

5 July 2011

Manager of Company Announcements
ASX Limited
Level 8 Exchange Plaza
2 The Esplanade
PERTH WA 6000

By E-Lodgement

Prospectus

Red Emperor Resources NL (ASX: RMP | AIM: RMP) is pleased to advise that the Company will undertake a capital raising at \$0.35 per share pursuant to its recompliance prospectus to raise A\$1,000,000.

The Company has appointed Max Capital as the lead manager for the raising and has agreed with Max Capital to accept a level of shareholder applications. Anyone wishing to participate in the raising should download the prospectus from the Company's website and return completed application forms as soon as possible. Please note the Company cannot guarantee that all applications will be accepted. A copy of the prospectus is attached.

For and on behalf of the Board



Greg Bandy
Executive Director

Background

Red Emperor Resources NL (ASX: RMP) is a natural resources exploration company with interests in the frontier state of Puntland, Somalia, the Republic of Georgia and Western Australia.

- In Puntland, Red Emperor holds a 20% working interest in two licences encompassing the highly prospective Dharoor and Nugaal valleys in 2011. These two exploration areas cover nearly 40,000km² and have independently been assessed to potentially contain over 19.9 billion barrels of oil in-place. Red Emperor's joint venture partner and PSA operator Africa Oil Corp. (TSXV: AOI) has signed a letter of intent with a drilling subcontractor and expects the first well to be drilled in Dharoor in Q3, 2011.
- In the Republic of Georgia, Red Emperor has a 20% working interest in onshore blocks VIa and VIb, covering approx. 6,500km². Partner Range Resources Ltd (ASX: RRS; AIM: RRL) last year funded a 410km 2D seismic program with independent consultants RPS Energy identifying 68 potential structures containing an estimated 2.045 billion barrels of oil-in-place (on a mean 100% basis). Mobilisation has commenced with the first exploration well due to spud July 2011.
- The Company also has a 25% interest in the Jillewarra Project free carried until bankable feasibility study, which is a copper and gold project in Western Australia.

BOARD & MANAGEMENT

Mr Greg Bandy
EXECUTIVE DIRECTOR

Mr Jason Bontempo
NON-EXECUTIVE DIRECTOR

Mr Stephen Brockhurst
NON-EXECUTIVE DIRECTOR

Ms Shannon Robinson
COMPANY SECRETARY

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ASX CODE
RMP

AIM CODE
RMP



RED EMPEROR RESOURCES NL
ACN 124 734 961

PROSPECTUS

By this Prospectus, the Company invites investors to apply for 2,857,143 Shares at an issue price of \$0.35 each to raise \$1,000,000.



Lead Manager

IMPORTANT INFORMATION

The Offer is conditional on certain Resolutions being passed at the General Meeting of Shareholders to be held on 15 July 2011 and the Company's successful re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

This Prospectus is a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-admission to the Official List following a change to the nature and scale of the Company's activities.

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. The Shares offered by this Prospectus should be considered speculative.



CHANGE IN NATURE AND SCALE OF ACTIVITIES AND RE-COMPLIANCE WITH CHAPTERS 1 AND 2 OF THE ASX LISTING RULES

The Offer is conditional:

- on the Company obtaining Shareholder approval for a change in nature and scale of its activities at the General Meeting of Shareholders to be held on 15 July 2011; and
- the Company's successful re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

ASX requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company will be suspended from Official Quotation from the time of the General Meeting and will not be reinstated until it has successfully recomplied with Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet ASX's requirements for re-instatement to the Official List.

In the event the Company does not obtain Shareholder approval or the Company does not receive conditional approval for re-quotations on ASX, then the Company will not proceed with the Offer and will repay all application moneys received.

IMPORTANT NOTICE

This Prospectus is dated 5 July 2011 and was lodged with the ASIC on that date. The ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which the Prospectus relates.

The expiry date of this Prospectus is at 5.00pm WST on that date which is 13 months after the date this Prospectus was lodged with the ASIC (**Expiry Date**). No securities may be issued on the basis of this Prospectus after the Expiry Date.

Application will be made to ASX within seven (7) days after the date of this Prospectus for Official Quotation of the Shares the subject of this Prospectus.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares the subject of this Prospectus should be considered speculative.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.



WEB SITE – ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the website of the Company at www.redemperresources.com. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company on +61 8 9322 7600.

COMPETENT PERSON'S STATEMENT

The technical information provided in this Prospectus in relation to the Georgian Project has been compiled by RPS Energy Services Pty Ltd (**RPS**). RPS is an independent consultancy specialising in petroleum reservoir evaluation and economic analysis. Except for the provision of professional services on a fee basis, RPS does not have a commercial arrangement with any other person or company involved in the interest that are the subject of the technical report ("Report"). This Report was compiled by Mr. Andy Kirchin, a Director of RPS. Mr. Kirchin has also evaluated the previous reports and data available to compile this Report. Mr. Kirchin has 24 years of oil and gas experience and holds a B.Sc. (Hons), Geophysics with Geology from the University of Liverpool. Mr. Kirchin is a member of the European Association of Geoscientists and Engineers and the Petroleum Exploration Society of Great Britain. Other RPS employees involved in this work hold at least a degree in geology, geophysics, petroleum engineering or a related subject and have at least five years of relevant experience in the practice of geology, geophysics or petroleum engineering.

The technical information provided in this Prospectus in relation to the Puntland Projects has been compiled by Gaffney, Cline & Associates (**GCA**). GCA is an independent international energy advisory group of almost 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis. The technical report in relation to the Puntland Projects included in section 5 of this Prospectus has been compiled by employees of GCA. Persons who participated in the compilation of the report includes Mr. Brian Rhodes and Dr. Stephen Wright. All hold at least a bachelor's degree in geoscience, petroleum engineering or related discipline. Mr. Rhodes holds a B.Sc. (Hons) Geology, is a member of the Energy Institute, the Petroleum Exploration Society of Great Britain, the Society of Petroleum Engineers and the European Association of Geoscientists and Engineers, and has more than 36 years industry experience. Dr. Wright has more than 25 years of Industry experience holds a B.Sc. (Hons) Geology from Kings College, University of London and a D.Phil from University of Oxford, he is a fellow of the Geological Society of London and a member of the Petroleum Exploration Society of Great Britain. GCA has not authorised or caused the issue of the Prospectus and takes no responsibility for any part of the Prospectus, other than references to its name and the inclusion of the technical report in the Prospectus in the form and context in which it appears.

DIAGRAMS

Diagrams in this Prospectus have been prepared by officers of the Company and are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

**DISCLAIMER**

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus that is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company or any other person in connection with the Offer. You should rely only on information in this Prospectus.



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1. INVESTMENT OVERVIEW

Important Notice

This Section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety. The Shares offered under this Prospectus carry no guarantee in respect of return of capital, return on investment, payment of dividends or the future value of the Shares.

THE COMPANY

BUSINESS MODEL – EXPLORATION COMPANY

Red Emperor Resources NL is a public company listed on the official list of ASX (ASX code: RMP) and on the official list of AIM (AIM code: RMP).

The Company presently operates as a mineral exploration company; with a 25% free carried interest in its Jillewarra Project, which is a copper and gold exploration project in Western Australia.

The Company has recently acquired a 20% interest in the Puntland Projects and a 20% interest in the Georgian Project.

In addition to the existing Projects, the Company will review other acquisition opportunities to secure new projects in the resources sector that meet the Company's objectives and strategies.

Full details in respect of the Company and its Project are set out in Section 4.

The Company's main objectives on completion of the Offer are:

- Continue to identify and evaluate new resource opportunities which can enhance shareholder value;
- Seek to maximise the value of all the Company's assets;
- Applying the Company's funds in an efficient manner and providing above average and sustainable returns through both capital appreciation and the payment of dividends when in a position to do so;
- Fostering and maintaining a culture of ownership, care, professional excellence and respect from shareholders.

RECENT AIM LISTING

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

PROJECTS

In June 2010 the Company entered into an agreement to acquire up to a 20% interest in two licences encompassing the prospective Dharoor and Nugaal valleys in Puntland (**Puntland Projects**) subject to the satisfaction of certain conditions (**Puntland Acquisition Agreement**). The Company elected to earn a 20% interest in each of the Puntland Projects and received ministerial consent to the farm-in in January 2011.



In May 2011 the Company entered into agreements to earn a 20% working interest in the Georgian Project (**Georgian Acquisition Agreement**).

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

CHANGE IN NATURE AND SCALE OF ACTIVITIES

As a result of the magnitude of the Company's proposed investment pursuant to the Puntland Acquisition Agreement and the Georgian Acquisition Agreement, it is required to obtain Shareholder approval for a change of nature of activities and to comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the Official List.

This Prospectus is issued to assist the Company to comply with these requirements.

KEY RISKS

The business, assets and operations of the Company are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of the Company.

The Company aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which they can effectively manage them is limited.

Set out below are specific risks that the Company is exposed to, and that may have a direct influence on the Company and its activities or assets.

| Risk Area | Risks |
|---|--|
| Change in Nature and Scale of Activities | <p>Any further investment by the Company in the Puntland or Georgian Projects (including those investments to be made pursuant to the Puntland Acquisition Agreement and the Georgian Acquisition Agreement) will constitute a change in the nature and scale of the Company's activities and, accordingly, the Company is required to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the Official List of ASX for the first time.</p> <p>There is a risk that the Company may not be able to meet the requirements of the ASX for reinstatement to the Official List. Should this occur, the Shares offered under this Prospectus (and the Company's existing issued Shares) will not be able to be traded on the ASX until such time as those requirements can be met, if at all.</p> |
| Exploration and Project Development risks | <p>The business of natural gas and oil exploration, and project development involves risks by its very nature. To prosper, it depends on the successful exploration appraisal and development of economic oil and gas reserves. Operations, such as drilling, design and construction of production facilities and pipelines, competent operational and managerial performance and efficient distribution and marketing services are required to be successful. In particular, exploration is a speculative endeavour and operations can be hampered by force majeure circumstances, engineering difficulties,</p> |



| Risk Area | Risks |
|------------------------------|--|
| | <p>cost overruns and other unforeseen events.</p> <p>The proposed development expenditure of the Company is based on certain assumptions with respect to the method and timing of development and feasibility work. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice.</p> <p>A failure to discover an economic reserve, or to successfully produce from such a reserve, will adversely affect the Company's performance and have a resulting effect on the value of the Company's investment in the Puntland Projects and the Georgian Project.</p> |
| Sovereign Risk | <p>The Puntland and Georgian Projects involve conducting exploration activities in Puntland and the Republic of Georgia respectively, by the project operator. Any circumstances or event which negatively impacts the development of either country could materially affect the financial performance of the Company.</p> <p>There is no assurance that future political and economic conditions in Puntland or Georgia will not result in the respective Government adopting different policies regarding foreign development and ownership of mineral resources. Any changes in policy may result in legislative changes affecting ownership of assets, title, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return on capital, all of which may affect the ability to develop the either the Puntland Projects or the Georgian Project. It should be noted, however, that both Puntland and Georgia have operated under relatively stable political regimes during the time in which the production sharing agreements for each project have been in place.</p> <p>The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company. The Company has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in either Puntland or Georgia, the Directors may reassess investment decisions and commitments to assets in Puntland.</p> |
| Oil and Gas Price Volatility | <p>Oil and gas prices affected by numerous factors and events</p> <p>Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas, may have a material adverse effect on the Company's business and therefore the value of the Company's investment in the Puntland Projects and the Georgian Project.</p> |



| Risk Area | Risks |
|--|--|
| <p>Future requirements for capital</p> | <p>There can be no guarantees that the funds raised by this Offer will be sufficient to successfully achieve all of the Company's objectives.</p> <p>The funds raised by the Offer will be used to carry out work on the Company's projects as detailed in this Prospectus. If the Company incurs unexpected costs or is unable to generate sufficient operating income, further funding may be required.</p> <p>The Company may require additional funding to carry out further exploration, undertake feasibility studies, develop project operations and/or acquire new projects. Any additional financing through share issues may dilute the interests of Shareholdings.</p> |
| <p>Exchange Rate risk</p> | <p>Any revenue received by the Company would likely be in US dollars derived from the sale of gas and a substantial portion of the Company's operating expenses would also be incurred in US dollars. Gas is sold in the US market and around the world based principally on a US dollar price. Furthermore, the income and expenditure accounts will be prepared in Australian dollars (AUD). Therefore Australian dollar reported revenue will be directly impacted by movements in the US dollar gas price and the USD/AUD exchange rates. Movements in the USD/AUD exchange rates may adversely or beneficially affect the Company's results or operations and cash flows.</p> |

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company and Shareholders should refer to the risk factors set out in full in Section 8 of this Prospectus before making a decision to subscribe for Securities under this Prospectus.

THE OFFER

Summary of the Offer

By this Prospectus, the Company invites investors to apply for 2,857,143 Shares at an issue price of \$0.35 each to raise \$1,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. Refer to Section 3 for further details in relation to the Offer.



Indicative Timetable

| Event | Date |
|---|----------------------------|
| Dispatch of Notice of General Meeting to Shareholders | 15 June 2011 |
| Lodgement of Prospectus with ASIC | 5 July 2011 |
| Offer Opening Date | 5 July 2011 |
| Offer Closing Date | 5:00pm WST on 11 July 2011 |
| Trading in Securities suspended by ASX | 15 July 2011 |
| General Meeting | 15 July 2011 |
| Dispatch of holding statements to Shareholders and announcement of dispatch | 15 July 2011 |
| Trading in Securities reinstated by ASX (subject to satisfaction of Chapters 1 and 2 of the ASX Listing Rules). | 21 July 2011 |

This indicative timetable is subject to change the Directors reserve the right to amend the timetable at any time, subject to the ASX Listing Rules.

Purpose of the Offer and Use of Proceeds

The purpose of this Offer is to:

- (a) meet the requirements of ASX and re-comply with Chapters 1 and 2 of the ASX Listing Rules; and
- (b) provide for capital for expenditure commitments on the Georgian Project, general working capital and to review additional project opportunities.

On completion of the Offer, the Board believes the Company will have sufficient capital to achieve these objectives.

If the Offer is fully subscribed, the Company will have \$14,456,715 available (including cash on hand before the Offer of \$13,456,715). The Company intends to apply funds raised from the Offer together with the Company's existing funds in the two years after listing on ASX as follows, assuming the Offer raises the minimum subscription of \$1,000,000:

| Source & Use of Funds | Year 1 | Year 2 | Total |
|--|------------------|------------------|-------------|
| Total raised under the Offer | | | \$1,000,000 |
| Exploration expenditure on the Georgian Project ¹ | \$450,000 | \$270,000 | \$720,000 |
| Expenses of Offer ² | \$280,000 | - | \$280,000 |
| Total | \$730,000 | \$270,000 | - |

Notes:

¹ Refer to Section 4 for further details.

² Refer to Expenses of the Offer section below for further details.

The above table is a statement of current intentions as of the date of lodgement of this Prospectus with the ASIC. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.



Capital Structure

The capital structure of the Company following completion of the Offer is summarised below:

| Shares | Number |
|---|--------------------|
| Shares on issue at date of Prospectus ¹ | 147,616,114 |
| Shares to be issued on Shareholder Approval | 2,000,000 |
| Shares now offered pursuant to the Offer ² | 2,857,143 |
| Total Shares on issue at completion of the Offer³ | 152,473,257 |

| Options Number | Number |
|--|-------------------|
| Options on issue at date of Prospectus | Nil |
| Options to be issued on Shareholder Approval | 12,916,565 |
| Options now offered | Nil |
| Total Options on issue at completion of the Offer | 12,916,565 |

Notes:

1 This does not include the 7,500,000 partly paid shares currently on issue (which were issued paid up to \$0.01).

2 Assumes the Offer is fully subscribed

3 Refer to Section 10.6 of this Prospectus for further information.

Full details of the terms and conditions of the Shares, partly paid Shares and Options are set out in Section 10 of this Prospectus.

SUBSTANTIAL SHAREHOLDERS

There are no Shareholders holding 5% or more of the Shares on issue both as at the date of this Prospectus or on completion of the Offer (assuming full subscription).

The Company will announce to the ASX details of its top 20 Shareholders (following completion of the Offer) prior to the Shares re-commencing to trade on ASX.

FINANCIAL INFORMATION

Further financial information for the Company is included in the Investigating Accountant's Report in section 6 of this Prospectus.

DIRECTORS AND KEY MANAGEMENT

Mr Greg Bandy – Executive Director

Mr Bandy is a senior advisor at Patersons Securities. He has over ten years' experience with capital markets and formerly held an executive board position with Empire Beer Group Limited (now renamed Car Parking Technologies Limited). He brings with him an intimate knowledge of equities and corporate transactions as well as an array of opportunities to the Company.



Mr Jason Bontempo – 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 ASX listings.

Mr Stephen Brockhurst – Non-Executive Director

Mr Brockhurst has 12 years' experience in the finance and corporate advisory industry and has been responsible for the preparation of the due diligence process and prospectus' on a number of initial public offers with capital raising in excess of \$150 million. Mr Brockhurst experience includes corporate and capital structuring, corporate advisory and Company secretarial services, capital raising, ASX and ASIC compliance requirements. Mr Brockhurst is currently a Director of a number of other listed companies.

Company Secretary

Ms Shannon Robinson

Ms Robinson is a senior advisor at Grange Consulting and provides corporate advice in relation to mergers and acquisitions, capital raisings, listing of companies on ASX, due diligence reviews and legal compliance, takeovers and managing legal issues associated with client transactions. Ms Robinson acts as Company Secretary for a number of ASX listed and unlisted companies. Ms Robinson is a corporate lawyer and an associate of the Institute of Chartered Secretaries and Administrators (ICSA) and Chartered Secretaries Australia (CSA) and a member of AMPLA.

Management and Consultants

The Company is aware of the need to have sufficient management to properly supervise the exploration and (if successful) for the development of the projects in which the Company has, or will in the future have, an interest and the Board will continually monitor the management roles in the Company. As the Company's projects require an increased level of involvement the Board will look to appoint additional management and/or consultants when and where appropriate to ensure proper management of the Company's projects.

Disclosure of Interests

Directors are not required under the Company's Constitution to hold any Shares.

As at the date of this Prospectus, the annual remuneration (exclusive of superannuation) and the relevant interests of each of the Directors in Shares and Options are as set out in the table below:

| Director | Annual Remuneration | Shares | Options ¹ |
|-----------------------|----------------------------|---------------|-----------------------------|
| Mr Greg Bandy | \$120,000 | Nil | 3,000,000 |
| Mr Jason Bontempo | \$30,000 | Nil | 1,000,000 |
| Mr Stephen Brockhurst | \$30,000 | 250,001 | 500,000 |

Notes:

1. The issue of these Options are subject to Shareholder Approval at the General Meeting being held on 15 July 2011.



AGREEMENTS WITH DIRECTORS OR RELATED PARTIES

The Company's policy in respect of related party arrangements is:

- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

Executive Services Agreement – Mr Greg Bandy

The Company has entered into an executive services agreement with Mr Bandy. Pursuant to which Mr Bandy agrees is engaged as the Company's Executive Director. Under the terms of the agreement Mr Bandy is entitled to be paid a salary of \$120,000 per annum (plus the statutory requirement of an additional 9% in superannuation).

Restriction Agreement

In association with the AIM Listing, on 24 May 2011 Mr Stephen Brockhurst, who holds a total of 250,001 Shares, entered into a restriction agreement with Cairn, Old Park Lane and the Company pursuant to which Mr Brockhurst has undertaken to Cairn and the Company that he will not, without the prior written permission of Cairn and Old Park Lane, dispose of any interests in Shares held by him (subject to certain limited exceptions including, disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) until one year from the AIM Listing Date.

Indemnity, Insurance and Access Deeds

The Company has entered an Indemnity, Insurance and Access Deed with each Director.

The Deeds provide that:

- each Director is indemnified by the Company against any liability incurred in that capacity as an officer of the Company to the maximum extent permitted by law subject to certain exclusions;
- the Company must keep a complete set of company documents until the later of:
 - the date which is seven years after the Director ceases to be an officer of the Company; and
 - the date after a final judgment or order has been made in relation to any hearing, conference, dispute, enquiry or investigation in which the Director is involved as a party, witness or otherwise because the Director is or was an officer of the Company (**Relevant Proceedings**);
- the Director has the right to inspect and/or copy a company document in connection with Relevant Proceedings during the period referred to above;
- the Company must maintain an insurance policy insuring the Director against liability as a director and officer of the Company while the Director is an officer of the Company and until the later of:
 - the date which is seven years after the Director ceases to be an officer of the Company; and
 - the date any Relevant Proceedings commenced before the date referred to above have been finally resolved,unless the Company reasonably determines that the type of coverage is no longer available.



Expenses of the Offer

The total expenses of the Offer are estimated to be approximately \$280,000 and are expected to be applied towards the items set out in the table below:

| Item of Expenditure | Amount |
|---------------------------------|------------------|
| Lead Manager fee | \$60,000 |
| ASIC fees | \$2,137 |
| ASX Fees | \$84,642 |
| Corporate Advisor fees | \$60,000 |
| Legal fees | \$40,000 |
| Technical expert fees | \$15,000 |
| Investigating accountant fees | \$15,000 |
| Distribution and other expenses | \$3,221 |
| Total | \$280,000 |

CORPORATE GOVERNANCE

To the extent applicable, in light of the Company's size and nature, the Company has adopted The Corporate Governance Principles and Recommendations (2nd Edition) as published by ASX Corporate Governance Council (**Recommendations**).

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined in Section 10 of this Prospectus and the Company's compliance and departures from the Recommendations are set out in Section 10 of this Prospectus.

In addition, the Company's full Corporate Governance Plan is available from the Company's website (www.redemperresources.com).



2. CORPORATE DIRECTORY

Directors

Mr Greg Bandy
Executive Director

Mr Jason Bontempo
Non-Executive Director

Mr Stephen Brockhurst
Non-Executive Director

Registered Office

945 Wellington Street
West Perth WA 6005

Telephone: +61 8 9322 7600
Facsimile: +61 8 9322 7602

Website

www.redemperorresources.com

Share Registry*

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Perth WA 6000

Telephone: 1300 787 272
Facsimile: +61 8 9323 2033

Corporate Advisor

Grange Consulting Pty Ltd
945 Wellington Street
West Perth WA 6005

Lead Manager

Max Capital Pty Ltd
945 Wellington Street
West Perth WA 6005

Investigating Accountant

BDO Corporate Finance (WA) Pty Ltd
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Lawyers in Australia

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Lawyers and Consultants
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International Lawyers

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Dubai, UAE

BGI Advisory Services Georgia Limited
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Georgia

Independent Technical Expert

Gaffney, Cline & Associates
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Hampshire
United Kingdom GU34 4PU

RPS Energy Services Pty Ltd
38 Station Street
Subiaco WA 6008

* This entity is included for information purposes only and has not been involved in the preparation of this Prospectus.



3. DETAILS OF THE OFFER

3.1 Summary of the Offer

By this Prospectus, the Company invites investors to apply for 2,857,143 Shares at an issue price of \$0.35 each to raise \$1,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue.

3.2 Applications

Applications for Shares offered under this Prospectus must be made using the Application Form. Alternatively, complete a paper copy of the electronic Application Form that accompanies the electronic version of the Prospectus which can be found and downloaded from www.redemperorresources.com.

Payment for the Shares must be made in full at the issue price of \$0.35 per Share. Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. Applicants who receive a general offer should return their completed Application Form together with application monies in full prior to 5.00pm (WST) on the Closing Date to the Company to:

Posted to:

Red Emperor Resources NL
c/-Computershare Investor Services Pty Ltd
GPO Box D182
Perth WA 6840
Australia

Delivered to:

Red Emperor Resources NL
c/-Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Australia

Refer to the instructions on the back of the Application Form when completing your application. Cheques should be made payable to “Red Emperor Resources NL – Share Offer Account” and crossed “Not Negotiable”. All cheques must be in Australian currency.

An original completed and lodged Application Form, together with a cheque for the application monies, constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in the Application Form. The Application Form does not have to be signed to be a valid application. An application will be deemed to have been accepted by the Company upon allotment of the Shares.

The Offer may be closed at an earlier date, and time, at the discretion of the Directors, without prior notice. Applicants are therefore encouraged to submit their Application Forms as early as possible. The Company reserves the right to extend the Offer or accept late applications.

3.3 Allotment

Subject to ASX granting conditional approval for the Company to be admitted to the Official List and the Company raising the minimum subscription under the Offer (being the full subscription), allotment of Shares offered by this Prospectus will take place as soon as practicable after the Closing Date. Prior to allotment, all application monies shall be held by the Company on trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the application monies.



The Directors reserve the right to allot Shares in full for any application or to allot any lesser number of Shares or to decline any application. Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the surplus application monies will be returned by cheque to the applicant as soon as practicable after the allotment date.

3.4 ASX Listing

The Company will apply to ASX within seven (7) days after the date of this Prospectus for admission to the Official List and for Official Quotation of the Shares offered under this Prospectus. If ASX does not grant permission for Official Quotation of the Shares within three (3) months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Shares offered by this Prospectus will be allotted or issued. In that circumstance, all applications will be dealt with in accordance with the Corporations Act.

3.5 Restricted Securities

Subject to the Company being admitted to the Official List, certain of the securities on issue may be classified by the ASX as restricted securities and will be required to be held in escrow for such time as prescribed by ASX. During the period in which these securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

The Company will announce to the ASX full details of the quantity and duration for the securities required to be held in escrow prior to re-quotation of the Company on ASX.

3.6 Dividend Policy

The Company does not yet have a dividend policy. The Company anticipates that significant expenditure will be incurred in the exploration of the Company's Projects. These activities are expected to dominate the two year period following the issue of this Prospectus. Accordingly, the Company has no immediate intention to declare or distribute dividends and does not expect to declare any dividends during that period. Payment of future dividends will depend upon the future profitability and financial position of the Company.

3.7 Restrictions on the Distribution of the Prospectus

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify these Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

3.8 Minimum Subscription

The minimum subscription in respect of the Offer is \$1,000,000.



If the minimum subscription has not been raised within 4 months after the date of this Prospectus, the Company will either repay the application monies to Applicants or issue a supplementary or replacement prospectus to allow Applicants one month to withdraw their Application Form and be repaid their application money. No interest will be paid on this money.

3.9 No Underwriting

This Offer is not underwritten.

3.10 CHESS

The Company will apply to participate in the Clearing House Electronic Subregister System (CHESS). CHESS is operated by ASX Settlement Pty Ltd (ASX Settlement), a wholly owned subsidiary of ASX, in accordance with the Listing Rules and the ASX Settlement Operating Rules.

Under CHESS, the Company will not issue certificates to investors. Instead, Share and Option holders will receive a statement of their holdings in the Company. If an investor is broker sponsored, ASX Settlement will send a CHESS statement.

3.11 Forecast Financial Information

Given the speculative nature of oil and gas exploration and the fact the Projects are in an early stage of exploration, there are significant uncertainties associated with forecasting future revenues and expenses of the Company. On this basis and after considering ASIC Regulatory Guide 170, the Directors believe that reliable financial forecasts for the Company cannot be prepared and accordingly have not included financial forecasts in this Prospectus.

3.12 Privacy Statement

If you complete an application for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your Shares in the context of takeovers; regulatory bodies, including the Australian Taxation Office; authorised securities brokers; print service providers; mail houses and the Share Registry.

You can access, correct and update the personal information the Company hold about you. If you wish to do so, please contact the Share Registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information are governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASX Settlement and Operating Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.



4. COMPANY OVERVIEW

4.1 Company Overview

The Company is an ASX listed (ASX: RMP) and AIM listed (AIM: RMP) exploration company. The Company's principal activities focused on identifying and exploring oil and gas in Puntland and the Republic of Georgia. The Company also holds a 25% free carried interest in the Jillewarra Project which it farmed down in November 2010.

In Puntland, Red Emperor holds a 20% working interest in two licences encompassing the prospective Dharoor and Nugaal valleys in 2011. These two exploration areas cover nearly 40,000km². Red Emperor's joint venture partner and PSA operator Africa Oil Corp. (TSXV: AOI) (**Africa Oil**) has signed a letter of intent with a drilling subcontractor and expects the first well to be drilled in Dharoor in Q3, 2011.

In the Republic of Georgia, Red Emperor has a 20% working interest in onshore blocks VIa and VIb, covering approx. 6,500km². Joint venture partner Range Resources (ASX: RRS; AIM: RRL) has completed a 410km 2D seismic program with independent consultants RPS Energy identifying 68 potential structures containing an estimated 2.045 billion barrels of oil-in-place (on a mean 100% basis). Mobilisation has commenced with the first exploration well due to spud June 2011.

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

4.2 Puntland Project

Pursuant to the Puntland Acquisition Agreement, the Company will earn a 20% interest in onshore petroleum projects which are located in the Dharoor Valley and the Nugaal Valley of Puntland (**Puntland Farmin**) by contributing 30% of the costs of drilling the one exploration well on the Dharoor Valley to the work programme. The drilling is anticipated to commence drilling in the third quarter of 2011. Followed by, the drilling of a second exploration well on either the Dharoor Valley block or the Nugaal Valley block as determined by the operator, Africa Oil. Red Emperor has an option but not an obligation to participate in the second well. Further details of the Puntland Acquisition Agreement are set out in Section 9.3

The government of Puntland has formally approved the Company's farmin to earn a 20% interest in the Puntland Projects.

Exploration

A summary of the history of the Puntland Projects is set out below.

Dharoor and Nugaal Valleys

In 2006 the Puntland Government granted Range Resources Ltd (ASX: RRS) ("Range") certain mineral and hydrocarbon rights which included the highly prospective Nugaal and Dharoor exploration blocks. In 2007 Range brought in partner Africa Oil to finance and help to develop the Nugaal and Dharoor oil prospects. Africa Oil operates the licences covered by the production sharing agreements in respect of the two blocks.



Prior to Red Emperor's farm-in, the joint venture invested significant funds on seismic acquisition and interpretive works designed to identify the most prospective drill targets in both the Nugaal and Dharoor exploration blocks. The targets identified are the subject of the current exploration program.

Puntland

Somalia is situated in the most north-eastern part of Africa, known as 'the Horn of Africa'. The Democratic State of Puntland is located in the north-eastern sector of Somalia and covers approximately 212,000km².



Somalia, and in particular Puntland, remain one of the last under-explored countries that have high potential for vast reserves of hydrocarbons. During the late 1980's the state was divided into a number of concessions for oil exploration. Significant exploration was undertaken but this effectively ceased due to political instability that arose in 1991.

The rationale concerning prospectivity in Puntland is based on the proposition that the Cretaceous and Jurassic age Nugaal and Dharoor basins in Puntland are extensions of the prolific producing Marib-Shawba and Sayun-Masila Basins in Yemen. It is believed these basins were contiguous before the Gulf of Aden opened and therefore the prospects and plays are likely similar to those in Yemen.

The legal structure of Puntland consists of the judiciary, legislative (House of Representatives) and the executive (the president and his nominated council of ministries) branches of government. They have had two peaceful elections in the past 5 years with the current President, Abdirahman Mohamud Farole (a former PhD candidate in the history department at La Trobe University in Melbourne) fully supportive of the development of the natural assets believed to exist in abundance both on and off the shores of Puntland.



Present



Pre-Rift

Exploration Program Currently Underway

Red Emperor's joint venture partner and PSA operator, Africa Oil, has signed a letter of intent with a drilling subcontractor and expects the first well to be drilled in Dharoor in Q3, 2011.



Participants in Puntland Projects

The joint venture partners on the Puntland Projects are as follows:

| Participant | Interest |
|-----------------------------|----------|
| Red Emperor Resources NL | 20% |
| Africa Oil Corp. (Operator) | 60% |
| Range Resources Ltd | 20% |

4.3 Georgian Project

Pursuant to the Georgian Acquisition Agreement, the Company will contribute 40% of the costs of drilling two exploration wells, capped at US\$5.6 million, to earn a 20% interest in the Georgian Project.

The Company has entered into the Georgian Acquisition Agreement with Strait Oil & Gas (UK) Limited (**Strait**) and Range to acquire a 20% interest in the Georgian Project.

Pursuant to the Georgian Acquisition Agreement the Company was issued shares equal to 20% of the issued capital of Strait subject to the provision of up to US\$5.6m funding for a 2 well drill program. The shares are to be held by the Company's wholly owned subsidiary, Georgian Oil Pty Ltd.

The interests of the joint venture partners on the Georgian Project are as follows:

| Participant | Interest |
|------------------------------|----------|
| Red Emperor Resources NL | 20% |
| Range Resources Ltd | 40% |
| Other shareholders in Strait | 40% |

Rig mobilisation has commenced with spudding of the first exploration well confirmed for early July 2011.

Exploration

A summary of the history of the Georgian Project is set out below.

Blocks VIa and VIb Background

A significant number of wells were drilled in Georgia during the Soviet era (mainly in the 1980's and 1990's) in and adjacent to blocks VIa and VIb. A review of all available data in 2008/2009 by the operator, Strait, and recognised international oil and gas consultants RPS Group (RPS) found that very few of the 200 wells were drilled with the specific objective of finding oil and gas reservoirs. Certain wells were drilled to relatively shallow depths, to further define structural features identified from surface geological mapping, and to assist in planning the location and design of water reservoirs. Deeper wells were drilled for the purpose of detailed identification of the stratigraphy of the area. Many of these wells found oil and gas shows, in which case they were shut in and abandoned without testing.



2D Seismic Programme and Subsequent Results

In March 2010 Range and Strait completed 410km of 2D seismic across the two blocks in satisfaction of Phase II of the Production Sharing Contract ("PSC"). The initial results from the draft report of seismic interpretation, field mapping and evaluation completed by RPS were released by Range to the ASX on 18 November 2010. RPS identified a total of 68 structural culminations across the two blocks each of which potentially contains stacked reservoirs. Total combined best estimate of gross unrisked oil-in-place across these 68 identified structural culminations amounts to 2,045 million barrels.



Of the 68 identified prospective targets across the two blocks, 6 structures have been prioritized as being ready for drilling. Of these 6 structures, total gross unrisked oil-in-place has been estimated at 728 million barrels.

Exploration Program Currently Underway

Rig mobilisation has commenced with site preparation near completion and spudding confirmed for July 2011. The Mukhiani Well is targeting the Vani 3 prospect which has the following potential STOIP:

| Vani 3 Prospect – STOIP* (MMbbls) | | | |
|--|------------|------------|-------------|
| P90 | P50 | P10 | Mean |
| 41.7 | 92.7 | 178.2 | 115.2 |

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

The recently completed geochemical helium survey undertaken by Range confirmed the suitability of the first drill location with oil exploration and development prospectivity complementing the earlier seismic work completed on the target.



5. INDEPENDENT TECHNICAL REPORTS

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FAO: The Directors

Red Emperor Resources NL
945, Wellington Street
West Perth
Western Australia 6005

Cairn Financial Advisers LLP
61, Cheapside
London, UK
EC2V 6AX

4 July 2011

Re: Independent Geologist's Report on the Exploration of Blocks VIa and VIb, Onshore Georgia.

Dear Sirs,

RPS Energy Services Pty Ltd ('RPS') was asked by Red Emperor Resources NL ('Red Emperor' or the 'Company') to provide a Independent Geologist's Report ("Report"), regarding the exploration and prospectivity of Blocks VIa and VIb, onshore Georgia.

This Report in relation to the exploration of Blocks VIa and VIb, onshore Georgia, has been prepared for due diligence purposes and for the inclusion in a prospectus ("Prospectus") to be issued by Red Emperor dated on or about 1 July 2011 for the offer of 2,857,143 ordinary shares in the Company each at an issue price of A\$0.35 per share to raise approximately A\$1,000,000. The Prospectus is being prepared in accordance with Red Emperor's re-compliance with the Listing Rules of the Australian Securities Exchange.

In accordance with your instructions to us, we confirm that we:

1. are professionally qualified and a member in good standing of a organisation of engineers and/or geoscientists including Society of Petroleum Engineers, Society of Petroleum Evaluation Engineers, American Association of Petroleum Geologists, Geological Society and the European Association of Geoscientists and Engineers.
2. have at least five years' relevant experience in the estimation, assessment and evaluation of oil and gas assets;
3. are independent of the Company, its directors, senior management and advisers;
4. will be remunerated by way of a time-based fee and not by way of a fee that is linked to the Admission or value of the Company;
5. are not a sole practitioner;
6. have the relevant and appropriate qualifications, experience and technical knowledge to appraise professionally and independently the assets, being all assets, licences, joint ventures or other arrangements owned by the Company and its subsidiary undertakings (the "Group") or proposed to be exploited or utilised by it ("Assets") and liabilities, being all liabilities, royalty payments, contractual agreements and minimum funding requirements relating to the Group's work

programme and Assets (“Liabilities”);

7. consider that the scope of this Report is appropriate, given the Group’s Assets and Liabilities and includes and discloses all information required to be included therein, and
8. Save as disclosed in this Report, there has been no material change in the data and information provided herein.

Neither RPS, nor any of its directors, staff or sub-consultants who contributed to this Report has any interest in the Company; or any of the advisers to the Company; or the Assets; or the outcome of the Offer.

In compiling this Report we have used the definitions and guidelines set out in the Petroleum Resources Management System (“PRMS”) by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists, and Society of Petroleum Evaluation Engineers in 2007 as the internationally recognised Standard required.

Background

Blocks VIa and VIb, onshore Georgia, are operated by Strait Oil & Gas Limited (“Strait Oil & Gas” or “Strait”). Red Emperor plans to acquire a 20% participating interest in these two licences in return for providing up to US\$5.6 MM funding for the drilling of two wells which are planned for the second and third quarters of 2011. The licences were granted to Strait Oil & Gas Ltd as a three-phase Product Sharing Agreement (‘PSA’) on 29th March 2007 with a 25 year period.

- Phase I – Geological assessment work – completed November 2007.
- Phase II – Environmental survey / Seismic Planning, Acquisition and Mapping – completed December 2010.
- Phase III – Drilling of two wells and subsequent development in the event of successful discovery and appraisal – In progress.

In January 2008, RPS released a Report which described a scoping evaluation of Blocks VIa and VIb that we made on behalf of Strait Oil and Gas. The Report was necessarily somewhat ‘high level’ since the data available was old, frequently with no geo-reference or scale and poorly supported by input data such as seismic or wells. Nonetheless, several potential structures were identified that conformed with what was known from surface geology, from historical mapping and from field-work done by RPS’ representative at the time. The main conclusions from the January 2008 Report were that the Georgia licences appeared to have relatively favourable fiscal terms and that the next phase of work should include the acquisition and interpretation of some 2D seismic data.

In October 2008, Range Resources farmed in to a 50% interest in the licences in return for funding Phase II and Phase III to the drilling of commercial wells. Approximately 400 km of 2D seismic was acquired by Geophysical Institute of Israel (GII) at the end of 2009, into 2010, over the two blocks, 281 km over Block VIa and 116 km over Block VIb. Processing was carried out by Spectrum Geophysics in Woking, England. In addition, some 201 km of 1980s vintage of seismic were obtained and vectorised to add to the database. This older scanned seismic was generally of lesser quality than the modern data.

Using the combined 2009/10 and rasterised seismic data, another geological mapping visit by an RPS explorationist and satellite structural mapping conducted by NPA-Fugro, a further exploration Report was delivered to Strait Oil & Gas in December 2010. The

exploration focus of this Report means that it was designed to identify and present every possible opportunity whether these are sufficiently delineated to be a “drill-ready” prospect or more loosely defined leads or concepts. It was not intended to provide RPS’ opinion of the likely hydrocarbon potential of the Blocks, for which, in our view, there remains insufficient data to determine with any confidence.

This Report critically reviews the leads and prospects presented in the December 2010 Report and sets them in the context of the forward work program and general exploration maturity of the licences in question.

A summary of the assets in question is shown as Table 1 below.

| Licence | Operator | Interest (Red Emperor) | Status | Licence Expiry Date | Licence Area | Comments |
|-----------|------------------|------------------------|-------------|---------------------|----------------------|---|
| Block VIa | Strait Oil & Gas | 20%* | Exploration | 29/03/32 | 3300 km ² | Seismic commitments complete; single well commitment remains in addition to the well expected Q2 2011 |
| Block VIb | Strait Oil & Gas | 20%* | Exploration | 29/03/32 | 3240 km ² | As above |

* Red Emperor plans to acquire a 20% participating interest in these two licences in return for providing up to US\$5.6 MM funding for the drilling of two wells which are planned for the second quarter of 2011.

Table 1: Summary Table of Assets

Description of general prospectivity, risk and maturity of play

The Rioni Basin in Georgia, where the Strait Oil & Gas licences are located, lies in the centre of the Black Sea, Caucasus and Caspian Region (see Figure 1). This is a complex area of deep sedimentary basins and young mountain chains, formed by tectonic activity along the southern margin of the Scythian Platform, from the Late Precambrian to the present day.

Historically, the exploration for oil and gas in Georgia has been limited in scale, and only some 23 fields of small to modest size have been found to date, mostly in the Tertiary and Cretaceous sedimentary sections. However, the main objectives in the Strait Oil licence areas are in older Jurassic strata and there is little information available as regards field analogues. This is compounded by the fact that despite the large number of wells drilled for various purposes in the area (a mixture of mainly geological well-bores for coal exploration and water-wells with only a few actually targeted at exploring for hydrocarbons), there is only a limited amount of data available that provides any insight as to likely reservoir properties that can be utilised in resource estimates.

A geological database has been constructed (NPA-Fugro) to incorporate previously published and proprietary surface geology maps, location of seeps, observed structural surface features such as faults, anticlines and synclines and inferred structural features from satellite imagery. It is noted that the official (State certified) surface geological map was found to have some inaccuracies during field work carried out by RPS and NPA-Fugro in August 2010.

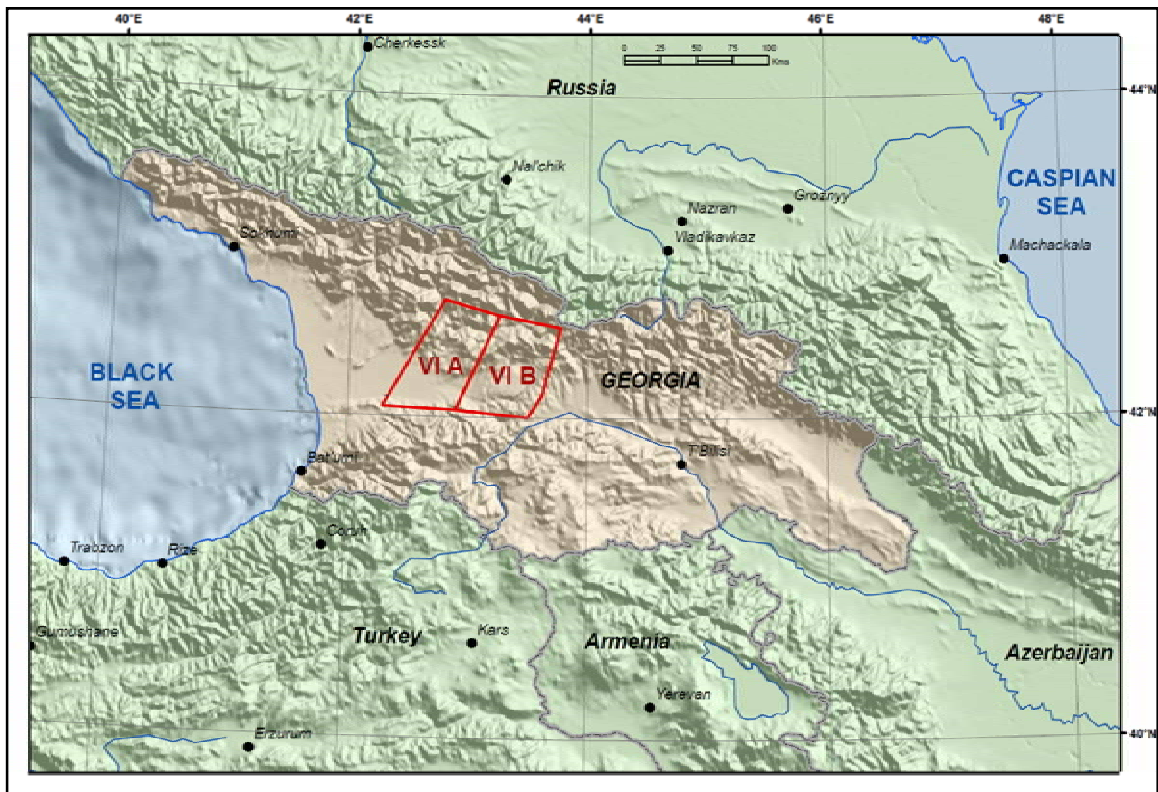


Figure 1: Location map

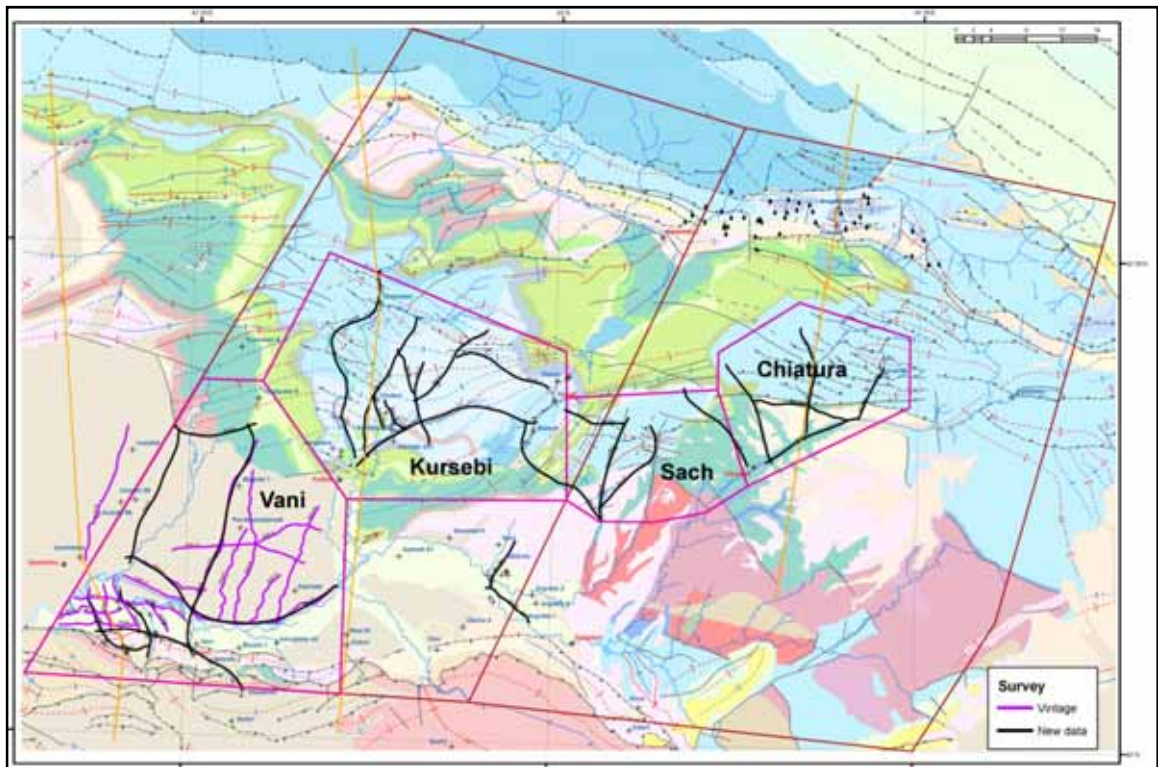


Figure 2: Areas of interest and location of seismic lines

The geological mapping has been augmented by seismic interpretation of some 200 km of scanned and rasterised 1980's vintage 2D paper data, together with the 400 km of 2D data recently acquired on behalf of Strait by the Geophysical Institute of Israel ('GII') at the end of 2009, into 2010. On the basis of this interpretation, four areas of immediate interest have been identified: Vani, Kursebi, Sach and Chiatura (see Figure 2). Figure 2 also shows the locations of the old and new seismic lines and it is clear that the density of coverage is still somewhat sparse, mainly utilising existing roads and tracks as is common for early-stage exploratory seismic. Consequently, although some potential structural closures have been identified, there remains considerable uncertainty as to the integrity and size of such potential closures. RPS would expect further seismic to be acquired, on a more targeted area, in the event of any encouraging results from the imminent drilling program.

In our opinion, the database and work carried out to-date is appropriate for a frontier exploration play. There is evidence of a working hydrocarbon system although the location of the 'kitchen' and timing of expulsion of hydrocarbons is poorly defined. Moderate to poor reservoir facies, particularly in the Jurassic and possibly early Cretaceous, have been studied at outcrop and are prognosed to be at suitable depths of burial under the Strait licences to form potential reservoirs. Structural elements are loosely defined but some encouragement has been drawn from the recent seismic interpretation. The juxtaposition of reservoir quality rocks and overlying seal is, as yet, unproven.

The combination of the individual 'risk' components above means that for any given prognosed target reservoir the geological probability of success ('GPoS') is very low (of the order of 1 in 20) at this time. However, it is possible that any given well may penetrate multiple stacked reservoirs each one with its own chance of success. This stacking of possible target reservoirs has a consolidation effect on the overall GPoS and a risk of approximately 8% (or 1 in 12) has been assigned. This coincides with Otis and Schneidermann's 'Rule of Thumb' for Geological Risk Assessment¹ which describes a GPoS of 1 in 12 as "high risk" and an appropriate level of risk for a new play in an emerging or frontier area.

Discussion of drill-ready prospects

The two areas that have been high-graded for initial drilling are the Vani area and the Kursebi area.

The Vani area:

Figure 3 shows a Near Base Cretaceous depth structure map over the Vani area based on the 2010 seismic interpretation exercise, on which are marked a number of structural leads and prospects. Only three of the culminations (V1, V2 & V3) are deemed to have sufficient seismic coverage to make the presence of a structural closure more likely than not and these are therefore described as 'drill ready' and went into the selection process for the upcoming 2-well drilling program.

Over most of the area, uplift has been such that it is highly unlikely that any traps other than lowest most Cretaceous or older will be preserved with sufficient seal capacity to contain hydrocarbons. Only the extreme south of the Vani is an exception which is currently mapped as having the Base Tertiary sufficiently buried to set up potential traps.

¹ Otis, R.M. & Schneidermann, N. 1997. "A Process for Evaluating Exploration Prospects", AAPG Bulletin 81 (7) pp.1087-1109.

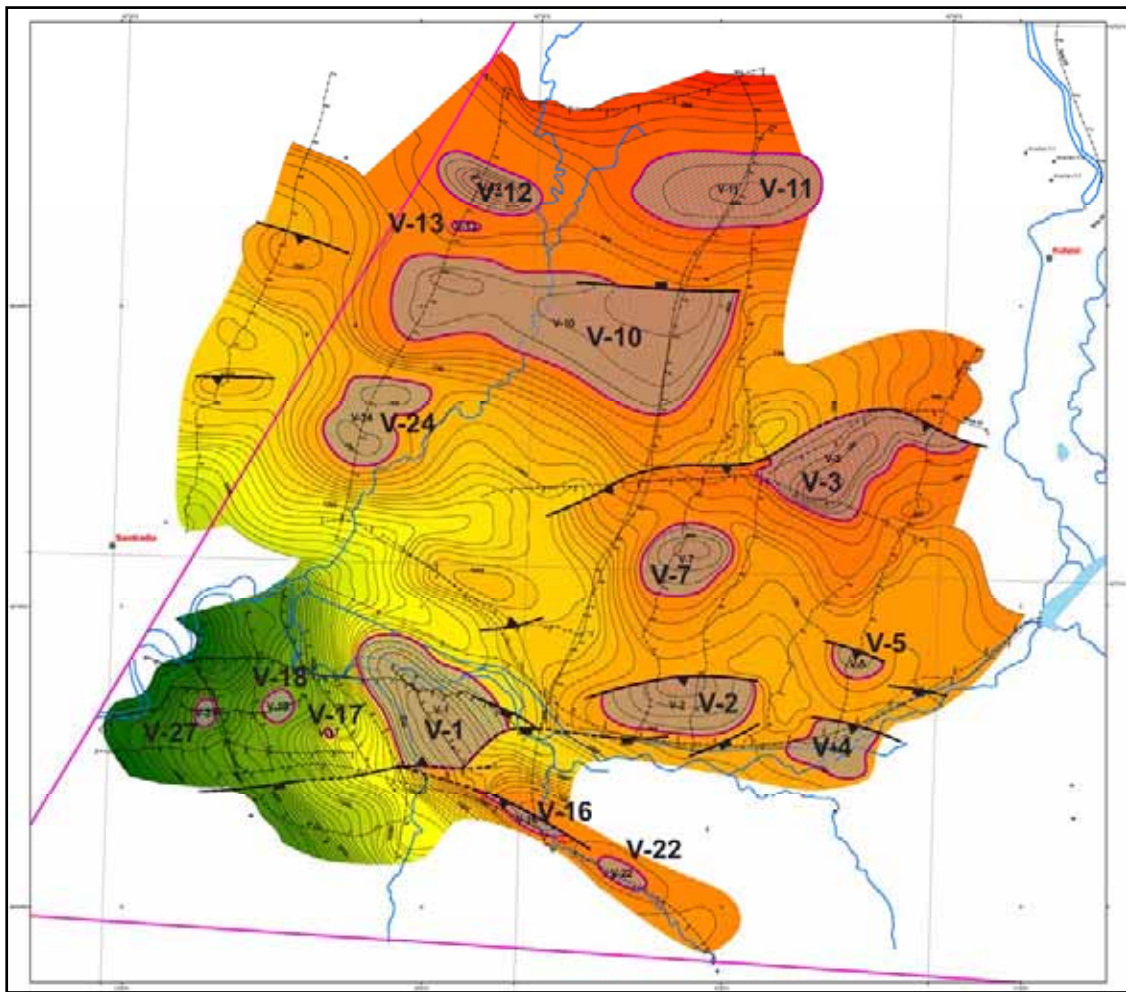


Figure 3: Schematic showing the Near Base Cretaceous depth structure and the Vani area Leads and Prospects

The V-1 and V-2 prospects therefore have stacked potential targets in the Lower Tertiary / Upper Cretaceous, Lower Cretaceous and Jurassic intervals (Figure 4) whilst V-3 is considered too shallow to be likely to preserve any Lower Tertiary / Upper Cretaceous traps.

There is insufficient data to assign anything other than a generic pool-size to each of the potential reservoir levels. The key input parameters to the volumetrics are shown below with the main 'prospect specific' variation being the range of potential areal closure based on the recent mapping. The range of uncertainty assigned to the areal closure has been deliberately set wide to take into account possible structural closure but also the potential for only partial 'fill-to-spill'. The other reservoir parameters have been set generically based on the limited data available at this time. In the event that the planned new wells encounter reservoirs at any or all stratigraphic levels, a more detailed volumetric analysis will be justified and necessary.

The range of area of closure/fill described above for the Vani prospects and the generic reservoir parameters used to calculate indicative volumetrics are shown below. These areas and reservoir parameters have been probabilistically combined in REP™ which uses a MonteCarlo approach with 20,000 realisations.

| Group | System | System period | Stage(s) | Substage(ss) Series(se) Suite(su) Horizon(hor) | Lithological section | Thickness (m) | Show: oil-● gas-● water-● | Lithology | Seismic Horizons | | |
|-------------|-----------------------------|-----------------|-----------------|---|--------------------------|--|---|---|---|--|--|
| Cenozoic | Neogene | Postpliocene |  |  | ..... | 10-120 | | Bench gravels, sands, clays | Near Base Tertiary | | |
| | | | Up | Sarmatian | Middle substage | ..... | 0-50 | ● | | Clays | |
| | | | | Konkian | Lower substage | ..... | 0-200 | ● | | | |
| | | | Middle | Kavirgamian | | | | 0-190 | | ● | Sandstones, clays and aleurolites with conglomerates interlayers |
| | | Chokreskian |  |  | ..... | 0-110 | ● | | | | |
| | | Tarkhanian |  |  | ..... | 0-50 | | | | | |
| | | | | | | | | | | | |
| | | Lower | Heivtian | Sup-khadumian strata | | | | 0-200 | | ● | Non-carbonate clays |
| | | | Burdigalian |  |  |  | ..... |  |  |  |  |
| | | Up | Aquitanian |  |  |  | ..... |  |  | Carbonate clays | |
| | | M | Chattian |  |  |  | ..... |  |  |  |  |
| | | Oligocene | M | Rupelian | Khadumian hor. | | | | | | |
| | | | L | Lanzouan |  |  |  | ..... |  |  |  |
| | | | Up | Priabonian | Up foraminiferal hor. | | | | | 0-500 | ● | Clay marls |
| | M | | | Lutetian | Lower foraminiferal hor. | Nuanetsi hor. | ..... | 0-60 | | | |
| | Paleogene | Eocene | Ypresian |  |  | ..... | 0-50 | ● | Clay marls | Sandstone limestones | |
| | | | Thanetian |  |  | ..... |  |  |  |  |  |
| | | Pliocene | M | Mamman |  |  | ..... | 0-50 | ● | Marls and marl limestones | |
| | | | Danian |  |  | ..... | 0-100 | ● | Limestones | | |
| | Cretaceous | Upper | Senonian | Maastrichtian ss. |  | ..... | 0-400 | ● | Limestones | Near Base Cretaceous | |
| | | | | Companian ss. |  | ..... |  |  |  |  |  |
| | | | | Santonian ss. |  | ..... |  |  |  |  |  |
| | | | Cenomanian | Cenomanian ss. | | | 0-200 | ● | Limestones with marl interlayers | | Volcanogenic rocks with clays |
| | | | | "Albion" ss. |  | ..... | 0-100 | | | | |
| Lower | | Turonian |  |  |  | ..... | 0-100 | ● | Sandstones | | |
| | | Cenomanian |  |  |  | ..... | 0-500 | ● | Clay marls | | |
| | | Albian |  |  |  | ..... | 0-200 | | Marl limestones | | |
| | | Aptian |  |  |  | ..... |  |  |  |  |  |
| | | Turonian |  |  |  | ..... | 0-900 | ● | Limestones and dolomites (sandstones in the foundation) | | |
| | | Cenomanian |  |  |  | ..... |  |  |  |  |  |
| Mesozoic | Upper | Triassic | Tithonian |  | ..... | 0-1000 | ● | Sandstones, siliceous clays and conglomerates with olivine basalts covers | Near Top Bajocian Deep Intra Jurassic | | |
| | | | Kimmeridgian |  | ..... |  |  |  |  |  |  |
| | | | Oxfordian |  | ..... |  |  |  |  |  |  |
| | | | Callovian |  | ..... |  |  |  |  |  |  |
| | Middle | Bajocian | Bajocian stage |  | ..... | 0-250 | ● | Sandstones, clays, coal layers | | | |
| | | | Patibevli suite |  | ..... | 0-350 | ● | Sandstones, aleurolites, clay shales | | | |
| | | | Dajocian stage | Bajocian suite |  | ..... | 0-1000 | ● | | Tuff sandstones with clay interlayers | |
| | | | | Dajocian suite |  | ..... | 0-250 | ● | | Tuff breccia and tuffs with poephyrite cover | |
| | | Lower | Jurassic | Aalenian |  | ..... | 2000-8000 | ● | | Sandstones, argillites, limestones and marls | |
| | | | | Toarcian |  | ..... |  |  |  |  |  |
| | | | | Emsbachian |  | ..... |  |  |  |  |  |
| | | | | Sinemurian |  | ..... |  |  |  |  |  |
| Triassic | Hettangian |  | ..... | 0-200 | ● | Clay marls and argillites | Sandstones, clays and conglomerates | | | | |
| | Chiatura suite |  | ..... | 0-2000 | | Quartzporphyries, albitophyres and their pyroclasts. | | | | | |
| Paleozoic | Upper | Chiatura suite |  | ..... |  |  | Phyllites with talc, mica and marble serpentinite lense | Granitoids interlayers and with | | | |
| | Middle | Chorchana suite |  | ..... |  |  |  |  |  |  |  |
| | Lower |  |  | ..... |  |  |  |  |  |  |  |
| Proterozoic | Suite of crystalline shales |  | ..... |  |  | Crystalline shales | | | | | |

Figure 4: Stratigraphy of Block VI area

| Prospect | Minimum* | Most Likely | Maximum |
|----------|-------------------|-------------------|--------------------|
| V-1 | 1 km ² | 5 km ² | 15 km ² |
| V-2 | 1 km ² | 4 km ² | 10 km ² |
| V-3 | 2 km ² | 7 km ² | 18 km ² |

* The minimum area takes into account that any given structure may not be 'fill-to-spill'

Table 2: Range of areal closure / fill

| Reservoir Parameter | Minimum | Most Likely | Maximum |
|-----------------------|---------|-------------|---------|
| Net Pay Thickness | 1 m | 10 m | 30 m |
| Porosity | 8% | 15% | 22% |
| S _w | 30% | 40% | 50% |
| FVF (B _o) | 1.18 | 1.24 | 1.29 |
| Recovery Factor | 25% | 30% | 35% |

Table 3: Generic reservoir parameters for calculation of indicative volumetrics for Vani and Kursebi

| Prospect | STOIP* (MMbbls) | | | |
|----------|-----------------|------|------|------|
| | P90 | P50 | P10 | Mean |
| V-1 | 9.5 | 27.2 | 63.7 | 32.8 |
| V-2 | 7.7 | 20.9 | 46.3 | 24.6 |
| V-3 | 13.9 | 30.9 | 59.4 | 38.4 |

* The STOIP shown represents the potential range of outcomes for a **single** stratigraphic pool.

Table 4: Vani Prospects Indicative Volumetric Analysis for a generic reservoir

| Prospect | STOIP** (MMbbls) | | | | Prospective Resources** (MMbbls) | | | |
|----------|------------------|------|-------|-------|----------------------------------|------|------|------|
| | P90 | P50 | P10 | Mean | P90 | P50 | P10 | Mean |
| V-1 | 28.5 | 81.6 | 191.1 | 98.4 | 8.5 | 24.5 | 57.6 | 29.6 |
| V-2 | 23.1 | 62.7 | 138.9 | 73.8 | 6.9 | 18.8 | 42.0 | 22.1 |
| V-3 | 41.7 | 92.7 | 178.2 | 115.2 | 12.5 | 27.7 | 54.0 | 34.5 |
| | | | Total | 287.4 | | | | 86.1 |

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

Table 5: Potential STOIP per Prospect (Vani Area)

The Kursebi Area:

Figure 5 shows a Deep Intra Jurassic depth structure map over the Kursebi area based on the 2010 seismic interpretation exercise, on which are marked a number of structural leads and prospects. Similar to Vani, only three of the culminations (K-1, K-2 & K-6) are deemed to have sufficient seismic coverage to make the presence of a structural closure more likely than not and these are therefore described as 'drill ready' and went into the selection process for the upcoming 2-well drilling program.

The uplift over Kursebi is more pronounced than Vani and the reservoir targets are limited to Jurassic strata. Similar to Vani the chance of multiple reservoir targets exists but this is still highly uncertain at this time.

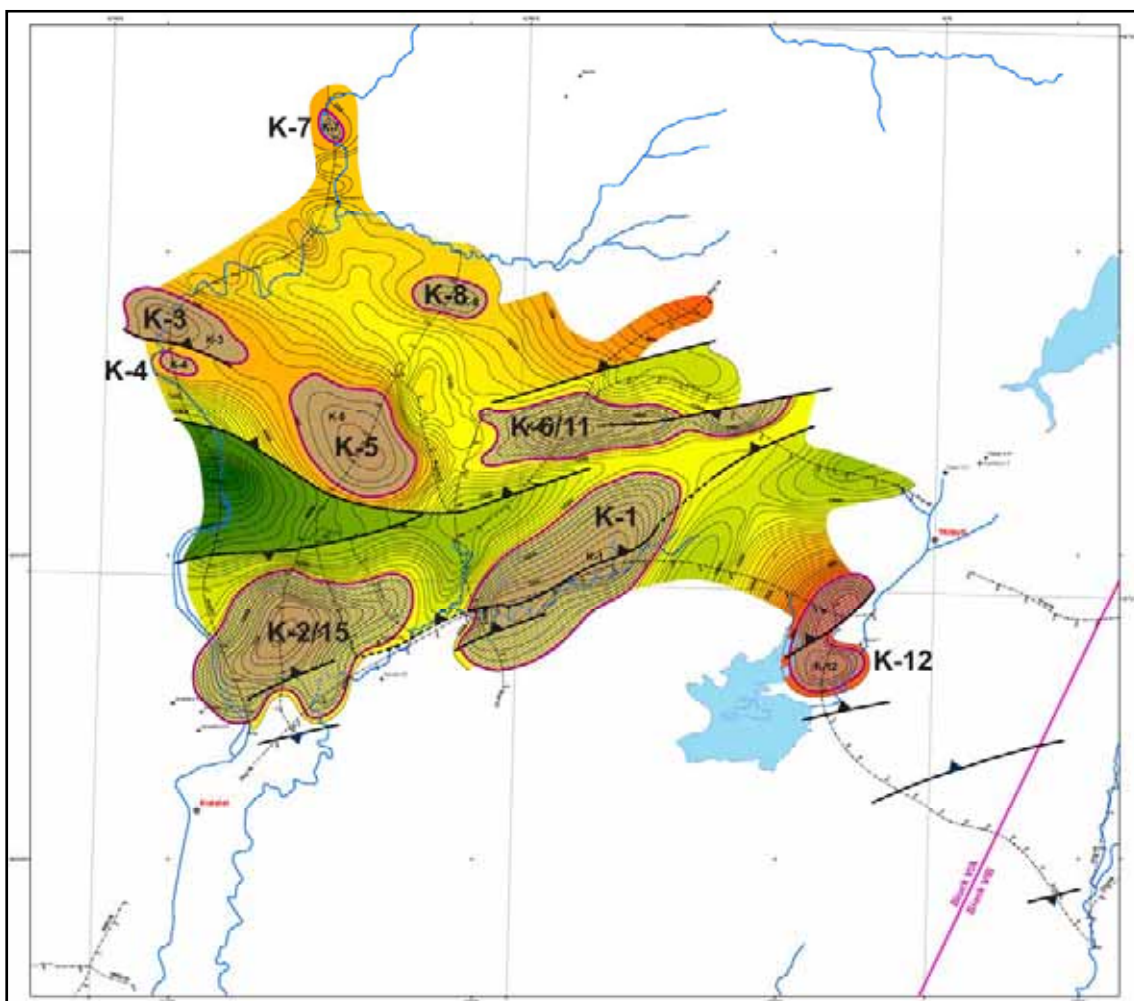


Figure 5: Schematic showing the Deep Intra Jurassic depth structure and the Kursebi area Leads and Prospects

Again, there is insufficient data to assign anything other than a generic pool-size to each of the potential reservoir levels. The key input parameters to the volumetrics are shown below with the main 'prospect specific' variation being the range of potential areal closure based on the recent mapping. The range of uncertainty assigned to the areal closure has been deliberately set wide to take into account possible structural closure but also the potential for only partial fill-to-spill. The other reservoir parameters have been set generically based on the limited data available at this time. In the event that the planned new wells encounter reservoirs at any or all stratigraphic levels, a more detailed volumetric analysis will be justified and necessary.

The range of area of closure / fill for the Kursebi prospects are shown in Table 6 below

and the generic reservoir parameters (same as used for Vani) used to calculate indicative volumetrics are shown in Table 3.

| Prospect | Minimum* | Most Likely | Maximum |
|----------|-------------------|--------------------|--------------------|
| K-1 | 2 km ² | 9 km ² | 24 km ² |
| K-2 | 3 km ² | 13 km ² | 32 km ² |
| K-6 | 2 km ² | 8 km ² | 20 km ² |

* The minimum area takes into account that any given structure may not be 'fill-to-spill'

Table 6: Range of areal closure / fill

| Prospect | STOIP* (MMbbls) | | | |
|----------|-----------------|------|-------|------|
| | P90 | P50 | P10 | Mean |
| K-1 | 17.2 | 47.6 | 108.0 | 56.5 |
| K-2 | 24.7 | 67.3 | 149.0 | 76.2 |
| K-6 | 16.1 | 42.4 | 92.9 | 49.6 |

* The STOIP shown represents the potential range of outcomes for a **single** stratigraphic pool. Any given well may encounter 1 or 2 such potential reservoirs depending on the degree of relative uplift and/or erosion at any given Prospect location.

Table 7: Kursebi Prospects Indicative Volumetric Analysis for a generic reservoir

| Prospect | STOIP** (MMbbls) | | | | Prospective Resources** (MMbbls) | | | |
|----------|------------------|-------|-------|-------|----------------------------------|------|------|-------|
| | P90 | P50 | P10 | Mean | P90 | P50 | P10 | Mean |
| K-1 | 34.4 | 95.2 | 216.0 | 113.0 | 10.3 | 28.6 | 65.0 | 33.8 |
| K-2 | 49.4 | 134.6 | 298.0 | 152.4 | 14.8 | 40.4 | 90.2 | 47.4 |
| K-6 | 32.2 | 84.8 | 185.8 | 99.2 | 9.6 | 25.4 | 56.0 | 29.8 |
| | | | Total | 364.6 | | | | 111.0 |

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

Table 8: Potential STOIP per Prospect (Kursebi Area)

Conclusions

Red Emperor has a right to earn a 20% participating interest in two frontier exploration licences (Blocks VIa and VIb) onshore Georgia. Two exploration wells are to be drilled in the second and third quarters of 2011, which will provide the first modern hydrocarbon exploration data in the area. The wells will provide much needed calibration of the stratigraphic column in the Vani and Kursebi areas. In the event that the wells find oil, this may occur in multiple stacked reservoirs but these are only generically identified at this point in time. Table 9 presents a summary of the potential STOIP range in the event that three reservoirs are discovered in the Vani Prospects and two reservoirs are discovered in the Kursebi Prospects. These volumes are based on the early-stage mapping that has been carried out thus far. Insufficient data exists to accurately predict

recovery factors but a reasonable expectation, based on regional knowledge and the sorts of reservoir that is expected, would be 30% +/- 5%.

The prospects are typical of what would be expected for a new play in an emerging or frontier area and carry a combined geological probability of success (or chance of discovery) of approximately 8% or 1 in 12, which in turn approximates to the world-wide wild-cat average success rate.

RPS has only calculated potential volumes in the event that oil is discovered since it is oil that would be most economically attractive in the event of success.

| STOIIIP Volumes in MMbbls | Gross (100%) | | | | Net Attributable (20%) | | | | Risk Factor (GPOS) | Operator |
|---------------------------|--------------|--------------|---------------|--------------|------------------------|-------------|--------------|--------------|--------------------|------------------|
| | Low Est. | Best Est. | High Est. | Mean | Low Est. | Best Est. | High Est. | Mean | | |
| V-1 | 28.5 | 81.6 | 191.1 | 98.4 | 5.7 | 16.3 | 38.2 | 19.7 | 8% | Strait Oil & Gas |
| V-2 | 23.1 | 62.7 | 138.9 | 73.8 | 4.6 | 12.5 | 27.8 | 14.8 | | |
| V-3 | 41.7 | 92.7 | 178.2 | 115.2 | 8.3 | 18.5 | 35.6 | 23.0 | | |
| K-1 | 34.4 | 95.2 | 216.0 | 113.0 | 6.9 | 19.0 | 43.2 | 22.6 | | |
| K-2 | 49.4 | 134.6 | 298.0 | 152.4 | 9.9 | 26.9 | 59.6 | 30.5 | | |
| K-6 | 32.2 | 84.8 | 185.8 | 99.2 | 6.4 | 17.0 | 37.2 | 19.8 | | |
| Total STOIIIP | 209.3 | 551.6 | 1208.0 | 652.0 | 37.2 | 97.7 | 241.6 | 130.4 | | |

Table 9: Summary Table of STOIIIP (Assumes 3 reservoirs are encountered in the Vani Prospects and 2 reservoirs are encountered in the Kursebi Prospects)

| Prosp. Resource Volumes in MMbbls | Gross (100%) | | | | Net Attributable (20%) | | | | Risk Factor (GPOS) | Operator |
|-----------------------------------|--------------|--------------|--------------|--------------|------------------------|-------------|-------------|-------------|--------------------|------------------|
| | Low Est. | Best Est. | High Est. | Mean | Low Est. | Best Est. | High Est. | Mean | | |
| V-1 | 8.5 | 24.5 | 57.6 | 29.6 | 2.1 | 5.7 | 13.0 | 6.8 | 8% | Strait Oil & Gas |
| V-2 | 6.9 | 18.8 | 42.0 | 22.1 | 3.0 | 8.1 | 18.0 | 9.5 | | |
| V-3 | 12.5 | 27.7 | 54.0 | 34.5 | 1.9 | 5.1 | 11.2 | 6.0 | | |
| K-1 | 10.3 | 28.6 | 65.0 | 33.8 | 1.7 | 4.9 | 11.5 | 5.9 | | |
| K-2 | 14.8 | 40.4 | 90.2 | 47.4 | 1.4 | 3.8 | 8.4 | 4.4 | | |
| K-6 | 9.6 | 25.4 | 56.0 | 29.8 | 2.5 | 5.5 | 10.8 | 6.9 | | |
| Total STOIIIP | 62.5 | 165.4 | 364.8 | 197.1 | 12.5 | 33.1 | 73.0 | 39.4 | | |

Table 10: Summary Table of Prospective Resources (Assumes 3 reservoirs are encountered in the Vani Prospects and 2 reservoirs are encountered in the Kursebi Prospects)

The tables above consider only the identified "drill-ready" prospects in the Vani and Kursebi areas. As discussed in the December 2010 exploration Report, there are many more Leads which need further seismic coverage to firm up into Prospects. Whilst the total mean STOIIIP assigned to all the identified leads and prospects in the Dec 2010 Exploration Report is highly indicative and subject to verification by further data acquisition, the in-place volumes associated with the currently identified leads and prospects is 2.045 Bbbls (410 MMbbls attributable to Red Emperor) assuming stacked reservoirs per culmination. In the event of a discovery or positive indications of reservoir

quality and/or hydrocarbon traces in the forth coming wells, RPS would anticipate that many of these Leads would be matured to Prospects and that the GPoS would increase significantly.

Qualifications

RPS is an independent consultancy specialising in petroleum reservoir evaluation and economic analysis. Except for the provision of professional services on a fee basis, RPS does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this Report. This report was compiled by Mr. Andy Kirchin, a Director of RPS. Mr. Kirchin has also evaluated the previous reports and data available to compile this report. Andy Kirchin has 24 years of oil and gas experience and holds a B.Sc. (Hons.), Geophysics with Geology from the University of Liverpool. Andy is a member of the European Association of Geoscientists and Engineers, and the Petroleum Exploration Society of Great Britain. Other RPS employees involved in this work hold at least a degree in geology, geophysics, petroleum engineering or a related subject and have at least five years of relevant experience in the practice of geology, geophysics or petroleum engineering.

Basis of Opinion

The evaluation presented in this Report reflects our best technical interpretation of the data made available to us. However, due to the uncertainty inherent in the estimation of all subsurface parameters, we cannot, and do not guarantee the accuracy or correctness of any interpretation and we shall not, except in the case of gross or wilful negligence on our part, be liable or responsible for any loss, cost damages or expenses incurred or sustained by anyone resulting from any interpretation made by any of our officers, agents or employees.

The evaluation has been conducted within our understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. However, RPS is not in a position to attest to the property title, financial interest relationships or encumbrances related to the property. It should be understood that any evaluation, particularly one involving exploration and future petroleum developments may be subject to significant variations over short periods of time as new information becomes available.

Except for the provision of professional services on a fee basis, RPS does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this Report.

Yours sincerely,



David R. Guise

Managing Director – Consulting

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APPENDIX A: GLOSSARY OF TECHNICAL TERMS

| | |
|---------------------|--|
| AAPG | American Association of Petroleum Geologists |
| API | American Petroleum Institute |
| B | Billion |
| bbls | Barrels |
| $B_{o(g)i}$ | initial formation volume factor for oil (or gas) |
| cf | Cubic feet |
| Entitlement Volumes | the volumes of oil and/or gas which a Contractor receives under the terms of a PSA or its Working Interest |
| ft | Feet |
| FVF | Formation Volume Factor |
| GIIP | Gas Initially In Place |
| GPoS | Geological Probability of Success |
| GOC | Gas-oil contact |
| GOR | Gas: Oil Ratio |
| GRV | gross rock volume |
| IRR | internal rate of return |
| $k_{(e)}$ | (effective) permeability |
| kg | Kilogram |
| km | Kilometre |
| m | metres |
| M | thousand |
| MD | measured depth |
| mD | (permeability in) millidarcies |
| MM | million |
| Mstb | thousand stock tank barrels |
| MMstb | million stock tank barrels |
| MMscf/d | millions of standard cubic feet per day |
| MMstb | million stock tank barrels |
| N:G | Net to gross ratio |
| NPV | Net present value |
| OWC | oil-water contact |
| ppm | Parts per million |
| PVT | Pressure, Volume & Temperature |
| RF | Recovery Factor |
| R_w | Water resistivity |

| | |
|--------|---|
| sq km | square kilometres |
| stb | Stock tank barrels |
| scf | standard cubic feet |
| SPE | Society of Petroleum Engineers |
| SPEE | Society of Petroleum Evaluation Engineers |
| STOIIP | Stock Tank Oil Initially In Place |
| S_w | Water Saturation |
| TD | Total Depth |
| TVD | True vertical depth |
| TVDSS | true vertical depth (sub-sea) |
| WPC | World Petroleum Council |

**INDEPENDENT EXPERT'S REPORT
OF CERTAIN PROPERTIES
IN PUNTLAND, SOMALIA
AS AT 31st DECEMBER, 2010**

Prepared for

RED EMPEROR RESOURCES NL

JULY, 2011

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Appendices

- I. Glossary of Terms
- II. Abbreviated Form of SPE PRMS Guidelines and Definitions

Mr Greg Bandy,
Managing Director,
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Australia.

Dear Sirs,

INDEPENDENT EXPERT'S REPORT ON CERTAIN PROPERTIES IN PUNTLAND, SOMALIA

INTRODUCTION

Red Emperor Resources NL (RMP) commissioned Gaffney, Cline & Associates (GCA) to undertake a Independent Expert's Report (IER) on the prospects and leads on the Dharoor and Nogal Blocks in Puntland, Somalia (Figure 0.1), operated on behalf of RMP by Africa Oil Corporation (AOC). This IER has been prepared in relation to a prospectus (Prospectus) to be issued by RMP dated on or about 1st July, 2011. GCA understands the Prospectus is being prepared in accordance with RMP's re-compliance with the Listing Rules of the Australian Stock exchange (ASX).

GCA has undertaken an evaluation of the Prospective Resource potential on each of these properties using data and presentations provided by the Operator (AOC), supplemented by public domain data. GCA attended presentations on the blocks at the AOC offices in Calgary, Canada. GCA was provided with SMT Kingdom Suite (Kingdom) seismic interpretation projects and other presentations and their recent reports for most of the blocks being assessed. This forms the basis for the opinions here. In carrying out this review, GCA has relied on the information received from AOC.

Industry Standard abbreviations are contained in the attached Glossary (Appendix I), some or all of which may have been used in this report.

In the preparation of this report, GCA used the Petroleum Resources Management System published by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) in March, 2007 ("SPE PRMS"). See Appendix II.

Reserves are those quantities of petroleum that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of Reserve volumes must be determined within the context of an economic limit test (pre-tax and exclusive of accumulated depreciation amounts) assessment prior to any Net Present Value analysis.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no evident viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

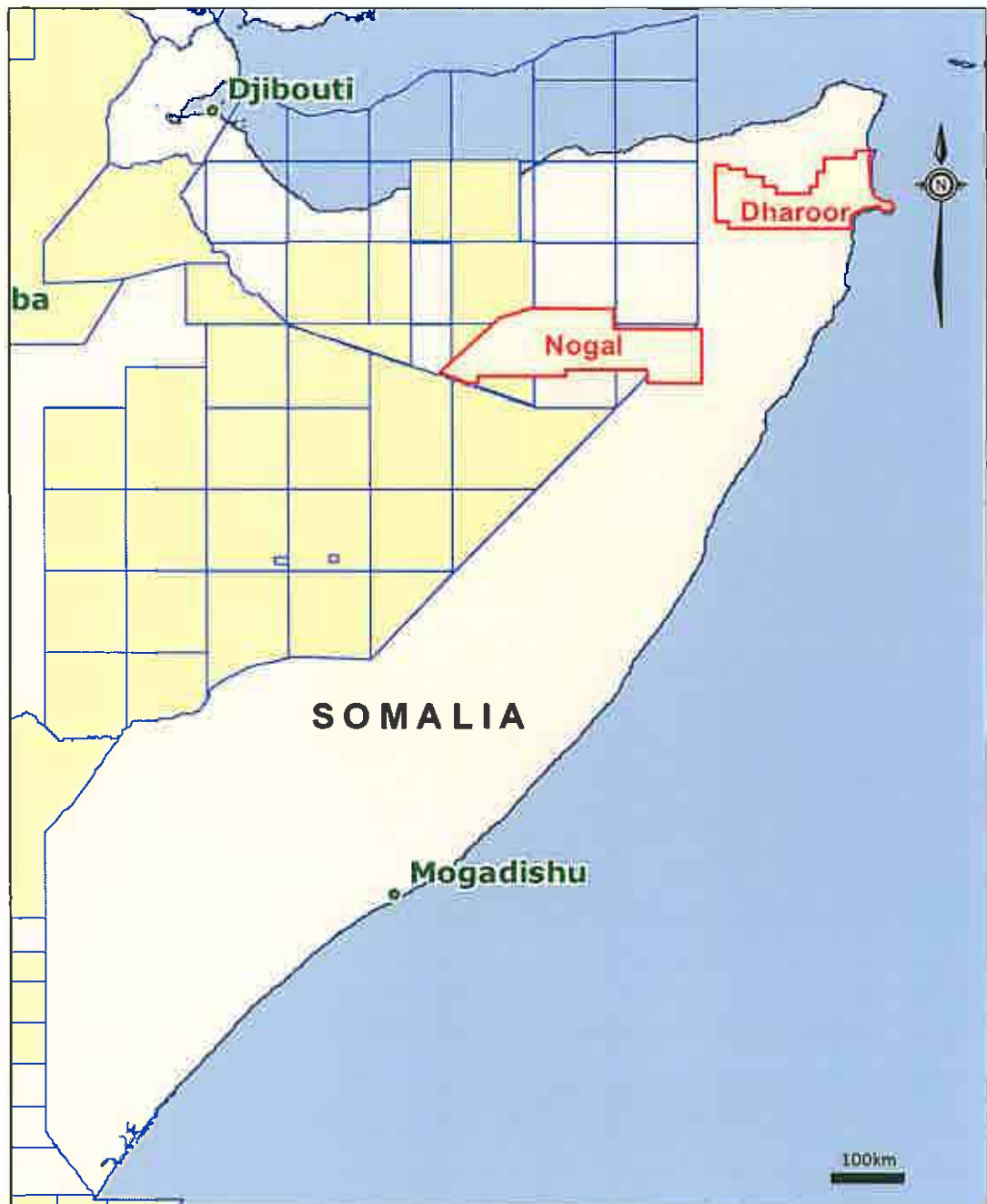
Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

Prospective Resources include Prospects and Leads. Prospects are features that have been sufficiently well defined, on the basis of geological and geophysical data, to the point that they are considered drillable. Leads, on the other hand, are not sufficiently well defined to be drillable, and need further work and/or data. In general, leads are significantly more risky than prospects and therefore are not suitable for explicit quantification.

Prospective Resource volumes are presented as unrisks. It must be appreciated that Prospective Resources are risk assessed only in the context of applying the stated 'Geological Chance of Success', a percentage which pertains to the percentage probability of achieving the status of a Contingent Resource (where the Geological Chance of Success is unity). This dimension of risk assessment does not incorporate the considerations of economic uncertainty and commerciality.

It must be clearly understood that any determination of resources volumes, particularly involving continuing field development, will be subject to significant variations over short periods of time as new information becomes available and perceptions change. Not only are such estimates of Reserves and Contingent and Prospective Resources based on that information which is currently available, but such estimates are also subject to uncertainties inherent in the application of judgmental factors in interpreting such information. Contingent and Prospective Resources quantities should not be confused with those quantities that are associated with Reserves due to the additional risks involved. Those quantities that might actually be recovered may differ significantly from the estimates presented herein. A possibility exists that the accumulations and prospects will not result in successful discovery and development, in which case there could be no positive potential present worth.

FIGURE 0.1
RMP ACREAGE IN PUNTLAND



GCA is an energy consultancy specialising in independent petroleum advice on resource evaluation and economic analysis. In preparation of this report, GCA has maintained, and continues to maintain, a strict consultant – client relationship with RMP. The management and employees of GCA have been and continue to be, independent of RMP in the services they provide to the company including the provision of the opinion expressed in this review. Furthermore the management and employees of GCA have no interest in any assets or share capital of RMP or in the promotion of the company.

Opinions concerning sub-surface petroleum resources are associated with considerable uncertainty and represent best estimates based on the data available at the time the opinion is given. The acquisition of new data in the future and/or variations in economic circumstances and market forces may result in significant upward or downward movements in revised total resource estimates.

GCA confirms that, to the best of its knowledge, there has been no material change of circumstances than stated herein.

This Report must only be used for the purpose for which it was intended.

EXECUTIVE SUMMARY

RMP holds working interests in two non-Operated Production Sharing Contracts (PSC's) in Puntland (Somalia) in East Africa. These Blocks are being explored by AOC and its partners and are considered to contain under-explored plays that have proven and productive analogues, and the petroleum system is calibrated by earlier well and seismic data. RMP's Working Interest (WI), Gross and Net acreage is summarised in Table 0.1.

TABLE 0.1

RMP WORKING INTEREST, GROSS AND NET ACREAGE

| Blocks | Operator | RMP Net Working Interest (%) | Expiry date | Gross Acreage (km²) | Net Acreage (km²) |
|---------------|-----------------|-------------------------------------|--------------------|---------------------------------------|-------------------------------------|
| Nogal Valley | AOC | 20 | 17th January 2012 | 24,908 | 4,981.6 |
| Dharoor | AOC | 20 | 17th January 2012 | 14,424 | 2,884.8 |

The Nogal Valley and Dharoor Blocks in Puntland (Somalia) offer the potential to explore in basins that are believed to be analogues of the proven and productive Marib-Shawba and Sayun-Masila Basins of Yemen. The basins in Yemen have been used to calibrate this analysis.

The estimation of Prospective Resource volumes for high-risk and poorly calibrated basins can be subject to large variation from the introduction of new information. The estimates presented in this report are based on all of the information available; however, new data or information is likely to have a material effect on the resource assessment values. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Table 0.2 details the Prospective Resources of RMP in the Puntland Blocks.

TABLE 0.2
PUNTLAND: SUMMARY OF OIL PROSPECTIVE RESOURCES
AS AT 31st DECEMBER, 2010

| Licence | Lead | Reservoir | Gross Best Estimate (MMBbl) | RMP Working Interest (%) | Net Best Estimate (MMBbl) | GCoS |
|--------------------|-------------|------------|-----------------------------|--------------------------|---------------------------|------|
| Nogal Valley Block | Kalis East | Jesomma | 457 | 20 | 91.4 | 0.11 |
| | | Gumbero | 171 | 20 | 34.2 | 0.09 |
| | | Gabredarre | 416 | 20 | 83.2 | 0.13 |
| | Kalis South | Jesomma | 52 | 20 | 10.4 | 0.08 |
| | | Gumbero | 28 | 20 | 5.6 | 0.07 |
| | | Gabredarre | 70 | 20 | 14.0 | 0.09 |
| | Kalis SE | Jesomma | 268 | 20 | 53.6 | 0.11 |
| | | Gumbero | 154 | 20 | 30.8 | 0.09 |
| | | Gabredarre | 364 | 20 | 72.8 | 0.13 |
| | Kalis SW | Jesomma | 83 | 20 | 16.6 | 0.10 |
| | | Gumbero | 46 | 20 | 9.2 | 0.08 |
| | | Gabredarre | 113 | 20 | 22.6 | 0.12 |
| | Kalis W | Jesomma | 80 | 20 | 16.0 | 0.10 |
| | | Gumbero | 44 | 20 | 8.8 | 0.08 |
| | | Gabredarre | 105 | 20 | 21.0 | 0.12 |
| | Nogal SE-A | Jesomma | 95 | 20 | 19.0 | 0.11 |
| | | Gumbero | 53 | 20 | 10.6 | 0.09 |
| | | Gabredarre | 126 | 20 | 25.2 | 0.13 |
| | Nogal SE-B | Jesomma | 57 | 20 | 11.4 | 0.11 |
| | | Gumbero | 32 | 20 | 6.4 | 0.09 |
| | | Gabredarre | 77 | 20 | 15.4 | 0.13 |
| | Nogal South | Jesomma | 73 | 20 | 14.6 | 0.12 |
| | | Gumbero | 40 | 20 | 8.0 | 0.10 |
| | | Gabredarre | 98 | 20 | 19.6 | 0.14 |
| Nogal-2 | Jesomma | 73 | 20 | 14.6 | 0.12 | |
| | Gumbero | 42 | 20 | 8.4 | 0.10 | |
| | Gabredarre | 130 | 20 | 26.0 | 0.14 | |
| Nogal East | Jesomma | 62 | 20 | 12.4 | 0.10 | |
| | Gumbero | 36 | 20 | 7.2 | 0.08 | |
| | Gabredarre | 82 | 20 | 16.4 | 0.12 | |
| Dharoor Block | Dharoor | Jesomma | 299 | 20 | 59.8 | 0.08 |
| | | Gumbero | 166 | 20 | 33.2 | 0.06 |
| | | Gabredarre | 440 | 20 | 88.0 | 0.09 |
| | Lead 1 | Jesomma | 90 | 20 | 18.0 | 0.06 |
| | | Gumbero | 50 | 20 | 10.1 | 0.05 |
| | | Gabredarre | 130 | 20 | 26.0 | 0.07 |
| | Lead 2 | Jesomma | 55 | 20 | 11.0 | 0.06 |
| | | Gumbero | 30 | 20 | 6.0 | 0.05 |
| | | Gabredarre | 80 | 20 | 16.0 | 0.07 |
| | Lead 3 | Jesomma | 36 | 20 | 7.2 | 0.06 |
| | | Gumbero | 20 | 20 | 4.0 | 0.05 |
| | | Gabredarre | 55 | 20 | 11.0 | 0.07 |

Notes:

1. Net Prospective Resources are stated herein in terms of RMP's net Working Interest (WI) in the properties and, due to the very immature nature of these Prospective Resources, have not been computed as net entitlement volumes under the PSA. In this regard these volumes stated herein will exceed the volumes which will arise to RMP under the terms of the PSA.
2. It is inappropriate to report summed-up Prospective Resource volumes or to otherwise focus upon those of other than the 'Best Estimate'.

3. The Geologic Chance of Success (GCoS) reported here represents an indicative estimate of the probability that the drilling of this prospect would result in a discovery which would warrant the re-categorisation of that volume as a Contingent Resource. These GCoS percentage values have not been arithmetically applied within this assessment.

DISCUSSION

1. REGIONAL GEOLOGICAL SETTING

The Puntland blocks are all located onshore in the north of East Africa (Horn of Africa) (Figure 0.1). The blocks are sparsely explored with only limited well and seismic data available to constrain the petroleum system and prospectivity. However, there are sufficient data on the blocks to demonstrate that a petroleum system is developed within (at least) part of the blocks. This is interpreted to be similar to that seen onshore Yemen. A summary stratigraphy of the basins is shown in Figure 1.1.

The northern part of East Africa was part of the much larger Gondwana mega-continent at the start of the Mesozoic (Figure 1.2). Rifting associated with the northerly drift of this mega-continent and the separation of the continent throughout the Mesozoic (e.g. separation of Australia / India / Africa) led to the development of complex rift geometries across the area. It is within these basins that the Mesozoic petroleum systems developed. Puntland was finally separated from the Arabian Peninsula during the Tertiary opening of the Gulf of Somalia. At this time the Dharoor and Nogal Basins were separated from their analogues in Yemen.

1.1 Common Themes to the Analysis

The Prospective Resources summarised in this report were derived using Monte Carlo volumetric simulation. The inputs for this analysis were obtained from data, reports and independent analysis of the information supplied by the Operator of the PSC's.

When evaluating Prospective Resources, GCA uses a Geologic Chance of Success (GCoS) template (Figure 1.3 illustrates one element used) to derive an estimate of the risk associated with Prospective Resources. The use of the template ensures that consistency is maintained between prospects. The template takes into account the amount and quality of information available to be used in the evaluation and also the applicability of these data to resolve the issue. This helps to maintain a consistent GCoS evaluation.

**FIGURE 1.1
PUNTLAND STRATIGRAPHIC COLUMN**

| AGE | | FORMATION | LITHOLOGY | OBJECTIVE | Thickness (feet) |
|-----------------------------------|------------------|-------------|---|---------------------------|-------------------|
| TERTIARY | OLIGOCENE RECENT | BASIN FILL | Non marine basin fill clastics | SEAL | 2000' |
| | Eocene | FAULT TALEH | Evaporites | | 600' |
| | PALEOCENE | AURADU | Shelf carbonates | | 2000' |
| CRETACEOUS | UPPER CRETACEOUS | JESOMMA | Shelf carbonates Clastics marginal marine marginal marine | SECONDARY OBJECTIVE | 1350' |
| | | GUMBURO | Deep marine Deltic marginal marine Shallow marine shales - carbonates | SECONDARY OBJECTIVE | 2450' |
| | L. CRET. | GORRAHEI | Evaporites | SEAL | 400' |
| | JURASSIC | TRIASSIC | GABREDARRE | Fluvial Deltic Sandstones | PRIMARY RESERVOIR | 650' |
| OXFORDIAN KIMMERIDGIAN | | UARANDAB | Organic rich shale carbonates | SOURCE ROCK | 2300' |
| L. MID JURASSIC UPPER TRIASSIC | | HAMANLEI | Ooid banks Carbonates evaporites | SECONDARY RESERVOIR | 2450' |
| | | ADIGRAT | Clastics | SECONDARY RESERVOIR | 200' |
| | | BASEMENT | Metamorphics | | Source: AOC |

FIGURE I.2

GONDWANA LATE JURASSIC RECONSTRUCTION

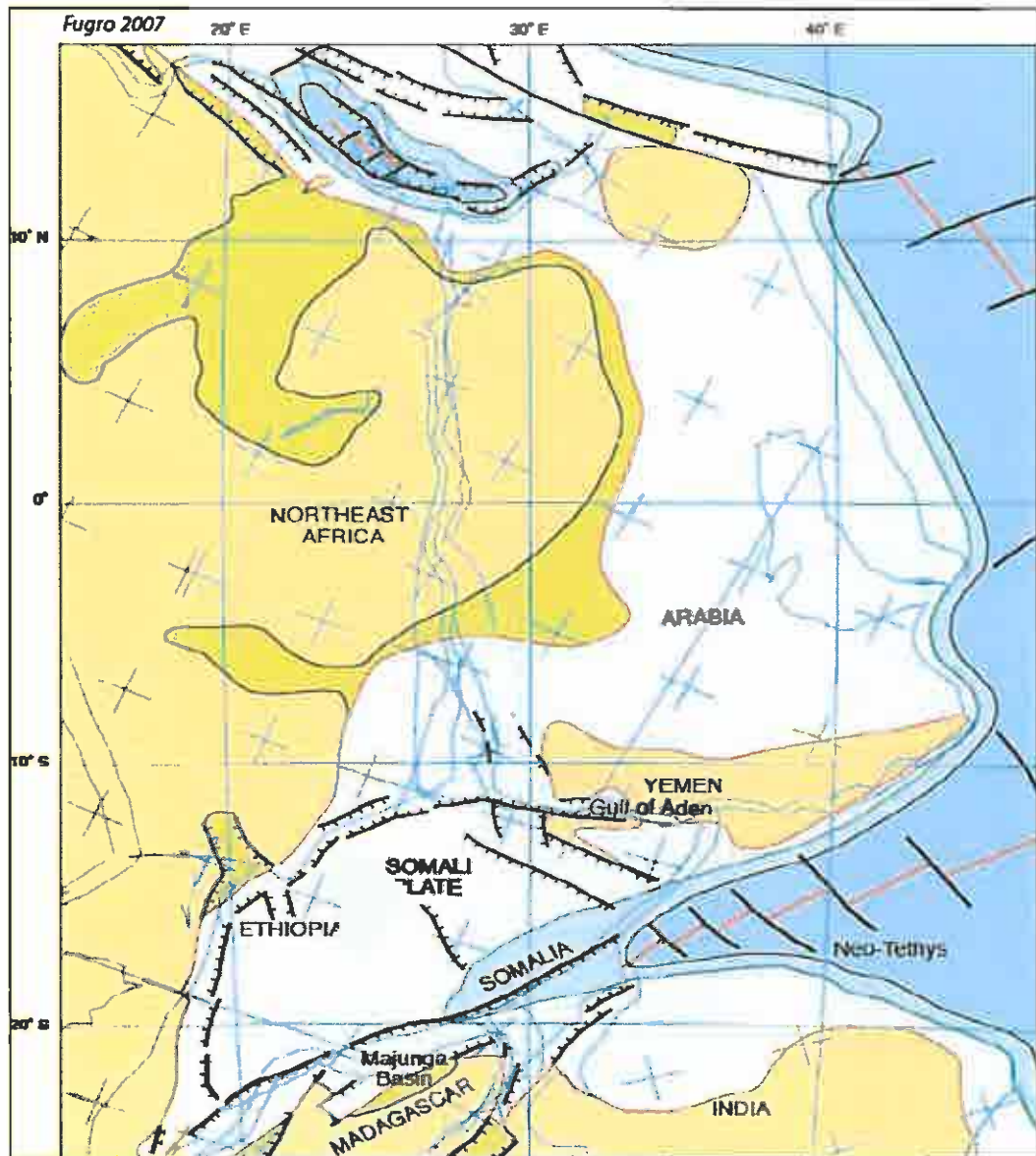


FIGURE I.3

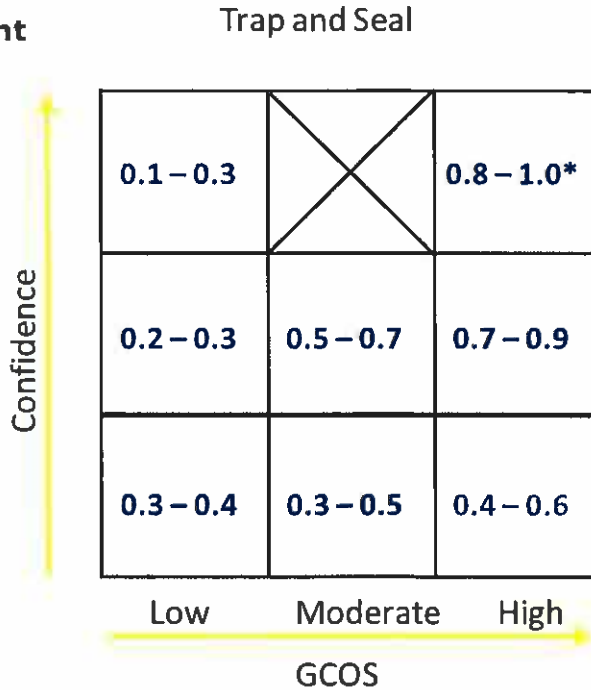
GCA GEOLOGICAL CHANCE OF SUCCESS (GCOS) TEMPLATE

Confidence level based on quality and quantity of relevant data

- High**
 - Multiple wells
 - Good quality seismic (mainly 3D)
 - Petroleum system well understood

- Moderate**
 - Some wells
 - Variable quality seismic (mainly 2D)
 - Knowledge of petroleum system

- Low**
 - Regional knowledge; trendology
 - Evaluation uses analogues



| Low | Moderate | High |
|---|--|---|
| Complex, poorly defined trap, mainly stratigraphic/structural | Moderately complex; mainly structural traps; some stratigraphic component. | Simple, well defined trap, mainly structural. |
| Thin, discontinuous seal | Thin, continuous seal | Thick, continuous seal |
| Multiple, intersecting faults – fault leakage | Some fault seal concerns | Simple fault pattern – fault seal |

2. SOMALIA (PUNTLAND)

2.1 Overview

RMP has net working interests in Petroleum Sharing Agreements for two exploration blocks onshore northern Somalia (Puntland); the Nogal Valley Block and the Dharoor Block. The location of the two blocks is shown in Figure 0.1 and the RMP net working interest in Table 2.1. The blocks cover the majority of the area of the Nogal Basin and the Dharoor Basin.

TABLE 2.1

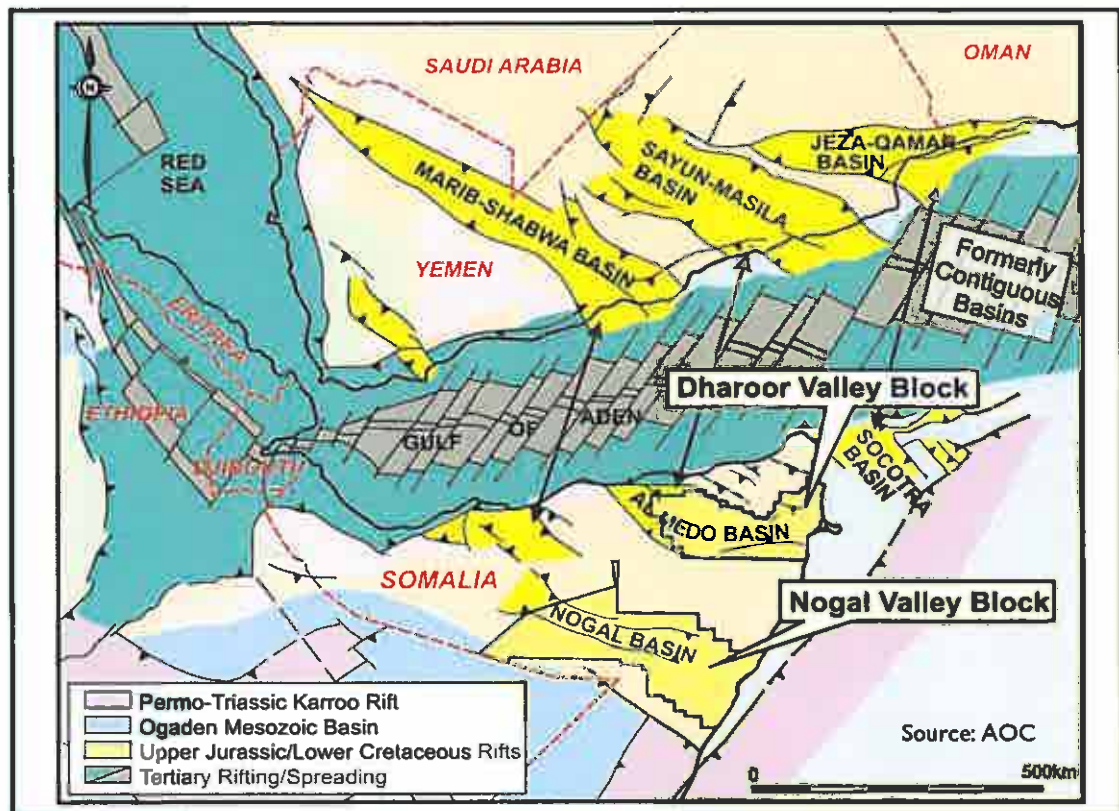
**SOMALIA (PUNTLAND)
RMP BLOCKS AND WORKING INTEREST**

| Puntland Blocks | RMP Working Interest (%) |
|-------------------------|--------------------------|
| Nogal Valley (Operator) | 20 |
| Dharoor (Operator) | 20 |

The Nogal and Dharoor Basins are part of the larger Mesozoic rift and platforms that developed over the East Africa and the adjacent Arabian Plates during the Mesozoic. These basins developed in response to the break-up of Gondwana and the separation of the continental blocks (Figure 2.1). The Nogal and Dharoor Basins reflect this evolution and Figure 1.1 shows a schematic stratigraphy for the basins. Many of the formation names are similar to those found in the Ogaden Basin, reflecting in part, the common geology.

FIGURE 2.1

SOMALIA: PUNTLAND – SOMALIA AND GULF OF ADEN



2.2 Previous Exploration (Well Review)

Well data are summarised in the Harms & Brady (1989) report "Oil and Gas Potential of the Somali Democratic Republic". This details the history of the wells and provides insight into the results of each well.

Nogal-1 (Conoco, 1989) provides control in the deeper part of the rift axis with a TD of 3,272 m (10,736 ft). The well did not reach the Jurassic objective, and shows in Cretaceous sandstones were logged but not tested.

Kalis-1 (Conoco, 1990) TD'd at 2,953 m (9,688 ft). The well failed to encounter significant hydrocarbon bearing reservoirs although live oil was described on the mudlog.

Darin-1 (AGIP, 1959) TD'd at 2,966 m (9,730 ft) and recorded oil and gas shows. The Upper Jurassic Gabredarre and Urandab Formations are missing from the well.

Burhisso-1 (Concordia, 1958) was drilled on the margins of the basin.

Las Anod-1 (Concordia, 1957) no data.

Yaguri-1 (Concordia, 1958) no data.

Hordio-1 (Agip, 1959) TD'd at 3486 m (11,206 ft) and recorded gas shows.

Buran-1 (Concordia, 1958) TD'd at 2,430 m (7,994 ft) and was dry. The Upper Jurassic Gabredarre and Urandab Formations were absent.

2.2.1 Seismic Data

Conoco acquired 4,500 km of 60 fold vibroseis data in the late 1980's on the Nogal Block. These data are fair to good quality, sufficient to define large structures. This dataset provides the basis of the seismic interpretation in the Nogal Block.

On the Dharoor Block 550 line km of seismic data were shot in 1975. These data are generally poor quality, but confirm the presence of the Dharoor Basin. In 2008, the Operator (AOC) acquired an additional 782 km of vibroseis data. These data consisted of 15 lines and infill and supplement the earlier data.

2.2.2 Gravity and Magnetic Data

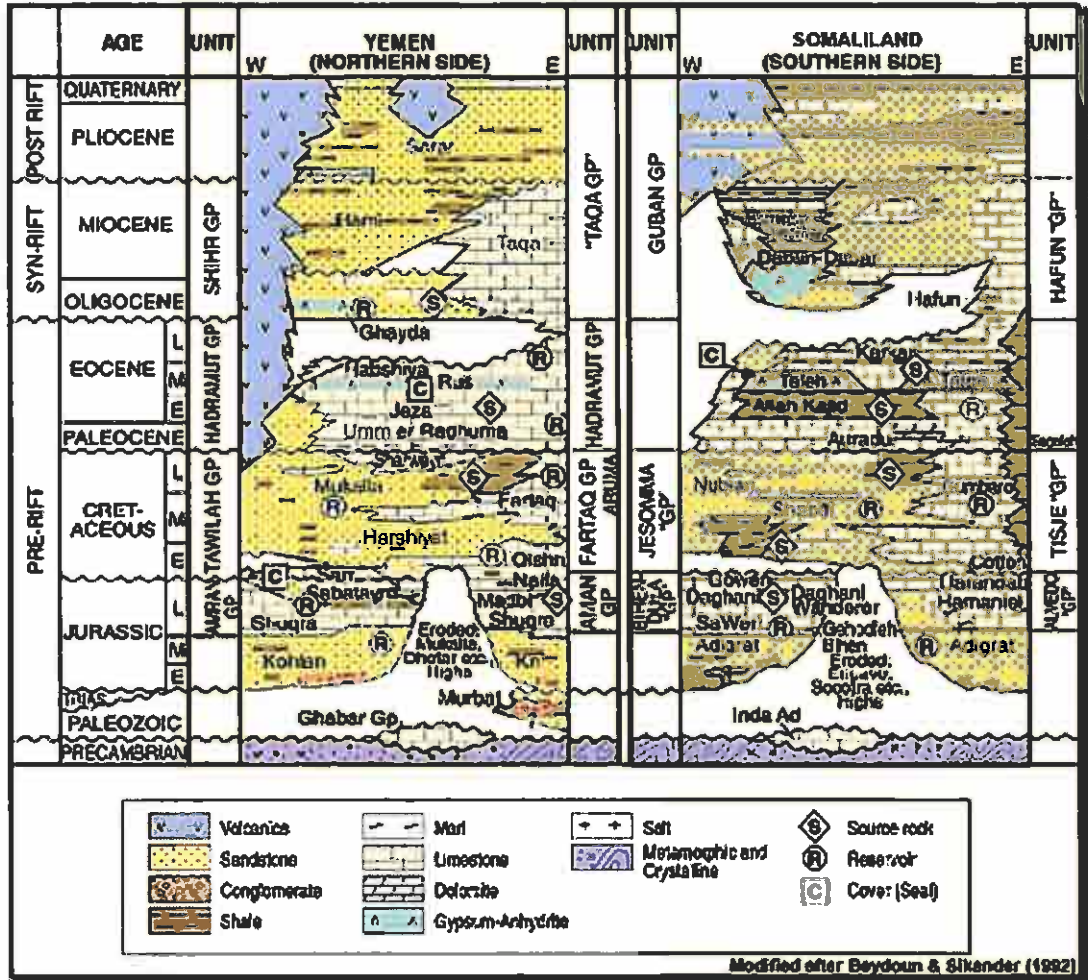
Cities Services acquired surface gravity and magnetic data in 1975. These data partially cover the Blocks, however; confirm the presence of basinal areas in the Blocks.

2.3 Petroleum Systems and Plays

The Mesozoic basins of northern Somalia are interpreted to be extensions of the Marib-Shawba and Sayun-Masila Basins of Yemen. Prior to the opening of the Gulf of Aden in the Oligocene – Miocene these areas were contiguous and similar sedimentary sequences and structural styles are likely (Figure 2.1). This allows the better understood basins of Yemen to be analogues for the Somalia Basins and to constrain the likely hydrocarbon prospectivity of these basins (Figure 2.2).

FIGURE 2.2

SOMALIA: COMPARISON OF YEMEN AND SOMALI CHRONOSTRATIGRAPHY



The Nogal and Dharoor Basins are under-explored, and predicting the presence and distribution of potential reservoirs, source rocks and sealing lithologies is problematic. However, based on the available well data and regional knowledge it is possible to predict the horizons most likely to be effective.

2.3.1 Reservoirs

The Adigrat Formation is a basal formation of the Mesozoic megasequence and thickness and quality is likely to be highly variable across the basin. Two onshore wells, Dagah Shabel-2 and Biyo Dader-1, penetrated 191 m and 160 m of sandstones in the Adigrat Formation. Porosity of the sandstones is variable, but values as high as 15% have been reported. However, across the PSC's the Adigrat is buried too deeply to be considered an effective or potentially commercial reservoir.

The Middle-Upper Jurassic carbonates of the Hamanlei Formation have good reservoir potential. The limited data suggests that both limestones and dolomites are developed, with the dolomites having the better reservoir potential.

The Gabredarre Formation may be absent across large parts of the area due to local non-deposition and erosion across local highs. The Gumbero Formation is shale dominated and contains only thin sandstones.

The Upper Cretaceous Jesomma Formation is a good clastic reservoir. Dagah Shabel-I well intersected very thick (790 m) fine to coarse-graded fluvial sands of the Nubian (Jesomma) Formation. The well encountered two highly porous sand units where small quantities (4 Bbl) of good quality (33.6° API) oil were recovered.

2.3.2 Seals

The Gumbero Formation is a thick shale that could provide a good top seal to underlying reservoirs. Limited drilling data indicates that this shale may in places be over-pressured further enhancing its sealing capacity. Top seal is also provided by the intraformational shales and evaporites. Lateral seal is by cross-fault seal which in places may limit the vertical column due to reservoir on reservoir juxtaposition.

2.3.3 Source Rocks

The Jurassic Uarandab Formation is the principal source rock for the area. Additional source rocks may be present in the Cretaceous section, however, it is likely that these will be thermally immature for the generation and expulsion of hydrocarbons. The Triassic may contain some source rocks, but kerogen composition and potential thermal maturity indicate that these source rocks are most likely to have generated and expelled gas.

Numerous excellent quality source rocks of Jurassic age are known in outcrops along the coastal margin. Gahodleh and Daghani shales are the most important source rocks in the area. The shales are dark to medium gray kerogen-rich fossiliferous claystones that have fine texture. Shales have played an important part in the generation of hydrocarbon in the area. The 28 Bbl of 32.2° API oil recovered from the Wanderer limestone in the Dagah Shabel-I well supports this suggestion. Offshore wells have also indicated good source rocks of Jurassic age. For example, Dab Qua-I well intersected shales of Daghani Formation that had TOCs in the range of 0.53-1.18%.

Upper Cretaceous shales of Jesomma Formation contain fair to good source potential. In both the Bandar Harshau-I and Dab Qua-I wells, shales in the Jesomma Formation had shown good source potential with TOC up to 5%.

2.3.4 Trap Types

The Operator has mapped the available seismic data in the Nogal and Dharoor Basins. The interpretation supports and confirms the presence of these basins and indicates that the most-likely trap type is the high-side fault bounded trap where cross-fault sealing will be the limiting factor to trap volume.

There is no evidence of large-scale compressional folding like that seen in north-eastern Arabia. Minor folds are known to occur which are believed to have been caused either by rejuvenation of old fault blocks or drag along major faults parallel to the Gulf of Aden.

2.4 Prospective Resource Evaluation

2.4.1 Kalis Well Cluster (Figure 2.3)

Initial seismic mapping in the area of the Kalis-I well has identified a number of fault bounded leads that are structurally similar to the feature tested by the Kalis-I well. These are considered as a cluster, the "Kalis Cluster".

The Kalis cluster is a series of fault bounded terraces oriented along essentially west – east trending faults. The larger leads (e.g Kalis East and Kalis Main) require multiple sealing faults for trapping. Further seismic data will be required to constrain fully the trapping geometry of these leads. Potential reservoirs exist in the Jessoma, Gumbero and Gabredarre Formations. Live oil has been reported from the Kalis-I well, however, the well failed to identify potentially commercial hydrocarbons.

GCA has estimated In-Place and Prospective Resource estimates for the cluster based in the initial seismic mapping at all three reservoir horizons (Tables 2.2, and 2.3). There is a range of potential volumes at each reservoir level that reflects the uncertainty associated with the trap at that level (size of closure, reservoir thickness etc). At any location it is unlikely that all three reservoirs will be equally successful. The geological chance of success factors for these reservoirs is discussed later.

Kalis Main has already been tested by the Kalis-I well. The well found potential reservoirs and sealing lithologies and oil and gas shows were reported whilst drilling. The well tested a large rotated fault-block. Cross-fault sealing is required to develop a large closure. Well failure is attributed to cross-fault seal failure and this has a negative impact on the geological chance of success at the analogue leads. No Prospective Resources are reported here.

Kalis East is a large fault block. As with Kalis Main several faults are required to seal to generate a significant closure. As mapped the area of closure is poorly constrained to the west. This feature is the largest undrilled structure in the cluster and has the potential for reservoirs to be developed at all three main levels.

Kalis SE is another large fault bounded closure. Cross-fault seal is required to develop the closure as shown on Figure 2.3. The lead is mapped on 4 seismic dip lines and 1 cross-line. Additional data will be required to confirm the size and presence of the lead.

Kalis South, Kalis W and Kalis SW and smaller leads located to the south of the Kalis-I well. They are constrained by 1 to 3 seismic lines and are considered small high risk features.

FIGURE 2.3
SOMALIA: KALIS CLUSTER LEADS

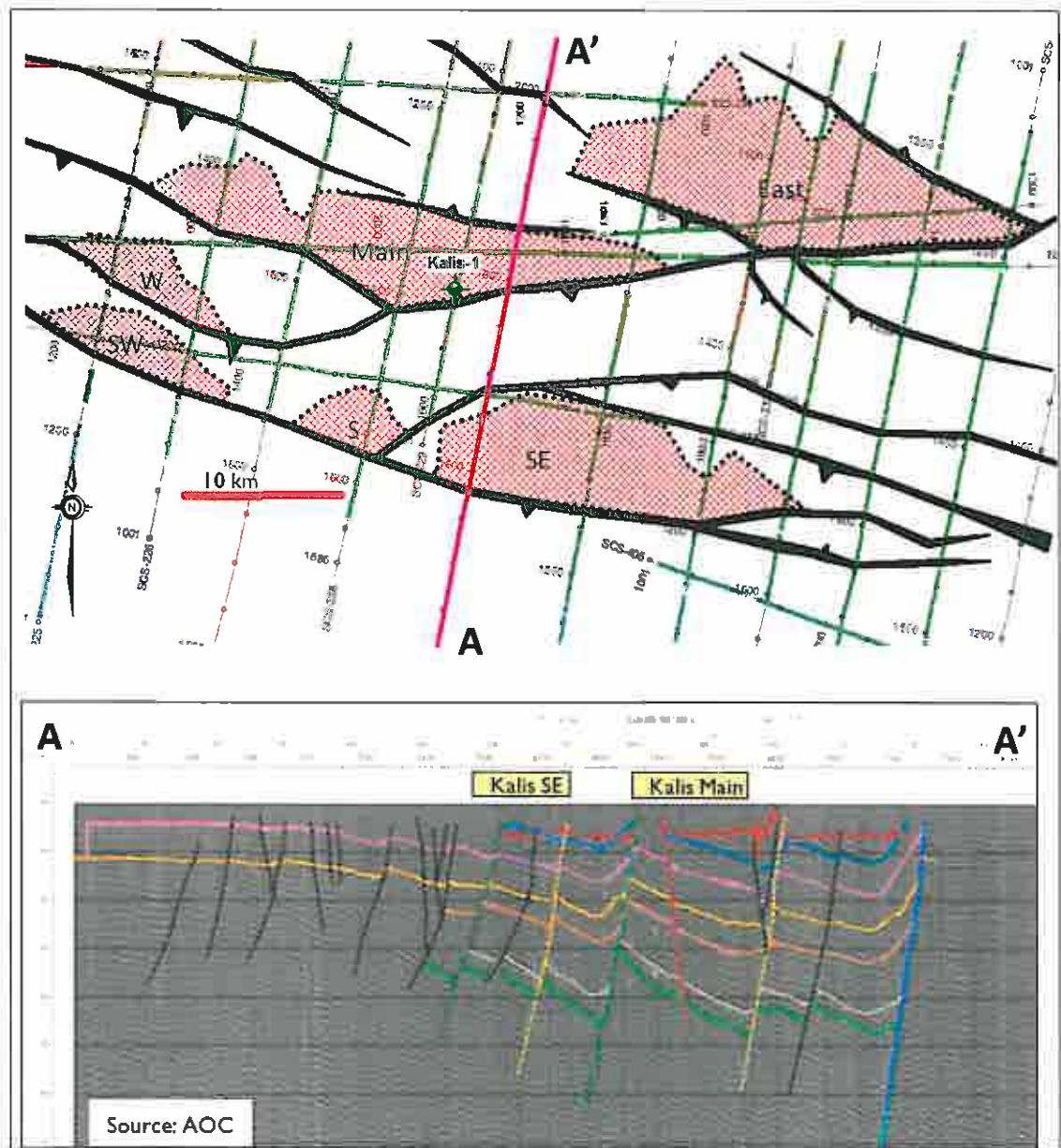


TABLE 2.2
PUNTLAND
SUMMARY OF OIL IN-PLACE ESTIMATES

| Licence | Lead | Reservoir | Gross Best Estimate (MMBbl) |
|--------------------|-------------|------------|-----------------------------|
| Nogal Valley Block | Kalis East | Jesomma | 1,830 |
| | | Gumbero | 681 |
| | | Gabredarre | 1,663 |
| | Kalis South | Jesomma | 207 |
| | | Gumbero | 114 |
| | | Gabredarre | 278 |
| | Kalis SE | Jesomma | 1,079 |
| | | Gumbero | 611 |
| | | Gabredarre | 1,457 |
| | Kalis SW | Jesomma | 330 |
| | | Gumbero | 184 |
| | | Gabredarre | 453 |
| | Kalis W | Jesomma | 319 |
| | | Gumbero | 176 |
| | | Gabredarre | 421 |
| | Nogal SE-A | Jesomma | 378 |
| | | Gumbero | 210 |
| | | Gabredarre | 507 |
| | Nogal SE-B | Jesomma | 227 |
| | | Gumbero | 126 |
| | | Gabredarre | 308 |
| | Nogal South | Jesomma | 293 |
| | | Gumbero | 162 |
| | | Gabredarre | 391 |
| Nogal – 2 | Jesomma | 315 | |
| | Gumbero | 183 | |
| | Gabredarre | 448 | |
| Nogal East | Jesomma | 270 | |
| | Gumbero | 156 | |
| | Gabredarre | 356 | |
| Dharoor Block | Dharoor | Jesomma | 1,196 |
| | | Gumbero | 664 |
| | | Gabredarre | 1,760 |
| | Lead 1 | Jesomma | 360 |
| | | Gumbero | 200 |
| | | Gabredarre | 520 |
| | Lead 2 | Jesomma | 220 |
| | | Gumbero | 120 |
| | | Gabredarre | 320 |
| | Lead 3 | Jesomma | 144 |
| | | Gumbero | 80 |
| | | Gabredarre | 220 |

TABLE 2.3
PUNTLAND
SUMMARY OF OIL PROSPECTIVE RESOURCE ESTIMATES
AS AT 31st DECEMBER, 2010

| Licence | Lead | Reservoir | Gross Best Estimate (MMbbl) | RMP Working Interest (%) | Net Best Estimate (MMbbl) | GCoS |
|--------------------|-------------|------------|-----------------------------|--------------------------|---------------------------|------|
| Nogal Valley Block | Kalis East | Jesomma | 457 | 20 | 91.4 | 0.11 |
| | | Gumbero | 171 | 20 | 34.2 | 0.09 |
| | | Gabredarre | 416 | 20 | 83.2 | 0.13 |
| | Kalis South | Jesomma | 52 | 20 | 10.4 | 0.08 |
| | | Gumbero | 28 | 20 | 5.6 | 0.07 |
| | | Gabredarre | 70 | 20 | 14.0 | 0.09 |
| | Kalis SE | Jesomma | 268 | 20 | 53.6 | 0.11 |
| | | Gumbero | 154 | 20 | 30.8 | 0.09 |
| | | Gabredarre | 364 | 20 | 72.8 | 0.13 |
| | Kalis SW | Jesomma | 83 | 20 | 16.6 | 0.10 |
| | | Gumbero | 46 | 20 | 9.2 | 0.08 |
| | | Gabredarre | 113 | 20 | 22.6 | 0.12 |
| | Kalis West | Jesomma | 80 | 20 | 16.0 | 0.10 |
| | | Gumbero | 44 | 20 | 8.8 | 0.08 |
| | | Gabredarre | 105 | 20 | 21.0 | 0.12 |
| | Nogal SE-A | Jesomma | 95 | 20 | 19.0 | 0.11 |
| | | Gumbero | 53 | 20 | 10.6 | 0.09 |
| | | Gabredarre | 126 | 20 | 25.2 | 0.13 |
| | Nogal SE-B | Jesomma | 57 | 20 | 11.4 | 0.11 |
| | | Gumbero | 32 | 20 | 6.4 | 0.09 |
| | | Gabredarre | 77 | 20 | 15.4 | 0.13 |
| | Nogal South | Jesomma | 73 | 20 | 14.6 | 0.12 |
| | | Gumbero | 40 | 20 | 8.0 | 0.10 |
| | | Gabredarre | 98 | 20 | 19.6 | 0.14 |
| | Nogal-2 | Jesomma | 73 | 20 | 14.6 | 0.12 |
| | | Gumbero | 42 | 20 | 8.4 | 0.10 |
| | | Gabredarre | 130 | 20 | 26.0 | 0.14 |
| | Nogal East | Jesomma | 62 | 20 | 12.4 | 0.10 |
| Gumbero | | 36 | 20 | 7.2 | 0.08 | |
| Gabredarre | | 82 | 20 | 16.4 | 0.12 | |
| Dharoor Block | Dharoor | Jesomma | 299 | 20 | 59.8 | 0.08 |
| | | Gumbero | 166 | 20 | 33.2 | 0.06 |
| | | Gabredarre | 440 | 20 | 88.0 | 0.09 |
| | Lead 1 | Jesomma | 90 | 20 | 18.0 | 0.06 |
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| | | Gabredarre | 80 | 20 | 16.0 | 0.07 |
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Notes:

- Net Prospective Resources are stated herein in terms of RMP's net Working Interest (WI) in the properties and, due to the very immature nature of these Prospective Resources, have not been computed as net entitlement volumes under the PSC. In this regard these volumes stated herein will exceed the volumes which will arise to RMP under the terms of the PSC.

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3. The Geologic Chance of Success (GCoS) reported here represents an indicative estimate of the probability that the drilling of this prospect would result in a discovery which would warrant the re-categorisation of that volume as a Contingent Resource. These GCoS percentage values have not been arithmetically applied within this assessment.

2.4.2 Stacked Plays and Pays

In the Nogal Valley and Dharoor Blocks the understanding of the petroleum system and stratigraphy is immature due to the lack of data. The petroleum system of the Shawba and Masila Basins of Yemen has been proposed as an analogue for these basins. In these basins several reservoirs have been proven to be productive, however, in general only one reservoir has proved to be commercially productive per discovery. The same is likely to be true in the Somali Basins where several potential plays and pays have been identified. GCA believes that it is likely that only 1 reservoir per target is likely to be significant. At present, with the current dataset it is not possible to be sure which horizon this is likely to be (in fact, the main reservoir may not yet be identified).

In the three plays volumetrically evaluated; the Jesomma, Gumbero and Gabredarre Formations the Gabredarre is interpreted to have the highest geological chance of success in the Nogal Valley Block, with the other reservoirs being less likely. In the Dharoor Block a Cretaceous reservoir is more likely. However, it must be stressed that additional data may lead to this interpretation requiring re-evaluation.

Therefore, for any of the leads identified it is likely that only 1 reservoir zone will be ultimately effective, and that the aggregation of multiple play (or pays) should not be done.

2.4.3 Nogal Well Cluster (Figure 2.4)

The new seismic shot in the area of the Nogal-1 well has defined a number of fault bounded closures. These are structurally similar but smaller to the closure tested by the Nogal-1 well.

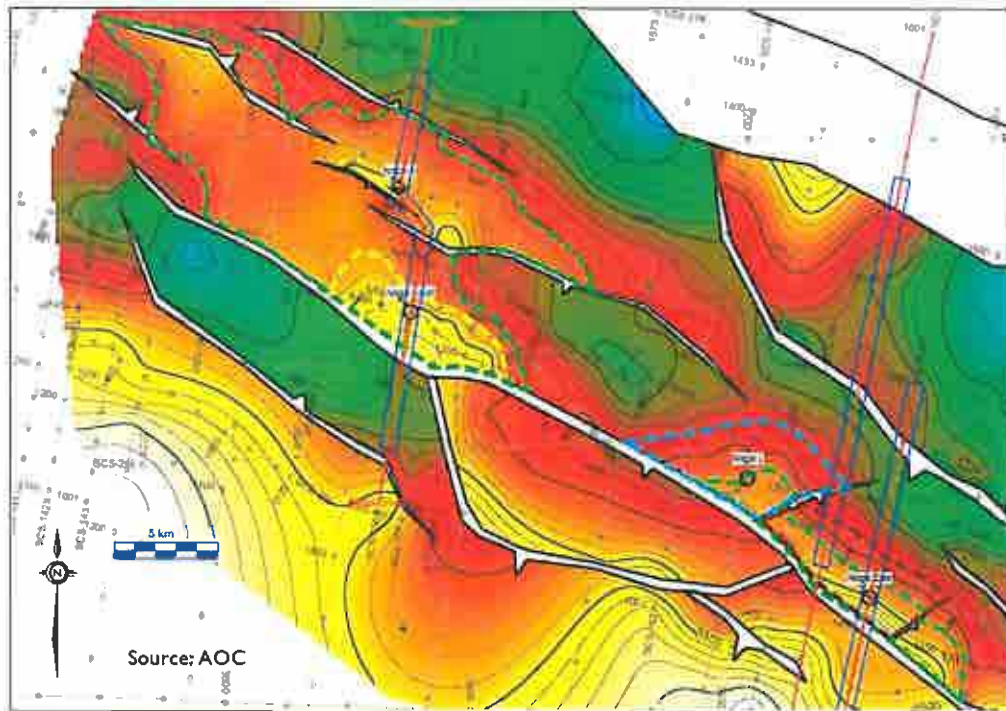
All of the leads are high fault traps that require cross-fault sealing for a significant area of closure to develop. Given the seismic line spacing and the uncertainty about the stratigraphy a wide range of possible closure areas are modelled in the volumetrics.

There is still a small potential attic volume remaining up-dip of the Nogal-1 well. Initial mapping indicates that the well was located off the crest of the closure. The size of the accumulation depends on cross-fault seal. The Operator is currently remapping in the area and this may result in a re-definition of the clusters potential.

Nogal South lies across a fault from Nogal-1 and was identified in earlier evaluations. The trap relies on cross-fault seal and is moderately well defined on the current seismic dataset.

Nogal-2 lead lies along strike from Nogal South and relies on the same fault to define the trap. A subsidiary fault separates this lead from Nogal-E. These leads have similar risk (GCoS) profiles and they exhibit a high degree of dependency.

FIGURE 2.4
SOMALIA: NOGAL CLUSTER LEADS



2.4.4 Dharoor Block

AOC has completed initial mapping of the seismic dataset in the Dharoor Block. New seismic data were acquired in 2008 and these data infill the existing data (Figure 2.5). However, even with the new seismic data the survey has a line spacing of 4 to 5 km. Re-interpretation of these data is ongoing (in 2011) and may result in the re-definition of the potential of the block.

The initial mapping identified several fault bounded features similar to those mapped at the Nogal and Kalis clusters. Well data from the block indicates that the stratigraphy expected in the block is similar to that seen in the Nogal Basin. Therefore, it is likely that similar reservoirs will be developed, and that cross-fault sealing will be the critical factor in trap size and definition.

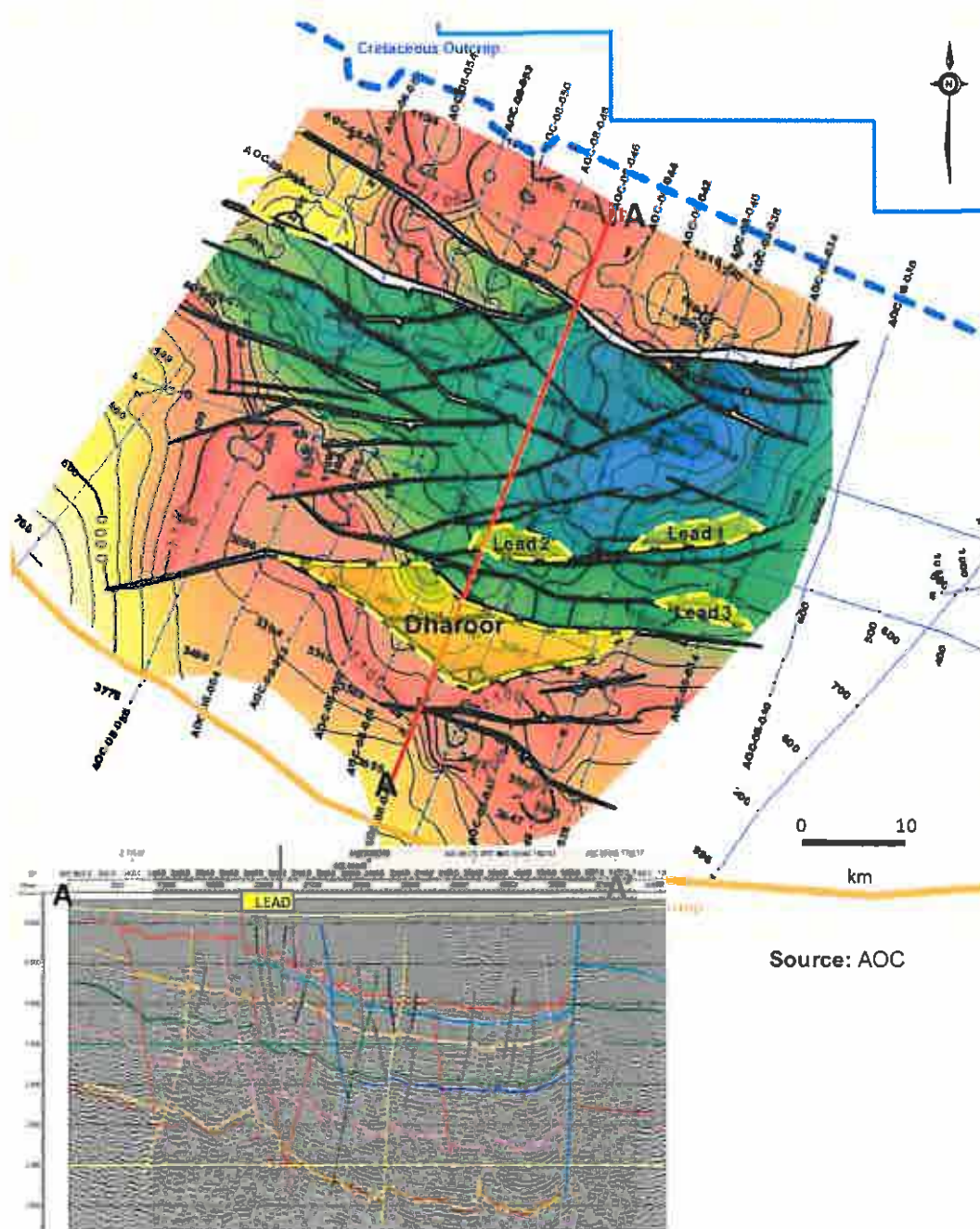
The initial mapping has defined several fault bounded structures, all requiring sealing faults to work to develop significant sized traps. Prospectivity has been mainly identified in the south and east of the mapped area (Figure 2.5). Given the seismic data density in the area and problems of fault correlation in such data scarce areas prospect definition is problematic. However, these data allow the Dharoor lead to be mapped with a maximum closure of 128 km². In addition to this trap, three additional leads have also been identified with areas ranging from 10 to 20 km².

Further seismic data will be required to mature the Dharoor lead and other leads, and to identify additional potential. These additional seismic data may lead to the prospect being segmented into a number of clustered leads as seen at Nogal and Kalis. This is particularly the case for the Dharoor lead which with the current seismic data already

consists of two segments. Seismic data density and quality at the Dharoor lead is limited and the interpretation of seismic reflectors is not simple. Given the requirement of cross-fault sealing to work in this type of structure (as seen in the analogue basins in Yemen) it is likely that the reservoirs will not be filled to structural spill. However, given the lack of detailed knowledge of the stratigraphy of the lead the volume estimates provided are considered to be reasonable.

FIGURE 2.5

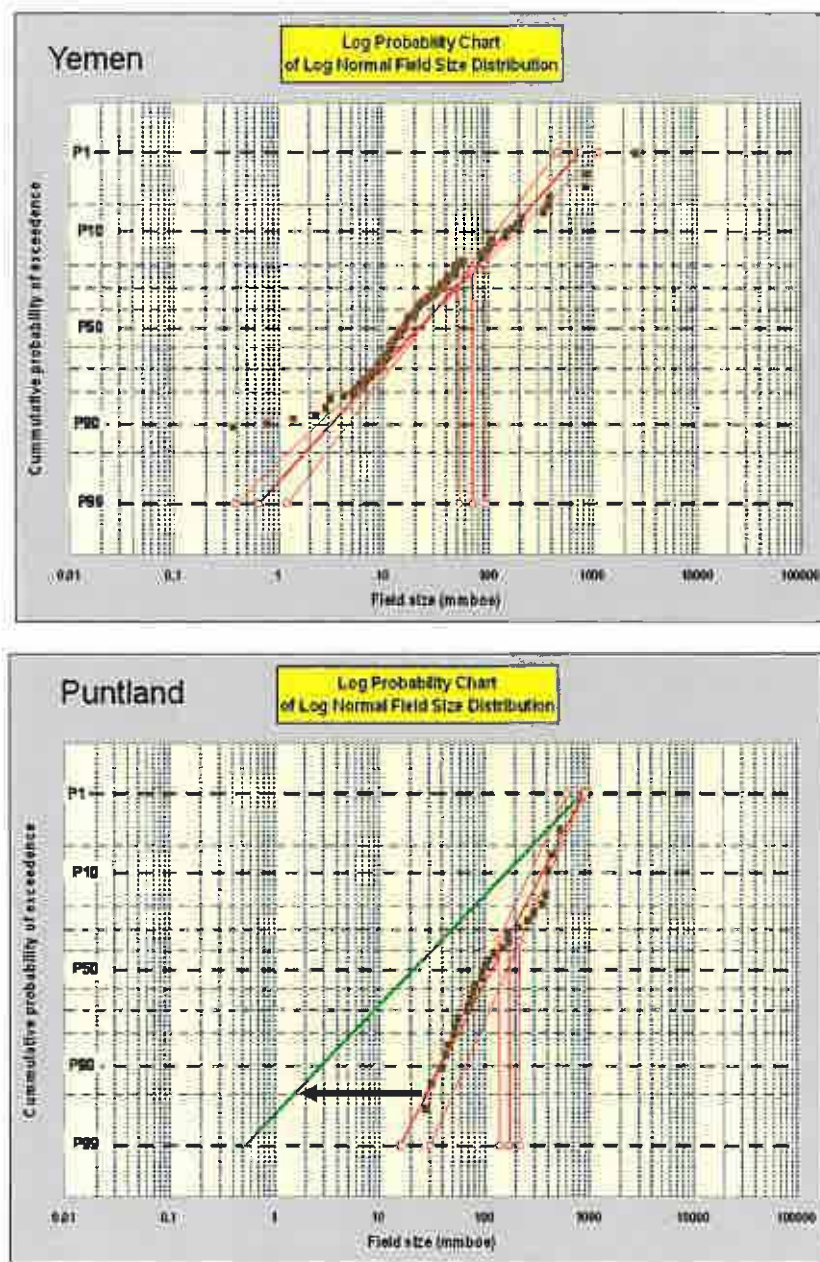
SOMALIA: DHAROOR CLUSTER LEADS



2.4.5 Comparison with the Onshore Basins of Yemen

The Nogal and Dharoor Basins are interpreted to be extensions of the Marib-Shabwa and Sayun-Masila Basins of Yemen (Figure 2.1) which now are separated by the Late Cenozoic opening of the Gulf of Aden. The fieldsize distribution (FSD) from Yemen can be used as an analogue for the Somali Basins. Based on published data, a FSD plot for the Yemeni Basins was generated and this was compared to the FSD based on the leads and prospects currently mapped in the Nogal and Dharoor Basins (Figure 2.6).

FIGURE 2.6
 FIELD SIZE DISTRIBUTION COMPARISON
 YEMEN AND PUNTLAND



This shows that the maximum field size predicted for the Nugal and Dharoor Basins (c. 900 MMBbl) is larger than in the Yemen onshore (c. 750 MMBbl). The low side estimate for the Somali Basins is also higher than the low-side estimate for Yemen. This causes the mean field size for Somalia (175 MMBbl) to be higher than the Yemen Mean (71 MMBbl). This reflects the immaturity of the analysis of the leads and prospects in the Somali Basins where only the largest features have been identified. It is also possible that these leads will with further analysis become further segmented reducing the size of the potential accumulations.

2.5 Somalia (Puntland) GCoS

In the Kalis and Nugal Clusters the principal risk element is trap integrity with cross-fault seal capacity being the factor controlling trap size and geometry (c.f. Yemen). The acquisition of additional seismic data, and a better understanding of the stratigraphy is required before this factor can be constrained with more certainty.

The secondary chance factor that materially affects GCoS at a lead level is reservoir presence and effectiveness. The distribution and effectiveness of the potential reservoirs in the basin is poorly constrained by the few wells available. However, at present the Gabredarre Formation is believed to have the best potential, with the Jesomma and Gumbero Formations also having resource potential.

The GCoS shown in Table 2.3 is the GCoS value determined for independent leads. This does not take into account the dependency between the leads (e.g. common source rock etc). Success (or failure) at one lead will result in a significant change in the GCoS estimate for the remaining leads (Bayesian update).

In such high risk areas further information can lead to significant changes in the GCoS assessed at both Play and Prospect (lead) level.

QUALIFICATIONS

GCA is an independent international energy advisory group of almost 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report has been compiled by employees of GCA.

Persons who participated in the compilation of this report include Mr. Brian Rhodes, and Dr Stephen Wright. All hold at least a bachelor's degree in geoscience, petroleum engineering or related discipline. Mr. Rhodes holds a B.Sc. (Hons) Geology, is a member of the Energy Institute, the Petroleum Exploration Society of Great Britain, the Society of Petroleum Engineers and the European Association of Geoscientists and Engineers, and has more than 36 years industry experience. Dr. Wright has more than 25 years of Industry experience holds a B.Sc. (Hons) Geology from Kings College, University of London and a D.Phil from the University of Oxford, he is a fellow of the Geological Society of London and a member of the Petroleum Exploration Society of Great Britain.

BASIS OF OPINION

This assessment has been conducted within the context of GCA's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties.

It should be understood that the evaluation of petroleum properties involves judgments in respect of a series of issues and parameters that cannot be measured precisely. The opinions expressed herein represent GCA's judgment based upon its evaluation of these issues, the data that has been made available and the company's professional experience in the consideration of these matters. Any evaluation may be subject to significant variation over time as new information becomes available or perceptions of market conditions change.

GCA has not authorised or caused the issue of the Prospectus and takes no responsibility for any part of the Prospectus, other than references to its name and the inclusion of the IER in the Prospectus in the form and context in which it appears.

Yours sincerely
GAFFNEY, CLINE & ASSOCIATES

A handwritten signature in black ink, appearing to read 'Brian Rhodes', with a stylized flourish at the end.

Brian Rhodes
Principal Advisor

APPENDIX I

Glossary

GLOSSARY

List of Standard Oil Industry Terms and Abbreviations.

| | |
|-----------------|--|
| ABEX | Abandonment Expenditure |
| ACQ | Annual Contract Quantity |
| °API | Degrees API (American Petroleum Institute) |
| AAPG | American Association of Petroleum Geologists |
| AVO | Amplitude versus Offset |
| A\$ | Australian Dollars |
| B | Billion (10 ⁹) |
| Bbl | Barrels |
| /Bbl | per barrel |
| BBbl | Billion Barrels |
| BHA | Bottom Hole Assembly |
| BHC | Bottom Hole Compensated |
| Bscf or Bcf | Billion standard cubic feet |
| Bscfd or Bcfd | Billion standard cubic feet per day |
| Bm ³ | Billion cubic metres |
| bcpd | Barrels of condensate per day |
| BHP | Bottom Hole Pressure |
| blpd | Barrels of liquid per day |
| bpd | Barrels per day |
| boe | Barrels of oil equivalent @ xxx mcf/bbl |
| boepd | Barrels of oil equivalent per day @ xxx mcf/bbl |
| BOP | Blow Out Preventer |
| bopd | Barrels oil per day |
| bwpd | Barrels of water per day |
| BS&W | Bottom sediment and water |
| BTU | British Thermal Units |
| bwpd | Barrels water per day |
| CBM | Coal Bed Methane |
| CO ₂ | Carbon Dioxide |
| CAPEX | Capital Expenditure |
| CCGT | Combined Cycle Gas Turbine |
| cm | centimetres |
| CMM | Coal Mine Methane |
| CNG | Compressed Natural Gas |
| Cp | Centipoise (a measure of viscosity) |
| CSG | Coal Seam Gas |
| CT | Corporation Tax |
| DCQ | Daily Contract Quantity |
| Deg C | Degrees Celsius |
| Deg F | Degrees Fahrenheit |
| DHI | Direct Hydrocarbon Indicator |
| DST | Drill Stem Test |
| DWT | Dead-weight ton |
| E&A | Exploration & Appraisal |
| E&P | Exploration and Production |
| EBIT | Earnings before Interest and Tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| EI | Entitlement Interest |

GLOSSARY (Cont'd.)

| | |
|------------------|--|
| EIA | Environmental Impact Assessment |
| EMV | Expected Monetary Value |
| EOR | Enhanced Oil Recovery |
| EUR | Estimated Ultimate Recovery |
| FDP | Field Development Plan |
| FEED | Front End Engineering and Design |
| FPSO | Floating Production, Storage and Offloading |
| FSO | Floating Storage and Offloading |
| ft | Foot/feet |
| Fx | Foreign Exchange Rate |
| g | gram |
| g/cc | grams per cubic centimetre |
| gal | gallon |
| gal/d | gallons per day |
| G&A | General and Administrative costs |
| GBP | Pounds Sterling |
| GDT | Gas Down to |
| GIIP | Gas initially in place |
| Gj | Gigajoules (one billion Joules) |
| GOR | Gas Oil Ratio |
| GTL | Gas to Liquids |
| GWC | Gas water contact |
| HDT | Hydrocarbons Down to |
| HSE | Health, Safety and Environment |
| HSFO | High Sulphur Fuel Oil |
| HUT | Hydrocarbons up to |
| H ₂ S | Hydrogen Sulphide |
| IOR | Improved Oil Recovery |
| IPP | Independent Power Producer |
| IRR | Internal Rate of Return |
| J | Joule (Metric measurement of energy) \| kilojoule = 0.9478 BTU) |
| k | Permeability |
| KB | Kelly Bushing |
| KJ | Kilojoules (one Thousand Joules) |
| kl | Kilolitres |
| km | Kilometres |
| km ² | Square kilometres |
| kPa | Thousands of Pascals (measurement of pressure) |
| KW | Kilowatt |
| KWh | Kilowatt hour |
| LKG | Lowest Known Gas |
| LKH | Lowest Known Hydrocarbons |
| LKO | Lowest Known Oil |
| LNG | Liquefied Natural Gas |
| LoF | Life of Field |
| LPG | Liquefied Petroleum Gas |
| LTI | Lost Time Injury |
| LWD | Logging while drilling |
| m | Metres |
| M | Thousand |

GLOSSARY (Cont'd.)

| | |
|-------------------|--|
| m ³ | Cubic metres |
| Mcf or Mscf | Thousand standard cubic feet |
| MCM | Management Committee Meeting |
| MMcf or MMscf | Million standard cubic feet |
| m ³ d | Cubic metres per day |
| mD | Measure of Permeability in millidarcies |
| MD | Measured Depth |
| MDT | Modular Dynamic Tester |
| Mean | Arithmetic average of a set of numbers |
| Median | Middle value in a set of values |
| MFT | Multi Formation Tester |
| mg/l | milligrammes per litre |
| MJ | Megajoules (One Million Joules) |
| Mm ³ | Thousand Cubic metres |
| Mm ³ d | Thousand Cubic metres per day |
| MM | Million |
| MMBbl | Millions of barrels |
| MMBTU | Millions of British Thermal Units |
| Mode | Value that exists most frequently in a set of values = most likely |
| Mscfd | Thousand standard cubic feet per day |
| MMscfd | Million standard cubic feet per day |
| MW | Megawatt |
| MWD | Measuring While Drilling |
| MWh | Megawatt hour |
| mya | Million years ago |
| NGL | Natural Gas Liquids |
| N ₂ | Nitrogen |
| NPV | Net Present Value |
| OBM | Oil Based Mud |
| OCM | Operating Committee Meeting |
| ODT | Oil down to |
| OPEX | Operating Expenditure |
| OWC | Oil Water Contact |
| p.a. | Per annum |
| Pa | Pascals (metric measurement of pressure) |
| P&A | Plugged and Abandoned |
| PDP | Proved Developed Producing |
| PI | Productivity Index |
| PJ | Petajoules (10 ¹⁵ Joules) |
| PSDM | Post Stack Depth Migration |
| psi | Pounds per square inch |
| psia | Pounds per square inch absolute |
| psig | Pounds per square inch gauge |
| PUD | Proved Undeveloped |
| PVT | Pressure volume temperature |
| P10 | 10% Probability |
| P50 | 50% Probability |
| P90 | 90% Probability |
| Rf | Recovery factor |
| RFT | Repeat Formation Tester |

GLOSSARY (Cont'd.)

| | |
|-------------------|---|
| RT | Rotary Table |
| R_w | Resistivity of water |
| SCAL | Special core analysis |
| cf or scf | Standard Cubic Feet |
| cf/d or scfd | Standard Cubic Feet per day |
| scf/ton | Standard cubic foot per ton |
| SL | Straight line (for depreciation) |
| s_o | Oil Saturation |
| SPE | Society of Petroleum Engineers |
| SPEE | Society of Petroleum Evaluation Engineers |
| ss | Subsea |
| stb | Stock tank barrel |
| STOIP | Stock tank oil initially in place |
| s_w | Water Saturation |
| T | Tonnes |
| TD | Total Depth |
| T_e | Tonnes equivalent |
| THP | Tubing Head Pressure |
| TJ | Terajoules (10^{12} Joules) |
| Tscf or Tcf | Trillion standard cubic feet |
| TCM | Technical Committee Meeting |
| TOC | Total Organic Carbon |
| TOP | Take or Pay |
| Tpd | Tonnes per day |
| TVD | True Vertical Depth |
| TVD _{ss} | True Vertical Depth Subsea |
| USGS | United States Geological Survey |
| U.S.\$ | United States Dollar |
| VSP | Vertical Seismic Profiling |
| WC | Water Cut |
| WI | Working Interest |
| WPC | World Petroleum Council |
| WTI | West Texas Intermediate |
| wt% | Weight percent |
| 1H05 | First half (6 months) of 2005 (example of date) |
| 2Q06 | Second quarter (3 months) of 2006 (example of date) |
| 2D | Two dimensional |
| 3D | Three dimensional |
| 4D | Four dimensional |
| 1P | Proved Reserves |
| 2P | Proved plus Probable Reserves |
| 3P | Proved plus Probable plus Possible Reserves |
| % | Percentage |

APPENDIX II

Abbreviated Form of SPE PRMS Guidelines and Definitions

Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers

Petroleum Resources Management System

Definitions and Guidelines (¹)

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, production, and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:
www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

¹ These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

- (1) the area delineated by drilling and defined by fluid contacts, if any, and
- (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the

known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate but which have not yet started producing,
- (2) wells which were shut-in for market conditions or pipeline connections, or
- (3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

- (1) from new wells on undrilled acreage in known accumulations,
- (2) from deepening existing wells to a different (but known) reservoir,
- (3) from infill wells that will increase recovery, or
- (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to
 - (a) recompleting an existing well or
 - (b) installing production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

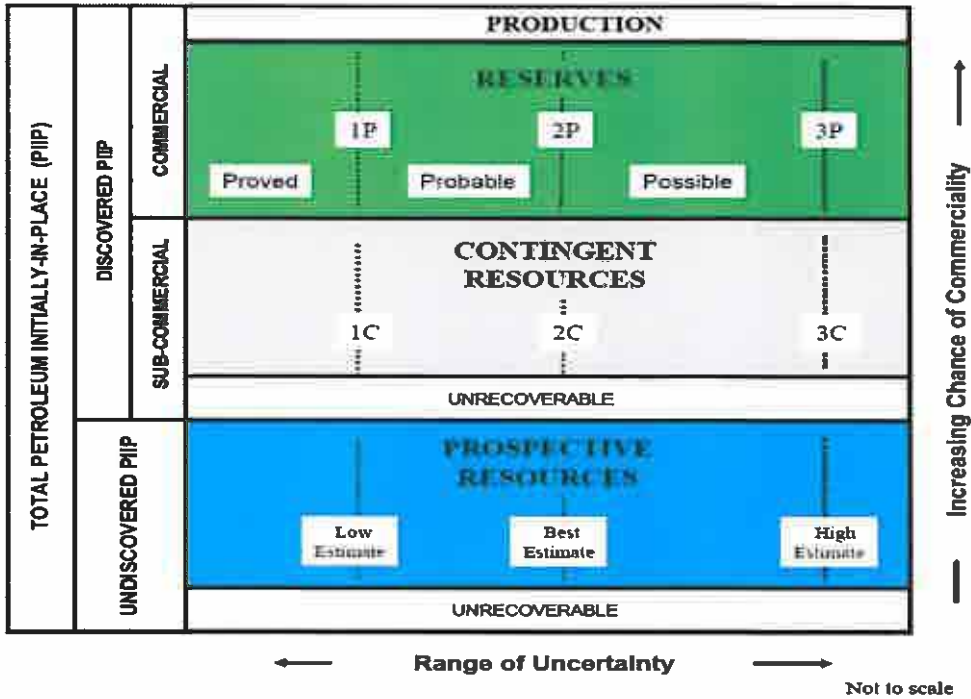
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

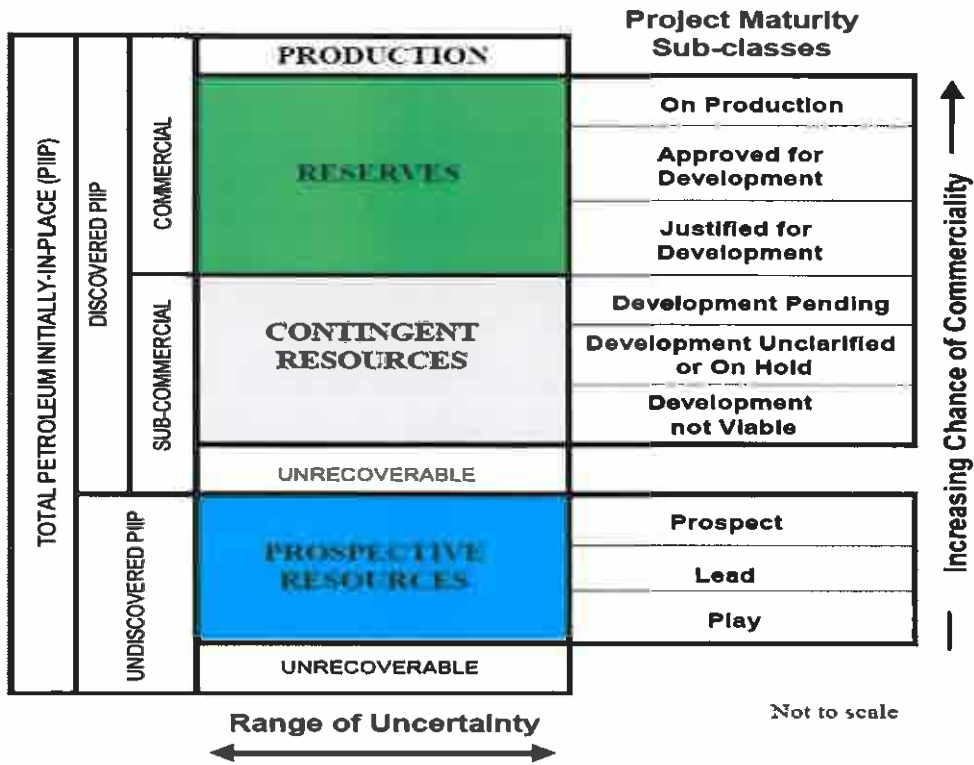
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

RESOURCES CLASSIFICATION



PROJECT MATURITY





RED EMPEROR RESOURCES NL
Investigating Accountant's Report

4 July 2011

4 July 2011

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

Dear Sirs

INVESTIGATING ACCOUNTANT'S REPORT

1. Introduction

We have prepared this Investigating Accountant's Report ("**Report**") on historical financial information of Red Emperor Resources NL ("**Red Emperor**" or "**the Company**") for inclusion in the Prospectus. Broadly, the Prospectus will offer up to 2,857,143 shares at an issue price of \$0.35 each to raise \$1,000,000 before costs ("**the Offer**").

2. Basis of Preparation

This Report has been prepared to provide investors with information on the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Financial Position and the pro-forma Statement of Financial Position as noted in Appendices 1, 2 and 3.

This Report does not address the rights attaching to the shares to be issued in accordance with the Prospectus, nor the risk associated with the investment, and has been prepared based on the complete Offer being achieved. Neither BDO Corporate Finance (WA) Pty Ltd nor its related entities ("**BDO**") has not been requested to consider the prospects for the Company, the shares on offer and related pricing issues, nor the merits and risks associated with becoming a shareholder and accordingly has not done so, and does not purport to do so. BDO accordingly takes no responsibility for these matters or for any matter or omission in the Prospectus, other than responsibility for this Report. Risk factors are set out in the Prospectus.

Expressions defined in the Prospectus have the same meaning in this Report.

3. Background

Red Emperor Resources NL was incorporated in April 2007 and listed on the Australian Securities Exchange (“ASX”) on 16 August 2007. It was also admitted to the official list of the Alternative Investment Market of the London Stock Exchange (“AIM”) on 23 June 2011. Red Emperor is a natural resource exploration company with oil and gas interests.

The Company entered into an agreement, subject to certain conditions, in June 2010 to acquire up to a 20% interest in two licences within the Dharoor and Nugaal valleys in Puntland, Somalia (“Puntland Projects”). This agreement received ministerial consent to the farm-in in January 2011 and the Company will contribute 30% of the costs of drilling exploration wells to earn a 20% interest in the Puntland Projects.

In May 2011 the Company entered into formal agreements in respect to the earn-in of a working interest in two onshore oil and gas blocks in the Republic of Georgia (“Georgian Project”). The Company will contribute 40% of the costs of drilling two exploration wells, capped at US\$5.6 million. In return for this the Company will receive a 20% interest in the issued share capital of Strait Oil and Gas (UK) Limited (“Strait”). In the event the Company does not provide the funding on or before 31 December 2012, the Company shall transfer its 20% interest in Strait back to Strait for the total amount of US\$1.

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

4. Scope

You have requested BDO to prepare an Investigating Accountant's Report covering the following financial information:

- Red Emperor's reviewed statement of Comprehensive Income for the 10 month period ended 30 April 2011;
- The Statement of Financial Position, Statement of Changes in Equity and the pro-forma Statement of Financial Position as at 30 April 2011 reflecting the actual position as at that date, major transactions between that date and the date of our report and the proposed capital raising under the Prospectus; and
- the accounting policies applied by Red Emperor in preparing its financial statements.

The historical financial information set out in the appendices to this Report has been extracted from the financial statements of the Company for the period from 1 July 2010 to 30 April 2011.

The Directors are responsible for the preparation of the historical financial information including determination of the adjustments.

We have conducted our review of the historical financial information in accordance with the Australian Auditing and Assurance Standard ASRE 2405 “Review of Historical Financial Information Other than a Financial Report”. We made such inquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents pertaining to balances in existence at 30 April 2011;
- a review of the assumptions used to compile the pro-forma Statement of Financial Position;
- a review of the adjustments made to the pro-forma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia,

and the accounting policies adopted by the Company disclosed in the appendices to this Report; and

- enquiry of Directors and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our review was limited primarily to an examination of the historical financial information, the pro-forma financial information, analytical review procedures and discussions with both management and directors. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the historical information or pro-forma financial information included in this Report or elsewhere in the Prospectus.

In relation to the information presented in this Report:-

- support by another person, corporation or an unrelated entity has not been assumed;
- the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- the going concern basis of accounting has been adopted.

5. Conclusion

Statement on Historical Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the historical financial information as set out in the Appendices to this report does not present fairly the financial performance for the period ended 30 April 2011 or the financial position as at 30 April 2011 in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

Statement of Pro-forma Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the pro-forma financial information does not present fairly the financial position of the Company as at 30 April 2011, in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions had occurred on that date.

6. Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive. We have been informed of the following subsequent events since 30 April 2011:

- The Company made a payment of approximately \$2,556,969 on 28 June 2011 in relation to the Georgian Project;
- The Company made two payments totalling approximately \$215,477 in relation to expenses associated with Red Emperor's listing on AIM; and

- On 15 July 2011 the Company will hold a general meeting to approve a Share Placement of 2,000,000 shares at an issue price of \$0.20. This Share Placement has not been reflected in our report.

7. Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position

The pro-forma Statement of Financial Position post issue is shown in Appendix 2. This has been prepared based on the reviewed financial statements as at 30 April 2011 and the transactions and events relating to the issue of shares under this Prospectus:

- Issue of 2,857,143 ordinary shares at an issue price of \$0.35 each pursuant to the Prospectus to raise \$1,000,000; and
- Capital raising costs of the Offer totalling approximately \$280,000, which are to be offset against the contributed equity.

8. Disclosures

BDO Corporate Finance (WA) Pty Ltd is the corporate advisory arm of BDO in Perth.

Neither BDO Corporate Finance (WA) Pty Ltd nor BDO, nor any director or executive or employee thereof, has any financial interest in the outcome of the proposed transaction except for the normal professional fee due for the preparation of this Report.

Consent to the inclusion of the Investigating Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

BDO Corporate Finance (WA) Pty Ltd



Sherif Andrawes

Director

APPENDIX 1
RED EMPEROR RESOURCES NL
STATEMENT OF COMPREHENSIVE INCOME

| | Reviewed for the period from 1-Jul-10 to 30-Apr-11 \$ |
|----------------------------|--|
| Interest and other revenue | 148,068 |
| | 148,068 |
| Employee benefits expense | (144,941) |
| Exploration expenditure | (691,501) |
| Travel and entertainment | (143,250) |
| Shareholder relation costs | (157,738) |
| Finance expense | (8,956) |
| Occupancy costs | (4,000) |
| Other expenses | (855,812) |
| Total expenses | (2,006,198) |
| Net profit/(loss) | (1,858,130) |

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

APPENDIX 2
RED EMPEROR RESOURCES NL
STATEMENT OF FINANCIAL POSITION

| | | Reviewed as at | Subsequent | Pro-forma | Pro-forma |
|-----------------------------------|-------|-------------------|--------------------|----------------|-------------------|
| | | 30-Apr-11 | Adjustments | Adjustments | After Issue |
| | Notes | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 2 | 10,732,488 | (2,772,446) | 720,000 | 8,680,042 |
| Trade and other debtors | | 229,997 | - | - | 229,997 |
| Other financial assets | | 2,434,230 | - | - | 2,434,230 |
| Loans receivable | | 60,000 | - | - | 60,000 |
| TOTAL CURRENT ASSETS | | 13,456,715 | (2,772,446) | 720,000 | 11,404,269 |
| NON-CURRENT ASSETS | | | | | |
| Exploration expenditure | 3 | 777,906 | 2,556,969 | - | 3,334,875 |
| TOTAL NON-CURRENT ASSETS | | 777,906 | 2,556,969 | - | 3,334,875 |
| TOTAL ASSETS | | 14,234,621 | (215,477) | 720,000 | 14,739,144 |
| CURRENT LIABILITIES | | | | | |
| Trade and other creditors | | 36,070 | - | - | 36,070 |
| TOTAL CURRENT LIABILITIES | | 36,070 | - | - | 36,070 |
| TOTAL LIABILITIES | | 36,070 | - | - | 36,070 |
| NET ASSETS / (LIABILITIES) | | 14,198,551 | (215,477) | 720,000 | 14,703,074 |
| EQUITY | | | | | |
| Share capital | 4 | 19,911,015 | - | 720,000 | 20,631,015 |
| Reserves | | 25,580 | - | - | 25,580 |
| Accumulated losses | 5 | (5,738,044) | (215,477) | - | (5,953,521) |
| TOTAL EQUITY | | 14,198,551 | (215,477) | 720,000 | 14,703,074 |

The pro-forma Statement of Financial Position after Issue is as per the Statement of Financial Position before Issue adjusted for the transactions relating to the issue of shares pursuant to this Prospectus. The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

APPENDIX 3
RED EMPEROR RESOURCES NL
STATEMENT OF CHANGES IN EQUITY

| | Notes | Reviewed as at 30-Apr-11 \$ | Subsequent Adjustments \$ | Pro-forma Events \$ | Pro-forma After issue \$ |
|---|-------|-----------------------------------|---------------------------------|---------------------------|--------------------------------|
| Balance at the start of the period | | (3,879,914) | - | - | (3,879,914) |
| <i>Comprehensive income for the period</i> | | | | | |
| Profit/(Loss) for the period | 5 | (1,858,130) | (215,477) | - | (2,073,607) |
| Total comprehensive income for the period | | (1,858,130) | (215,477) | - | (2,073,607) |
| <i>Transactions with equity holders in their capacity as equity holders</i> | | | | | |
| Contributed equity, net of transaction costs | 4 | 19,911,015 | - | 720,000 | 20,631,015 |
| Reserves | | 25,580 | - | - | 25,580 |
| Total transactions with equity holders | | 19,936,595 | - | 720,000 | 20,656,595 |
| Balance | | 14,198,551 | (215,477) | 720,000 | 14,703,074 |

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

APPENDIX 4
RED EMPEROR RESOURCES NL

NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this Report have been set out below.

(a) Basis of preparation of historical financial information

The historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards (“AIFRS”), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

The financial information has also been prepared on a historical cost basis, except for derivatives and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged. Non-current assets and disposal group's held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

(b) Going Concern

The historical financial information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the Company being able to raise additional funds as required to meet ongoing commitments and for working capital. The Directors may need to raise additional capital or realise assets as required to further explore and evaluate the current opportunities. The Directors believe that the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis. However should the Company be unsuccessful in undertaking additional raisings or realising assets, the entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern.

(c) Reporting Basis and Conventions

The report is also prepared on an accrual basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(d) Income Tax

The income tax expense or benefit (revenue) for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized 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 are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Cash and Cash Equivalents

Cash and cash equivalents includes cash at bank and in hand, deposits held at call with financial institutions, other short-term highly liquid deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(f) Trade and other receivables

Trade receivables are recognised as the amount receivable and are due for settlement no more than 90 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off against the receivable directly unless a provision for impairment has previously been recognised.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Loans granted are recognised at the amount of consideration given or the cost of services provided to be reimbursed.

(g) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of GST.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

(h) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

(i) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 30 days of recognition.

(j) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(l) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure, including costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore the area are recognised in the statement of comprehensive income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- I. The expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or
- II. Activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

When an area of interest is abandoned or the directors decide that it is not commercial, and accumulated costs in respect of that area are written off in the financial period the decision is made.

(m) Impairment of assets

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-Financial Assets

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite

lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(n) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(o) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

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 stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(p) Employee Benefits

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 statement of financial position date are recognised in respect of employees' services rendered up to statement of financial position date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefit Provisions.

Long Service Leave

Liabilities for long service leave are recognised as part of 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 to the statement of financial position date using the projected unit credit method. Consideration is given to expect future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the statement of financial position date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments transactions

The Company provides benefits to employees (including directors) of the Company in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using Black Scholes valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on a straight line basis over the period from grant date to the date on which the relevant employees become fully entitled to the award (“vesting date”). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(q) Accounting estimates and judgements

In the process of applying the accounting policies, management has made certain judgements or estimations which have an effect on the amounts recognised in the financial information.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Valuation of share based payment transactions

The valuation of share-based payment transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted.

Options

The fair value of options issued is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

| | Reviewed 30-Apr-11 | Pro-forma After issue |
|---|-----------------------|--------------------------|
| NOTE 2. CASH AND CASH EQUIVALENTS | \$ | \$ |
| Cash and cash equivalents | 10,732,488 | 8,680,042 |
| <i>Adjustments arising from the pro-forma cash balance are summarised as follows:</i> | | |
| Reviewed balance of Red Emperor at 30 April 2011 | | 10,732,488 |
| <i>Subsequent event adjustments:</i> | | |
| Expenses incurred in relation to Georgian Project | | (2,556,969) |
| Expenses incurred in relation to AIM listing | | (215,477) |
| | | <u>(2,772,446)</u> |
| <i>Pro-forma adjustments:</i> | | |
| Proceeds from shares issued under this Prospectus | | 1,000,000 |
| Capital raising costs | | (280,000) |
| | | <u>720,000</u> |
| Pro-forma Balance | | <u>8,680,042</u> |

| | Reviewed 30-Apr-11 | Pro-forma After issue |
|--|-----------------------|--------------------------|
| NOTE 3. EXPLORATION EXPENDITURE | \$ | \$ |
| Exploration expenditure | 777,906 | 3,334,875 |
| <i>Adjustments arising from the pro-forma exploration expenditure are summarised as follows:</i> | | |
| Reviewed balance of Red Emperor at 30 April 2011 | | 777,906 |
| <i>Subsequent event adjustments:</i> | | |
| Expenses incurred in relation to Georgian Project | | 2,556,969 |
| | | <u>2,556,969</u> |
| Pro-forma Balance | | <u>3,334,875</u> |

| | Reviewed 30-Apr-11 | Pro-forma After issue |
|---|-------------------------|--------------------------|
| NOTE 4. CONTRIBUTED EQUITY | \$ | \$ |
| Contributed equity | 19,911,015 | 20,631,015 |
| | Number of shares | \$ |
| <i>Adjustments arising from the pro-forma contributed equity are summarised as follows:</i> | | |
| Fully paid ordinary share capital at 30 April 2011 | 147,616,114 | 19,911,015 |
| <i>Pro-forma adjustments:</i> | | |
| Proceeds from shares issued under this Prospectus | 2,857,143 | 1,000,000 |
| Capital raising costs | - | (280,000) |
| | 2,857,143 | 720,000 |
| Pro-forma Balance | 150,473,257 | 20,631,015 |

The Company currently has 7,500,000 partly paid shares, not included above, on issue as at the date of this report. Each partly paid share is issued at a price of \$0.25, of which \$0.0001 is paid, with the balance of the issue price subject to a call on 31 December 2012.

| | Reviewed 30-Apr-11 | Pro-forma After issue |
|---|-----------------------|--------------------------|
| NOTE 5. ACCUMULATED LOSSES | \$ | \$ |
| Accumulated Losses | (5,738,044) | (5,953,521) |
| <i>Adjustments arising from the pro-forma accumulated losses are summarised as follows:</i> | | |
| Reviewed balance of Red Emperor at 30 April 2011 | | (5,738,044) |
| <i>Subsequent event adjustments:</i> | | |
| Expenses incurred in relation to AIM listing | | (215,477) |
| | | (215,477) |
| Pro-forma Balance | | (5,953,521) |

NOTE 6: RELATED PARTY DISCLOSURES

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Puntland Project

The Company will contribute 30% of the costs of drilling one exploration well on the Dharoor Valley block to earn a 20% interest. The funding of 30% of all drilling costs shall apply for the initial US\$25 million total gross drilling costs only and thereafter the Company shall pay 20% of all related drilling costs in proportion to its interest. Red Emperor has an option but not an obligation to participate in a second well on either the Dharoor Valley block or the Nugaal Valley block on the same basis. The Company's contribution is estimated to be approximately US\$7 million for the initial exploration well.

Georgian Project

Pursuant to the Georgian Acquisition Agreement, the Company will contribute 40% of the costs of drilling two exploration wells, capped at US\$5.6 million. In return, The Company will earn a 20% interest in the issued share capital of Strait Oil and Gas (UK) Limited ("Strait"). In the event the Company does not provide the funding on or before 31 December 2012, the Company shall transfer its 20% interest in Strait back to Strait for the total amount of US\$1.

Issue of Options to Old Park Lane Capital plc

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue up to 3,690,403 Options to Old Park Lane Capital plc, subject to admission of the Company to the official list of AIM. Each Option will be exercisable at the same price as those Shares issued pursuant to the first UK share placement and exercisable within 30 months of issue.

Old Park Lane will also be paid a monthly fee of £2,500.

Issue of Options to Cairn Financial Advisers LLP

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue up to 1,476,162 Options to Cairn Financial Advisers LLP, subject to admission of the Company to the official list of AIM. Each Option will be exercisable at the price being the mid-market trading price on the day of admission to AIM exercisable within two years of issue.

At the date of the report no other material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the prospectus.

7. SOLICITOR'S REPORTS

July 4, 2011

Red Emperor Resources NL
945 Wellington Street
West Perth, WA 6005
Australia

Grange Consulting Group Pty Ltd
945 Wellington Street,
West Perth, WA 6005
Australia

Dear Sir/Madam:

Re: Current Standing of PSCs and Effects of the Transaction and Listing Thereon

This legal opinion has been prepared for due diligence purposes in relation to a prospectus (the "Prospectus") to be issued by Red Emperor Resources NL ("RMP") dated on or about July 1, 2011 for the offer of 2,857,143 ordinary shares in RMP each at an issue price of A\$0.35 per share to raise approximately A\$1,000,000 (the "Listing"). The Prospectus is being prepared in accordance with RMP's re-compliance with the Listing Rules of the Australian Securities Exchange.

In this legal opinion we opine on the matters of the Law of Georgia with regard to the current standing of the two Production Sharing Contracts made between Strait Oil and Gas Limited ("Strait Gibraltar") and the State of Georgia (the "State") on March 29, 2007 (the "PSCs"), as well as the effects of the Transaction, as defined below, and of the Listing thereon.

Terms used but not otherwise defined herein shall have the meanings assigned to them in the PSCs.

We are lawyers qualified to practice and express opinions with respect to the Laws of the Georgia.

1. Documentation

In connection with the foregoing, we have examined the following documents:

- (a) Scanned copies of PSCs, whereby the State, represented by the State Regulatory Agency on Oil and Gas Resources granted exclusive rights to conduct oil and gas exploration and extraction operations on the Blocks VIa and VIb in Georgia (the "Blocks") during the term of the PSCs;
- (b) Letter No.03/02/03/-012 of Giorgi Tatishvili, Deputy Head of Agency of Natural Resources of the Ministry of Energy and Natural Resources of Georgia (interchangeably with State Regulatory Agency on Oil and Gas Resources the

“Agency”¹), dated April 7, 2011, provided in response to our letter of April 5, 2011, copies of which are attached as Schedules A and B to this legal opinion, confirming that the PSCs and the licenses issued to Strait Gibraltar on the basis thereof (the “Licenses”) are currently in effect (the “Agency Confirmation”);

- (c) Scanned copy of the Heads of Agreement (the “HOA”) between Strait Oil and Gas (UK) Limited (“Strait UK”), Range Resources Limited (“Range”), and RMP, undated, which was entered into between the Strait UK, the parent company of Strait Gibraltar, Range, the holder of 50% of interest in Strait UK and RMP to set out the material terms and conditions of RMP or its nominee acquiring 20% of interest in Strait UK by funding up to USD 5.6m in the proposed two well drilling program to be undertaken on the Blocks, such interest acquisition to involve subscription by RMP or its nominee to newly issued shares of Strait UK (the “Transaction”);
- (d) Copy of the Heads of Agreement between Range and Strait UK, dated July 8, 2009, whereby Range and Strait UK agreed on the principal commercial terms upon which Range proposed to acquire a 50% interest in Strait UK ;
- (e) Copy of the Share and Option Issue Deed between Range and Deep Blue Sea Limited and Norcombe Investments Limited, dated May 18, 2010, whereby Range agreed to issue certain shares in Range and options to acquire shares in Range to Deep Blue Sea Limited and Norcombe Investments Limited, being the shareholders of Strait UK as a consideration of the said parties to procure that Strait UK enters into Subscription and Shareholders Agreement between Range and Strait UK;
- (f) Copy of the Subscription and Shareholders Agreement between Range and Strait UK, undated, whereby the parties thereto agreed on the terms of subscription to 50% of interest in Strait UK by Range, as well as on other matters relating to funding and management of Strait UK and of its activities relating to the PSCs.
- (g) Copy of the Shareholders Agreement between Strait UK, Strait Georgia, Range, RMP and various other shareholders, dated May 20, 2011, setting out the aims and objectives of the parties thereto in relation to Strait UK, regulating the future exercise of their rights in relation to Strait UK, and setting out how Strait UK will manage its affairs and carry on performance under the PSCs; and
- (h) Copy of the Subscription Agreement, dated May 20, 2011, between Strait UK and RMP in relation to the Transaction.

2. Assumptions

Save as described herein, we have not made any independent investigation of the facts or circumstances surrounding the PSCs, including the tender process in connection with grant of

¹ Following execution of the PSCs State Regulatory Agency on Oil and Gas Resources has been transformed and renamed on several occasions, in each case with newly formed agency maintaining the authorities of the predecessor in the field of regulation of oil and gas operations field in Georgia. The latest transformation occurred in March 2011. Currently relevant agency is organized in form of a legal entity of public law. The name is LEPL Agency of Natural Resources. The agency is created within the system of the Ministry of Energy and Natural Resources of Georgia, which was also recently formed as a result of unification of two ministries - the Ministry of Energy and the Ministry of Protection of Environment and Natural Resources.

exclusive right of conduction of exploration and extraction works on the Blocks and selection of Strait Gibraltar as the winner therein and Strait Gibraltar's performance thereunder.

In rendering this opinion, we have assumed, without any independent verification or investigation, that:

- (i) The tender for the purposes of grant of exclusive right of conduction of exploration and extraction works on the Blocks was announced and held, and Strait Gibraltar participated and was selected as the winner in such tender in compliance with the requirements of the Laws of Georgia;
- (ii) All corporate and third party consents, if applicable, for the purposes of execution and delivery by Strait Gibraltar of the PSCs as well as performance by Strait Gibraltar of its obligations thereunder, as may be required under corporate procedures of Strait Gibraltar or certain arrangements with third parties, have been duly obtained;
- (iii) Individuals signing the PSCs on behalf of the parties thereto were duly appointed to their respective positions in compliance with all applicable legislative and corporate requirements and were duly authorized to sign the PSCs on behalf of the parties;
- (iv) Scanned copies of the PSCs conform with the authentic originals thereof; and
- (v) Signatures affixed on the PSCs are genuine.

We have also not made any independent investigation on the nature of affiliation of Strait Gibraltar with Strait UK and assume that Strait UK is indeed the holder 100% of interest in Strait Gibraltar, as indicated in the HOA.

For the purposes of this opinion, the "Laws of Georgia" shall mean all legal requirements, including but not limited to the Constitution of Georgia and all laws, decrees, regulations, instructions, orders and other normative acts of Georgia which are officially and actually published (irrespective of notation of the publication date) and are effective on the date hereof.

3. Legal Opinion

In rendering the following opinion, we have taken into account the exploration and extraction legal regime established by the 1999 Law of Georgia on Oil and Gas (the "Oil and Gas Law") which, to provide a brief overview, involves the following:

- (a) Oil and gas exploration and extraction as well as other oil and gas operations in Georgia are subject to legal regulation in accordance with the Constitution of Georgia, international agreements of Georgia, the Oil and Gas Law and other Laws of Georgia.
- (b) Oil and gas resources available underground on the territory of Georgia are under the State ownership, whereas title to extracted oil and gas is determined under respective production sharing contracts.
- (c) The exclusive sovereign right of exploration and extraction of oil and gas is also vested with the State. Nonetheless, exploration and extraction operations may be fully

or partly performed by the State and natural or legal persons in accordance with the production sharing contracts entered into pursuant to the Oil and Gas Law and oil and gas resources use licenses.

- (d) The Ministry of Energy and Natural Resources is the State authority which defines general directions of the policy in the field of oil and gas. Management and regulation of the field is in turn exercised by the Agency, in accordance with such State policy.
- (e) The functions of the Agency *inter alia* include: (i) organization and holding of tenders and auctions for the purposes of selection of investors to be granted right to conduct oil and gas exploration and extraction operations on the offered blocks and selection of winners in such tenders; (ii) preparation, negotiation and execution of production sharing contracts on behalf of the State; (iii) issuance to investors, termination or revocation of oil and gas resources use licenses; and (iv) supervision over and control of compliance with the conditions and performance of the activities under the executed production sharing contracts and issued licenses, as well as provision of investors with conditions essential for the purposes of performance of respective obligations. Notably operative and commercial obligations in the field of oil and gas are also primarily vested with the Agency. Nonetheless, such functions are expressly delegated to National Oil Company ("NOC") for such period until the State shall hold over 75% of interest therein. Control over exercise by NOC of such delegated authorities is also carried out by the Agency.
- (f) The operative and commercial functions of NOC in turn primarily include: (i) participation in preparation and negotiations of production sharing contracts and preliminary approval thereof prior to official execution by the Agency; (ii) acting as the commercial partner on behalf of the State in performance of the production sharing contracts; (iii) disposal of the State's share of oil and gas extracted in Georgia and payment of all taxes to the State budget in accordance with respective production sharing contracts; (iv) carrying out of State expertise of work plans and technological schemes; and (v) establishment of coordination committees together with the investors with equal membership.
- (g) Production sharing contracts are to be entered into only with the investors which are selected by the Agency through a tender or an auction held for such purposes. Rules and procedures of each tender or auction are determined by the Agency and are registered with the Ministry of Justice one month prior to the announcement of such tender or auction.
- (h) The Oil and Gas Law defines the information that must be submitted by the investor for the purposes of participation on the announced tender or auction. Participation in a tender or auction is subject to payment of an auction/tender fee determined by the Agency. The fee is not refundable to the applicants.
- (i) In case of a tender, the applicant that satisfies the tender conditions and submits economically and technically the most acceptable application will be selected as the winner. In case of an auction, the applicant that satisfies the auction conditions and offers the State the highest price will be selected as the winner.

- (j) The Agency and the tender/auction winner are obligated to commence negotiations for the purposes of entering into the production sharing contract within one month after the selection. If the production sharing contract is not entered between the Agency and the selected winner in a tender within six months after commencement of the negotiations, the tender results shall be deemed revoked. The statutory authority does not establish identical time-frames in context of execution of profit sharing contracts with auction winners.
- (k) If only one application is submitted or no application meets the tender requirements the Agency shall revoke the tender. If several applicants submit identical proposal, equally meeting the tender requirements, an auction will be held among such applicants. In context of auctions, if there are no valuable offers made, the Agency announces revocation of the auction.
- (l) The oil and gas resources use licenses are issued by the Agency on the basis of the production sharing contracts, within one month after execution thereof. The issuance of the license is subject to payment of the license fee and such fee may not be compensated through the compensation oil and gas.
- (m) The Oil and Gas Law specifies the matters which must be regulated by each production sharing contract, sets the terms upon which the oil and gas operations may be terminated, as well as obligations and liabilities of the investors and other matters relating to the extraction and exploration of oil and gas in Georgia and relations between the Agency, NOC and the investor and the operating company. The Agency is authorized to prepare and use model forms of production sharing contracts.
- (n) The Oil and Gas Law further establishes conditions for assignment of rights and obligations under the production sharing contracts and the licenses by the investor to another party. Assignment, full or partial, to affiliated persons is free and not made subject to a prior consent by the Agency. Under such circumstances, however, the investor remains liable for performance of obligations assigned to the affiliated person. Such assignment only requires written notification by the investor of the agency within the time-frames set by respective production sharing contract. Assignment, whether full or partial, to a third person is, in turn, subject to written consent of the Agency, and is permissible if such third person possesses sufficient financial and technical resources and experience in performing oil and gas operations in order to perform the assigned rights and obligations. The investor is obligated to inform the Agency in writing of assignment of its rights and obligations and to submit to the Agency other relevant documents. The Agency responds to the investor within 30 days after receipt of the notification and notifies the investor whether or not it consents or disapproves the proposed assignment. In case of rejection, the Agency further notifies the investor of the grounds of such rejection. The Agency may not unreasonably delay the response to the investor. In the event of assignment to a third person, the investor will no longer remain liable for the assigned obligations, and will further no longer be entitled to respective benefits. Assignment must be documented in writing in form and with such contents as are determined by the Agency. The assignment document constitutes an integral part of respective production sharing contract and license. The statutory authority provides for reissuance of the license within 30 days after signing of such assignment document.

- (o) Notably, the Oil and Gas Law does not declare acquisition of interest in the investor or the direct or indirect parent thereof as assignment subject to the requirements summarized in (b) above, nor does the statutory authority elaborate on such transactions separately or establish any restrictions or other requirements in this respect.
- (p) The maximum term of production sharing contracts and respective licenses is 25 years. The term may be extended at the initiative of the investor for such additional term which may be required and sufficient for ensuring economic and rational extraction, use and protection of oil and gas, subject to bilaterally signing of an amendment agreement to the production sharing contract. If extension of the term appears essential prior expiry of the initial 25 years, it may be extended temporarily, however, for a period not to exceed 5 years. Upon extension of the term of the production sharing contract, the term of the license is also extended automatically.
- (q) Production sharing contracts are mandatorily made subject to the Laws of Georgia. Pursuant to further mandatory statutory provisions, exclusive jurisdiction over disputes between the parties arising out of production sharing contracts, especially if such disputes relate to land or immovable property, is vested with the courts of Georgia. Courts of Georgia further have jurisdiction over disputes relating to such matters as translation, legal status, performance, termination or suspension of production sharing contracts. Nonetheless, if the investor is neither a citizen of Georgia nor a Georgia-registered legal person, disputes may also be considered by international arbitration institutions in accordance with the terms envisaged under respective production sharing contract.
- (r) Subject to consideration on the matter and decision-making by the competent court of Georgia, irrespective of execution of the production sharing contracts and issuance of licenses based thereon by the Agency and/or issuance of written confirmations on the production sharing contracts and the licenses being in effect, production sharing contracts and licenses can be revoked if the tender process was not duly followed by the winning applicant and/or the Agency. The court may consider the matter of revocation on the basis of a claim submitted by the competent interested parties, which, based on the tender process violations claimed under particular circumstances may be the Agency, other state authorities of Georgia, or parties which may have suffered damages as a result of selection of the winning applicant in violation of the tender requirements (e.g. other applicants).

Based upon and subject to all of the foregoing, we are of the opinion that:

- (a) In granting and entering into the PSCs, the Agency was the appropriate State authority duly empowered for such purposes by the applicable provisions of the Laws of Georgia.
- (b) As confirmed by the Agency under the Agency Confirmation, the PSCs and the Licenses are in good standing.
- (c) The PSCs are not subject to any unusual or onerous conditions.

- (d) To the best of our knowledge, Strait Gibraltar has fully complied with all of the legal and license obligations applicable to the PSCs.
- (e) The PSCs expire on May 1, 2032, unless earlier terminated or extended in accordance with the terms of the PSCs.
- (f) There are no publicly known planned legislative changes likely to impact Strait Gibraltar's activities under the PSCs and/or plans of Strait UK or of RMP in respect of such activities, the Transaction or the Listing.
- (g) Article 12.9.1 of the PSCs envisages a 50-50% profit sharing arrangement between the NOC and Strait Gibraltar prior to recovery of costs by Strait Gibraltar. Pursuant to Articles 12.9.2 of the PSCs, following recovery of costs by Strait Gibraltar, the profit sharing arrangement is set at 65% attributable to NOC and 35% to Strait Gibraltar following recovery of costs by Strait Gibraltar.
- (h) The PSCs attribute the State an option to participate in Oil and Gas Operations as contractor together with Strait Gibraltar within up to 25% of the entire share participation of Strait Gibraltar, i.e. to finance, in monetary form, corresponding share of costs of Oil and Gas Operations and to be entitled to corresponding share of profits generated therefrom. The option is exercisable in respect of each individual Development Plan pertaining to a Commercial Discovery, subject to compensation of respective percentage of costs incurred by Strait Gibraltar prior to approval of such Development Plan, as well as other terms and conditions prescribed by Articles 16 of the PSCs.
- (i) The PSCs subject assignment by Strait Gibraltar of all or any part of its rights and interests under the PSCs to a Third Party to the prevailing right of the State. The prevailing rights are exercisable by the State following prior notification by Strait Gibraltar of the Agency and NOC on the specific terms of contemplated assignment, within the time-frames and subject to other conditions set out in Article 29.3.2 of the PSCs.
- (j) The PSCs and the Oil and Gas Law do not entail a risk of any proper or legitimate challenges or any other challenges or existing third party claims which may be made by other parties (including the relevant authorities) to the validity of the PSCs.
- (k) The Transaction and the Listing will not constitute assignment of rights and obligations in the PSCs for the purposes of the Oil and Gas Law and/or assignment of control, rights, obligations and interests for the purposes of the PSCs. Therefore, the contemplated transaction will not be subject to respective consenting requirements set out under the Oil and Gas Law and/or prevailing right or consenting or other requirements established by Article 29 of the PSCs.
- (l) The good standing of the PSCs will not be prejudiced or in any manner affected by the Transaction or the Listing.

Sincerely,
BGI Legal

BGI Legal

Schedule A

BGI Request Letter to the Agency

Unofficial English Translation

April 5, 2011

To: Giorgi Tatishvili
Deputy Head of LEPL Agency of Natural Resources
Ministry of Energy and Natural Resources of Georgia

From: Rusudan Gvazava
18 Rustaveli Avenue
Tbilisi, Georgia
Tel: 997292

APPLICATION

Please confirm whether or not the Production Sharing Contracts entered into on March 29, 2007 between Strait Oil and Gas Limited and State Regulatory Agency on Oil and Gas Resources with respect to Via and VIb blocks and the licenses issued on the basis thereof are currently in effect.

Thank you in advance.

[Signature]

Rusudan Gvazava

Hand written: Delivery accepted *[Signature]*
05.04.011

Schedule B

Agency Confirmation

Unofficial English translation

*[Letterhead of the Ministry of Energy and Natural Resources of Georgia
Agency of Natural Resources]*

No. 03/02/03-012

April 7, 2011

To: Rusudan Gvazava

Ms. Gvazava,

In response to your letter of April 5, 2011 we hereby notify you that the Production Sharing Contracts executed on March 29, 2007 between Strait Oil and Gas Limited and State Regulatory Agency on Oil and Gas Resources and the licenses issued on the basis thereof in respect of license blocks VIA and VIB are in effect.

Giorgi Tatishvili *[Signature]*
Deputy Head of the Agency

Handwritten: *[Authentic Copy]*
[Seal of the Chancellery of the Agency]

The Directors
Red Emperor Resources NL
945 Wellington Street
West Perth WA 6005
Western Australia

4th July, 2011

Dear Sirs,

Re-compliance with the Listing Rules of the Australian Securities Exchange ("ASX")

1. Introduction

- 1.1 We have acted for Red Emperor Resources NL ("**Red Emperor**") as its legal advisers on certain matters relating to Red Emperor's interests in two production sharing contracts in the Puntland state of the former Somali Democratic Republic (the "**Puntland Concessions**"). Our advice has been sought in connection with Red Emperor's re-compliance with the listing rules of ASX. This Report has been prepared for due diligence purposes in relation to a prospectus ("**Prospectus**") to be issued by Red Emperor dated on or about 1st July, 2011 for the offer of 2,857,143 ordinary shares in Red Emperor each at an issue price of A\$ 0.35 per share to raise approximately A\$1,000,000. The Prospectus is being prepared in accordance with Red Emperor's re-compliance with the listing rules of the ASX.
- 1.2 We, Anjarwalla Collins & Haidermota, Legal Consultants, are not qualified to practise law in Puntland. As you may be aware, there is no organised society of lawyers in Puntland which regulates the legal profession in Puntland and which can be relied upon to provide guidance on local laws or answer questions relating to Puntland law. Although the organised practice of law has been severely affected by the civil war in Somalia, we have managed to engage the services of Mr Yusuf Xaaji Nur, a lawyer in Garowe, Puntland. Mr Nur has provided advice on which we have relied as to certain aspects of the law and practice applicable in Puntland (the "**Puntland Legal Advice**"). In addition, we have consulted with Mr John M. Miles, Solicitor of the Supreme Court of England & Wales and who is affiliated to this firm. Mr Miles has experience and knowledge of relevant legal issues in Somalia although he is not qualified to advise on Puntland law or the laws of Somalia.
- 1.3 It should be appreciated that it is difficult to advise with any certainty in relation to a jurisdiction such as Somalia or any of its regions given that the application of the law may not reflect the law as it is stated, institutions are not well established and therefore



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consistency of approach to the application or enforcement of the law cannot be assured.

2. Documents examined and enquiries made

2.1 For the purpose of issuing this letter of advice, we have examined and relied exclusively on:

2.1.1 the documents listed in Schedule 1;

2.1.2 the responses received from Mr Nur to our specific enquiries set out in Schedule 2;

2.1.3 the relevant written laws of the Puntland State, the former Somali Democratic Republic and the Transitional Federal Government ("TFG") of Somalia, to the extent that copies of those laws have been made available to us.

In addition, the Puntland Legal Advice has been limited solely to the specific enquiries set out in Schedule 2.

3. Assumptions

3.1 The advice in this letter is given on the basis of the following assumptions:

3.1.1 all signatures, stamps and seals on any documents or agreements are genuine and all copy documents and agreements are complete and conform to the originals;

3.1.2 all documents are in force and not terminated;

3.1.3 the Puntland Legal Advice is correct and accurate in all respects; and

3.1.4 there are no other facts, matters, agreements or documents of which we do not have actual knowledge which would, or might, affect our advice in this letter.

3.2 The advice in this letter is strictly limited to the matters expressly set out in this letter and does not extend to any other matters.

4. Scope of advice

We have not made any investigations of, and do not express any opinion on any law other than the laws and practice applicable in Puntland and the former Somali Republic generally, as we understand them based on the Puntland Legal Advice and our review of relevant statutes (where this has been possible). We have not considered the potential impact of Shari'a or customary law (Xeer) on the matters discussed in this

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letter, although based on the Puntland Legal Advice, we understand that Shari'a and customary law will not be applicable in the context of mineral rights (although customary law may be applicable in the context of land rights).

5. Matters of fact and future events

We express no opinion on matters of fact or as to the effect that any future event or any act of the parties to the agreements or documents listed in Schedule 1 or any relevant supervisory authority or agency may have on the matters and transactions referred to therein.

6. Background Information

We are of the view that it would be useful to:

- (a) provide a chronology of the key events in relation to the grant of the Puntland Concessions; and
- (b) deal with the question of which entity (between the Puntland state government and the TFG) has the power to regulate the exploitation of natural resources in Puntland.

7. Grant of the oil exploration and development interests in Puntland – a chronology

We understand the relevant facts pertaining to the Puntland Concessions to be as follows:

- 7.1 On 17th January, 2007, Canmex Holdings (Bermuda) II Limited ("**Canmex Holdings**") and Range Resources Limited ("**Range Resources**") signed two Production Sharing Agreements ("**PSAs**") with the Government of Puntland with respect to the Dharoor and Nugaal Valley concession blocks (as these concession areas are delineated under the PSAs). These PSAs are stated to replace a contract of works between the Government of Puntland, Consort Private Limited and Range Resources entered into in April, 2006 and which is stated to have expired in 31st August, 2009. We have not seen a copy of this contract of works. We do not comment as to whether there could be any residual claims in relation to the Dharoor and Nugaal Valley concession areas by Consort Private Limited pursuant to the Contract of Works stated to have been replaced by the PSAs.
- 7.2 On 4th March, 2007, two joint operating agreements were entered between Canmex Holdings and Range Resources ("**Operating Agreements**") pursuant to which Canmex Holdings was appointed as the operator of the Puntland Concessions. In addition Canmex Holdings and Range Resources entered into a venture agreement ("**Venture Agreement**") on the same date under which Canmex Holdings, in consideration of the right to acquire an 80% stake in the Puntland Concessions, assumed certain funding obligations in relation to these concessions.



- 7.3 On 19th August, 2009, a farmout agreement was entered between Lion Energy Corporation ("**Lion Energy**") and Canmex Holdings ("**Lion Farmout Agreement**") under which Canmex Holdings agreed to transfer 15% of its working interest in the Puntland Concessions to Lion Energy. Pursuant to the Lion Farmout Agreement, a deed of assignment to transfer the 15% interest was entered into on 25th November, 2009. We understand that the interest was transferred to Lion Energy Puntland (Nogal) N.V. and Lion Energy Puntland (Dharoor) N.V. (which are presumably affiliated entities of Lion Energy). We have not received the Lion Farmout Agreement; however, this agreement is referred to in the Second Amendment Agreement (as defined below).
- 7.4 On 25th November, 2009, two amendment agreements in relation to the PSAs were entered between the Government of Puntland, Canmex Holdings and Range Resources ("**First Amendment Agreements**"). On 22nd December, 2009, the House of Representatives of Puntland approved and ratified the First Amendment Agreements. We note that Lion Energy was not made a party to the First Amendment Agreements. We would presume that although the First Amendment Agreements and the deed of assignment relating to the transfer to Lion Energy of a 15% interest were entered into on the same date (25th November, 2009) the amendments to the PSAs took effect prior to the assignment of interest to Lion Energy. The question as to whether the First Amendment Agreements took effect prior to the deed of assignment is one of fact which cannot be confirmed by review of the First Amendment Agreements or the deed of assignment as these agreements do not address this point.
- 7.5 We understand that on 17th January, 2010 Canmex Holdings relinquished to the Puntland government 25% of its licence areas under the PSAs. We have however not been provided with any documentation to support this position. We would note that mandatory relinquishment to the Puntland government of agreed portions of the concessioned areas is required under Article 5.1 of the PSAs. We note that under Article 5.4 of the PSAs, notices of relinquishment are required to be sent to the Puntland authorities at least 30 days prior to each relinquishment. We have not been provided with copies of any such notices of relinquishment in order to verify the dates and geographical areas relinquished.
- 7.6 On 14th June 2010, a Heads of Agreement was entered among Africa Oil Corporation ("**Africa Oil**") (previously known as Canmex Minerals Corporation, and which we understand is/was a wholly owned subsidiary of Canmex Holdings), Canmex Holdings and Red Emperor ("**HOA**"). Pursuant to the HOA, Canmex Holdings agreed to assign a 10% interest in the Puntland Concessions to Red Emperor with an option for Red Emperor to increase its interest to 20%. In two letters dated 5th July, 2010, Africa Oil advised Range Resources and Lion Energy of its intended farmout of up to 20% of its interest in the Puntland Concessions under the PSAs to Red Emperor. The letters were duly signed by Range Resources and Lion Energy and each of them consented to the proposed assignment.



- 7.7 On 26th July, 2010, two deeds of assignment in respect of the Puntland Concessions were entered among Canmex Holdings, Puntland Oil (Pty) Limited ("**Puntland Oil**") (which we understand is a wholly owned subsidiary of Red Emperor), Range Resources and Lion Energy ("**Deeds of Assignment**"). In terms of the Deeds of Assignment, Canmex Holdings agreed with Puntland Oil to transfer a 10% interest in the Puntland Concessions with an option for Puntland Oil to acquire an additional 10% interest accordingly allowing it to raise its total share to 20%.
- 7.8 The Deeds of Assignment refer to a farm out agreement dated in or around July, 2010. However, the farm out agreement we have seen in this regard is actually entered into on 12th August, 2010 between Canmex Holdings, Africa Oil, Red Emperor and Puntland Oil ("**Red Emperor Farmout Agreement**"). The terms of the Red Emperor Farmout Agreement were substantially the same as the Deeds of Assignment in relation to the interests to be transferred. The Deeds of Assignment purport to transfer the interests effective 15th June, 2010. We have seen a letter dated 21st October, 2010 from Red Emperor to Africa Oil and Canmex Holdings in which Red Emperor notifies Africa Oil and Canmex Holdings of Puntland Oil's election to increase its participation interest to 20% in each of the Dharoor and Nugal Valley concessions, subject to receipt of, inter alia, all necessary approvals for the transfer of farm – in interests.

In light of the exercise of this election by Puntland Oil, the respective interests of the parties following the exercise of the election should be as follows:

| | |
|---|-----|
| Canmex Holdings | 45% |
| Range Resources | 20% |
| Lion Energy Puntland (Nogal) NV/Lion Energy Puntland (Dharoor) NV | 15% |
| Puntland Oil | 20% |

- 7.9 On 16th January, 2011, two further amendment agreements to the PSAs were signed. An amendment agreement was entered among the Government of Puntland, Canmex Holdings, Range Resources and Lion Energy Puntland (Dharoor) N.V. with respect to the Dharoor Valley PSA, and a similar amendment to the Nugaal Valley PSA was entered among the Government of the Puntland, Canmex Holdings, Range Resources and Lion Energy Puntland (Nogal) N.V. ("**Second Amendment Agreements**"). It should be noted that these amendments were entered into after Puntland Oil had already acquired an interest in the PSAs (effective 15th June, 2010) in terms of the Deeds of Assignment, but Puntland Oil has not been made a party to the Second Amendment Agreements. We would note that clause 6 of the Deeds of Assignment provide that until such deeds are approved Canmex Holdings will hold Puntland Oil's interest on trust. We presume that Puntland Oil was not made a party because by this stage the Deeds of Assignment had not been approved as envisaged and as such its interest was still being held on trust by Canmex Holdings. We note that the copies of the Deeds of Assignment provided to us contain a signed acknowledgement by the Puntland Petroleum and Mineral Agency (the

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"PPMA") of the Government of Puntland and it would appear therefore that the approval of the Puntland government was obtained in connection with the Deeds of Assignment and that, upon such approval being obtained, Puntland Oil's interest was no longer held in trust by Canmex but vested fully in Puntland Oil.

- 7.10 We understand that on 17th January, 2011 Canmex Holdings relinquished a further 25% of its licence areas under the PSAs to the Puntland government. We have however not been provided with any documentation to support this position. Please refer to our comments at paragraph 7.5 above in relation to the requirement to file notices of relinquishment with the Puntland authorities.
- 7.11 On 23rd March, 2011, Canmex Holdings, Africa Oil, Red Emperor and Puntland Oil entered into an amending agreement in respect of the Red Emperor Farmout Agreement. The amending agreement is effective 15th June, 2010 (which is the same effective date for the Red Emperor Farmout Agreement). The amending agreement confirms the election by Puntland Oil to increase its interest in the PSAs from 10% to 20%. In addition, the amending agreement addresses various technical and/or operational amendments to the Red Emperor Farmout Agreement.

8. Legal authority over natural resources in Puntland

The situation prior to 1991

- 8.1 The Somali Republic obtained independence in 1960 and became a member of the United Nations as an independent sovereign republic in 1960. The Somali Republic was established pursuant to a Constitution promulgated at independence. The 1960 constitution was replaced by a new constitution in 1979. Pursuant to Article 42 of the 1979 Constitution, "the land, natural, marine and land-based resources" of the Somali Republic were state property. The state was empowered under the 1979 Constitution to promulgate laws "prescribing the best methods for exploiting such resources."
- 8.2 The Mining Code was the law promulgated to regulate activities relating to exploitation of petroleum, natural gas and other hydrocarbon resources. Article 2 of the Mining Code provides that the entire property in and control of all minerals "...in any land territory of the Republic..." is vested in the State. Article 2 further provides that no person may acquire any property in or control over any minerals except in accordance with the terms and conditions of a permit, licence or lease granted pursuant to the Mining Code.
- 8.3 Under the Mining Code, it is the Minister of Mineral and Water Resources who is empowered to grant oil exploration permits, oil prospecting permits and oil mining leases.
- 8.4 The Mining Code envisages a registry of all prospecting and mining rights to be maintained by the Director of Mining.



- 8.5 Under the Mining Code, all minerals obtained in prospecting or mining are liable to prescribed royalties and cannot be exported until such royalties have been paid or adequately secured.

The situation after 1991

- 8.6 In January 1991, the government of President Mohammed Siad Barre was deposed. Following this event, full scale civil war erupted in the Somali Republic, with the conflict leading to the collapse of virtually all state structures and significant disruption of the economic and political life of the Somali Republic.
- 8.7 Various clan-based factions sought to control the national territory (or sections of the national territory) and there were various armed conflicts among these factions for political and economic control. None of these 'interim governments' was able to obtain recognition from the international community primarily due to the fact that the various factions lacked effective authority over any significant portions of the territory of the state.
- 8.8 The State of Puntland declared itself an autonomous region (but not an independent state) in 1998. Puntland did not secede from the Somali Republic but declared that it would remain autonomous until a federated Somali state was established.
- 8.9 The lack of any effective form of central government in the Somali Republic continued from 1991 to 2000, when following national reconciliation efforts supported by the regional and international community, a Transitional National Government ("TNG") was established. The TNG's mandate expired in 2003 and, following further reconciliation efforts the TFG was established in 2004 under an interim constitution in the form of the Transitional Federal Government Charter ("**TFG Charter**"). The TFG was established with a five year mandate to lead to the establishment of a permanent federal government in the Somali Republic by 2009. The TFG extended its mandate to 2011. Based on the Puntland Legal Advice, we understand that the TFG has further extended its mandate by five years¹.
- 8.10 However, despite the formation of the TFG and the continuing efforts to establish a full-fledged federal government, the reality is that the former Somali Republic remains fractious, and there is no single entity exercising effective authority or control over the entire territory of the Somali Republic. Based on the Puntland Legal Advice, we understand that the TFG only controls the capital city and some of its surrounding towns.

¹ We note that Article 32(4) of the TFG Charter prohibits against the extension of the term of the TFG. However, based on the Puntland Legal Advice, we understand that this section has recently been amended in order to facilitate the extension of the term of the TFG. However we understand that such amendment has not been endorsed by the President or supported by the international community.



TFG Charter

- 8.11 With regard to the control and management of land and natural resources, the TFG Charter provides as follows:
- 8.11.1 that the TFG shall define the national land policy and framework in the Somali Republic which shall provide for the registration, use, ownership, occupation and title to the land; and
- 8.11.2 that the natural resources of the country such as the minerals shall be public property and that a law shall be enacted which defines the manner of exploitation for the common good. Based on the Puntland Legal Advice we understand that no such laws have been passed by the TFG. We have addressed in paragraph 8.20 below the applicability of the Mining Code to the regulation of natural resources in the Somali Republic.
- 8.12 Article 71 of the TFG Charter provides that "the 1960 Somalia Constitution and other national laws shall apply in respect of all matters not covered and not inconsistent with this Charter". Consequently, on this basis it is arguable that the Mining Code and other laws of Somalia enacted prior to the collapse of the Somalia government continue to have force of law in Somalia. Based on the Puntland Legal Advice we understand that the federal parliament established in 2004 under the TFG Charter has to date not passed any laws relating to oil and gas concessions.

Puntland State Constitution

- 8.13 The state of Puntland in 2009 published a constitution for the state of Puntland ("**Puntland State Constitution**") to replace the previous provisional constitution. Pursuant to Article 141, the Puntland State Constitution will become enforceable only after ratification by a referendum, but pending such referendum, the Puntland State Constitution is stated to be applied provisionally from the day it is approved by the House of Representatives of Puntland. Based on the Puntland Legal Advice, we understand that such approval has been obtained.
- 8.14 Under Article 4 of the Puntland State Constitution, it is stated that the Puntland state is part of Somalia and it is the duty of the Puntland State to contribute to the establishment and protection of a Somali government based on the federal system. This Article further states that the powers that Puntland State shall cede to the federal government of Somalia and the rights that will be reserved shall be determined through negotiation between the federal state and Puntland State, and these powers will be stated in the federal constitution.
- 8.15 Article 4(3) of the Puntland State Constitution states that pending the completion of the federal constitution and its ratification by Puntland State and a popular referendum, Puntland State shall have the status of an independent state.



- 8.16 Article 4(4) of the Puntland State Constitution states that Puntland State reserves the right to review its position as to its arrangements with the federal government and its status vis a vis the federal government, if the Somali people fail to agree on a federal system or if "the instabilities and wars continue indefinitely".
- 8.17 Under Article 138, the Puntland State Constitution is stated to be the supreme law of the Puntland state "save the Islamic Sharia and the Federal Constitution of the Federal Republic of Somalia."
- 8.18 Under Article 54 of the Puntland State Constitution, natural resources in Puntland belong to Puntland people and the Puntland State is responsible for the protection and exploitation of these natural resources.
- 8.19 Article 54(3) provides that the Puntland state may make arrangements with national and foreign companies for exploitation of natural resources. Article 54(4) provides that concessions shall be arranged by the Council of Ministers and approved by the House of Representatives.
- 8.20 From the above summary, it can be concluded as follows:
- 8.20.1 there is no single entity exercising effective governmental authority over the whole of the territory of the Somali Republic. The government of the Puntland State exercises control over the Puntland Territory and has established the relevant executive, legislative and judicial structures for the exercise of governmental power in Puntland. As a result, the Puntland State enjoys relative peace and stability as compared to the rest of the Somali Republic. Puntland is nonetheless not a state recognised under international law, nor does it purport to be. The TFG, whilst being the first constituted government in Somalia since 1991 only enjoys control of a limited portion of the Somali Republic Territory (it is the case that the TFG continues to enjoy international support in its efforts to bring about a unified federal Somali state). In any case, its authority continues to be challenged by various factions.
- 8.20.2 the government of the Somali Republic was, prior to 1991, a government recognised under international law. However, following the collapse of the government in 1991 there was no recognised government in Somali for almost 15 years, until the establishment of the TFG. This fact is given support by a decision of the English court in *Republic of Somalia v. Woodhouse Drake & Carey (Suisse) S.A. (The Mary)*². This case related to a contract entered into by the Somalia government prior to the fall of the Siad Barre regime. The English court refused to allow payment of certain sums owed to the Somalia government under that contract to the interim government of the Republic of Somalia after the fall of the Barre regime (headed by Ali Mahdi Mohamed) since the court was not

² (1993)Q.B. 54

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convinced that the interim government was entitled to "represent the Republic of Somalia".

8.20.3 the TFG Charter provides for the laws of Somalia enacted prior to 1991 to continue to have force of law in Somalia pending their amendment or replacement and, consequently, the Mining Code still has force of law in Somalia.

8.21 It would appear therefore that as a matter of law, the TFG is the recognised authority exercising governmental powers in Somalia (with the exception of Somaliland, Puntland and other areas which are not under effective control of the TFG). It would also appear that the Mining Code remains in force as the law regulating exploitation and development of mineral resources in Somalia. This represents the *de jure* position in Somalia. However, it is also acknowledged that as a matter of fact, the Puntland State government exercises effective control of resources in the Puntland State and has established its own procedures for the grant of mineral rights in Puntland. There are however overlapping provisions between the Puntland State Constitution and the TFG Charter as to the exercise of authority over mineral resources. Nevertheless, the *de facto* position appears to be that the Puntland state government exercises effective control over Puntland and mineral resources in Puntland.

8.22 We would further note that Article 138 of the Puntland State Constitution states that "the Constitution is the supreme law of the Puntland State, save the Islamic sharia and the Federal Constitution of the Federal Republic of Somalia." It would seem that the Puntland State Constitution subordinates itself to the federal constitution and that, arguably therefore, in the case of any conflict, the TFG Charter, being the federal constitution for the time being, should prevail. However, as a matter of practice, it does not appear that Article 138 is observed, at least in the context of control over natural resources.

Specific Advice

9. Details of the relevant jurisdiction's exploration and extraction legal regime

9.1 From a *de jure* standpoint, the relevant provisions would be those of the TFG Charter and the Mining Code. However, based on the Puntland Legal Advice, we understand that the Mining Code, although having force of law, is not as a matter of practice applied, and in any event is not applied in Puntland state. Consequently, as a matter of practice, the Puntland authorities do not seek to comply with the provisions of the Mining Code in the regulation of mineral rights in Puntland. Consequently it can be concluded that the PSAs have been entered into with the government that has *de facto*, though not necessarily *de jure*, authority in Puntland. In providing our advice, we have adopted the *de facto* position as to the rights and powers of the Puntland state to control mineral resources in Puntland.

9.2 Under Article 54 of the Puntland State Constitution, natural resources in Puntland belong to Puntland people and the Puntland State is responsible for the protection and exploitation of these natural resources.



- 9.3 Article 54(3) provides that the Puntland state may make arrangements with national and foreign companies for exploitation of natural resources. Article 54(4) provides that concessions shall be arranged by the Council of Ministers and approved by the House of Representatives.
- 9.4 Based on the Puntland Legal Advice, we understand that there is no law passed in Puntland to regulate the grant and exercise of mineral rights. However, we have seen references in some of the agreements we have reviewed to "the Minerals and Petroleum Resources Development Act" of Puntland. We have not been able to obtain a copy of this law and cannot comment on its status or effectiveness. We have also seen references to the PPMA (as the body approving the Deeds of Assignment on behalf of the Puntland government) in a letter dated 25th November, 2009 from Africa Oil to the PPMA relating to discussions with the PPMA on certain technical and operational arrangements in connection with the PSAs. It is noted that the letter in effect contains an acknowledgement by the PPMA and the government of Puntland that the terms of the PSAs and the First Amending Agreements and the Second Amending Agreements are accepted by the PPMA and the government of Puntland. The PPMA and the president of the government of Puntland state have signed their acceptance of this letter. We have sought confirmation from Mr. Nur as to the existence of the Minerals and Petroleum Development Act of Puntland and the legal status of the PPMA but have not as at the date of this letter obtained a confirmation in this regard.
- 9.5 Subject to our comments in paragraph 9.4 above it would appear that the PPMA is the body responsible for regulation of natural resources in Puntland and we would presume that the Minerals and Petroleum Development Act is the law establishing the PPMA and setting out its scope of authority. We cannot however without first obtaining confirmation on this issue from Mr. Nur advise with any certainty whether this is indeed the case and whether there are specific procedures to be observed pursuant to the Minerals and Petroleum Development Act in connection with the grant of mineral rights in Puntland.
- 9.6 We have reviewed a copy of a resolution passed by the House of Representatives in Puntland and approved by the Speaker of the House. This resolution relates to the approval of the amendment agreements entered into in January 2011 in respect of the PSAs. We note that the Speaker's approval makes reference to the following:
- 9.6.1 Approval of the Council of Ministers to the Dharoor Valley PSA and the Nugaal Valley PSA, dated 14th December 2006;
- 9.6.2 Approval of the House of Representatives to the Dharoor Valley PSA and the Nugaal Valley PSA dated 23rd December 2006 and their confirmation by the Speaker of the House of Representatives on the same date;
- 9.6.3 Approval of the Puntland Ministries approving the Dharoor Amending Agreement (that is, the First Amendment Agreement in respect of the Dharoor concession)

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among the Government of Puntland, Canmex Holdings and Range Resources dated 9th December 2009; and

- 9.6.4 Approval of the Puntland Ministries approving the Nugaal Amending Agreement (that is, the First Amendment Agreement in respect of the Nugaal concession) among the Government of Puntland, Canmex Holdings and Range Resources dated 9th December 2009.

Save for the approval in respect of the January, 2011 amendments, we have not seen any of the other approvals referred to above. We cannot therefore confirm that these were in fact duly procured. However, these approvals seem to reflect the legal position under Article 54 of the Puntland State Constitution. As stated in paragraph 9.5 above, we cannot confirm at this stage whether the Minerals and Petroleum Development Act has force of law in Puntland and if so whether there are additional procedures for grant of mineral rights under such statute and whether these were observed in relation to Red Emperor's interests in Puntland.

- 9.7 We note that the Puntland State Constitution was published in 2009. We understand that prior to this constitution, there was a provisional constitution in Puntland. We have not obtained a copy of this provisional constitution. We would presume that matters arising prior to the 2009 Puntland State Constitution in relation to grant of mineral rights would have been addressed in such provisional constitution. We cannot therefore confirm whether, in respect of any grant of mineral rights prior to the coming into effect of the 2009 Puntland State Constitution, any applicable provisions of the provisional constitution were observed.

- 10. Confirm whether in granting and entering into the licences, the relevant Government Department or Ministry was the correct agency and was acting in accordance with applicable law.**

- 10.1 Please refer to our responses in Section 9 above. Based on the provisions of the Puntland State Constitution it would appear that the established procedure under Puntland laws (obtaining Council of Ministers approval followed by House of Representatives approval) was followed and therefore the Puntland authorities would uphold such licences. We cannot confirm whether any ancillary procedures which may be provided for in statute (for example, under the Mineral and Petroleum Resources Development Act of Puntland, to the extent it is in force) were observed. Our response above relates to the agreements entered into after the date the Puntland State Constitution is stated to come into force. We cannot confirm the position as to agreements entered into prior to the coming into effect of the Puntland State Constitution.

- 10.2 However, if the established practice in Puntland of obtaining approvals from the Council of Ministers followed by the approval of the House of Representatives and confirmation by the Speaker of the House has been followed, then it would appear that the Puntland authorities would recognise and uphold the licences.



10.3 Based on the Puntland Legal Advice we understand that the PPMA is responsible for the grant of concessions for development of natural resources. We have not been able to establish at this stage:

10.3.1 the statute under which the PPMA has been established;

10.3.2 the mandate of this institution under such statute; and

10.3.3 whether the institution had been in existence by law as at the time of the grant of the Puntland Concessions and entry into the related agreements.

11. What rights do the Government or the local municipality have to buy into or compulsively acquire a project or become entitled to a share of the revenues?

11.1 Article 17(1) of the Puntland State Constitution guarantees the right to own property and to administer and benefit from property by lawful means. Article 17(2) provides that the law will establish the rules and procedures which could limit this right of ownership of property. We have not been able to establish at this stage whether any such law has been published and the provisions under such law for compulsory acquisition and whether there are provisions for compensation in such circumstances.

11.2 Article 53 of the Puntland State Constitution provides that a person's legally acquired property cannot be expropriated except for public interest in exchange for equitable and timely compensation. It further provides that a law shall define the private property that can be expropriated for public interest. We have not had sight of any such law regulating the expropriation of property and compensation for such expropriation.

11.3 Article 54(5) of the Puntland State Constitution provides that the formula for sharing the benefits from exploitation of natural resources shall be defined by a law initiated by the Council of Ministers and passed by the House of Representatives. We have not been able to confirm the existence of such a law. We would presume that the law in question is the Mineral and Petroleum Resources Development Act referred to above. We cannot therefore confirm the provisions of this law as to the sharing of the benefits of the natural resources with the government.

11.4 If the *de jure* position is to be considered, we should point out that there are similar provisions relating to compulsory acquisition in the TFG Charter. We cannot confirm how this overlap would be resolved if there were any conflict as to the grant of the mineral rights in Puntland.

11.5 We also note that under Article 19 of the PSAs, the Puntland government may, during periods of emergency, "*requisition all or part of the petroleum produced from the Development Areas...*".



- 11.6 Under Article 5.1 of the PSAs, Canmex Holdings as the contractor is required to relinquish to the Puntland government 25% of the original area the subject of the concession by 17th January, 2010 and a further 25% by 17th January, 2011 (however pursuant to the Second Amendment Agreement this has been amended to provide for relinquishment by 28th February, 2011 of "an area to be mutually agreed...that has a commercial value under a newly negotiated production sharing agreement"). We understand that these relinquishments have already been done but we have not been provided with the relevant notices of relinquishment issued pursuant to the terms of the PSAs.
- 11.7 Pursuant to Article 3.2 the state of Puntland is entitled to certain royalty payments as detailed in the PSAs.
- 11.8 Pursuant to Article 7.3, 50% of the crude oil after deduction of royalty and Cost Oil (as defined in the PSAs) is to be taken and disposed of by the Puntland state and the balance by the contractor.
- 12. Confirm any proper or legitimate challenges or any other challenges or existing third party claims which may be made by other parties to the validity of the licences.**
- 12.1 We are aware that prior to the fall of the Siad Barre regime, concessions had been granted by that regime to other foreign investors such as Agip, Chevron and Conoco (now ConocoPhillips). We understand that Conoco's concessions covered the region now comprising the Puntland territory the subject of the PSAs. Whilst as a matter of fact it would appear as though these prior concessions were abandoned by Conoco following the fall of the Siad Barre regime, or at least lapsed as a consequence of force majeure, we have seen correspondence from ConocoPhillips in which the company contends that it still has rightful claims to its concession areas. We have also seen correspondence from ConocoPhillips to Africa Oil and other correspondence from ConocoPhillips to Africa Oil and Range Resources in which ConocoPhillips asserts its claims over the areas in which it had been granted concessions by the former regime (which overlap with the areas the subject of the Puntland Concessions) and also seeks the return of certain information relating to these areas (given to Range Resources and Africa Oil by the Puntland authorities) which ConocoPhillips asserts is its property.
- 12.2 We have also pointed out above that there are overlapping and conflicting provisions in the Puntland State Constitution as compared to the TFG Charter as to which entity controls mineral resources. We cannot confirm how these conflicts and overlaps would be resolved judicially or administratively.
- 12.3 We understand that there has in the past been a dispute between Somaliland and Puntland regarding the control of the Nugaal region, which is one of the concessioned areas under the PSAs. We are unable to confirm whether this dispute has been resolved and whether it could have an impact on the Puntland Concessions so far as they relate to the Nugaal region. We also understand that a faction known as the Northern Somali



Unionist Movement (NSUM) has refused to recognise agreements relating to natural resources entered into between foreign entities and the Puntland government or the TFG.

12.4 Based on the Puntland Legal Advice, we understand that some of the governments which have controlled the TFG from time to time have challenged the Puntland State's authority to enter into agreements with foreign entities for investment in Puntland. We cannot establish the grounds or basis in law of such challenges. Whilst we have seen letters of support issued by the TFG in respect of Puntland's activities and arrangements with Range Resources, we cannot rule out the possibility of a future challenge by a different regime controlling the TFG. In any case, the legal effect and enforceability of such letters of support is uncertain.

13. Provide details of any overriding rights of third parties to process, refine, purchase or distribute.

13.1 Please refer to our responses in paragraph 11.

13.2 There are no provisions under the Puntland State Constitution dealing with the government's compulsory rights of acquisition of petroleum. We cannot confirm whether there are any such provisions under other statutes or regulations of general application under the laws of Puntland or the TFG. Further, we have not considered the federal Mining Code in this regard for the reasons discussed above.

14. Confirm that the licences are in good standing, not the subject of any unusual or onerous conditions and that their existence or validity has not been affected by the subsequent agreements.

14.1 In light of our responses above, we cannot confirm with certainty that the PSAs and related agreements are valid and in good standing. In particular, it is difficult to give such confirmation because there is doubt as to whether as a matter of strict application of the TFG Charter (being the constitution of the Somali Republic) the government of Puntland is entitled as a matter of law to grant the concessions and manage natural resources in Puntland. The *de jure* position appears to be that the TFG Charter and the Mining Code are the applicable laws. However, given that the TFG does not exercise any effective control over the Puntland territory, the accepted practice (and which appears to have been endorsed by the TFG as well) is that the Puntland government exercises control over mineral resources within the Puntland territory. Consequently the *de facto* position is that the Puntland government controls the exploitation of natural resources in Puntland and grants and regulates mineral concessions within Puntland. It would appear that the Puntland state derives its authority to regulate mineral resources from the Puntland State Constitution. The Puntland State Constitution's provisions as to supremacy between the Puntland State Constitution and the TFG Charter suggest that the TFG Charter prevails over the Puntland State Constitution, but this position does not appear to be observed in practice by the Puntland government.

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14.2 In addition to our responses above, we would also highlight the following additional points of concern, which further illustrate the difficulty in giving a good standing confirmation in relation to the PSAs and related agreements:

14.2.1 Article 20 of both PSAs require Canmex Holdings (being the contractor) to obtain prior approval of the Puntland Department of Minerals and Petroleum before it may assign any of its interests under the PSA to a third party. Article 20 also specifies conditions that must be fulfilled before the Department can issue such consent. We have not seen a copy of any consent issued by the Department for such assignment. Further, we are not aware if any of the conditions under Article 20 before the Department can give its consent were fulfilled.

14.2.2 We cannot confirm whether the grants of the PSAs and related interests would constitute transfers of interests in immovable property under the laws of Puntland and/or Somalia. If they do, we cannot confirm whether there are any specific requirements under the laws of Puntland and/or Somalia in connection with the transfers of such interests, for example, registration requirements. In addition, we cannot confirm whether foreign-law governed agreements (such as the PSAs) would be effective to transfer interests in land in Puntland.

14.2.3 The PSAs and certain related agreements are governed by the laws of the British Columbia and federal laws of Canada (we note however that there is inconsistency in the PSAs as to the applicable law, given that Article 24 states that British Columbia and Canada federal laws shall apply, whereas Article 23 relating to dispute resolution states that Puntland laws shall apply). We also note that disputes are to be resolved by arbitration under International Chamber of Commerce rules. We cannot confirm at this stage whether:

- (a) the state of Puntland would be recognised as a legal entity for purposes of any suits or arbitral claims and further, whether a claim for sovereign immunity could be upheld (we note there is no express waiver of immunity under the PSAs); and
- (b) from an enforcement perspective, Puntland or Somalia courts would recognise foreign arbitral awards.

14.2.4 We cannot confirm at this stage whether there are specific provisions relating to execution of contracts by the government of Puntland and whether these were followed in relation to the signing of the relevant agreements on behalf of the Puntland government.



14.2.5 We have noted that some of the agreements (for example the Deeds of Assignment entered into in July, 2010) do not contain governing law and jurisdiction provisions. We cannot confirm the approach the Puntland courts would take in the event such an agreement was sought to be enforced in Puntland.

Please contact us should you require to discuss this letter.

Yours faithfully,


Atiq S. Anjarwalla
Managing Partner
Anjarwalla Collins & Haidermota
Legal Consultants

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Schedule 1

Documents/Agreements reviewed

| No. | Document name | Parties | Date | Governing law |
|-----|--|---|--------------------------------|---|
| 1. | Heads of Agreement | Red Emperor Canmex Africa Oil | 14 th June, 2010 | Laws of England |
| 2. | Farmout Agreement | Red Emperor Canmex Africa Oil Puntland Oil | 12 th August, 2010 | Laws of British Columbia, Canada |
| 3. | Deed of Assignment, Assumption and Transfer of the Dharoor Valley Puntland | Lion Canmex Range Puntland Oil | 26 th July, 2010 | None specified |
| 4. | Deed of Assignment, Assumption and Transfer of the Nugaal Valley Puntland | Lion Canmex Range Puntland Oil | 26 th July, 2010 | None specified |
| 5. | Operating Agreement in relation to Dharoor Valley | Canmex Range | 4 th March, 2007 | Laws of Province of British Columbia and Federal Laws of Canada |
| 6. | Operating Agreement in relation to Nugaal Valley | Canmex Range | 4 th March, 2007 | Laws of Province of British Columbia and Federal Laws of Canada |
| 7. | Production Sharing Agreement in relation to Dharoor Valley. | Canmex Range Government of Puntland | 17 th January, 2007 | Laws of Province of British Columbia and Federal Laws of Canada |
| 8. | Production Sharing Agreement in relation to Nugaal Valley. | Canmex Range Government of Puntland | 17 th January, 2007 | Laws of Province of British Columbia and Federal Laws |

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| | | | | of Canada |
| 9. | Letter from the Puntland Government to Range | Puntland Government Range | 30 th April, 2006 | None specified |
| 10. | Letter from the Puntland Government to ConocoPhillips Inc. dated 30 April 2006. | Puntland Government ConocoPhillips Inc. | 30 th April, 2006 | None specified |
| 11. | Letter from Africa Oil to ConocoPhillips | Africa Oil Conoco Philips | undated | None specified |
| 12. | Notice of Transfer of Participation Interest between African Oil and Lion | Africa Oil Lion | 6 th July, 2010 | None specified |
| 13. | Notice of Transfer of Participation Interest between African Oil and Range | Africa Oil Range | 6 th July, 2010 | None specified |
| 14 | Contract of Works between Government of Puntland, Consort Pvt Limited and Range Resources | | Not dated | Laws of the Puntland State of Somalia and laws of England (where Puntland laws are silent) |
| 15. | Letter from Range Resources to Consort Private Limited containing option to acquire remaining 49.9% share in COW | Range Resources Consort Private Limited | 22 nd September, 2006 | None specified |
| 16. | Letter dated 13 th January, 2007 in respect of extension of option to acquire 49.9% interest | Range Resources to Consort Private Limited | 13 th January, 2007 | None specified |
| 17. | MOU for acquisition of 80% interest in the COW | Range Resources Canmex | 22 nd September, 2006 | None specified |
| 18. | Venture Agreement between Canmex and Range – providing for terms and | Canmex Range | 4 th March, 2007 | Laws of Province of British |

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| | conditions upon which Canmex and Range are to develop their interests in the Nugaal and Dharoor PSAs, in particular as relates to funding obligations. | | | Columbia and Federal Laws of Canada |
| 19. | Letter of support by Transitional Federal Government to Consort Private Limited and Range Resources in connection with Contract of Work between the Government of Puntland, Consort and Range. | Transitional Federal Government (signed by Acting Minister for Oil and Gas of the TFG) | Not dated but signed | None specified |
| 20. | Letter of support by Transitional Federal Government to Range Resources Limited and Canmex Minerals Corporation in connection with agreement between Government of Puntland, Range Resources and Canmex Minerals. | Transitional Federal Government (signed by Abdullahi Yusuf Ahmed, President of the TFG) | 29 th September, 2006. | None specified |
| 21. | Letter from Range to the Puntland state government in relation to a loan of US\$ 1,500,000 by Range to the government of Puntland, such loan advance not to be repayable in cash but to constitute an expense by Range under the PSAs. | Range Resources The Government of Puntland. | Dated 28 th August, 2008 (not signed by Range as sender, but is signed by Puntland government as the addressee). | None specified |
| 22. | Letter from Range to Puntland Government (President and Prime Minister) in relation to payments payable by Range to Puntland government under the Contract of Work between Consort Private Limited and Puntland Government (subsequently assumed by Range) | Range and acknowledged by Minister of Finance Puntland | 28 th November, 2007. | None |

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| | including a commitment by Range to fund dredging of Bosasso Port | | | |
| 23. | Letter from Puntland government to Consort Private Limited in relation to the CoW. The letter inter alia acknowledges the arrangements between Consort and Range Resources and confirms Puntland State's commitment to collaborating with Range and Consort in the exploration and development of the resource. | Puntland State Government | 18 th October, 2005 | None |
| 24. | Letter from Transitional Federal Government of the Somali Republic to Puntland State confirming that the TFG has concluded with the Puntland administration an amendment to the contract of work in 8 th October, 2005 and confirming the TFG's support to the Puntland administration in its arrangements with Consort and Range Resources. | TFG (Prime Minister Mohamed Gedi) | 2 nd November, 2005 | None |
| 25. | Letter from Puntland state to TGS-Nopec Geophysical Co. in connection with security issues in Puntland. | Puntland government | Undated and unsigned. | None |
| 26. | Letter from Puntland State to Africa Oil complaining about activities of an African Oil representative in Puntland which are stated to be likely to jeopardise good relations between the companies involved in the concessions and the Puntland government. | Puntland government (Minister of Energy and Minerals) | 1 st July, 2008 | None |
| 27. | Press release by the | Puntland State | Undated | |

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| | Puntland State in response to a statement by TFG Minister of Energy. In this press release Puntland government asserts its jurisdiction over natural resources in Puntland and confirms it has received confirmation from TFG that the minister's statement was a personal statement and not reflective of TFG's position. | Government | | |
| 28. | Press release by Puntland State Government regarding control of Puntland oil, gas and mineral resources. In this press release the Puntland government states that press reports of arrangements between TFG and foreign firms for exploitation of oil resources do not include resources in Puntland. The press release reiterates that Puntland resources are within sole control of Puntland state government. It also confirms that Puntland state government remains committed to the existing arrangements with Africa Oil and Range Resources in respect of the Dharoor and Nugal Valley concessions. | Puntland State Government | Undated | None |
| 29. | Declaration by the Representative Council of the State of Puntland on December 23, 2006 approving the amended PSAs and giving the amended PSAs "full force and effect of law notwithstanding any contrary enactment". | | 22 nd December, 2009 | |

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| 30. | Second Amendment to the Dharoor Valley PSA | Government of Puntland Canmex Range Lion (Dharoor) | 16 th January, 2011 | Laws of the Province of British Columbia and Federal laws of Canada |
| 31. | Second Amendment to the Nugaal Valley PSA | Government of Puntland Canmex Range Lion (Nugaal) | 16 th January, 2011 | Laws of the Province of British Columbia and Federal laws of Canada |
| 32. | First amending agreements in respect of the PSAs | Government of Puntland Canmex Range Lion (Nugaal) and Lion (Dharoor) respectively | 25 th November, 2009 | Province of British Columbia and the federal laws of Canada |
| 33. | Letter dated 3 rd June 2009 from ConocoPhillips to Africa Oil | seen | 3 rd June, 2009 | |
| 34. | Escrow Agreement between Canmex, Africa Oil, Red Emperor and Valiant Trust Company in respect of certain funds required to be held in escrow pursuant to the terms of the Farmout Agreement | Canmex Africa Oil Red Emperor Valiant Trust Company | 3 rd September, 2010 | |
| 35. | Memorandum of Understanding relating to agreement on, inter alia, <ul style="list-style-type: none"> Continued exploration and production of minerals and oil in Puntland by both parties on the basis of block system to | Transitional Federal Government Puntland State Government | 30 th May, 2006 | None specified |

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| | | | | |
|-----|---|---|---------------------------------|---|
| | <p>avoid monopoly.</p> <ul style="list-style-type: none"> • Discussion regarding sharing of production of minerals and oil in Puntland. • Formulation of laws regarding exploration, production, administration and sharing of resources. | | | |
| 36. | Letter from Africa Oil Corp. to the Puntland Petroleum and Mineral Agency in relation to amendments to the PSAs | Africa Oil Corp. Puntland Petroleum and Mineral Agency | 25 th November, 2009 | None specified |
| 37. | Letter from Red Emperor to the Australian Securities Exchange announcing farm in arrangements with Africa Oil Corp. in Puntland | Red Emperor | 16 th June, 2010 | N/A |
| 38. | Letter from Red Emperor to Africa Oil Corp confirming Red Emperor's election to increase its farm in interest from 10% to 20% | Red Emperor | 21 st October, 2010 | N/A |
| 39. | Amending Agreement in respect of the Farmout Agreement between Canmex, Africa Oil, Red Emperor and Puntland Oil Pty | Canmex Africa Oil Red Emperor Puntland Oil Pty | 23 rd March, 2011 | Laws of British Columbia and federal laws of Canada |

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Schedule 2

Enquiries made with local counsel

Background Queries relating to the TFG Charter and Constitution

1. Have there been any amendments or a revision to the Transitional Federal Charter of the Somali Republic (the "TFG Charter") since it was first passed in February, 2004? If there have been amendments, could you please send to us the up to date English version of the TFG Charter?
2. The TFG Charter contemplates in its Article 11(3) that the TFG Charter would form the basis for a new federal constitution for the Somali Republic. Has there been any federal constitution passed or proposed since the coming into force of the TFG Charter? If such a federal constitution has been passed or drafted, could you please send to us a copy of the federal constitution or the draft constitution (English version)?
3. As we understand it, the State of Puntland has accepted the federal structure of government of the Somali Republic and has not sought autonomy of the State of Puntland. Please confirm if this still remains the position?
4. As we understand it, the legal regime in the Somali Republic is a combination of written statutes, customary law (known as Xeer), which is both written and unwritten and Shari'a law. Could you please confirm that this is the case?
5. Under Schedule 2 of the TFG Charter, one of the powers reserved for the state governments is the power to develop a state constitution. Is there any constitution passed by the State of Puntland? If so, could you please send to us a copy of the constitution of the state of Puntland (English version)?
6. What influence does the Transitional Federal Government have over the government and affairs of the State of Puntland as a matter of practice? Are you aware for example whether there have been any instances where a matter undertaken by the Puntland Government has been challenged/stopped by the Transitional Federal Government?

The Oil and Gas Laws: Applicability of Federal, Provincial, Xeer and Shari'a laws

7. From the three sources of law mentioned above, which source of law would apply to the grant of oil exploration and production concessions granted within the territory of the Somali Republic? Does Xeer or Shari'a have any impact on such concessions or is this a matter for statutory law only?
8. Does Xeer or Shari'a law have any application in relation to (a) land and (b) oil resources within the State of Puntland or the Somali Republic generally?

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9. Under Schedule 1 of the TFG Charter, it is the Transitional Federal Government and not the individual state government, which is to have authority throughout the Somali Republic over natural resources. Does "natural resources" include oil and gas deposits. If so, does the state government of Puntland have any power to grant oil exploration concessions or exercise any authority in respect of oil and gas resources within Puntland?
10. If authority over oil resources rests with the Transitional Federal Government, what would be the legal effect of any grants of oil concessions by a state government to a foreign investor? Would these be recognised by the federal government?
11. Has the state of Puntland passed any legislation relating to oil and gas laws applicable to the state of Puntland? If so, what would be the position in the event of a conflict between the laws of Puntland and the laws of the Somali Republic? Which law would prevail over the other?
12. Under Article 71 of the TFG Charter, the 1960 Somali constitution and other national laws are to apply in respect of matters not covered and not inconsistent with the TFG Charter. Our understanding of this provision is that the 1960 Constitution and other statutes of the Somali Republic would apply (where relevant) to the grant of oil concessions in the Somali Republic (including in Puntland). Have there been any new laws passed by the federal parliament since 1991 which would have an impact on oil concessions within the Somali Republic?
13. We understand that in 2004 the Somali federal parliament accepted the civilian laws applicable before 1991 as being applicable within the Somali Republic. Would it be correct on this basis to conclude that the Mining Code and Mining regulations of 1984 of the Somali Democratic Republic still has the force of law in the Somali Republic?
14. If the Mining Code is still applicable law, are its provisions followed in practice? For example are the procedures set out in the Mining Code for the grant of exploration rights enforced in practice? Do the institutions recognised under the Mining Code as being the institutions responsible for grant of exploration and mining rights for oil (being the Ministry of Water and Natural Resources) still exist? If these institutions are no longer in existence, which institutions as a matter of practice grant oil exploration and mining rights and licences within the Somali Republic?
15. If the applicable law and procedure under the commercial contracts is different from that specified in the Mining Code, what are the relevant procedures to be followed for the grant of an oil mining concession to a foreign investor?

Transfer of interest in land in Puntland

16. Would the grant of an oil exploration and production concession within Puntland State be seen to involve a transfer of an interest in the land in which the oil resource is located?

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- (a) If so, which is the relevant law (law of Puntland or the federal law of the Somali Republic) for the transfer of interests in land? Does Xeer or Shari'a law have any implication on the transfer of interests in land?
- (b) Does the transfer require to be registered with any government (federal or state government) office? If so what are the registration requirements in order to validly effect a transfer of an interest in land under the relevant law? In other words, would a production sharing agreement entered into between the Government of Puntland and foreign private investors in respect of oil exploration and production require to be registered or filed with any governmental department in Puntland or under federal law?
- (c) Can the transfer of an interest in land be governed by a law other than the law of Puntland or the federal law of the Somali Republic? Is it acceptable as a matter of Somali law for the transfer of interest in land to be governed by Canadian law, for example?

Third Party Rights/Claims

- 17. We understand that before 1991, some foreign investors had already been granted oil concessions by the government in power at the time. Are you aware of the status of such concessions after the fall of the Siad Barre regime in 1991? Are you aware whether there were any efforts by the Transitional Federal Government to reclaim the concessions previously granted by the fallen regime?
- 18. Are the Nugaal Valley and Dharoor Valley (these are the areas identified for oil exploration) under the day to day control of the Transitional Federal Government or the Puntland State government or Somaliland government or some other entity or group? We understand that there has been argument/fighting as to the control of these valleys since 2007. Are you aware whether the question of control of these Valley regions has been resolved?





8. RISK FACTORS

8.1 Introduction

THE RISKS CONTAINED BOTH IN THE INVESTMENT OVERVIEW SECTION AND THIS SECTION 8 SHOULD BE CONSIDERED CAREFULLY BY POTENTIAL INVESTORS.

The Shares offered under this Prospectus should be considered speculative because of the nature of the Company's business.

Whilst the Directors recommend the Offer, there are numerous risk factors involved in the Company's operations. The following is a summary of the more material matters to be considered. However, this summary is not exhaustive and potential investors should examine the contents of this Prospectus in its entirety and consult their professional advisors before deciding whether to apply for the Shares.

There are numerous widespread risks associated with investing in any form of business and with investing in the share market generally. There is also a range of specific risks associated with the Company's activities and its involvement in the oil and gas industry. These risk factors are largely beyond the control of the Company and its Directors because of the nature of the proposed activities of the Company.

Based on the information available, a non-exhaustive list of risk factors which may affect the Company's financial position, prospects and the price of its listed securities include the following.

8.2 KEY RISKS

The Key Risks identified in the Investment Overview section of the Prospectus are as follows:

| Risk Area | Risks |
|--|--|
| Change in Nature and Scale of Activities | <p>Any further investment by the Company in the Puntland or Georgian Projects (including those investments to be made pursuant to the Puntland Acquisition Agreement and the Georgian Acquisition Agreement) will constitute a change in the nature and scale of the Company's activities and, accordingly, the Company is required to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the Official List of ASX for the first time.</p> <p>There is a risk that the Company may not be able to meet the requirements of the ASX for reinstatement to the Official List. Should this occur, the Shares offered under this Prospectus (and the Company's existing issued Shares) will not be able to be traded on the ASX until such time as those requirements can be met, if at all.</p> |



| Risk Area | Risks |
|--|--|
| <p>Exploration and Project Development risks</p> | <p>The business of natural gas and oil exploration, and project development involves risks by its very nature. To prosper, it depends on the successful exploration appraisal and development of economic oil and gas reserves. Operations, such as drilling, design and construction of production facilities and pipelines, competent operational and managerial performance and efficient distribution and marketing services are required to be successful. In particular, exploration is a speculative endeavour and operations can be hampered by force majeure circumstances, engineering difficulties, cost overruns and other unforeseen events.</p> <p>The proposed development expenditure of the Company is based on certain assumptions with respect to the method and timing of development and feasibility work. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realised in practice.</p> <p>A failure to discover an economic reserve, or to successfully produce from such a reserve, will adversely affect the Company's performance and have a resulting effect on the value of the Company's investment in the Puntland Projects and the Georgian Project.</p> |
| <p>Sovereign Risk</p> | <p>The Puntland and Georgian Projects involve conducting exploration activities in Puntland and the Republic of Georgia respectively, by the project operator. Any circumstances or event which negatively impacts the development of either country could materially affect the financial performance of the Company.</p> <p>There is no assurance that future political and economic conditions in Puntland or Georgia will not result in the respective Government adopting different policies regarding foreign development and ownership of mineral resources. Any changes in policy may result in legislative changes affecting ownership of assets, title, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return on capital, all of which may affect the ability to develop the either the Puntland Projects or the Georgian Project. It should be noted, however, that both Puntland and Georgia have operated under relatively stable political regimes during the time in which the production sharing agreements for each project have been in place.</p> |



| Risk Area | Risks |
|--|---|
| | <p>The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company. The Company has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in either Puntland or Georgia, the Directors may reassess investment decisions and commitments to assets in Puntland.</p> |
| <p>Oil and Gas Price Volatility</p> | <p>Oil and gas prices affected by numerous factors and events</p> <p>Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas, may have a material adverse effect on the Company's business and therefore the value of the Company's investment in the Puntland Projects and the Georgian Project.</p> |
| <p>Future requirements for capital</p> | <p>There can be no guarantees that the funds raised by this Offer will be sufficient to successfully achieve all of the Company's objectives.</p> <p>The funds raised by the Offer will be used to carry out work on the Company's projects as detailed in this Prospectus. If the Company incurs unexpected costs or is unable to generate sufficient operating income, further funding may be required.</p> <p>The Company may require additional funding to carry out further exploration, undertake feasibility studies, develop project operations and/or acquire new projects. Any additional financing through share issues may dilute the interests of Shareholdings.</p> |
| <p>Exchange Rate risk</p> | <p>Any revenue received by the Company would likely be in US dollars derived from the sale of gas and a substantial portion of the Company's operating expenses would also be incurred in US dollars. Gas is sold in the US market and around the world based principally on a US dollar price. Furthermore, the income and expenditure accounts will be prepared in Australian dollars (AUD). Therefore Australian dollar reported revenue will be directly impacted by movements in the US dollar gas price and the USD/AUD exchange rates. Movements in the USD/AUD exchange rates may adversely or beneficially affect the</p> |



| Risk Area | Risks |
|-----------|---|
| | Company's results or operations and cash flows. |

INVESTORS SHOULD NOTE THAT DETAIL RELATING TO THESE RISK FACTORS HAS NOT BEEN REPEATED IN THIS SECTION.

SPECIFIC RISKS

8.3 Counterparty and Contractual Risk

Pursuant to the Puntland Acquisition Agreement and Georgian Acquisition Agreements (summarised in Sections 9.3, 9.22 and 9.1) the Company has acquired interests in the Puntland Projects and the Georgian Project.

Various contracts the Company (and its subsidiaries) are a party to are governed by jurisdictions outside Australia. Legal action instituted in Australia or overseas can be costly. There is a risk that the Company may not be able to seek the legal redress that it could expect under Australian law; and generally there can be no guarantee that a legal remedy will ultimately be granted on the appropriate terms.

INDUSTRY RISKS

8.4 Exploration and Development Risks

The business of oil and gas exploration, project development and production, by its nature, contains elements of significant risk with no guarantee of success. Ultimate and continuous success of these activities is dependent on many factors such as:

- (a) the discovery and/or acquisition of economically recoverable reserves;
- (b) access to adequate capital for project development;
- (c) design and construction of efficient development and production infrastructure within capital expenditure budgets;
- (d) securing and maintaining title to interests;
- (e) obtaining consents and approvals necessary for the conduct of oil and gas exploration, development and production; and
- (f) access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

Whether or not income will result from the projects undergoing exploration and development programs depends on successful exploration and establishment of production facilities. Factors including costs, actual hydrocarbons and formations, flow consistency and reliability and commodity prices affect successful project development and operations.



Drilling activities carry risk as such activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of drill rigs or other equipment. In addition, drilling and operations include reservoir risk such as the presence of shale laminations in the otherwise homogeneous sandstone porosity.

Industry operating risks include fire, explosions, unanticipated reservoir problems which may affect field production performance, industrial disputes, unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment, mechanical failure or breakdown, blow outs, pipe failures and environmental hazards such as accidental spills or leakage of liquids, gas leaks, ruptures, discharges of toxic gases or geological uncertainty (such as lack of sufficient sub-surface data from correlative well logs and/or formation core analyses). The occurrence of any of these risks could result in legal proceedings against the Company and substantial losses to the Company due to injury or loss of life, damage to or destruction of property, natural resources or equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation, and penalties or suspension of operations. Damage occurring to third parties as a result of such risks may give rise to claims against the Company.

There is no assurance that any exploration on current or future interests will result in the discovery of an economic deposit of oil or gas. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically developed.

8.5 Price Volatility

Substantially all of the Company's revenues and cash flows (should the Company's projects enter production) will be derived from the sale of oil and/or gas. Therefore, the financial performance of the Company would be exposed to fluctuations in the gas price. Historically, the gas price has fluctuated widely and has experienced periods of significant decline. Prices for oil and/or gas are affected by numerous factors and events that are beyond the control of the Company. These factors and events include general economic activity, world demand, forward selling activity as well as general global economic conditions and political trends.

If oil or gas prices should fall below or remain below the Company's cost of production for any sustained period due to these or other factors and events, the Company's exploration and proposed production could be delayed or event abandoned. A delay in exploration or production or the abandonment of one of more of the project licences may require the Company to write down its reserves and resources and may have a material adverse effect on the Company's production, earnings and financial position.

8.6 Joint Venture Parties, Agents and Contractors

The Directors are unable to predict the risk of financial failure or default by a participant in any earn-in agreement or joint venture to which the Company is currently a party to, may become a party to, or the insolvency or managerial failure by which any of the contractors to be used in the future by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers to be used in the future by the Company for any activity.



8.7 Title risk

Interests in licences in Puntland and the Republic of Georgia are governed by the respective State and Federal legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the project operator could lose title to or its interest in the leases if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

8.8 Regulatory Risk

The project operator's proposed drilling operations and exploration and development activities are subject to extensive laws and regulations relating to numerous matters, including various resource licence consent conditions pertaining to environmental compliance and rehabilitation, taxation, social and labour relations, health and worker safety, waste disposal, water use, protection of the environment, successful land claims and heritage matters, protection of endangered and protected species and other matters. The project operator regularly requires permits from regulatory authorities to authorise the operations. These permits relate to exploration, development, production and rehabilitation activities.

Obtaining necessary permits can be a time-consuming process and there is a risk that the project operator may not obtain these permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could materially delay or restrict the project operator from proceeding with the development of a project or the operation or further development of a reserve. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in material fines, penalties or other liabilities. In extreme cases, failure could result in suspension of activities or forfeiture of resource tenements.

8.9 Estimates of Oil and Gas Resources

The oil and/or gas reserve estimates for the Company's interests in assets are estimates only and no assurance can be given that any particular yield of oil or gas from reserves will in fact be realised or that an identified reserve will ever qualify as a commercially developable oil or gas resource that can be economically developed.

The estimating of oil and gas reserves is a subjective process and the accuracy of reserve and resource estimates is a function of the quantity and quality of available data and the assumptions used and judgements made in interpreting engineering and geological information. There is significant uncertainty in any reserve or resource estimate and the actual reserves encountered and the economic viability of developing a reserve may differ materially from the Company's estimates. The exploration of oil and gas is speculative in nature and is frequently unsuccessful. The Company may be unable to successfully discover and exploit new reserves to replace those they plan to develop to ensure the ongoing viability of the Company's operations.

Estimated oil and/or gas reserves may have to be recalculated based on changes in oil or gas prices, respectively, further exploration of development activity or actual production experience. This could have a material adverse impact on the estimates of the volume, estimated yield or other important factors that influence reserve or resource estimates. Market price fluctuations for oil or gas, increased production costs or reduced yields, or other factors may render the reserves of the Company uneconomical or unprofitable to develop at a particular site or sites.



GENERAL RISKS

8.10 Insurance

Insurance against all risks associated with oil and gas production is not always available or affordable. The Company and the project operator will maintain insurance where it is considered appropriate for its needs however it will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive having regard to the benefits that would accrue.

8.11 Environmental, Health and Safety Matters

The exploration and future production operations will be subject to extensive health and safety and environmental laws and regulations which could impose significant costs and burdens on (the extent of which cannot be predicted). Financial provisions for the estimated costs of rehabilitating disturbances caused by exploration and production activities will be made by the Company over the life of the operation. Applicable laws and regulations provide for penalties and other liabilities for violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. Permission to operate could be withdrawn temporarily where there is evidence of serious breaches of health and safety and environmental laws and regulations and even permanently in the event of extreme breaches.

Oil and gas exploration and production operations have inherent risks and liabilities associated with safety and damage to the environment and the disposal of waste products occurring as a result of oil and gas exploration and production. The occurrence of any such safety or environmental incident could delay production or increase production costs. The Company's proposed operations have been designed to comply with known or reasonably predictable conditions, however, it is not possible to predict all prevailing conditions that may affect the Company's operations at all times in the future. Events such as unpredictable rainfall may impact on the Company's ongoing compliance with environmental legislations, regulations and licences. Significant liabilities could be imposed on the Company for damages, clean up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous operations or non-compliance with environmental laws or regulations.

8.12 Economic Risks

Factors such as inflation, currency fluctuations, interest rates, supply and demand of capital and industrial disruption have an impact on business costs, commodity prices and stock market prices. The Company's operating costs, possible future revenues and future profitability can be affected by these factors, which are beyond the control of the Company.

8.13 Future Capital Needs

Significant future funding will be required by the Company to support its payment obligations under the Puntland Acquisition Agreement and the Georgian Acquisition Agreement to develop the Projects. In particular, in the event the Company elects to participate in the exploration well for the Nugaal Project, the Company may need to raise further funding. There can be no assurance that such funding will be available on satisfactory terms or at all. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities.



If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programmes as the case may be, which may adversely affect the business and financial condition of the Company and its performance.

8.14 Potential Acquisitions

As part of its business strategy, the Company intends to make acquisitions of, or significant investments in, complementary companies or projects. Any such future transactions would be accompanied by the risks commonly encountered in making such acquisitions.

8.15 Reliance on Key Personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

8.16 Market conditions

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

8.17 Investment speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Company's securities.



9. MATERIAL CONTRACTS

9.1 Georgian Acquisition - Subscription Agreement

On 20 May 2011, the Company entered into a subscription agreement with Strait Oil and Gas (UK) Limited (**Strait**) to acquire a 20% interest in the Georgian Project (**Subscription Agreement**).

Strait, through its two wholly owned subsidiaries, holds a 100% interest in the licenses forming the Georgian Project.

Pursuant to the Subscription Agreement, the Company has agreed to contribute towards 40% of expenses incurred in relation to the two well drilling program on the Georgian Project (**Drilling Program**), up to a maximum budgeted cost of US\$5,600,000.00 (**Funding**). In return for the Company agreeing to provide the Funding, the Company acquired a 20% interest in the issued share capital of Strait.

As a term of the Subscription Agreement the Company entered into the Shareholders Agreement (details as set out in Section 9.2 below) to govern how Strait will manage its affairs and carry on the Georgian Project.

Once the Company has provided the maximum amount of the Funding, any additional funding for the Georgian Project will be pursuant to the terms of the Shareholders Agreement.

In the event the Company does not complete the Funding on or before 31 December 2012, the Company shall transfer its 20% interest in Strait back to Strait (or as Strait otherwise directs) for the total amount of one US dollar.

9.2 Georgian Acquisition – Shareholders Agreement

On 20 May 2011, the Company, Range Resources Limited (**Range**), Strait and the existing Strait shareholders (together, **Existing Shareholders**), entered into a shareholders' agreement (**Shareholders Agreement**) to set out how Strait would manage its affairs and carry on the Georgian Project.

The material terms of the Shareholders Agreement, in relation to the operation and internal administration of Strait, are as follows:

- (a) the issued capital of Strait will be held in the following proportions:

| Shareholder | % Shareholding |
|--------------------------|----------------|
| Red Emperor Resources NL | 20% |
| Range Resources Ltd | 40% |
| Existing Shareholders | 40% |

- (b) the Strait board will consist of 2 directors appointed by Range, 2 directors appointed by the Existing Shareholders and 1 director appointed by the Company;

- (c) decisions of the Strait board are made by simple majority with the exception of:

- (i) the declaration of any capital distributions or dividends;
- (ii) the amount of surplus capital funds to be retained;
- (iii) the transfer, sale or surrender of any substantial asset;



- (iv) any expenditure or agreement to expend amounts or incur liability greater than US\$100,000; and
 - (v) any agreement for the sale or disposal of Project Property greater than US\$100,000,
- (d) the number of votes held by directors will be determined by dividing the relevant Strait Shareholder's interest between that number of directors that represent the relevant Strait Shareholder; and
- (e) the number of votes held by the Strait Shareholders will be in proportion to their shareholding in Strait.

The material terms of the Shareholders Agreement in relation to the operation and management of the Georgian Project, are as follows:

- (a) the Company will fund 40% of the costs of drilling two exploration wells ("Drilling Program"), capped at US\$5.6 million;
- (b) after completion of the Drilling Program and Phase III, if further funds are required to develop the Georgian Project, these funds may be raised by:
 - (i) seeking finance from Strait's banker or from another third party financier on reasonable commercial terms; or
 - (ii) calling on Strait shareholders to contribute in proportion to their shareholdings in Strait,
- (c) the Existing Shareholders will be finance carried during the Drilling Program and for the duration of Phase III;
- (d) the Shareholders Agreement is governed by the laws of England.

The Shareholders Agreement otherwise contains clauses which are standard for an agreement of this nature.

9.3 Puntland Acquisition Agreement

In June 2010 the Company entered into an agreement to acquire up to a 20% interest in two licences encompassing the Puntland Projects subject to the satisfaction of certain conditions. The Company elected to earn a 20% interest in each of the Puntland Projects and received ministerial consent to the farm-in in January 2011.

To earn its 20% interest in the Puntland Project the Company will fund 30% of the initial US\$25 million total gross drilling costs. Thereafter the Company shall fund 20% of all related drilling costs in proportion to its interest. The Company has an option but not an obligation to participate in a second well on either the Dharoor Valley block or the Nugaal Valley block on the same basis. The Company must exercise its option to participate in the second well in writing within 5 days of the Company being provided with the final well logs prepared in respect of the first exploration well drilled. The Company's contribution is estimated to be approximately US\$7 million for the initial exploration well.

The Puntland Acquisition Agreement otherwise contains terms and conditions which are standard for an agreement of this nature.



9.4 Lead Manager Mandate

The Company has signed a mandate letter engaging Max Capital to act as lead manager of the Offer. Under the terms of the mandate the Company will pay Max Capital a 6% placement fee on funds raised under the Prospectus. Max Capital will be responsible for paying all capital raising fees with any other financial service licensees and any sub-underwriters. The mandate otherwise contains terms and conditions which are standard for an agreement of this nature.

9.5 Agreements associated with the AIM Listing

The Company entered into the following agreements in the process of completing the AIM Listing.

(a) Nominated Advisor Agreement

A Nominated Adviser agreement dated 24 May 2011 between the Company and Cairn Financial Advisers LLP pursuant to which the Company appointed Cairn to act as its Nominated Adviser for the AIM Listing. Pursuant to the Nominated Advisor Agreement the Company will pay Cairn a fee of £30,000 per annum (plus any applicable VAT) for its services as Nominated Adviser. Cairn's appointment under the agreement is for an initial period of one year from the AIM Listing Date and is subject to termination on three months' notice by either the Company or Cairn.

The Nominated Advisor Agreement contains certain undertakings and indemnities given by the Company, in respect of the Company's compliance with all applicable laws and regulations and other terms and conditions standard for an agreement of this nature.

(b) Warrant Agreement

In addition to the Nominated Advisor Agreement and for services provided by Cairn associated with the AIM Listing, the Company has agreed to grant to Cairn (subject to shareholder approval) 1,476,162 Nomad Options.

The terms and conditions of the warrants are set out in section 10.6.

(c) Broker Mandate

An engagement letter dated 27 August 2010 between the Company and Old Park Lane under which Old Park Lane has agreed to act as the Company's broker in relation to the AIM Listing, for 18 months from the AIM Listing Date and until terminated by either party by providing three months written notice.

Old Park Lane will be paid a monthly fee of £2,500 and will be granted up to 3,690,403 Broker Options. The terms and conditions of the Broker Options are set out in Section 10.6.

In addition, Old Park Lane will be issued further options being equal to 6 per cent of any funds raised by Old Park Lane as part of any future equity fundraising by the Company undertaken in the UK (conditional on the completion of such fundraising and any requisite shareholder approvals). These options have an exercise price equal to the issue price of the Ordinary Shares issued pursuant to the fundraising and can be exercised at any time in the five years following the date of grant. Under the terms of the Agreement, the Company has agreed to pay Old Park Lane a commission on any funds raised by Old Park Lane for the Company.



10. ADDITIONAL INFORMATION

10.1 Corporate Governance

The Directors monitor the business affairs of the Company on behalf of Shareholders and have formally adopted a corporate governance policy which is designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (2nd Edition) as published by ASX Corporate Governance Council (**Recommendations**).

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

Full details of the corporate governance policies adopted by the Board can be found on the Company's website, www.redemperorresources.com.

10.2 Remuneration

The Company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration for non-executive Directors has been set at an amount not to exceed \$250,000 per annum. Refer to the Investment Overview section at the beginning of this prospectus for the Directors' current remuneration.

The remuneration of executive Directors will be fixed by the Directors and may be paid by way of fixed salary or consultancy fee.

10.3 Departures from Recommendations

Following admission to the Official List of ASX, the Company will be required to report any departures from the Recommendations in its annual financial report.

The Company's compliance and departures from the Recommendations as at the date of this Prospectus are set out on the following pages.



| PRINCIPLES AND RECOMMENDATIONS | | COMMENT |
|---------------------------------------|---|---|
| 1. | <i>Lay solid foundations for management and oversight</i> | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | The Company's Corporate Governance Plan includes a Board Charter, which discloses the specific responsibilities of the Board. The Board delegates responsibility for the day-to-day operations and administration of the Company to the executive Director. |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. The Board has established formal processes to review its own performance and the performance of individual directors, any executive directors and any committees of the Board at least annually. |
| 1.3 | Companies should provide the information indicated in the <i>Guide to reporting on Principle 1</i> . | Explanation of departures from Principles and Recommendations 1.1 and 1.2 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 1.1 and 1.2 (if any) in its future annual reports. Performance evaluation of senior executives has taken place and this process is conducted annually. Details of these evaluations have been previously set out in the Company's 2010 annual reports. Future annual reports will disclose whether such a performance evaluation has taken place in the relevant reporting period and whether it was in accordance with the process disclosed. The Corporate Governance Plan, which includes the Board Charter, is posted on the Company's website. |
| 2. | <i>Structure the board to add value</i> | |
| 2.1 | A majority of the board should be independent directors. | A majority of the Board are independent directors. |
| 2.2 | The chair should be an independent director. | The chair is an independent director. |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | The Company has an executive director (considered to be the Chief Executive Officer) who is separate from the chair. |
| 2.4 | The board should establish a nomination committee. | No formal nomination committee has been established by the Company as yet. The Board, as a whole, currently serves as the nomination committee. The Company's Corporate Governance Plan includes a Nomination Committee Charter, which discloses the specific responsibilities of the committee. Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership. |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. The chair will review the performance of the Board, its committees (if any) and individual directors to ensure that the Company continues to have a mix of skills and experience necessary for the conduct of its activities. |
| 2.6 | Companies should provide the information indicated in the <i>Guide to reporting on Principle 2</i> . | The Company has provided details of each director, such as their skills, experience and expertise relevant to their position in this Prospectus and will also provide these details on its website and in |



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| | | <p>future annual reports.</p> <p>Explanation of departures from Principles and Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) in its future annual reports.</p> <p>Performance evaluation of the Board, its committees and individual directors has taken place in previous years to date as this process is conducted annually.</p> <p>Future annual reports will disclose whether such a performance evaluation has taken place in the relevant reporting period and whether it was in accordance with the process disclosed.</p> <p>The Corporate Governance Plan, which includes the Nomination Committee Charter, is posted on the Company's website.</p> |
| 3. | Promote ethical and responsible decision-making | |
| 3.1 | <p>Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> ▪ the practices necessary to maintain confidence in the company's integrity ▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | <p>The Company's Corporate Governance Plan includes a 'Corporate Code of Conduct', which provides a framework for decisions and actions in relation to ethical conduct in employment.</p> |
| 3.2 | <p>Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p> | <p>The Company's Corporate Governance Plan includes a 'Diversity Policy', which provides a framework for establishing measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.</p> |
| 3.3 | <p>Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.</p> | <p>This disclosure has not yet been made as at the time of the previous annual report, the diversity policy was not in place.</p> <p>Future annual reports will disclose the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.</p> |
| 3.4 | <p>Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p> | <p>This disclosure has not yet been made as the Company's first year with the diversity policy in place has not been completed.</p> <p>Future annual reports will disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p> |
| 3.5 | <p>Companies should provide the information indicated in the <i>Guide to reporting on Principle 3</i>.</p> | <p>Explanation of departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes the Corporate Code of Conduct and Diversity Policy, is</p> |



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| | | posted on the Company's website. |
| 4. | Safeguard integrity in financial reporting | |
| 4.1 | The board should establish an audit committee. | No formal audit committee has been established by the Company as yet. The Board, as a whole, currently serves as the audit committee. The Company's Corporate Governance Plan includes an Audit Committee Charter, which discloses the specific responsibilities of the committee. |
| 4.2 | The audit committee should be structured so that it: <ul style="list-style-type: none"> ▪ consists only of non-executive directors ▪ consists of a majority of independent directors ▪ is chaired by an independent chair, who is not chair of the board ▪ has at least three members. | The Company in general meeting is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors. As the operations of the Company develop the Board will reassess the formation of the audit committee. |
| 4.3 | The audit committee should have a formal charter. | The Company's Corporate Governance Plan includes an Audit and Risk Committee Charter, which discloses its specific responsibilities. |
| 4.4 | Companies should provide the information indicated in the <i>Guide to reporting on Principle 4</i> . | Explanation of departures from Principles and Recommendations 4.1, 4.2 and 4.3 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 4.1, 4.2 and 4.3 (if any) in its future annual reports. The Corporate Governance Plan, which includes the Audit & Risk Committee Charter, is posted on the Company's website. |
| 5. | Make timely and balanced disclosure | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | The Company has a continuous disclosure program in place designed to ensure the compliance with ASX Listing Rule disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the Company's financial position. |
| 5.2 | Companies should provide the information indicated in <i>Guide to Reporting on Principle 5</i> . | The Company has not currently departed from Principle and Recommendation 5.1. The Company will provide an explanation of any departures from Principle and Recommendation 5.1 (if any) in its future annual reports. The Corporate Governance Plan, which includes a continuous disclosure program, is posted on the Company's website. |
| 6. | Respect the rights of shareholders | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | The Company's Corporate Governance Plan includes a shareholders communication strategy, which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. |
| 6.2 | Companies should provide the information indicated in the <i>Guide to reporting on Principle 6</i> . | The Company has not currently departed from Principle and Recommendation 6.1. The Company will provide an explanation of any departures from Principle and Recommendation 6.1 (if any) in its future |



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| | | <p>annual reports.</p> <p>The Corporate Governance Plan, which includes a shareholders communication strategy, will be posted on the Company's website.</p> |
| 7. | Recognise and manage risk | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | <p>The Company's Corporate Governance Plan includes a risk management policy.</p> <p>The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.</p> |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | <p>The Company's Corporate Governance Plan includes a risk management policy.</p> <p>The Board will require either the Executive Director or the Chief Financial Officer to provide a report at the relevant time.</p> |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | <p>The Board will seek this relevant assurance from the Executive Director or Chief Financial Officer at the relevant time.</p> |
| 7.4 | Companies should provide the information indicated in <i>Guide to Reporting on Principle 7</i> . | <p>The Company has not currently departed from Principles and Recommendations 7.1, 7.2 and 7.3. The Company will provide an explanation of any departures from Principles and Recommendations 7.1, 7.2 and 7.3 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes a risk management policy, is posted on the Company's website.</p> |
| 8. | Remunerate fairly and responsibly | |
| 8.1 | The board should establish a remuneration committee. | <p>The Board has not established a formal remuneration committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the Board, acting without the affected director participating in the decision making process, currently serves as a remuneration committee.</p> <p>The Company's Corporate Governance Plan includes a Remuneration Committee Charter, which discloses its specific responsibilities.</p> <p>Remuneration to the executive directors is by way of salary only and to non-executive directors by way</p> |



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| | | <p>of director fees only, with the level of such salary or fees as the context requires, having been set by the Board to an amount it considers to be commensurate for a company of its size and level of activity. There is currently no link between performance and remuneration, however, it is the intention of the Board to re-assess this once the Company commences operations. Further there are no schemes for retirement benefits in existence.</p> |
| 8.2 | <p>The remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"> ▪ consists of a majority of independent directors ▪ is chaired by an independent director ▪ has at least three members | <p>Although no formal remuneration committee has been established, the Board currently serves as the remuneration committee.</p> <p>The Board is comprised of a majority of independent directors, is chaired by an independent director and has at least three members.</p> |
| 8.3 | <p>Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.</p> | <p>The Board has distinguished the structure of non executive director's remuneration from that of executive directors and senior executives.</p> <p>The Company's constitution provides that the remuneration of non-executive Directors will be not be more than the aggregate fixed sum set by the constitution and subsequently varied by resolution at a general meeting of shareholders.</p> <p>The Board is responsible for determining the remuneration of executive directors and senior executives (without the participation of the affected director). It is the Board's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating executive directors and senior executives fairly and appropriately with reference to relevant employment market conditions and by linking the nature and amount of executive directors' and senior executives emoluments to the Company's financial and operational performance.</p> |
| 8.4 | <p>Companies should provide the information indicated in the <i>Guide to reporting on Principle 8</i>.</p> | <p>Explanation of departures from Principles and Recommendations 8.1, 8.2 and 8.3 (if any) are set out above. The Company will also provide an explanation of any departures from Principles and Recommendations 8.1, 8.2 and 8.3 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes the Remuneration Committee Charter, is posted on the Company's website.</p> |



10.4 Rights Attaching to Shares

Full details of the rights attaching to Shares are set out in the Company's Constitution, a copy of which can be inspected, free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

(a) General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

(b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (iii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) Dividend Rights

Subject to the rights of persons (if any) entitled to shares with special rights to dividends the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividends, all dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.



(d) Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(e) Transfer of Shares

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

(f) Variation of Rights

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

10.5 Rights Attaching to Partly Paid Shares

The following is a broad summary of the rights, privileges and restrictions attaching to all Partly Paid Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of holders of Partly Paid Shares.

- (a) Each Partly Paid Share is issued at a price of 25 cents of which \$0.0001 is paid, with the balance of the issue price subject to a call on 31 December 2012.
- (b) The holder shall have the right to pay calls in advance on the Partly Paid Shares issued. Any notice of payment of calls in advance by the holder (**Payment Notice**) shall be in writing and delivered to the registered office of the Company. The Payment Notice shall specify the number of Partly Paid Shares in respect of which such payment is being made, the amount per share which is being paid up, and shall be accompanied by the appropriate payment for the number of partly paid shares specified in the Payment Notice. The Directors of the Company must, within 3 days after receipt of the Payment Notice, accept payment, credit the amount paid up and issue the appropriate holding statement for fully paid shares in respect of any shares which have been fully paid up.



- (c) The Partly Paid Shares will not be subject to calls by the Company before 31 December 2012 (unless with the consent of all Partly Paid Shareholders) and any of the Partly Paid Shares which are not fully paid up pursuant to the 31 December 2012 call shall be forfeited (in accordance with the Constitution) and the holder shall have no right to pay up and shall retain no rights in relation thereto.
- (d) A statement of holding will be issued for the Partly Paid Shares and will be forwarded to the holder together with the terms and conditions of the Partly Paid Shares.
- (e) Dividends may be declared in respect of any of the Partly Paid Shares notwithstanding that the issue price of such Partly Paid Shares has not been paid in full. The Partly Paid Shares will participate in any dividends so declared with all other shares pro-rata to the proportion which the portion of the issue price paid up on the Partly Paid Shares bears to the issue price.
- (f) The holder will be entitled to exercise any vote attaching to a Partly Paid Share at general meetings of members in accordance with the Constitution of the Company. Under the Constitution, on a poll, partly paid shares have a vote pro-rata to the proportion of the total issue price paid up. Amounts paid in advance of a call will be ignored when calculating the proportion.
- (g) Partly Paid Shares allotted to the holder will participate in all issues of securities (including issues of shares, options and convertible notes) made to shareholders of the Company pro-rata to the proportion of the total issue price paid up. In respect of an issue of bonus securities, amounts paid in advance of a call will be ignored when calculating the proportion.
- (h) The Company will ensure that, at least 9 business days before the record date to determine entitlement to any such new issue, the Company will notify the holder of the proposed new issue. This will afford the holder an opportunity to pay up all or some of the partly paid shares prior to the record date of any such new issue.
- (i) In the event of a reconstruction (including consolidation, sub division, reduction or return) of the issued capital of the Company, the number of partly paid shares shall be reconstructed in accordance with the Listing Rules.
- (j) Subject to the Partly Paid Shares becoming fully paid, the Company will apply for listing of the fully paid shares on the ASX.
- (k) In the event of death of the holder, the right of the holder to pay up the Partly Paid Shares which are not at the time of the death of the holder fully paid up, will vest in the holder's executor and/or administrator as the case may be and such executor and/or administrator shall have the same rights to pay up the Partly Paid Shares as such deceased holder would have had but for the holder's death.
- (l) Upon becoming fully paid, each Partly Paid Share will rank equally in all respects with the other issued fully paid ordinary shares in the Company.
- (m) Subject to the ASX Listing Rules, the Partly Paid Shares, whilst partly paid, shall not be capable of transfer or assignment either in whole or in part without the approval of the Directors.



10.6 Rights Attaching to Options

The Company intends to issue the following options subject to shareholder approval at a general meeting to be held on 15 July 2011:

- 7,750,000 options to directors, management and corporate advisor, including 4,500,000 options to directors ("Management Options");
- 3,690,403 options to the Company's broker ("Broker Options"); and
- 1,476,162 options to the Company's nominated advisor ("Nomad Options").

Full details of the terms and conditions of the Options are set out below.

(a) Management Options

- (i) The Management Options will expire at 5:00pm (WST) on 30 June 2012 ("Expiry Date"). Any Management Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (ii) The amount payable upon exercise of each Management Option will be \$0.30 ("Exercise Price").

(b) Broker Options

- (i) The Broker Options will expire at 5:00pm (WST) on the date being 30 months from the date of issue ("Expiry Date"). Any Broker Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (ii) Subject to the Listing Rules, the amount payable upon exercise of each Broker Option will be the same price of the Shares issued pursuant to the first UK share placement (which will be not less than 80% of the average market price for Shares calculated over the 5 days on which sales in Shares are recorded before the day on which the details of the first UK share placement are announced to ASX ("Exercise Price")).

(c) Nomad Options

- (i) The Nomad Options will expire at 5:00pm (WST) on the date being 2 years from the date of issue ("Expiry Date"). Any Nomad Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (ii) Subject to the Listing Rules, the amount payable upon exercise of each Nomad Option will be the mid-market price of Share at the close of business on the date of AIM Listing Date.

(d) Global Option Terms

Each Option (which includes the Options, Broker Options and Nomad Options) entitle the holder to subscribe for Shares on the following terms and conditions:

- (i) Each Option gives the Optionholder the right to subscribe for one Share.
- (ii) The Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.



- (iii) An Optionholder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (A) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (B) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,("Exercise Notice").
- (iv) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (v) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- (vi) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
- (vii) The Company will not apply for quotation of the Options on ASX. The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (viii) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (ix) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (x) In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to Shareholders after the date of issue of the Options, the exercise price of the Options may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (xi) In the event the Company proceeds with a bonus issue of securities to Shareholders after the date of issues of the Options, the number of securities over which an Option is exercisable may be increased by the number of securities which the Optionholder would have received if the Option had been exercised before the record date for the bonus issue.



11. ADDITIONAL MATTERS

11.1 Fees and Benefits

Other than as set out below or elsewhere in this Prospectus, no:

- (a) Director of the Company;
- (b) person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (c) promoter of the Company; or
- (d) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

has, or had within 2 years before lodgement of this Prospectus with the ASIC, any interest in:

- (i) the formation or promotion of the Company;
- (ii) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the offer of Shares under this Prospectus; or
- (iii) the offer of Shares under this Prospectus,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons as an inducement to become, or to qualify as, a Director of the Company or for services rendered in connection with the formation or promotion of the Company or the offer of Shares under this Prospectus.

Anjarwalla Collins & Haidermota (**AC&H**) has acted as the international solicitors to the Company in respect of the Puntland Projects and has prepared a title opinion which has been included in Section 7 of this Prospectus. The Company estimates that it will pay a total of \$7,500 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, AC&H has received approximately US\$25,200 for legal services provided to the Company.

BGI Advisory Services Georgia Limited (**BGI**) has acted as the international solicitors to the Company in respect of the Georgian Project and has prepared a title opinion which has been included in Section 7 of this Prospectus. The Company estimates that it will pay a total of \$7,500 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, BGI will receive approximately US\$20,000 for legal services provided to the Company during that period.

Gaffney, Cline & Associates (**Gaffney Cline**) has acted as the independent expert to the Company in relation to the Puntland Projects and has prepared a technical report which has been included in Section 5 of this Prospectus. The Company estimates that it will pay a total of \$7,500 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Gaffney Cline has received approximately US\$15,000 for services provided to the Company.



RPS Energy has acted as the independent expert to the Company in relation to the Georgian Project and has prepared a technical report which has been included in Section 5 of this Prospectus. The Company estimates that it will pay a total of \$7,500 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, RPS Energy has received approximately GBP£13,000 for services provided to the Company.

BDO Corporate Finance (WA) Pty Ltd (**BDO**) has acted as Investigating Accountant and has prepared an Investigating Accountant's Report which has been included in Section 6 of this Prospectus. The Company estimates it will pay BDO a total of \$15,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, BDO has not provided any services to the Company.

Steinepreis Paganin has acted as the Australian solicitors to the Company in relation to the Offer, and has been involved in due diligence enquiries on legal matters. The Company estimates it will pay Steinepreis Paganin \$25,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has received approximately \$67,500 for legal services provided to the Company.

Max Capital Pty Ltd (**Max Capital**) has acted as the lead manager to the Company in relation to the Offer. The Company estimates it will pay Max Capital \$60,000 (being a fee of 6% of the amount raised pursuant to the Offer) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Max Capital has received approximately \$1,113,000 for corporate advisory and capital raising services provided to the Company. This amount includes fees paid to other financial service licensees and/or any sub-underwriters in respect of capital raisings undertaken by the Company.

Grange Consulting Pty Ltd (**Grange Consulting**) has acted as the Australian solicitors to the Company in relation to the Offer. The Company estimates it will pay Grange Consulting \$60,000 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Grange Consulting has received approximately \$180,600 for corporate advisory and compliance services provided to the Company.

11.2 Consents

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

AC&H has given its written consent to being named as international solicitors to the Company in respect of the Puntland Projects in this Prospectus and to the inclusion of the title report in Section 7 in the form and context in which the report is included. AC&H has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.



BGI has given its written consent to being named as international solicitors to the Company in respect of the Georgian Project in this Prospectus and to the inclusion of the title report in Section 7 in the form and context in which the report is included. BGI has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Gaffney Cline has given its written consent to being named as independent expert to the Company in relation to the Puntland Projects in this Prospectus and to the inclusion of the technical report in Section 5 in the form and context in which the report is included. Gaffney Cline has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

RPS Energy has given its written consent to being named as independent expert to the Company in relation to the Georgian Projects in this Prospectus and to the inclusion of the technical report in Section 5 in the form and context in which the report is included. RPS Energy has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

BDO has given its written consent to being named as Investigating Accountant in this Prospectus and to the inclusion of the Investigating Accountant's Report in Section 6 in the form and context in which the report is included. BDO has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given its written consent to being named as the Australian solicitor to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Max Capital has given, and not withdrawn, its written consent to being named as lead manager to the Company in this Prospectus. Grange Consulting has not authorised or caused the issue of this Prospectus or the making of the Offer and takes no responsibility for any part of the Prospectus. Grange Consulting makes no representation regarding, and to the extent permitted by law, excludes responsibility for, any statements in or omissions from any part of this Prospectus.

Grange Consulting has given, and not withdrawn, its written consent to being named as corporate advisor to the Company in this Prospectus. Grange Consulting has not authorised or caused the issue of this Prospectus or the making of the Offer and takes no responsibility for any part of the Prospectus. Grange Consulting makes no representation regarding, and to the extent permitted by law, excludes responsibility for, any statements in or omissions from any part of this Prospectus.

11.3 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

11.4 Electronic Prospectus

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.



If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the relevant application forms. If you have not, please email the Company at info@redemperorresources.com and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at www.redemperorresources.com.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

11.5 Taxation

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

11.6 Continuous Disclosure Obligations

Following the re-quotation of the Company to the Official List, the Company will be a "disclosing entity" (as defined in Section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

Price sensitive information will be publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants will also be managed through disclosure to the ASX. In addition, the Company will post this information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.



12. DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors. In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.

Greg Bandy
Executive Director

For and on behalf of
RED EMPEROR RESOURCES NL



13. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

A\$ or \$ means an Australian dollar.

AIM means the Alternative Investment Market of the London Stock Exchange.

AIM Listing means the Company's admission to the official list of AIM on 23 June 2011.

AIM Listing Date means 23 June 2011.

Applicant means a person who submits an Application Form.

Application Form means the application form accompanying this Prospectus relating to the Offer.

Associated Body Corporate means:

- (a) a related body corporate (as defined in the Corporations Act) of the Company;
- (b) a body corporate which has an entitlement to not less than 20% of the voting Shares in the Company;
or
- (c) a body corporate in which the Company has an entitlement to not less than 20% of the voting shares.

ASIC means Australian Securities & Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange (as the context requires).

Board means the board of Directors as constituted from time to time.

Business Day means a week day when trading banks are ordinarily open for business in Perth, Western Australia.

Company means Red Emperor Resources NL (ACN 124 734 961).

Closing Date means the closing date of the Offer as set out in the Investment Overview Section.

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Cth).

Directors mean the directors of the Company at the date of this Prospectus.

Drilling Program the proposed two well drilling program for two exploration Wells to be undertaken on the Georgian Project.

Georgian Acquisition Agreement means the subscription agreement and the Strait shareholders agreement, details of which are set out in Section 9.2.



Georgian Project means the two oil and gas licences located in Georgia, which are known as Block VIA and Block VIB.

Independent Expert's Report means the Independent Expert's Reports included in Section 5 of this Prospectus.

Listing Rules means the official listing rules of ASX.

MMbbls means millions of barrels.

Offer means the offer of Shares pursuant to this Prospectus as outlined in Investment Overview Section.

Official List means the Official List of ASX.

Official Quotation means official quotation by ASX in accordance with the Listing Rules.

Option means an option to subscribe for a Share.

Phase III means the third phase requirements under the production sharing contract for the Georgian Project, which includes, but is not limited to the Drilling Program.

Project or Projects means the Georgian and Puntland Projects, as appropriate.

Prospectus means this prospectus.

Securities mean Shares and Options.

Share means a fully paid ordinary share in the capital of the Company.

Share Registry means Computershare Investor Services Pty Limited.

Shareholder means a holder of Shares.

Solicitor's Report means the Solicitor's Reports included in Section 8 of this Prospectus.

US\$ or USD means the currency of the United States of America.

WST means Western Standard Time, Perth, Western Australia.