

RED BACK MINING INC.



Second Quarter Report

December 31, 2004

RED BACK MINING INC.
Second Quarter Report
For the Period Ending December 31, 2004

The Board of Directors is pleased to present this report to shareholders on the activities of the Company during the second quarter period ending December 31, 2004.

Several important milestones were achieved during the quarter under review. The Company made its formal positive development decision on the Chirano gold deposit in Ghana, having completed both the equity and debt components of the project financing. Chirano is being developed based upon a 1.1 million ounce reserve, calculated at a gold price of US\$375 per ounce. Production during the first three years of full production is scheduled at 145,000 ounces per annum; average annual production over the current 8.5 year mine life is 123,000 ounces. Production is expected to commence in the fall of 2005. The Company's engineering consultants (AMC Consultants) are currently revising the proven and probable reserves at a US\$400 per ounce gold prices of US\$400.

Construction activity at Chirano continues to progress with all key material, service and supply contracts for the completion of the project awarded. All plant earthworks are complete along with the construction camp. The permanent mine village construction is well underway. The water storage facility has been commissioned and is providing water to the project. Significantly, the ball and SAG mills and all related out-of-gauge equipment are now in country and available for transport to the mine site as needed. The initial stage 1 pits have been cleared and the Run of Mine Pad and related access roads are under construction and on schedule. Pre-stripping of the pits has commenced and grade control drilling is underway.

Also during the quarter, the Company initiated a further 10,000 metre exploration drilling program on its various projects in Ghana including targets on strike with the Chirano mine. At the end of January, 2005, the Company had completed 5,600 metres. Drilling has been concentrated on the Bibiani Shear Zone, which hosts the +5million ounce Bibiani Mine 25 kilometres north of Chirano, and the Chirano Shear Zone (a splay off the Bibiani Shear) which hosts the Company's +1 million ounce Chirano Mine.

Drilling at the Kolua prospect, 400 metres west of the Chirano Shear and 1.5 km south of the Suraw Deposit, has identified a new deposit with a strike length of >250m. This new deposit is hosted within the Chirano granite complex. Reverse circulation drilling at central Kolua has returned intercepts of 8m @ 3.08 g/t Au under a trenching intercept of 11m @ 1.13 g/t Au, and 23 m @ 2.17 g/t Au (including 7m @ 4.90 g/t Au) under a trenching intercept of 9 m @ 2.3 g/t Au. Work is ongoing at Kolua to delineate the potential of this deposit to extend the Chirano mine life. Drilling and exploration continues here and at regional targets in the Company's portfolio. The Company is one the largest mineral land holders in Ghana (+5000sq km). There are currently 20 geologists on staff operating out of exploration offices in Accra and at the Chirano Mine.

In December the Company completed a non brokered equity financing of \$11 million to two places to fund exploration in Ghana and for general working capital. The placement was for shares only and was priced at a 10% premium to market (\$1.90).

Another important milestone achieved during the quarter was the graduation of the Company's shares to the Toronto Stock Exchange. The move to Canada's senior stock exchange reflects the Company's growth and soon-to-be status as a significant new gold producer.

On Behalf of the Board
Richard Clark
February 9, 2005

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

| | December 31, 2004 (Unaudited) | June 30, 2004 (Audited) |
|--|-------------------------------------|-------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 9,231,591 | \$ 15,128,019 |
| Accounts receivable | 361,560 | 76,236 |
| Prepaid expenses | 45,057 | 50,933 |
| | <u>9,638,208</u> | <u>15,255,188</u> |
| Investment (Note 3) | 66,897 | 66,897 |
| Property, plant and equipment, Net (Note 4) | 1,496,458 | 337,309 |
| Mineral properties and related expenditures (Note 5) - Schedule | 43,686,552 | 24,898,231 |
| | <u>\$ 54,888,115</u> | <u>\$ 40,557,625</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,318,228 | \$2,109,182 |
| Non Current Liabilities | | |
| Loan Payable (Note 6) | 5,511,678 | - |
| | <u>7,829,906</u> | <u>2,109,182</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 7) | | |
| Authorized - | | |
| Unlimited common shares without par value | | |
| Issued and outstanding - | | |
| 69,164,200 (June 2004 – 62,253,882) common shares | 53,382,947 | 43,397,588 |
| Stock based compensation | 1,861,655 | 1,743,812 |
| Deficit - Statement 2 | (8,102,044) | (6,608,608) |
| Cumulative translation adjustment | (84,349) | (84,349) |
| | <u>47,058,209</u> | <u>38,448,443</u> |
| | <u>\$ 54,888,115</u> | <u>\$ 40,557,625</u> |

Approved by the Board:

“Richard P. Clark”

Director

“Lukas H. Lundin”

Director

See accompanying notes to interim consolidated financial statements

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

| | Three months ended December 31 | | Six months ended December 31 | |
|---|-----------------------------------|---------------------|---------------------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Expenses | | | | |
| Amortization and depreciation | \$ 11,329 | \$ 4,471 | \$ 28,108 | \$ 8,143 |
| Exchange difference | 74,887 | - | 74,887 | - |
| Interest and bank charges | 374 | 18,043 | 550 | 35,510 |
| Management fees | 46,602 | - | 112,490 | - |
| Consulting | 37,386 | 17,946 | 146,112 | 32,510 |
| Office and general | 222,788 | 48,891 | 304,090 | 78,429 |
| Professional fees | 151,376 | 101,526 | 154,537 | 96,688 |
| Promotion and public relations | 29,876 | 10,319 | 44,013 | 26,715 |
| Salaries and other benefits | 106,324 | 42,909 | 304,614 | 107,186 |
| Stock exchange and filing fees | 134,991 | 10,068 | 144,795 | 17,860 |
| Transfer agent and shareholder information | 16,901 | 8,860 | 27,355 | 9,623 |
| Travel | 68,074 | 55,881 | 99,757 | 59,245 |
| | <u>900,908</u> | <u>319,914</u> | <u>1,441,308</u> | <u>471,909</u> |
| Other (income) expenses | | | | |
| Interest income | (22,101) | (35,717) | (65,715) | (47,810) |
| Loss before undernoted | 878,807 | 283,197 | 1,375,593 | 424,099 |
| Stock based compensation | 117,843 | - | 117,843 | - |
| Loss (income) for period | 996,650 | 283,197 | 1,493,436 | 424,099 |
| Deficit, beginning of the period | 7,105,394 | 3,750,934 | 6,608,608 | 3,610,032 |
| Deficit, end of the period | <u>\$ 8,102,044</u> | <u>\$ 4,034,131</u> | <u>\$ 8,102,044</u> | <u>\$ 4,034,131</u> |
| Basic and diluted loss per common share | (\$ 0.02) | (\$ 0.01) | (\$0.02) | (\$ 0.01) |
| Weighted average number of shares outstanding | <u>61,177,730</u> | <u>44,890,251</u> | <u>61,548,821</u> | <u>44,830,251</u> |

See accompanying notes to interim consolidated financial statements

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

| | Three months ended December 31 | | Six months ended December 31 | |
|---|-----------------------------------|--------------------|---------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Cash flows (used in) operating activities | | | | |
| (Loss) income for the period | \$(996,650) | \$ (283,197) | \$(1,493,436) | \$ (424,099) |
| Items not effecting cash | | | | |
| Amortization and depreciation | 11,329 | 4,470 | 28,108 | 8,143 |
| Stock based compensation | 117,843 | - | 117,843 | - |
| Exchange difference | - | 188,724 | - | 157,104 |
| | <u>(867,478)</u> | <u>(90,003)</u> | <u>(1,347,485)</u> | <u>(258,852)</u> |
| Net changes in non-cash working capital items | | | | |
| Accounts receivable and other current assets | 29,230 | (61,728) | (279,448) | (61,643) |
| Accounts payable and accrued liabilities | | 229,098 | 500,642 | 236,001 |
| | <u>(2,135,308)</u> | | | |
| | | 167,370 | 221,194 | 174,358 |
| | <u>(2,106,078)</u> | | | |
| Cash flows (used in) investing activities | | | | |
| Mineral properties and related expenditures | (8,303,566) | (900,945) | (18,788,321) | (1,244,295) |
| Purchase of property, plant and equipment | (1,168,907) | (583,958) | (1,187,257) | (605,431) |
| | <u>(9,472,473)</u> | <u>(1,484,903)</u> | <u>(19,975,578)</u> | <u>(1,849,726)</u> |
| Cash flows from financing activities | | | | |
| Common shares issued, net | 9,663,962 | 2,317,016 | 9,693,763 | 3,718,870 |
| Proceeds from debt | 5,511,678 | - | 5,511,678 | - |
| | | 2,317,016 | 15,205,441 | 3,718,870 |
| | <u>15,175,640</u> | | | |
| (Decrease) increase in cash | 2,729,611 | 909,480 | (5,896,428) | 1,784,650 |
| Cash, beginning of the period | 6,501,980 | 1,442,238 | 15,128,019 | 567,068 |
| Cash, end of the period | <u>\$9,231,591</u> | <u>\$2,351,718</u> | <u>\$9,231,591</u> | <u>\$2,351,718</u> |
| Supplemental Schedule of Non-Cash Transactions: | | | | |
| Shares issued for debt | <u>\$ 291,596</u> | <u>\$ -</u> | <u>\$ 291,596</u> | <u>\$ -</u> |

See accompanying notes to interim consolidated financial statements

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

| | Chirano Gold Project (Ghana) | Other Ghana Projects (Ghana) | Farim Project (G Bissau) | Australian Projects (Australia) | Total |
|----------------------------------|------------------------------------|------------------------------------|--------------------------------|---------------------------------------|---------------|
| Balance, June 30, 2003 | \$ 10,471,935 | \$ 435,403 | \$ - | \$ 823,821 | \$ 11,731,159 |
| Acquisition Costs | 221,224 | 42,258 | - | - | 263,482 |
| Exploration and evaluation costs | 3,329,672 | 738,706 | 94,360 | 28,417 | 4,191,155 |
| Development expenditure | 5,765,177 | - | - | - | 5,765,177 |
| Write-off of property interests | - | (46,355) | - | - | (46,355) |
| Sale of mineral properties | - | - | - | (852,238) | (852,238) |
| Recognition of reverse takeover | - | - | 3,845,851 | - | 3,845,851 |
| 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 |

See accompanying notes to interim consolidated financial statements

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

1. Nature of Operations, Going Concern and Basis of Presentation

Nature of Operations

Red Back Mining Inc. (the "Company") together with its subsidiaries, 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 the September quarter of 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.

Basis of Presentation

These financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation.

These interim consolidated financial statements do not contain all of the information required by the Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements included in the Company's Annual Report for the year ended June 30, 2004.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

2. Significant Accounting Policies

(a) Significant Accounting Policies

These unaudited interim consolidated financial statements of Red Back Mining Inc. (the "Company") are prepared by management in accordance with accounting principles generally accepted in Canada using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended June 30, 2004.

(b) Basis of Presentation and Reverse Takeover Accounting

Effective June 30, 2004, the Company's reporting currency was changed from Australian 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 control 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 interim consolidated financial statements for the period from July 1, 2003 to December 31, 2003 reflect only the assets, liabilities and results of operations of RBK, the legal subsidiary. The interim consolidated financial statements for the period from July 1, 2004 to December 31, 2004 reflect the assets, liabilities and results of operations of RBK and the assets, liabilities and results of operations of the Company. The interim 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. Comparative figures for the period ended December 31, 2003 are those of RBK, the deemed acquirer for accounting purposes, except that they have been converted from Australian dollars to U.S. dollars.

(c) Basis of Consolidation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company's material subsidiaries are Red Back Mining NL (an Australian company), Red Back Mining Ghana Limited (a Ghanaian company), Chirano Gold Mines Limited (a Ghanaian company) and Champion Industrial Minerals Inc. ("CIM") (a 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.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

3. Investments

| | December 31, 2004 | June 2004 |
|--|----------------------|------------------|
| TNR Resources Ltd. – 409,092 (2003 - 409,902) common shares with a market value of approximately \$112,500 (June 30, 2004 - \$39,530) | <u>\$ 66,897</u> | <u>\$ 66,897</u> |

This investment represents a nominal interest in the investee.

4. Property, Plant and Equipment

| | Cost | Accumulated Depreciation | December 31 2004 Net Book Value | June 30, 2004 Net Book Value |
|-------------------|--------------|-----------------------------|--|---------------------------------------|
| Plant & equipment | \$ 782,918 | \$ 43,511 | \$ 739,407 | \$ 221,043 |
| Motor Vehicles | 763,318 | 91,383 | 671,935 | 31,150 |
| Buildings | 92,470 | 7,354 | 85,116 | 85,116 |
| | \$ 1,638,706 | \$ 142,248 | \$ 1,496,458 | \$ 337,309 |

5. Mineral Properties and Related Expenditures

| | Acquisition | Mine Development and Exploration | December 31, 2004 | June 2004 |
|--|--------------|---|----------------------|---------------|
| Mineral Properties | | | | |
| Chirano Gold Project, Ghana | \$ 1,630,658 | \$ 35,796,439 | \$ 37,427,097 | \$ 19,788,008 |
| Other Ghanaian Exploration Projects | 197,790 | 1,995,203 | 2,192,993 | 1,170,012 |
| Farim Project, Guinea Bissau | 278,591 | 3,787,871 | 4,066,462 | 3,940,211 |
| | \$ 2,107,039 | \$ 41,579,513 | \$ 43,686,552 | \$ 24,898,231 |

(a) Chirano Gold Project, Ghana

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

In December 2004, the Company paid \$1,250,000 to one of the vendors of the project relating to the decision to develop Chirano made in July 2004.

(b) Other Ghanaian Exploration Projects

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

(c) Farim Project, Guinea Bissau, West Africa

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.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

6. Loans Payable

On September 7, 2004, the Company accepted a credit approved offer from Macquarie Bank Limited ("Macquarie") for financing facilities totalling US\$43 million for the Chirano Gold Project in Ghana. 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 will be rolled into a hedging structure that will satisfy the entire price protection requirement prior to first draw down 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 standby facility, which is included in the US\$43 million available to the Company, 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.

7. Share Capital

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

Authorized:

Unlimited common shares without par value

| | Number of Shares | Amount |
|----------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Shares Issued and Outstanding: | | |
| 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 | 9,115,768 |
| Issued on exercise of options | <u>936,668</u> | <u>577,995</u> |
| Balance, December 31, 2004 | <u>69,164,200</u> | <u>\$ 53,382,947</u> |

(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 placement, 5,789,474 units at C\$1.90 per unit for gross proceeds of C\$11,000,000 (US\$9,115,768).

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

7. Share Capital – Continued

(c) Incentive stock options outstanding at December 31, 2004 are as follows:

| | Number of Options | Exercise Price |
|---------------------------|----------------------|----------------|
| Expiring 9 March 2005 | 6,667 | \$1.41 |
| Expiring 15 May 2005 | 71,499 | \$1.35 |
| Expiring 2 October 2005 | 25,000 | \$0.57 |
| Expiring 22 October 2005 | 106,666 | \$1.46 |
| Expiring 11 December 2005 | 10,000 | \$1.35 |
| Expiring 2 June 2007 | 2,065,000 | \$2.00 |
| Expiring 23 November 2007 | 160,000 | \$2.00 |
| Expiring 25 November 2007 | 83,333 | \$1.46 |
| | <u>2,528,165</u> | |

(d) As at December 31, 2004, the following non-transferable share purchase warrants were outstanding:

| Number of Warrants | Common Share Entitlement | Exercise Price | Expiry Date |
|-----------------------|-----------------------------|-------------------|-------------------|
| 138,333 | 138,333 | \$1.50 | May 8, 2005 |
| 1,999,999 | 1,999,999 | \$2.25 | December 4, 2005 |
| 12,500,000 | 12,500,000 | \$2.25 | June 9, 2006 |
| 1,000,000 | 1,000,000 | \$2.25 | December 13, 2007 |
| <u>15,638,332</u> | <u>15,638,332</u> | | |

8. 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. In the first quarter of 2004, Geysler filed a defence with a counter claim in the amount of the deposit. A trial date has been set for September, 2005.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

9. Related Party Transactions

Transactions for the six months ended December 31, 2004 and balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$99,384 (\$nil for the six months ended December 31, 2003) for management services provided by a company related to the President of the Company. At December 31, 2004, \$nil was due to this company.
- (b) Paid \$81,267 (\$nil for the six months ended December 31, 2003) to a company related to a director for engineering consulting fees. At December 31, 2004, \$nil was due to this party.
- (c) Paid \$62,346 (\$24,342 for the six months ended December 31, 2003) to a company controlled by a director for geological consulting fees. At December 31, 2004, \$nil was due to this party.
- (d) Paid \$59,633 (\$24,822 for the six months ended December 31, 2003) to a firm related to a director for legal services. At December 31, 2004, \$nil was due to this firm.
- (e) Paid \$47,737 (\$nil for the six months ended December 31, 2003) to a company controlled by a director for management services. At December 31, 2004, \$nil was due to this company.

During the period ended December 31, 2004, termination payments were made to a director and a company controlled by that director in relation to the cancellation of contracts for the provision of geological services. These payments totaled \$211,000.

A private placement was made during the period ended December 31, 2004 to two entities controlled by directors. This placement was made to satisfy termination obligations in respect of previous arrangements between the directors' and a subsidiary of the Company. A total of 184,176 shares were issued in this placement.

10. Stock Based Compensation

- a) For the newly granted options, compensation expense is based on the fair value of the options at the grant date. For any options that have alteration in their conditions, compensation expense is based on the fair value of the options on the alteration date less the fair value of the original options based on the shorter of the remaining expanded life of the old option or the expected life of the modified option.
- b) During the current period the Company granted 160,000 stock options exercisable at C\$2.00 on or before November 23, 2007. These options vested on the date of grant. Current period stock-based compensation amounted to \$117,843. The stock option compensation expense is calculated using the Black-Scholes Option Pricing Model with the following assumptions from the date of grant: a risk-free rate of 4.8%, expected volatility of 76%, expected option life of three years, and no dividend payments.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

10. Stock Based Compensation - Continued

- (c) 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.

11. Income Taxes

- (a) The company has income tax losses carried forward of approximately C\$2,960,000 available to reduce future taxable income in Canada. The income tax benefits, if any, of these losses has not been recognized in the accounts and expire as follows:

| | |
|------|---------------------|
| 2005 | C\$ 681,000 |
| 2006 | 823,000 |
| 2007 | 426,000 |
| 2008 | 366,000 |
| 2009 | 182,000 |
| 2010 | 178,000 |
| 2012 | <u>304,000</u> |
| | <u>C\$2,960,000</u> |

- (b) The company has accumulated deferred resource property expenditures of approximately C\$4,800,000 which may be used to reduce future taxable income in Canada. The income tax benefits, if any, of these deferred resource property costs have not been recorded in these financial statements.

12. 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:

| | Canada | Guinea Bissau | Ghana | Australia | Other | Consolidated |
|------------------------|--------------|---------------|---------------|------------|-----------|---------------|
| December 31, 2004 | | | | | | |
| Segment revenue | \$ 64,984 | \$ - | \$ - | \$ 731 | \$ - | \$ 65,715 |
| Segment operating loss | \$ 1,210,098 | \$ - | \$ 208,294 | \$ 54,022 | \$ 21,022 | \$ 1,493,436 |
| Identifiable assets | \$ 8,374,443 | \$ 4,066,959 | \$ 42,162,985 | \$ 283,625 | \$ 103 | \$ 54,888,115 |

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

12. Segmented Information - Continued

| | Canada | Guinea Bissau | Ghana | Australia | Other | Consolidated |
|---------------------------|--------------|---------------|---------------|--------------|-----------|---------------|
| June 30, 2004 | | | | | | |
| Segment revenue | \$ 4,795 | \$ - | \$ - | \$ 58,773 | \$ - | \$ 63,568 |
| Segment operating Loss | \$ 224,043 | \$ - | \$ 33,612 | \$ 1,065,727 | \$ 17,354 | \$ 1,340,736 |
| Identifiable assets | \$12,830,568 | \$ 3,940,211 | \$ 23,701,586 | \$ 79,623 | \$ 5,637 | \$ 40,557,625 |

13. Contingencies and Commitments

- (a) In 2000 the Company's Mexican subsidiary was advised that certain mining duties may remain payable with respect to the El Rubi property in the approximate amount of US\$55,000. No accrual has been recorded as management is of the view that the Mexican claim for the payment of these duties is unsupported. Any attempt to collect these duties will be defended by the Company.
- (b) 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.

RED BACK MINING INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(Unaudited)

14. 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\$ | <u>0.7433</u> |
| | <u><u>\$ 6,572,714</u></u> |
| | |
| Net identifiable assets of the Company | |
| Per May 2, 2004 financials | \$ 7,257,603 |
| Adjustment to mineral property | <u>(684,889)</u> |
| | <u><u>\$ 6,572,714</u></u> |

**RED BACK MINING INC.
CORPORATE DIRECTORY
DECEMBER 31, 2004**

OFFICERS

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

DIRECTORS

Ross Ashton
* Richard Clark
* 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

SHARE CAPITAL

Authorized: Unlimited
Issued and outstanding: 69,164,202 shares

REGISTRAR AND TRANSFER AGENT

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

SHARE LISTING

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