Red Emperor Resources NL and its Controlled Entities

ABN 99 124 734 961

Annual Report

For the year ended 30 June 2012

Contents

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 Shannon Robinson
Ms Rebecca Sandford

Registered Office

Ground Floor, 1 Havelock Street
West Perth WA 6005

Principal Place of Business

35 Richardson Street
West Perth WA 6005

Website

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 focused on its oil and gas exploration joint venture assets and completed its farm-in to the Puntland and Georgian Projects.

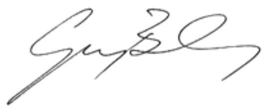
In Puntland, Red Emperor holds a 20% working interest in two oil and gas exploration licences encompassing the prospective Dharoor and Nugaal valleys. The joint venture completed two landmark exploration wells in the Dharoor Valley at the Puntland Project, being the Shabeel-1 well and then the Shabeel North well. Based on the encouraging results on the Shabeel wells, the joint venture enters the next exploration period with further seismic work planned for the Dharoor Valley block to delineate new structural prospects.

In the Republic of Georgia, Red Emperor has a 20% working interest in onshore oil and gas exploration blocks VIa and VIb, covering approx. 6,500km^2. During the financial year, the initial exploration well was drilled, the Mukhiani 1 on the Vani 3 Prospect on Block Via. The joint venture is focusing on a revised strategy is to evaluate low-cost, shallow appraisal drilling of the continental resources around the Tkibuli-Shaori coal deposit, which straddles the central sections of the joint venture's two blocks.

During the financial year the Company successfully raised over $30 million through share issues and options exercised, which ensures the Company's strong cash position and is fully funded.

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.

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 2012.

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
- Mr Jason Bontempo
- Mr Stephen Brockhurst

Principal Activities

The principal activity of the Group for the period was resource and oil and gas exploration. During the financial year the Company completed its earn-in obligations acquire a 20% farm-in interest in the Puntland oil and gas projects and a 20% interest in the Georgian oil and gas projects. The Company also relinquished its interest in the Jillewara Project during the year.

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 ($3,925,529) (2011: ($2,769,759)) for the year ended 30 June 2012.

Projects

Puntland

During the year, Red Emperor together with its joint venture partners successfully spud the landmark Shabeel 1 well in the Dharoor Valley, the first in a two well exploration program and the first exploration well in Puntland in over 20 years. The Shabeel North well was then spud soon after the completion of the Shabeel 1 well and was successfully completed subsequent to the year-end on reaching a target depth of 3,945m. The joint venture tested the upper Jessoma sands of the Shabeel North well which only produced fresh water, resulting in additional testing of the Jessoma sands on the Shabeel 1 well not being warranted.

Despite the fact that the joint venture was unable to test oil from either of these wells, the drilling has proven that three of the four vital components exist for hydrocarbon accumulations, namely an active petroleum generation system, as evidenced by the abundant oil and gas shows, potential reservoir sands in all three objectives and thick sealing rocks of tight carbonates, shales and anhydrites.

Georgia

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

Directors Report (continued)

The joint venture engaged independent technical consultants, NTD Energy, during the year to provide overall technical support with respect to current operations. As part of a strategic review of operations, the joint venture has embarked on a revised exploration and appraisal strategy for Blocks VIa and VIb in Georgia.

The revised strategy will focus on low-cost, shallow appraisal drilling of historically defined Contingent Resources around the Tkibuli-Shaori ("Tkibuli") CBM field, which straddles the central sections of the joint venture's two blocks.

By prioritising exploration around the productive coal seams, the joint venture has the opportunity to make early discoveries, add proven reserves and look to provide revenue potentially from the Tkibuli CBM play within 18 months from commencement of drilling, in conjunction with satisfying its Production Sharing Agreement ("PSA") commitments.

The joint venture also executed a conditional agreement with the Georgian Industrial Group ("GIG") regarding the joint development of the project and providing a commercial offtake for 100% of the gas produced.

Jillewarra

During in the year the Company relinquished its interest in the Jillewarra Project in Western Australia.

Corporate

During the quarter ended 30 September 2011 the Company sought shareholder approval to a change in nature of activities to a natural resources and mineral explorer and recompliance with the ASX Listing Rules. The Company issued 4,857,142 ordinary shares in total and 9,226,162 unlisted option in accordance with approvals at the July shareholder meeting.

During the quarter ended 31 December 2011, the Company completed a placement raising approximately $6.32 million by issue of securities to sophisticated investors in the UK and Australia.

During the quarter ended 31 March 2012, the Company completed a placement raising approximately $12 million by issue of securities to sophisticated investors in the UK and Australia. In addition a total of 1,636,363 ordinary shares were issued on exercise of unlisted options, raising a further $280,000.

During the quarter ended 30 June 2012, the Company successfully completed a placement raising approximately $9.4 million by issue of securities to sophisticated investors in the UK and Australia. In addition a total of 2,474,275 ordinary shares were issued on exercise of unlisted options, raising a further $655,000.

Significant Changes in State Of Affairs

As a result of the Company's farm-in to both the Puntland Project and the Georgian Project the Company sought shareholder approval in July 2011 for a change of nature of activities to a natural resources and mineral explorer and to comply with Chapters 1 and 2 of the ASX Listing Rules.

Matters Subsequent to the End of the Financial Year

Subsequent to the year end, the Company issued a further 7,500,000 ordinary shares raising $2.25 million in respect of underwritten unlisted options exercisable at $0.30 which expired on 30 June 2012.

There have been no post balance date events other than as stated above.

Directors Report (continued)

Likely Developments and Expected Results

The Group will continue its investment in resource projects with the object of identifying commercial resources. The Company intends to pursue acquisition and investment opportunities to secure new projects in the natural resources sector.

Financial Position

The net assets of the consolidated group have increased from $15,320,761 as at 30 June 2011 to $40,150,637 in 2012. The Group's working capital, being current asset less current liabilities, has improved from $10,161,005 in 2011 to $18,578,346 in 2012.

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.

Information on Directors

Mr Greg Bandy	-	Executive Director
Qualifications	-	BComm, ASXA1 (ASX)
Experience	-	Mr. Greg Bandy has over 12 years' experience in retail, corporate and capital markets, both in Australia and overseas. Mr Bandy is also currently a Director of Orca Energy Limited (ASX: OGY) and a former director of Car Park Technologies Limited (ASX: CPZ) (formerly Empire Beer Group Limited (ASX: EEE).
Interest in Shares and Options	-	400,000 Ordinary Fully Paid Shares
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)

Directors Report (continued)

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 AIM / ASX listings. Mr Bontempo is also currently a director of Glory Resources Limited, Chameleon Mining NL and Matrix Metals Limited.
Interest in Shares and Options	-	Nil
Current directorships	-	Orca Energy Limited (formerly Monitor Energy Limited) Glory Resources Limited Matrix Metals Limited Chameleon Mining NL
Former directorships held in past three years	-	African Iron Limited (February 2007 - January 2011) International Goldfields Limited (April 2008 – January 2012)

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
Interest in Shares and Options	-	250,001 Ordinary Fully Paid Shares
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)

Company Secretary (Joint)

Ms Shannon Robinson- General Counsel - LLB, B.Com (Accounting), ACIS, AAICD

Ms Robinson is an employee of Okap Ventures. Ms Robinson specialises in providing corporate advice in relation to acquisitions, takeovers, capital raisings, listing of companies including on ASX and AIM, due diligence reviews and compliance and managing legal issues associated with the activities undertaken by Okap Ventures' clients. Ms Robinson acts as the company secretary of a number of ASX and AIM listed companies. Ms Robinson is an associate of the Chartered Secretaries Australia and a member of AMPLA and has previously worked as a corporate lawyer at boutique law firms.

Ms Rebecca Sandford B.Bus

Ms Sandford is an employee of Okap Ventures where she specialises in corporate advisory and financial management services. Ms Sandford's experience 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 and AIM listed companies. Ms Sandford is a member of the Chartered Secretaries Australia.

Directors Report (continued)

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:

Base fees	**2012**
Executive director	$240,000
Other non-executive directors	$30,000

Additional fees

A Director may also be paid fees or other amounts as the Director 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 is comprised of base pay and benefits, including superannuation.

Base pay

The employment cost package which may be delivered as cash payments.

Executives are offered a competitive base pay that comprises the fixed component of pay. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed every 12 months and may increase every 12 months.

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, there have been no Options approved and issued to the Directors since the date of this financial report.

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.

- Mr Greg Bandy
- Mr Jason Bontempo
- Mr Stephen Brockhurst

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 payments	Total	Total Remuneration Represented by
30 June 2012	**Cash salary & Fees**	**Super-annuation Pensions**	**Options**		**Options**
Directors	**$**	**$**	**$**	**$**	**%**
Non-executive directors					
Jason Bontempo [1]	32,700	-	53,094	85,794	61.88
Stephen Brockhurst	30,022	2,702	26,547	59,271	44.77
Sub-total Non-executive directors	**62,722**	**2,702**	**79,641**	**145,065**	**-**
Executive directors					
Greg Bandy	230,000	20,700	159,281	409,981	38.85
Total key management personnel compensation (Group)	**292,722**	**23,402**	**159,281**	**409,981**	**-**

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

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
- 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;
- An increase in salary to $240,000 per year effective 1st May 2012 on a Total Employment Cost basis and is reviewed annually.

D Share-based compensation

Options

In July 2011, the Company issued 4,500,000 options at a value per option of $0.05 at grant date and exercisable at $0.30 to directors which expired unexercised on 30 June 2012. The primary purpose for issue was to appropriately remunerate and reward the directors for their efforts in successfully two significant transactions for the Company (refer to option valuation model inputs in Note 17)

Use of remuneration consultants

The Company has not employed the services of remuneration consultants during the period.

Voting and comments made at the company's 2011 Annual General Meeting

Red Emperor Resources NL received more than 90% of 'yes' votes on its remuneration report for 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

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
Number of Meetings Held	2	2
Number of Meetings Attended		
Director		
Mr Greg Bandy	2	2
Mr Jason Bontempo	2	2
Mr Stephen Brockhurst	2	2

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	21 July 2013	£0.305	1,476,162
30 December 2011	30 December 2014	£0.11	594,324
28 March 2012	28 March 2015	£0.18	5,492,000
30 April 2012	3 April 2015	£0.18	112,966
30 April 2012	3 December 2014	£0.305	3,690,403
26 April 2012	16 May 2015	£0.32	1,170,000

Shares issued on the exercise of options

There were 4,110,638 options exercised during the financial period.

Insurance of Officers

During the financial period, Red Emperor Resources NL paid a premium of $16,940 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*.

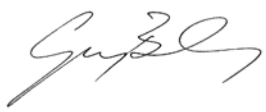
During the year the following fees were paid or payable for non-audit services provided by the auditor of the consolidated entity and its related practices:

	2012 $	2011 $
BDO Corporate Finance (WA) Pty Ltd		
- Non-audit services- IAR and AIM listing	11,565	53,231
Total non-audit services	11,565	53,231

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

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, 28 September 2012

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

28 September 2012

The Board of Directors
Red Emperor Resources NL
1 Havelock 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 2012, 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; and
- 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 year.

Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	2012 $	2011 $
Revenue from continuing operations	2	156,344	193,655
Other income	2	-	5,947
Finance costs		(942)	(9,207)
Employee and director benefits expense		(316,669)	(167,244)
Financial and company secretarial expenses		(152,123)	(90,110)
Consultants		(125,000)	(813,317)
Audit fees		(83,465)	(14,314)
Legal fees		(17,313)	(63,270)
Insurance		(14,362)	(15,596)
ASX and AIM and share registry fees		(372,848)	(421,997)
Travel		(218,620)	(218,970)
Accounting fees		(10,953)	(16,898)
Occupancy expense		(13,676)	(4,000)
Share based payments expense	16	(1,052,502)	(583,973)
Share of net loss of associate	9	(629,620)	(189,024)
Exploration expenditure written off		(774,026)	-
Loss on derivative liability	12	(303,942)	-
Unrealised FX gain/(loss)		367,620	(250,230)
Other expenses		(363,432)	(111,210)
Loss before income tax		(3,925,529)	(2,769,759)
Income tax expense	3	-	-
Loss for the year		**(3,925,529)**	**(2,769,759)**
Exchange difference on translation of foreign operations		(606,120)	(31,161)
Other Comprehensive Income		(606,120)	(31,161)
Total Comprehensive Loss for the year attributable to the owners of Red Emperor Resources NL		**(4,531,649)**	**(2,800,920)**
Total loss attributable to the owners of Red Emperor Resources NL		(4,531,649)	(2,800,920)
		Cents.	Cents.
Loss per share for loss attributable to the ordinary equity holders of the company:			
Basic loss per share (cents per share)	4	(2.1)	(3.5)
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 2012

	Note	2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	18,139,777	7,942,356
Trade and other receivables	7	1,060,102	2,816,113
Total Current Assets		19,199,879	10,758,469
Non-Current Assets			
Financial assets at fair value through profit and loss	8	400	400
Property, Plant & Equipment		20,241	-
Investment accounted for using the equity method	9	5,510,096	3,208,487
Exploration and evaluation expenditure	10	16,041,554	1,950,369
Total Non-current Assets		21,572,291	5,159,256
TOTAL ASSETS		40,772,170	15,917,725
LIABILITIES			
Current Liabilities			
Trade and other payables	11	139,925	596,964
Derivative financial liability	12	481,608	-
Total Current Liabilities		621,533	596,964
TOTAL LIABILITIES		621,533	596,964
NET ASSETS		40,150,637	15,320,761
EQUITY			
Issued Capital	13	47,531,732	21,976,015
Accumulated Losses	14	(10,575,200)	(6,649,673)
Reserves	14	3,194,105	(5,581)
TOTAL EQUITY		40,150,637	15,320,761

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 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,514,612)	(1,160,582)
Interest received		156,344	193,655
Finance cost		(942)	(9,207)
Net cash flows generated from / (used in) operating activities	21	(1,359,210)	(976,134)
Cash flows from investing activities			
Payments for acquisition of financial assets		-	(24,016)
Payments for property, plant and equipment		(20,241)	-
Proceeds from sale of financial assets		-	1,027,927
Loans received from other entities		35,000	-
Payments for exploration and evaluation		(12,831,945)	(1,182,250)
Payments to asset acquisition escrow account		883,290	(2,206,775)
Payments for investment in associate		(2,931,229)	(2,557,511)
Net cash flows used in investing activities		(14,865,125)	(4,942,625)
Cash flows from financing activities			
Proceeds from issue of shares and options		30,575,093	14,600,000
Payment of share issue and IPO costs		(4,520,484)	(888,004)
Net cash flows from financing activities		26,054,609	13,711,996
Net increase/ (decrease) in cash and cash equivalents		9,830,274	7,793,237
Cash and cash equivalents at beginning of year		7,942,356	60,001
Effects of exchange rate changes on cash and cash equivalents		367,147	89,118
Cash and cash equivalents at end of year	6	18,139,777	7,942,356

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 2012

	Issued Capital	Accumulated Losses	Forex Reserve	Option Reserve	Share Based Payment	Total
	$	$		$	$	$
Balance at 1 July 2010	**5,299,019**	**(3,879,914)**	**-**	**-**	**25,580**	**1,444,685**
Loss for the year	-	(2,769,759)	-	-	-	(2,769,759)
Exchange difference on foreign operations	-	-	(31,161)	-	-	(31,161)
Total Comprehensive Income	-	(2,769,759)	(31,161)	-	-	(2,800,920)
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)
Balance at 30 June 2011	**21,976,015**	**(6,649,673)**	**(31,161)**	**-**	**25,580**	**15,320,761**
Balance at 1 July 2011	**21,976,015**	**(6,649,673)**	**(31,161)**	**-**	**25,580**	**15,320,761**
Loss for the year	-	(3,925,529)	-	-	-	(3, ,925,529)
Exchange difference on foreign operations	-	-	(606,120)	-	-	(606,120)
Total Comprehensive Income	-	(3,925,527)	(606,120)	-	-	(4,535,649)
Transaction with owner, directly recorded in equity:						
Issue of shares	30,411,642	-	-	-	-	30,380,142
Issue of options	-	-	-	-	3,805,806	3,805,806
Share issue costs	(4,855,925)	-	-	-	-	(4,855,925)
Balance at 30 June 2012	**47,531,732**	**(10,575,200)**	**(637,281)**	**-**	**3,831,386**	**40,150,637**

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 2012 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.

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.

Notes to the Consolidated Financial Statements (continued)

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

(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.

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).

Notes to the Consolidated Financial Statements (continued)

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

(g) Employee benefits (cont'd)

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 of 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.

(j) Revenue Recognition

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).

Notes to the Consolidated Financial Statements (continued)

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

(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.

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.

Notes to the Consolidated Financial Statements (continued)

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

(n) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
AASB 9 (issued December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	1 January 2015	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2016 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 2010-8 (issued December 2010)	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB 112)	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.	Periods commencing on or after 1 January 2012	The Entity does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.
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.
AASB 2011-9 (issued September 2011)	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: • 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' • 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. • OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (and comparatives).

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.
Interpretation 20 (issued November 2011)	Stripping Costs in the Production Phase of a Surface Mine	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods commencing on or after 1 January 2013	The Entity does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.
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.

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 13 (issued September 2011)	Fair Value Measurement	AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.
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.

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Group.

Notes to the Consolidated Financial Statements (continued)

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

(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.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit and loss are recognized in profit or loss as part of the fair value gain or loss on translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(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(s).

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 28 September 2012 by the board of directors.

(v) Derivative financial liability

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of the reporting period. The subsequent changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss.

Notes to the Consolidated Financial Statements (continued)

2. Revenues & Other Income

	2012 $	2011 $
Revenue from continuing operations		
Bank interest	156,344	193,655
Other Income		
Profit on sales of shares & options	-	(52,549)
Unrealised gain on investment	-	58,496
	156,344	199,602

3. Income Tax

	2012 $	2011 $
Income tax expense		
Current tax	-	-
Deferred tax	-	-
Total income tax expense per income statement	-	-

Numerical reconciliation of income tax expense (revenue) To prima facie tax payable:

	2012 $	2011 $
Loss from continuing operations before income tax	(3,925,529)	(2,769,759)
Tax at the Australian tax rate of rate of 30%	(1,177,659)	(830,928)
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenses	748,381	539,041
Current year tax losses not recognised	315,963	179,379
Current year capital losses not recognised	72,742	237,499
Capital gain on expiry of options	-	-
Movement in unrecognised temporary differences	191,936	(83,013)
Utilisation of previously unrecognised capital losses	110,143	-
Deductible equity raising costs	(41,220)	(41,978)
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

	2012 $	2011 $
Exploration and evaluation expenditure	1,164	233,372
Timing differences	45	227
Off set of deferred tax assets	(1,209)	(233,599)
Net deferred tax liabilities	-	-

Deferred tax assets arising on timing

	2012 $	2011 $
Deferred tax assets arising on timing		
Tax revenue losses	1,097,562	781,599
Tax capital losses	252,214	252,214
Expenses taken to equity	-	78,673
Deductable temporary differences	230,598	160,857
	1,580,374	1,273,343
Off set of deferred tax liabilities	(1,209)	(233,599)
Net deferred tax assets not brought to account	1,579,165	1,039,744

At 30 June 2012, 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/(loss) 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:

	2012 $	2011 $
Loss after income tax	(3,925,529)	(2,769,759)
Basic loss per share attributable to equity holders		(0.035)
Diluted loss per share attributable to equity holders	n/a	n/a
	No.	**No.**
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted loss per share	188,509,519	79,198,915

As the Group has made a loss for the year ended 30 June 2012, 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.

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.

6. Cash and Cash Equivalents

	2012 $	2011 $
Current		
Cash at bank and in hand	18,139,777	7,942,356
	18,139,777	7,942,356

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.

Notes to the Consolidated Financial Statements (continued)

7. Trade and Other Receivables

	2012 $	2011 $
Current		
GST receivable	36,866	252,042
Loans receivable	-	60,000
Prepaid Insurance	3,117	12,910
Prepayment of services agreement	-	628,723
Trade debtors	35,984	-
Deposits paid	-	(4,988)
Asset acquisition escrow account	984,136	1,867,426
	1,060,103	2,816,113

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. Red Emperor drew down on USD$1 million from the facility in March 2012.

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	
	$	$	$	$	$	$	$
2012							
GST receivable	36,866	-	-	-	-	-	36,866
Loans receivable	-	-	-	-	-	-	-
Prepayments	3,117	-	-	-	-	-	3,177
Deposits paid	-	-	-	-	-	-	-
	39,983	**-**	**-**	**-**	**-**	**-**	**39,983**

Notes to the Consolidated Financial Statements (continued)

7. Trade and Other Receivables (cont'd)

	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	
	$	$	$	$	$	$	$
2011							
GST receivable	252,042	-	-	-	-	-	252,042
Loans receivable	60,000	-	-	-	-	60,000	-
Prepayments	606	-	-	-	-	-	606
Deposits paid	(4,988)	-	-	-	-	-	(4,988)
	307,660	**-**				**60,000**	**247,660**

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

8. Financial Assets

	2012 $	2011 $
Financial Assets at fair value through profit and loss		
Listed Investment at Fair Value	400	400
Available-for-sale financial assets		
	400	400

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.

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9. Investments accounted for using equity method

	2012 $	2011 $
Shares in associates	5,510,096	3,208,487
	5,510,096	3,208,487

a) Movements in carrying amounts

	2012 $	2011 $
Carrying amount at the beginning of the financial year	3,208,487	-
Cost of investment, net of transaction costs	2,931,229	3,397,511
Share of loss after income tax	(629,620)	(189,024)
Carrying amount at the end of the financial year	5,510,096	3,208,487

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:

		Company's share of:			
	Ownership Interest %	Assets $	Liabilities $	Revenues $	Loss $
2012					
Strait Oil and Gas (UK)	20%	5,510,096	-	-	629,620
2011					
Strait Oil and Gas (UK)	20%	3,932,946	3,341,970	-	189,024

The above associate is incorporated in the United Kingdom.

10. Exploration and evaluation expenditure

	2012 $	2011 $
Non – Current		
Exploration and evaluation expenditure		
Exploration and Evaluation at cost	16,041,554	1,950,369
Movement		
At 1 July 2011	1,950,369	768,120
Exploration Expenditure capitalised during the year	14,835,211	1,182,249
Exploration Expenditure written off	(744,026)	-
At 30 June 2012	16,041,554	1,950,369

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

	2012 $	2011 $
Current		
Trade payables	47,434	158,744
Accruals	92,491	438,220
	139,925	596,964

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. Derivative Financial Liability

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

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

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

An amount of $481,608has been recognised as a derivative financial liability at 30 June 2012 as the exercise price is denominated in GBP. At the 30th of June 2012 a loss of $303,942 on the derivative financial liability has been recognised in the profit and loss as a result of the movement in the exchange rate.

Notes to the Consolidated Financial Statements (continued)

13. Issued Capital

	Note	2012 Number	2011 Number	2012 $	2011 $
Ordinary shares- fully paid		258,734,221	147,616,114	47,531,732	21,975,265
Ordinary shares- partly paid *(paid $0.0001, $0.2499 unpaid)*		7,500,000	7,500,000	750	750
Total consolidated contributed equity		266,234,221	155,116,114	47,532,482	21,976,015

(a) The share capital of the group as at 30 June 2012 was Group 266,234,221 ordinary shares.

	2012 Number	2011 Number
Ordinary Shares – party paid (paid $0.0001, $0.2499 unpaid)		
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)

13. Issued Capital (cont'd)

(b) Movement in share capital.

Date	Details	No. of Shares	Issue Price	$
30/6/2010	Total	31,505,003	-	5,402,468
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	1,400,000
30/05/2011	Shares issued pursuant to a facilitation agreement	3,000,000	$0.28	600,000
Share issue costs				(1,428,004)
30/06/2011	Total	147,616,114	-	22,014,464
15/07/2011	Shares issued in a placement to sophisticated investors	2,000,000	$0.20	400,000
15/07/2011	Shares issued pursuant to a recompliance prospectus	4,857,142	$0.35	1,000,000
23/12/2011	Shares issued pursuant to a placement in UK and Australia	37,178,123	$0.17	6,320,281
01/03/2012	Shares issued pursuant to a placement in UK and Australia- Tranche 1	16,194,013	$0.265	4,291,413
21/03/2012	Shares issued on the exercise of options	1,636,363	$0.17	278,182
30/03/2012	Shares issued pursuant to a placement in UK and Australia- Tranche 2	29,278,191	$0.17	7,758,721
05/04/2012	Shares issued on the exercise of options	100,909	$0.17	17,154
11/04/2012	Shares issued on the exercise of options	2,123,366	$0.265	562,692
03/05/2012	Shares issued pursuant to a placement in UK and Australia	19,500,000	$0.4975	9,701,250
25/06/2012	Shares issued on the exercise of options	250,000	$0.30	75,000
Share issue costs				(4,855,925)
30/06/2012	**Total**	**258,734,221**	**-**	**47,531,732**

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.

Notes to the Consolidated Financial Statements (continued)

13. Issued Capital (cont'd)

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 2012 was $18,758,346 (2011: $10,161,505) and the net increase in cash held during the year was $10,197,421 (2011 cash held: $7,942,356).
The Group currently has $18,139,777 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)

14. Reserves

		2012 $	2011 $
(a)	**Reserves**		
	Foreign translation reserve	(637,281)	(31,161)
	Share based payments reserve	3,831,386	25,580
		3,194,105	(5,581)
	Movements		
	Foreign translation reserve		
	Balance at 30 June 2011	(31,161)	-
	Foreign translation difference on consolidation	(606,120)	(31,161)
	Balance at 30 June 2012	(637,281)	(31,161)
	Share based payments reserve		
	Balance at 30 June 2011	25,580	25,580
	Options issued to Directors & Consultants	3,805,806	-
	Balance at 30 June 2012	3,831,386	25,580

		2012 $	2011 $
(b)	**Accumulated losses**		
	Balance at 30 June 2011	(6,649,672)	(3,879,914)
	Net loss for the year	(3,925,529)	(2,769,759)
		(10,575,200)	(6,649,672)

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.

Share based payments reserve
The share based payments reserve is used to recognise the grant date fair value of options issued.

Notes to the Consolidated Financial Statements (continued)

15. 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 2012 AUD $	30 June 2011 AUD $
Asset acquisition escrow account	984,136	1,867,426

Sensitivity

Based on the financial instruments held at 30 June 2012, 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 $147,620 lower/$147,620 higher (2011 – $280,114 lower/$280,114 higher), 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)

15. 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)	2012	2011
	$	$
Increase in interest rate by 100 basis points	181,398	79,424
Decrease in interest rate by 100 basis points	(181,398)	(79,424)

Change in equity	2012	2011
	$	$
Increase in interest rate by 100 basis points	181,398	79,424
Decrease in interest rate by 100 basis points	(181,398)	(79,424)

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

2012

Financial Instrument	Floating interest rate	Fixed Interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest Bearing	Total	Weighted average effective interest rate
Financial Assets							
Cash	18,139,777	-	-	-	-	18,139,777	3.5%
Loan Receivable	-	-	-	-	-	-	-
Total financial assets	18,139,777	-	-	-	-	18,139,777	

2011

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

Notes to the Consolidated Financial Statements (continued)

15. 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:

Consolidated Group- Listed Investments	2012 %	2011 %
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:

	2012 $	2011 $
Cash and cash equivalents AA	18,139,777	7,942,356

(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 profits 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)

15. 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:

2012

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
Non-derivatives							
Trade payables	104,925	-	-	-	-	104,925	104,925
Accruals	192,666	-	-	-	-	192,666	192,666
Total financial liabilities	297,591	-	-	-	-	291,591	291,591

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
Non-derivatives							
Trade payables	47,434	-	-	-	-	47,434	47,434
Accruals	92,491	-	-	-	-	92,491	92,491
Total financial liabilities	139,925	-	-	-	-	139,925	139,925

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)

15. 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).

2012	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Financial assets at fair value through profit and loss	400	-	-	400
	400	-	-	400

2012	Level 1 $	Level 2 $	Level 3 $	Total $
Finance Liability				
Derivative finance liability	-	481,068	-	481,068
	-	481,068	-	481,068

2011	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Financial assets at fair value through profit and loss	400	-	-	400
	400	-	-	400

Notes to the Consolidated Financial Statements (continued)

16. 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 Group.

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 Group 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)

16. Operating Segment (cont'd)

Segment Performance

30 June 2012	Australian Exploration & Evaluation $	Georgian Exploration & Evaluation $	Puntland Exploration & Evaluation $	Treasury $	Total $
Revenue					
Interest revenue	-			156,344	156,344
Total segment revenue	-			156,344	156,344
Total group revenue	-			156,344	156,344
Segment net profit before tax	**-**			**156,344**	**156,344**
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	-			-	-
- relinquished asset expense written off	(774,026)			-	(774,026)
- share based payments expense	-			-	(1,052,502)
Unallocated items:					
Forex gain	-	-	-	367,145	367,145
Loss of associate	-	(629,620)	-	-	(629,620)
Employee and director benefits expense	-	-	-	-	(441,669)
Loss on Derivative liability	-	-	-	(303,942)	(303,942)
Other	-	-	-	-	(1,247,258)
Net loss before tax from continuing operations	**-**	**-**	**-**	**-**	**(3,925,529)**

Notes to the Consolidated Financial Statements (continued)

16. Operating Segment (cont'd)

Segment Performance (con't)

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
Segment net profit before tax	**-**	**193,655**	**193,655**
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)
Net loss before tax from continuing operations			**(2,769,759)**

Notes to the Consolidated Financial Statements (continued)

16. Operating Segment (cont'd)

Segment Assets

30 June 2012	Australian Exploration & Evaluation $	Georgian Exploration & Evaluation $	Puntland Exploration & Evaluation $	Treasury $	Total $
Segment assets	**-**	**5,510,496**	**16,037,673**	**24,521**	**21,572,690**
Segment assets for the year:					
- capital expenditure	-		16,037,673	3,880	16,041,554
- Investment accounted for using equity method	-	5,510,496	-	-	5,510,096
- Property, plant & equipment	-	-	-	20,241	20,241
- financial assets at fair value through profit and loss	-	-	-	400	400
Reconciliation of segment assets to group assets					
	-	5,510,496	16,037,673	24,521	21,572,690
Unallocated items:					
Cash and cash equivalents					18,139,777
Trade and other receivables					1,036,341
Total group assets from continuing operations					**40,772,170**

30 June 2011	Exploration & Evaluation $	Treasury $	Total
Segment assets	**5,158,856**	**400**	**5,159,256**
Segment assets for the year:			
- 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
Reconciliation of segment assets to group assets			
	5,158,856	400	5,159,256
Unallocated items:			
Cash and cash equivalents			7,942,356
Trade and other receivables			2,816,113
Total group assets from continuing operations			**15,917,725**

Notes to the Consolidated Financial Statements (continued)

16. Operating Segment (cont'd)

Segment Liabilities

30 June 2012	**Australian Exploration & Evaluation $**	**Georgian Exploration & Evaluation $**	**Puntland Exploration & Evaluation $**	**Treasury $**	**Total $**
Segment liabilities	**-**			**-**	**-**
Reconciliation of segment liabilities to group assets					
Unallocated items:					
Trade and other payables	-	-	-	-	139,925
Derivative financial liability	-	-	-	-	481,608
Total group liabilities from continuing operations	**-**	**-**	**-**	**-**	**-** **621,533**

30 June 2011	**Australian Exploration & Evaluation $**	**Georgian Exploration & Evaluation $**	**Puntland Exploration & Evaluation $**	**Treasury $**	**Total $**
Segment liabilities	**-**			**-**	**-**
Reconciliation of segment liabilities to group assets					
Unallocated items:					
Trade and other payables	-	-	-	-	158,744
Provisions	-	-	-	-	438,220
Total group liabilities from continuing operations	**-**	**-**	**-**	**-**	**596,964**

Notes to the Consolidated Financial Statements (continued)

17. 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 existing at 30 June 2012. 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

During the year the following share based payments were issued;

Date	Details	Expiry Date	Exercise Price	Number under Option
15/07/2011	Unlisted Options	30 June 2013	$0.30	7,750,000
15/07/2011	Unlisted Options	12 July 2013	$0.30	1,476,162
30/12/2011	Unlisted Options	30 December 2014	$0.17	2,230,687
28/03/2012	Unlisted Options	28 March 2015	$0.265	5,492,000
30/04/2012	Unlisted Options	3 April 2015	$0.265	2,236,332
30/04/2012	Unlisted Options	3 December 2014	$0.46	3,690,403
26/04/2012	Unlisted Options	16 May 2015	$0.49	1,170,000
30/06/2012	**Total**	-	**-**	**20,285,855**

The total expense arising from share-based transactions recognised during the year in the statement of comprehensive income is $1,052,502, made up as follows:

(i) Fair value of share options and assumptions- Director and Consultant Options
A total of 7,750,000 options were issued as consideration for director and consultant services and the amount of $411,475 expensed to the statement of comprehensive income.
The fair value of options granted during the period ended 31 December 2011 was $0.05. The fair value of service received in return for share options granted is measured by reference to the fair value of the options granted. The estimate of the fair value of the services is measured based on a Black-Scholes option valuation methodology. This life of the options and early exercise option are built into the option model.

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

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

Notes to the Consolidated Financial Statements (continued)

17. Share Based Payments (cont'd)

In addition, an amount of $641,027 relating to share based payments as part of initial investment in associate, vesting from prior period , was expensed to the statement of comprehensive income.

(ii) Fair value of share option assumptions – Options issued to consultants as consideration for services provided in the capital raising.

The total fair value of services received in return for share options granted is $3,611,560 which has been recognised in equity as a share issue cost.

The assumptions used for the options valuation in the Black-Scholes model is as follows:

Number of	2,230,687	1,476,162	5,492,000	2,236,332	3,690,403	1,170,000
Exercise price	$0.17	$0.40	0.27	0.27	0.47	0.49
Time to expiry	3 years	2 years	3 years	3 years	2 years	3.1 years
Share rice at	$0.20	$0.20	$0.375	$0.375	$0.375	$0.375
Expected	100.5%	100.5%	115%	115%	115%	115%
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Risk free	3.14	4.42%	2.33%	2.33%	2.40%	2.33%
Option Value	0.13	0.08	0.28	0.28	0.21	0.25

18. Commitments and Contingent Liabilities

The group had contingent liabilities at 30 June 2012 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.

	2012 $	2011 $
Exploration expenditure commitments		
Payable:		
- not later than 12 months	4,484,002	3,042,489
- between 12 months and 5 years	-	5,053,029
- greater than 5 years	-	-
	4,484,002	8,095,518

(b) Contingent liability

There are no contingent liabilities.

Notes to the Consolidated Financial Statements (continued)

19. 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 2012	% Equity Interest 2011
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.

(c) Key Management Personnel

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

(d) Loans to/ from related parties

	2012 $	2011 $
Loans to subsidiaries		
Loans advance during the year	20,753,505	3,762,717
Write-down of intercompany loans	(774,026)	-
As at 30 June 2012	19,979,479	3,762,717

Notes to the Consolidated Financial Statements (continued)

20. Auditor's Remuneration

	2012 $	2011 $
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:		
▪ an audit or review of the financial report of the entity	35,000	20,000
▪ non audit services	11,565	53,231
	46,565	73,231

1. Bentleys were the previous financial year auditor and BDO was appointed at the AGM held in November 2010.

21. Cash Flow information

	2012 $	2011 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax for the period	(3,925,529)	(2,769,759)
Adjustments for:		
Impairment expense of exploration and evaluation expenditure	774,026	-
Share based payments	1,052,502	1,483,973
Unrealised gains on shares/options	-	(49,661)
Share of loss of associate	629,602	189,024
Loss on derivative liability	303,942	-
Loss on disposal of shares	-	52,549
Net exchange differences	(1,492,725)	219,069
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,756,011	(231,268)
Increase/(decrease) in trade payables and accruals	(457,039)	129,939
Net cash inflow/(outflow) from Operating Activities	(1,359,210)	(976,134)

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)
Mr Jason Bontempo	Director (Non-executive)
Mr Stephen Brockhurst	Director (Non-executive)

(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) 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.

2012 Name	Balance at the start of the year	Granted as compen-sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors							
Mr Greg Bandy	-	3,000,000	-	(3,000,000)*	-	-	-
Mr Jason Bontempo	-	1,000,000	-	(1,000,000)*	-	-	-
Mr Steve Brockhurst	-	500,000	-	(500,000)*	-	-	-
Total	-	4,500,000	-	-	-	-	-

* The options granted as compensation expired at 30 June 2012 without being exercised.

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

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

2012 Name	Balance at the start of the year	Granted as compensation	Received on exercise of options	Other changes	Balance at end of the year
Directors					
Mr Greg Bandy	-	-	-	400,000	400,000
Mr Jason Bontempo[1]	-	-	-	-	-
Mr Steve Brockhurst	250,001	-	-	-	250,001
Total	250,001	-	-	400,000	650,001

Notes to the Consolidated Financial Statements (continued)

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

(d) Remuneration of Directors and Key Management Personnel

2011

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

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.

(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 $13,675 (2011: Nil) was paid, or was due and payable to Glory Resources Limited, a company of which Mr Bontempo is a Director, for the provision of office rental and outgoing services to the Company.

An aggregate amount of Nil (2011: $14,510) was paid, or was due and payable to Mining Corporate Pty Ltd, a company of which Mr Brockhurst is a Director, for the provision of corporate and secretarial services to the Company.

In the 2011 financial year Mr Bandy was employed by Patersons Securities Limited as a Senior Private Client Advisor. Patersons Securities Limited provided brokerage services to Red Emperor Resources NL on normal commercial terms and conditions. An aggregate amount of Nil (2011: $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:

	2012 $	2011 $
Amounts recognised as expense		
Office rental and outgoings	13,675	-
Company secretarial and financial management fees	-	14,510
Brokerage services	-	8,477
	13,675	22,987

Notes to the Consolidated Financial Statements (continued)

23. Parent Entity Information

The following details information related to the parent entity, Red Emperor Resources NL, as at 30 June 2012. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2012 $	2011 $
Current assets	18,236,384	10,758,869
Non-current assets	17,664,603	5,380,623
Total assets	35,900,987	16,139,492
Current liabilities	843,300	596,964
Total liabilities	843,300	596,964
Contributed equity	47,531,732	21,976,015
Accumulated losses	(9,976,692)	(6,680,834)
Reserve	3,381,386	25,580
Total equity	40,936,426	15,320,761
Loss after income tax	(3,295,858)	(2,800,920)
Other comprehensive loss for the year	-	-
Total comprehensive loss for the year	(3,925,858)	(2,800,920)

Contingent liabilities

As at 30 June 2012 and 2011, the Company had no contingent liabilities other than the contingent liability detailed in note 17.

Contractual commitments

As at 30 June 2012 and 2011, 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 2012 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 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, 28 September 2012

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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 2012, 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 gives a true and fair view and 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 company'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 company'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 audit report.

Basis for Qualified Opinion

Included in Red Emperor Resources NL's consolidated statement of financial position as at 30 June 2012 is an investment of 20% in associate entity, Strait Oil and Gas (UK) Limited, which is accounted for under the equity method and is carried at $5,510,096. Red Emperor's share of the net loss is $629,620 which is included in the consolidated statement of comprehensive income for the year ended 30 June 2012. We were unable to obtain sufficient appropriate audit evidence to verify the valuation of the investment or the loss brought to account for the year and as such we were unable to determine whether any adjustments to these amounts are necessary. Given this limitation of scope we cannot, and do not express an opinion on the investments in the associate or the result of the associate included in the consolidated statement of comprehensive income for the year ended 30 June 2012.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

(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 2012 and 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 the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 28th day of September 2012

Corporate Governance

The Board of Directors are responsible for the overall strategy, governance and performance of Red Emperor Resources NL and its controlled entities. The Group is an exploration Group whose strategy is to add substantial shareholder value through the acquisition, exploration, development and commercialisation of its projects. The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Group.

Principles of Best Practice Recommendations

In accordance with ASX Listing Rule 4.10, Red Emperor Resources NL is required to disclose the extent to which it has followed the Principles of Best Practice Recommendations during the financial year. Where Red Emperor Resources NL has not followed a recommendation, this has been identified and an explanation for the departure has been given. Further details can be found on the Group's website.

	BEST PRACTICE RECOMMENDATION	**COMMENT**
1.	***Lay solid foundations for management and oversight***	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Satisfied. Refer the Corporate Governance section on the Group website.
1.2	Companies should disclose the process for evaluation the performance of senior executives.	Satisfied.
1.3	Provide the information indicated in *Guide to Reporting on Principle 1.*	Satisfied. Refer to Director's report and the Corporate Governance section on the Group website.
2.	***Structure the board to add value***	
2.1	A majority of the board should be independent directors.	Satisfied.
2.2	The chairperson should be an independent director.	Satisfied.
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	The full Board consider all operational matters for the Company.
2.4	The board should establish a nomination committee.	Not satisfied. The Board considers that given the current size of the board, this function is efficiently achieved with full Board participation. Accordingly, the Board has resolved not to establish a nomination committee at this stage.
2.5	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	Not satisfied. The Group has not yet established formal performance review measures for key executives nor has it established a nomination committee given the size and stage of the Group's operations.
2.6	Provide the information indicated in *Guide to Reporting on Principle 2.*	Satisfied. Refer to Director's report and the Corporate Governance section on the Group website. In addition, the Board or individual Directors may seek independent external professional advice as considered necessary at the expense of the Group, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the

	BEST PRACTICE RECOMMENDATION	COMMENT
		Board.
3.	***Promote ethical and responsible decision-making***	
3.1	Companies should establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: (a) the practices necessary to maintain confidence in the group's integrity; and (b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders (c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Satisfied. Refer the Corporate Governance section on the Group website.
3.2	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 measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Satisfied. The Group recognises that a talented and diverse workforce is a key competitive advantage and that an important contributor to the Group's success is the quality, diversity and skills of its people. Under the Group'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. Due to the small scale of the Group's operations and the limited number of employees, the Group has not yet established a Diversity Policy. However, as the Group develops the Board will consider adopting such a policy.
3.3	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.	Not Satisfied. Given the size of the Group, the Group 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.
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.	Satisfied. Given the size of the Board and the Group, the Board considers that this function is efficiently achieved with the current Board. In addition Ms Sandford and Ms Robinson are joint Company Secretaries and Chief Financial Officer. The Group does not currently have any employees.
3.5	Provide the information indicated in *Guide to Reporting on Principle 3.*	Satisfied. Refer the Corporate Governance section on the Group website.
4.	***Safeguard integrity in financial reporting***	
4.1	The board should establish an audit committee.	Not Satisfied. The Directors believe that it would not increase efficiency or effectiveness to have a separate

	BEST PRACTICE RECOMMENDATION	COMMENT
		audit committee, and that audit matters are of such significance that they should be considered by the full Board. The Board may seek independent external professional advice as considered necessary if it requires assistance in this area.
4.2	Structure the audit committee so that it consists of: (a) only non-executive directors; (b) a majority of independent directors; (c) an independent chairperson, who is not chairperson of the board; and (d) at least three members.	Not satisfied. Refer 4.1.
4.3	The audit committee should have a formal charter.	Not satisfied. Refer 4.1.
4.4	Provide the information indicated in *Guide to Reporting on Principle 4.*	Satisfied. Refer to Director's report.
5.	***Make timely and balanced disclosure***	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Satisfied. Continuous disclosure policy is available in the Corporate Governance section on the Group website.
5.2	Provide the information indicated in *Guide to Reporting on Principle 5.*	Satisfied. Refer 5.1
6.	***Respect the rights of shareholders***	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Satisfied. Communications with Shareholders policy is available in the Corporate Governance section on the Group website.
6.2	Provide the information indicated in *Guide to Reporting on Principle 6.*	Satisfied. Refer to the Group website.
7.	***Recognise and manage risk***	
7.1	The Group should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Satisfied. Risk management policy is available in the Corporate Governance section on the Group website.
7.2	The Board should design and implement the risk management and internal control system to manage the group's material business risks and report on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks.	Satisfied. Refer 7.1 & 7.3
7.3	The board should disclose whether it has received assurances 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	Satisfied.

	BEST PRACTICE RECOMMENDATION	COMMENT
	control and that the system is operating effectively in all material respects in relation to financial reporting risks.	
7.4	Provide the information indicated in *Guide to Reporting on Principle 7.*	Satisfied. Refer 7.1
8.	***Remunerate fairly and responsibly***	
8.1	The board should establish a remuneration committee.	Not satisfied. The Board considered this recommendation and formed the view that it would not increase efficiency or effectiveness to have a separate committee, and that remuneration matters are of such significance that they should be considered by the full Board. The Board may seek independent external professional advice as considered necessary if it requires assistance in this area.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Details of remuneration are outlined in the Directors' report.
8.3	Provide the information indicated in *Guide to Reporting on Principle 8.*	Satisfied.

ASX Additional Information

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

1. Capital Structure

The issued capital of the Group as at 27 September 2012 is 266,234,221 ordinary fully paid shares and 7,500,000 partly paid shares to $0.0001. All issued ordinary fully paid shares carry one vote per share.

Date Options Granted	Expiry Date	Issue Price of Shares	Number Under Option
15 July 2011	21 July 2013	£0.305	1,476,162
30 December 2011	30 December 2014	£0.11	594,324
28 March 2012	28 March 2015	£0.18	5,492,000
30 April 2012	3 April 2015	£0.18	112,966
30 April 2012	3 December 2014	£0.305	3,690,403
26 April 2012	16 May 2015	£0.32	1,170,000

Ordinary Shares

Shares Range	Holders	Units	%
1-1,000	35	10,969	0.00
1,001-5,000	187	584,407	0.22
5,001-10,000	165	1,397,203	0.52
10,001-100,000	420	16,300,930	6.12
100,001-9,999,999	82	247,940,712	93.13
rounding			0.01
Total			**100.00**

Unmarketable parcels

There were 306 holders of less than a marketable parcel of ordinary shares.

ASX Information (continued)

2. Top 20 Shareholders as at 29 September 2011

	Name	Number of Shares	%
1	BARCLAYSHARE NOMINEES LIMITED	27,846,027	10.46
2	TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS>	19,870,719	7.46
3	L R NOMINEES LIMITED <NOMINEE>	16,738,225	6.29
4	HSDL NOMINEES LIMITED	13,398,880	5.03
5	INVESTOR NOMINEES LIMITED <NOMINEE>	11,283,781	4.24
6	HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942>	10,860,551	4.08
7	TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTISAS	10,108,975	3.80
8	INVESTOR NOMINEES LIMITED <WRAP>	9,695,973	3.64
9	HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED <731504>	9,642,998	3.62
10	HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA>	8,058,201	3.03
11	JP MORGAN NOMINEES AUSTRALIA	7,821,741	2.94
12	HARGREAVES LANSDOWN (NOMINEES) LIMITED <HLNOM>	6,708,170	2.52
13	HSDL NOMINEES LIMITED <MAXI>	5,297,564	1.99
14	ROY NOMINEES LIMITED <441960>	5,252,500	1.97
15	SHARE NOMINEES LTD	3,894,647	1.46
16	ROCK (NOMINEES) LIMITED <ISA>	3,244,896	1.22
17	JAMES CAPEL (NOMINEES) LIMITED <PC>	3,227,900	1.21
18	VIDACOS NOMINEES LIMITED <SL060>	3,144,490	1.18
19	JIM NOMINEES LIMITED <JARVIS>	3,052,092	1.15
20	PERISHING NOMINEES LIMITED <KSCLT>	2,150,356	0.81
	Total	**181,298,686**	**68.00**

3. Substantial Shareholders as at 28 September 2012

	Name	Number of Shares	%
1	BARCLAYSHARE NOMINEES LIMITED	27,846,027	10.46
2	TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS>	19,870,719	7.46
3	L R NOMINEES LIMITED <NOMINEE>	16,738,225	6.29
4	HSDL NOMINEES LIMITED	13,398,880	5.03

4. Restricted Securities subject to escrow period

There are no securities on issue subject to escrow.