ABN 99 124 734 961

## AND ITS CONTROLLED ENTITIES

# ANNUAL REPORT
## 30 JUNE 2016

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## CORPORATE DIRECTORY

**Directors**
Mr. Greg Bandy – Managing Director
Mr. Jason Bontempo – Non-Executive Director
Mr. Nathan Rayner – Non-Executive Director

**Company Secretary**
Mr. Aaron Bertolatti

**Registered Office**
First Floor
35 Richardson Street
West Perth WA 6005

**Share Registry**
Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

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

**Solicitors**
Occam Legal
Unit 8, 448 Roberts Road
Subiaco WA 6008

**Stock Exchange**
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
ASX Code: **RMP**

Alternative Investment Market of the London Stock Exchange (AIM)
AIM Code: **RMP**

**Website**
redemperorresources.com

The Directors present their report for Red Emperor Resources NL ("Red Emperor", "Red Emperor" or "the Company") and its subsidiaries ("the Group") for the year ended 30 June 2016.

## DIRECTORS

The names, qualifications and experience of the Company's Directors in office during the year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

**Mr. Greg Bandy – B.Com**
**Managing Director**

Mr. Bandy has over 15 years of experience in retail, corporate and capital markets, both in Australia and overseas. Mr. Bandy worked as a Senior Client Advisor at Montagu Stockbrokers and Patersons Securities for over 10 years before moving to the corporate sector.

A former director of Empire Beer Group Limited, Mr. Bandy oversaw the acquisition of Car Parking Technologies (now Smart Parking Limited ASX: SPZ) before stepping down as Executive Director. Mr. Bandy is also currently Managing Director of Orca Energy Limited (ASX: OGY).

**Mr. Jason Bontempo - B.Com, CA**
**Non-Executive Director**

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 Orca Energy Limited (ASX: OGY), Red Mountain Mining Limited (ASX: RMX) and Equator Resources Limited (ASX: EQU). Mr Bontempo is a former director of Glory Resources Limited (now delisted from the ASX).

**Mr. Nathan Rayner - B.Eng, MEngSc, GradCertBusAdmin, MAICD**
**Non-Executive Director**

Mr. Rayner is a Petroleum Engineer with over 15 years of experience, specialising in managing technical teams, resource evaluations and developing gas projects globally. Mr. Rayner held the position of Evaluation Manager for Addax Petroleum Ltd, based in Geneva, managing its West African new discovery field development planning, appraisal programs and resource portfolio.

Mr. Rayner is currently the Chief Operating Officer of Sunbird Energy Holdings Pty Ltd and is responsible for delivering the Full Field Development Plan for Sunbird Energy's Ibhubesi Gas Project. Prior to joining Sunbird Energy, Mr. Rayner held the position of Chief Operating Officer with Dart Energy Ltd, based in Singapore. As COO for Dart Energy, he had managerial, operational and technical responsibility for all international exploration, drilling and production activities in Europe, China, India and Indonesia. Mr Rayner is also currently a director of Orca Energy Limited (ASX: OGY).

## COMPANY SECRETARY

**Mr. Aaron Bertolatti – B.Com, CA, AGIA**

Mr. Bertolatti is a qualified Chartered Accountant and Company Secretary with over 9 years' experience in the mining industry and accounting profession. Mr. Bertolatti has both local and international experience and provides assistance to a number of resource companies with financial accounting and stock exchange compliance. Mr. Bertolatti has significant experience in the administration of ASX listed companies, corporate governance and corporate finance.

## INTERESTS IN THE SECURITIES OF THE COMPANY

As at the date of this report, the interests of the Directors in the securities of Red Emperor Resources NL are:

| Director | Ordinary Shares | Options – exercisable at $0.055 each on or before 31-Dec-17 |
|---|---|---|
| Greg Bandy | 1,000,000 | - |
| Jason Bontempo | - | - |
| Nathan Rayner | - | 3,500,000 |

## RESULTS OF OPERATIONS

The Company's net loss after taxation attributable to the members of Red Emperor for the year to 30 June 2016 was $9,034,572 (2015: $19,723,800).

## DIVIDENDS

No dividend was paid or declared by the Company during the year and up to the date of this report.

## CORPORATE STRUCTURE

Red Emperor Resources NL is a company limited by shares, which is incorporated and domiciled in Australia.

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Company during the financial year was oil and gas exploration.

## REVIEW OF OPERATIONS

**Philippines (SC 55)**
Red Emperor announced in August 2015 that the Hawkeye-1 exploration well was drilled to the planned total depth of 2,920m with the top reservoir intersected at 2,710m. The well proved the existence of hydrocarbons in SC55, however the hydrocarbon size discovered was at the low end of expectations and not likely to be economic to develop. Hawkeye-1 was plugged and abandoned. The drilling program was executed smoothly, ahead of schedule and significantly under budget with Red Emperor having paid a total of approximately AU$4.8m for its 15% equity proportion.

The Company announced during the year that the Joint Venture (JV) had formally received approval from the Philippines Department of Energy for a two-year moratorium, until 23 December 2017, on required work activity under Service Contract 55. During the moratorium period, the consortium will conduct specialised geophysical studies in the area surrounding the Hawkeye Prospect, which encountered gas shows when it was drilled last year. Although the Hawkeye well did not encounter gas in commercial quantities, it proved the presence of an active petroleum system in the contract area that hosts the "Cinco Prospect" as well as several other leads.

As announced previously, Otto Energy Limited (ASX: OEL) has advised the JV of its intention to exit the Block SC 55 as part of its strategy to focus on its North American assets. Red Emperor intends to have its full, proportionate interest be assigned and as a result its working interest will increase from 15% to 37.5%.

**Georgia**
Red Emperor, a 20% shareholder of Strait Oil and Gas Limited (Strait), was advised that the Georgian Government had confirmed the validity of the Production Sharing Contract (PSC) across Block VIa and the ability for Strait to access existing gas pipeline infrastructure, free of taxes. This important confirmation paves the way for ongoing sales negotiations with a potential purchaser of the PSC to continue. Red Emperor is not involved in these negotiations and can provide no certainty as to the likelihood of a successful outcome. Due diligence by both parties remains ongoing.

**Corporate**
In July 2015, the Company, through its London broker, Brandon Hill Capital, and its Australian broker, 708 Capital, placed 65,750,000 new ordinary shares at 4 pence (A$0.08) per share to raise £2.63 million (A$5.26 million) before expenses. Proceeds from the capital raising and existing cash resources were used to fund the drilling activities in the Philippines.

The Company also issued 4,320,000 unlisted options, exercisable at $0.08 each on or before 2 July 2018 as part consideration to advisors of the Company for capital raising fees associated with the July 2015 Share Placement.

Red Emperor reviewed a number of new opportunities with both its Australian and UK advisers respectively during the year. Whilst none of the projects reviewed resulted in a transaction, the Board remains committed to finding suitable new asset(s) to compliment the Company's current portfolio while oil & gas prices remain subdued.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS
There have been no significant changes in the state of affairs of the Group during the financial year, other than as set out in this report.

### SIGNIFICANT EVENTS AFTER THE REPORTING DATE
There have been no other significant events subsequent to the end of the financial year to the date of this report.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS
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.

### ENVIRONMENTAL REGULATIONS AND PERFORMANCE
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 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 no current reporting obligations under the Natural Greenhouse and Energy Reporting Act 2007 due to all operations occurring overseas. 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 year.

### SHARE OPTIONS
As at 30 June 2016 there were 8,820,000 unissued ordinary shares under options. The details of the options are as follows:

| Number | Exercise Price $ | Expiry Date |
|---|---|---|
| 4,500,000 | $0.055 | 31-Dec-17 |
| 4,320,000 | $0.080 | 2-Jul-18 |
| **8,820,000** | | |

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

No options expired unexercised during the financial year. No options were exercised during or since the year ended 30 June 2016.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has made an agreement indemnifying all the Directors and officers of the Company against all losses or liabilities incurred by each Director or officer in their capacity as Directors or officers of the Company to the extent permitted by the Corporations Act 2001. The indemnification specifically excludes wilful acts of negligence.

The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current officers of the Company, including officers of the Company's controlled entities. The liabilities insured are damages and 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.

During the financial period, Red Emperor Resources NL paid a premium of $15,786 (2015: $14,025) to insure the directors and officers of the Group and its controlled entities.

## DIRECTORS' MEETINGS

During the financial year, in addition to regular Board discussions, the number of formal meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

| Director | Number of Meetings Eligible to Attend | Number of Meetings Attended |
|---|---|---|
| Greg Bandy | 1 | 1 |
| Jason Bontempo | 1 | 1 |
| Nathan Rayner | 1 | 1 |

It should be noted that during the financial year, the Directors met regularly to discuss all matters associated with investment strategy, review of opportunities, and other Company matters on an informal basis. Circular resolutions were passed as necessary to execute formal Board decisions.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Red Emperor Resources NL support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Red Emperor is in compliance to the extent possible with those guidelines, which are of importance to the commercial operation of a junior listed resources company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company.

The Company has established a set of corporate governance policies and procedures which can be found, along with the Company's Corporate Governance Statement, on Red Emperor's website: redemperorresources.com.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of Red Emperor with an Independence Declaration in relation to the audit of the financial report. A copy of that declaration is included at page 28 of the annual report. There were no non-audit services provided by the Company's auditor.

## AUDITED REMUNERATION REPORT

This report, which forms part of the directors' report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of Red Emperor Resources NL for the financial year ended 30 June 2016. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

### Details of Key Management Personnel

| | |
|---|---|
| Mr. Greg Bandy | Managing Director |
| Mr. Jason Bontempo | Non-Executive Director |
| Mr. Nathan Rayner | Non-Executive Director |
| Mr. Aaron Bertolatti | Company Secretary |

### Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a yearly basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The expected outcome of this remuneration structure is to retain and motivate Directors.

As part of its Corporate Governance Policies and Procedures, the board has adopted a formal Remuneration Committee Charter and Remuneration Policy. 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.

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 Chair's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. Non-executive directors do not receive performance-based pay.

The following fees have applied:

| Level | Cash Remuneration |
|---|---|
| Managing Director | $180,000 |
| Non-Executive Director | $30,000 - $36,000 |

*Additional fees*
A Director may also be paid fees or other amounts as the Directors determine 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*
Superannuation contributions required under the Australian Superannuation Guarantee Legislation continue to be made and are deducted from the directors' overall fee entitlements where applicable.

**Details of Remuneration**
Details of the nature and amount of each element of the remuneration of each Director and Executive of the Company for the year ended 30 June 2016 are as follows:

| 2016 | Short term | | | Options | Post employment | | Total | Option |
|---|---|---|---|---|---|---|---|---|
| | Base Salary $ | Directors Fees $ | Consulting Fees $ | Share Based Payments $ | Superannuation $ | Prescribed Benefits $ | $ | related % |
| **Directors** | | | | | | | | |
| Greg Bandy | 180,000 | - | - | - | 17,100 | - | 197,100 | - |
| Jason Bontempo | - | 30,000 | - | - | 2,850 | - | 32,850 | - |
| Nathan Rayner | - | 36,000 | - | 24,059 | - | - | 60,059 | 40.1 |
| **Key Management** | | | | | | | | |
| Aaron Bertolatti | - | - | 42,000 | 6,875 | - | - | 48,875 | 14.1 |
| | **180,000** | **66,000** | **42,000** | **30,934** | **19,950** | **-** | **338,884** | |

There were no other executive officers of the Company during the financial year ended 30 June 2016.

| 2015 | Short term | | | Options | Post employment | | Total | Option |
|---|---|---|---|---|---|---|---|---|
| | Base Salary $ | Directors Fees $ | Consulting Fees $ | Share Based Payments $ | Superannuation $ | Prescribed Benefits $ | $ | related % |
| **Directors** | | | | | | | | |
| Greg Bandy | 180,000 | - | - | - | 17,100 | - | 197,100 | - |
| Jason Bontempo | - | 30,000 | - | - | 2,700 | - | 32,700 | - |
| Steve Brockhurst[1] | - | 9,249 | - | - | 675 | - | 9,924 | - |
| Nathan Rayner[2] | - | 24,744 | - | 28,483 | - | - | 53,227 | 53.5 |
| **Key Management** | | | | | | | | |
| Aaron Bertolatti[3] | - | - | 36,682 | 8,036 | - | - | 44,718 | 18.0 |
| | **180,000** | **63,993** | **36,682** | **36,519** | **20,475** | **-** | **337,669** | |

There were no other executive officers of the Company during the financial year ended 30 June 2015.

[1] Mr. Brockhurst resigned as a Non-Executive Director on 23 October 2014.
[2] Mr. Rayner was appointed as a Non-Executive Director on 23 October 2014.
[3] Mr. Bertolatti was appointed as Company Secretary on 2 September 2014.

**Shareholdings of Key Management Personnel**
The number of shares in the Company held during the financial year by each Director and specified executives of the Group, including their personally related parties, is set out below. There were no shares granted during the reporting year as compensation.

| 2016 | Balance at the start of the year | Granted during the year as compensation | On exercise of share options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| Greg Bandy | 400,000 | - | - | 600,000 | 1,000,000 |
| Jason Bontempo | - | - | - | - | - |
| Nathan Rayner | - | - | - | - | - |
| Aaron Bertolatti | 375,000 | - | - | - | 375,000 |

All equity transactions with key management personnel other than arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

**Option holdings of Key Management Personnel**
The numbers of options over ordinary shares in the Company held during the financial year by each Director of Red Emperor Resources NL and specified executives of the Group, including their personally related parties, are set out below:

| 2016 | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Exercisable | Un-exercisable |
|---|---|---|---|---|---|---|---|
| Greg Bandy | - | - | - | - | - | - | - |
| Jason Bontempo | - | - | - | - | - | - | - |
| Nathan Rayner | 3,500,000 | - | - | - | 3,500,000 | 3,500,000 | - |
| Aaron Bertolatti | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 | - |

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Options granted as part of remuneration have been valued using the 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 and the risk free interest rate for the term of the option.

Options granted under the plan carry no dividend or voting rights. For details on the valuation of options, including models and assumptions used, please refer to note 21.

**Service Agreements**
**Executive Directors**
The Company has a service agreement with Mr Greg Bandy as Managing Director. The key terms are summarised as follows;

- Employment commencing 1 December 2013 until agreement is validly terminated in accordance with the terms;
- The Company may terminate the employment by giving 12 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 21 days of the receipt of written notice from the Company to do so;
- The Company may terminate the employment without reason by providing 12 months written notice;
- Mr Bandy may terminate the employment by providing 6 months written notice to the Company;
- On termination of the employment, Mr Bandy is entitled to payment of any accrued annual leave entitlements; and
- A salary of $180,000 per year effective 28th November 2013 on a Total Employment Cost basis and is reviewed annually.

**Non-executive Directors**
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 director.

**Loans to Directors and Executives**
There were no loans to Directors and executives during the financial year ended 30 June 2016.

**Voting and comments made at the Company's 2015 Annual General Meeting**
Red Emperor Resources NL received 97.6% of "yes" votes on its remuneration report for the 2015 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

**END OF AUDITED REMUNERATION REPORT**

Signed on behalf of the board in accordance with a resolution of the Directors.

**Greg Bandy**
**Managing Director**

Perth, Western Australia
29 September 2016

## Consolidated Statement of Profit or Loss and Other Comprehensive Income
***for the year ended 30 June 2016***

| | Note | 30 June 2016 $ | 30 June 2015 $ |
|---|---|---|---|
| **Continuing Operations** | | | |
| Interest received | 3 | 239,406 | 338,059 |
| | | | |
| Employee and director benefits expense | | (265,950) | (274,858) |
| Professional and Consultants | | (570,771) | (301,157) |
| ASX and AIM and share registry fees | | (83,731) | (113,661) |
| Travel expenditure | | (72,799) | (119,284) |
| Impairment expense | 10 | (7,711,110) | (19,355,434) |
| Gain on derivative liability | 12 | - | 783 |
| Realised gain on investment | 8 | - | 320,000 |
| Realised Foreign exchange gain | | 28,341 | - |
| Unrealised Foreign exchange (loss)/gain | | (423,331) | 14,632 |
| Share based payment expense | 21(a) | (30,934) | (57,519) |
| Other expenses | | (143,693) | (175,361) |
| **Loss before income tax** | | **(9,034,572)** | **(19,723,800)** |
| | | | |
| Income tax expense | 4 | - | - |
| | | | |
| **Net loss for the year** | | **(9,034,572)** | **(19,723,800)** |
| | | | |
| **Other comprehensive loss** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Other comprehensive loss | | 13,938 | (356) |
| **Other comprehensive income for the year net of tax** | | 13,938 | (356) |
| **Total comprehensive loss for the year** | | **(9,020,634)** | **(19,724,156)** |
| | | | |
| **Loss per share** | | | |
| Basic loss per share (cents) | 19 | (2.13) | (6.77) |
| Diluted loss per share (cents) | 19 | N/A | N/A |

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position *as at 30 June 2016*

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | 11,715,540 | 12,494,427 |
| Trade and other receivables | 6 | 33,415 | 618,316 |
| Assets held for sale | 7 | - | 3,000,000 |
| **Total Current Assets** | | 11,748,955 | 16,112,743 |
| | | | |
| **Non-Current Assets** | | | |
| Financial assets at fair value through profit and loss | 8 | 400 | 400 |
| Investment accounted for using the equity method | 9 | - | - |
| Exploration and evaluation expenditure | 10 | - | - |
| **Total Non-Current Assets** | | 400 | 400 |
| **Total Assets** | | 11,749,355 | 16,113,143 |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 69,946 | 819,254 |
| Derivative financial liability | 12 | - | - |
| **Total Current Liabilities** | | 69,946 | 819,254 |
| **Total Liabilities** | | 69,946 | 819,254 |
| | | | |
| **Net Assets** | | **11,679,409** | **15,293,889** |
| | | | |
| **Equity** | | | |
| Issued capital | 13 | 57,329,505 | 52,167,148 |
| Reserves | 14 | 4,096,879 | 3,839,144 |
| Accumulated losses | 15 | (49,746,975) | (40,712,403) |
| **Total Equity** | | **11,679,409** | **15,293,889** |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity *for the year ended 30 June 2016*

| | Issued capital $ | Accumulated losses $ | Foreign exchange translation reserve $ | Share based payments reserve $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 July 2014** | **49,646,733** | **(20,988,603)** | **(28,405)** | **3,831,386** | **32,461,111** |
| **Total comprehensive loss for the year** | | | | | |
| Loss for the year | - | (19,723,800) | - | - | (19,723,800) |
| Other Comprehensive Loss | - | - | (356) | - | (356) |
| **Total comprehensive loss for the year** | - | (19,723,800) | (356) | - | (19,724,156) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of shares | 3,475,965 | - | - | - | 3,475,965 |
| Share based payments | 21,000 | - | - | 36,519 | 57,519 |
| Cost of issue | (976,550) | - | - | - | (976,550) |
| **Balance at 30 June 2015** | **52,167,148** | **(40,712,403)** | **(28,761)** | **3,867,905** | **15,293,889** |
| | | | | | |
| **Balance at 1 July 2015** | **52,167,148** | **(40,712,403)** | **(28,761)** | **3,867,905** | **15,293,889** |
| **Total comprehensive loss for the year** | | | | | |
| Loss for the year | - | (9,034,572) | - | - | (9,034,572) |
| Other Comprehensive Loss | - | - | 13,938 | - | 13,938 |
| **Total comprehensive loss for the year** | - | (9,034,572) | 13,938 | - | (9,020,634) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of shares | 5,763,718 | - | - | - | 5,763,718 |
| Share based payments | - | - | - | 30,934 | 30,934 |
| Cost of issue | (601,361) | - | - | 212,863 | (388,498) |
| **Balance at 30 June 2016** | **57,329,505** | **(49,746,975)** | **(14,823)** | **4,111,702** | **11,679,409** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows *for the year ended 30 June 2016*

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (1,113,641) | (1,020,479) |
| Interest received | | 239,406 | 338,059 |
| Finance cost | | 28,341 | (1,705) |
| **Net cash used in operating activities** | 5 | **(845,894)** | **(684,125)** |
| **Cash flows from investing activities** | | | |
| Payments for purchase of equities | | - | (182,299) |
| Payments for exploration and evaluation | | (5,119,286) | (365,705) |
| Refund of Hawkeye-1 well costs | | 397,822 | - |
| Proceeds from sale of equities | | - | 798,279 |
| Payments for investment in associate | | - | (59,140) |
| **Net cash (used in) / provided by investing activities** | | **(4,721,464)** | **191,135** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares and options | | 5,600,300 | 2,802,618 |
| Payment of share issue costs | | (388,498) | (136,550) |
| **Net cash provided by financing activities** | | **5,211,802** | **2,666,068** |
| Net (decrease) / increase in cash and cash equivalents | | (355,556) | 2,173,078 |
| Cash and cash equivalents at beginning of year | | 12,494,427 | 10,321,349 |
| Effects of exchange rate changes on cash and cash equivalents | | (423,331) | - |
| **Cash and cash equivalents at the end of the year** | 5 | **11,715,540** | **12,494,427** |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## 1. Corporate Information

The financial report of Red Emperor Resources NL ("Red Emperor", "Red Emperor" or "the Company") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 28 September 2016. Red Emperor is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and the principal activities of the Company are described in the Directors' Report.

## 2. 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 for-profit entity for the purpose of preparing the financial statements. 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 (''Red Emperor", "the Company'' or ''parent entity'') as at 30 June 2016 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 structured entities) over which the Group controls. 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.

*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. 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 loss 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.

**(e) 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.

**(f) Earnings/(loss) 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.

**(g) Cash and Cash Equivalents**

For statement of cash flows presentation purposes, 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.

**(h) Trade & other receivables**
Trade and other 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.

**(i) 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.

**(j) Current assets held for sale**
Current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Block Vla was the subject of interest from various third party participants seeking to either acquire or farmin to the block. The Board decided to reclassify its 20% ownership interest in Strait Oil and Gas (UK) Ltd to Assets Held for Sale at 30 June 2015. During the financial year there was insufficient evidence to suggest a sale was likely given the depressed oil and gas market. The Board has decided to reclassify its 20% ownership interest in Strait Oil and Gas (UK) Ltd to exploration and evaluation expenditure and write the asset down to nil as at 30 June 2016.

**(k) 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 statement of profit or loss and other comprehensive income.

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.

**(l) 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 when they 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 statement of profit or loss and other comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income 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 recognised in other comprehensive income.

**(m)Parent entity information**
The financial information for the parent entity, Red Emperor Resources NL, disclosed in note 26 has been prepared on the same basis as the consolidated financial statements.

**(n) 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.

**(o) 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.

**(p) 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.

**(q) 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).

**(r) 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.

**(s) 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.

*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.

*Impairment*
At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

**(t) 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. In the event that the manner by which the carrying value of these assets is recovered differs from that which is assumed for the purpose of this estimation, the associated tax charges may be significantly less than this amount.

*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.

**(u) New and amended standards adopted by the Group**
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period, although it caused minor changes to the Group's disclosures.

**(v) New standards and interpretations not yet adopted**
A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Group have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *AASB 9 Financial Instruments and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018)*
  The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  Key changes made to this standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. The directors anticipate that the adoption of AASB 9 will not have a material impact on the Group's financial instruments.

- *AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2018).*
  When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services.

  To achieve this objective, AASB 15 provides the following five-step process:

  - identify the contract(s) with a customer;
  - identify the performance obligations in the contract(s);
  - determine the transaction price;
  - allocate the transaction price to the performance obligations in the contract(s); and
  - recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. The directors anticipate that the adoption of AASB 15 will not have a material impact on the Group's revenue recognition and disclosures.

- *AASB 16: Leases (applicable to annual reporting periods commencing on or after 1 January 2019).*
  AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of a low value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice. The directors anticipate that the adoption of AASB 16 will not have a material impact on the Group's financial instruments.

- *Other standards not yet applicable*
  There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**(w) 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 Profit or Loss and Other 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.

| | 2016 $ | 2015 $ |
|---|---|---|
| **3. Revenue from continuing operations** | | |
| **Revenue** | | |
| Bank Interest | 239,406 | 338,059 |
| | **239,406** | **338,059** |
| **4. Income Tax** | | |
| **(a) Income tax expense** | | |
| Major component of tax expense for the year: | | |
| Current tax | - | - |
| Deferred tax | - | - |
| | - | - |
| **(b) Numerical reconciliation between aggregate tax expense recognised in the Statement of Profit or Loss and Other Comprehensive Income and tax expense calculated per the statutory income tax rate** | | |
| A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Company's applicable tax rate is as follows: | | |
| Loss from continuing operations before income tax expense | (9,034,572) | (19,723,800) |
| Tax at the Australian rate of 30% | (2,710,372) | (5,917,140) |
| Tax effect of amounts not deductible in calculating taxable income: | | |
| Non-deductible expenses | 911,162 | 6,007,309 |
| Current year tax losses not recognised | 433,400 | 50,735 |
| Movement in unrecognised temporary differences | 1,365,810 | (44,904) |
| Recoupment of prior year capital losses not previously brought to account | - | (96,000) |
| Income tax expense | **-** | **-** |
| **(c) Deferred tax Liabilities** | | |
| Timing differences | (28,151) | 45 |
| Off set of deferred tax assets | (45) | (45) |
| Net deferred tax liabilities | **(28,196)** | **-** |
| **(d) Deferred tax assets arising on timing** | | |
| Tax revenue losses | 2,290,885 | 1,427,544 |
| Tax capital losses | 156,214 | 156,214 |
| Deductable temporary differences | 1,552,817 | 28,735 |
| | 3,999,916 | 1,612,493 |
| Off set of deferred tax liabilities | (28,241) | (45) |
| Net deferred tax assets not brought to account | **3,971,675** | **1,612,448** |

No deferred tax assets have been bought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The benefit for tax losses will only be obtained if:

i. the Company derives future assessable income in Australia of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and
ii. the Company continues to comply with the conditions for deductibility imposed by tax legislation in Australia; and
iii. no changes in tax legislation in Australia adversely affect the Company in realising the benefit from the deductions for the losses.

At 30 June 2016, 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

| | 2016 $ | 2015 $ |
|---|---|---|
| **5. Cash And Cash Equivalents** | | |
| **Reconciliation of cash** | | |
| Cash comprises of: | | |
| Cash at bank | **11,715,540** | **12,494,427** |
| **Reconciliation of operating loss after tax to net cash flow from operations** | | |
| Loss after tax | (9,034,572) | (19,723,800) |
| *Non-cash items* | | |
| Impairment expense | 7,678,546 | 19,355,434 |
| Share based payment | 243,797 | 57,519 |
| Gain on derivative liability | - | (783) |
| Net exchange differences | 428,327 | (356) |
| *Change in assets and liabilities* | | |
| Decrease/(increase) in trade and other receivables | 584,901 | (49,978) |
| Increase/(decrease) in trade and other payables | (746,893) | (2,161) |
| **Net cash flow used in operating activities** | **(845,894)** | **(684,125)** |

**6. Trade and Other Receivables - Current**

| | | |
|---|---|---|
| Prepayments | - | 9,097 |
| Trade debtors | 21,764 | 47,997 |
| Share issue funds | - | 513,347[1] |
| GST receivable | 11,651 | 47,875 |
| | **33,415** | **618,316** |

[1] On 30 June 2015 the Company issued 6,250,000 shares at 4 pence per share to sophisticated investors in the UK however funds were not received until 2 July 2015.

Trade debtors, prepayments and GST receivable are non-interest bearing and generally receivable on 30 day terms. They are neither past due nor impaired. The amount is fully collectable. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

**7. Assets Held for Sale**

| | | |
|---|---|---|
| Opening balance | 3,000,000 | - |
| Assets transferred from exploration and evaluation expenditure | - | 3,000,000 |
| Assets transferred to exploration and evaluation expenditure | (3,000,000) | - |
| Closing balance | **-** | **3,000,000** |

Block Vla remains the subject of interest from various third party participants seeking to either acquire or farmin to the block. At 30 June 2016 there was insufficient evidence to suggest a sale was likely and given the depressed oil and gas market. The Board has decided to reclassify its 20% ownership interest in Strait Oil and Gas (UK) Ltd to exploration and evaluation expenditure and write the asset down to nil.

**8. Financial Assets at Fair Value Through Profit and Loss**

| | | |
|---|---|---|
| Opening Balance | 400 | 298,101 |
| Acquisition of listed investments | - | 182,299[1] |
| Disposal of listed investments | - | (800,000)[2] |
| Realised gain on investments | - | 320,000[2] |
| Closing balance | **400** | **400** |

[1] On 22 September 2014 the Company was issued 379,790 Tranche 2 shares in Highfield Resources Limited at $0.48 per share.

[2] On 16 February 2015 the Company sold its direct equity investment in Highfield Resources (1,000,000 shares) at a price of $0.80 per share.

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.

| | 2016 $ | 2015 $ |
|---|---|---|
| **9. Investments Accounted for Using Equity Method** | | |
| Opening Balance | - | 6,928,175 |
| Cost of investment, net of transaction costs | - | 59,140 |
| Impairment expense | - | (3,987,315) |
| Assets transferred to assets held for sale | - | (3,000,000) |
| Closing balance | - | - |
| **10. Deferred Exploration and Evaluation Expenditure** | | |
| Opening Balance | - | 15,000,000 |
| Assets transferred from assets held for sale | 3,000,000[1] | - |
| Exploration and evaluation expenditure capitalised during the year | 4,711,110 | 368,362 |
| Foreign exchange difference | - | (243) |
| Exploration expenditure written off[1] | (7,711,110)[1,2] | (15,368,119)[3] |
| Closing balance | - | - |

[1] Block Vla remains the subject of interest from various third party participants seeking to either acquire or farmin to the block. At 30 June 2016 there was insufficient evidence to suggest a sale was likely given the depressed oil and gas market. The Board has decided to reclassify its 20% ownership interest in Strait Oil and Gas (UK) Ltd to exploration and evaluation expenditure and write the asset down to nil.

[2] The Hawkeye-1 exploratory well was drilled in August 2015. The well did not encounter gas in commercial quantities and Red Emperor was advised by Otto Energy of its intention to exit the Joint Venture. Given these facts and the current depressed oil and gas market, the Board decided to write down exploration and evaluation expenditure in relation to the Philippines asset to nil. Red Emperor has the option to either maintain its 15% participating interest in SC 55 or be assigned a percentage of Otto Energy's interest on a pro-rata basis. In this instance, Red Emperor's participating interest could be increased by up to 22.5% to 37.5%.

[3] The Joint Venture gave notice to the Puntland State of Somalia advising of its intention to withdraw from the January 2007 Production Sharing Agreements which cover the Nugaal and Dharoor. As a result exploration and evaluation expenditure has been written down to nil.

| | 2016 $ | 2015 $ |
|---|---|---|
| **11. Trade and Other Payables** | | |
| Trade payables | 44,503 | 113,214 |
| Accruals | 20,000 | 26,040 |
| Other | 5,443 | 680,000[1] |
| | **69,946** | **819,254** |

[1] On 29 and 30 June 2015 the Company received funds totaling $680,000 for shares to be issued to sophisticated investors in Australia. Shares however were not allotted until 2 July 2015.

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. There are no amounts not expected to be settled within 12 months. Please refer to note 20 on Financial Risk Management for further discussion on risk management.

**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.

| **Movements in Derivative Liability** | 2016 $ | 2015 $ |
|---|---|---|
| Opening Balance | - | 783 |
| Movement in fair value of warrants | - | (783) |
| Closing balance | - | - |

**13. Issued Capital**

**(a) Issued and paid up capital**

| | 2016 $ | 2015 $ |
|---|---|---|
| Issued and fully paid | **57,329,505** | **52,167,148** |

**(b) Movements in ordinary shares on issue**

| | 2016 Number of shares | 2016 $ | 2015 Number of shares | 2015 $ |
|---|---|---|---|---|
| Opening Balance | 359,542,776 | 52,167,148 | 266,234,221 | 49,646,733 |
| Shares issued via placement[1] | - | - | 66,558,555 | 2,122,618 |
| Shares issued to consultants[2] | - | - | 500,000 | 21,000 |
| Shares issued to corporate advisors[3] | - | - | 10,000,000 | 420,000 |
| Shares issued to corporate advisors[4] | - | - | 10,000,000 | 420,000 |
| Shares issued via placement[5] | - | - | 6,250,000 | 513,347 |
| Shares issued via placement[6] | 65,750,000 | 5,763,718 | - | - |
| Transaction costs on share issue | - | (601,361) | - | (976,550) |
| | **425,292,776** | **57,329,505** | **359,542,776** | **52,167,148** |

[1] The Company placed 66,558,555 shares in March 2015 at A$0.032 per share (£0.016) to sophisticated investors in both Australia and the UK.

[2] On 5 May 2015, 500,000 shares were to a consultant as consideration for promotional services and pursuant to a Professional Services Agreement dated 31 March 2015.

[3] On 5 May 2015, 10,000,000 shares were to corporate advisors as consideration for the introduction, facilitation and corporate advisory services related to the SC55 transaction and pursuant to the Corporate Advisory Agreement.

[4] On 5 May 2015, 10,000,000 shares were to corporate advisors as consideration for stockbroking and advisory services and pursuant to the Corporate Services Mandate.

[5] On 30 June 2015 the Company issued 6,250,000 shares at 4 pence per share to sophisticated investors in the UK however funds were not received until 2 July 2015.

[6] In July 2015, the Company, through its London broker, Brandon Hill Capital, and its Australian broker, 708 Capital, placed 65,750,000 new ordinary shares at 4 pence (A$0.08) per share. Proceeds from the raise and existing cash resources were used towards the drilling activities in the Philippines.

### (c) Ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

### (d) Capital risk management

The Company's capital comprises share capital, reserves less accumulated losses amounting to a net equity of $11,679,409 at 30 June 2016. The Company manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Company was ungeared at year end and not subject to any externally imposed capital requirements. Refer to note 20 for further information on the Company's financial risk management policies.

### (e) Share Options

As at 30 June 2016 there were 8,820,000 unissued ordinary shares under options. The details of the options are as follows:

| Number | Exercise Price $ | Expiry Date |
|---|---|---|
| 4,500,000 | $0.055 | 31-Dec-17 |
| 4,320,000 | $0.080 | 2-Jul-18 |
| **8,820,000** | | |

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. No options expired unexercised during the financial year. No options were exercised during or since the year ended 30 June 2016.

| | 2016 $ | 2015 $ |
|---|---|---|
| **14. Reserves** | | |
| Share based payments reserve | 4,111,702 | 3,867,905 |
| Foreign exchange translation reserve | (14,823) | (28,761) |
| | **4,096,879** | **3,839,144** |
| **Movements in Reserves** | | |
| *Share based payments reserve* | | |
| Opening balance | 3,867,905 | 3,831,386 |
| Share based payments expense | 243,797 | 36,519 |
| Closing balance | **4,111,702** | **3,867,905** |

The share based payment reserve is used to record the value of equity benefits provided to Directors and executives as part of their remuneration and non-employees for their goods and services. Refer to note 21 for further details of the options issued during the financial year ended 30 June 2016.

| | 2016 $ | 2015 $ |
|---|---|---|
| *Foreign exchange translation reserve* | | |
| Opening balance | (28,761) | (28,405) |
| Foreign exchange translation difference | 13,938 | (356) |
| Closing balance | **(14,823)** | **(28,761)** |

The foreign exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve.

### 15. Accumulated losses

Movements in accumulated losses were as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Opening balance | (40,712,403) | (20,988,603) |
| Loss for the year | (9,034,572) | (19,723,800) |
| Closing balance | **(49,746,975)** | **(40,712,403)** |

| | 2016 $ | 2015 $ |
|---|---|---|
| **16. Auditor's Remuneration** | | |
| The auditor of Red Emperor Resources NL is BDO Audit (WA) Pty Ltd | | |
| Amounts received or due and receivable for: | | |
| - an audit or review of the financial report | **41,305** | **41,954** |

## 17. Key Management Personnel Disclosures

### (a) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and Executive of the Company for the financial year are as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Short term employee benefits | 288,000 | 280,675 |
| Share based payments | 30,934 | 36,519 |
| Other employee expense (superannuation) | 19,950 | 20,475 |
| **Total remuneration** | **338,884** | **337,669** |

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

Mr. Greg Bandy charged reimbursements of expenses, at cost, paid on behalf of the Company of $13,492 during the year. Mr. Aaron Bertolatti charged reimbursements of expenses, at cost, paid on behalf of the Company of $228 during the year.

Transactions with key management personnel were made at arm's length at normal market prices and normal commercial terms. There were no other transactions with key management personnel for the year ended 30 June 2016.

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

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

## 18. Related party disclosures

### (a) Key management personnel

For Director related party transactions please refer to Note 17 "Key management personnel disclosures".

### (b) Subsidiaries

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

| Name of Entity | Country of Incorporation | Equity Holding 2016 | Equity Holding 2015 |
|---|---|---|---|
| Puntland Oil Pty Ltd | Australia | 100% | 100% |
| Georgian Oil Pty Ltd | Australia | 100% | 100% |
| Vianista Pty Ltd | Australia | 100% | 100% |
| Century Red Pte. Ltd | Singapore | 100% | 100% |

## 19. Loss per Share

Basic loss per share amounts are calculated by dividing net 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 loss and share data used in the total operations basic and diluted earnings per share computations:

| | 2016 $ | 2015 $ |
|---|---|---|
| Loss used in calculating basic and dilutive EPS | (9,034,572) | (19,723,800) |

| | Number of Shares | |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic loss per share: | 425,112,639 | 291,261,691 |
| **Effect of dilution:** | | |
| Share options | - | - |
| Adjusted weighted average number of ordinary shares used in calculating diluted loss per share: | 425,112,639 | 291,261,691 |

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements. As the Company is loss making, there is no diluted EPS calculated.

## 20. 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) 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.

**(b) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Company's exposure to market risk for changes to interest rate risk relates primarily to its earnings on cash. The Company manages the risk by investing in short term deposits.

**Interest rate sensitivity**

The following table demonstrates the sensitivity of the Company's Statement of Profit or Loss and Other Comprehensive Income to a reasonably possible change in interest rates, with all other variables constant.

| Change in Basis Points | Effect on Post Tax Loss ($) Increase/(Decrease) | | Effect on Equity including retained earnings ($) Increase/(Decrease) | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Increase 75 basis points | 87,867 | 93,708 | 87,867 | 93,708 |
| Decrease 75 basis points | (87,867) | (93,708) | (87,867) | (93,708) |

A sensitivity of 75 basis points has been used as this is considered reasonable given the current level of both short term and long term Australian Dollar interest rates. The change in basis points is derived from a review of historical movements and management's judgement of future trends.

**(c) Credit Risk Exposures**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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 Group measures credit risk on a fair value basis. The Group 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 Group's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

| | **2016 $** | **2015 $** |
|---|---|---|
| Cash and cash equivalents AA- | 11,715,540 | 12,494,427 |
| | **11,715,540** | **12,494,427** |

**(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 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 2016 was $11,679,409 (2015: $15,293,489) and the net decrease in cash held during the year was $355,556 (2015: net increase $2,173,078). The Group currently has $11,715,540 (2015: $12,494,427) of cash and cash equivalents and no debt.

**(e) Price risk**

The Group is exposed to base metals commodity price risk. The price of base metals can be volatile and influenced by factors beyond the Company's control. As the Group is engaged in exploration and development activities, no sales of commodities are forecast for the next 12 months, and accordingly, no hedging or derivative transactions have been used to manage commodity price risk. Price risk will not have a significant impact on the financial report.

**(f) 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 and Great British Pound.

**(g) 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 fair value through profit or loss, 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.

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).

| 30 June 2016 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 400 | - | - | **400** |
| | 400 | - | - | **400** |

| 30 June 2016 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Finance Liability** | | | | |
| Derivative finance liability | - | - | - | - |
| | - | - | - | - |

| 30 June 2015 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 400 | - | - | **400** |
| | 400 | - | - | **400** |

| 30 June 2015 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Finance Liability** | | | | |
| Derivative finance liability | - | - | - | - |
| | - | - | - | - |

## 21. Share Based Payments

**(a) Recognised share based payment transactions**

Share based payment transactions recognised either as operational expenses in the Statement of Profit or Loss and Other Comprehensive Income or as capital raising costs in the equity during the year were as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Employee and Director share based payments (note 20(b)) | 30,934 | 36,519 |
| Shares issued to consultants | - | 21,000[1] |
| Options issued to consultants (note 20(c)) | 212,863 | - |
| | **243,797** | **57,519** |

[1] On 5 May 2015, 500,000 shares were to a consultant as consideration for promotional services and pursuant to a Professional Services Agreement dated 31 March 2015.

**(b) Employee and Director share based payments**

There were no options granted to Employees, Consultants or Directors during the year ended 30 June 2016. An expense of $30,934 was recognised during the year ended 30 June 2016 in respect to options granted in the prior year (see below).

The fair value at grant date of options granted during the year ended 30 June 2015 was determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summarises options granted during the year ended 30 June 2015:

| Grant Date | Expiry date | Exercise price per option | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Expired during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| 30/04/2015 | 31/12/2017 | $0.055 | - | 4,500,000 | - | - | 4,500,000 | 1,600,000[1] |
| | | | | **4,500,000** | **-** | **-** | **4,500,000** | **1,600,000** |

[1] Employees and Directors were granted 4,500,000 options exercisable at $0.055 each on or before 31 December 2017 in three tranches:

1. 1,600,000 options are exercisable immediately;
2. 1,600,000 vest and are exercisable on 30 September 2015; and
3. 1,300,000 vest and are exercisable on 30 April 2016

The expense recognised in respect of the above options granted during the year ended 30 June 2015 was $36,519.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2015 included:

a) options were granted for no consideration;
b) expected life of options was 2.7 years;
c) share price at grant date was $0.04;
d) expected volatility was 70%;
e) expected dividend yield of nil; and
f) a risk free interest rate of 2.50.

**(c) Share-based payments to suppliers**

During the year ended 30 June 2016 the Company issued unlisted options to a consultant for services rendered in relation to the capital raising and for services to be provided over the coming twelve months. The value of services received were unable to be measured reliably and were therefore measured using fair value of market prices. These options have been valued using the Black-Scholes option pricing model.

| Grant Date | Expiry date | Exercise price per option | Balance at start of the period Number | Granted during the period Number | Exercised during the period Number | Expired during the period Number | Balance at end of the period Number | Exercisable at end of the period Number |
|---|---|---|---|---|---|---|---|---|
| 2/07/2015 | 2/07/2018 | $0.08 | - | 4,320,000 | - | - | 4,320,000 | 4,320,000 |
| | | | | **4,320,000** | **-** | **-** | **4,320,000** | **4,320,000** |

The amount recognised as a capital raising cost in respect of the above options granted during the year was $212,862.

The model inputs, not included in the table above, for options granted during the year included:

a) options were granted for no consideration;
b) expected life of options was 3 years;
c) share price at grant date was $0.095;
d) expected volatility was 70%;
e) expected dividend yield of nil; and
f) a risk free interest rate of 2.0%.

There were no options granted to suppliers during the year ended 30 June 2015.

## 22. Operating Segments

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) in three geographical areas.

| Segment Performance<br>30 June 2016 | Georgian Exploration & Evaluation $ | Philippines Exploration & Evaluation $ | Treasury $ | Total $ |
|---|---|---|---|---|
| Revenue | | | | |
| Interest revenue | - | - | 239,406 | 239,406 |
| Total segment revenue | - | **-** | **239,406** | **239,406** |
| | | | | |
| Total Group revenue | - | - | 239,406 | 239,406 |
| **Segment net profit before tax** | **-** | **-** | **239,406** | **239,406** |
| | | | | |
| *Reconciliation of segment result to group net profit/(loss) before tax* | | | | |
| Unallocated items: | | | | |
| Forex gain/(loss) | - | - | (423,331) | (423,331) |
| Employee and director benefits expense | - | - | - | (269,547) |
| Impairment of Exploration Expenditure | (3,000,000) | (4,711,110) | - | (7,711,110) |
| Realised gain on investment | - | - | - | 28,341 |
| Other | - | - | - | (884,393) |
| **Net loss before tax from continuing operations** | | | | **(9,020,634)** |

| Segment Performance<br>30 June 2015 | Georgian Exploration & Evaluation $ | Puntland Exploration & Evaluation $ | Treasury $ | Total $ |
|---|---|---|---|---|
| Revenue | | | | |
| Interest revenue | - | - | 338,059 | 338,059 |
| Total segment revenue | - | - | **338,059** | **338,059** |
| | | | | |
| Total Group revenue | - | - | 338,059 | 338,059 |
| **Segment net profit before tax** | **-** | **-** | **338,059** | **338,059** |
| | | | | |
| *Reconciliation of segment result to group net profit/(loss) before tax* | | | | |
| Unallocated items: | | | | |
| Forex gain/(loss) | - | - | (14,632) | (14,632) |
| Employee and director benefits expense | - | - | - | (274,858) |
| Impairment of Exploration Expenditure | (3,987,315) | (15,368,119) | - | (19,355,434) |
| Realised gain on investment | - | - | - | 320,000 |
| Gain/ (loss) on Derivative liability | - | - | 783 | 783 |
| Other | - | - | - | (737,718) |
| **Net loss before tax from continuing operations** | | | | **(19,723,800)** |

| **Segment Assets**<br>**30 June 2016** | **Georgian Exploration & Evaluation $** | **Philippines Exploration & Evaluation $** | **Treasury $** | **Total $** |
|---|---|---|---|---|
| **Segment assets** | **-** | **-** | **400** | **400** |
| *Segment assets increases/ (decreases) for the year:* | | | | |
| - capital expenditure | - | (4,711,110) | - | (4,711,110) |
| - financial assets at fair value through profit and loss | - | - | 400 | 400 |
| - Assets held for sale | (3,000,000) | - | - | (3,000,000) |
| *Reconciliation of segment assets to Group assets* | | | | |
| | **-** | **-** | **-** | **(7,710,710)** |
| Unallocated items: | | | | |
| Cash and cash equivalents | | | | 11,715,540 |
| Trade and other receivables | | | | 33,415 |
| **Total Group assets from continuing operations** | | | | **11,749,355** |

| **Segment Assets**<br>**30 June 2015** | **Georgian Exploration & Evaluation $** | **Puntland Exploration & Evaluation $** | **Treasury $** | **Total $** |
|---|---|---|---|---|
| **Segment assets** | **-** | **-** | **400** | **400** |
| *Segment assets increases/ (decreases) for the year:* | | | | |
| - capital expenditure | - | - | - | - |
| - investment accounted for using equity method | - | - | - | - |
| - financial assets at fair value through profit and loss | - | - | 400 | 400 |
| - Assets held for sale | 3,000,000 | - | - | 3,000,000 |
| *Reconciliation of segment assets to Group assets* | | | | |
| | **-** | **-** | **-** | **3,000,400** |
| Unallocated items: | | | | |
| Cash and cash equivalents | | | | 12,494,427 |
| Trade and other receivables | | | | 618,316 |
| **Total Group assets from continuing operations** | | | | **16,113,143** |

| **Segment Liabilities**<br>**30 June 2016** | **Georgian Exploration & Evaluation $** | **Philippines Exploration & Evaluation $** | **Treasury $** | **Total $** |
|---|---|---|---|---|
| **Segment liabilities** | **-** | **-** | **-** | **-** |
| *Reconciliation of segment liabilities to Group assets* | | | | |
| Unallocated items: | | | | |
| Trade and other payables | | | | 69,946 |
| **Total Group liabilities from continuing operations** | | | | **69,946** |

| **Segment Liabilities**<br>**30 June 2015** | **Georgian Exploration & Evaluation $** | **Puntland Exploration & Evaluation $** | **Treasury $** | **Total $** |
|---|---|---|---|---|
| **Segment liabilities** | **-** | **-** | **-** | **-** |
| *Reconciliation of segment liabilities to Group assets* | | | | |
| Unallocated items: | | | | |
| Trade and other payables | | | | 819,254 |
| **Total Group liabilities from continuing operations** | | | | **819,254** |

## 23. Dividends

No dividend was paid or declared by the Company in the year ended 30 June 2016 or the period since the end of the financial year and up to the date of this report (2015: nil). The Directors do not recommend that any amount be paid by way of dividend for the financial year ended 30 June 2016.

## 24. Commitments and Contingent Assets and Liabilities

The Directors are not aware of any new commitments and contingent assets and liabilities as at 30 June 2016. There has been no change in contingent assets and liabilities since the last annual reporting date.

During the year Red Emperor earned a 15% working interest in Service Contract 55 by satisfying the commitment to pay 15% of the well costs for the drilling and testing of the Hawkeye – 1 well. There have been no other changes in commitments since the last annual reporting date.

## 25. Subsequent Events

There have been no other significant events subsequent to the end of the financial year to the date of this report.

## 26. Parent Entity Information

The following details information related to the parent entity, Red Emperor Resources NL, at 30 June 2016. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Current assets | 11,738,885 | 13,102,968 |
| Total assets | 11,739,385 | 13,123,296 |
| Current liabilities | (69,946) | (819,254) |
| Total liabilities | (69,946) | (819,254) |
| Net assets | **11,669,439** | **12,304,042** |
| | | |
| Issued capital | 57,329,505 | 52,167,148 |
| Reserves | 4,111,702 | 3,867,904 |
| Accumulated losses | (49,771,768) | (43,731,010) |
| | **11,669,439** | **12,304,042** |
| | | |
| Loss of the parent entity | (6,040,758) | (22,744,042) |
| Other comprehensive income for the year | - | - |
| Total comprehensive loss of the parent entity | **(6,040,758)** | **(22,744,042)** |

In accordance with a resolution of the Directors of Red Emperor Resources NL, I state that:

1. In the opinion of the Directors:

   a) the financial statements and notes of Red Emperor Resources NL for the year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:

      i. giving a true and fair view of the Company's consolidated financial position as at 30 June 2016 and of its performance for the year ended on that date; and

      ii. complying with Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with sections of 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board

**Greg Bandy**
**Managing Director**

Perth, Western Australia
29 September 2016

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Australia

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF RED EMPEROR RESOURCES NL

As lead auditor of Red Emperor Resources NL for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 29 September 2016

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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

# 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 2016, the consolidated statement of profit or loss and other 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 2, 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 auditor's report.

Opinion

In our opinion:

(a) the financial report of Red Emperor Resources NL is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 6 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue

Director

Perth, 29 September 2016

# ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current at 26 September 2016.

### Distribution of Share Holders

| | Ordinary Shares | |
|---|---|---|
| | Number of Holders | Number of Shares |
| 1 - 1,000 | 42 | 10,822 |
| 1,001 - 5,000 | 156 | 470,865 |
| 5,001 - 10,000 | 139 | 1,165,025 |
| 10,001 - 100,000 | 323 | 12,980,721 |
| 100,001 - and over | 152 | 410,665,343 |
| TOTAL | **812** | **425,292,776** |

There were 483 holders of ordinary shares holding less than a marketable parcel.

### Top Twenty Share Holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Number of shares | % |
|---|---|---|
| PERSHING NOMINEES LIMITED <PERNY> | 37,684,923 | 12.13 |
| BARCLAYSHARE NOMINEES LIMITED | 36,197,475 | 11.66 |
| WEALTH NOMINEES LIMITED <NOMINEE> | 21,064,210 | 6.78 |
| TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS> | 19,084,671 | 6.15 |
| HSDL NOMINEES LIMITED | 17,013,810 | 5.48 |
| INTERACTIVE BROKERS LLC <IBLLCR> | 15,416,151 | 4.96 |
| INVESTOR NOMINEES LIMITED <WRAP> | 14,948,525 | 4.81 |
| HARGREAVES LANSDOWN (NOMINEES) LIMITED <15942> | 14,205,256 | 4.57 |
| TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTISAS> | 13,697,805 | 4.41 |
| HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED <731504> | 13,149,126 | 4.23 |
| SEVENTY THREE PTY LTD <KING SUPER FUND NO 3 A/C> | 12,052,095 | 2.83 |
| HSDL NOMINEES LIMITED <MAXI> | 10,759,598 | 3.46 |
| INVESTOR NOMINEES LIMITED <NOMINEE> | 10,558,966 | 3.40 |
| BNY (OCS) NOMINEES LIMITED <672936> | 9,335,657 | 3.01 |
| SHARE NOMINEES LTD | 9,178,745 | 2.96 |
| JAMES CAPEL (NOMINEES) LIMITED <PC> | 7,212,728 | 2.32 |
| HARGREAVES LANSDOWN (NOMINEES) LIMITED <VRA> | 6,784,218 | 2.18 |
| HARGREAVES LANSDOWN (NOMINEES) LIMITED <HLNOM> | 5,555,239 | 1.79 |
| JIM NOMINEES LIMITED <JARVIS> | 5,359,534 | 1.73 |
| MR ANTHONY DE NICOLA + MRS TANYA LOUISE DE NICOLA <DE NICOLA FAMILY S/F A/C> | 5,000,000 | 1.18 |
| | **289,258,732** | **91.23** |

### Substantial Shareholders

| Name | Number of shares | % |
|---|---|---|
| PERSHING NOMINEES LIMITED <PERNY> | 37,684,923 | 12.13 |
| BARCLAYSHARE NOMINEES LIMITED | 36,197,475 | 11.66 |
| WEALTH NOMINEES LIMITED <NOMINEE> | 21,064,210 | 6.78 |
| TD DIRECT INVESTING NOMINEES (EUROPE) LIMITED <SMKTNOMS> | 19,084,671 | 6.15 |
| HSDL NOMINEES LIMITED | 17,013,810 | 5.48 |
| | **131,045,089** | **42.20** |

### Unquoted Equity Securities

### Options

| Class | Number | Holders with more than 20% |
|---|---|---|
| Options over ordinary shares exercisable at $0.08 on or before 2 July 2018 | 4,320,000 | - Brandon Hill Capital Limited 2,950,000 options<br>- 708 Capital Pty Ltd 1,370,000 options |
| Options over ordinary shares exercisable at $0.055 on or before 31 December 2017 | 4,500,000 | - Mrs Allison Jane Rayner <Rayner Investment Trust A/C> 3,500,000 options<br>- Mrs Jaimie Marie Bertolatti 1,000,000 options |

**On-Market Buy Back**
There is no current on-market buy back.

**Voting Rights**
All ordinary shares carry one vote per share without restriction. Options have no voting rights.

**Use of Proceeds**
In accordance with listing rule 4.10.19, the Company confirms that it has used cash and assets in a form readily convertible to cash in a way consistent with its business objectives during the financial year ended 30 June 2016.

**Restricted Securities subject to escrow period**
There are no securities on issue subject to escrow.

**TENEMENT TABLE**

| Tenement Reference | Location | Working Interest |
|---|---|---|
| Block Vla | Republic of Georgia | 20% |
| Service Contract 55 | Philippines | 15% |

**Holder:** Oil & Gas Beneficial percentage interests held in farm-in or farm-out agreements.