red emperor
RESOURCES NL

# AND CONTROLLED ENTITIES

## ABN 99 124 734 961

# INTERIM FINANCIAL REPORT
# FOR THE HALF YEAR ENDED
# 31 DECEMBER 2012

## Contents



These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for ended 30 June 2012 and any public announcements made by Red Emperor Resources NL during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

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# Directors' Report

Your directors present their report on the consolidated entity of Red Emperor Resources NL and the entities it controlled at the end of, or during, the half year ended 31 December 2012.

## Directors

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

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

## Review of Operations for the Half Year ended 31 December 2012

The Consolidated Statement of Profit or loss and Other Comprehensive Income shows a consolidated net loss for the half year ended 31 December 2012 to members of $12,969 (2011: net loss of $2,907,696).

<u>Puntland Project</u>

During the half year Red Emperor's JV partner and operator of its Puntland Project, Horn Petroleum Corp, drilled the second of two exploration wells at Dharoor and conducted an open hole drill stem test at Shabeel North-1. The drilling rig and associated equipment has now been demobilised and Horn has completed restoration of both Shabeel drilling locations.

Efforts are now focused on making preparations for a seismic acquisition campaign in the Dharoor PSA which will include a regional seismic reconnaissance grid in the previously unexplored eastern portion of the basin as well as prospect specific seismic to delineate a drilling candidate in the western portion of the basin where an active petroleum system was confirmed by the recent drilling at the Shabeel-1 and Shabeel North-1 locations. The focus of the Dharoor seismic program will be to delineate new structural prospects for the upcoming drilling campaign.

Based on the encouragement provided by the two Shabeel wells, the Operator (Horn Petroleum Corporation) and its partners, Red Emperor and Range Resources, have entered into the next exploration period in both the Nugaal and Dharoor Valley Production Sharing Contracts ("PSCs") which carry a commitment to drill one well on each block within an additional 3 year term. The current operational plan would be to contract a seismic crew to acquire additional data in the Dharoor Valley block and to hold discussions with the Puntland Government to gain access regarding drill ready prospects in the Nugaal Valley block.

The Joint Venture has formally entered into next phase of the Dharoor and Nugaal Valley Production Sharing Agreements ("PSAs") and it is important to note that Red Emperor has now earned its 20% interest in the two projects and remains fully funded for the current program.

<u>Georgian Project</u>

During the half year the Joint Venture announced the completion of the acquisition of a 200km 2D seismic program. The majority of this recent seismic was acquired over Block VIb to firm up leads identified in the previous 410km 2D seismic program and tie to two gas wells, which were drilled and suspended in Soviet times.

## Review of Operations for the Half Year ended 31 December 2012 (Cont)

Two lines were also acquired over the site of the Mukhiani well, the first exploration well drilled in Block VIa. Red Emperor has been advised that processing is under way and results of the interpretation is expected to be completed in Q1 2013, with the joint venture confident that it will then have assembled the requisite amount of seismic and geological information to enable the JV to identify revised drillable targets and attract potential farm in partners if desired.

The JV continues to work towards the development of the CBM and conventional potential around the Tkibuli- Shaori Coal Field (“Tkibuli”). The Georgian Industrial Group (“GIG”) has made available a significant amount of information including a detailed geological model based on 339 wells drilled in the region, many of which vented methane. It is envisaged that following completion of the current technical and economic analysis, between three and four pilot production well locations will be identified with drilling expected to commence in 2H 2013.

## Subsequent Events

Subsequent to the end of the period the Company announced that, along with its joint venture partners, Strait Oil and Gas UK Limited and Range Resources Limited (together “the Consortium”) that it had executed a heads of agreement with the Georgian Industrial Group (“GIG”) with respect to the joint development of the Coal Bed Methane project (CBM) and conventional gas potential around the Tkibuli-Shaori Coal Field (“Tkibuli Project”) in the Republic of Georgia.

<u>Terms of Agreement</u>
GIG and the Consortium will jointly establish a Development Company on a 50:50 basis. The Development Company will be commencing feasibility and technical studies, followed by an initial three or four well pilot project. The appraisal / pilot production wells will be drilled first to clarify flow rates and other key parameters including optimum well construction / completion strategy, well spacing and water treatment and disposal requirements prior to full scale development. Based on a study by Advanced Resources International (“ARI”) full development would involve 6 CBM wells per annum that are forecast to produce between 0.3-0.5 mmcf/d per well. It is anticipated that over the first 3 years, production will build to rates that will fund further expansion of the CBM project.

The initial pilot project will focus on appraising area already known to be venting methane, thus ensuring a higher chance of success. The work programme is anticipated to commence in the second half of 2013 and will be predominantly debt financed, resulting in limited capital commitments for Red Emperor moving forward. New wells will target horizons at depths between 500 and 2,000 metres and can be drilled within approximately 45 days. The fast-track program is designed for gas production and sales to begin within 18 months given the existing infrastructure and logistics. GIG have agreed a take or pay arrangement for all gas produced by the Development Company at a 5% discount to a regional indexed price less transportation, thus removing the monetization risk so often faced with prospective CBM projects in the region. Over the last few years regional prices have averaged between US$8 - US$10 / mcf.

It is the intention of the Consortium to ensure that the first well of the pilot program counts as the commitment well with respect to retaining Block VIb. Red Emperor will be free carried for the full costs of this first well.

## Auditors Independence Declaration

The Auditor's Independence Declaration on page 4 forms part of the Director's Report for the half year ended 31 December 2012.

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

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

Greg Bandy
Executive Director
Perth, Western Australia, 13 March 2013

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

13 March 2013

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 for the review of Red Emperor Resources NL for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

**Peter Toll**
Director

**BDO Audit (WA) Pty Ltd**
Perth, Western Australia

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | Note | Half Year 31 December 2012 $ | Half Year 31 December 2011 $ |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Interest income | | 244,580 | 85,761 |
| Gain on derivative liability | 11 | 450,257 | - |
| Administration expenses | | (302,375) | (319,454) |
| Compliance and regulatory expenses | | (198,407) | (237,873) |
| Director fees | | (161,049) | (174,400) |
| Occupancy expense | | (13,552) | - |
| Corporate advisory | | (50,000) | (40,000) |
| Share based payments expense | 4 | - | (1,040,198) |
| Impairment of exploration expenditure | 6 | - | (774,026) |
| Share of net loss of associate | 7 | - | (629,620) |
| Foreign exchange gain/(loss) for all applicable occurrences | | 17,577 | 222,114 |
| **Loss before income tax expense** | | **(12,969)** | **(2,907,696)** |
| Income tax expense | | - | - |
| **Loss for the half year attributable to owners of the Company** | | (12,969) | (2,907,696) |
| Exchange difference on translation of foreign operations | | 367,675 | 438,746 |
| **Other comprehensive income** | | **367,675** | **438,746** |
| **Total comprehensive profit/loss for the half year attributable to owners of the Company** | | **354,706** | **(2,468,950)** |
| **Basic loss per share (cents per share)** | | **(0.005)** | **(0.162)** |
| **Diluted loss per share (cents per share)** | | **N/A** | **N/A** |

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Financial Position

| | Note | 31 December 2012 $ | 30 June 2012 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 13,771,216 | 18,139,777 |
| Trade and other receivables | 5 | 125,520 | 1,060,102 |
| **Total Current Assets** | | **13,896,736** | **19,199,879** |
| | | | |
| **Non-Current Assets** | | | |
| Financial assets at fair value through profit and loss | | 400 | 400 |
| Property, plant and equipment | | 20,241 | 20,241 |
| Investment accounted for using the equity method | 7 | 6,537,648 | 5,510,096 |
| Exploration and evaluation expenditure | 6 | 22,365,884 | 16,041,554 |
| **Total Non-current Assets** | | **28,924,173** | **21,572,291** |
| **TOTAL ASSETS** | | **42,820,909** | **40,772,170** |
| | | | |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | 156,946 | 139,925 |
| Derivative financial liability | 11 | 31,351 | 481,608 |
| **Total Current Liabilities** | | **188,296** | **621,533** |
| **TOTAL LIABILITIES** | | **188,296** | **621,533** |
| **NET ASSETS** | | **42,632,612** | **40,150,637** |
| | | | |
| **EQUITY** | | | |
| Issued Capital | 3 | 49,659,005 | 47,531,732 |
| Accumulated losses | | (10,588,173) | (10,575,200) |
| Reserves | 8 | 3,561,780 | 3,194,105 |
| **TOTAL EQUITY** | | **42,632,612** | **40,150,637** |

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

# Consolidated Statement of Changes in Equity

| | Issued Capital Ordinary | Accumulated losses | Forex Translation Reserve | Option Reserves | Share Based Payments Reserve | Total |
|---|---|---|---|---|---|---|
| | $ | $ | | $ | $ | $ |
| **As at 1 July 2011** | **21,976,015** | **(6,649,673)** | **(31,161)** | **-** | **25,580** | **15,320,761** |
| Loss for the period | - | (2,907,696) | - | - | - | **(2,907,696)** |
| Comprehensive income for the period | - | - | 438,746 | - | - | **438,746** |
| Total Comprehensive income/ (loss) for the period | - | (2,907,696) | 438,746 | - | - | **(2,468,950)** |
| Transactions with their owners in their capacity as owners: | | | | | | |
| Shares issued during the period | 7,735,101 | - | - | - | - | **7,735,101** |
| Transaction costs | (898,965) | - | - | - | - | **(898,965)** |
| Options issued during the period | - | - | - | 602,018 | - | **602,018** |
| **Subtotal** | **28,812,151** | **(2,907,696)** | **407,585** | **602,018** | **25,580** | **20,289,966** |
| **As at 31 December 2011** | **28,812,151** | **(9,557,368)** | **407,585** | **602,018** | **25,580** | **20,289,966** |
| **As at 1 July 2012** | 47,531,732 | (10,575,204) | (637,281) | - | 3,831,386 | **40,150,633** |
| Loss for the period | - | (12,969) | - | - | - | **(12,969)** |
| Comprehensive income for the period | - | - | 367,675 | - | - | **367,675** |
| Total Comprehensive loss for the period | - | (12,969) | 367,675 | - | - | **354,706** |
| Transactions with their owners in their capacity as owners: | | | | | | |
| Shares issued during the period | 2,250,000 | - | - | - | - | **2,250,000** |
| Transaction costs | (122,727) | - | - | - | - | **(122,727)** |
| Options issued during the period | - | - | - | - | - | **-** |
| **Subtotal** | **2,127,273** | **(12,969)** | **367,675** | **-** | **-** | **2,481,979** |
| **As at 31 December 2012** | **49,659,005** | **(10,588,173)** | **(269,606)** | **-** | **3,831,386** | **42,632,612** |

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

# Consolidated Statement of Cashflows

| | Note | 31 December 2012<br>$ | 31 December 2011<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments to suppliers and employees (inclusive of GST) | | (829,355) | (763,524) |
| Finance and interest costs | | (782) | (541) |
| Interest received | | 244,580 | 85,761 |
| **Net cash (used in) operating activities** | | **(585,557)** | **(678,304)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for exploration and evaluation | | (6,882,140) | (8,579,867) |
| Proceeds from acquisition escrow account | | 984,136 | - |
| Payment for purchase PP&E | | - | (19,997) |
| **Net cash (used in) investing activities** | | **(5,898,004)** | **(8,599,864)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares and options | | 2,250,000 | 6,512,224 |
| Payments for share issue costs | | (135,000) | (530,756) |
| Proceeds from repayment of loan | | - | 35,000 |
| **Net cash provided by financing activities** | | **2,115,000** | **6,016,468** |
| **Net increase/(decrease) in cash held** | | **(4,368,561)** | **(3,261,700)** |
| Cash and cash equivalents at the beginning of the half-year | | 18,139,777 | 7,942,356 |
| **Cash and cash equivalents at end of half-year** | | **13,771,216** | **4,680,656** |

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

# Notes to the Consolidated Financial Statements

## 1. Significant Accounting Policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2012 has been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Red Emperor Resources NL. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial report of the Group for the year ended 30 June 2012, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial report .

In the half-year ended 31 December 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2012.
It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

**Reporting Basis and Conventions**

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

### Dividends

No dividends were paid or declared during the period.

## 2. Segment Information

The Group operates in one industry, oil and gas exploration however due to the differing geographical areas and functional currencies the financial information has been broken down into Exploration and Treasury. During the half year the consolidated entity operated in two business segments, exploration & evaluation and treasury (other).

Basis of accounting for purposes of reporting by operating segments

# Notes to the Consolidated Financial Statements (Cont)

## 2. Segment Information (cont'd)

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

*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 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.

# Notes to the Financial Statements

## Note 2 – Segment Note

### Segment Performance

| Six months ended 31 December 2012 | Australian Exploration & Evaluation $ | Georgian Exploration & Evaluation $ | Puntland Exploration & Evaluation $ | Treasury $ | Total $ |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Interest revenue | - | - | - | 244,580 | 244,580 |
| Total segment revenue | - | - | - | 244,580 | 244,580 |
| Total Group revenue | - | - | - | 244,580 | 244,580 |
| **Segment net loss before tax** | **-** | **-** | **-** | **244,580** | **244,580** |
| *Reconciliation of segment result to Group net profit/(loss) before tax* | | | | | |
| Amounts not included in segment result but reviewed by the board: | | | | | |
| - Gain on derivative liability | | | | | 450,257 |
| Unallocated items: | | | | | |
| Forex gain | | | | | 17,577 |
| Employee and director benefits expense | | | | | (161,049) |
| Other | | | | | (564,334) |
| **Net loss before tax from continuing operations** | | | | | **(12,969)** |

# Notes to the Financial Statements (Cont)

## Note 2 – Segment Note (cont'd)

### Segment Performance (cont)

| Six months ended 31 December 2011 | Australian Exploration & Evaluation $ | Georgian Exploration & Evaluation $ | Puntland Exploration & Evaluation $ | Treasury $ | Total $ |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Interest revenue | - | - | - | 85,761 | 85,761 |
| Total segment revenue | - | - | - | 85,761 | 85,761 |
| | | | | | |
| Total Group revenue | - | - | - | 85,761 | 85,761 |
| **Segment net loss before tax** | **(774,026)** | **(629,620)** | **-** | **85,761** | **(1,317,885)** |
| *Reconciliation of segment result to Group net profit/(loss) before tax* | | | | | |
| Amounts not included in segment result but reviewed by the board: | | | | | |
| - share based payments expense | | | | | (1,040,198) |
| Unallocated items: | | | | | |
| Forex gain | | | | | 222,114 |
| Employee and director benefits expense | | | | | (174,400) |
| Other | | | | | (597,327) |
| **Net loss before tax from continuing operations** | | | | | **(2,907,696)** |

# Notes to the Financial Statements (Cont)

## Note 2 – Segment Note (cont'd)

### Segment Assets

| **31 December 2012** | **Australian Exploration & Evaluation $** | **Georgian Exploration & Evaluation $** | **Puntland Exploration & Evaluation $** | **Treasury $** | **Total $** |
|---|---|---|---|---|---|
| **Segment assets** | **-** | **6,537,648** | **22,362,004** | **24,521** | **28,924,173** |
| *Segment assets increases/ (decreases) for the half year:* | | | | | |
| - capital expenditure | - | - | 22,362,004 | 3,880 | 22,365,884 |
| - investment accounted for using equity method | - | 6,537,648 | - | - | 6,537,648 |
| - Property plant and equipment | - | - | - | 20,241 | 20,241 |
| - -financial assets at fair value through profit and loss | - | - | - | 400 | 400 |
| *Reconciliation of segment assets to Group assets* | | | | | |
| | - | 6,537,648 | 22,362,004 | 24,521 | 28,924,173 |
| Unallocated items: | | | | | |
| Cash and cash equivalents | | | | | 13,771,216 |
| Trade and other receivables | | | | | 125,520 |
| **Total Group assets from continuing operations** | | | | | **42,820,909** |

| **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 | 16,041,553 |
| - Investment accounted for using equity method | - | 5,510,496 | - | - | 5,510,496 |
| - 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 | | | | | 1,060,202 |
| **Total Group assets from continuing operations** | | | | | **40,772,170** |

# Notes to the Financial Statements (Cont)

## Note 2– Segment Note (cont'd)

### Segment Liabilities

| 31 December 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 | - | - | - | - | 156,946 |
| Derivative financial liability | - | - | - | - | 31,351 |
| **Total Group liabilities from continuing operations** | **-** | **-** | **-** | **-** | **188,297** |

| 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** |

# Notes to the Financial Statements (Cont)

## Note 3 – Issued Capital

| | Note | 2012 Number | 2011 Number | Dec 2012 $ | Dec 2011 $ |
|---|---|---|---|---|---|
| Ordinary shares- fully paid | | 266,234,221 | 189,651,379 | 49,659,005 | 28,811,401 |
| Ordinary shares- partly paid *(paid $0.0001, $0.2499 unpaid)* | | 7,500,000 | 7,500,000 | 750 | 750 |
| Total consolidated contributed equity | | 273,734,221 | 197,151,379 | 49,659,755 | 28,812,151 |

(a) The share capital of the Company as at 31 December 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 half year | - | - |
| At reporting date | 7,500,000 | 7,500,000 |

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

(b) Movement in share capital.

| Date | Details | No. of Shares | Issue Price | $ |
|---|---|---|---|---|
| 30/06/2011 | Total | 147,616,114 | - | 21,975,265 |
| 15/07/2011 | Shares issued pursuant to a placement | 2,000,000 | $0.20 | 400,000 |
| 15/07/2011 | Shares issued pursuant to a re-compliance prospectus | 2,857,142 | $0.35 | 1,000,000 |
| 23/12/2011 | Shares issued pursuant to a placement | 37,178,123 | $0.17 | 6,335,101 |
| Share issue costs | | | | (898,965) |
| **31/12/2011** | **Total** | **189,651,379** | **-** | **28,811,401** |
| 30/06/2012 | Total | 258,734,221 | - | 47,531,732 |
| 5/07/2012 | Shares issued pursuant to an option exercise | 7,500,000 | $0.30 | 2,250,000 |
| Share issue costs | | | | (122,727) |
| **31/12/2012** | **Total** | **266,234,221** | **-** | **49,659,005** |

# Notes to the Financial Statements (Cont)

## Note 4 – Share Based Payments

During the half year there were no share based payments issued.

## Note 5 – Trade and other receivables

| | 31 Dec 2012 $ | 30 June 2012 $ |
|---|---|---|
| Prepayments | 10,360 | 3,117 |
| Trade debtors | 35,984 | 35,984 |
| GST receivable | 79,176 | 36,866 |
| Acquisition escrow account | - | 984,135 |
| | 125,520 | 1,060,102 |

## Note 6 – Exploration and evaluation expenditure

| | 31 Dec 2012 $ | 30 June 2012 $ |
|---|---|---|
| **Exploration and evaluation expenditure** | | |
| Opening Balance | 16,041,554 | 1,950,369 |
| Exploration and evaluation expenditure capitalised during the period | 6,324,330 | 14,835,211 |
| Exploration expenditure written off | - | (744,026) |
| | **22,365,884** | **16,041,554** |

## Note 7 –Investments accounted for using equity method

| | 31 Dec 2012 $ | 30 June 2012 $ |
|---|---|---|
| Shares in associates | 6,537,648 | 5,510,096 |
| | 6,537,648 | 5,510,096 |

**a) Movements in investments**

| | 31 Dec 2012 $ | 30 June 2012 $ |
|---|---|---|
| Carrying amount at the beginning of the financial year | 5,510,096 | 3,208,487 |
| Cost of investment, net of transaction costs | 1,027,552 | 2,931,229 |
| Share of loss after income tax | - | (629,620) |
| Carrying amount at the end of the financial year | 6,537,648 | 5,510,096 |

# Notes to the Financial Statements (Cont)

## Note 8 –Reserves

| | | Dec 31 2012 $ | Dec 31 2011 $ |
|---|---|---|---|
| **(a)** | **Reserves** | | |
| | Share based payment reserve | 3,831,386 | 407,585 |
| | Foreign translation reserve | (269,606) | 627,598 |
| | | 3,561,780 | 1,035,183 |
| | | | |
| | **Movements** | | |
| | *Foreign translation reserve* | | |
| | Balance at 30 June 2012 | (637,281) | (31,161) |
| | Foreign translation difference on consolidation | 367,675 | 438,746 |
| | Balance at 31 December 2012 | (269,606) | 407,585 |
| | | | |
| | *Share based payment reserve* | | |
| | Balance at 30 June 2012 | 3,831,386 | - |
| | Options issued | - | 602,018 |
| | Balance at 31 December 2012 | 3,831,386 | 602,018 |

## Note 9 Related Party Disclosures

In November 2012 the board resolved to reduce Greg Bandy, Executive Director's salary from $230,000 to $180,000 per annum.

# Notes to the Financial Statements (Cont)

## Note 10 Commitment and Contingent Liabilities

The Directors are not aware of any contingent liabilities as at 31 December 2012. There has been no change in contingent liabilities since the last annual reporting date.

## Note 11 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:

| | |
|---|---|
| Underlying security spot price | £0.034 |
| Strike/ exercise price | £0.11 |
| Risk free rate | 0.8870% |
| Annual compounding bond rate | 0.8870% |
| Valuation rate | 31/12/2012 |
| Expiry date | 22/12/2014 |
| Expected volatility | 120% |
| Fair value of one warrant | £0.012 |

A total of $31,351 has been included as a derivative financial liability as the exercise price is denominated in GBP.

**Movements in Derivative Liability**

| | |
|---|---|
| Balance at 31 December 2011 | 177,666 |
| Movement in fair value of warrants | 303,942 |
| Balance at 30 June 2012 | 481,608 |
| Movement in fair value of warrants | (450,257) |
| Balance at 31 December 2012 | 31,351 |

# Notes to the Financial Statements (Cont)

## Note 12 Events Subsequent to Reporting Date

Subsequent to the end of the period the Company announced that, along with its joint venture partners, Strait Oil and Gas UK Limited and Range Resources Limited (together "the Consortium") that it had executed a heads of agreement with the Georgian Industrial Group ("GIG") with respect to the joint development of the Coal Bed Methane project (CBM) and conventional gas potential around the Tkibuli-Shaori Coal Field ("Tkibuli Project") in the Republic of Georgia.

Terms of Agreement
GIG and the Consortium will jointly establish a Development Company on a 50:50 basis. The Development Company will be commencing feasibility and technical studies, followed by an initial three or four well pilot project. The appraisal / pilot production wells will be drilled first to clarify flow rates and other key parameters including optimum well construction / completion strategy, well spacing and water treatment and disposal requirements prior to full scale development. Based on a study by Advanced Resources International ("ARI") full development would involve 6 CBM wells per annum that are forecast to produce between 0.3-0.5 mmcf/d per well. It is anticipated that over the first 3 years, production will build to rates that will fund further expansion of the CBM project.

The initial pilot project will focus on appraising area already known to be venting methane, thus ensuring a higher chance of success. The work programme is anticipated to commence in the second half of 2013 and will be predominantly debt financed, resulting in limited capital commitments for Red Emperor moving forward. New wells will target horizons at depths between 500 and 2,000 metres and can be drilled within approximately 45 days. The fast-track program is designed for gas production and sales to begin within 18 months given the existing infrastructure and logistics. GIG have agreed a take or pay arrangement for all gas produced by the Development Company at a 5% discount to a regional indexed price less transportation, thus removing the monetization risk so often faced with prospective CBM projects in the region. Over the last few years regional prices have averaged between US$8 - US$10 / mcf.

It is the intention of the Consortium to ensure that the first well of the pilot program counts as the commitment well with respect to retaining Block VIb. Red Emperor will be free carried for the full costs of this first well.

# Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes as set out on page 5 to 19 are in accordance with the Corporations Act 2001, including:

   (a) Complying with the Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements; and

   (b) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Executive Director:
Greg Bandy

Dated this 13 March 2013

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

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Red Emperor Resources NL, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

## Directors' Responsibility for the Half-Year Financial Report

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

## Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Red Emperor Resources NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

**Basis for Qualified Conclusion**

Included in Red Emperor Resources NL's consolidated statement of financial position as at 31 December 2012 is an investment in the associate Strait Oil and Gas (UK) Limited. This is accounted for under the equity method and carried at $6,537,648. We were unable to obtain sufficient appropriate audit evidence to verify the valuation of the investment as such we were unable to determine whether any adjustments to this amount is necessary. Given this limitation of scope we cannot, and do not express a conclusion on the investments in the associate for the period ended 31 December 2012. We were unable to obtain sufficient appropriate evidence to verify the accuracy of Red Emperor Resources share of Strait Oil and Gas (UK) Limited's net income/(loss) for the period because we were unable to gain access to the financial information of Strait Oil and Gas (UK) Limited.

**Qualified Conclusion**

Based on our review, which is not an audit, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the half year financial report of Red Emperor Resources NL is not in accordance with the Corporations Act including:

(a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half year ended on that date; and
(b) Complying with Accounting Standard AASB134 Interim Financial reporting and Corporations Regulations 2001.

**BDO Audit (WA) Pty Ltd**

BDO

**Peter Toll**
Director

Perth, Western Australia
Dated this 13th day of March 2013