

RED BACK MINING INC. Annual Report



YEAR ENDED 30 JUNE 2006



RED BACK MINING INC.
Annual Report to Shareholders
For the year ended June 30, 2006

Report to Shareholders

The year ended June 30, 2006 represents the most significant period in the history of the Company. This year saw the completion of the construction and commencement of production at the Company's Chirano Gold Mine in Ghana, West Africa. These achievements follow the successful raising of US\$75 million in project financing and a construction period of only 14 months.

Gold started to flow at Chirano in October 2005 and to June 30, 2006 the mine had produced 86,441 ounces at a cash cost of \$269 per ounce. Profit from operations for the year was \$8.3 million prior to charging financing costs, corporate costs, write-offs and minority interest. There have of course been challenges. The start-up phase at Chirano experienced short term water supply shortages as well as a series of plant mechanical problems, which included the failure, in March 2006, of one of the SAG mill drive motors. However, by year end these challenges had all been successfully met and operations are again meeting design parameters. In August 2006 Chirano produced a record 13,650 ounces of gold.



Chirano Gold Pour



Chirano Gold Pour

Chirano is the first new gold mine in Ghana in recent years. With its commissioning the Company has become one of five significant gold producers in Ghana.

With commissioning complete and a steady state production proceeding the Company is currently reviewing various options to increase process plant throughput rate beyond current design. This will include an evaluation of the underground potential of the high grade Akwaaba deposit, located 5 kilometers south of the plant site.

2005 saw the discovery of high grade mineralization at Akwaaba. This discovery has the potential to significantly enhance the production profile of Chirano. To this end, exploration at Akwaaba has

focused on establishing a resource assessment and scoping study. Highlights of drilling to date at Akwaaba include:

| Hole ID | From (m) | To (m) | Interval (m) | Grade (g/t Au) |
|----------|----------|--------|--------------|----------------|
| CHRC316 | 78 | 93 | 15 | 5.2 |
| Incl | | | 4 | 11.9 |
| CHRC540 | 81 | 96 | 15 | 10.7 |
| Incl | | | 6 | 25.5 |
| CHRC702 | 115 | 130 | 15 | 14.3 |
| Incl | | | 6 | 31.3 |
| CHRC713D | 224 | 246 | 22 | 7.7 |
| Incl | | | 5 | 17.5 |
| CHRC727D | 284.8 | 291.7 | 6.9 | 8.0 |
| | 308.8 | 318 | 9.2 | 6.2 |
| | 320 | 338 | 18 | 5.4 |
| CHRC728D | 158.5 | 174.3 | 15.8 | 15.2 |
| Incl | | | 5.5 | 31.2 |
| CHRC733D | 269 | 279.2 | 10.2 | 7.5 |
| Incl | | | 5 | 13.2 |
| | 298 | 324 | 26 | 13.2 |
| Incl | | | 10 | 23.5 |
| CHRC734D | 390.89 | 393 | 2.11 | 18.21 |
| | 397 | 420 | 23 | 4.07 |
| Incl | | | 4.6 | 8.72 |
| | 420 | 433 | 13 | 64.95 |
| | 433 | 450 | 17 | 2.42 |
| CHRC741D | 270 | 292 | 22 | 6.78 |
| Incl | | | 2 | 30.34 |
| CHRC743D | 387 | 392.5 | 5.5 | 13.65 |
| | 399.6 | 405 | 5.4 | 8.34 |
| | 410 | 444.8 | 34.8 | 8.68 |
| CHRC744D | 439.86 | 496 | 56.14 | 7.06 |
| Incl | | | 10 | 14.97 |
| CHRC745D | 411 | 423 | 12 | 6.5 |
| | 450.5 | 479.9 | 29.4 | 5.46 |
| Incl | | | 7 | 12.87 |
| CHRC751D | 337.0 | 386.0 | 49 | 12.9 |
| Incl | | | 23.5 | 19.3 |
| CHRC754D | 305.67 | 308.0 | 2.4 | 5.5 |
| | 317 | 328 | 11 | 8.4 |
| | 331 | 362 | 31 | 7.2 |

An initial resource estimate for the Akwaaba high grade mineralization is expected to be completed in October 2006.

The Company is also in the process of recalculating the resources and reserves for all the Chirano deposits. The current global resource/reserves (Reserves: 1,091,000 oz gold @ 1.9 g/t; Resources: 1,840,000 oz gold @ 1.8 g/t Measured and Indicated + 509,000 oz gold @ 2.0 g/t Inferred) were established in 2004 when gold was trading at US\$375 per ounce. The



Exploration Drilling at Akwaaba

Company commenced a systematic drilling program in July 2006 towards restating the resources and reserves at Chirano with reference to current gold pricing. It is expected that this program will be completed in the first quarter of 2007 and will result in a material increase in the potential of Chirano.

The Company has also seen positive results from its regional exploration in Ghana. The Enchi Project, located 80 kms south west of Chirano, was discovered in 2005 by the Company's exploration team. To date extensive gold mineralization has been identified in two sub parallel surface anomalies, each 4 – 5 kms long. Systematic exploration is ongoing at Enchi towards identifying a new orebody for the Company.

On the financial side, the Company has successfully retired US\$14 million of the US\$43 million debt facility from Macquarie Bank. With positive cash flow and US\$7.3 million in working capital as at June 30, the Company is in a solid financial position going into 2006-2007.

On the corporate front, the Company continues to look for growth opportunities, primarily in Africa. The Company enjoys broad exposure to the international mining and financial communities and intends to capitalize on that exposure.

With Chirano in full operation and exciting development potential around the mine and at the Enchi Project, the Company is poised for growth in 2006 – 2007. We look forward to reporting on our progress through 2007.

On behalf of the Board,

Richard P. Clark
President and Chief Executive Officer
September 26, 2006

RED BACK MINING INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
JUNE 30, 2006 AND 2005
(In Thousands of 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 consolidated financial statements for the years ended June 30, 2006 and 2005 and related notes thereto. 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 26, 2006.

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 operating, exploring, acquiring and developing mineral properties. The Company, through its subsidiary Chirano Gold Mines Limited ("CGML"), 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 CGML, at no cost, the Company will hold a 90% interest in CGML with the



Mining at Obra

Government of Ghana holding 10%. The Company, through subsidiaries, also holds interests in a number of exploration properties in Ghana.

Chirano is located 21 km to the south of the Bibiani mine (owned by AngloGold Ashanti - 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 recent years. The Company is one of five significant gold producers in Ghana.



Chirano Process Plant

Based on a gold price of US\$375 per ounce proven and probable reserves are 17.8Mt @ 1.9g/t, for a total of 1,091,000 oz. Based on these numbers, Chirano is scheduled 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. As at June 30, 2006 the remaining unmined proven and probable reserves (based on a gold price of US\$375 per ounce) are 16.3Mt @ 1.8g/t for a total 965,610 oz.

The current mine plan calls for the development of eleven gold deposits spread along a strike length of approximately nine kilometres. The design capacity of the Chirano plant is 2.1 Mtpa. All ore and waste material is mined via conventional, open pit mining methods using a mining contractor.

The operation utilizes selective mining techniques to separate ore and waste and is carried out by contractor mining. The mining fleet is a combination of 250 tonne hydraulic excavators with 14

cubic metre buckets loading 90 tonne trucks. Drilling and blasting is required for all primary material and the majority of oxide material. Approximately 10% of the total volume is oxide ore which does not require blasting prior to excavation.



Chirano Water Storage Facility

The treatment plant flowsheet is based on single stage crushing, SAG milling with pebble crushing and ball milling, pre-leach thickening, a single stage of leaching and a six stage CIL circuit. Gold is recovered by a 4 tonne Zadra elution circuit with electrowinning of the gold onto stainless steel cathodes. The gold will be removed

from the cathodes with high pressure water sprays and smelted to a final bullion product. A gravity circuit, included in the grinding circuit, prevents build up of coarse gold during processing of higher grade primary ores.

Recent significant exploration results from the high grade Akwaaba deposit at Chirano have prompted an evaluation of the underground economic potential for this deposit. A resource estimate for Akwaaba is scheduled for completion in October 2006.

A revised reserve and resource estimate for Chirano is currently being prepared utilizing gold pricing more in line with current market forecasts.

Since August 1997 the Company has held a 100% interest in the four mining leases comprising the Farim Phosphate Project in Guinea Bissau. A pre-feasibility study was completed in June 2000 which contemplated development targeting ore with an average grade exceeding 30% P₂O₅ for a mine life of 15 years at an annual rate of 2.47 million tonnes dry weight. Since 2000 the Company has maintained title to the mining leases and refined scoping studies. In July 2006, the Government of Guinea Bissau purported to cancel contracts with the Company which preceded the issuance of the mining leases. The Company believes the mining leases remain in good standing although the Company's title to the mining leases is uncertain given the Government's recent attempts to expropriate the Company's rights. The Company intends to pursue all legal and political avenues available to it to challenge the recent actions of the Government of Guinea Bissau. In view of the current situation, all carried forward expenditure relating to Farim has been written off in the year ended June 30, 2006. The litigation referred to in Note 11 is unaffected by the these events.

Selected Annual Information

| | Year ended <u>June 30, 2006</u> | Year ended <u>June 30, 2005</u> | Year ended <u>June 30, 2004</u> |
|---|------------------------------------|------------------------------------|------------------------------------|
| Total Revenue | 39,045 | 236 | 64 |
| Net Loss | 5,327 | 3,235 | 3,085 |
| Net Loss per share (basic and diluted) | 0.06 | 0.05 | 0.06 |
| Total Assets | 139,571 | 95,756 | 40,558 |
| Long Term Liabilities | 21,207 | 34,808 | - |

Selected Quarterly Information

| Financial Data for 8 Quarters | | | | | | | | |
|--|---------|--------|--------|--------|--------|---------|--------|--------|
| Three Months Ended | Jun-06 | Mar-06 | Dec-05 | Sep-05 | Jun-05 | Mar-05 | Dec-04 | Sep-04 |
| A. Total revenues (US\$000's) | 12,786 | 14,262 | 11,969 | 28 | 134 | 36 | 22 | 44 |
| B. Net Profit/(loss) (US\$000's) | (5,830) | (584) | 2,062 | (975) | (593) | (1,147) | (998) | (497) |
| C. Basic and diluted profit/(loss) per share (US\$) | (0.06) | (0.01) | 0.02 | (0.01) | (0.01) | (0.02) | (0.01) | (0.01) |

Results of Operations

Gold Production

Gold production commenced at Chirano in October 2005. Total production for the year ended June 30, 2006 was 86,441 ounces at a cash cost of \$269 per ounce. This production represents 1,598,791 tonnes of ore processed at a grade of 1.78 g/t at a metallurgical recovery of 92.2%.

Of the 81,196 ounces sold in the year ended June 30, 2006, 52,000 were delivered into a scheduled flat forward sale contract and 29,196 ounces were sold at spot. Average gold price realized was \$483 per ounce. Total income from gold sales to June 30, 2006 was \$38.7 million.

Operating performance at Chirano was adversely affected by a number of mechanical problems which impacted the first half of the year's gold production, including the failure of one of the SAG mill drive motors. With steady state production underway Chirano achieved record gold production of 13,650 ounces in August 2006 with current indications for similar production levels being realized in September 2006.

June 2006 quarter compared to June 2005 quarter

The loss for the June 2006 quarter was \$5.8 million as compared to a loss of \$0.6 million for the June 2005 quarter. Expense items included in the June 2006 quarter that had nil values in the June 2005 quarter include the write-off of the Farim Project (\$4.6 million) and stock based compensation (\$1.0 million). The write-off of the Farim Project has been necessitated as a result of recent actions by the Government of Guinea Bissau purporting to cancel the Company's rights to Farim. As a result of these actions, all carried forward expenditure in relation to the Farim Project has been written off in the quarter ended June 30, 2006. Stock based compensation relates to the issue of options to management and consultants. The level of such option issues is at the discretion of the Board and is not expected to be uniform across quarters or financial years. In the quarter ended June 30, 2005, the Chirano Project was in the development stage and all costs were capitalised to Mine Properties. Consequently, a comparison to the quarter ended June 30, 2006 where profit from operations was \$1.6 million is not meaningful. Interest expense in the June 2006 quarter was \$0.4 million compared to \$nil for the June 2005 quarter. This increase is expected as interest paid on debt in the quarter ended June 30, 2006 is recognised as an expense whereas the majority of interest paid in the development stage of Chirano was capitalised to Mine Properties. Interest income for the June 2006 quarter was \$0.2 million compared to interest income of \$0.2 million for the June 2005 quarter. General and administrative expenses for the June 2006 quarter were \$1.5 million compared to \$0.5 million for the June 2005 quarter reflecting the move from construction to operations. In particular, insurance costs increased by \$0.5 million due to policies taken out as conditions of the debt facility and promotional costs increased by \$0.2 million as the Company moved into production.

Year ended June 30, 2006 compared to 2005

The Company's loss for the year ended June 30, 2006 was \$5.3 million as compared to a loss of \$3.2 million for the year ended June 30, 2005. The increase in loss for the comparative period consists of the profit from operations in the year ended June 30, 2006 of \$8.3 million offset by increased expenditure. Interest expense (\$2.0 million vs \$nil) increased due to interest on the debt facility recognised as an expense in the current year but substantially capitalized to Mine Properties in the prior year. Stock based compensation (\$2.9 million vs \$0.2 million) increased as a result of options issued to management, employees and consultants. The level of such option issues is at the discretion of the Board and is not expected to be uniform across quarters or financial years. In the year ended June 30, 2006 the Farim Phosphate Project was written off as outlined above (\$4.6 million vs \$nil). General and administrative expenses increased to \$3.6 million from \$2.9 million. The significant difference in general and administrative expenditure related to bonuses paid to management and employees of \$0.6 million upon successful completion of the construction of Chirano. Interest income in the year ended June 30, 2006 was \$0.3 million as compared to \$0.1 million in the year ended June 30, 2005. Minority interest of \$0.6 million was also recognized in the year ended June 30, 2006 reflecting the fact that the Government of Ghana has a right to back-in to a 10% ownership of Chirano Gold Mines Ltd ("CGML"). In the prior year, CGML did not have retained earnings so no minority interest was recognized. No gain on sale of investment was made in the year ended June 30, 2006 compared to \$0.1 million in the year ended June 30, 2005.

Other expenses for the year ended June 30, 2006 remained materially in line with the prior year.

Liquidity and Capital Resources

At June 30, 2006, the Company had working capital of \$7.3 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 within the next year and will be funded out of cash flow from the Chirano operations.

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 totalling \$43 million (including a \$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 was capitalized prior to commercial production, is payable at LIBOR plus 2.75%.

As at June 30, 2006, the standby facility of \$10 million had been retired. The outstanding principal of the loan is \$29.2 million.

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\$440.30 per ounce. This structure satisfies the entire price protection requirement of the loan facilities. As at June 30, 2006 deliveries of gold into the flat forward contracts has totalled 52,000 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. These warrants were exercised in May 2006 and part proceeds applied to retire the remaining \$5.7 million of the standby facility. The balance of the standby facility, \$3.3 million, had been prepaid in December 2005.

During the year ended June 30, 2006, the Company raised gross proceeds of \$9.7 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 also raised a total of \$37.7 million through the exercise of 20,374,696 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 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.

Total expenditure capitalized at Chirano for the year ended June 30, 2006 was \$20.9 million including exploration expenditures of \$4.2 million, development costs of \$13.6 million, capitalized interest of \$0.6 million and deferred mining costs of \$2.5 million.

Exploration expenditures incurred on the Company's other Ghanaian projects for the year ended June 30, 2006 totalled \$3.5 million. 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 will be written-off. There were no such write offs in the year ended June 30, 2006.

Expenditures incurred and capitalized on the Farim project in Guinea-Bissau during the year ended June 30, 2006 were \$0.2 million. Farim project expenditures were mainly related to care, maintenance and consulting costs. In July 2006, the Government of Guinea Bissau has purported to cancel contracts with the Company which preceded the issuance of the four mining leases which comprise the Farim Project. The Company believes the mining leases remain in good standing although title to the mining leases is uncertain given the Government's recent attempts at expropriation. In view of the current situation, all carried forward expenditure relating to Farim has been written off in the year ended June 30, 2006. This write-off amounted to \$4.6 million. Ongoing litigation in relation to the sale of Champion Industrial Minerals, a subsidiary of the Company, is not effected by the recent actions by the Government of Guinea Bissau in respect to the Farim Project. The litigation is described in detail in Note 11 to the consolidated financial statements.

Outstanding Share Data

As at September 26, 2006, the Company had 97,638,746 common shares issued and outstanding and 3,465,533 share options outstanding under its stock-based incentive plan. At the same date, the Company had 1,975,000 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, development and operation of mining properties, in particular 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.

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

The Company 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.

Outlook

With operations again running smoothly at Chirano and an aggressive exploration program underway on the Company’s other Ghanaian projects, the Company is poised for growth in 2006-2007. Studies are underway towards expanding production including a reassessment of resources and reserves at Chirano based upon more extensive drilling and consideration of the current market pricing of gold.

Recent exploration results at the Akwaaba deposit at Chirano show potential to deliver near term high grade underground ounces to the Chirano operation. These ounces could materially affect the economics of the mine and the mine life at Chirano. Consequently, the early potential development of underground production at Akwaaba is a high priority for the Company in the coming year.

An initial resource estimate for Akwaaba is underway and should be complete by the end of October 2006.

Exploration continues towards establishing a resource at the Company’s Enchi project located 80km south of Chirano. Enchi is a discovery by the Company’s exploration team on the Sefwi/Bibiani belt margin, which currently hosts AngloGold Ashanti’s +5 million ounce Bibiani Mine and the Company’s Chirano Mine.

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 RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all information in the Annual Report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, using management's best estimates and judgments based on currently available information. The Company maintains an appropriate system of internal controls to provide reasonable assurance that financial information is accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, comprising independent 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.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

"Richard Clark"



Richard Clark
President & Chief Executive Office

"Simon Jackson"



Simon Jackson
Chief Financial Officer

Vancouver, British Columbia
September 26, 2006

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, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of 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 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated September 23, 2005.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
September 26, 2006

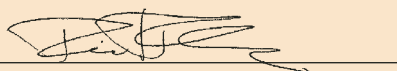
RED BACK MINING INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands of United States Dollars)

| | As at June 30, 2006 | As at June 30, 2005 |
|---|------------------------|------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 15,038 | \$ 6,578 |
| Accounts receivable | 7,176 | 1,014 |
| Inventories (Note 5) | 10,952 | 987 |
| Prepaid expenses | 437 | 417 |
| | 33,603 | 8,996 |
| Property, plant and equipment (Note 6) | 6,580 | 2,030 |
| Mineral properties and related expenditures (Note 7) | 99,388 | 84,730 |
| | \$ 139,571 | \$ 95,756 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 12,305 | \$ 12,065 |
| Current portion of loan payable (Note 8) | 14,000 | 3,800 |
| | 26,305 | 15,865 |
| Non Current Liabilities | | |
| Loans Payable (Note 8) | 15,200 | 29,200 |
| Asset Retirement Obligations (Note 9) | 6,007 | 5,608 |
| | 47,512 | 50,673 |
| Minority Interest (Note 2) | 571 | - |
| Share capital (Note 10) | | |
| Authorized - Unlimited common shares without par value | | |
| Issued and outstanding - | | |
| 97,580,946 (June 2005 – 69,393,034) common shares | 101,341 | 53,107 |
| Contributed Surplus and other (Note 10c) | 5,318 | 1,820 |
| Deficit | (15,171) | (9,844) |
| | 91,488 | 45,083 |
| | \$ 139,571 | \$ 95,756 |
| Note 11 Litigation | | |
| Note 15 Contingencies and Commitments | | |

Approved by the Board:

“Richard P. Clark”

“Lukas H. Lundin”



Director



Director

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(in Thousands of United States Dollars)

| | Year Ended June 30, 2006 | Year Ended June 30, 2005 |
|---|-------------------------------------|-------------------------------------|
| Gold Sales | \$ 38,742 | \$ - |
| Costs and expenses | | |
| Operating | 23,252 | - |
| Depreciation and amortization | 5,474 | - |
| Accretion of asset retirement obligation | 282 | - |
| Royalties | 1,414 | - |
| Profit from operations | 8,320 | - |
| Interest and bank charges | 2,080 | 37 |
| Depreciation | 50 | 389 |
| General and administrative | 3,601 | 2,884 |
| Stock based compensation (note 10b) | 2,915 | 182 |
| Foreign exchange loss (gain) | 121 | (21) |
| Interest income | (303) | (150) |
| Gain on disposal of investment | - | (86) |
| | 8,464 | 3,235 |
| Loss for year before the undernoted | (144) | (3,235) |
| Write-off of Farim Project (Note 7) | (4,612) | - |
| Minority Interest (Note 2) | (571) | - |
| Loss for the year | (5,327) | (3,235) |
| Deficit, beginning of the year | (9,844) | (6,609) |
| Deficit, end of the year | \$ (15,171) | \$ (9,844) |
| Basic and diluted loss per common share | (\$0.06) | (\$0.05) |
| Weighted average number of shares outstanding | 85,149,123 | 65,213,461 |

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Thousands of United States Dollars)

| | Year Ended June 30, 2006 | Year Ended June 30, 2005 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from(used in) operating activities | | |
| Loss for the year | (5,327) | (3,235) |
| Items not effecting cash | | |
| Minority Interest | 571 | - |
| Write-off of Farim project | 4,612 | - |
| Amortization and depreciation | 5,524 | 389 |
| Stock based compensation | 2,915 | 182 |
| Accretion of asset retirement obligation | 282 | |
| Gain on disposal of investments | - | (86) |
| | 8,577 | (2,750) |
| Net changes in non-cash working capital items | | |
| Accounts receivable and prepaid expenses | (6,182) | (1,304) |
| Inventories | (9,965) | (987) |
| Accounts payable and accrued liabilities | 240 | 9,941 |
| | (7,330) | 4,900 |
| Cash flows (used in) investing activities | | |
| Mineral properties and related expenditures | (23,660) | (53,917) |
| Purchase of property, plant & equipment | (5,232) | (2,082) |
| Proceeds from sale of investments | - | 153 |
| | (28,892) | (55,846) |
| Cash flows from financing activities | | |
| Common shares issued, net of cash issue costs | 48,482 | 9,396 |
| Proceeds from debt | 10,000 | 33,000 |
| Debt repayments | (13,800) | - |
| | 44,682 | 42,396 |
| Increase (decrease) in cash and cash equivalents | 8,460 | (8,550) |
| Cash and cash equivalents, beginning of the period | 6,578 | 15,128 |
| Cash and cash equivalents, end of the period | 15,038 | 6,578 |
| <u>Supplemental Schedule of Non-Cash Transactions:</u> | | |
| Debt settled on issuance of share capital | \$ - | \$ 292 |
| Shares issued for purchase of minority interest | \$ 335 | - |

See accompanying notes to consolidated financial statements

RED BACK MINING INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

(in Thousands of United States Dollars)

1. Nature of Operations and Basis of Presentation

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 Mine (“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, at no cost, 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.

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 7, the Company currently holds 100% of Chirano Gold Mines Limited (“CGML”), which owns the Chirano Gold Mine. Upon the Government of Ghana exercising its right to back-in to a 10% ownership of CGML, at no cost, the Company will hold a 90% interest in CGML with the Government of Ghana holding 10%.

Accordingly, the Company has recognized a minority interest of 10% in the retained earnings of CGML. The minority interest totaled \$0.6 million for the year ended June 30, 2006.

Prior to the quarter ended December 31, 2005, no minority interest had been recognized as CGML had been in a deficit position.

3. Significant Accounting Policies

(a) 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 100% owned Ghanaian company), Red Back Mining (Ghana) Limited (a 100% owned BVI company) and Champion Industrial Minerals Inc. (a 100% owned Barbados company). All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Foreign currencies

Monetary assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date, non-monetary assets 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 statement of loss.

(c) 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 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.

(d) 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.

(e) Mineral Properties and Related Expenditures

Whilst the Chirano Gold Mine is in production, 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.

(f) 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.

(g) Property Impairment Assessments

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.

(h) 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 contracts.

(i) 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 charging 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.

(j) Loss Per Share

Loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share will be 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.

(k) 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.

(l) Stock-Based Compensation

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. Stock-based compensation relating to options granted to non-employees is recorded as an expense and the credit recorded to contributed surplus at the earlier of completion of performance or vesting of the options granted, using a fair value based method.

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

(m) 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.

Significant areas where management's judgment is applied include: asset retirement obligations, future income tax balances, stock based compensation and asset impairment considerations.

(n) Asset Retirement Obligations

The Company follows the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. 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.

(o) 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.

(p) Comparative Figures

Certain comparative figures for the previous year have been restated to conform with the presentation adopted for the fiscal year 2006.

4. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and loans 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.

5. Inventories

| | June 30, 2006 | June 30, 2005 |
|------------------------|------------------|---------------|
| Stockpile ore | \$ 4,654 | \$ 958 |
| Gold in circuit | 2,179 | - |
| Materials and supplies | 4,119 | 29 |
| | <u>\$ 10,952</u> | <u>\$ 987</u> |

6. Property, Plant and Equipment

| | June 30, 2006 | | | June 30, 2005 | | |
|----------------------|-----------------|-----------------------------|-------------------|-----------------|-----------------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Plant & Equipment | \$ 5,968 | \$ 525 | \$ 5,443 | \$ 969 | \$ 243 | \$ 726 |
| Motor Vehicles | 1,705 | 634 | 1,071 | 1,472 | 244 | 1,228 |
| Buildings | 92 | 26 | 66 | 92 | 16 | 76 |
| | <u>\$ 7,765</u> | <u>\$ 1,185</u> | <u>\$ 6,580</u> | <u>\$ 2,533</u> | <u>\$ 503</u> | <u>\$ 2,030</u> |

7. Mineral Properties and Related Expenditures

| | Chirano Gold Mine (Ghana) | Other Projects (Ghana) | Farim Project (Guinea Bissau) | Total |
|--|------------------------------------|------------------------------|--|---------------|
| Balance, June 30, 2004 | \$ 19,788 | \$ 1,170 | \$ 3,940 | \$ 24,898 |
| Exploration and evaluation costs | 1,135 | 2,253 | 473 | 3,861 |
| Development expenditure | 46,819 | - | - | 46,819 |
| Capitalize net present value of asset retirement obligation (ii) | 5,608 | - | - | 5,608 |
| Capitalized interest expense (iii) | 562 | - | - | 562 |
| Deferred stripping costs (i) | 2,982 | - | - | 2,982 |
| Balance, June 30, 2005 | <u>76,894</u> | <u>3,423</u> | <u>4,413</u> | <u>84,730</u> |

| | Chirano Gold Mine (Ghana) | Other Projects (Ghana) | Farim Project (Guinea Bissau) | Total |
|--|------------------------------------|------------------------------|--|---------------|
| Exploration and evaluation costs | 4,233 | 3,512 | 199 | 7,944 |
| Capitalize net present value of asset retirement obligation (ii) | 117 | - | - | 117 |
| Capitalized interest expense (iii) | 596 | - | - | 596 |
| Development expenditure | 12,875 | - | - | 12,875 |
| Pre-production revenue | (490) | - | - | (490) |
| Deferred stripping costs (i) | 2,460 | - | - | 2,460 |
| Shares issued to acquire minority interest | 335 | - | - | 335 |
| Cash for minority interest | 275 | - | - | 275 |
| Write-off of Farim Project | - | - | (4,612) | (4,612) |
| Amortization | (4,842) | - | - | (4,842) |
| Balance, June 30, 2006 | 92,453 | 6,935 | - | 99,388 |

- (i) Included in Mine Development and Exploration for the Chirano Gold Mine is deferred stripping costs in the amount of \$5,442 (June 30 2005 - \$2,982).
- (ii) Included in Mine Development and Exploration for the Chirano Gold Mine is the capitalized net present value of the asset retirement obligation in the amount of \$5,725 (June 30, 2005 - \$5,608).
- (iii) Included Mine Development and Exploration for the Chirano Gold Mine is interest capitalized on loans payable during the construction phase of \$1,158 (Note 8) (June 30 2005 - \$562).

Chirano Gold Mine, Ghana

The Chirano Gold Mine comprises one mining lease and one prospecting license held through the Company's 100% subsidiary, Chirano Gold Mines Limited ("CGML"). Upon the Government of Ghana exercising its right to back-in to a 10% ownership of CGML, at no cost, the Company will hold a 90% interest in CGML 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 has historically owned a 100% interest in four Mining Leases in Guinea Bissau, West Africa covering a total area of 30,625 hectares, which comprise the Farim property.

The Mining Leases have a term of twenty-five years. In July 2006, the Government of Guinea Bissau purported to cancel certain contracts with the Company which preceded the issuance of the Mining Leases. The Company believes the mining leases remain in good standing although the Company's title to those leases is uncertain given the Government's recent attempts at expropriation. In view of the current situation, all carried forward expenditure relating to Farim has been written off in the year ended June 30, 2006. The litigation referred to in Note 11 is unaffected by the these events.

8. Loans Payable

Details are as follows:

| | June 30, 2006 | June 30, 2005 |
|-----------------|------------------|------------------|
| Loans payable | \$ 29,200 | \$ 33,000 |
| Current portion | (14,000) | (3,800) |
| | <u>15,200</u> | <u>\$ 29,200</u> |

On September 7, 2004, the Company accepted a credit approved offer from Macquarie Bank Limited ("Macquarie") for financing facilities totaling US\$43 million (comprising a US\$33 million corporate facility and a US\$10 million standby facility) for the Chirano Gold Mine in Ghana. The facilities are secured by charges on the shares of the chain of corporations ultimately holding title to the Chirano Gold Mine and parent company guarantees. Interest, which is capitalized prior to commercial production, is payable at LIBOR plus 2.75%.

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 subsequently rolled into a flat forward hedging structure with 400,000 ounces sold forward at US\$440.30 per ounce. This structure satisfies the entire price protection requirement of the loan facilities. As at June 30, 2006 deliveries of gold into the flat forward contracts has totaled 52,000 ounces.

As at June 30, 2006, the Company had drawn down the US\$33 million corporate loan facility and the \$10 million standby facility. The standby facility has been retired and \$3.8 million of the corporate loan facility has been repaid. The total outstanding principal of the corporate facility at June 30, 2006 is \$29.2 million. Interest totaling \$3.0 million has been paid or accrued to June 30, 2006. This includes interest totaling \$1.1 million which was capitalized as part of the Mine Development and Exploration for the Chirano Gold Mine (Note 7).

Scheduled principal payments on the loan payable are as follows:

| Year Ended June 30 | Amount |
|-----------------------|------------------|
| 2007 | \$ 14,000 |
| 2008 | 15,200 |
| | <u>\$ 29,200</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 asset retirement obligation is based on an environmental study that was completed by an independent consultant in 2003. The estimated obligation at the time of assessment was \$5.1 million. During 2006 the Company's review of forecasted inflation rates and discount rates resulted in a \$0.1 million increase to the future estimated cash flows for the asset retirement obligation. The accretion on this obligation in 2006 was \$0.3 million (2005 \$nil).

A summary of the Company's provision for asset retirement obligation is as follows:

| | |
|---|-----------------|
| Balance, June 30, 2004 | \$ - |
| Fair value of asset retirement obligation | <u>5,608</u> |
| Balance, June 30, 2005 | 5,608 |
| Change in estimate | 117 |
| Accretion expense | <u>282</u> |
| Balance, June 30, 2006 | <u>\$ 6,007</u> |

The Company has calculated the fair value of the asset retirement obligation using a discount rate of 7.8% and an inflation rate of 13%.

10. Share Capital

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

Authorized:

Unlimited common shares without par value

Shares Issued and Outstanding:

| | Number of Shares | Amount |
|--|---------------------|------------|
| Balance, June 30, 2004 | 62,253,882 | \$ 43,398 |
| Issued on settlement of debt | 184,176 | 292 |
| Issued on private placement (i) | 5,789,474 | 8,606 |
| Issued on exercise of options and warrants | 1,165,502 | 790 |
| Fair value of options exercised (iv) | - | 21 |
| Balance, June 30, 2005 | 69,393,034 | 53,107 |
| Issued on private placement (i) | 7,000,000 | 8,409 |
| Issued on exercise of warrants (ii) | 20,374,696 | 37,717 |
| Issued as consideration for CGML minority interest (iii) | 178,883 | 335 |
| Issued on exercise of options | 634,333 | 1,044 |
| Fair value of options exercised (iv) | - | 729 |
| Balance, June 30, 2006 | 97,580,946 | \$ 101,341 |

- (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\$11.9 million. These proceeds have been allocated to both common shares (US\$8,409) and warrants (US\$1,312) (refer note 10(c)). On December 16, 2004, the Company issued, by private placement, 5,789,474 common shares at C\$1.90 per unit for gross proceeds of C\$11.0 million (US\$8,606).
- (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.

20,374,696 warrants were exercised at prices from \$2.00 - \$2.25 in the year ended June 30, 2006 of which 9,743,333 were exercised in response to the reduced exercise price.

- (iii) On November 9, 2005, the Company announced that it had successfully negotiated the purchase of a 5% minority interest in the Chirano Gold Mine held by a private third party. The consideration for the purchase was \$275,000 plus the issuance of 178,883 fully paid common shares in the capital of the Company, subject to regulatory approval. Regulatory approval was gained on August 2, 2006.

Following the acquisition of this 5% interest and 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 the Chirano Gold Mine with the Government of Ghana holding 10%.

- (iv) The fair value of options issued has been recorded in contributed surplus, as detailed in Note 10(c). Upon exercise of options the pro-rata fair value is recognized in share capital and the contributed surplus is reduced accordingly.

- (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 issued and outstanding share capital of the Company as at April 14, 2004. 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 vesting of options is at the discretion of the Board.

Incentive stock options outstanding at June 30, 2006 are outlined in the table below:

| Expiry Date | Exercise Price (C\$) | Balance June 30 2004 | Granted / (exercised) | Balance June 30 2005 | Granted / (exercised) | Balance June 30 2006 |
|-------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| 23 November 2004 | \$0.72 | 936,668 | (936,668) | - | - | - (i) |
| 9 March 2005 | \$1.41 | 6,667 | (6,667) | - | - | - |
| 15 May 2005 | \$1.35 | 71,499 | (71,499) | - | - | - |
| 2 October 2005 | \$0.57 | 25,000 | - | 25,000 | (25,000) | - (i) |
| 22 October 2005 | \$1.46 | 133,333 | (44,000) | 89,333 | (89,333) | - (i) |
| 11 December 2005 | \$1.35 | 10,000 | - | 10,000 | (10,000) | - |
| 2 June 2007 | \$2.00 | 2,065,000 | (350,000) | 1,715,000 | (450,000) | 1,265,000 |
| 23 November 2007 | \$2.00 | - | 160,000 | 160,000 | (10,000) | 150,000 (ii) |
| 25 November 2007 | \$1.46 | 83,333 | - | 83,333 | - | 83,333 (i) |
| 12 January 2008 | \$2.00 | - | 75,000 | 75,000 | - | 75,000 (ii) |
| 7 August 2008 | \$2.00 | - | - | - | 200,000 | 200,000 (ii) |
| 29 September 2008 | \$2.10 | - | - | - | 400,000 | 400,000 (ii) |
| 13 December 2008 | \$2.30 | - | - | - | 100,000 | 100,000 (ii) |
| 14 February 2009 | \$2.67 | - | - | - | 1,000,000 | 1,000,000 (ii) |
| 4 May 2009 | \$3.95 | - | - | - | 150,000 | 150,000 (ii) |
| 12 June 2009 | \$3.95 | - | - | - | 50,000 | 50,000 (ii) |
| | | <u>3,331,500</u> | <u>(1,173,834)</u> | <u>2,157,666</u> | <u>1,315,667</u> | <u>3,473,333</u> |

The weighted average exercise price of outstanding options as at June 30, 2006 is C\$2.31

- (i) Options are as a result of the merger with Red Back Mining NL.
- (ii) The fair value of options granted during the years ended June 30, 2006 and 2005, has been estimated using an option-pricing model.

During the year, the Company issued to directors, officers, and employees a total of 1,950,000 options with exercise prices ranging from \$2.00 to \$3.95 per option. The fair value of stock option compensation is \$2,915 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, 2004 | \$ 1,659 |
| Fair value of stock-based compensation (Note 10b) | 182 |
| Fair value of options exercised (Note 10a) | <u>(21)</u> |
| Balance – June 30, 2005 | 1,820 |
| Fair value of stock-based compensation (Note 10b) | 2,915 |
| Fair value of warrants issued (Note 10a) | 1,312 |
| Fair value of options exercised (Note 10a) | <u>(729)</u> |
| Balance – June 30, 2006 | <u>\$ 5,318</u> |

(d) As at June 30, 2006, the following non-transferable share purchase warrants were outstanding:

| Expiry Date | Exercise Price (C\$) | Balance June 30 2004 | Granted / (exercised) | Balance June 30 2005 | Granted / (exercised) | Balance June 30 2006 |
|------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| 8 May 2004 | \$1.50 | 138,333 | (138,333) | - | - | - |
| 4 December 2005 | \$2.25 | 1,999,999 | - | 1,999,999 | (1,999,999) | - |
| 9 June 2006 | \$2.25 | 12,500,000 | - | 12,500,000 | (12,500,000) | - |
| 13 December 2007 | \$2.25 | - | 1,000,000 | 1,000,000 | (1,000,000) | - |
| 26 July 2007 | \$2.00 | - | - | - | 1,975,000 | 1,975,000 |
| | | <u>14,638,332</u> | <u>861,667</u> | <u>15,499,999</u> | <u>(13,524,999)</u> | <u>1,975,000</u> |

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 four 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 by the Company 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 commenced an action in the Supreme Court of British Columbia against Geysler and later joined Geysler’s affiliated company Oswal Chemicals and Fertilizers Ltd (“Oswal”). The Company is seeking damages from Geysler for its failure to fulfill its obligations under the Purchase Agreement and is pursuing this matter vigorously.

Recently the Company was successful in obtaining default judgment against both Geysler and Oswal. Damages are expected to be assessed in the Supreme Court of British Columbia in October 2006.

12. Related Party Transactions

Transactions for each of the years ended June 30, 2006 and June 30, 2005 respectively and year end balances with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) Paid \$801,296 (2005: \$202,379) for management services (including a \$564,335 bonus upon the successful commissioning of the Chirano Gold Mine) provided by a company related to the President of the Company. At June 30, 2006, \$nil was due to this company.
- (b) Paid \$82,551 (2005: \$90,754) to a firm related to a director for legal services. At June 30, 2006, \$9,616 was due to this firm.
- (c) Paid \$64,597 (2005: \$113,755) to a company controlled by a director for management services. At June 30, 2006, \$nil was due to this company.

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 June 30, 2006 are as follows:

| | June 30, 2006 | June 30, 2005 |
|---|------------------|------------------|
| Non-capital loss carry-forwards – Canada – 34.12% | \$ 2,243 | \$ 1,423 |
| Non-capital loss carry-forwards – Ghana – 25.0% | 188 | 168 |
| Resource property expenditures – Canada – 34.12% | 1,424 | 1,569 |
| Resource property expenditures – Ghana – 25.0% | 18,454 | 19,720 |
| Property, plant and equipment - Canada – 34.12% | 53 | 83 |
| Property, plant and equipment - Ghana – 25.0% | 1,905 | 657 |
| Share issuance costs – Canada – 34.12% | 367 | - |
| | <u>24,634</u> | <u>23,620</u> |
| Valuation allowance | (24,634) | (23,620) |
| | <u>\$ -</u> | <u>\$ -</u> |

- (b) The Company has tax loss carry-forwards of approximately C\$7.7 million (2005 - C\$5.1 million) 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 |
| 2007 | | 426 |
| 2008 | | 366 |
| 2009 | | 172 |
| 2014 | | 429 |
| 2015 | | 2,358 |
| 2026 | | 3,174 |
| | C\$ | 7,748 |

- (c) The Company has tax loss carry-forwards of approximately \$0.8 million (2005 - \$0.6 million) 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 |
|------|----|--------|
| 2009 | \$ | 8 |
| 2010 | | 310 |
| 2011 | | 442 |
| | \$ | 760 |

- (d) The Company has incurred approximately C\$4.4 million (2005 - C\$4.4 million) 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 \$91.0 million (2005 - \$70.4 million) 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 operates only in the gold sector in Ghana. Currently, revenues are earned exclusively at the Company's Chirano Gold Mine.

15. Contingencies and Commitments

- (a) The Company has signed a number of contracts relating to operations of the Chirano Gold Mine in Ghana. Under the most material contract, the Company will have to pay a penalty of \$3,500,000, \$2,000,000 or \$1,000,000 if the contract is cancelled prior to November 2006, 2007 or 2008 respectively of the contract.
- (b) As detailed in Note 8, The Company has entered into a flat forward hedging structure with 400,000 ounces sold forward at US\$440.30 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 June 30, 2006 the remaining commitment totaled 348,000 ounces.

16. Subsequent Events

Subsequent to year end the Company has issued 57,800 common shares upon exercise of options with expiry date of 29 September 2008. Total proceeds from the exercise of these options was C\$121,380.

RED BACK MINING INC. CORPORATE DIRECTORY

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Lukas Lundin,
Chairman of the Board
Simon Jackson,
Chief Financial Officer
Kathy Love,
Corporate Secretary

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Lukas Lundin
Compensation Committee
Michael Hunt
Corporate Governance and Nominating
Committee
Compensation Committee
Harry Michael
Audit Committee
Robert Chase
Audit Committee
Corporate Governance and Nominating
Committee
Brian Edgar
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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



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