



**Red Emperor Resources NL and its Controlled Entities**

ABN 99 124 734 961

**Annual Report**

**For the year ended 30 June 2011**

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## Corporate Information

This financial report includes the consolidated financial statements and notes of Red Emperor Resources NL and Controlled entities ("Group"). The Group's functional presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Director's report on pages 3 to 15. The Director's report is not part of the financial report.

### Directors

Mr Greg Bandy  
Mr Jason Bontempo  
Mr Stephen Brockhurst

### Company Secretary

Ms Rebecca Sandford

### Registered Office

945 Wellington Street  
West Perth WA 6005

### Website

[www.redemperorresources.com](http://www.redemperorresources.com)

### Share Registry

Computershare Investor Services Pty Ltd

### Auditors

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### Stock Exchange

Australian Securities Exchange Limited (ASX)

Alternative Investment Market of the London Stock  
Exchange (AIM)

ASX Code: **RMP**

AIM Code: **RMP**

## Letter to Shareholders

Dear Shareholder

During the financial year the Company successfully listed on AIM (AIM: RMP) in London. The Company's principal activities are focused on identifying and exploring oil and gas in Puntland and the Republic of Georgia, following the acquisition of the "Puntland Project" and "Georgian Project" during the year. The Company also holds a 25% free carried interest in the Jillewarra Project which it farmed down in November 2010.

In Puntland, Red Emperor holds a 20% working interest in two licences encompassing the prospective Dharoor and Nugaal valleys. These two exploration areas cover nearly 36,000km<sup>2</sup>. Red Emperor's joint venture partner and PSA operator Africa Oil Corp. (TSXV: AOI) (Africa Oil) has engaged drilling contractor Sakson Drilling and Oil Services with mobilisation and logistic works having commenced and expects the first well to be drilled in Dharoor in Q4, 2011.

In the Republic of Georgia, Red Emperor has a 20% working interest in onshore blocks VIa and VIb, covering approx. 6,500km<sup>2</sup>. Joint Venture partner Range Resources Limited (ASX: RRS | AIM: RRL) last year funded a 410km 2D seismic program with independent consultants RPS Energy identifying 68 potential structures containing an estimated 2.045 billion barrels of oil-in-place (on a mean 100% basis). The proposed drilling program consists of two wells, the first of which is currently in progress and Red Emperor looks forward to advising the market of its outcome later this year.

The Company also has a 25% interest in the Jillewarra Project free carried until bankable feasibility study, which is a copper and gold project in Western Australia. The Company does not intend to focus on this project at this stage.

On behalf of the Board of Directors of Red Emperor, I would like to thank you for your support as a shareholder of the Company, and we look forward to a successful future for the Company.

Yours faithfully



**Greg Bandy**  
Executive Director

## Directors' Report

Your Directors present the following report on Red Emperor Resources NL and its controlled entities (referred to hereafter as "the Group") for the financial year ended 30 June 2011.

### Directors

The names of the Directors in office during the financial year and until the date of this report are as follows. All Directors were in office for the entire period unless otherwise stated:

- Mr Greg Bandy<sup>1</sup>
- Mr Jason Bontempo<sup>2</sup>
- Mr Stephen Brockhurst
- Mr Kent Hunter<sup>3</sup>
- Mr Terry Gardiner<sup>4</sup>

Note:

1. Mr Bandy was appointed as a director on 1 August 2010.
2. Mr Bontempo was appointed as a director on 24 January 2011.
3. Mr Hunter resigned as a director on 24 January 2011.
4. Mr Gardiner resigned as a director on 1 August 2010.

### Principal Activities

The principal activity of the Group for the period was resource and oil and gas exploration. In June 2010 the Company entered into an agreement to acquire a 20% farm-in interest in the Puntland oil and gas projects. In January 2011 the Company entered into an agreement to acquire a 20% interest in the Georgian oil and gas projects. The Company also farmed down its interest in the Jillewara Project to a 25% free carried interest to bankable feasibility study.

### Dividends

No dividend has been paid or recommended by the Directors during the period.

### Review of Operations

The Consolidated Statement of Comprehensive Income shows a net loss attributable to owners of (\$2,800,920) (2010: (\$1,124,846)) for the year ended 30 June 2011.

### Projects

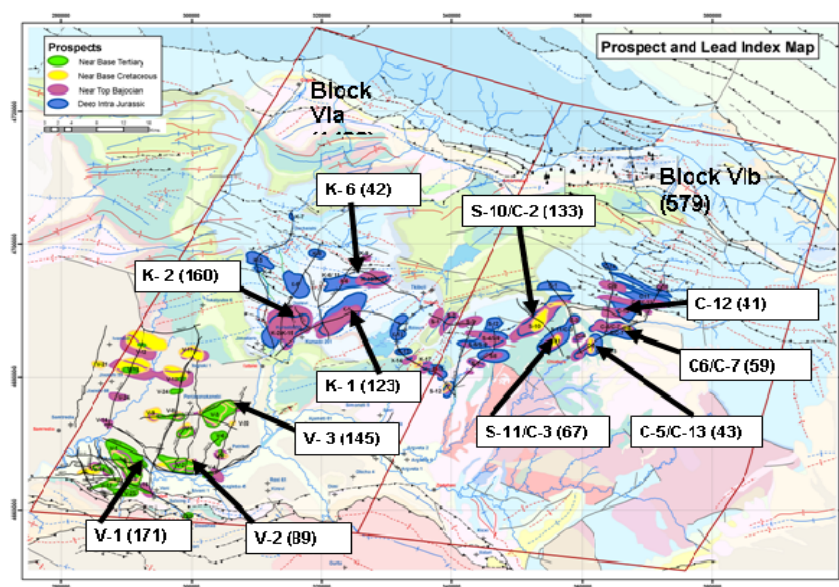
#### Georgia

In May 2011 the Company entered into a formal agreement with its joint venture partners Strait Oil and Gas UK Limited ("Strait") and Range Resources Limited ("Range") (ASX:RRS) to earn a 20% working interest in the Georgian Project ('Georgian Acquisition Agreement'). The key terms of the agreement will see Red Emperor contribute 40% of the drilling costs for the planned two well program (capped at US\$5.6m) to earn its 20% interest in the two blocks.

## Directors Report (continued)

An independent report commissioned by Range Resources identified a total of 68 structural culminations across the two blocks each of which potentially contain stacked reservoirs. Total combined best estimate of gross unrisks oil-in-place across these 68 identified structural culminations amounts to 2,045 million barrels. Recovery factors for oil in place can be conservatively estimated at 30%.

Of the 68 identified prospective targets across the two blocks, 6 structures were prioritised as being ready for drilling. Of these 6 structures, total gross unrisks oil-in-place was estimated at 728 million barrels.



**Figure 1 - Numerous Prospects and Leads with Mean Estimated Oil-in-Place (mmbbls)**

The Company's joint venture partner Range engaged international geochemical company Actual Geology International Limited ("AGI") to carry out a "helium" survey on the 3 top multi-stacked prospects as identified by RPS which had an estimated undiscovered oil-in-place in excess of 450 mmbbls (mean 100% basis).

AGI were given the co-ordinates of three of the six identified "ready to drill" prospects and commenced mobilisation and field operations in early December. AGI completed all field work in early January with laboratory analysis completed soon thereafter.

The survey was a "blind test" where AGI shot the survey without any prior seismic information on the co-ordinates provided by Range/Strait. After the survey and results were compiled by AGI they were then integrated with the existing seismic results to produce the best possible target locations to be drilled.

Of the three locations tested by AGI, results of the helium survey indicated active oil & gas presence in the first 2 drill targets (as identified following the RPS Seismic Report) at the Mukhiani and Kursebi areas, with the survey identifying priority zones which are most likely to contain potentially productive systems. Shortly after the completion of the helium survey, the Company and its Georgian partners secured Edeco Petroleum Services Limited ("Edeco") to supply the exploration drilling rig to be used in the Company's two exploration well program in Georgia.

## Directors Report (continued)

The rig was successfully shipped to Georgia and subsequent to year-end Mukhiani #1 well successfully spudded. The Mukhiani Well is targeting the Vani 3 prospect which has the following potential STOIP:

Vani 3 Prospect – STOIP* (MMbbls)	P90	P50	P10	Mean
Gross	41.7	92.7	178.2	115.2
Net Attributable to Red Emperor (20%)	8.3	18.5	35.6	23.0

\*STOIP shown here assumes that the Vani 3 Prospect contains 3 stacked reservoirs based on current stratigraphic understanding. Any given well may encounter 1, 2, or 3 such potential reservoirs depending on the degree of relative uplift and/or erosion at any given Prospect location.



**Figure 2 – Drilling operations – Mukhiani #1 Well**

### Puntland

In July 2010 the Company entered into a formal farmout agreement with its joint venture partners, Africa Oil Corp. and Lion Energy Corp. to acquire up to a 20% interest in two licences encompassing the prospective Dharoor and Nugaal valleys in Puntland ("Puntland Projects").

Pursuant to the transaction, the Company initially acquired a 10% interest in the Puntland Project with an option to increase its interest by a further 10% to 20%. The Company elected to exercise this option to increase its interest to 20% interest in each of the Puntland Projects and received ministerial consent to the farmin in January 2011. Under the Puntland Farmin agreement the Company will pay 30% of drill costs for the first exploratory well and has an option to participate in the second well.

During the year, the joint venture parties successfully negotiated the extension of the production sharing agreements ("PSAs").

## **Directors Report (continued)**

### **Jillewarra**

The Company continues to hold a 25% interest in the Jillewarra Project free carried until bankable feasibility study, which is a copper and gold project in Western Australia.

### **Significant Changes in State Of Affairs**

#### **Corporate**

On 16 July 2010 the Company incorporated a wholly owned subsidiary, Puntland Oil Pty Ltd.

On 1 August 2010, the Company appointed Mr Greg Bandy as executive director, Mr Kent Hunter assumed the role of non-executive director and Mr Terry Gardiner resigned as non-executive director.

On 12 August 2010 the Company issued 31,111,111 shares at 9c per share as a placement to sophisticated investors to raise \$2.8million. This placement had been approved at the general meeting of shareholders held 23 July 2010.

On 24 January 2011, the Company has appointed Mr Jason Bontempo as non-executive director and Mr Kent Hunter resigned as non-executive director.

On 7 February 2011 the Company incorporated a wholly owned subsidiary, Georgian Oil Pty Ltd.

On 9 February 2011 the Company successfully completed \$10 million Placement to institutional and sophisticated investors, this placement had been approved at the AGM on 24 November 2010.

On 15 February 2011 the Company successfully completed share offer to Range Resources Limited (ASX: RRS & AIM: RRL) shareholders via a Prospectus raising \$1.8 million.

On 24 May 2011 the Company entered into formal agreements to acquire a 20% interest in the Georgian Project subject to satisfaction of earn-in obligations.

On 23 June 2011 the Company was admitted to the official list of the Alternative Investment Market of the London Stock Exchange ("AIM").

### **Matters Subsequent to the End of the Financial Year**

#### **Change in Nature and Scale of Activities**

As a result of the magnitude of the Company's proposed investment pursuant to the Puntland Acquisition Agreement and the Georgian Acquisition Agreement, the Company was required to obtain Shareholder approval for a change of nature of activities and to comply with Chapters 1 and 2 of the ASX Listing Rules.



## **Directors Report (continued)**

On 5 July 2011 the Company issued a Prospectus to raise a total of \$1 million at \$0.35. As part of the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules.

On 15 July 2011 the Company held a General Meeting of Shareholders to approve a change of nature in accordance with Chapters 1 and 2 of the ASX Listing Rules amongst other things and all resolutions were passed by a show of hands. As part of the General Meeting held on 15 July 2011, shareholders approved the issue of 4.5 million Unlisted Options (exercisable at \$0.30 on or before 30 June 2012) to directors.

The Company successfully completed its capital raising of \$1 million, satisfied its obligations under Chapters 1 and 2 of the ASX listing Rules and was quoted on the ASX on 27 July 2011.

On 14 July 2011 the first well in Georgia spudded and has since reached a depth of 1,452m to date.

On 18 August 2011 the Company announced its joint venture partner in Puntland, Africa Oil Corp had signed a drilling service contract. Spudding of the first well in Puntland, Somalia is expected to occur late in Q4 2011.

Other than the above, no matter of circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- a) the group's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the group's state of affairs in future financial years.

### **Likely Developments and Expected Results**

The Group will continue its investment in resource projects. Drilling is currently underway on the Georgian Project and the drill program is expected to commence on the Puntland Projects in Q4 2011.

### **Financial Position**

The net assets of the consolidated group have increased from \$1,444,685 as at 30 June 2010 to \$15,320,761 in 2011. The Group's working capital, being current asset less current liabilities, has improved from \$676,565 in 2010 to \$10,161,005 in 2011.

## **Directors Report (continued)**

### **Environmental Regulation**

The Group operates within the resources sector and conducts its business activities with respect for the environment while continuing to meet the expectations of the shareholders, employees and suppliers. The company's exploration activities are currently regulated by significant environmental regulation under laws of Australia. The Group aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation.

The Group has not yet fully reviewed the reporting requirements under the Energy Efficient Opportunities Act 2006 or the National Greenhouse and Energy Reporting Act 2007, but believes it has adequate systems in place to ensure compliance with these Acts having regard to the scale and nature of current operations.

The Directors are mindful of the regulatory regime in relation to the impact of the organisational activities on the environment.

There have been no known breaches by the Group during the period.

## Directors Report (continued)

### Information on Directors

Mr Greg Bandy	-	Executive Director
Qualifications	-	BComm, ASXA1 (ASX)
Experience	-	Mr Bandy is a senior advisor at Patersons Securities. He has over ten years' experience with capital markets and currently holds an executive board position with Orca Energy Limited. He brings with him an intimate knowledge of equities and corporate transactions as well as an array of opportunities to Red Emperor.
Interest in Shares and Options	-	3,000,000 Unlisted Options (exercisable at \$0.30 on or before 30 June 2012)
Current directorships	-	Orca Energy Limited (formerly Monitor Energy Limited)
Former directorships held in past three years	-	Car Park Technologies Limited (formerly Empire Beer Group Limited) (June 2009 - February 2011)

Mr Jason Bontempo	-	Non-Executive Director
Qualifications	-	BComm, CA
Experience	-	Mr Bontempo has worked in Investment Banking and Corporate Advisory since qualifying as a chartered accountant with Ernst & Young in 1997. Mr Bontempo has worked for investment banks in Australia and the UK and has been closely involved with the advising and financing of companies in the resources industry specialising in asset sales and ASX listings.
Interest in Shares and Options	-	1,000,000 Unlisted Options (exercisable at \$0.30 on or before 30 June 2012)
Current directorships	-	Orca Energy Limited (formerly Monitor Energy Limited) Glory Resources Limited Matrix Metals Limited International Goldfields Limited Chameleon Mining NL
Former directorships held in past three years	-	African Iron Limited (February 2007 - January 2011)

## Directors Report (continued)

Mr Stephen Brockhurst	-	Non-Executive Director
Qualifications	-	BCom
Experience	-	Stephen Brockhurst has over 12 years experience in the finance and corporate advisory industry and has been responsible for the preparation of the Due Diligence process and Prospectuses on a number of initial public offers. Stephen Brockhurst experience includes corporate and capital structuring, corporate advisory and Company secretarial services, capital raising, ASX and ASIC compliance requirements Mr Brockhurst is currently the Company Secretary of Plymouth Minerals.
Interest in Shares and Options	-	250,001 Ordinary Fully Paid Shares 500,000 Unlisted Options (exercisable at \$0.30 on or before 30 June 2012)
Current directorships	-	Jacka Resources Limited
Former directorships held in past three years	-	Blackham Resources Limited (May 2006 to December 2009) African Iron Limited (April 2009 to January 2011)

Mr Kent Hunter	-	former Director
Qualifications	-	BBus, CA
Experience	-	Mr Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of over 20 companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently also a director of Cazaly Resources Limited and Cauldron Energy Limited and is company secretary of two other ASX listed entities.
Interest in Shares and Options	-	N/A
Current directorships	-	Cauldron Energy Limited Cazaly Resources Limited
Former directorships held in past three years	-	Nil

Mr Terry Gardiner	-	former Director
Qualifications	-	Diploma of Financial Services (Financial Planning)
Experience	-	Mr Gardiner holds a Diploma in Financial Services and is an Executive Director of Barclay Wells Limited, a boutique Perth broking firm. Mr Gardiner has extensive business experience ranging from owning and operating a number of private businesses, funds management administration, entertainment and hospitality services, property investment and share and derivatives trading.
Interest in Shares and Options	-	N/A
Current directorships	-	Nil
Former directorships held in past three years	-	Nil

## Directors Report (continued)

### Company Secretary

Ms Rebecca Sandford *B.Bus*

Ms Sandford is an employee of Grange Consulting. Grange Consulting specialises in corporate advisory and financial management services. Ms Sandford's experience at Grange Consulting includes acquisitions, takeovers, capital raisings, listing of companies on ASX, due diligence reviews and compliance. Ms Sandford has acted as the company secretary of a number of ASX listed companies. Ms Sandford is a member of the Chartered Secretaries Australia.

Ms Shannon Robinson was appointed as company secretary on 1 August 2010 and resigned on 1 September 2011.

### Remuneration report (Audited)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration.
- B Details of remuneration.
- C Service agreements.
- D Share-based compensation.

#### A Principles used to determine the nature and amount of remuneration

The Board has elected not to establish a remuneration committee based on the size of the organisation and has instead agreed to meet as deemed necessary and allocate the appropriate time at its board meetings.

The following items are considered and discussed as deemed necessary at the board meetings:

- make specific recommendations to the board on remuneration of directors and senior officers;
- recommend the terms and conditions of employment for the Executive Director;
- undertake a review of the Executive Director's performance, at least annually, including setting with the Executive Director goals for the coming year and reviewing progress in achieving those goals;
- consider and report to the Board on the recommendations of the Executive Director on the remuneration of all direct reports; and
- develop and facilitate a process for Board and Director evaluation.

#### Non-Executive Directors' Fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

## Directors Report (continued)

### Remuneration report (cont'd)

#### A Principles used to determine the nature and amount of remuneration (cont'd)

##### Non-Executive Directors' Fees (cont'd)

The following fees have applied:

<b>Base fees</b>	<b>2011</b>
Executive director	\$120,000
Other non-executive directors	\$30,000

##### Additional fees

A Director may also be paid fees or other amounts as the Directors determines if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

##### Retirement allowances for directors

The executive and non-executive directors receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits.

##### Executive pay

The executive pay and reward framework has two components:

- base pay and benefits, including superannuation; and
- long-term incentives through participation in the Employee Share Option Plan.

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity-linked performance incentives for executives as deemed necessary by the Board.

##### Base pay

The employment cost package may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market.

##### Benefits

No benefits other than noted above are paid to Directors or other Key Management Personnel except as incurred in normal operations of the business.

## Directors Report (continued)

### Remuneration report (cont'd)

#### A Principles used to determine the nature and amount of remuneration (cont'd)

##### Long term incentives

Options are issued at the Board's discretion. Other than options disclosed in section D of the remuneration report, the following options have been approved and issued to the Directors since the date of this financial report.

The purpose of the issue was to remunerate and reward the Directors for their efforts completing two significant transactions for the Company as well as raising \$14 million in the previous 12 months.

<u>Director</u>	<u>Date of Issue</u>	<u>Number</u>
Greg Bandy	15/07/2011	3,000,000
Jason Bontempo	15/07/2011	1,000,000
Stephen Brockhurst	15/07/2011	500,000
<b>Total</b>		<b>4,500,000<sup>1</sup></b>

<sup>1</sup> Unlisted Options exercisable at \$0.30 on or before 30 June 2012.

#### B Details of remuneration

##### Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group are found below. These are the highest paid executives of the Company and the Group:

- Mr Greg Bandy
- Mr Jason Bontempo
- Mr Stephen Brockhurst
- Mr Kent Hunter
- Mr Terry Gardiner

## Directors Report (continued)

### Remuneration report (cont'd)

#### B Details of Remuneration (cont'd)

#### Key Management personnel and other executives of the Company and the Group

	Short-term employee benefits	Post- employment benefits	Share-based pay- ments	Total	Total Remuneration Represented by
30 June 2011	Cash salary & Fees	Super-annuation Pensions	Options		Options
Directors	\$	\$	\$	\$	%
<i>Non-executive directors</i>					
Jason Bontempo <sup>1</sup>	14,987	-	-	14,987	-
Stephen Brockhurst	30,000	2,700	-	32,700	-
Terry Gardiner <sup>2</sup>	2,500	225	-	2,725	-
<b>Sub-total</b>					
<b>Non-executive directors</b>	<b>47,487</b>	<b>2,925</b>	-	<b>50,412</b>	-
<i>Executive directors</i>					
Greg Bandy	79,268	7,134	-	86,402	-
Kent Hunter <sup>3</sup>	12,500	1,125	-	13,625	-
<b>Total key management personnel compensation (Group)</b>	<b>139,255</b>	<b>11,184</b>	-	<b>150,439</b>	-

1. Mr Bontempo was appointed as a director on 24 January 2011.
2. Mr Gardiner resigned as a director on 1 August 2010.
3. Mr Hunter resigned as a director on 24 January 2011.

	Short-term employee benefits	Post- employment benefits	Share-based pay- ments	Total	Total Remuneration Represented by
30 June 2010	Cash salary & Fees	Super-annuation Pensions	Options		Options
Directors	\$	\$	\$	\$	%
<i>Non-executive directors</i>					
Jason Bontempo <sup>1</sup>	-	-	-	-	-
Stephen Brockhurst	30,000	2,700	-	32,700	-
Terry Gardiner <sup>2</sup>	30,000	2,700	-	32,700	-
<b>Sub-total</b>					
<b>Non-executive directors</b>	<b>60,000</b>	<b>5,400</b>	-	<b>65,400</b>	-
<i>Executive directors</i>					
Greg Bandy	-	-	-	-	-
Kent Hunter <sup>3</sup>	100,000	9,000	-	109,000	-
<b>Total key management personnel compensation (Group)</b>	<b>160,000</b>	<b>14,400</b>	-	<b>174,400</b>	-

1. Mr Bontempo was appointed as a director on 24 January 2011.
2. Mr Gardiner resigned as a director on 1 August 2010.
3. Mr Hunter resigned as a director on 24 January 2011.



## Directors Report (continued)

### Remuneration report (cont'd)

#### B Details of Remuneration (cont'd)

No remuneration paid during the year was related to performance.

#### C Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

The Company has a service agreement with Mr Greg Bandy as executive director. The key terms are summarised as follows;

- Employment of initial term of 1 month commencing 1 August 2010
- Payment of a salary of \$120,000 per year on a Total Employment Cost basis to be reviewed annually;
- The Company may terminate the employment by giving 3 months written notice if Mr Bandy becomes incapacitated by illness or injury or becomes of unsound mind;
- The Company may terminate the employment by giving 1 month written notice if Mr Bandy commits any serious or persistent breach of any of the provisions in the agreement and the breach is not remedied within 14 days of the receipt of written notice from the Company to do so;
- The Company may terminate the employment without reason by providing 3 months written notice and making a payment of 9 months' salary;
- Mr Bandy may terminate the employment by providing 3 months written notice to the Company; and
- On termination of the employment, Mr Bandy is entitled to payment of any accrued annual leave entitlements.

#### D Share-based compensation

##### Options

There were no options issued to directors as at 30 June 2011.

**This is the end of the audited remuneration report.**

## Directors Report (continued)

### Directors Meetings

The number of Directors' meetings held and the number of meetings attended by each of the Directors of the Group for the time the Director held office during the financial year are:

	Number of Meetings Eligible to Attend	Number of Meetings directors' attended
<b>Number of Meetings Held</b>	2	2
<b>Number of Meetings Attended</b>		
<b>Director</b>		
Mr Greg Bandy	1	1
Mr Jason Bontempo	1	1
Mr Stephen Brockhurst	2	2
Mr Kent Hunter	1	1
Mr Terry Gardiner	1	1

### Shares under option

Unissued ordinary shares of Red Emperor Resources NL under option at the date of this report are as follows:

Date Options Granted	Expiry Date	Issue Price of Shares	Number Under Option
15 July 2011	30 June 2012	\$0.30	7,750,000
15 July 2011	21 July 2013	£0.305	1,476,162

### Shares issued on the exercise of options

There were no options exercised during the financial period.

### Insurance of Officers

During the financial period, Red Emperor Resources NL paid a premium of \$17,000 to insure the directors and officers of the Group and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## Directors Report (continued)

### Proceedings on Behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the Corporations Act 2001.

### Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of *Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the consolidated entity and its related practices:

	2011	2010
	\$	\$
BDO Corporate Finance (WA) Pty Ltd		
- Non-audit services- IAR and AIM listing	53,231	-
<b>Total non-audit services</b>	<b>53,231</b>	<b>-</b>

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

BDO is appointed to office in accordance with section 327 of the Corporations Act 2001.

This report of Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of Directors.



**Greg Bandy**  
Executive Director

Perth, Western Australia, 30 September 2011

30 September 2011

The Directors  
Red Emperor Resources NL  
945 Wellington Street  
WEST PERTH WA 6005

Dear Sirs,

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

As lead auditor of Red Emperor Resources NL for the year ended 30 June 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 audit;
- any applicable code of professional conduct in relation to the audit.

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

### For the year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>Revenue from continuing operations</b>	2	193,655	20,512
Other income	2	5,947	-
Finance costs		(9,207)	-
Employee and director benefits expense		(167,244)	(74,400)
Financial and company secretarial expenses		(90,110)	-
Consultants		(813,317)	(711,214)
Loss on sale of financial assets		-	(37,093)
Audit fees		(14,314)	-
Legal fees		(63,270)	-
Insurance		(15,596)	-
ASX and AIM and share registry fees		(421,997)	(56,249)
Travel		(218,970)	-
Accounting fees		(16,898)	-
Occupancy expense		(4,000)	(24,087)
Share based payments expense	16	(583,973)	-
Share of net loss of associate	9	(189,024)	-
Forestry expenditure written off		-	(55,487)
Mineral project generation written off		-	(153,034)
Exploration expenditure written off		-	(2,830)
Unrealised FX (gain)/loss		(250,230)	-
Other expenses		(111,210)	(56,544)
<b>Loss before income tax</b>		(2,769,759)	(1,150,426)
Income tax expense	3	-	-
<b>Loss for the year</b>		<b>(2,769,759)</b>	<b>(1,150,426)</b>
Exchange difference on translation of foreign operations		(31,161)	-
Revaluation increment		-	25,580
Other Comprehensive Income		(31,161)	25,580
<b>Total Comprehensive Income for the year</b>		<b>(2,800,920)</b>	<b>(1,124,846)</b>
Total loss attributable to the owners of Red Emperor Resources NL		(2,800,920)	(1,124,846)
		Cents.	Cents.
Loss per share for loss attributable to the ordinary equity holders of the company:			
Basic loss per share (cents per share)	4	(3.5)	(2.95)
Diluted loss per share (cents per share)		n/a	n/a

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

## Consolidated Statement of Financial Position

### As at 30 June 2011

	Note	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	7,942,356	60,001
Trade and other receivables	7	2,816,113	76,394
<b>Total Current Assets</b>		<u>10,758,469</u>	<u>1,143,590</u>
<b>Non-Current Assets</b>			
Financial assets at fair value through profit and loss	8	400	781,615
Available-for-sale financial assets	8	-	225,580
Investment accounted for using the equity method	9	3,208,487	-
Exploration and evaluation expenditure	10	1,950,369	768,120
<b>Total Non-current Assets</b>		<u>5,159,256</u>	<u>768,120</u>
<b>TOTAL ASSETS</b>		<u>15,917,725</u>	<u>1,911,710</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	596,964	467,025
<b>Total Current Liabilities</b>		<u>596,964</u>	<u>467,025</u>
<b>TOTAL LIABILITIES</b>		<u>596,964</u>	<u>467,025</u>
<b>NET ASSETS</b>		<u>15,320,761</u>	<u>1,444,685</u>
<b>EQUITY</b>			
Issued Capital	12	21,976,015	5,299,019
Accumulated Losses	13	(6,649,673)	(3,879,914)
Reserves	13	(5,581)	25,580
<b>TOTAL EQUITY</b>		<u>15,320,761</u>	<u>1,444,685</u>

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

## Consolidated Statement of Cash Flows

### For the year ended 30 June 2011

	Note	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(1,160,582)	(482,850)
Payments for exploration and evaluation		-	(83,734)
Payments for forestry evaluation		-	(61,461)
Payments for mineral project evaluation		-	(175,080)
Interest received		193,655	21,125
Finance cost		(9,207)	-
<b>Net cash flows generated from / (used in) operating activities</b>		<b>(976,134)</b>	<b>(782,000)</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition of financial assets		(24,016)	(118,339)
Proceeds from sale of financial assets		1,027,927	228,835
Loans to other entities		-	(65,000)
Payments for exploration and evaluation		(1,182,250)	-
Payments to asset acquisition escrow account		(2,206,775)	-
Payments for investment in associate		(2,557,511)	-
<b>Net cash flows used in investing activities</b>		<b>(4,942,625)</b>	<b>45,496</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares and options		14,600,000	1,000
Standby loan facility funds returned		-	(355,000)
Repayment of loan to other entities		-	5,000
Payment of share issue and IPO costs		(888,004)	-
<b>Net cash flows from financing activities</b>		<b>13,711,996</b>	<b>(349,000)</b>
Net increase/ (decrease) in cash and cash equivalents		7,793,237	(1,085,504)
Cash and cash equivalents at beginning of year		60,001	1,145,505
Effects of exchange rate changes on cash and cash equivalents		89,118	-
<b>Cash and cash equivalents at end of year</b>	6	<b>7,942,356</b>	<b>60,001</b>

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

### For the year ended 30 June 2011

	Issued Capital	Accumulated Losses	Forex Reserve	Option Reserve	Financial Asset Reserve	Total
	\$	\$		\$	\$	\$
<b>Balance at 1 July 2009</b>	<b>5,103,029</b>	<b>(2,729,488)</b>	-	<b>194,990</b>	-	<b>2,568,531</b>
Loss for the year	-	(1,150,426)	-	-	-	(1,150,426)
Revaluation increment	-	-	-	-	25,580	25,580
<b>Total Comprehensive Income</b>	-	<b>(1,150,426)</b>	-	-	<b>25,580</b>	<b>(1,124,846)</b>
Transaction with their owners, in their capacity as owners:						
Exercise of options	1,040	-	-	(40)	-	1,000
Lapse of options	194,950	-	-	(194,950)	-	-
<b>Balance at 30 June 2010</b>	<b>5,299,019</b>	<b>(3,879,914)</b>	-	-	<b>25,580</b>	<b>1,444,685</b>
<b>Balance at 1 July 2010</b>	<b>5,299,019</b>	<b>(3,879,914)</b>	-	-	<b>25,580</b>	<b>1,444,685</b>
Loss for the year	-	(2,769,759)	-	-	-	(2,769,759)
Exchange difference on foreign operations	-	-	(31,161)	-	-	(31,161)
<b>Total Comprehensive Income</b>	-	<b>(2,769,759)</b>	<b>(31,161)</b>	-	-	<b>(2,800,920)</b>
Transaction with owner, directly recorded in equity:						
Issue of shares	18,105,000	-	-	-	-	18,105,000
Share issue costs	(1,428,004)	-	-	-	-	(1,428,004)
<b>Balance at 30 June 2011</b>	<b>21,976,015</b>	<b>(6,649,673)</b>	<b>(31,161)</b>	-	<b>25,580</b>	<b>15,320,761</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.



## Notes to the Consolidated Financial Statements

### 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Red Emperor Resources NL is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. The financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Red Emperor Resources NL ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Red Emperor Resources NL and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balance and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction proves evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are accounted for in the parent entity financial statements at cost.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of significant accounting policies (cont'd)

#### *Associates*

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

### (c) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of significant accounting policies (cont'd)

#### (c) Income Tax (cont'd)

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### (d) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (e) Investments & financial instruments

##### *Classification*

- The group classifies its investments in the following categories;
- Loan receivables;
- Financial assets at fair value through profit and loss; and
- Available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determine the classification of its investments at initial recognition.

- (i) **Financial assets at fair value through profit or loss**  
Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.
- (ii) **Loans and receivables**  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.
- (iii) **Available-for-sale financial assets**  
Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

##### *Recognition and de-recognition*

Regular purchases and sales of financial assets are recognised on trade-date being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (e) Investments and other financial assets (cont'd)

##### *Impairment*

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

#### (f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### (g) Employee Benefits

##### (i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

##### (ii) *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### (iii) *Share-based payments*

Share-based compensation benefits are provided to employees of Red Emperor Resources NL at the Directors' discretion.

The fair value of options granted by Red Emperor Resources NL is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (g) Employee benefits (cont'd)

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

#### (h) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### (i) Cash and Cash Equivalents

For statement of cashflows presentation proposed, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in rate and bank overdrafts.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (j) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

All revenue is stated net of the amount of goods and services tax (GST).

#### (k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### (l) Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definitions, seldom equal the related actual results.

##### *Key Estimate – Taxation*

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

## **Notes to the Consolidated Financial Statements (continued)**

### **1. Summary of Significant Accounting Policies (cont'd)**

#### **(l) Critical accounting estimates and judgments (cont'd)**

##### *Share based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using Black-Scholes option pricing model.

##### *Exploration and Evaluation Expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

#### **(m) Segment Reporting**

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the annual financial report have been included.

#### **(n) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.



## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (n) New accounting standards and interpretations (continued)

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
AASB 2010-4 (issued June 2010)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Clarifies the disclosure requirements for a change of accounting policy in year of adoption. Use of deemed cost for operations subject to rate regulation.	1 January 2011	There will be no impact as there has been no prior Annual Report.
- AASB 1	First-time Adoption of Australian Accounting Standards	Emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.	1 January 2011	There will be no impact as the only financial instruments the entity holds are cash and cash equivalents and these are adequately disclosed.
- AASB 7	Financial Instruments: Disclosures	Clarifies that an entity will present an analysis of other comprehensive income for each component of equity either in the notes or statement of changes in equity.	1 January 2011	This has affected the layout of the Statement of changes in equity with the FX Translation reserve shown separately.
- AASB 101	Presentation of Financial Statements			
- AASB 134	Interim Financial Reporting	Provides guidance to illustrate how to apply disclosure principles for significant events and transactions.	1 January 2011	On adoption, any significant events or transactions will need to be adequately disclosed and explained in the Interim Financial Report.
AASB 9 (issued December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 124 (issued December 2009)	Related Party Disclosures	Clarifies the definition of a related party	1 January 2011	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 10 (issued September 2011)	Consolidated Financial Statements	Builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Provides additional guidance to assist in the determination of control.	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (n) New accounting standards and interpretations (cont'd)

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
AASB 11 (issued September 2011)	Joint Arrangements	Provides for a realistic reflection of joint arrangements by focussing on the rights and obligations of the arrangement, rather than its legal form. Addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 12 (issued September 2011)	Disclosure of interest in other entities	Updates disclosure requirements for all forms of interests in other entities including subsidiaries, joint arrangements, associated and unconsolidated structured entities.	1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
IAS 1 (issued 16 June 2011)	IASB and FASB Align presentation requirements for other comprehensive income	Requires companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements	1 July 2012	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 119 (issued September 2011)	Employee Benefits	Clarifies the accounting for pensions and other post employment benefits.	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 7	Financial Instruments Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held	1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (n) New accounting standards and interpretations (cont'd)

AASB 1054 (issued May 2011)	Australian Additional Disclosures	Moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. Removes the requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories).	1 July 2011	When this Standard is adopted for the first time for the year ended 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.
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All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Group.

#### (o) Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Red Emperor Resources NL's functional and presentation currency.

#### (p) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reasonable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (p) Business combinations (cont'd)

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity and transaction costs arising on the issue of debt as part of the consideration are accounted for in accordance with note 1(r).

Where the group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the group's controlling shareholder's consolidated financial statements.

#### (q) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

#### (r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

## Notes to the Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (cont'd)

#### (t) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### (u) Parent entity financial information

The financial information for the parent entity Red Emperor Resources NL, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements.

The financial report was authorised for issue on 30 September 2011 by the board of directors.

## Notes to the Consolidated Financial Statements (continued)

### 2. Revenues & Other Income

	2011 \$	2010 \$
<b>Revenue from continuing operations</b>		
Bank interest	193,655	20,512
<b>Other Income</b>		
Profit on sales of shares & options	(52,549)	-
Unrealised gain on investment	58,496	-
	199,602	20,512

### 3. Income Tax

	2011 \$	2010 \$
<b>Income tax expense</b>		
Current tax	-	-
Deferred tax	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Decrease)/ increase in deferred tax assets	-	-
(Decrease)/ increase in deferred tax liabilities	-	-
	-	-

#### Numerical reconciliation of income tax expense (revenue)

#### To prima facie tax payable:

	2011 \$	2010 \$
Loss from continuing operations before income tax	(2,769,759)	(1,150,426)
Tax at the Australian tax rate of rate of 30%	(830,928)	(345,128)
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenses	539,041	256,493
Current year tax losses not recognised	179,379	88,499
Current year capital losses not recognised	237,499	-
Capital gain on expiry of options	-	58,500
Movement in unrecognised temporary differences	(83,013)	(16,320)
Utilisation of previously unrecognised capital losses	-	(14,715)
Deductible equity raising costs	(41,978)	(27,329)
Income tax expense/ (benefit)	-	-

## Notes to the Consolidated Financial Statements (continued)

### 3. Income Tax (cont'd)

The applicable weighted average effective tax rates are as follows:

#### Deferred tax Liabilities

	2011	2010
	\$	\$
Exploration and evaluation expenditure	233,372	230,436
Timing differences	227	-
Off set of deferred tax assets	(233,599)	(230,436)
Net deferred tax liabilities	-	-

#### Deferred tax assets arising on timing

	2011	2010
	\$	\$
Deferred tax assets arising on timing		
Tax revenue losses	781,599	529,478
Tax capital losses	252,214	14,715
Expenses taken to equity	78,673	79,876
Deductable temporary differences	160,857	313,448
	1,273,343	937,517
Off set of deferred tax liabilities	(233,599)	(230,436)
Net deferred tax assets not brought to account	1,039,744	707,081

At 30 June 2011, there is no recognised or unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary as the Group has no liability for additional taxation should such amounts be remitted.

## Notes to the Consolidated Financial Statements (continued)

### 4. Loss per Share (EPS)

Basic earnings per share amounts are calculated by dividing net profit/ (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	2011 \$	2010 \$
Loss after income tax	(2,769,759)	(1,150,426)
Basic loss per share attributable to equity holders	(0.035)	(0.0295)
Diluted loss per share attributable to equity holders	n/a	n/a
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted loss per share	79,198,915	39,005,003

As the Group has made a loss for the year ended 30 June 2011, all options on issue are anti dilutive and have not been included in the calculation of diluted loss per share. These options could potentially dilute basic loss per share in the future.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

### 5. Dividends Paid or Proposed

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.



## Notes to the Consolidated Financial Statements (continued)

### 6. Cash and Cash Equivalents

	2011 \$	2010 \$
<b>Current</b>		
Cash at bank and in hand	7,942,356	60,001
	7,942,356	60,001

Cash at bank and in hand earns interest at floating rates based on daily bank rates.  
Refer to note 14 for the Group's risk management policy.

### 7. Trade and Other Receivables

	2011 \$	2010 \$
<b>Current</b>		
GST receivable	252,042	10,034
Loans receivable	60,000	60,000
Prepayments	641,633	-
Deposits paid	(4,988)	6,360
Asset acquisition escrow account	1,867,426	-
	2,816,113	76,394

On 16 June 2010 Red Emperor Resources announced the execution of an agreement with Africa Oil Corp to acquire an interest in onshore petroleum projects in the Dharoor Valley and the Nugaal Valley of Puntland, Somalia (**Puntland Projects**). Red Emperor was required to deposit USD\$2 million into an escrow account as security for its expenditure obligations under the agreement.

The following table details the Group's trade and other receivables exposed to risk with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Company and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not fully be repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	Past due but not impaired				Within initial trade terms
			< 30 days	31-60 days	61-90 days	> 90 days	
	\$	\$	\$	\$	\$	\$	\$
<b>2011</b>							
GST receivable	252,042	-	-	-	-	-	252,042
Loans receivable	60,000	-	-	-	-	60,000	-
Prepayments	606	-	-	-	-	-	606
Deposits paid	(4,988)	-	-	-	-	-	(4,988)
	<b>307,660</b>	-				<b>60,000</b>	<b>247,660</b>

## Notes to the Consolidated Financial Statements (continued)

### 7. Trade and Other Receivables (cont'd)

#### 2010

GST receivable	10,034	-	-	-	-	-	10,034
Loans receivable	60,000	-	-	-	-	-	60,000
Other	6,360	-	-	-	-	-	6,360
	<b>76,394</b>	-	-	-	-	-	<b>76,394</b>

Refer to note 14 for the Group's risk management policy.

### 8. Financial Assets

	2011 \$	2010 \$
<b>Financial Assets at fair value through profit and loss</b>		
Listed Investment at Fair Value	400	781,615
<b>Available-for-sale financial assets</b>		
Unlisted investments at Fair Value	-	225,580
	<u>400</u>	<u>1,007,195</u>

Financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments.

#### Risk exposure

Information about the group exposure to credit risk and price risk is provided in note 14.

### 9. Investments accounted for using equity method

	2011 \$	2010 \$
Shares in associates	3,208,487	-
	<u>3,208,487</u>	<u>-</u>

#### a) Movements in carrying amounts

	2011 \$	2010 \$
Carrying amount at the beginning of the financial year	-	-
Cost of investment, net of transaction costs	3,397,511	-
Share of loss after income tax	(189,024)	-
Carrying amount at the end of the financial year	<u>3,208,487</u>	<u>-</u>

## Notes to the Consolidated Financial Statements (continued)

### 9. Investments accounted for using equity method (cont'd)

#### b) Summarised financial information of associates

The group's share of the results of its principle associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	Assets \$	Company's share of:		
			Liabilities \$	Revenues \$	Loss \$
<b>2011</b>					
Strait Oil and Gas (UK)	20%	3,932,946	3,341,970	-	189,024
<b>2010</b>					
Strait Oil and Gas (UK)	-	-	-	-	-

The above associate is incorporated in the United Kingdom.

### 10. Exploration and evaluation expenditure

	2011 \$	2010 \$
<b>Non – Current</b>		
Exploration and evaluation expenditure		
Exploration and Evaluation at cost	1,950,369	768,120
<b>Movement</b>		
At 1 July 2010	768,120	702,754
Exploration Expenditure capitalised during the year	1,182,249	221,230
Exploration Expenditure written off	-	(155,864)
At 30 June 2011	1,950,369	768,120

The value of the Group's interest in exploration expenditure is dependent upon:

- the continuance of the Group's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

## Notes to the Consolidated Financial Statements (continued)

### 11. Trade and Other Payables

	2011 \$	2010 \$
<b>Current</b>		
Trade payables	158,744	498
Accruals	438,220	466,527
	596,964	467,025

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of 2 months.

Refer to note 14 for the Group's risk management policy.

### 12. Issued Capital

	Note	2011 Number	2010 Number	2011 \$	2010 \$
Ordinary shares- fully paid		147,616,114	31,505,003	21,975,265	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		155,116,114	31,005,003	21,976,015	5,299,019

(a) The share capital of the as at 30 June 2011 was Group 147,616,114 ordinary shares.

	2011 Number	2010 Number
<i>Ordinary Shares – partly 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.

## Notes to the Consolidated Financial Statements (continued)

### 12. Issued Capital (cont'd)

(b) Movement in share capital.

Date	Details	No. of Shares	Issue Price	\$
30/06/2009		31,501,003		5,102,279
31/07/2009	Shares issued on conversion of options	4,000	\$0.10	400
31/8/2009	Options lapsed during the year	(194,950)	-	-
30/6/2010	Total	31,505,003	-	5,298,269
20/07/2010	Shares issued to corporate advisor or nominee	16,000,000	\$0.09	1,440,000
12/08/2010	Shares issued in a placement to sophisticated investors	31,111,111	\$0.09	2,800,000
09/02/2011	Shares issued in a placement to sophisticated investors	50,000,000	\$0.20	10,000,000
15/02/2011	Shares issued pursuant to a prospectus	9,000,000	\$0.20	1,800,000
30/05/2011	Shares issued pursuant to a technical services agreement	7,000,000	\$0.175	1,225,000
30/05/2011	Shares issued pursuant to a facilitation agreement	3,000,000	\$0.28	840,000
	Share issue costs			(1,428,004)
<b>30/06/2011</b>	<b>Total</b>	<b>147,616,114</b>	<b>-</b>	<b>21,975,265</b>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

#### Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's capital includes ordinary share capital, partly paid shares and financial liabilities, supported by financial assets.

The Group's capital includes mainly ordinary share capital and financial liabilities supported by financial assets.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Due to the nature of the Group's activities, being mineral and oil and gas exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

The net working capital position of the Company at 30 June 2011 was \$10,161,505 (2010: \$676,565) and the net increase in cash held during the year was \$7,793,237 (2010 cash held: \$60,001).

The Group currently has \$7,942,356 of cash and cash equivalents and no debt which is sufficient working capital to fund its exploration commitments in the near future.

## Notes to the Consolidated Financial Statements (continued)

### 13. Reserves

	2011 \$	2010 \$
<b>(a) Reserves</b>		
Foreign translation reserve	(31,161)	-
Financial asset reserve	25,580	25,580
	<u>(5,581)</u>	<u>25,580</u>
<b>Movements</b>		
<i>Foreign translation reserve</i>		
Balance at 30 June 2010	-	-
Foreign translation difference on consolidation	(31,161)	-
Balance at 30 June 2011	<u>(31,161)</u>	-
<i>Financial asset reserve</i>		
Balance at 30 June 2010	25,580	-
Options issued to Directors	-	-
Balance at 30 June 2011	<u>25,580</u>	<u>25,580</u>
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>(b) Accumulated losses</b>		
Balance at 30 June 2010	(3,879,914)	(2,729,488)
Net loss for the year	(2,769,759)	(1,150,426)
	<u>(6,649,672)</u>	<u>(3,879,914)</u>

#### **Nature and purpose of reserve**

##### *Asset revaluation reserve*

Changes in the fair value arising on translation of investments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income as described in note 1 (e) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

##### *Foreign translation reserve*

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1 (b) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## Notes to the Consolidated Financial Statements (continued)

### 14. Financial Risk Management

The Groups activities expose it to a variety of financial risks including interest rate risk, price risk, credit risk and liquidity risk. The Groups overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments; however the Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and aging analysis for credit risk.

Risk management is carried out by the Board of Directors with assistance from suitably qualified external and internal advisors. The Board provides written principles for overall risk management and further policies will evolve commensurate with the evolution and growth of the Group.

#### (a) Market risk

- *Foreign exchange risk*  
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.
- *Price risk*  
The group is exposed to equities securities price risk. This arises from investments held by the parent and classified on the statement of financial position either as available-for-sale or at fair value through profit and loss. The group's equity investments are publicly traded and are included on the ASX.
- *Cash flow and fair value interest rate risk*  
The Group's only interest rate risk arises from cash and cash equivalents. Term deposits and current accounts held with variable interest rates expose the group to cash flow interest rate risk.

#### Foreign exchange sensitivity analysis

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

	30 June 2011	30 June 2010
	USD	USD
	\$	\$
Asset acquisition escrow account	1,867,426	-

#### *Sensitivity*

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 15% against the US dollar with all other variables held constant, the group's post-tax loss for the year would have been \$280,114 lower/\$280,114 higher (2010 – N/A), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

## Notes to the Consolidated Financial Statements (continued)

### 14. Financial Risk Management (cont'd)

#### (a) Market risk (cont'd)

##### Interest rate sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The tables indicates the impact of how profit and equity values at reporting date would have been affected by changes in interest rates that management considers to be reasonably possible.

Change in profit/ (loss)	2011	2010
	\$	\$
Increase in interest rate by 100 basis points	79,424	600
Decrease in interest rate by 100 basis points	(79,424)	(600)

Change in equity	2011	2010
	\$	\$
Increase in interest rate by 100 basis points	79,424	600
Decrease in interest rate by 100 basis points	(79,424)	(600)

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

#### 2011

Financial Instrument	Floating interest rate	Fixed Interest rate maturing in			Non-interest Bearing	Total	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
<b>Financial Assets</b>							
Cash	7,942,356	-	-	-	-	7,942,356	3.5%
Loan Receivable	-	60,000	-	-	-	60,000	12%
<b>Total financial assets</b>	<b>7,942,356</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,002,356</b>	

#### 2010

Financial Instrument	Floating interest rate	Fixed Interest rate maturing in			Non-interest Bearing	Total	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
<b>Financial Assets</b>							
Cash	60,001	-	-	-	-	60,001	3.89%
Loan receivable	-	60,000	-	-	-	60,000	12%
<b>Total financial assets</b>	<b>60,001</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,001</b>	



## Notes to the Consolidated Financial Statements (continued)

### 14. Financial Risk Management (cont'd)

#### (a) Market risk (cont'd)

##### *Price risk*

The Group is exposed to equities securities price risk. This arises from investments held by the parent and classified on the statement of financial position either as available-for-sale or at fair value through profit and loss. The group's equity investments are publicly traded and are included on the ASX.

The Group's investments are held in the following sectors at the end of the reporting period:

	<b>2011</b>	<b>2010</b>
<b>Consolidated Group- Listed Investments</b>	<b>%</b>	<b>%</b>
Mining exploration	100	100

The price risk for the group's securities is immaterial in terms of the possible impact on profit or loss or total equity and therefore a sensitivity analysis has not been included.

#### (b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis. The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents AA	7,942,356	60,001

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at reporting date the Group had sufficient cash reserves to meet its requirements. The Group therefore had no credit standby facilities or arrangements for further funding in place.

The financial liabilities of the Group at reporting date were trade payables incurred in the normal course of the business. These were non interest bearing and were due within the normal 30-60 days terms of creditor payments. The Group does not consider this to be material to the Group and have therefore not undertaken any further analysis of risk exposure.

## Notes to the Consolidated Financial Statements (continued)

### 14. Financial Risk Management (cont'd)

#### (c) Liquidity risk (cont'd)

##### *Maturities of financial liabilities*

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities:

#### 2011

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
<b>Non-derivatives</b>							
Trade payables	158,744	-	-	-	-	158,744	158,744
Accruals	438,220	-	-	-	-	438,220	438,220
Total financial liabilities	596,964	-	-	-	-	596,964	596,964

#### 2010

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
<b>Non-derivatives</b>							
Trade payables	498	-	-	-	-	498	498
Accruals	466,527	-	-	-	-	466,527	466,527
Total financial liabilities	467,025	-	-	-	-	467,025	467,025

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances within 12 months equal their carrying balances as the impact of discounting is not significant.

#### (d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets, such as trading and available for sale securities, is based on current quoted market prices at reporting date. The quoted market price used for financial assets held by the Group is the current market price.

The fair value of financial instruments that are not traded in an active market such as unlisted investments and subsidiaries is determined using valuation techniques where applicable. Where this is unable to be done they are carried at cost.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

## Notes to the Consolidated Financial Statements (continued)

### 14. Financial Risk Management (cont'd)

#### (d) Fair value estimation (cont'd)

##### *Financial Instruments Measured at Fair Value*

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>2011</b>				
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	400	-	-	400
	400	-	-	400
<b>2010</b>				
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	781,615	-	-	781,615
Financial assets available-for-sale	-	225,580	-	225,580
	781,615	225,580	-	1,007,195

## Notes to the Consolidated Financial Statements (continued)

### 15. Operating Segment

The Company has determined the operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. During the year the consolidated entity operated in two business segments, exploration & evaluation and treasury (other).

Basis of accounting for purposes of reporting by operating segments

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.

The Group operates in two industries, mineral and oil and gas exploration however due to the differing geographical areas and functional currencies the financial information has been broken down into two operating segments being exploration and administration (other).

## Notes to the Consolidated Financial Statements (continued)

### 15. Operating Segment (cont'd)

#### Segment Performance

30 June 2011	Exploration & Evaluation \$	Treasury \$	Total \$
Revenue			
Interest revenue	-	193,655	193,655
Total segment revenue	-	193,655	193,655
Total group revenue	-	193,655	193,655
<b>Segment net profit before tax</b>	-	<b>193,655</b>	<b>193,655</b>

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

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

- net fair value gain/(loss) on financial assets	-	5,947	5,947
- forestry expenditure written off	-	-	-
- exploration expenditure written off	-	-	-

Unallocated items:

Consultants			(813,317)
ASX, AIM & share registry fees			(421,997)
Share based payments expense			(583,973)
Employee and director benefits expense			(167,244)
Other			(982,830)
<b>Net loss before tax from continuing operations</b>			<b>(2,769,759)</b>

## Notes to the Consolidated Financial Statements (continued)

### 15. Operating Segment (cont'd)

#### Segment Performance (con't)

30 June 2010	Exploration & Evaluation \$	Treasury \$	Total \$
Revenue			
Interest revenue	-	20,512	20,512
Total segment revenue	-	20,512	20,512
Total group revenue	-	20,512	20,512
<b>Segment net profit before tax</b>	-	<b>20,512</b>	<b>20,512</b>
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>			
Amounts not included in segment result but reviewed by the board:			
- Other comprehensive income	-	25,580	25,580
- net fair value gain/(loss) on financial assets	-	-	-
- exploration expenditure written off	(2,830)	-	(2,830)
- mineral project generation written off	(153,034)	-	(153,034)
- forestry expenditure written off	(55,487)	-	(55,487)
Unallocated items:			
Consultants			(711,214)
Other			(248,373)
<b>Net loss before tax from continuing operations</b>			<b>(1,124,846)</b>

## Notes to the Consolidated Financial Statements (continued)

### 15. Operating Segment (cont'd)

#### Segment Assets

	Exploration & Evaluation \$	Treasury \$	Total
<b>30 June 2011</b>			
<b>Segment assets</b>	<b>5,158,856</b>	<b>400</b>	<b>5,159,256</b>
<i>Segment assets for the year:</i>			
- capital expenditure	1,950,369	-	1,950,369
- Investment accounted for using equity method	3,208,487	-	3,208,487
- financial assets at fair value through profit and loss	-	400	400
<i>Reconciliation of segment assets to group assets</i>			
	5,158,856	400	5,159,256
Unallocated items:			
Cash and cash equivalents			7,942,356
Trade and other receivables			2,816,113
<b>Total group assets from continuing operations</b>			<b>15,917,725</b>
	Exploration & Evaluation \$	Treasury \$	Total \$
<b>30 June 2010</b>			
<b>Segment assets</b>	<b>768,120</b>	<b>1,007,195</b>	<b>1,775,315</b>
<i>Segment assets for the year:</i>			
- capital expenditure	768,120	-	768,120
- financial assets at fair value through profit and loss	-	781,615	781,615
- available-for-sale financial assets	-	225,580	225,580
<i>Reconciliation of segment assets to group assets</i>			
	768,120	1,007,195	1,775,315
Unallocated items:			
Cash and cash equivalents			60,001
Trade and other receivables			76,394
<b>Total group assets from continuing operations</b>			<b>1,911,710</b>

## Notes to the Consolidated Financial Statements (continued)

### 15. Operating Segment (cont'd)

#### Segment Liabilities

	Exploration & Evaluation	Treasury	Total
30 June 2011	\$	\$	\$
<b>Segment liabilities</b>	-	-	-
<i>Reconciliation of segment liabilities to group assets</i>			
Unallocated items:			
Trade and other payables			158,744
Provisions			438,220
<b>Total group liabilities from continuing operations</b>			<b>596,964</b>

	Australian Exploration & Evaluation	Treasury	Total
30 June 2010	\$	\$	\$
<b>Segment liabilities</b>	-	-	-
<i>Reconciliation of segment liabilities to group assets</i>			
Unallocated items:			
Trade and other payables			467,025
<b>Total group liabilities from continuing operations</b>			<b>467,025</b>



## Notes to the Consolidated Financial Statements (continued)

### 16. Share-Based Payments

#### (a) Employee Incentive Scheme

The Company has no Employee Incentive Scheme in place in the current financial year.

There were no options issued under the Employee Incentive Scheme during the year.

There were no share-based payment arrangements to Directors and employees existed at 30 June 2011. All options granted to Director's and employees are for ordinary shares in Red Emperor Resources NL, which confer a right of one ordinary share for every option held.

#### Fair value of options granted

There were no options granted under the plan during the current financial year.

#### (b) Expenses arising from share-based payment transactions

On 16 June 2010, the Company also announced the corporate advisory mandate with Max Capital Pty Ltd to provide introduction, facilitation and financing services. The shares issued to Max Capital as part consideration for introduction, facilitation and financing services during the financial year were:

- 4,500,000 on 20 July 2010
- 11,500,000 on 12 August 2010

The 4,500,000 shares were issued at \$0.09 per share and an amount of \$405,000 was recognised as an expense in the prior year. The 11,500,000 shares were also issued at \$0.09 per share, with \$495,000 being recognised as a corporate advisory expense and \$540,000 as share issue costs.

On 7 January 2011 the Company entered into a technical services agreement with West Holly Inc to provide ongoing technical advisory services with respect to the Georgian oil and gas interests for a term of 12 months. Upon successful completion of an executed transaction between the Company and Strait Oil and Gas (UK) the Company was to issue 7,000,000 shares for consideration. The 7,000,000 shares were issued on 30/05/2011 at \$0.175 per share, an amount of \$583,973 is recognised as a share based payment expense in the profit and loss for the year and \$641,027 has been recognised as a prepayment.

On 7 March 2011 the Company entered into an introduction and facilitation agreement with Park End Limited. Park End Limited provided the introduction and facilitation services with respect to Strait Oil and Gas (UK) and the Georgian oil and gas interests. Upon successful completion of an executed transaction between the Company and Strait Oil and Gas (UK) the Company was to issue 3,000,000 shares for consideration. The 3,000,000 shares were issued on 30/05/2011 at \$0.28 per share, an amount of \$840,000 has been recognised as a cost of the investment

## Notes to the Consolidated Financial Statements (continued)

### 17. Commitments and Contingent Liabilities

The group had contingent liabilities at 30 June 2011 in respect of:

#### (a) Exploration Expenditure Commitments

In order to maintain the group's exploration projects, the economic entity is committed to meet the prescribed conditions under which the projects were granted. These commitments may be met in the normal course of operations by future capital raisings and/or farm-out and under certain circumstances are subject to the possibility of adjustment to the amount and timing of such obligations.

	2011 \$	2010 \$
Exploration expenditure commitments		
Payable:		
- not later than 12 months	3,042,489	45,863
- between 12 months and 5 years	5,053,029	-
- greater than 5 years	-	-
	8,095,518	45,863

#### (b) Contingent liability

On 12 April the Company entered into a loan deed facility agreement with Max Capital Pty Ltd for the principle sum of \$1,000,000. The facility has since been terminated due to a term of the facility not being met. It was agreed that the facility would be terminated if the Company raised \$1,000,000 or more through debt or equity within a year from signing the agreement. The Company successfully raised \$1,000,000 by way of a Prospectus as part of the ASX re-quotations process.

### 18. Related Party Disclosure

The consolidated financial statements include the financial statements of Red Emperor Resources NL and the subsidiaries listed in the following table.

	Country of Incorporation	% Equity Interest 2011	% Equity Interest 2010
Puntland Oil Pty Ltd	Australia	100%	-
Georgian Oil Pty Ltd	Australia	100%	-

Both of the Company's subsidiaries were incorporated during the period and Red Emperor Resources NL acquired 100% of their share capital on their respective incorporation dates.

#### (a) Parent entities

Red Emperor Resources NL is the ultimate Australian parent entity.

#### (b) Subsidiaries

Interests in subsidiaries are set out above.

## Notes to the Consolidated Financial Statements (continued)

### 18. Related Party Disclosure (cont'd)

#### (c) Key Management Personnel

Disclosures relating to key management personnel are set out in note 22.

#### (d) Loans to/ from related parties

	2011 \$	2010 \$
<b>Loans to subsidiaries</b>		
Loans advance during the year	3,762,717	-
Write-down of intercompany loans	-	-
As at 30 June 2011	<u>3,762,717</u>	<u>-</u>

### 19. Events occurring after the reporting period

As a result of the magnitude of the Company's proposed investment pursuant to the Puntland Acquisition Agreement and the Georgian Acquisition Agreement, the Company was required to obtain Shareholder approval for a change of nature of activities and to comply with Chapters 1 and 2 of the ASX Listing Rules.

On 5 July 2011 the Company issued a Prospectus to raise a total of \$1 million at \$0.35. As part of the Company's recompliance with Chapters 1 and 2 of the ASX Listing Rules.

On 15 July 2011 the Company held a General Meeting of Shareholders to approve a change of nature in accordance with Chapters 1 and 2 of the ASX Listing Rules amongst other things and all resolutions were passed by a show of hands. As part of the General Meeting held on 15 July 2011, shareholders approved the issue of 4.5 million Unlisted Options (exercisable at \$0.30 on or before 30 June 2012) to directors.

The Company successfully completed its capital raising of \$1 million, satisfied its obligations under Chapters 1 and 2 of the ASX listing Rules and was quoted on the ASX on 27 July 2011.

On 14 July 2011 the first well in Georgia spudded and has since reached a depth of 1,452m to date.

On 18 August 2011 the Company announced its joint venture partner in Puntland, Africa Oil Corp had signed a drilling service contract. Spudding of the first well in Puntland, Somalia is expected to occur in Q4 2011 calendar year.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## Notes to the Consolidated Financial Statements (continued)

### 20. Auditor's Remuneration

	2011 \$	2010 \$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:		
▪ an audit or review of the financial report of the entity	20,000	26,3251
▪ non audit services	53,231	-
	73,231	26,325
1. Bentleys were the previous financial year auditor and BDO was appointed at the AGM held in November 2010.		

### 21. Cash Flow information

	2011 \$	2010 \$
<b>Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>		
Loss after income tax for the period	(2,769,759)	(1,150,426)
Adjustments for:		
Impairment expense of financial assets at fair value through profit or loss	-	24,109
Share based payments	1,483,973	-
Unrealised gains on shares/options	(49,661)	-
Share of loss of associate	189,024	-
Loss on disposal of shares	52,549	-
Net exchange differences	219,069	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(231,268)	(29,655)
Increase/(decrease) in exploration and evaluation expenditure	-	(108,924)
Increase/(decrease) in trade payables and accruals	129,939	469,913
Increase/(decrease) in provisions	-	12,983
<b>Net cash inflow/(outflow) from Operating Activities</b>	(976,134)	(782,000)

#### Non-cash financing and investing

During the year, the Company issued 3,000,000 shares (2010: nil) to the value of \$840,000 (2010: nil) as part of the cost of the investment in associate and 6,000,000 shares (2010: nil) to the value of \$540,000 (2010: nil) as consideration for introduction, facilitation and financing services.

### 22. Directors and Key Management Disclosures

#### (a) Directors

The following persons were directors of Red Emperor Resources NL during the financial year:

Name	Position
Mr Greg Bandy	Director (Executive) <sup>1</sup>
Mr Jason Bontempo	Director (Non-executive) <sup>2</sup>
Mr Stephen Brockhurst	Director (Non-executive)
Mr Kent Hunter	Director (Non-executive) <sup>3</sup>
Mr Terry Gardiner	Director (Non-executive) <sup>4</sup>

1. Appointed as a director on 1 August 2010
2. Appointed as a director on 24 January 2011
3. Resigned as a director on 1 August 2010
4. Resigned as a director on 24 January 2011

#### (b) Other key management personnel

There were no further key management personnel of the Group.

## Notes to the Consolidated Financial Statements (continued)

### 22. Directors and Key Management Disclosures (cont'd)

#### (c) Key management personnel compensation

	2011 \$	2010 \$
Short-term employee benefits	139,255	160,000
Post-employment benefits	11,184	14,400
<b>Total</b>	<b>150,439</b>	<b>174,400</b>

The Group has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors report. The relevant information can be found in sections A-C of the remunerations report on pages 11 to 15.

#### (d) Remuneration of Directors and Key Management Personnel

*Options provided as remuneration and shares issued on the exercise of such options*  
No options were provided as remuneration during the current or prior period.

##### *Option holdings*

The number of options over ordinary shares in the Group held during the financial year by each director of Red Emperor Resources NL and other key management personnel of the Group, including their personally related parties, are set out below.

2011	Balance at the start of the year	Granted as compen- sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors</b>							
Mr Greg Bandy	-	-	-	-	-	-	-
Mr Jason Bontempo	-	-	-	-	-	-	-
Mr Steve Brockhurst	-	-	-	-	-	-	-
Mr Kent Hunter	-	-	-	-	-	-	-
Mr Terry Gardiner	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-

2010	Balance at the start of the year	Granted as compen- sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors</b>							
Mr Greg Bandy	-	-	-	-	-	-	-
Mr Jason Bontempo	-	-	-	-	-	-	-
Mr Steve Brockhurst	125,000	-	-	(125,000)	-	-	-
Mr Kent Hunter	504,000	-	-	(504,000)	-	-	-
Mr Terry Gardiner	438,500	-	(4,000)	(434,500)	-	-	-
<b>Total</b>	<b>1,067,500</b>	<b>-</b>	<b>(4,000)</b>	<b>(1,063,500)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the Consolidated Financial Statements (continued)

### 22. Directors and Key Management Disclosures (cont'd)

#### (d) Remuneration of Directors and Key Management Personnel (cont'd)

##### Shareholdings

The numbers of shares in the Group held during the financial year by each director of Red Emperor Resources NL and other key management personnel of the Group, including their personally related parties are set out below. There were no shares granted during the reporting period as compensation.

##### Shareholdings

2011	Balance at the start of the year	Granted as compensation	Received on exercise of options	Other changes	Balance at end of the year
<b>Name</b>					
<b>Directors</b>					
Mr Greg Bandy	-	-	-	-	-
Mr Jason Bontempo <sup>1</sup>	-	-	-	-	-
Mr Steve Brockhurst	250,001	-	-	-	250,001
Mr Kent Hunter <sup>3</sup>	1,108,001	-	-	(1,108,001)	-
Mr Terry Gardiner <sup>2</sup>	1,001,100	-	-	(1,001,100)	-
<b>Total</b>	<b>2,359,102</b>	<b>-</b>	<b>-</b>	<b>(2,109,101)</b>	<b>250,001</b>

1. Mr Bontempo was appointed as a director on 24 January 2011.

2. Mr Gardiner resigned as a director on 1 August 2010.

3. Mr Hunter resigned as a director on 24 January 2011.

2010	Balance at the start of the year	Granted as compensation	Received on exercise of options	Other changes	Balance at end of the year
<b>Name</b>					
<b>Directors</b>					
Mr Greg Bandy	-	-	-	-	-
Mr Jason Bontempo	-	-	-	-	-
Mr Steve Brockhurst	250,001	-	-	-	250,001
Mr Kent Hunter	1,108,001	-	-	-	1,108,001-
Mr Terry Gardiner	948,600	-	4,000	48,500	1,001,100
<b>Total</b>	<b>2,306,602</b>	<b>-</b>	<b>4,000</b>	<b>48,500</b>	<b>2,359,102</b>

#### (e) Loans to key management personnel

There were no loans made or outstanding to directors of Red Emperor Resources NL and other key management personnel of the Group, including their personally related parties.

#### (f) Other transactions with key management personnel

The following payments were made to Director related entities:

An aggregate amount of \$14,510 (2010: \$68,939) was paid, or was due and payable to Mining Corporate Pty Ltd, a company of which Messrs Hunter and Brockhurst are Directors, for the provision of corporate and secretarial services to the Company.

## Notes to the Consolidated Financial Statements (continued)

### 22. Directors and Key Management Disclosures (cont'd)

#### (f) Other transactions with key management personnel (cont'd)

Mr Bandy is employed by Patersons Securities Limited as a Senior Private Client Advisor. Patersons Securities Limited has provided brokerage services to Red Emperor Resources NL on normal commercial terms and conditions. Patersons charges a 1% brokerage fee on any securities trading. Mr Bandy receives 45% of this brokerage fee personally as a commission from Patersons. An aggregate amount of \$8,477 was paid to Patersons Securities Limited during the financial year for brokerage services.

Aggregate amounts of each of the above types of other transactions with key management personnel of Red Emperor Resources NL:

	2011 \$	2010 \$
Amounts recognised as expense		
Company secretarial and financial management fees	14,510	68,939
Brokerage services	8,477	-
	22,987	68,939

### 23. Parent Entity Information

The following details information related to the parent entity, Red Emperor Resources NL, as at 30 June 2011. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2011 \$	2010 \$
Current assets	10,758,869	1,143,590
Non-current assets	5,380,623	768,120
<b>Total assets</b>	16,139,492	1,911,710
Current liabilities	596,964	467,025
<b>Total liabilities</b>	596,964	467,025
Contributed equity	21,976,015	5,299,019
Retained earnings/ (accumulated losses)	(6,680,834)	(3,879,914)
Reserve	25,580	25,580
<b>Total equity</b>	15,320,761	1,444,685
Profit/ (loss) after income tax	(2,800,920)	(1,150,426)
Other comprehensive income/ (loss) for the year	-	25,580
<b>Total comprehensive income/ (loss) for the year</b>	(2,800,920)	(1,124,846)

## **Notes to the Consolidated Financial Statements (continued)**

### **23. Parent Entity Information (cont'd)**

#### **Contingent liabilities**

As at 30 June 2011 and 2010, the Company had no contingent liabilities other than the contingent liability detailed in note 17.

#### **Contractual commitments**

As at 30 June 2011 and 2010, the Company had no contractual commitments other than exploration commitments detailed in note 17.

#### **Guarantees entered into by the parent entity**

The parent entity has provided financial guarantees in respect of agreements entered into by the subsidiaries.

The parent entity has given unsecured guarantees in respect of:

1. All exploration & evaluation expenditure commitment obligations for Puntland and the Georgian Project.



## Directors' Declaration

In the Directors' opinion:

- (a) the financial statements, comprising the statement of comprehensive income, statement of financial position, statement cashflows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001, including:
  - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and
  - iii. are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1 to the financial statements; and
- (b) In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- (c) The remuneration disclosures included in pages 11 to 15 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.
- (d) The Directors have been given the declarations by the executive director and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



---

**Greg Bandy**  
Executive Director

**Perth, Western Australia, 30 September 2011**

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

### Report on the Financial Report

We have audited the accompanying financial report of Red Emperor Resources NL, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, 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.



## Opinion

In our opinion:

- (a) the financial report of Red Emperor Resources NL is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Red Emperor Resources NL for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Peter Toll', with the BDO logo above it.

**Peter Toll**  
Director

Perth, Western Australia  
Dated this 30<sup>th</sup> day of September 2011

## Corporate Governance

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of the Company. The Board supports a system of corporate governance to ensure that the management of the Company is conducted to maximise shareholder wealth in a proper and ethical manner.

### ASX Corporate Governance Council Recommendations

The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations 2nd Edition") where considered appropriate for company of the Company's size and nature. Such policies include, but are not limited to the Board Charter, Board Committee Charters, Code of Conduct, Security Trading, Continuous Disclosure, Shareholder Communication and Risk Management Policies.

The Company's main corporate governance policies and practices are outlined below:

#### (a) Board of Directors

The Company's Board of Directors is responsible for corporate governance of the Company. The Board develops strategies and financial objectives for the Company, reviews strategic objectives and monitors performance against those objectives.

The Board acknowledges its accountability to Shareholders for creating Shareholder value within a framework which protects the rights and interests of Shareholders and ensures the Company is properly managed.

The objective of the Board is to provide an acceptable rate of return to the Company's Shareholders and take into account the interests of its employees, customers, suppliers, lenders and the wider community.

Each of the Directors, when representing the Company, must act in the best interest of Shareholders of the Company and in the best interests of the Company as a whole.

In carrying out the responsibilities and powers set out in the Board Charter, the Board:

- (i) recognises its overriding responsibilities to act honestly, fairly, diligently and in accordance with the law in serving the interests of its Shareholders; and
- (ii) recognises its duties and responsibilities to its employees, customers and the community.

#### (b) Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting.

The composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

The majority of the Board is comprised of Non-Executive Directors. Where practical, at least half of the Board will be independent. An independent Director is one who is independent of management and free from any business or other relationship, which could, or could reasonably be perceived to, materially interfere with, the exercise of independent judgement.

## Corporate Governance Statement (continued)

The Board is currently comprised of a majority of Non-Executive and independent Directors. The Board considers that its current structure is appropriate given the Company is in the early stages of its development and given the size, nature and scope of the Company's activities.

(c) Independent professional advice

The Board or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairperson. A copy of any such advice received is to be made available to all members of the Board.

(d) Remuneration arrangements

The total maximum remuneration of Non-Executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director.

The Board may award additional remuneration to Non-Executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

(e) Performance Assessment

The Board has adopted a formal process for an annual self assessment of its collective performance and the performance of individual directors. The Board is required to meet at least annually with the purpose of reviewing the role of the Board, assessing its performance over the previous 12 months and examining ways in which the Board can better perform its duties. The issues examined in the review include the Board's interaction with management, the type of information provided to the Board by management and management performance in helping the Board meet its objectives.

(f) External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

(g) Code of Conduct

A formal code of conduct for the Company applies to all directors and employees. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the Company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Directors, managers and employees are expected to act with the utmost integrity and objectivity, observe the highest standards of behaviour and business ethics and strive at all times to enhance the good reputation and performance of the Company by acting in the best interests of the Company, being responsible and accountable for their actions and observing the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

## Corporate Governance Statement (continued)

### (h) Audit committee

The Company does not have a separate constituted audit committee. The Board, as a whole, serves as an audit committee and acts in accordance with the Audit and Risk Management Committee Charter.

Pursuant to the charter, the audit and risk management responsibilities include:

- overseeing, co-ordinating and appraising the quality of the audits conducted by both the Company's external and internal auditors (if and when appointed);
- determining the independence and effectiveness of the external and internal auditors;
- maintaining open lines of communications among the Board and the internal and external auditors to exchange views and information, as well as confirm of their respective authority and responsibilities;
- serving as an independent and objective party to review the financial information submitted by management to the Board for issue to shareholders, regulatory authorities and the general public; and
- reviewing the adequacy of the reporting and accounting controls of the Company.

### (i) Nomination and Remuneration Committee

The Company does not have a separate constituted nomination and remuneration committee. The Board, as a whole, serves as a nomination and remuneration committee and acts in accordance with the Nomination and Remuneration Committee Charter.

Pursuant to the charter, the nomination and remuneration responsibilities include:

- reviewing and recommending the overall strategies in relation to executive remuneration policies;
- reviewing and make recommendations in respect of the compensation arrangements for all non-executive directors, the Chief Executive Officer and all other senior executives;
- reviewing the effectiveness of performance incentive plans;
- reviewing and make recommendations in respect of all equity based remuneration plans;
- reviewing and make recommendations in respect of the Company's recruitment, retention and termination policies and superannuation arrangements;
- reviewing the composition of the Board and ensuring that the Board has an appropriate mix of skills and experience to properly fulfil its responsibilities;
- ensuring that the Board is comprised of directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance;

## Corporate Governance Statement (continued)

- reviewing and make recommendations to the Board in respect of the succession plans of senior executives (other than executive Directors) and ensuring the performance of senior executives is reviewed at least annually; and
- considering nominations for potential candidates to act as Directors.

### (j) Identification and Management of Risk

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

The Board takes a proactive approach to risk management and have a formal risk management policy to provide further guidance. The identification and proper management of risk within the Company is a priority for the Board.

### (k) Policy for Trading in Company Securities

Trading in the Company's securities by directors and employees is not permitted when they are in possession of unpublished price sensitive information. Any transactions undertaken must be notified to the Chairman or the Board in advance.

Directors, officers and employees must not buy, sell or subscribe for securities if they are in possession of 'inside information' (information that is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of securities). The Corporations Act 2001 (Cth) provides that a reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

Subject to the insider trading restrictions above, it is the Company's policy that Directors, officers and employees will not deal in the Company's securities as a matter of course during:

- in the two days prior to the release of the Company's quarterly reports (if appropriate) and for one business day after the release of the report;
- two months prior before the release of the Company's half year financial results and for one business day after the release of the results;
- two months prior the release of the Company's full year financial results and for one business day after the release of the results;
- in any other period when the Company is in possession of unpublished price-sensitive information and for one business day after the release of such information; and
- any time it may be reasonably probable that notification of price-sensitive information is required pursuant to the ASX Listing Rules and for one business day after the release of such information.

## Corporate Governance Statement (continued)

The Company's policy also reinforces the Directors' and Company's statutory obligations to notify the ASX of any dealing in the securities which results in a change in the relevant interests of a Director in the securities. As contemplated in the ASX listing rules, each Director provides notice of such dealings to the Company Secretary within five business days of any such dealing to enable the Company to comply with its corresponding obligation to notify the ASX.

Subject to the insider trading restrictions above, Directors may trade outside the specified periods with approval from the Chairman or in the case of the Chairman intending to trade with approval from the Audit Committee Directors.

### (l) Continuous Disclosure and Shareholder Communication

The Company has a formal written policy for the continuous disclosure of any price sensitive information concerning the Company. The Board has also adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings.

The Chairman and the Company Secretary have been nominated as the Company's primary disclosure officers. All information released to the ASX is posted on the Company's web-site as soon as practicable after it is disclosed to the ASX. When analysts are briefed on aspects on the Company's operations, the material used in the presentation is released to the ASX and posted on the Company's web-site.

The Company is committed to providing shareholders and stakeholders with extensive, transparent, accessible and timely communications on the Company's activities, strategy and performance. In addition, the Company makes all market announcements, media briefings, details of shareholders meetings, press releases and financial reports available on the Company's website [www.redemperorresources.com](http://www.redemperorresources.com)

### (m) Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.



## Corporate Governance Statement (continued)

### ASX Best Practice Recommendations

The table below identifies the ASX Corporate Governance Principles and Recommendations (Principles) and whether or not the Company has complied with the recommendations during the reporting period:

	<b>Recommendation</b>	<b>Complied</b>	<b>Note</b>
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions	✓	
1.2	Disclose the process for evaluating the performance of senior executives	✓	
1.3	Provide the information indicated in the Guide to reporting on Principle 1	✓	
2.1	A majority of the board should be independent directors	✓	
2.2	The chair should be an independent director	✓	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	✓	
2.4	The board should establish a nomination committee	✗	Note 1
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors	✓	
2.6	Provide information indicated in the Guide to reporting on Principle 2	✓	
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>▪ the practices necessary to maintain confidence in the company's integrity</li> <li>▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul>	✓	
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	✗	Note 2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.	✗	Note 2
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✗	Note 2
3.3	Provide information indicated in the Guide to reporting on Principle 3	✓	
4.1	Establish an audit committee	✗	Note 3
4.2	Structure the audit committee so that it: <ul style="list-style-type: none"> <li>▪ consist only of non-executive directors</li> <li>▪ consists of a majority of independent directors</li> <li>▪ is chaired by an independent chair, who is not chair of the board</li> <li>▪ has at least three members</li> </ul>	✗	Note 3
4.3	The audit committee to have a formal charter	✓	
4.4	Provide the information indicated in the Guide to reporting on Principle 4	✓	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies	✓	
5.2	Provide the information indicated in the Guide to reporting on Principle 5	✓	
6.1	Design communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	✓	
6.2	Provide the information indicated in the Guide to reporting on Principle 6	✓	
7.1	Establish policies for oversight and management of material business risks and	✓	

	<b>Recommendation</b>	<b>Complied</b>	<b>Note</b>
	disclose a summary of those policies		
7.2	Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. Disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓	
7.3	Disclose whether assurance has been received from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓	
7.4	Provide information indicated in the Guide to reporting on Principle 7	✓	
8.1	Establish a remuneration committee	✗	Note 1
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓	
8.3	Provide the information indicated in the Guide to reporting on Principle 8	✓	

**Note 1:**

The Principles recommend that companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties and that companies should have a structure to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

**(a) Recommendation 2.4 – Nomination Committee**

Recommendation 2.4 of the Principles states that the board should establish a nomination committee that should be structured so that it:

- consists of a majority of independent directors;
- is chaired by an independent director; and
- has at least three members.

The Board does not have a separate nomination committee. The Board, as a whole, serves as a nomination committee and acts in accordance with the Nomination and Remuneration Committee Charter. The Board does not believe any efficiency or other benefits would currently be gained by establishing a separate nomination committee.

The responsibility for the selection of potential directors lies with the full Board of the Company. A separate nomination committee has not been constituted because the Board considers that the size of the current full Board permits it to act as the nomination committee and to regularly review membership. This includes an assessment of the necessary and desirable competencies of Board members, Board succession plans and an evaluation of the Board's performance and consideration of appointments and approvals.

When a Board vacancy occurs, the Board acting as the nomination committee, identifies the particular skills, experience and expertise that will best complement Board effectiveness, and then undertakes a process to identify candidates who can meet those criteria.

## Corporate Governance Statement (continued)

Directors are not appointed for specific terms, as their periods in office are regularly reviewed as part of annual performance evaluation processes and they are subject to re-election every three (3) years.

### (b) Recommendation 8.1 – Remuneration Committee

Recommendation 8.1 of the Principles states that the board should establish a remuneration committee that should be structured so that it:

- consists of a majority of independent directors;
- is chaired by an independent director; and
- has at least three members.

The Board does not have a separate remuneration committee. The Board, as a whole, serves as a remuneration committee and acts in accordance with the Nomination and Remuneration Committee Charter. The Board does not believe any efficiency or other benefits would currently be gained by establishing a separate remuneration committee.

The responsibility for remuneration of directors and senior management lies with the full Board of the Company. A separate remuneration committee has not been constituted because the Board considers that the size of the current full Board permits it to act as the remuneration committee and will review remuneration issues at regular Board meetings.

Given the size of the Board and the Company, the Board considers that this function is efficiently achieved by the full Board. In circumstances where the size of the Board is expanded as a result of the growth or complexity of the Company, the Board will reconsider the establishment of a remuneration committee to ensure compliance with the Principles where possible.

#### **Note 2:**

The Principles recommends that companies should actively promote ethical and responsible decision-making.

### (a) Recommendation 3.2 – Diversity Policy

Recommendation 3.2 states that companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The Company recognises that a talented and diverse workforce is a key competitive advantage and that an important contributor to the Company's success is the quality, diversity and skills of its people.

Under the Company's Code of Conduct, employees must not harass, discriminate or support others who harass and discriminate against colleagues or members of the public on the grounds of sex, pregnancy, marital status, age, race (including their colour, nationality, descent, ethnic or religious background), physical or intellectual impairment, homosexuality or transgender. Such harassment or discrimination may constitute an offence under legislation.

## Corporate Governance Statement (continued)

Due to the small scale of the Company's operations and the limited number of employees, the Company has not yet established a Diversity Policy. However, as the Company develops the Board will consider adopting such a policy.

### **(b) Recommendation 3.3 – Measurable Objectives for Achieving Gender Diversity**

Recommendation 3.3 of the Principles states that the board should disclose in each annual report the measurable objective for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Given the size of the Company, the Company has not yet set measurable objectives for achieving gender diversity. In addition, the Board will review progress against any objectives identified on an annual basis.

### **(c) Recommendation 3.4– Annual Report Disclosure**

Recommendation 3.4 of the Principles states that the board should disclose in each annual report:

- the proportion of women employees in the whole organisation;
- women in senior executive positions; and
- women on the board.

Given the size of the Board and the Company, the Board considers that this function is efficiently achieved with Ms Rebecca Sandford as the Company Secretary holding a senior executive position in the Company. The Company does not currently have any employees.

#### **Note 3:**

The Principles recommend that companies should have a structure to independently verify and safeguard the integrity of their financial reporting. Recommendation 4.1 of the Principles states that the board should establish an audit committee.

Recommendation 4.2 of the Principles states that the audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members.

The Board does not have a separate audit committee. The Board, as a whole, serves as a audit committee and acts in accordance with the Audit and Risk Management Committee Charter. The Board does not believe any efficiency or other benefits would currently be gained by establishing a separate audit committee.

The responsibility for preparation of financial statements and their audit lies with the full Board of the Company. A separate audit committee has not been constituted because the Board considers that the size of the current full Board permits it to act as the audit committee and will review audit issues at regular Board meetings.

## **Corporate Governance Statement (continued)**

Given the size of the Board and the Company, the Board considers that this function is efficiently achieved by the full Board. In circumstances where the size of the Board is expanded as a result of the growth or complexity of the Company, the Board will reconsider the establishment of an audit committee to ensure compliance with the Principles where possible.

## ASX Additional Information

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

### 1. Shareholdings

The issued capital of the Group as at 29 September 2011 is 152,473,256, ordinary fully paid shares, 7,500,000 partly paid shares to \$0.0001, 7,750,000 unlisted listed options (exercisable at \$0.30 cents, on or before 30 June 2012), 1,476,162 unlisted listed options (exercisable at £0.305 pence, on or before 21 July 2013). All issued ordinary fully paid shares carry one vote per share.

#### Ordinary Shares

Shares Range	Holders	Units	%
1-1,000	17	2,466	0.01
1,001-5,000	110	340,953	0.22
5,001-10,000	142	1,222,745	0.80
10,001-100,000	420	17,699,282	11.61
100,001-9,999,999	135	133,207,810	87.36
<b>Total</b>	<b>824</b>	<b>152,473,256</b>	<b>100.00</b>

#### Unmarketable parcels

There were 30 holders of less than a marketable parcel of ordinary shares.

### 2. Top 20 Shareholders as at 29 September 2011

	Name	Number of Shares	%
1	COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C>	61,749,466	40.50
2	JP MORGAN NOMINEES AUSTRALIA	8,313,890	5.45
3	J & J BANDY NOMINEES PTY LTD <J & J BANDY SUPER FUND A/C>	5,500,000	3.61
4	JAMEKER PTY LTD <AKJ FAMILY A/C>	3,600,000	2.36
5	MAX CAPITAL PTY LTD	3,000,000	1.97
6	SEVENTY THREE PTY LTD <KING SUPER FUND NO 3 A/C>	2,500,000	1.64
7	YELDEP PTY LTD <YELDEP A/C>	2,500,000	1.64
8	OKAP VENTURES PTY LTD	1,608,111	1.05
9	NAIL BITER PTY LTD <NAILBITER SUPER FUND A/C>	1,532,000	1.00
10	MR PIETER HOEKSTRA + MRS RUTH HOEKSTRA <HOEKSTRA SUPER FUND A/C>	1,480,356	0.97
11	ACCBELL NOMINEES PTY LTD	1,450,000	0.95
12	WEST HOLLY INC	1,350,000	0.89
13	MR DOMINIC CHARLES FLETCHER	1,315,000	0.86
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,198,900	0.79
15	MR GILBERT GAVARS	1,197,000	0.79
16	MR JEREMY PHILIP KING	987,778	0.65
17	MITCHELL FINANCIAL GROUP PTY LTD	830,000	0.54
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSI EDA	813,293	0.53
19	MR DAVID DAVIDSON + MRS ELIZABETH DAVIDSON <BLACK PRINCE S/FUND A/C>	800,000	0.52
20	MR GENE MATHESON + MS KATE MATHESON	795,000	0.52
	<b>Total</b>	<b>102,520,794</b>	<b>67.24</b>

## ASX Information (continued)

### 3. Substantial Shareholders as at 29 September 2011

	Name	Number of Shares	%
1	COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C>	61,749,466	40.50
2	JP MORGAN NOMINEES AUSTRALIA	8,313,890	5.45

### 4. Restricted Securities subject to escrow period

Securities subject to escrow are:

Category	Number of Shares	Period of Escrow
Ordinary fully paid shares	250,001	22 June 2012 (12 months from quotation)

### 5. Group cash and assets

In accordance with Listing Rule 4.10.19, the Group confirms that it has been using the cash and assets it had acquired at the time of admission and for the year ended 30 June 2011 in a way that is consistent with its business objective and strategy.