N 17037E	115-130	15	14.26	Including 6m @ 31.33 g/t
CHRC703	31491N 16992E	112-121	9	4.11	Including 3m @ 8.7 g/t
CHRC704	31517N 17001E	130-153 EOH	23	4.08	Including 3m @ 13.77 g/t
CHRC705	31439N 16981E	95-110	15	3.58	Including 3m @ 11.20 g/t

Note:

1. True widths are approximately 60% of down hole intercepts
2. Hole CHRC704 ended in mineralisation

A 2,000m follow-up drill program in October 2005 will further test the extent of this high grade mineralization. Optimisation and mine scheduling studies have been initiated with a view to fast tracking the development of Akwaaba to take advantage of mining these higher gold grades early in the mine scheduling program.

The October 2005 drill program will also test an 800 metre northerly strike extension of Akwaaba where a previously identified gold in soil anomaly has yet to be followed up. This anomaly is associated with a significant structural jog in the main Chirano Shear Zone and in light of recent results at Akwaaba is a high priority target.

Regional Exploration

During the course of the year, the Company carried out an extensive exploration and drilling program throughout its land holdings in Ghana. Red Back is one of the largest mineral property holders in the country with over 5,600 square kilometers within Ghana's key mineralized belts. The Company made a new gold discovery on its Enchi Project which is located between 40 and 90 kilometres south of the Chirano Gold Project and straddles the Bibiani Shear Zone which hosts Chirano and the Bibiani gold mine (+5 million ounces) owned by AngloGold Ashanti. In early 2005 the Company commenced first pass trenching (1,833 metres) and Rotary Air Blast (RAB) drilling (+5,000 metres) programs on two gold-in-soil anomalies at Enchi: the Boin Valley East anomaly and the Boin Valley West anomaly.

Boin Valley East

The northern 2.2 kilometres of the 4.5 kilometre long +100ppb Boin Valley East anomaly has been tested with 5 trenches and 44 shallow RAB drill holes to a maximum depth of 70 metres.

Based upon the limited amount of testing to date it is interpreted that two gold mineralized zones 500 metres apart have been identified, both dipping shallowly to the west in very heavily weathered Birimian volcanics and sediments. The eastern zone extends over a strike length of 600 metres and comprises numerous low grade trench and RAB intercepts within an anomalous halo up to 45 metres wide. The western zone has only been intersected in one trench to date (SWTR 1 - 60m @ 0.80g/t). Several drill intercepts were also recorded in an intermediate zone between the two main zones and a trench located 800 metres south of the RAB drilling has returned very wide low grade intercepts (SSTR 1 - 249m @ 0.45g/t).

The zones of the Boin Valley East anomaly remain open in all directions. Significant results include:

TRENCH	ZONE	INTERSECTION (m)	INTERVAL (m)	GRADE (g/t Au)
SWTR 1	West	0-60	60	0.80
SWTR 4	East	50-80	30	0.64
SSTR 1	South	68-317.4	249.4	0.45
	Incl.	68-112	44	0.57
	Incl.	160-230	69	0.55
	Incl.	288-315.8	27.8	0.77

HOLE	ZONE	NORTHING	DEPTH (m)	INTERCEPT (m)	GRADE (g/t Au)
SWRB012	Intermediate	20800	2-11	9	1.29
			38-53	15	0.48
SWRB015	Intermediate	20800	2-11	9	0.83
SWRB016	East	20800	47-65 EOH	18	0.53
SWRB017	East	20800	14-26	12	1.05
SWRB018	East	20800	2-23	21	0.72
SWRB023	East	21000	26-42	18	0.44
SWRB028	East	21200	23	24	0.68
SWRB041	Intermediate	21200	26	15	0.72
SWRB044	Intermediate	20400	35	18	0.71

- Note: 1. EOH means end of hole
2. There is insufficient drilling to determine true width of down hole drill intercepts

Boin Valley West

Only 1.4 kilometres of the 4.5 kilometre long Boin Valley West gold-in-soil anomaly has been tested by 736 metres of trenching and 58 RAB holes. Trench testing of the anomaly was ineffective due to deep and extensive mottled clays. Two sub-parallel zones of mineralization have been intersected with a current combined strike of 800 metres. On the southern most section (3800mN) the mineralized zone is 50 metres in width. The mineralisation remains open along strike in both directions. Significant RAB drill intersections include:

HOLE	NORTHING	DEPTH (m)	INTERCEPT (m)	GRADE (g/t Au)
KBRB006	4800	29-41	12	1.60
KBRB041	4200	47-53	6	1.77
KBRB042	4200	17-38	21	0.70
KBRB049	3800	0-17	17	1.53
KBRB050	3800	2-14	12	0.76
KBRB051	3800	2-17	15	3.00
KBRB052	3800	2-11	9	1.13

The Company is encouraged by the strike length and width of gold mineralisation at both the Boin Valley East and Boin Valley West discoveries which suggest the presence of large mineralized systems within a sequence of quartz veined and stockworked mafic intrusives, black shales and volcanics, in close proximity to a Birimian mafic sediment contact.

Intersections at Boin Valley were recorded in highly weathered bedrock lithologies and it is unclear at this point if the grade of the mineralization has been enriched or depleted by weathering processes. Additional drilling will provide more certainty on true widths and gold grade in the primary zones.

It is interpreted that the Boin Valley discoveries are associated with a series of thrust repetitions of the main belt margin contact located within the Enchi Project two kilometres to the west. Previous explorers have targeted gold mineralization within basin sediments some distance to the east of the belt margin. These programs have identified several narrow high grade deposits. However, the Company's ongoing program of detailed soil sampling, prospecting and geological mapping has focused on a zone in proximity to the main belt margin where most major gold deposits in Ghana are located.

A further trenching program over the soil anomalies is in progress. A 6,000 metre reverse circulation drilling program will commence in October 2005 at both prospects to determine the continuity of mineralisation at depth and along strike and if warranted to advance the prospects to resource status.

Corporate

Trading of the Company's shares graduated to the Toronto Stock Exchange effective as of December 8, 2004. During the course of the year, the Company raised Cdn \$11 million in equity by way of private placement and subsequent to year end, the Company raised Cdn \$11.90 million through an equity private placement.

The Company also negotiated a US\$43 million debt facility to partially fund the construction of Chirano.

The Company was pleased to appoint Messrs. Brian D. Edgar and Robert F. Chase to the Board of Directors effective August 8, 2005.

The Company's Qualified Person pursuant to NI-43101 is Mr. Ross Ashton, BSc, FAusIMM. Mr. Ashton is a Director of the Company. Samples are prepared and analyzed by fire assay using a 50 gram charge at the Analabs facility in Bibiani, Ghana in compliance with industry standards. Field duplicate samples are taken and blanks and standards are added to every batch submitted. Selected samples from this lab are check assayed each month at other Analabs laboratories worldwide.

Farim Phosphate Deposit

The Company's other material asset is the world class Farim Phosphate Project located in Guinea Bissau, West Africa. Resources at Farim exceed 166 million tonnes grading 29.1% P₂O₅, including 37 million tonnes grading 31% P₂O₅ scheduled for the first 15 years of mine life. Processed rock concentrate would grade 33% P₂O₅ with high recoveries, low CaO/ P₂O₅ ratios and low quantities of deleterious element such as cadmium. Significantly, deposit characteristics are also amenable for production of a higher grade (36% P₂O₅) product. With these reserves and grades and strategic transport location, Farim represents a unique opportunity for competitive growth in the phosphate business.

Discussions are ongoing with potential industry partners for development and marketing of the Farim Project.

The Year Ahead

Red Back Mining drilled its discovery hole at Chirano in 1998 and now, a few short years later, is very close to opening a significant new gold mine in Ghana - the first new mine in Ghana in almost a decade. The Company intends to achieve a show piece of engineering and environmental development and is confident that Chirano will exceed expectations in all areas.

Work will continue over the coming year, exploring the expansion potential of Chirano at depth and along strike. The success at Akwaaba in identifying a deeper, higher grade potential at Chirano offers exciting potential for the economics and longevity of the mine. Numerous mines in Ghana have this profile and in fact have ended up extracting substantially more ounces from their underground operations than the open pit developments.

In addition, exploration will continue regionally. The discovery of extensive gold mineralization at Enchi is the direct result of the systematic exploration programs Red Back is employing on its large mineral land holdings in Ghana and heads us in the right direction as we work towards our ultimate goal of becoming a multi mine producer in Ghana.

On Behalf of the Board

Richard P. Clark
President

September 23, 2005

RED BACK MINING INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS
(In United States Dollars)
June 30, 2005 AND 2004

The following discussion and analysis of the results of operations and financial conditions ("MD&A") for Red Back Mining Inc. (the "Company") should be read in conjunction with the consolidated financial statements for the years ended June 30, 2005 and 2004 and related notes therein. The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is September 23, 2005.

Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

General

The Company is a mineral resource corporation engaged in exploring, acquiring and developing mineral properties. The Company, through its subsidiary Chirano Gold Mines Limited holds a 95% interest in the Chirano Gold Project ("Chirano"), located in Ghana, West Africa. The Company, through subsidiaries, also holds interests in a number of exploration properties in Ghana as well as a 100% interest in the Farim Phosphate Project in Guinea Bissau.

Chirano is located along strike from AngloGold Ashanti's +5 million ounce Bibiani gold mine in the Western Region of Ghana. The Chirano Mining Lease was granted on 13 April 2004. Chirano will become the first new gold mine in Ghana in almost a decade and the Company will become the fourth largest gold producer in Ghana, currently the ninth largest gold producing nation in the world.

Chirano development is substantially complete with first gold production anticipated for October 2005. Based on current proven and probable reserves of 17.8MT @ 1.9g/t, for a total of 1,091,000 oz (calculated at a gold price of US\$375 per ounce by AMC Consultants, July 2004), Chirano is engineered for average production of 123,000oz per annum over an initial eight year mine life with production in the first three years averaging 145,000oz per annum. Initial capital costs are estimated at US\$73.4M, including contingencies. Cash costs are projected at US\$257 per ounce.

Effective May 3, 2004, the merger between Champion Resources Inc. and Red Back Mining NL ("RBK") was completed. All shareholder, regulatory and court approvals were received and the Company is now trading under its new name Red Back Mining Inc. (symbol RBI - TSX). Pursuant to the Merger, the Company acquired all of the issued and outstanding shares of RBK and:

- (a) each RBK shareholder of record as of the effective date received in exchange for each three RBK shares held, one post-consolidation Company share; and
- (b) all RBK convertible securities were cancelled, and each holder of RBK options as of the effective date received for each three RBK options held, one post-consolidation Company option, exercisable on terms equivalent to the RBK options.

As a result of the Merger, RBK shareholders became majority shareholders of the Company and RBK became a wholly-owned subsidiary of the Company.

Selected Annual Information

US\$	Year ended June 30, 2005	Year ended June 30, 2004	Year ended June 30, 2003
Total Revenue	236,087	63,568	48,006
Net Loss	3,235,439	3,084,548	1,004,603
Net Loss per share (basic and diluted)	0.05	0.06	0.02
Total Assets	95,756,117	40,557,625	13,268,318
Long Term Liabilities	34,807,614	-	21,522

Selected Quarterly Information

Financial Data for 8 Quarters								
Three Months Ended	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04	Mar-04	Dec-03	Sep-03
A. Total revenues (\$000's)	134	36	22	44	5	30	18	11
B. Net loss (\$000's)	(603)	(1,147)	(988)	(497)	(2,229)	(430)	(284)	(141)
C. Basis and diluted loss per share (\$)	(0.01)	(0.02)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.00)

Results of Operations

June 2005 quarter compared to June 2004 quarter

The loss for the June 2005 quarter was \$603,000 as compared to a loss of \$2,229,000 for the June 2004 quarter. During the June 2004 quarter, the Company recognized stock based compensation costs totaling \$1,743,812 as a result of the issue of options. No stock based compensation costs were recognized in the June 2005 quarter. Details of the stock based compensation costs are outlined in note 10. General and administrative expenses for the June 2005 quarter were higher than the June 2004 quarter as expected with the increase in activity as the Company continued with the development of Chirano. This increase is mainly associated with depreciation of motor vehicles in use at Chirano.

Year ended June 30, 2005 compared to 2004

The Company's loss for the year ended June 30, 2005 was \$3,235,439 as compared to a loss of \$3,084,548 for the year ended June 30, 2004. As discussed above, \$1,743,812 in stock based compensation costs were recognized in the year ended June 30, 2004 as compared to \$182,209 recognized in the year ended June 30, 2005. There was a significant increase in general and administrative costs during the year ended June 30, 2005, reflecting the fact that this year was the Company's first full year developing Chirano and its first full year following the merger between the Company and Red Back Mining NL. Amortization and depreciation increased by \$375,034 as a result of the purchase and use of the light vehicle fleet at Chirano. Management fees increased by \$181,910 reflecting the full year effect of contracts entered into following the merger with Red Back Mining NL. A significant increase in office and general expenses of \$423,474 was recorded reflecting the first full year of both the Vancouver and Accra offices. Salaries increased by \$575,311 mainly due to termination payments made on the finalization by Red Back Mining NL of contracts with two directors. Stock exchange and filing fees increased by \$131,298 reflecting the significant equity issues made during the year ended June 30, 2005. Travel costs increased by \$152,154 in line with

the increased travel undertaken by management both in relation to promotional activities and the development of Chirano. Interest income increased by \$86,268 and a gain on sale of investment of \$86,251 (refer note 5) was recognized in the year ended June 30, 2005.

Other expenses for the year ended June 30, 2005 remained materially in line with the prior year.

The operating losses are a reflection of the Company's status as a non-revenue producing mineral company. As the Company currently has no main sources of income, losses are expected to continue until such point in time that the Company successfully develops one of its projects. Development of Chirano has commenced and it is anticipated that first gold production will occur in October 2005.

Liquidity and Capital Resources

At June 30, 2005, the Company had a deficiency in working capital of \$6,869,280 as compared to net working capital of \$13,146,006 at June 30, 2004. The deficiency in working capital at June 30, 2005 is a result of the Company's debt funding of the development of Chirano. Accounts Payable included in the deficiency in working capital were paid post year-end using a combination of debt and cash on hand. In addition, the current portion of the outstanding debt facility repayments is included in the deficiency in working capital. These repayments are due in 2006 and will be funded from the proceeds of the private placement completed after June 30, 2005 and from the anticipated positive cash flow from the Chirano operations.

During the year ended June 30, 2005, the Company raised \$8,606,400 (C\$11,000,000) through the sale of 5.8 million shares at C\$1.90 each. Subsequent to June 30, 2005, the Company raised \$9,750,000 (C\$11,900,000) through the sale of 7 million units at C\$1.70 per unit. The units comprise one share and one-half of a share purchase warrant. Each whole warrant is exercisable over a period of two years into one common share at a price of C\$2.00 per share.

The net proceeds from the financing will be used by the Company for the development and exploration of its mineral properties in Ghana and for general working capital and corporate purposes. The Company has financed the development of the Chirano Gold Project through a combination of debt and equity.

On September 7, 2004 the Company accepted a credit approved offer from Macquarie Bank Limited ("Macquarie") for financing facilities totaling US\$43 million for the Chirano Gold Project in Ghana. The facilities comprise a US\$33 million corporate loan facility and a US\$10 million standby facility. As a condition of the debt financing, the Company has agreed to put in place downside gold price protection such that 400,000 ounces are protected at a minimum gold price of US \$400 per ounce. To this end the Company has sold, on a flat forward basis, 400,000 ounces of gold at a price US \$435 per ounce. On average, approximately 18,000 ounces of gold will be delivered quarterly by the Company into the hedge over 5.5 years. At first draw down Macquarie was issued share purchase warrants entitling it to acquire up to 1,000,000 common shares of Red Back at a price of C\$2.25 each for a period of three years from the date of issuance. Upon drawdown of the standby facility, additional warrants will be issued to Macquarie entitling it to acquire up to a further 3,450,000 common shares at a price of C\$2.25 each for a period of three years from the date of issuance. The additional warrants are issuable on the basis of 345,000 warrants for each US\$1,000,000 drawn down under the standby facility. Funds received from the exercise of all warrants will be applied against outstanding principal under the credit facilities. As at June 30, 2005, the corporate loan facility was fully drawn. Subsequent to year-end the standby facility has been drawn to US\$5 million and 1,725,000 warrants have been issued in relation to this drawdown.

Total expenditure incurred at Chirano for the year ended June 30, 2005 was \$57,106,087. Exploration expenditures totalled \$1,134,678 and development costs totalled \$46,819,100. In

addition, \$562,348 interest was capitalized, deferred stripping costs of \$2,982,347 were capitalized and the capitalized net present value of asset retirement obligations recognized was \$5,607,614.

Exploration expenditures incurred on the Company's other Ghanaian exploration projects for the year ended June 30, 2005 totaled \$2,253,460. These costs relate to the continuing exploration and evaluation of these projects. In the event that exploration results lead to the conclusion that economic operations will not be attained on individual projects then capitalized costs associated with that project are written-off. There were no such write offs in the year ended June 30, 2005.

Expenditures incurred on the Farim project in Guinea-Bissau during the year ended June 30, 2005 were \$472,623. Farim project expenditures were mainly related to care, maintenance and consulting costs.

The Company has limited capital resources and has to rely upon the sale of equity and debt securities for cash required for exploration and development purposes, for acquisitions and to fund the administration of the Company. Since the Company does not expect to generate any revenues until commencement of production at Chirano, it will have to continue to rely upon the sales of its equity and debt securities to raise capital. It follows that there can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any period or, if available, that they can be obtained on terms satisfactory to the Company.

Related Party Transactions

The Company's transactions with related parties are disclosed in Note 12 of the consolidated financial statements.

Outstanding Share Data

As at September 23, 2005, the Company had 76,418,034 common shares outstanding and 2,332,666 share options outstanding under its stock-based incentive plan. The Company had 20,724,999 share purchase warrants outstanding.

Risks

The operations of the Company are speculative due to the high risk nature of its business which includes the acquisition, financing, exploration and development of mining properties and in particular the construction of the Chirano Project. These risk factors could materially affect the Company's future operations and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

Calculation of Mineralization, Resources and Reserves

There is a degree of uncertainty attributable to the calculation of mineralization, resources and reserves and corresponding grades being mined or dedicated to future production. Until reserves or mineralization are actually mined and processed, the quantity of mineralization and reserve grades must be considered estimates only. In addition, the quantity of reserves and mineralization may vary depending on commodity prices. Any material change in quantity of reserves, mineralization, grade or stripping ratio may affect the economic viability of a project. In addition, there can be no assurance that recoveries from laboratory tests will be duplicated in tests under on-site conditions or during production.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges and power and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's activities and profitability.

Title Matters

Any changes in the laws of Ghana relating to mining could materially affect the rights and title to the interests held there by the Company. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining authorizations nor that such exploration and mining authorizations will not be challenged or impugned by third parties.

Competition

There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other exploration and mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

Mineral Prices

Factors such as inflation, foreign currency fluctuation, interest rates, supply and demand and industrial disruption have an adverse impact on operating costs, commodity prices and stock market prices and on the Company's ability to fund its activities. The Company's possible revenues and share price can be affected by these and other factors which are beyond the control of the Company. The market price of minerals, including industrial minerals, is volatile and cannot be controlled. The Company's ongoing operations are influenced by fluctuation in the world gold price. If the price of gold or other minerals should drop significantly, the economic prospects of the Company's current project could be significantly reduced or rendered uneconomic. There is no assurance that, even if commercial quantities of ore are discovered, a profitable market will continue to exist for the sale of products from that ore. Factors beyond the control of the Company may affect the marketability of any minerals discovered. Mineral prices have fluctuated widely, particularly in recent years. The marketability of minerals is also affected by numerous other factors beyond the control of the Company, including government regulations relating to royalties, allowable production and importing and exporting of minerals, the effect of which cannot be accurately predicted.

Funding Requirements

Mining exploration and development involves financial risk and capital investment. The development of the Chirano Project and the continuance of the Company's development and exploration activities depend upon the Company's ability to obtain financing through the joint venturing of projects, private and public equity project financing, debt and/or other means. There is no assurance that the Company will be successful in obtaining additional financing on a timely basis.

The Company currently intends to progress the development of the Farim project by joint venture with one or more industry participants. There can be no assurance, however, that the Company will be successful in this endeavour.

Uninsured Risks

The mining business is subject to a number of risks and hazards including environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geologic formations or other geological or grade problems, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God. Such risks could result in damage to, or destruction of, mineral properties or facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability.

The Company maintains insurance against certain risks associated with its business in amounts that it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting claim.

Foreign Operations

Operations, development and exploration activities carried out by the Company are or may be affected to varying degrees by taxes and government regulations relating to such matters as environmental protection, land use, water use, health, safety, labour, restrictions on production, price controls, currency remittance, maintenance of mineral rights, mineral tenure, and expropriation of property. There is no assurance that future changes in taxes or such regulation in the various jurisdictions in which the Company operates will not adversely affect the Company's operations. Industrial disruptions, work stoppages and accidents in the course of the Company's operations can result in future production losses and delays, which may adversely affect future profitability. The Company's principal asset is held outside of Canada in Ghana, West Africa. Although the operating environment in Ghana is considered favorable compared to that in other developing countries, with various government incentives offered to attract international investment into Ghana, there are still political risks. The risks include, but are not limited to, terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation and labor unrest. Changes in mining or investment policies or shifts in political attitudes may also adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, maintenance of claims, environmental legislation, expropriation of property, land use, land claims of local people, water use and safety. The effect of these factors cannot be accurately predicted.

Exploration and Development Risks

The successful exploration and development of mineral properties is speculative and subject to a number of uncertainties which even a combination of careful evaluation, experience and knowledge may not eliminate. There is no certainty that the expenditures made or to be made by the Company in the exploration and development of its mineral properties or properties in which it has an interest will result in the discovery of mineralized materials in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable deposits. While discovery of a base metal or precious metal bearing structure may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that exploration programs carried out by the Company will result in profitable commercial mining operations.

The Company's operations are subject to all of the hazards and risks normally incident to mineral exploration, mine development and operation, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards such as unusual or unexpected formations, pressures or other conditions may also be encountered.

Environmental and Other Regulatory Requirements

The current or future operations of the Company, including development activities and, if warranted, commencement of production on properties in which it has an interest, require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health and safety, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company believes it is in substantial compliance with all material laws and regulations that currently apply to its activities. However, there can be no assurance that all permits which the Company may require for the conduct of mineral exploration and development can be obtained or maintained on reasonable terms or that such laws and regulations would not have an adverse effect on any such mineral exploration or development which the Company might undertake.

Amendments to current laws, regulations and permits governing operations and activities of mineral exploration companies, or more stringent interpretation, implementation or enforcement thereof, could have a material adverse impact on the Company.

Mining and Investment Policies

Changes in mining or investment policies or shifts in political attitude may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, water use and safety regulations. The effect of these factors cannot be accurately predicted.

Hedging and Foreign Exchange

While hedging of commodity prices and exchange rates is possible, there is no guarantee that appropriate hedging will be available at an acceptable cost.

Secured Debt

Red Back has granted a charge over its assets, including the Chirano Project, to secure the debt financing facilities provided by Macquarie Bank Limited ("MBL"). Were that security to become enforceable, MBL could appoint a receiver, sell part or all of the assets the subject of the charge, or take other enforcement action which could have a serious impact on the value of shareholders' equity in the Company.

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set above.

Management's Report

The accompanying consolidated financial statements of Red Back Mining Inc. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of Red Back Mining Inc. and its subsidiaries have developed and continue to maintain systems of internal accounting controls and segregation of duties and responsibilities whenever possible.

Although no cost effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, comprising outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been audited by Staley, Okada & Partners, Chartered Accountants, and their report follows.

"Richard Clark"

Richard Clark
President

"Lukas Lundin"

Lukas Lundin
Director

Vancouver, British Columbia
September 23, 2005

AUDITORS' REPORT

To the Shareholders of Red Back Mining Inc.:

We have audited the consolidated balance sheets of Red Back Mining Inc. as at June 30, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, BC
August 29, 2005

Staley, Okada & Partners

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

RED BACK MINING INC.
CONSOLIDATED BALANCE SHEET
(in United States Dollars)

	As at June 30, 2005	As at June 30, 2004
ASSETS		
Current Assets		
Cash	\$ 6,578,190	\$ 15,128,019
Accounts receivable	1,013,627	76,236
Inventories (Note 4)	987,505	-
Prepaid expenses	416,768	50,933
	8,996,090	15,255,188
Investment (Note 5)	-	66,897
Property, Plant and Equipment, net (Note 6)	2,029,626	337,309
Mineral Properties and related expenditures (Note 7)	84,730,401	24,898,231
	\$ 95,756,117	\$ 40,557,625
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$11,758,578	\$2,109,182
Current portion of loan payable (Note 8)	4,106,792	-
	15,865,370	2,109,182
Long Term Liabilities		
Loan Payable (Note 8)	29,200,000	-
Asset Retirement Obligations (Note 9)	5,607,614	-
	50,672,984	2,109,182
Continued Operations (Note 1)		
Commitments and Contingencies (Notes 11 and 15)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)		
Authorized -		
Unlimited common shares without par value		
Issued and outstanding -		
69,393,034 (June 2004 – 62,253,882) common shares	\$53,106,936	\$43,397,588
Contributed Surplus (Note 10)	1,904,593	1,743,812
Deficit	(9,844,047)	(6,608,608)
Cumulative Translation Adjustment	(84,349)	(84,349)
	45,083,133	38,448,443
	\$95,756,117	\$ 40,557,625

Approved by the Board:

“Richard P. Clark”

Director

“Lukas H. Lundin”

Director

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(in United States Dollars)

	Year ended June 30 2005	Year ended June 30 2004
Expenses		
Amortization and depreciation	\$ 389,540	\$ 14,506
Consulting	276,451	206,101
Interest and bank charges	37,067	68,809
Management fees	266,008	84,098
Office and general	598,223	174,749
Professional fees	393,904	323,991
Promotion and public relations	75,854	87,264
Salaries and other benefits	769,162	193,851
Stock exchange and filing fees	158,346	27,048
Transfer agent and shareholder information	29,647	12,935
Travel	316,751	164,597
	3,310,953	1,357,949
Other (income)		
Interest income	(149,836)	(63,568)
Gain on sale of investment	(86,251)	-
	(236,087)	(63,568)
Loss before the Undernoted	3,074,866	1,294,381
Foreign exchange gain	(21,456)	-
Write-off mineral property interest	-	46,355
Stock-based compensation	182,029	1,743,812
	3,235,439	3,084,548
Loss for the Year		
Deficit, Beginning of the Year	6,608,608	3,524,060
Deficit, End of the Year	\$ 9,844,047	\$ 6,608,608
Basic and diluted loss per common share	(\$ 0.05)	(\$ 0.06)
Weighted average number of shares outstanding	65,213,461	49,593,717

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in United States Dollars)

	Year ended June 30 2005	Year ended June 30 2004
Cash flows from (used in) operating activities		
(Loss) for the year	\$ (3,235,439)	\$ (3,084,548)
Items not effecting cash		
Amortization and depreciation	389,540	14,506
Write-off mineral property interest	-	46,355
Stock-based compensation	182,029	1,743,812
Gain on disposal of investments	(86,251)	-
	<u>(2,750,121)</u>	<u>(1,279,875)</u>
Net changes in non-cash working capital items		
Accounts receivable and other current assets	(2,290,731)	
		(751)
Accounts payable and accrued liabilities	9,940,992	1,877,770
	<u>4,900,140</u>	<u>597,144</u>
Cash flows from (used in) investing activities		
Mineral properties and related expenditures	(53,917,764)	(8,555,411)
Purchase of property, plant and equipment	(2,081,857)	(225,038)
Proceeds from sale of investments	153,148	-
	<u>(55,846,473)</u>	<u>(8,780,449)</u>
Cash flows from (used in) financing activities		
Common shares issued, net	9,396,504	23,572,451
Repayment of borrowings	-	(828,195)
Proceeds from debt	33,000,000	-
	<u>42,396,504</u>	<u>22,744,256</u>
(Decrease) Increase in cash	(8,549,829)	14,560,951
Cash, Beginning of the Year	15,128,019	567,068
	<u>\$ 6,578,190</u>	<u>\$ 15,128,019</u>
Supplemental Schedule of Non-Cash Investing and Financing Activity		-
Shares issued for non-cash net assets on business combination, net of merger costs	\$ -	\$ 3,927,568
Debt settled on issuance of share capital	\$ 291,596	\$ -
Asset retirement obligation capitalized to mineral properties and related expenditures	\$ 5,607,614	\$ -
Fair value of stock options exercised transferred to share capital	\$ 21,248	\$ -
Accrued Interest capitalized to mineral properties and related expenditures	\$ 306,792	\$ -

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND RELATED EXPENDITURES
(in United States Dollars)

	Chirano Gold Project (Ghana)	Other Projects (Ghana)	Farim Project (Guinea Bissau)	Total
Balance, June 30, 2004	\$ 19,788,008	\$ 1,170,012	\$ 3,940,211	\$ 24,898,231
Exploration and evaluation costs	-	1,022,981	126,251	1,149,232
Development expenditure	17,639,089	-	-	17,639,089
Balance, December 31, 2004	37,427,097	2,192,993	4,066,462	43,686,552
Exploration and evaluation costs	1,134,678	1,230,479	346,372	2,711,529
Capitalize net present value of asset retirement obligation	5,607,614	-	-	5,607,614
Capitalized interest expense	562,348	-	-	562,348
Development expenditure	29,180,011	-	-	29,180,011
Deferred stripping costs	2,982,347	-	-	2,982,347
Balance, June 30, 2005	\$ 76,894,095	\$ 3,423,472	\$ 4,412,834	\$ 84,730,401

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(in United States Dollars)

1. Nature of Operations and Going Concern

Nature of Operations

Red Back Mining Inc. (the "Company") together with its subsidiary companies is a mineral resource corporation engaged in exploring, acquiring and developing mineral properties. The Company holds a 95% interest in the Chirano Gold Project ("Chirano") in Ghana, West Africa. Chirano is currently under development and commercial production is anticipated in October 2005. The Company also holds various other exploration properties in Ghana along with a 100% interest in the Farim Phosphate Project ("Farim") located in Guinea Bissau, West Africa.

The recoverability of the costs of mineral properties and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the project, and future profitable production or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material reductions in the carrying amount of mineral properties and related expenditures.

The mineral properties are also subject to sovereign risks, including political and economic instability, government regulations relating to exploration and mining, military repression, civil disorder, currency fluctuations and inflation, all or any of which may impede the Company's activities or may result in the impairment or loss of part or all of the Company's interest in the properties.

Going Concern

The viability of the projects and the ability for the Company to continue as a going concern are dependent on future financing. If financing is not achieved, the Company may not be able to meet its obligations as they become due. These financial statements have been prepared on the going concern basis that assumes continuity of operations and realization and settlement of liabilities in the normal course of business. A different basis of measurement may be appropriate if the going concern assumption does not prevail.

2. Change in accounting policy

The Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations, on July 1, 2004. This section requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred, added to the carrying value of the asset and amortized into income on systematic basis over its useful life.

3. Significant Accounting Policies

(a) Basis of Presentation and Reverse Takeover Accounting

Effective June 30, 2004, the Company's reporting currency was changed from Canadian dollars to U.S. dollars. The Company anticipates that its future sales, if any, will be earned in U.S. dollars and significant expenditures of the Company costs are incurred in U.S. dollars. The comparative financial statements from prior periods have been restated to reflect this change.

Effective May 3, 2004, the Company entered into an agreement, with Red Back Mining NL of Australia ("RBK") pursuant to which the parties agreed to complete a merger of the Company and RBK. As a result, the shareholders of RBK controlled the combined entity on the effective date of the transaction. The business combination of the Company and RBK has been accounted for using the reverse takeover method of purchase accounting. In accordance with the principles of reverse takeover accounting, the consolidated financial statements have been prepared on the basis that RBK is the deemed acquirer. Accordingly, the consolidated financial statements for the period from July 1, 2003 to May 2, 2004 reflect only the assets, liabilities and results of operations of RBK, the legal subsidiary. The consolidated financial statements for the period from May 3, 2004 to June 30, 2004 reflect the assets, liabilities and results of operations of RBK and the assets, liabilities and results of operations of the Company. The consolidated financial statements are issued under the name of the legal parent (the Company) but are deemed to be a continuation of the legal subsidiary, RBK.

(b) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's material subsidiaries are Red Back Mining NL (a 100% owned Australian company), Red Back Mining Ghana Limited (a 100% owned Ghanaian company), Chirano Gold Mines Limited (a 95% owned Ghanaian company), Red Back Mining (Ghana) Limited (a 100% owned BVI company) and Champion Industrial Minerals Inc. (a 100% owned Barbados company). The purchase method of accounting is used to consolidate these subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

(c) Foreign currencies

Effective June 30, 2004, the Company's reporting currency was changed from Canadian dollars to U.S. dollars. The Company anticipates that its future sales, if any, will be earned in U.S. dollars and significant expenditures of the Company costs are incurred in U.S. dollars.

For the restatement, the Company followed the method suggested by the Emerging Issues Committee ("EIC") in release number EIC-130 dated 24 July 2002. The consensus of the EIC was that financial statements for all prior years should be translated using the current rate method. This method of translation results in the financial statements of prior years presented for comparison being translated as if the reporting currency used in the current year had been used for at least all periods shown. The resulting exchange losses are recorded as a cumulative translation adjustment in shareholders' equity.

Prospectively, the activities of the company and its subsidiary companies, are considered to be integrated. Accordingly, the temporal rate method will be used, whereby monetary assets

and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date, non-monetary assets (including depreciation) and liabilities at the exchange rates in effect at the time of acquisition or issue, and revenues and other expenses at rates approximating exchange rates in effect at the time of the transactions. Exchange gains or losses are included in the respective statement of operations.

(d) Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and the loan payable. The fair value of these financial instruments approximates their carrying values, due to their short-term maturity or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from financial instruments.

(e) Inventories

Finished gold inventories are valued at the lower of average production cost or net realizable value.

Stockpile ore and work-in-process inventories are valued at the lower of moving average cost or net realizable value after a reasonable allowance for further processing and sales costs.

Materials and supplies inventories are valued at the lower of average cost or current replacement cost.

(f) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash equivalents with institutes of high credit worthiness.

(g) Investments

Portfolio investments are recorded at the lower of cost or quoted market value. Portfolio investments are written down to quoted market value when the decline in market value is deemed to be other than temporary.

(h) Mineral Properties and Related Expenditures

Whilst the Chirano Gold Project is in development, the Company is in the process of exploring its other mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Direct mineral exploration and development costs are capitalized on an individual project basis until such time as an economic ore body is defined, a joint venture is formed or the project is abandoned. Costs for a producing project are amortized on a unit-of-production method based on the estimated life of the ore reserves while costs for properties abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral properties, the ability to obtain the

necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

Title to mineral properties involves inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyance history characteristic of many mineral properties. The company has investigated title to all of its mineral properties and, to the best of its knowledge; all of its properties are in good standing.

(i) Property, Plant and Equipment

Mine property, plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations; major improvements and replacements, which extend the useful life of an asset, are capitalized. Mine property, plant and machinery are amortized over the life of mine by the unit of production method based on proven and probable reserves. Other plant and equipment is depreciated on a straight-line basis, net of residual value, over the estimated useful life of the asset. Prior to commercial production, pre-production expenditures, interest costs and start up costs, net of revenue, are capitalized to plant and equipment.

Commercial production is deemed to have commenced on the first day of the calendar month following a 20 day period where the mine's mill facility has processed ore at a minimum of 75% of designed capacity and recoveries are within 75% of projections.

(j) Property evaluations

The Company reviews and evaluates the recoverability of property, plant and equipment at the end of each reporting period. Estimated future net cash flows, on an undiscounted basis, from each mine and development property are calculated using estimated recoverable ounces of gold (considering current proven and probable reserves and the portion of mineralization which is expected to become reserves with future drilling); estimated future gold prices (considering historical and current prices, price trends and related factors); and operating, capital and reclamation costs. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of property, plant and equipment, with a corresponding charge to earnings, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the carrying value.

Estimates of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes could occur in the near-term, which may affect the recoverability of property, plant and equipment.

(k) Revenue Recognition

Revenue is recorded at estimated net realizable value when there is pervasive evidence that an arrangement exists, the selling price is fixed and determinable, collectibility is reasonably assured and when title and the risks and rewards of ownership pass to the buyer. Adjustments to these amounts are made after final prices, weights and assays are established. The Company may fix the price it will receive for part or all of its production by entering into forward or option contracts.

(l) Deferred mining costs

Mining costs incurred related to the removal of waste rock at open pit mines are generally capitalized. Amortization, which is calculated using the unit of production method, is charged to operating costs, using a stripping ratio calculated as the ratio of total tons of waste rock to be removed to the total tons of ore to be recovered over the life of the open pit. This policy results in the smoothing of these costs over the life of the pit rather than expensing them as incurred. Stripping costs are included in the carrying amount of the Company's mining properties for the purpose of assessing whether any impairment has occurred.

(m) Loss Per Share

Earnings (Loss) per share are calculated by dividing the net earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method which, for outstanding stock options and warrants, assumes that the proceeds to be received on the exercise of the stock options and warrants are applied to repurchase common shares at the average market price for the period, for purposes of determining the weighted average number of shares outstanding. Basic and diluted loss per share are the same because inclusion of common share equivalents would be anti-dilutive.

(n) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by the board of directors of the Company.

(o) Stock-Based Compensation

Prior to July 1, 2003, no compensation expense was recorded for the Company's stock-based plans when the options or incentives were granted. The Company followed the recommendations of the CICA Handbook section 3870, Stock-based Compensation and Other Stock-based Payments ("CICA 3870"), for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services, using a fair value based method. As permitted under the recommendations, the Company elected to adopt the disclosure-only provisions of the standard, whereby pro-forma net income (loss) and pro-forma earnings (loss) per share are disclosed in the notes to the consolidated financial statements, for stock options granted to directors and employees, using a fair-value based method. Stock-based compensation on options granted to non-employees is recorded as an expense and the credit recorded to share capital at the earlier of completion of performance or vesting of the options granted, using a fair value based method.

On July 1, 2003, the Company early adopted the transitional rules of CICA 3870. This required the Company to commence recording in the accounts the cost of stock-based compensation, estimated using the fair-value method prescribed in CICA 3870, as the options vest for all stock option grants after July 1, 2003. The fair value of stock options is credited to contributed surplus as the options vest and is subsequently transferred to share capital on exercise of the related option.

Consideration paid by directors, officers, employees and non-employees on exercise of stock options or the purchase of stock is credited to share capital.

(p) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

(q) Environmental Expenditures

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the company vary greatly and are not predictable. The Company's philosophy and resultant policy is to conduct its exploration and development activities in an environmentally responsible manner. Specifically, the Company's policy is to meet or surpass the environmental requirements established to satisfy international standards and guidelines, by application of technically proven and economically feasible mitigation and reclamation procedures.

(r) Asset Retirement Obligations

The Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations, on July 1, 2004. This section requires the recognition of a liability for legal obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required or completed, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

(s) Future Income Taxes

The future income tax asset and liability method of accounting for income taxes is used, whereby future income tax assets and liabilities are recorded based on temporary differences between the carrying amounts of balance sheet items and their corresponding tax bases. Future income tax assets also arise from unused tax losses, subject to a valuation allowance, to the extent that it is more likely than not that such losses ultimately will be utilized. This method also requires that the future income tax assets and liabilities be measured using the enacted rates and laws that are expected to apply when these assets and liabilities are either to be realized or settled.

4. Inventories

	June 30, 2005	June 30, 2004
Stockpile ore	\$ 958,066	\$ -
Materials and supplies	29,439	-
	<u>\$ 987,505</u>	<u>\$ -</u>

5. Investments

TNR Resources Ltd. – Nil (2004 - 409,902) common shares with a market value of approximately \$Nil (June 30, 2004 - \$39,530)

\$ -	<u>\$ 66,897</u>
------	------------------

During the year ended June 30, 2005, the investment was sold on market for net proceeds of \$153,148. \$86,251 has been recognized as a gain on sale of investments in the statement of loss and deficit.

6. Property, Plant and Equipment

	Cost	Accumulated Depreciation	June 30, 2005 Net Book Value	June 30, 2004 Net Book Value
Plant & equipment	\$ 968,798	\$ 243,290	\$ 725,508	\$ 221,043
Motor Vehicles	1,471,943	243,694	1,228,249	31,150
Buildings	92,470	16,601	75,869	85,116
	<u>\$ 2,533,211</u>	<u>\$ 503,585</u>	<u>\$ 2,029,626</u>	<u>\$ 337,309</u>

7. Mineral Properties and Related Expenditures

	Acquisition	Mine Development and Exploration	June 30, 2005	June 30, 2004
Mineral Properties				
Chirano Gold				
Project (i) (ii)	\$ 2,880,658	\$ 74,013,437	\$ 76,894,095	\$ 19,788,008
Other Ghanaian				
Exploration Projects	197,790	3,225,682	3,423,472	1,170,012
Farim Project	278,591	4,134,243	4,412,834	3,940,211
	<u>\$ 3,357,039</u>	<u>\$ 81,373,362</u>	<u>\$ 84,730,401</u>	<u>\$ 24,898,231</u>

- (i) Included in Mine Development and Exploration for the Chirano Gold project is deferred stripping costs in the amount of \$2,982,347 (2004 - \$Nil).
- (ii) Included in Mine Development and Exploration for the Chirano Gold project is the capitalized net present value of the asset retirement obligation in the amount of \$5,607,614 (2004 - \$Nil).
- (iii) Included Mine Development and Exploration for the Chirano Gold project is interest capitalized on the loans payable during the construction phase of \$562,348 (Note 8).

Chirano Gold Project, Ghana

The Chirano project comprises one mining lease and one prospecting license held through the company's 95% subsidiary, Chirano Gold Mines Limited.

Other Ghanaian Exploration Projects

The Company owns interests in a number of other exploration properties in Ghana. These interests are represented by various prospecting licenses and call options. Exploration on these properties is ongoing.

Farim Project, Guinea Bissau

The Company owns a 100% interest in four Mining Leases covering a total area of 30,625 hectares, which comprise the Farim property. The Mining Leases have a term of twenty-five years.

8. Loans Payable

Details are as follows:

	June 30, 2005	June 30, 2004
Loan payable	\$ 33,000,000	\$ -
Accrued interest	306,792	-
	<u>33,306,792</u>	<u>-</u>
Current portion	(4,106,792)	-
	<u>\$ 29,200,00</u>	<u>\$ -</u>

On September 7, 2004, the Company accepted a credit approved offer from Macquarie Bank Limited ("Macquarie") for financing facilities totaling US\$43 million (including a US\$10 million standby facility) for the Chirano Gold Project in Ghana. The facilities are secured by charges on the shares of the chain of corporations ultimately holding title to the Chirano Gold Project and parent company guarantees. Interest, which is capitalized prior to commercial production, is payable at LIBOR plus 2.25%.

As a condition of the debt financing, the Company agreed to put in place downside gold price protection such that 400,000 ounces are protected at a minimum gold price of US \$400 per ounce. The Company sold 300,000 ounces at US \$404.38 on September 1, 2004 and this position was then rolled into a flat forward hedging structure with 400,000 ounces sold forward at US\$435 per ounce. This structure satisfies the entire price protection requirement required under the loan facilities.

At first draw down, the Company issued to Macquarie 1,000,000 share purchase warrants exercisable at C\$2.25 on or before December 13, 2007. If the US\$10 million standby facility is drawn down, additional warrants will be issued to Macquarie entitling it to acquire up to a further 3,450,000 common shares at a price of C\$2.25 each for a period of three years from the date of issuance. The additional warrants are issuable on the basis of 345,000 warrants for each US\$1,000,000 drawn down under the standby facility. Funds received from the exercise of all warrants will be applied against outstanding principal under the credit facilities.

As at June 30, 2005, the Company had drawn down the US\$33 million corporate loan facility. Interest totaling \$306,792 has been accrued at June 30, 2005. Interest totalling \$562,348 on the corporate loan facility has been capitalized as part of the Mine Development and Exploration for the Chirano Gold project (Note 7).

Scheduled principal payments on the loan payable are as follows:

Year Ended	
June 30	Amount
2006	\$ 3,800,000
2007	14,000,000
2008	15,200,000
	<u>\$ 33,000,000</u>

9. Asset Retirement Obligation

Federal, state and local laws and regulations concerning environmental protection affect the Company's operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from operations and to perform site restoration and other closure activities. The Company's provisions for future site closure and reclamation costs are based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company's estimate of the present value of the obligation to reclaim the Chirano Gold Project has been estimated based upon existing reclamation standards. Management has estimated reclamation and closure costs for the current mine workings using its best judgment of such future costs and based on an anticipated mine life of eight years. The ultimate value of the asset retirement obligation is uncertain and may change in future years based on updated estimates of costs, mine life, and other new information. Any future changes in the estimate of the asset retirement obligation will be recognized prospectively in the year such adjustment is made and amortized over the remaining mine life.

The Company has estimated the fair value of the asset retirement obligation at \$5,607,614. The obligation has been calculated using a discount rate of 7% and an inflation rate of 3%.

10. Share Capital

(a) The authorized and issued share capital is as follows:

Authorized:

Unlimited common shares without par value

	Number of Shares	Amount
Shares Issued and Outstanding:		
Balance – June 30, 2003	6,392,894	\$ 15,897,568
Issued on private placements	6,000,000	-
Issued on exercise of warrants	1,622,500	-
Issued on exercise of options	20,500	-
Share proceeds raised by RBK	-	3,158,347
Balance – Pre 3:1 consolidation	14,035,894	19,055,915
3:1 consolidation	(9,357,263)	-
Balance – Post consolidation	4,678,631	19,055,915
Issued in connection with Red Back Mining NL merger	44,890,251	6,572,714
Issued on exercise of warrants	185,000	165,013
Issued on private placements	12,500,000	17,603,946
Balance, June 30, 2004	62,253,882	43,397,588
Issued on settlement of debt (i)	184,176	291,596
Issued on private placement (ii)	5,789,474	8,606,400
Issued on exercise of options and warrants	1,165,502	790,104
Fair value of stock options exercised (Note 10c)	-	21,248
Balance, June 30, 2005	69,393,034	\$ 53,106,936

(i) On July 7, 2004, the Company issued 184,176 shares at C\$2.00 in settlement of debt in the amount of C\$368,352 (US\$291,596).

(ii) On December 16, 2004, the Company issued, by private placements, 5,789,474 common shares at C\$1.90 per unit for gross proceeds of C\$11,000,000 (US\$8,606,400).

(b) The Company has a stock option plan (the "Plan") in which 4,906,725 common shares have been made available for the Company to grant incentive stock options to certain directors, officers, employees and consultants of the Company. The number of common shares reserved under the Plan was based on 10% of the currently issued and outstanding share capital of the Company. The term of any option granted under the Plan will be fixed by the Board of Directors and may not exceed 10 years from the date of grant. No optionee shall be entitled to a grant of more than 5% of the Company's outstanding issued shares. The options vest immediately upon grant.

Incentive stock options outstanding at June 30, 2005 are outlined in the table below:

	Number of Options	Exercise Price (C\$)	
Expiring 2 October 2005	25,000	\$0.57	(i)
Expiring 22 October 2005	89,333	\$1.46	(i)
Expiring 11 December 2005	10,000	\$1.35	
Expiring 2 June 2007	1,715,000	\$2.00	
Expiring 23 November 2007	160,000	\$2.00	(ii)
Expiring 25 November 2007	83,333	\$1.46	(i)
Expiring 12 January 2008	75,000	\$2.00	(ii)
	<u>2,157,666</u>		

- (i) Options are as a result of the merger with Red Back Mining NL.
- (ii) The fair value of options granted during the year ended June 30, 2005, has been estimated using an option-pricing model.

During the year, the Company issued 225,000 options to directors, officers, and employees with an exercise price of C\$2.00 per option (2004: 189,999 with an exercise price of C\$1.36 and 2,065,000 with an exercise price of C\$2.00). The fair value of stock option compensation is \$182,029 (2004: \$1,743,812), which has been recorded in the accounts of the Company as stock-based compensation expense and an increase in contributed surplus. The weighted average grant-date fair value of options granted is \$0.81 (2004: \$0.77). In preparing the fair value estimate for 2005, the Company used the Black-Scholes Option Pricing Model, and assumed a risk-free rate of 4.8%, expected volatility of 76%, expected option life of two to four years, and no dividend payments.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimated, and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

(c) Details of contributed surplus are as follows:

Balance – June 30, 2003	\$ -
Fair value of stock-based compensation (Note 10b)	<u>1,743,812</u>
Balance – June 30, 2004	1,743,812
Fair value of stock-based compensation (Note 10b)	182,029
Fair value of stock options exercised – transferred to share capital (Note 10a)	(21,248)
<u>Balance – June 30, 2005</u>	<u>\$ 1,904,593</u>

- (d) As at June 30, 2005, the following non-transferable share purchase warrants were outstanding:

<u>Number of Warrants</u>	<u>Common Share Entitlement</u>	<u>Exercise Price (C\$)</u>	<u>Expiry Date</u>
1,999,999	1,999,999	\$2.25	December 4, 2005
12,500,000	12,500,000	\$2.25	June 9, 2006
<u>1,000,000</u>	<u>1,000,000</u>	\$2.25	December 13, 2007
<u>15,629,999</u>	<u>15,629,999</u>		

The Company has the right to require conversion of the 12,500,000 warrants expiring June 9, 2006 at any time after the common shares and warrants become freely tradable if the common shares trade at a weighted average price of C\$2.50 for a period of at least 30 consecutive trading days. If the holder fails to exercise the warrants within that period they will terminate.

11. Litigation

In July 2003, the Company entered into a letter agreement with Geysler Ltd. ("Geysler"), a company based in Dubai, U.A.E. for the sale of Champion Industrial Minerals (CIM), a subsidiary of the Company, for a cash payment of C\$10,550,000. CIM is the legal owner of the mining leases comprising the Farim Project. Geysler advanced a C\$250,000 deposit (the "Deposit") against the purchase price, refundable only in the event that the Company did not obtain shareholder and regulatory approval to the sale and purchase. These approvals were received on August 25, 2003 and September 8, 2003, respectively and Geysler was notified. The closing of the purchase and sale was to take place on September 9, 2003. In breach of the express provisions of the Purchase Agreement, Geysler failed to advance the remaining C\$10,300,000. The Company has commenced an action in the Supreme Court of British Columbia against Geysler. The Company is seeking damages from Geysler for its failure to fulfill its obligations under the Purchase Agreement and intends to pursue this matter vigorously. Discovery of a Geysler representative was held in the March quarter of 2005. Following this Discovery a court application was successfully made by the Company to join two other Defendants in the action. The addition of these new Defendants has extended the trial date of this matter to September 2006.

12. Related Party Transactions

Transactions for the year ended June 30, 2005 and balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$202,379 (2004: \$30,971) for management services provided by a company related to the President of the Company. At June 30, 2005, \$nil was due to this company.
- (b) Paid \$81,267 (2004: \$62,542) to a company related to a director for engineering consulting fees. At June 30, 2005, \$nil was due to this party.

- (c) Paid \$128,072 (2004: \$36,982) to a company controlled by a director for geological consulting fees. At June 30, 2005, \$19,508 was due to this party.
- (d) Paid \$90,754 (2004: \$71,887) to a firm related to a director for legal services. At June 30, 2005, \$13,779 was due to this firm.
- (e) Paid \$113,755 (2004: \$23,786) to a company controlled by a director for management services. At June 30, 2005, \$nil was due to this company.
- (f) Paid \$86,456 (2004: \$32,158) to four individual directors for directors' fees. At June 30, 2005, \$nil was due to the directors.

13. Income Taxes

- (a) Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets as at December 31, 2004 are as follows:

	June 30, 2005	June 30, 2004
Non-capital loss carry-forwards – Canada – 35.6%	\$ 1,423,058	\$ 643,693
Non-capital loss carry-forwards – Ghana – 28.0%	168,233	43,831
Resource property expenditures – Canada. – 35.6%	1,568,964	1,568,964
Resource property expenditures – Ghana – 28.0%	19,720,102	5,125,951
Property, plant and equipment - Canada – 35.6%	82,846	28,885
Property, plant and equipment - Ghana – 28.0%	657,045	117,316
	23,620,248	7,528,640
Valuation allowance	(23,620,248)	(7,528,640)
	\$ -	\$ -

- (b) The Company has tax loss carry-forwards of approximately C\$5,081,000 (2004 - C\$2,897,000) in Canada. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements. These losses expire as follows:

Year	Amount
2006	C\$ 823,000
2007	426,000
2008	366,000
2009	172,000
2013	133,000
2014	296,000
2015	2,865,000
	<u>C\$ 5,081,000</u>

- (c) The Company has tax loss carry-forwards of approximately \$601,000 (2004 - \$157,000) in Ghana. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements. These losses expire as follows:

Year	Amount
2006	\$ 40,000
2007	40,000
2008	43,000
2009	34,000
2010	444,000
	<u>\$ 601,000</u>

(d) The Company has incurred approximately \$4,407,000 (2004 - \$4,407,000) of exploration and development expenses in the Canadian company, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.

(e) The Company has incurred approximately \$70,429,000 (2004 - \$18,307,000) of exploration and development expenses in Ghana, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.

14. Segmented Information

The company's only business activity is the exploration for and development of mineral reserves. This activity is carried out primarily in Ghana. The breakdown by geographic region is as follows:

	<i>Canada</i>	<i>Guinea Bissau</i>	<i>Ghana</i>	<i>Australia</i>	<i>Other</i>	<i>Consolidated</i>
June 30, 2005						
Segment revenue	\$ 234,899	\$ -	\$ -	\$ 1,188	\$ -	\$ 236,087
Segment operating loss	\$ 2,100,559	\$ -	\$ 782,797	\$ 294,236	\$ 57,847	\$ 3,235,439
Identifiable assets	\$ 6,643,058	\$ 4,412,834	\$ 84,663,768	\$ 36,357	\$ 100	\$ 95,756,117

	<i>Canada</i>	<i>Guinea Bissau</i>	<i>Ghana</i>	<i>Australia</i>	<i>Other</i>	<i>Consolidated</i>
June 30, 2004						
Segment revenue	\$ 4,795	\$ -	\$ -	\$ 58,773	\$ -	\$ 63,568
Segment operating Loss	\$ 1,967,855	\$ -	\$ 33,612	\$ 1,065,727	\$ 17,354	\$ 3,084,548
Identifiable assets	\$12,830,568	\$ 3,940,211	\$ 23,701,586	\$ 79,623	\$ 5,637	\$ 40,557,625

15. Contingencies and Commitments

(a) During the current period the Company signed a number of contracts relating to development and operations of the mine in Ghana. The commitments period is for five years. Under one of the contracts, the Company will have to pay \$5,000,000, \$3,500,000, \$2,000,000 or \$1,000,000 if the contract is cancelled in the first, second, third or a fourth year respectively.

(b) Remaining Chirano development costs at year-end approximated US\$20 million.

16. Business Combination

On November 4, 2003, the Company entered into an agreement, as amended, (the "Merger Agreement") with Red Back Mining NL of Australia ("RBK") pursuant to which the parties agreed to complete a merger of the Company and RBK, subject to the satisfaction of certain conditions precedent, including the receipt of the requisite shareholder, Court and regulatory approvals. Pursuant to the Merger, the Company acquired all of the issued and outstanding shares of RBK and:

- (a) Each RBK shareholder of record as of the effective date received in exchange for each three RBK shares held, one post-consolidation Company share; and
- (b) All RBK convertible securities were cancelled, and each holder of RBK options as of the effective date received for each three RBK options held, one post-consolidation Company option, exercisable on terms equivalent to the RBK options.

As a result of the Merger, RBK shareholders became the majority shareholders of the Company and RBK became a wholly-owned subsidiary of the Company. On April 14, 2004, shareholders of the Company approved the Merger and the merger closed on May 3, 2004.

The acquisition of the net identifiable assets of the Company on a reverse takeover basis was recorded as follows:

Number of the Company shares outstanding at May 2, 2004	14,035,984
Estimated fair value of the Company price per share	C\$ 0.63
Convert to US\$	0.7433
	<u>\$ 6,572,714</u>
Net identifiable assets of the Company	
Per May 2, 2004 financials	\$ 7,257,603
Adjustment to mineral property	(684,889)
	<u>\$ 6,572,714</u>

17. Subsequent Events

- (a) On July 26, 2005, the Company issued, by private placement, 7,000,000 units at C\$1.70 per unit for gross proceeds of C\$11,900,000 (US\$9,750,000). The units comprise one share and one-half of a share purchase warrant. Each whole warrant is exercisable over a period of two years into one common share at a price of C\$2.00 per share.
- (b) In July 2005, the Company drew down US\$5 million of the Macquarie Bank standby facility. As a consequence of this drawdown, Macquarie were issued a further 1,725,000 warrants exercisable at \$2.25 with an expiry date of 18 July 2008. Details of this facility are outlined in Note 8.

**RED BACK MINING INC.
CORPORATE DIRECTORY**

OFFICERS

Richard Clark,
President & CEO
Ross Ashton
Chairman of the Board
Simon Jackson,
Chief Financial Officer
Kathy Love,
Corporate Secretary

DIRECTORS

Ross Ashton
* Robert Chase
Richard Clark
* Brian Edgar
Michael Hunt
* Lukas Lundin
Harry Michael

* *Audit Committee*

AUDITORS

Staley, Okada & Partners
Vancouver, British Columbia, Canada

BANKERS

Canadian Imperial Bank of Commerce
Vancouver, British Columbia, Canada

Macquarie Bank Limited
Perth, Western Australia, Australia

LAWYERS

Blake, Cassels & Graydon
Vancouver, British Columbia, Canada

CORPORATE OFFICE

Suite 2101 - 885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E8
Telephone: (604) 806-3070
Fax: (604) 689-5452

REGISTERED AND RECORDS OFFICE

Suite 2600
P.O. Box 49314
595 Burrard Street
Vancouver, BC V7X 1L3

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, British Columbia and
Toronto, Ontario
Canada

SHARE LISTING

Toronto Stock Exchange
Symbol: RBI
CUSIP No.: 756297107
S.E.C.: 12g3-2(b)
Exemption Number: 82-4286