

# RED BACK MINING INC.



## Second Quarter Report

December 31, 2005

**RED BACK MINING INC.**  
**Second Quarter Report**  
**For the Period Ending December 31, 2005**

**Report to Shareholders**

The December quarter saw the beginning of an exciting new chapter for the Company. The Chirano Gold Mine, located in Ghana, West Africa, commenced production on October 10, 2005 after a construction period of only 14 months. With this achievement Red Back has joined the exclusive ranking of a gold producer. Red Back's success in reaching this important milestone is a testament to our dedicated employees and investors.

To the end of the quarter ended December 31, 2005, 30,247 ounces of gold were recovered from the Chirano mine against a budget of 24,431 ounces, an increase of 24%. Of these ounces, 26,471 were sold prior to the end of the quarter at an average price of \$469, realizing \$12,426,367. Cash operating costs per ounce amounted to \$234, however longer term cash operating costs are projected to be higher as set out below.

The Chirano Feasibility Study prepared in 2003 contemplated a plant processing rate of 2.1 – 2.3 Mt per annum. Significantly, after a successful start-up the Chirano plant throughput has been gradually increased to an impressive rate of 2.5 – 2.6 Mt and is operating smoothly at these levels. Based upon this positive performance, the Board of Directors has recently approved a 2006 budget that projects operating levels for the year at 2.5 Mt with expected gold production of 148,000 ounces at a cash cost of \$266 per ounce.

Exploration at Chirano has also been successful with the discovery of high grade mineralization under the Akwaaba deposit (**2005**: 15m @ 14.3 g/t Au - including 6m @ 31.3 g/t, and 15m @ 10.7 g/t Au - including 6m @ 25.5 g/t. **2006**: 5m @ 10.2 g/t Au, and 22m @ 7.7 g/t Au – including 5m @ 17.5 g/t) and the extension of mineralization at depth at Obra, currently the largest of the Chirano pits (98m @ 1.8 g/t Au). These discoveries have led to a positive reconsideration of the potential at Chirano and the implementation in 2006 of an extensive exploration program to test the depth extensions below all of the Chirano deposits.

The positive movement in the price of gold in the last quarter of 2005 and continuing into 2006, alone supports a recalculation of the reserves at Chirano, still conservatively based on a gold price of \$375. This review has been commissioned and combined with exploration results from the 2006 program will establish a new Chirano reserve, expected in the 3<sup>rd</sup> quarter of 2006. Management is optimistic for a material reserve increase from the current 1.1 million ounces.

The Company has also been busy testing its extensive portfolio of projects elsewhere in Ghana. Red Back enjoys one of the largest mineral land positions in the country. The Enchi Project, located 80 km south of Chirano, is a new discovery by our exploration team and currently encompasses two 9 km long mineralized structures separated by only 5 km. To date 4 km of one of these structures has been drill tested on very wide spacing (100 – 200 metres), with very encouraging results. An exploration budget of \$2.4 million has been approved for Enchi for 2006, towards establishing an initial resource estimate by mid year. The broad extent of surface gold mineralization at Enchi and the successful drilling to date, has Enchi as the Company's highest priority regional exploration project for 2006.

On the corporate side, Lukas Lundin has been appointed as Chairman of the Company. A well known and highly respected name in the mining and oil and gas industries, Mr. Lundin has been instrumental in the development of Red Back to a gold producer. Also during the quarter the Company raised CDN \$20.5 million through the exercise of share purchase warrants, leaving the Company well financed to pursue its exploration and development objectives.

The Company is very proud of its achievements and would like to thank its shareholders for their support as Red Back passed each important milestone – discovery, development, and now production. The Company is setting its sights yet higher with the ultimate objective of becoming a multi-mine gold producer in Ghana and elsewhere in Africa.

On behalf of the Board,

Richard P. Clark  
President and Chief Executive Officer

February 14, 2005

**RED BACK MINING INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**  
**SIX MONTHS ENDED DECEMBER 31, 2005**  
**(In United States Dollars)**

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Red Back Mining Inc. (the "Company") should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended December 31, 2005 and related notes thereto. The financial information in this MD&A is derived from the Company's unaudited interim consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is February 10, 2006.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**General**

The Company is a mineral resource corporation engaged in operating, exploring, acquiring and developing mineral properties. The Company, through its subsidiary Chirano Gold Mines Limited currently holds a 100% interest in the Chirano Gold Project ("Chirano"), located in Ghana, West Africa. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, for no consideration, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%. 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 21 km to the south of AngloGold Ashanti's Bibiani mine (historical production of 5 million ounces) in the Western Region of Ghana. The Chirano Mining Lease was granted on April 13, 2004. Chirano commenced production in October 2005 and became the first new gold mine in Ghana in seven years. The Company is now the fourth largest gold producer in Ghana.

Based on a gold price of US\$375 per ounce proven and probable reserves of 17.8Mt @ 1.9g/t, for a total of 1,091,000 oz. Chirano is expected to have an average production rate of 123,000 oz per annum over an initial eight and a half year mine life with production in the first three years averaging 145,000 oz per annum.

**Selected Quarterly Information**

<u>Financial Data for 8 Quarters</u>								
<u>Three Months Ended</u>	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04	Mar-04
A. Total revenues (\$000's) (i)	11,969	28	134	36	22	44	5	30
B. Net Profit/(loss) (\$000's)	2,062	(975)	(603)	(1,147)	(998)	(497)	(2,229)	(430)
C. Basic and diluted profit/(loss) per share (\$)	0.02	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.04)	(0.01)

## **Results of Operations**

### Gold Production

Gold production commenced at Chirano in October 2005. Total production for the period ended December 31, 2005 was 30,247 ounces at a cash cost of \$234 per ounce, however longer term cash operating costs are projected to be higher as set out below. This production represents 511,507 tonnes of ore processed at a grade of 1.84 g/t and recoveries of 93.7%.

Of the 26,471 ounces sold in the quarter, 14,300 were delivered into a scheduled flat forward sale contract and 12,171 ounces were sold at spot. Average gold price realized was \$469. Total income from gold sales was \$12,426,367 of which \$490,432 was realized prior to the commencement of commercial operations on November 1, 2005. This amount was credited against mine development costs.

In 2006, Chirano is budgeted to produce 148,000 ounces at a cash cost of \$266 per ounce.

Final pre-production capital cost for the project was \$74.5 million.

### Other items

\$597,622 of interest expense has been recognized in the Interim Consolidated Statements of Loss and Deficit for the three months ended December 31, 2005. This represents interest incurred since the commencement of operations at Chirano. Previously, interest was capitalized as part of mine development costs.

Depreciation, Amortization and Accretion charges have increased compared to previous periods as a result of the commencement of operations at Chirano.

Other items in the Interim Consolidated Statements of Loss and Deficit are materially in line with the quarter ended December 31, 2004. Details of Stock based compensation expense are outlined in Note 7(b).

General and administrative costs are associated with the Company's corporate offices.

## **Liquidity and Capital Resources**

At December 31, 2005, the Company had working capital of \$4.5 million as compared to a deficiency in working capital of \$6.9 million at June 30, 2005. The current portion of the outstanding debt facility repayments is included in working capital. These repayments are due in 2006 and will be funded out of cash flow from the Chirano operations.

During the six months ended December 31, 2005, the Company raised \$9.0 million (C\$11.9 million) through the sale of 7 million units at C\$1.70 each. 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 Company raised a total of \$17.8 million through the exercise of 9,889,696 share purchase warrants. Of these, 9,743,333 warrants had been exercised for total proceeds of \$17.5 million in response to a reduction in the exercise price as detailed below.

On October 13, 2005, the Company announced its intention to offer the holders of certain of its outstanding share purchase warrants the opportunity to exercise their warrants at a reduced exercise price of C\$2.10. The affected warrants were those exercisable for 1,999,999 common shares at a

price of C\$2.25 per common share until December 4, 2005 and those exercisable for an additional 12,500,000 common shares at a price of C\$2.25 per common share until June 9, 2006. The warrants to purchase the 1,999,999 common shares were issued under separate agreements with individual warrant holders while the 12,500,000 warrants were issued under an indenture. The reduced exercise price was available for five days ending November 1, 2005.

Shareholder approval was obtained at the AGM held on November 24, 2005 for Belike Nominees Pty Ltd., an insider of the Company to exercise their 2,500,000 warrants.

The net proceeds from the warrant exercise have been and will be used by the Company for post production development activities at Chirano, 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 (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 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 entered into a flat forward hedging structure with 400,000 ounces sold forward at US\$438.05 per ounce. This structure satisfies the entire price protection requirement of the loan facilities. As at December 31, 2005 deliveries of gold into the flat forward contracts has totaled 14,300 ounces.

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. Upon drawdown of the US\$10 million standby facility during the current quarter, additional warrants were 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. Funds received from the exercise of such warrants will be applied against outstanding principal under the credit facilities.

Total expenditure capitalized at Chirano for the six months ended December 31, 2005 was \$17,258,192 including exploration expenditures of \$962,878, development costs of \$12,791,735 capitalized interest of \$595,895 and deferred stripping costs of \$2,907,684.

The Company will continue to incur capital expenditure at Chirano in line with the development plan. Capital expenditures will be accrued when incurred and capitalized as part of Mine properties.

Exploration expenditures incurred on the Company's other Ghanaian projects for the six months December 31, 2005 totaled \$1,172,230. 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 quarter ended December 31, 2005.

Expenditures incurred and capitalized on the Farim project in Guinea-Bissau during the six months ended December 31, 2005 were \$63,682. Farim project expenditures were mainly related to care, maintenance and consulting costs.

## **Related Party Transactions**

The Company's transactions with related parties are disclosed in Note 8 of the unaudited interim consolidated financial statements.

## **Outstanding Share Data**

As at February 10, 2006, the Company had 88,350,946 common shares issued and outstanding and 2,323,333 share options outstanding under its stock-based incentive plan. At the same date, the Company had 11,155,000 share purchase warrants outstanding.

## **Outlook**

With operations running smoothly at Chirano and an aggressive exploration program underway on the Company's other Ghanaian projects, the Company is poised to become a significant new West Africa gold producer and developer.

## **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.

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

	<b>December 31, 2005 (Unaudited)</b>	<b>June 30, 2005 (Audited)</b>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 12,643,165	\$ 6,578,190
Accounts receivable	6,011,302	1,013,627
Inventories (Note 3)	6,030,014	987,505
Prepaid expenses	154,676	416,768
	24,839,157	8,996,090
Property, plant and equipment, Net (Note 4)	2,720,093	2,029,626
Mineral properties and related expenditures (Note 5)	101,246,970	84,730,401
	\$ 128,806,220	\$ 95,756,117
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,587,740	\$ 12,065,370
Current portion of loan payable (Note 6)	10,800,000	3,800,000
	20,387,740	15,865,370
Non Current Liabilities		
Loans Payable (Note 6)	27,941,034	29,200,000
Asset Retirement Obligations	5,750,181	5,607,614
	54,078,955	50,672,984
Minority Interest (Note 2)	270,815	-
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)		
Authorized -		
Unlimited common shares without par value		
Issued and outstanding -		
86,795,946 (June 2005 – 69,393,034) common shares	80,719,119	53,106,936
Contributed Surplus and other	2,494,350	1,820,244
Deficit	(8,757,019)	(9,844,047)
	74,456,450	45,083,133
	\$ 128,806,220	\$ 95,756,117

**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 PROFIT/(LOSS) AND DEFICIT**  
(in United States Dollars)  
(Unaudited)

	Three months ended December 31		Six months ended December 31	
	2005	2004	2005	2004
Gold Sales	\$ 11,935,935		\$ 11,935,935	\$ -
Costs and expenses				
Operating	5,913,914	-	5,913,914	-
Depreciation and amortization	1,604,327	-	1,743,616	-
Accretion	142,567	-	142,567	-
Royalties	479,623	-	479,623	-
Profit from operations	3,795,504	-	3,656,215	-
Interest and bank charges	597,622	374	597,976	550
Depreciation	12,219	11,329	25,428	28,107
General and administrative	628,977	881,401	959,903	1,404,847
Stock based compensation	155,202	117,843	674,106	117,843
Foreign exchange loss	102,135	-	102,135	-
Interest income	(33,516)	(22,101)	(61,176)	(65,715)
	1,462,639	988,846	2,298,372	1,485,632
Profit (loss) for period before minority interest	2,332,865	(988,846)	1,357,843	(1,485,632)
Minority Interest (Note 2)	270,815	-	270,815	-
Profit (loss) for the period after minority interest	2,062,050	(988,846)	1,087,028	(1,485,632)
Deficit, beginning of the period	(10,819,069)	(7,105,394)	(9,844,047)	(6,608,608)
Deficit, end of the period	<u>\$ (8,757,019)</u>	<u>\$ (8,094,240)</u>	<u>\$ (8,757,019)</u>	<u>\$ (8,094,240)</u>
Basic and diluted profit/(loss) per common share	<u>\$0.02</u>	<u>(\$ 0.01)</u>	<u>\$0.01</u>	<u>(\$0.02)</u>
Weighted average number of shares outstanding	<u>82,971,660</u>	<u>61,177,730</u>	<u>78,621,061</u>	<u>61,548,821</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	
	2005	2004	2005	2004
Cash flows from(used in) operating activities				
Profit (loss) for the period	\$ 2,062,050	\$ (988,846)	\$ 1,087,028	\$(1,485,632)
Items not effecting cash				
Minority Interest	270,815	-	270,815	-
Amortization and depreciation	1,616,546	11,329	1,769,044	28,108
Stock based compensation	155,202	117,843	674,106	117,843
Termination payments settled by issue of shares	-	-	-	291,596
Accretion	142,567	-	142,567	-
Exchange difference	-	(3,826)	-	(3,826)
	<u>4,247,180</u>	<u>(863,500)</u>	<u>3,943,560</u>	<u>(1,051,911)</u>
Net changes in non-cash working capital items				
Accounts receivable and prepaid expenses	(4,116,234)	25,252	(4,735,583)	(283,426)
Inventories	(3,942,665)	-	(5,042,509)	-
Accounts payable and accrued liabilities	2,873,482	(2,123,630)	(2,477,630)	220,724
	<u>(5,185,417)</u>	<u>(2,098,378)</u>	<u>(12,255,722)</u>	<u>(62,702)</u>
Cash flows (used in) investing activities				
Mineral properties and related expenditures	(6,005,274)	(8,303,566)	(17,779,344)	(18,788,321)
Purchase of fixed assets	(759,866)	(1,168,907)	(861,306)	(1,187,257)
	<u>(6,765,140)</u>	<u>(9,472,473)</u>	<u>(18,640,650)</u>	<u>(19,975,578)</u>
Cash flows from financing activities				
Common shares issued, net	17,394,817	9,663,962	27,276,753	9,693,763
Proceeds from debt	5,000,000	5,500,000	10,000,000	5,500,000
Debt repayments	(4,258,966)	-	(4,258,966)	-
	<u>18,135,851</u>	<u>15,163,962</u>	<u>33,017,787</u>	<u>15,193,763</u>
Increase (decrease) in cash	10,432,474	2,729,611	6,064,975	(5,896,428)
Cash, beginning of the period	2,210,691	6,501,980	6,578,190	15,128,019
Cash, end of the period	<u>\$12,643,165</u>	<u>\$ 9,231,591</u>	<u>\$12,643,165</u>	<u>\$ 9,231,591</u>

Supplemental Schedule of Non-Cash Transactions:

Shares issued for purchase of minority interest	\$ 335,430	\$ -	\$ 335,430	\$ -
Accrued Interest capitalized to mineral properties and related expenditures	\$ -	\$ -	\$ 595,895	\$ -

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, 2005**  
**(Unaudited)**

**1. Nature of Operations and Basis of Presentation**

These interim financial statements do not contain all the information required for annual financial statements and should be read in conjunction with the most recent annual financial statements of the Company.

Red Back Mining Inc. (the "Company") together with its subsidiary companies is a mineral resource corporation engaged in operating, exploring, acquiring and developing mineral properties. The Company currently holds a 100% interest in the Chirano Gold Project ("Chirano") in Ghana, West Africa. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, for no consideration, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%. Development of Chirano is complete and production commenced 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 production of established economically recoverable reserves, preservation of the Company's interest in the underlying mineral claims, 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.

**2. Minority Interest**

As detailed in Note 5, the Company currently holds 100% of Chirano Gold Mines Limited, which owns the Chirano Gold Project. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, for no consideration, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%.

Accordingly, the Company has recognized a minority interest of 10% in the retained earnings of Chirano Gold Mines Limited, which totaled \$270,815 for the six month period ended December 31, 2005.

In previous periods no minority interest has been recognized as Chirano Gold Mines Limited has been in a deficit position.

### 3. Inventories

	December 31, 2005	June 30, 2005
Stockpile ore and Gold in circuit	\$ 3,455,898	\$ 958,066
Materials and supplies	2,574,116	29,439
	<u>\$ 6,030,014</u>	<u>\$ 987,505</u>

### 4. Property, Plant and Equipment

	Cost	Accumulated Depreciation	December 31 2005 Net Book Value	June 30, 2005 Net Book Value
Plant & equipment	\$ 1,812,376	\$ 335,366	\$ 1,477,010	\$ 725,508
Motor Vehicles	1,600,773	428,993	1,171,780	1,228,249
Buildings	92,470	21,167	71,303	75,869
	<u>\$ 3,505,619</u>	<u>\$ 785,526</u>	<u>\$ 2,720,093</u>	<u>\$ 2,029,626</u>

### 5. Mineral Properties and Related Expenditures

	Chirano Gold Project (Ghana)	Other Projects (Ghana)	Farim Project (Guinea Bissau)	Total
Balance, June 30, 2005	\$ 76,894,095	\$ 3,423,472	\$ 4,412,834	\$ 84,730,401
Exploration and evaluation costs	962,878	1,172,230	63,682	2,198,790
Capitalized interest expense	595,895	-	-	595,895
Development expenditure	12,791,735	-	-	12,791,735
Pre-production revenue	(490,432)	-	-	(490,432)
Deferred stripping costs	2,907,684	-	-	2,907,684
Amortization	(1,487,103)	-	-	(1,487,103)
Balance, December 31, 2005	<u>\$ 92,174,752</u>	<u>\$ 4,595,702</u>	<u>\$ 4,476,516</u>	<u>\$ 101,246,970</u>

- (i) Included in Mine Development and Exploration for the Chirano Gold project is deferred stripping costs in the amount of \$5,890,031 (June 30 2005 - \$2,982,347).
- (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 \$5,750,181 (June 30 2005 - \$5,607,614).
- (iii) Included Mine Development and Exploration for the Chirano Gold project is interest capitalized on the loans payable during the construction phase of \$1,158,243 (Note 5) (June 30 2005 - \$562,348).

#### *Chirano Gold Project, Ghana*

The Chirano project comprises one mining lease and one prospecting license held through the company's 100% subsidiary, Chirano Gold Mines Limited. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, for no

consideration, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%.

#### *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.

## 6. Loans Payable

Details are as follows:

	<u>December 31, 2005</u>	<u>June 30, 2005</u>
Loans payable	\$ 38,741,034	\$ 33,000,000
Current portion	(10,800,000)	(3,800,000)
	<u>\$ 27,941,034</u>	<u>\$ 29,200,00</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 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\$438.05 per ounce. This structure satisfies the entire price protection requirement of the loan facilities. As at December 31, 2005 deliveries of gold into the flat forward contracts has totaled 14,300 ounces.

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. Upon drawdown of the US\$10 million standby facility during the current quarter, additional warrants were 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. Funds received from the exercise of such warrants will be applied against outstanding principal under the credit facilities.

As at December 31, 2005, the Company had drawn down the US\$33 million corporate loan facility and the \$10 million standby facility. Interest of \$ totaling \$784,825 has been accrued at December 31, 2005. Interest totaling \$1,158,243 has been capitalized as part of the Mine Development and Exploration for the Chirano Gold project (Note 4).

In December 2005, the Company made a voluntary prepayment against the standby facility of \$4,258,966.

Scheduled principal payments on the loan payable are as follows:

<b>Period Ended December 31</b>	<b>Amount</b>
2006	\$10,800,000
2007	15,500,000
2008	11,700,000
2009	741,034
	<u>\$ 38,741,034</u>

## 7. Share Capital

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

Authorized:

Unlimited common shares without par value

	<u>Number of Shares</u>	<u>Amount</u>
Shares Issued and Outstanding:		
Balance, June 30, 2005	69,393,034	\$ 53,106,936
Issued on private placement (i)	7,000,000	8,993,803
Issued on exercise of warrants (ii)	9,889,696	17,790,275
Issued as consideration for CGML minority interest (iii)	178,883	335,430
Issued on exercise of options	<u>334,333</u>	<u>492,675</u>
Balance, December 31, 2005	<u>86,795,946</u>	<u>\$ 80,719,119</u>

- i. 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\$8,993,803).
- ii. On October 13, 2005, the Company announced its intention to offer the holders of certain of its outstanding share purchase warrants the opportunity to exercise their warrants at a reduced exercise price. The affected warrants were those exercisable for 1,999,999 common shares at a price of C\$2.25 per common share until December 4, 2005 and those exercisable for an additional 12,500,000 common shares at a price of C\$2.25 per common share until June 9, 2006. The warrants to purchase the 1,999,999 common shares were issued under separate agreements with individual warrant holders while the 12,500,000 warrants were issued under an indenture.

Shareholder approval was obtained at the AGM held on November 24, 2005 for Belike Nominees Pty Ltd., an insider of the Company to exercise their 2,500,000 warrants. These warrants were subsequently exercised.

On November 2, 2005 the Company announced that 9,743,333 warrants had been exercised in response to the reduced exercise price.

iii. On November 9, 2005, The Company announced that it had successfully negotiated the purchase of the 5% minority interest in the Chirano Gold Mine. The consideration for the purchase was \$275,000 plus the issuance of 178,883 fully paid common shares in the capital of the Company in escrow, subject to TSX approval. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of Chirano Gold Mines Limited, for no consideration, the Company will hold a 90% interest in Chirano with the Government of Ghana holding 10%.

(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 December 31, 2005 are outlined in the table below:

	Number of Options	Exercise Price (C\$)	
Expiring 2 June 2007	1,515,000	\$2.00	
Expiring 23 November 2007	150,000	\$2.00	
Expiring 25 November 2007	83,333	\$1.46	(i)
Expiring 12 January 2008	75,000	\$2.00	
Expiring 7 August 2008	200,000	\$2.00	
Expiring 29 September 2008	400,000	\$2.10	
Expiring 13 December 2008	150,000	\$2.30	(ii)
	<u>2,573,333</u>		

(i) Options are as a result of the merger with Red Back Mining NL.

(ii) The fair value of options granted during the period ended December 31, 2005, has been estimated using an option-pricing model.

During the period, the Company issued 150,000 options to directors, officers, and employees with an exercise price of C\$2.30 per option. The fair value of stock option compensation is \$155,202, which has been recorded in the accounts of the Company as stock-based compensation expense and an increase in contributed surplus. In preparing the fair value estimate for the period, 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 and other are as follows:

Balance – June 30, 2005	\$ 1,904,593
Fair value of stock-based compensation (Note 6b)	674,106
Cumulative translation adjustment	<u>(84,349)</u>
Balance – December 31, 2005	<u>\$ 2,494,350</u>

(d) As at December 31, 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>
4,510,000	4,510,000	\$2.25	March 2, 2006
1,000,000	1,000,000	\$2.25	December 13, 2007
1,725,000	1,725,000	\$2.25	July 18, 2008
3,500,000	3,500,000	\$2.00	July 26, 2007
862,500	862,500	\$2.25	October 15, 2008
<u>862,500</u>	<u>862,500</u>	<u>\$2.25</u>	<u>October 27, 2008</u>
<u>12,460,000</u>	<u>12,460,000</u>		

The Company has the right to require conversion of the 4,510,000 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. On January 19, 2006 the Company exercised this right and the warrant holders now have until March, 2006 to exercise.

## 8. Related Party Transactions

Transactions for the six months ended December 31, 2005 and 2004 and balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$105,597 (2004: \$99,384) for management services provided by a company related to the President of the Company. At December 31, 2005, \$nil was due to this company.
- (b) Paid \$nil (2004: \$81,267) to a company related to a director for engineering consulting fees. At December 31, 2005, \$nil was due to this party.
- (c) Paid \$42,614 (2004: \$59,633) to a firm related to a director for legal services. At December 31, 2005, \$16,019 was due to this firm.
- (d) Paid \$88,811 (2004: \$47,737) to a company controlled by a director for management services. At December 31, 2005, \$nil was due to this company.

## 9. Segmented Information

The Company operates only in the gold sector in Ghana. Currently, revenues are earned exclusively at the Company's Chirano Gold Project.

## 10. Contingencies and Commitments

- (a) The Company has 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) As detailed in Note 5, The Company has entered into a flat forward hedging structure with 400,000 ounces sold forward at US\$438.05 per ounce. The Company has delivery commitments relating to these flat forwards which commenced in December 2005 and continue on a quarterly basis until March 2011 at an average of 18,182 ounces per quarter. As at December 31, 2005 the remaining commitment totaled 385,700 ounces.

## 11. Subsequent Events

- (a) On January 19, 2006 the Company announced that, in accordance with the terms of the indenture setting out their terms, the Company is electing to accelerate the expiry date of all currently outstanding common share purchase warrants which were issued in connection with a private placement financing on June 9, 2004. The Warrants are exercisable to acquire up to a maximum of 3,885,000 common shares at a price of C\$2.25 each. The Company exercise its right and caused to be mailed to each holder of Warrants a notice confirming the acceleration of the expiry date if the Warrants to March 2, 2006.
- (b) Subsequent to December 31, 2005 an additional 250,000 options and 1,405,000 warrants have been exercised, increasing the issued and outstanding capital to 88,450,946 shares.

**RED BACK MINING INC.  
CORPORATE DIRECTORY**

**OFFICERS**

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

**DIRECTORS**

\* 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**

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**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