



AND CONTROLLED ENTITIES

ABN 99 124 734 961

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2011**

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These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for ended 30 June 2011 and any public announcements made by Red Emperor Resources NL during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Your directors present their report on the consolidated entity of Red Emperor Resources NL and the entities it controlled at the end of, or during, the half year ended 31 December 2011.

Directors

The persons who were directors of Red Emperor Resources NL during the half year and up to the date of this report are:

Mr Greg Bandy (Executive Director)
Mr Jason Bontempo (Non Executive Director)
Mr Stephen Brockhurst (Non Executive Director)

Review of Operations for the Half Year ended 31 December 2011

The Consolidated Statement of Comprehensive Income shows a consolidated net loss for the half year ended 31 December 2011 to members of (\$2,907,696) (2010: net loss of \$892,063).

Puntland Project

During the period the operator of the Puntland onshore licenses, Horn Petroleum Corp. (TSV: HRN) ("Horn") completed all of the sourcing of drilling related materials with the majority of materials arriving on site. Site preparation, including the drill site, air strip, ingress route construction and water wells were completed in readiness for the spudding of the historic first exploration well (of two planned), Shabeel-1 well on the Dharoor Block in Puntland.

The Sakson 501 rig will be used to drill both exploration wells which are expected to take approximately 90 days each for drilling and evaluation and are the first oil exploration well in the region to be drilled in over 20 years. Red Emperor has an option, but not an obligation to participate in the second well.

The Shabeel and Shabeel North prospects are located on a Jurassic aged rift system, which is part of the same system that has proven to be highly productive in the Masila and Shabwa Basins in Yemen. These basins contain an estimated 6 billion barrels of oil. Both Shabeel and Shabeel North are very large fault block prospects with internal most likely estimates of potential oil volumes of over 300 million barrels of recoverable oil. Source rocks are expected to be rich Jurassic Kimmeridgian shales in the deep portion of the rift immediately down dip from the Shabeel prospects. Reservoirs are expected to be sandstones and carbonates of the Lower Cretaceous and Jurassic systems analogous to Yemen.

Georgian Project

During the period, the Company, along with its joint venture partners, successfully spudded the first exploration well – Mukhiani 1, on the Vani 3 Prospect on Block VIa with a planned target depth of circa 3,500m. The Mukhiani Well reached a total depth of circa 1,550m, and following the analysis of the re-interpretation of the seismic supported by the Mukhiani-1 Vertical Seismic Profiling ("VSP"), results indicated that the well encountered previously unrecognised faults that led to possible basement being encountered far earlier than predicted.

New fault trap and stratigraphic trapping potential were also identified in the vicinity of the well and based on these findings; the joint venture has the option to side-track and test these targets. However, the Company and its partners decided that, based on its exploration schedule and the availability of the drilling rig, that it would continue onto the next proposed Kursebi well with site. Severe weather that has been experienced in Georgia over recent weeks which has delayed the anticipated spudding of the second Georgian well into April 2012.

Review of Operations for the Half Year ended 31 December 2011 (cont)

Also during the period, new independent technical consultants were engaged, NTD Energy, to provide overall technical support with respect to the Georgian operations which include:

- Providing a fresh review of all of the seismic and geological data across the top 3 Kursebi prospects previously identified, as well as across the whole license areas;
- Assisting in the management and supervision of the Company's drilling program for the Namakhavani well on the Kursebi 6 prospect; and
- Assisting in the promotion and development of the unconventional (shale / CBM) plays that may exist across the two license areas.

Jillewarra Project

During the period the Company was advised by its joint venture partner, Cazaly Resources, that Maxtrix Metals had not exercised their option to proceed with drilling on the Jillewarra Project. As a result of the obligation to spend money on the project reverting back to Red Emperor, the Company decided to relinquish its rights and as a result all obligations with respect to the Jillewarra Project.

Corporate

During the period, the Company sought shareholder approval at a general meeting in respect of its change of activity to a natural resources explorer and re-compliance with the ASX Listing Rules. As part of the re-compliance, the Company raised a further \$1 million by issue of 2,857,142 shares at an issue price of A\$0.35 pursuant to a prospectus. The Company also issued a total of 9,226,162 options to directors, management and advisors, and completed the second tranche of an earlier placement raising of \$400,000 by the issue of 2,000,000 shares at an issue price of A\$0.20.

During December 2011 the Company completed a placement raising approximately \$6.32 million by issue of 37,178,123 shares at an issue price of £0.11 (A\$0.17) to sophisticated investors in Australia and the UK. As part of the placement, the Company issued 2,331,596 unlisted options exercisable at £0.11 and A\$0.17 respectively by 31 December 2014 to advisors assisting with the capital raising.

Subsequent Events

Subsequent to period end the Company, along with its joint venture partners, successfully spudded the historic Shabeel-1 well on the Dharoor Block in Puntland which has a total planned maximum depth of 3,800 meters. Drilling operations also commenced on the Shabeel North-1 well with the setting of the 30 inch surface casing and the drilling of a 50 meter pilot hole. The Company has an option over the second well where a decision to participate will be made following consideration of the drilling results of the first well.

The Sakson 501 rig is being used to drill both wells which are expected to take approximately 90 days each for drilling and evaluation. These two wells represent the first exploration wells to be drilled in the country in over 20 years and will satisfy the first exploration period drilling commitments as required under the Production Sharing Contracts for both the Dharoor and Nugaal Blocks. In order to provide sufficient time to evaluate drilling results, the Puntland Government has granted an extension of the first exploration period expiry date to 17 October 2012.

As released to ASX on 8 March 2012, *"the Shabeel-1 well continues drilling ahead on the Dharoor Block in Puntland, Somalia and is currently at a depth of 2002 meters. The upper 1600 meters of section drilled to date includes a thick section of Tertiary limestones and shales that appear to be a regional seal as no oil or gas shows were encountered above this depth. The well is currently drilling a 400 meter section composed of interbedded sandstones and shales believed to be Upper Cretaceous in age. Most of the sandstone intervals in this section have exhibited oil and gas shows confirming the existence of a working petroleum system. Determination of the*

Subsequent Events (Cont)

quality of the reservoir and prospectivity of any potential oil bearing intervals cannot be determined until downhole electric logs and formation tests are concluded.”

Subsequent to the period end, the Company has announced details of a 2 tranche capital raising to raise approximately £8.2 million by way of issue of 45,472,204 Shares at an issue price of £0.18 (A\$0.265). In March 2012 the Company completed the first tranche and issued 16,194,013 shares. It is anticipated that the tranche 2 shares and oversubscription shares will settle following shareholder approval at a meeting to be held on 28 March 2012.

Auditors Independence Declaration

The Auditor's Independence Declaration on page 4 forms part of the Director's Report for the half year ended 31 December 2011.

This relates to the audit report, where they state that they have issued an independence declaration.

This report is signed in accordance with a resolution of the Board of Directors.



Greg Bandy
Executive Director
Perth, Western Australia, 15 March 2012

15 March 2012

Board of Directors
Red Emperor Resources NL
1 Havelock Street
WEST PERTH WA 6005

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE BOARD OF DIRECTORS OF RED
EMPEROR RESOURCES NL**

As lead auditor for the review of Red Emperor Resources NL for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Red Emperor Resources NL and the entities it controlled during the period.



Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Consolidated Statement of Comprehensive Income

	Note	Half Year 2011 \$	Half Year 2010 \$
Revenue from continuing operations			
Profit on sale of shares		-	3,441
Interest income		85,761	9,769
Administration expenses		(319,454)	(182,829)
Compliance and regulatory expenses		(237,873)	(18,588)
Consultancy costs		-	(16,667)
Director fees		(174,400)	(83,189)
Occupancy expense		-	(4,000)
Corporate advisory		(40,000)	(600,000)
Share based payments expense	4	(1,040,198)	-
Impairment of exploration expenditure	5	(774,026)	-
Loss of associate	6	(629,620)	-
Forex gain/(loss)		222,114	-
Loss before income tax expense		(2,907,696)	(892,063)
Income tax expense		-	-
Loss for the half year attributable to owners of the company		(2,907,696)	(892,063)
Exchange difference on translation of foreign operations		438,746	-
Other comprehensive income		438,746	-
Total comprehensive income for the half year attributable to owners of the company		(2,468,950)	(892,063)
Basic loss per share (cents per share)		(0.162)	(0.011)
Diluted loss per share (cents per share)		N/A	N/A

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	31 December 2011 \$	30 June 2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents		4,680,656	7,942,356
Trade and other receivables		3,572,564	2,816,113
Total Current Assets		8,253,220	10,758,469
Non-Current Assets			
Property, plant and equipment		19,997	-
Financial assets at fair value through profit and loss		400	400
Investment accounted for using the equity method	6	4,540,314	3,208,487
Exploration and evaluation expenditure	5	7,794,763	1,950,369
Total Non-current Assets		12,355,474	5,159,256
TOTAL ASSETS		20,608,694	15,917,725
LIABILITIES			
Current Liabilities			
Trade and other payables		141,062	596,964
Derivative financial liability	10	177,666	-
Total Current Liabilities		318,728	596,964
TOTAL LIABILITIES		318,728	596,964
NET ASSETS		20,289,966	15,320,761
EQUITY			
Issued Capital	4	28,812,151	21,976,015
Accumulated losses		(9,557,368)	(6,649,673)
Reserves		1,035,183	(5,581)
TOTAL EQUITY		20,289,966	15,320,761

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital Ordinary	Accumulated losses	Forex Translation Reserve	Option Reserves	Financial Asset Reserve	Total
	\$	\$		\$	\$	\$
As at 1 July 2010	5,299,019	(3,879,914)	-	-	25,580	1,444,685
Loss for the period	-	(892,063)	-	-	-	(892,063)
Total Comprehensive loss for the period	-	(892,063)	-	-	-	(892,063)
Transactions with their owners in their capacity as owners:						
Securities issued during the period	4,240,000	-	-	-	-	4,240,000
Transaction costs	(720,732)	-	-	-	-	(720,732)
Subtotal	8,818,287	-	-	-	25,580	4,071,890
As at 31 December 2010	8,818,287	-	-	-	25,580	4,071,890
As at 1 July 2011	21,976,015	(6,649,673)	(31,161)	-	25,580	15,320,761
Loss for the period	-	(2,907,696)	-	-	-	(2,907,696)
Comprehensive income for the period	-	-	438,746	-	-	438,746
Total Comprehensive loss for the period	-	(2,907,696)	438,746	-	-	(2,468,950)
Transactions with their owners in their capacity as owners:						
Shares issued during the period	7,735,101	-	-	-	-	7,735,101
Transaction costs	(898,965)	-	-	-	-	(898,965)
Options issued during the period	-	-	-	602,018	-	602,018
Subtotal	28,812,151	(2,907,696)	407,585	602,018	25,580	20,289,966
As at 31 December 2011	28,812,151	(9,557,368)	407,585	602,018	25,580	20,289,966

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cashflows

Note	31 December 2011 \$	31 December 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees (inclusive of GST)	(763,524)	(576,476)
Finance and interest costs	(541)	(3,793)
Interest received	85,761	9,769
Net cash provided by (used in) operating activities	(678,304)	(570,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation	(8,579,867)	(8,264)
Payment for purchase PP&E	(19,997)	
Payments for other financial assets at fair value through profit or loss	-	(9,349)
Proceeds from disposal of financial assets through profit or loss	-	332,185
Payments for asset acquisition	-	(2,206,775)
Net cash provided by (used in) investing activities	(8,599,864)	(1,892,203)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	6,512,224	2,800,000
Payments for share issue costs	(530,756)	(180,732)
Proceeds from repayment of loan	35,000	-
Net cash provided by (used in) financing activities	6,016,468	2,619,268
Net increase/(decrease) in cash held	(3,261,700)	156,565
Cash and cash equivalents at the beginning of the half-year	7,942,356	60,001
Cash and cash equivalents at end of half-year	4,680,656	216,566

The above consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2011 has been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Red Emperor Resources NL. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial report of the Group for the year ended 30 June 2011, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial report except for the adoption of the following new and revised Accounting Standards.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Dividends

No dividends were paid or declared during the period.

2. Segment Information

The Group operates in one industry, oil and gas exploration however due to the differing geographical areas and functional currencies the financial information has been broken down into four operating segments being Australian exploration, Georgian exploration, Puntland exploration and treasury.

Basis of accounting for purposes of reporting by operating segments

Notes to the Financial Statements (Cont)

2. Segment Information (cont'd)

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

Inter-segment transactions

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- head office and other administration expenditure.

Notes to the Financial Statements

Note 2 – Segment Note

Segment Performance

	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
Six months ended 31 December 2011					
Revenue					
Interest revenue	-	-	-	85,761	85,761
Total segment revenue	-	-	-	85,761	85,761
Total group revenue	-	-	-	85,761	85,761
Segment net loss before tax	(774,026)	(629,620)	-	85,761	(1,317,885)

Reconciliation of segment result to group net profit/(loss) before tax

Amounts not included in segment result but reviewed by the board:

- share based payments expense					(1,040,198)
Unallocated items:					
Forex gain					222,114
Employee and director benefits expense					(174,400)
Other					(597,327)
Net loss before tax from continuing operations					(2,907,696)

Notes to the Financial Statements (Cont)

Note 2 – Segment Note (cont'd)

Segment Performance (cont)

Six months ended 31 December 2010	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
Revenue					
Interest revenue	-	-	-	9,769	9,769
Total segment revenue	-	-	-	9,769	9,769
Total group revenue	-	-	-	9,769	9,769
Segment net profit before tax	-	-	-	13,210	13,210
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>					
Unallocated items:					
Capital raising expense					(600,000)
Employee and director benefits expense					(83,189)
Other					(222,084)
Net loss before tax from continuing operations					(892,063)

Notes to the Financial Statements (Cont)

Note 2 – Segment Note (cont'd)

Segment Assets

	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
31 December 2011					
Segment assets	-	4,540,314	7,794,763	20,397	12,355,474
<i>Segment assets increases/ (decreases) for the year:</i>					
- capital expenditure	-	-	7,794,763	-	7,794,763
- financial assets at fair value through profit and loss	-	-	-	400	400
- Property plant and equipment	-	-	-	19,997	19,997
- investment accounted for using equity method	-	4,540,314	-	-	4,540,314
<i>Reconciliation of segment assets to group assets</i>					
	-	4,540,314	7,794,763	20,397	12,355,474
Unallocated items:					
Cash and cash equivalents					4,680,656
Trade and other receivables					3,572,564
Total group assets from continuing operations					20,608,694
	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
30 June 2011					
Segment assets		3,208,487	1,950,369	400	5,159,256
<i>Segment assets increases/ (decreases) for the year:</i>					
- capital expenditure	-	3,208,487	1,950,369	-	5,158,856
- financial assets at fair value through profit and loss	-	-	-	400	400
- investment accounted for using equity method	-	-	-	-	-
<i>Reconciliation of segment assets to group assets</i>					
	-	3,208,487	1,905,369	400	5,159,256
Unallocated items:					
Cash and cash equivalents					7,942,356
Trade and other receivables					2,816,113
Total group assets from continuing operations					15,917,725

Notes to the Financial Statements (Cont)

Note 2– Segment Note (cont'd)

Segment Liabilities

	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
31 December 2011					
Segment liabilities	-	-	-	-	-
<i>Reconciliation of segment liabilities to group assets</i>					
Unallocated items:					
Trade and other payables					141,062
Derivative financial liability					177,666
Total group liabilities from continuing operations					318,728
	Australian Exploration & Evaluation \$	Georgian Exploration & Evaluation \$	Puntland Exploration & Evaluation \$	Treasury \$	Total \$
30 June 2011					
Segment liabilities	-	-	-	-	-
<i>Reconciliation of segment liabilities to group assets</i>					
Unallocated items:					
Trade and other payables					596,964
Total group liabilities from continuing operations					596,964

Notes to the Financial Statements (Cont)

Note 3 – Issued Capital

	Note	2011 Number	2010 Number	2011 \$	2010 \$
Ordinary shares- fully paid		189,651,379	31,505,003	28,811,401	5,298,269
Ordinary shares- partly paid (<i>paid \$0.0001, \$0.2499 unpaid</i>)		7,500,000	7,500,000	750	750
Total consolidated contributed equity		197,151,379	39,005,003	28,812,151	5,299,019

(a) The share capital of the Company as at 31 December 2011 was Group 189,651,379 ordinary shares.

	2011 Number	2010 Number
<i>Ordinary Shares – party paid (paid \$0.0001, \$0.2499 unpaid)</i>		
At the beginning of the reporting period	7,500,000	7,500,000
Shares issued during the year	-	-
At reporting date	7,500,000	7,500,000

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Movement in share capital.

Date	Details	No. of Shares	Issue Price	\$
30/06/2011	Total	147,616,114	-	21,975,265
15/07/2011	Shares issued pursuant to a placement	2,000,000	\$0.20	400,000
15/07/2011	Shares issued pursuant to a re-compliance prospectus	2,857,142	\$0.35	1,000,000
23/12/2011	Shares issued pursuant to a placement	37,178,123	\$0.17	6,335,101
	Share issue costs			(898,965)
31/12/2011	Total	189,651,379	-	28,811,401

Notes to the Financial Statements (Cont)

Note 4 – Share Based Payments

During the half year the following share based payments were issued;

Date	Details	Expiry Date	Exercise Price	Number under Option
15/07/2011	Unlisted Options	30 June 2013	\$0.30	7,750,000
15/07/2011	Unlisted Options	12 July 2013	\$0.30	1,476,162
30/12/2011	Unlisted Options	30 December 2014	\$0.17	594,324
31/12/2011	Total	-	-	9,820,486

Fair value of share options and assumptions- Director and Consultant Options

The fair value of options granted during the period ended 31 December 2011 was \$0.05. The fair value of service received in return for share options granted is measured by reference to the fair value of the options granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. This life of the options and early exercise option are built into the option model.

The assumptions used for the options valuation granted during the period are as follows:

Exercise price	\$0.30
Expiry date	30/06/2013
Share price at grant date	\$0.20
Expected volatility	100%
Dividend yield	Nil
Risk free interest rate	4.42%
Option value	\$0.05

A total of 7,750,000 options were issued as consideration for director and consultant services and the sum of \$411,475 expensed to the statement of comprehensive income.

Options vesting from prior periods totalling \$628,723 was expensed to the statement of comprehensive income.

Notes to the Financial Statements (Cont)

Note 4 – Share Based Payments (cont)

Fair value of share options and assumptions- Nomad Options

The fair value of options granted during the period ended 31 December 2011 was \$0.05. The fair value of service received in return for share options granted is measured by reference to the fair value of the options granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. This life of the options and early exercise option are built into the option model.

The assumptions used for the options valuation granted during the period are as follows:

Exercise price	\$0.40
Expiry date	22/07/2013
Share price at grant date	\$0.40
Expected volatility	100%
Dividend yield	Nil
Risk free interest rate	4.42%
Option value	\$0.08

A total of 1,476,162 options were issued as consideration for facilitating the AIM listing process and the sum of \$111,646 has been taken to account as a cost of that share issue.

Fair value of share options and assumptions- Broker Options

The fair value of options granted during the period ended 31 December 2011 was \$0.05. The fair value of service received in return for share options granted is measured by reference to the fair value of the options granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. This life of the options and early exercise option are built into the option model.

The assumptions used for the options valuation granted during the period are as follows:

Exercise price	\$0.17
Expiry date	22/12/2014
Share price at grant date	\$0.20
Expected volatility	100%
Dividend yield	Nil
Risk free interest rate	3.14%
Option value	\$0.13

A total of 594,324 options were issued as consideration for facilitating a placement of new shares and the sum of \$78,897 has been taken to account as a cost of that share issue.

Notes to the Financial Statements (Cont)

Note 5 – Exploration and evaluation expenditure

	31 Dec 2011	30 June 2011
	\$	\$
Exploration and evaluation expenditure		
Opening Balance	1,950,369	768,120
Exploration and evaluation expenditure capitalised during the year	6,618,420	1,182,249
Exploration expenditure written off	(774,026)	-
	7,794,763	1,950,369

Note 6 – Investments accounted for using equity method

	31 Dec 2011	30 June 2011
	\$	\$
Shares in associates	4,540,314	3,208,487
	4,540,314	3,208,487

a) Movements in investments

	31 Dec 2011	30 June 2011
	\$	\$
Carrying amount at the beginning of the financial year	3,208,487	-
Cost of investment, net of transaction costs	1,961,447	3,397,511
Share of loss after income tax	(629,620)	(189,024)
Carrying amount at the end of the financial year	4,540,314	3,208,487

Notes to the Financial Statements (Cont)

Note 7 –Reserves

	2011	2010
	\$	\$
(a) Reserves		
Foreign translation reserve	407,585	(31,161)
Share based payment reserve	602,018	-
Financial asset reserve	25,580	25,580
	1,035,183	(5,581)

Movements

Foreign translation reserve

Balance at 30 June 2011	(31,161)	-
Foreign translation difference on consolidation	438,746	(31,161)
Balance at 31 December 2011	407,585	(31,161)

Financial asset reserve

Balance at 30 June 2011	25,580	-
Movement	-	-
Balance at 31 December 2011	25,580	25,580

Share based payment reserve

Balance at 30 June 2011	-	-
Options issued	602,018	-
Balance at 31 December 2011	602,018	-

Note 8 Related Party Disclosures

Of the options issued in Note 5;

Greg Bandy, Executive Director was issued 3,000,000 exercisable at \$0.30 on or before 30 June 2012.

Jason Bontempo, Non-Executive Director was issued 1,000,000 exercisable at \$0.30 on or before 30 June 2012.

Stephen Brockhurst, Non-Executive Director was issued 500,000 exercisable at \$0.30 on or before 30 June 2012.

Shannon Robinson, Company Secretary was issued 250,000 exercisable at \$0.30 on or before 30 June 2012.

In July 2011 the board resolved to increase Greg Bandy, Executive Director's salary from \$120,000 to \$180,000 per annum.

Notes to the Financial Statements (Cont)

Note 9 Commitment and Contingent Liabilities

The Directors are not aware of any contingent liabilities as at 31 December 2011. There has been no change in contingent liabilities since the last annual reporting date.

Note 10 Derivative Financial Liability

On 30 December 2011 the Company issued 1,636,363 warrants as payment for capital raising services. The warrants had the following terms, exercisable at £0.11 on or before 30 December 2014.

The assumptions used for the valuation granted during the period are as follows:

Exercise price	£0.11
Expiry date	22/12/2014
Share price at grant date	£0.1125
Expected volatility	100%
Dividend yield	Nil
Risk free interest rate	3%
Option value	£0.0715

A total of \$177,666 has been included as a derivative financial liability as the exercise price is denominated in GBP.

Note 11 Events Subsequent to Reporting Date

Subsequent to period end, drilling has commenced on the Dharoor Block in Puntland with the successful spudding of the historic Shabeel-1 well which has a total planned maximum depth of 3,800 meters. Drilling operations also commenced on the Shabeel North-1 well with the setting of the 30 inch surface casing and the drilling of a 50 meter pilot hole. The Company has an option over the second well where a decision to participate will be made following consideration of the drilling results of the first well.

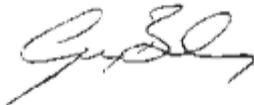
Subsequent to the period end, the Company has announced details of a 2 tranche capital raising to raise approximately £8.2 million at an issue price of £0.18 (A\$0.265). In March 2012 the Company completed the first tranche and issued 16,194,013 shares. The Company has received firm commitments for an additional 7 million shares in respect of oversubscriptions to the placement. It is anticipated that the oversubscription shares and tranche 2 shares will settle following shareholder approval at a meeting to be held on 28 March 2012.

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes as set out on page 5 to 20 are in accordance with the Corporations Act 2001, including:
 - (a) Complying with the Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Executive Director:
Greg Bandy

Dated this 15 March 2012



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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF RED EMPEROR RESOURCES NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Red Emperor Resources NL, which comprises the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Red Emperor Resources NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Red Emperor Resources NL, would be in the same terms if given to the directors as at the time of this auditor's report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Red Emperor Resources NL is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO


Peter Toll
Director

Signed in Perth, Western Australia
Dated this 15th day of March 2012