



EMERALD
OIL AND GAS NL

ABN: 72 009 795 046

ANNUAL REPORT

for the year ended 30 June 2013



ABN: 72 009 795 046

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This financial report covers the consolidated entity consisting of Emerald Oil and Gas NL ("Emerald" or "the Company") and its subsidiaries (together "the Group" or "the Consolidated Entity"). The financial report is presented in the Australian currency.

Emerald Oil and Gas NL is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Emerald Oil and Gas NL
Ground Floor
20 Kings Park Road
West Perth WA 6005

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the operating and financial review in the Directors' Report on pages 7 to 10.



ABN: 72 009 795 046

Corporate Information

Directors:

Jeremy Shervington – Non-Executive Chairman
Mike Krzus – Non-Executive Director
McAndrew Rudisill - Non-Executive Director
Davide Bosio - Non-Executive Director
Dino DiCosta - Non-Executive Director

Registered & Principal Office:

Ground Floor
20 Kings Park Road
WEST PERTH, WA, 6005
Telephone: +61 8 9389 2111
Facsimile: +61 8 9389 2199

Company Secretary:

Graeme Smith

Postal Address:

P.O. Box 902
WEST PERTH, WA, 6872

Auditors:

HLB Mann Judd
Level 4, 130 Stirling Street
PERTH, WA, 6000

Home Securities Exchange:

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
PERTH, WA, 6000
ASX Code – EMR

Solicitors:

Jeremy Shervington and Associates
52 Ord Street
WEST PERTH, WA, 6005

Share Registry:

Security Transfer Registrars Pty Ltd
PO Box 535
APPLECROSS, WA, 6953
Telephone +618 9315 2333

Glossary of terms

ac:	acres
dbl:	barrel of oil
ft:	feet
km:	kilometres
Mcf:	thousand standard cubic feet of gas
Mcfd:	thousand standard cubic feet of gas per day
MMcf:	million standard cubic feet of gas
MMcfd:	million standard cubic feet of gas per day
WI:	working interest



ABN: 72 009 795 046

Letter from the Chairman

2013 has brought significant changes to the Group's asset base and business direction.

On 26 July, 2012, the Company completed a transaction whereby Voyager Oil and Gas Inc. (AMEX:VOG) ("Voyager"), a publicly listed company in the United States, acquired Emerald Oil Inc. (the Company's wholly owned subsidiary) for 11.6m shares in Voyager. Voyager subsequently changed its trading name to Emerald Oil Inc, retaining its listing on the New York Stock Exchange (NYSE MKT:EOX) and implemented a 7 for 1 reverse split of its shares, consolidating the Company's holding in EOX shares to 1.66m shares.

During the year a shareholders' meeting was held to consider distributing EOX shares in specie to Emerald shareholders. Shareholders voted overwhelmingly to reject this proposal.

The Group has entered into an Implementation Deed ("the Deed") with Ochre Group Holdings Limited (OGH), a substantial shareholder in the Company. The Deed sets out the steps in implementing a scheme of arrangement under which, if determined to be in the best interests of Emerald shareholders and subsequently approved by Emerald shareholders, Emerald shares would be acquired by OGH in exchange for an issue of shares in OGH.

The obligations of Emerald under the Deed are subject to there being no "Superior Proposal" being made by a third party to Emerald and a corresponding provision applies to OGH.

The intent of the Deed is, in essence, that, pursuant to a scheme of arrangement Emerald shareholders would receive one fully paid ordinary share in OGH in exchange for each 2.75 ordinary fully paid shares held in Emerald. The proposed Scheme does not include any terms for the acquisition of the existing unlisted options in Emerald (117,600,000 5 cent 30 April 2014 options and 50,000,000 5 cent 28 June 2014 options).

In July 2013, Emerald advised the market that it had executed a Sale Agreement over all its Canning Basin interests with Key Petroleum Limited. These assets have been held since the formation of the Company and Emerald will receive \$50,000 cash and 4 million Key Petroleum Limited shares for these interests.

In the coming year, subject to the outcome in respect of the proposed transaction with OGH, the Board will seek to maximize the benefit of the Companies holding in EOX and in its Appalachian gas business as well as continuing to pursue opportunities that will assist in the growth of the value of the Company and its share price.

Your Directors remain committed to identifying and delivering value opportunities for shareholders and we look forward to the continued support of shareholders in achieving this outcome.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jeremy Shervington", with a long horizontal flourish extending to the right.

Jeremy Shervington
Chairman



ABN: 72 009 795 046

Directors' Report

Your Directors are pleased to submit their report on the Consolidated Entity ("Consolidated Entity" or "Group") representing Emerald Oil and Gas NL (the "Company") and its controlled entities, for the year ended 30 June 2013.

1. DIRECTORS

The names and details of Directors in office at any time during the financial year are:

Jeremy Shervington B.Juris, LLB (57) - appointed 23 January 2006

Non Executive Chairman

EXPERIENCE AND EXPERTISE

Mr Shervington operates a legal practice in Western Australia. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has 30 years' experience as a lawyer, gained since admission as a Barrister and Solicitor of the Supreme Court of Western Australia. Mr Shervington has since 1985 served as a Director of various ASX listed companies as well as a number of unlisted public and private companies.

OTHER CURRENT DIRECTORSHIPS

Non Executive Director, Australian Zircon NL (appointed 16 February 1998)

Non Executive Director, Horseshoe Metals Limited (appointed 14 December 2006)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

Non Executive Director, Cokal Limited (appointed 8 August 2006, resigned 23 December 2010)

Non Executive Director, Prairie Downs Metals Limited (appointed 11 October 2002, resigned 25 August 2011)

Non Executive Director, Industrial Minerals Corporation Limited (appointed 17 February 2004, resigned 10 March 2011)

Non Executive Director, Papillon Resources Limited (appointed 11 May 2006, resigned 27 May 2011)

Non Executive Chairman, Cardinal Resources Ltd (appointed 11 November 2010, resigned 27 December 2012)

Mike Krzus BSc (Petroleum Engineering) GAIDC, SPE. (55) - appointed 13 August 2009

Non Executive Director since 4 September 2012 (Chief Executive Officer, Chief Operating Officer and Managing Director from the beginning of the financial year until 4 September 2012)

EXPERIENCE AND EXPERTISE

Mike Krzus has over 30 years' experience managing technical and business areas in upstream oil and natural gas, liquefied natural gas and geothermal gas. Mr Krzus is the President of Emerald Oil Inc., (NYSE MKT: EOX), a Williston Basin oil and gas company listed on the New York Stock Exchange in the USA. Starting as a petroleum engineer with Home Oil in Calgary in 1983, he then proceeded to Woodside Petroleum Ltd (Australia's largest operating oil company) in 1986 where he held various management and executive positions involving oil and natural gas field development (including a four-year secondment to Shell where he led natural gas and oil field development teams in the Netherlands), exploration and production business development, company business

Directors' Report (continued)

1. DIRECTORS (CONTINUED)

planning and evaluations, joint venture management and technical capability management. Before leaving Woodside Petroleum Ltd in 2007, he was responsible for its sub-surface technical oil and natural gas development capability and technology and its capital gating approval process. Prior to joining Emerald Oil and Gas NL, Mr Krzus managed a geothermal exploration company that was a subsidiary of Eden Energy. He is a member of the Society of Petroleum Engineers (SPE) and Graduate member of the Australian Institute of Company Directors (AICD). He holds a Diploma in Oil and Gas Technology from the British Columbia Institute of Technology and a Bsc in Petroleum Engineering from Tulsa University.

OTHER CURRENT DIRECTORSHIPS

President, Emerald Oil Inc. (appointed 26 July 2012)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None.

McAndrew Rudisill (BA (Econ) Hons) (34) - appointed 5 October 2011

Non Executive Director

EXPERIENCE AND EXPERTISE

McAndrew Rudisill has 12 years of investment management and investment banking experience in the natural resources sector. Mr Rudisill is the CEO and Director of Emerald Oil Inc., and served as President and Chairman of Emerald Oil Inc. prior to the merger with Voyager Oil & Gas. Mr Rudisill was the Managing Partner and founder of Pelagic Capital Advisors LP from 2007 to 2011. Prior to forming Pelagic Capital Advisors LP, Mr Rudisill was a co-founder and Managing Partner of BrightStream Asset Management which focused on investments in natural resources from 2005 to 2007. Before co-founding BrightStream, Mr Rudisill was an Analyst and Managing Director at North Sound Capital from 2003 to 2005 where he was responsible for investments in global natural resources. Mr Rudisill currently serves as the Managing Director of Ochre Group Holdings Ltd (ASX: OGH, formerly Rico Resources Ltd, ASX: RRI) and serves as a trustee of the Tiger Foundation, which is a philanthropic organisation focused on serving New York City. Mr Rudisill's investment career began at JPMorgan, where he worked as an investment banker.

OTHER CURRENT DIRECTORSHIPS

Managing Director, Ochre Group Holdings Ltd (appointed 30 September 2011)

CEO and Director, Emerald Oil Inc. (appointed 26 July 2012)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None.

Directors' Report (continued)

1. DIRECTORS (CONTINUED)

Davide Bosio (BComm FFin GAICD) (35) – appointed 20 November 2012
Non Executive Director

EXPERIENCE AND EXPERTISE

Davide Bosio is the Managing Director of Pareto Capital which specialises in offering professional customised fundraising solutions to corporate clients and investment services to professional investors.

Mr Bosio has over 10 years' experience in the finance industry as an Investment Advisor providing financial product advice and dealing to wholesale and retail clients. Mr Bosio is currently a Fellow Member of the Financial Services Institute of Australia (Finsia) and a Graduate Member of Australian Institute of Company Directors (GAICD). Davide holds a Bachelor of Commerce (Marketing) degree and a Graduate Diploma in applied Finance and Investment.

OTHER CURRENT DIRECTORSHIPS

None.

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None.

Dino Di Costa (CA BComm) (38) – appointed 27 December 2012
Non Executive Director

EXPERIENCE AND EXPERTISE

Dino Di Costa is a Director of Pareto Capital, a firm which offers fundraising assistance to corporate clients seeking growth in the microcap and junior sectors of the share market.

Mr Di Costa is a member of The Institute of Chartered Accountants and holds a Bachelor of Commerce (Accounting and Business Law) from Curtin University. He was recently the treasurer of The Strike a Chord for Cancer foundation.

OTHER CURRENT DIRECTORSHIPS

None.

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None.

Nathan Featherby (B.Com) (34) - appointed 5 October 2011, resigned 2 August 2012
Non Executive Director

John Hannaford B.Com (UWA), C.A., F.Fin. (46) - appointed 14 June 2006, resigned 16 July 2012
Non Executive Director

Directors' Report (continued)

2. COMPANY SECRETARY

Graeme Smith BEc, MBA, MComLaw, FCPA, FCSA, MAusIMM – appointed 4 September 2012

Graeme Smith is a finance professional with over 25 years' experience in accounting and company administration. He graduated from Macquarie University with a Bachelor of Economics degree and has since received a Master of Business Administration and a Master of Commercial Law. He is a Fellow of both the Australian Society of Certified Practising Accountants and the Chartered Institute of Secretaries and Administrators.

Mr Smith currently holds CFO and Company Secretary positions with other Australian mining and mining service companies. Mr Smith is a former director of Genesis Minerals Limited and Buxton Resources Limited within the last 3 years.

Morgan Barron B.Com (UWA), C.A. S.A.Fin - appointed 24 July 2007, resigned 4 September 2012

3. DIRECTORS' MEETINGS

During the financial year, two Directors' meetings were held with the following attendances:

Directors	Meetings Attended	Meetings Eligible to Attend
J. Shervington	2	2
M. Krzus	2	2
M. Rudisill	1	2
D. Bosio	1	1
D. DiCosta	-	-
N Featherby	-	-
J. Hannaford	-	-

4. PRINCIPAL ACTIVITIES

The principal activities of the Group were the exploration and development of oil and gas properties in the United States of America (USA) and Australia.

Directors' Report (continued)

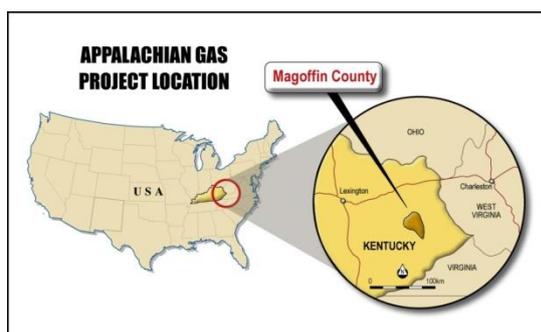
5. OPERATING AND FINANCIAL REVIEW

Activity Summary

Operating and Financial Review

- ❖ **Transaction completed with Voyager Oil and Gas, a US publicly listed company, to acquire wholly owned US subsidiary Emerald Oil Inc for 11.6 million shares of Voyager Oil & Gas (1.66 million shares after subsequent 7 for 1 reverse split), with \$2.5m cash returned to Emerald under a pre-existing arrangement.**
- ❖ **Sour gas production in Kentucky commenced in Q2 2013, through a sour gas processing plant operated by a third party.**
- ❖ **Approximately \$404,000 cash balance after repaying short term loans, transaction fees and remaining US subsidiary liabilities.**
- ❖ **Director responsibilities and management practices re-structured to reflect reduced operational activity.**
- ❖ **Dino Di Costa and Davide Bosio appointed as Non-Executive Directors.**
- ❖ **Shareholders voted against resolution for in specie distribution of Emerald Oil Inc (EOX) shares to eligible shareholders on a pro rata basis.**
- ❖ **Implementation Deed for Merger with Ochre Group Holdings Limited was executed after the reporting date and is currently under due diligence.**
- ❖ **Total loss for the year of \$7.8 million.**

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**Appalachian Gas - Magoffin County, Kentucky (*Emerald 75% Equity Interest in Kentucky Energy Partners LLC*)**

Emerald's Appalachian gas operations are operated through Kentucky Energy Partners (KEP), a company 75% owned by Emerald.

KEP currently holds 2,000 lease acres and an 8 mile long gas gathering pipeline and gas conditioning/compression facilities. KEP gas production is currently approximately 400 Mcfd, produced from 11 wells, through a sour gas gathering and processing system owned and operated by a local third party operator.

The sour gas processing plant and gas gathering infrastructure was commissioned in Q2 2013 with KEP gas production and KEP is working to increase gas production from its existing wells and other existing wells on its leases.

Shareholding in Emerald Oil Inc (EOX)

On 9 July 2012, the Group reached agreement with Voyager Oil and Gas Inc. (NYSE MKT: VOG) ("Voyager"), a publicly listed company in the United States, to acquire Emerald Oil Inc. ("Emerald US"), the Company's wholly owned subsidiary, which held its US shale oil assets. In this transaction, the Company exchanged its 100% interest in Emerald US for 11,635,217 shares in the combined entity. The transaction was subsequently completed on 26 July 2012, with 500,000 shares being held in escrow pending fulfilment of certain conditions. Voyager began conducting business as Emerald Oil, Inc., with the new trading symbol EOX on September 4, 2012. On 23 October, 2012, EOX effected a 1 for 7 reverse split of their common stock. EMR currently holds 1,662,174 EOX shares, post-split.

EOX assumed the \$17m of debt carried by Emerald prior to the transaction. Emerald will have no further direct funding requirements for ongoing exploration & development of the Dunn County assets in the Williston Basin or Sandwash Niobrara assets in the Green River Basin, both of which would have required significant additional funding to implement their drilling programs.

Emerald exchanged its direct interests in its two US shale assets for a substantial ownership interest in a larger, US listed company with a much deeper and more diverse shale oil portfolio. This changes the risk profile of the Company significantly. Activity plans and consequent outcomes of the drilling and well completion activities in Dunn County and Sandwash Niobrara assets remain unchanged by the transaction and EMR shareholders are still exposed to these projects through the Company's holding in EOX.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

As EOX is a publicly listed US company, ASX reporting for EMR's holding in EOX is limited to restating public announcements issued by EOX under US SEC regulations ("SEC Regulations") and other publicly available information.

EMR remains an active ASX listed company with its main assets being the EOX shareholding, i.e. US shale oil holdings, as was the case before the transaction. The Company will continue to progress its existing oil and gas interests in the US and Australia and is actively seeking other substantial oil and gas opportunities.

Director Appointments

Davide Bosio was appointed a Director effective 20 November, 2012. Mr Bosio is the Managing Director of Pareto Capital which specialises in offering professional customised fundraising solutions to corporate clients and investment services to professional investors.

Mr Bosio has over 10 years' experience in the finance industry as an Investment Advisor providing financial product advice and dealing to wholesale and retail clients. Mr Bosio is currently a Fellow Member of the Financial Services Institute of Australia (Finsia) and a Graduate Member of Australian Institute of Company Directors (GAICD).

Dino DiCosta was appointed a Director effective 27 December, 2012. Mr Di Costa is a Director of Pareto Capital, a firm which offers fundraising assistance to corporate clients seeking growth in the microcap and junior sectors of the share market. Mr Di Costa is a member of The Institute of Chartered Accountants and holds a Bachelor of Commerce (Accounting and Business Law) from Curtin University.

CORPORATE

At 30 June 2013 the Group had \$403,672 of cash on hand.

The net loss for the period after tax was \$7,802,355 (2012: \$9,763,615).

Post balance date, Emerald has entered into an Implementation Deed ("the Deed") with Ochre Group Holdings Limited (OGH). The Deed sets out the steps in implementing a scheme of arrangement under which, if determined to be in the best interests of Emerald shareholders and subsequently approved by Emerald shareholders, Emerald shares would be acquired by OGH in exchange for an issue of shares in OGH.

5.2 Corporate

5.2.1 Director & Secretary changes

Mr John Hannaford resigned as a director on 16 July 2012. Mr Nathan Featherby resigned as a director on 2 August 2012. Mr Morgan Barron resigned as company secretary on 4 September 2012. Mr Graeme Smith was appointed company secretary on 4 September 2012.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

From 4 September 2012, the Board has adjusted the Board functions of the Company to reflect the current status of the Company. In particular, Mr Mike Krzus' duties have been condensed to reflect the Company's reduced operational requirements and to reflect the Company's principal asset being its shareholding in Emerald Oil Inc, which was the subject of the securitisation transaction as announced on 11 July 2012. Mr Krzus' remuneration has been adjusted so that he is remunerated as a Non-Executive Director and will be paid a time based fee at a set rate for services over and above those ordinarily expected of a Non-Executive Director from time to time.

5.2.2 Capital raising

During the year, the Company issued 44,849,635 shares to a private US company as consideration for increasing an existing \$15 million debt facility to \$20 million and extending the term from August 2012 to November 2012. This share issue falls within the Company's 15% capacity. This debt was assumed by Emerald Oil Inc. prior to disposal by the Group.

5.3 Financial Results

The comprehensive loss of the Group for the financial year 30 June 2013 amounted to \$8,821,673 (2012: \$8,592,562) after providing for income tax and foreign exchange translation.

Comprehensive loss for the year includes loss from discontinued operations (Emerald Oil Inc.) of \$6,671,291 (2012: \$8,416,604).

6. DIVIDENDS PAID OR RECOMMENDED

No dividend was paid or declared during the financial year and the Directors do not recommend the payment of a dividend.

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Disposal of Emerald Oil Inc ("EOX")

As noted on pages 8 and 9, on 9 July 2012, the Group reached agreement with Voyager Oil and Gas Inc. (NYSE MKT: VOG) ("Voyager"), a publicly listed company in the United States, to acquire Emerald Oil Inc. ("Emerald US"), the Company's wholly owned subsidiary, which held its US shale oil assets.

Directors' Report (continued)

8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Group is not aware of any matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Group, the results of those operations or the state of affairs of the Company and Group in subsequent financial years, other than the following:

8.1 Deed for Merger with Ochre Group Holdings Limited ("OHG")

Emerald has entered into an Implementation Deed ("the Deed") with OGH. The Deed sets out the steps in implementing a scheme of arrangement under which, if determined to be in the best interests of Emerald shareholders and subsequently approved by Emerald shareholders, Emerald shares would be acquired by OGH in exchange for an issue of shares in OGH.

The obligations of Emerald under the Deed are subject to there being no "Superior Proposal" being made by a third party to Emerald and a corresponding provision applies to OGH.

The intent of the Deed is, in essence, that, pursuant to a scheme of arrangement ("the proposed Scheme"), Emerald shareholders would receive one fully paid ordinary share in OGH in exchange for each 2.75 ordinary fully paid shares held in Emerald. The proposed Scheme does not include any terms for the acquisition of the existing unlisted options in Emerald (117,600,000 5 cent 30 April 2014 options and 50,000,000 5 cent 28 June 2014 options).

8.2 Sale of Participating Interests – EP104 & R1

On 29 July 2013, Emerald advised the market that it had executed a Sale Agreement over all its Canning Basin interests with Key Petroleum Limited.

Emerald's Canning Basin interests included in the Sale Agreement consist of a 24.98% beneficial interest in Exploration Permit 104 and a 14.17% beneficial interest in Retention Lease 1.

The consideration to be paid for these interests by Key Petroleum consists of –

- (i) \$50,000 cash, and
- (ii) the issue of 4 million ordinary fully paid shares in Key Petroleum Limited to Emerald (or its nominee).

The transfer of the above registered interests is conditional upon standard approval by the Department of Mines and Petroleum.

Directors' Report (continued)

9. LIKELY DEVELOPMENTS

There are no likely developments in the operations of the Group that were not finalised at the date of this report. Further information as to likely developments in the operations of the Group and likely results of those operations would in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

10. DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in ordinary shares, listed and unlisted options of the company were:

<i>Director</i>	Shares		Unlisted Options	
	<i>Held Directly</i>	<i>Held Indirectly</i>	<i>Held Directly</i>	<i>Held Indirectly</i>
J. Shervington	-	8,331,915	-	-
M. Krzus	5,000,000	709,226	5,000,000	-
M. Rudisill	-	14,750,000	-	28,920,000
D. Bosio	-	-	-	-
D. DiCosta	-	-	-	-
Total	5,000,000	23,791,141	5,000,000	28,920,000

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors, Executives and Key Management Personnel of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly.

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

- A. Names and positions of Directors and Key Management Personnel
- B. Principles used to determine the nature and amount of remuneration
- C. Details of remuneration
- D. Service agreements
- E. Share-based compensation
- F. Additional information

A. Names and positions of Directors and Key Management Personnel in office at any time during the financial year are:

Name	Position	Appointment / Resignation date
J. Shervington	Non Executive Chairman	Appointed 23 January 2006
M. Krzus	Non Executive Director	Appointed 13 August 2009
M. Rudisill	Non Executive Director	Appointed 6 October 2011
D. Bosio	Non Executive Director	Appointed 20 November 2012
D. DiCosta	Non Executive Director	Appointed 27 December 2012
M. Barron	Company Secretary / CFO	Appointed 24 July 2007, resigned 4 September 2012
N. Featherby	Non Executive Director	Appointed 6 October 2011, resigned 2 August 2012
J. Hannaford	Non Executive Director	Appointed 14 June 2006, resigned 16 July 2012

B. Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The remuneration policy of the Group has been designed to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Key Management Personnel and Directors to run and manage the Group. The Key Management Personnel of the Group are the Executive and Non-Executive Directors and included the previous Company Secretary prior to his resignation on 4 September 2012.

For the purposes of this report, the term 'Executive' encompasses the Executive Directors of the Group. The Board's policy for determining the nature and amount of remuneration for Board members and Key Management Personnel of the Group is as follows:

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate and distinct.

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED) (CONTINUED)

B. Principles used to determine the nature and amount of remuneration (continued)

Fixed Remuneration

The remuneration policy, setting the terms and conditions for the Executive Directors and Key Management Personnel, was developed by the Board. Non executive directors are remunerated on a fixed fee and consultancy basis based on services provided by each person. The Board reviews Key Management Personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non Executive Directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group and are able to participate in employee option plans that may exist from time to time.

Variable remuneration – short term incentive (STI)

There is currently no variable short term incentives provided to management in the form of a STI or bonus program. The Board is of the opinion that the variable long term remuneration provided to Directors and Executives is sufficient to align the interest of management with shareholders.

Variable remuneration – long term incentive (LTI)

Currently, this is facilitated through the issue of options to Key Management Personnel to encourage the alignment of personal and shareholder interests. The Board as a whole agrees upon an appropriate level of remuneration incentive for each Director, relative to their involvement in the management of the consolidated entity. The main performance criteria of the LTI remuneration is increasing shareholder value through aligning the Group with high quality exploration assets, which in turn increase share price. Options issued to Directors may be subject to market based price hurdles and vesting conditions, and the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Group believes this policy will be effective in increasing shareholder wealth.

On the resignation of Directors the options issued as remuneration lapse within 3 months unless exercised. For details of Directors and Key Management Personnel interests in options at year end, refer Note 12(c) of the financial report.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to attract the highest calibre of Key Management Personnel and reward them for performance that results in long-term growth in shareholder wealth.

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED) (CONTINUED)

Key Management Personnel are also entitled to participate in the employee share and option arrangements. Consultants, Executive Directors and other Key Management Personnel do not receive any retirement benefits other than superannuation.

C. Details of Remuneration

Details of the remuneration of the Directors and the Key Management Personnel of Emerald Oil and Gas NL are set out in the following table. All individuals were in office for the full year, unless otherwise stated.

Key Management Personnel of Emerald Oil and Gas NL (Company and Group)

	Short term benefits		Post employment benefits	Share-based payments (LTI)	Total	Performance based remuneration and % consisting of options
	Salary and Fees	Non Monetary	Super-annuation	Options		
	\$	\$	\$	\$	\$	%
2013						
Directors – Non Executive						
Jeremy Shervington (<i>Chairman</i>)	60,000	-	-	-	60,000	0%
Mike Krzus	95,380	-	6,236	-	101,616	0%
McAndrew Rudisill	48,000	-	-	-	48,000	0%
Davide Bosio	29,466	-	2,652	-	32,118	0%
Dino Di Costa	24,000	-	2,160	-	26,160	0%
Nathan Featherby	4,000	-	-	-	4,000	0%
John Hannaford	2,065	-	186	-	2,251	0%
Specified Executives						
Company Secretary/CFO						
Morgan Barron	10,000	-	-	-	10,000	0%
Total	272,911	-	11,234	-	284,145	0%
2012						
Directors – Non Executive						
Jeremy Shervington (<i>Chairman</i>)	60,000	-	-	-	60,000	0%
Laurence Shervington	-	-	-	-	-	0%
John Hannaford	48,000	-	4,320	-	52,320	0%
McAndrew Rudisill	229,022	-	-	-	229,022	0%
Nathan Featherby	36,000	-	-	-	36,000	0%
Specified Executives						
Company Secretary/CFO						
Morgan Barron	60,000	-	-	-	60,000	0%
CEO/COO						
Mike Krzus	309,460	-	27,851	-	337,311	0%
Total	742,482	-	32,171	-	774,653	0%

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED) (CONTINUED)

D. Service Agreements

J Shervington, Non Executive Chairman

- Monthly contract, agreed and reviewed annually
- Director fees of \$60,000 p.a. (2012: \$60,000 p.a.) paid to Drumgaghan Pty Ltd
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

M Rudisill, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: \$48,000)
- Consultancy fees of US\$200,000 p.a. (2012: US\$200,000)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

D Bosio, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

D Di Costa, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

M Krzus, Non Executive Director (from 4 September 2012)

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2012: N/A)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

M Krzus, Managing Director, Chief Executive Officer and Chief Operating Officer (from the beginning of the financial year until 4 September 2012)

- Annual contract, agreed and reviewed annually
- Salary of \$337,311 p.a. (2012: \$337,311 p.a.) inclusive of superannuation
- There are no termination benefits or provisions in the contract
- Agreement terminated 4 September 2012

E. Share-based Compensation

Details of the share-based remuneration of the Directors and the Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group are set out in section 10 above and Note 12 of the financial statements. The options were issued to Directors in prior periods as part of their remuneration and as incentive options to increase goal convergence between Directors and shareholders. The options are granted for no consideration, and are subject to vesting conditions which relate to the continuation of employment.

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED) (CONTINUED)

E. Share-based Compensation (continued)

Where the Director ceases employment prior to the vesting of their options, the options are forfeited unless the termination was as a result of redundancy, death or in other circumstances where the Board believes are fair and reasonable. Vested options will lapse 3 months after termination of an Executive's employment unless exercised. Options granted carry no dividend or voting rights.

The Group currently has no provisions to prohibit Executives from entering into arrangements to protect the value of unvested options. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Options Granted and vested during the year

No Key Management Personnel Options were granted or have vested during the current or comparative year.

The total value of options granted to KMP during the year was \$Nil (2012: \$Nil).

No options issued to KMP's were exercised during the current or comparative year, and no options issued to KMP's expired during the current or comparative year.

F. Additional Information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

The Group issues options to Directors and Executives in order to provide incentives to deliver shareholder returns. In addition to share price performance, Group performance is also reflected in the movement of the Group's earnings or loss per share over time.

Directors' Report (continued)

11. REMUNERATION REPORT (AUDITED) (CONTINUED)

Related party payments

	2013	2012
	\$	\$
1) Legal	75,652	54,230
2) Serviced office charges	11,092	54,000
3) Bookkeeping, financial accounting, company secretary and admin	12,000	67,400
4) Capital raising fees	47,293	47,417
5) Consulting fees	7,656	-

1) Payments made or payable to Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for serviced offices totalling \$11,092 (2012: \$54,000) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for office bookkeeping, financial accounting, company secretarial, capital raising fees and administration services provided by John Hannaford and employees of Ventnor Capital totalling \$12,000 (2012: \$67,400) (excl GST).

4) Payments made or payable to Pelagic Capital Investments Ltd (a company associated with McAndrew Rudisill) for services relating to capital raising totalling \$47,293 (2012: \$47,417).

5) Payments made or payable to Pareto Capital Pty Ltd (a company associated with Davide Bosio and Dino Di Costa) for consulting services totalling \$7,656 (excl GST).

All related party services were provided on normal commercial terms and conditions.

*****End of Remuneration Report*****

Directors' Report (continued)

12. PROCEEDINGS ON BEHALF OF THE GROUP

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

13. SHARE OPTIONS

SHARES UNDER OPTION

At the date of this report, there are 167,600,000 unissued shares under option outstanding.

Date Granted	Expiry Date	Exercise Price	Number shares under option
29/04/2011	30/04/2014	\$0.05	75,800,000
28/06/2011	30/04/2014	\$0.05	41,800,000
28/06/2011	28/06/2014	\$0.05	50,000,000
			167,600,000

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate. On 31 August 2012, 78,744,568 listed options exercisable at \$0.05 expired. A total of 11,388 shares were allotted pursuant to the exercise of Emerald options. On 31 March 2013 5,000,000 unlisted options exercisable at \$0.10 expired.

14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group has paid a premium of \$20,718 (2012: \$18,500) to insure the Directors and Secretary of the Group.

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

Directors' Report (continued)

15. NON-AUDIT SERVICES

There were no non-audit services provided by the Group's auditor, HLB Mann Judd in the current or prior year.

During the year the following fees were paid or payable for services provided by the auditors.

	Consolidated	
	2013	2012
	\$	\$
<i>Paid or payable to HLB Mann Judd:</i>		
Audit and review fees	48,485	33,500

16. AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporation Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 21 and forms part of this directors' report for the year ended 30 June 2013.

17. AUDITOR

HLB Mann Judd continues in office in accordance with Section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



J. Shervington
Chairman
Perth
30 September 2013



ABN: 72 009 795 046

Auditor's Independence Declaration



ABN: 72 009 795 046

Corporate Governance Statement

The Board of Directors is responsible for the corporate governance of the Group. The Board guides and monitors the business activities and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. The Group has adopted 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 Group's needs. The Corporate Governance Statement has been structured with reference to the Australian Stock Exchange Corporate Governance Council's ("Council") "Corporate Governance Principles and Recommendations" to the extent that they are applicable to the Group.

Information about the Group's corporate governance practices available via the Group website are set out below:

THE BOARD OF DIRECTORS

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Group's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

The Group is not currently of a size, nor are its affairs of such complexity, to justify the formation of other separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Group's activities and to ensure that it adheres to appropriate ethical standards.

Corporate Governance Statement (continued)

DIVERSITY

The Group does not have a Diversity Policy in place.

As at 30 June 2013, the proportion of women employed across the Group, as a whole, and at Board level were:

	Number	Number of Women	Percentage
Employees	-	-	Nil
Board	5	-	Nil

INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Group's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

RISK MANAGEMENT SYSTEMS

The identification and management of risk, including calculated risk-taking activity is viewed by the Board as an essential component in creating shareholder value.

Corporate Governance Statement (continued)

RISK MANAGEMENT SYSTEMS (CONTINUED)

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Group has identified and actively monitors a number of risks inherent in the industry in which the Group operates. These include:

- Fluctuations in oil and gas prices
- Rights of tenure
- Depletion of reserves
- Fluctuations in demand for oil and gas
- Loss of significant suppliers and customers
- Increasing cost of operations
- Changes in the regulatory environment

These risk areas are provided to assist shareholders and potential investors to better understand the risks faced by our Group and the industry in which we operate, and are not an exhaustive list of the business risks faced by the Group.

The Board also receives a written assurance from the CEO and Chief Financial Officer (CFO) that to the best of their knowledge and belief, the declaration provided to the Board 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 relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Group. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise that oil and gas exploration is a business with inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Group.

ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board has reviewed its current practices in light of the ASX Principles of Good Corporate Governance and Best Practice Guidelines 2010 2nd edition with a view to making amendments where applicable after considering the Group's size and the resources it has available.

As the Group's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

Corporate Governance Statement (continued)

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE (CONTINUED)

The following table sets out the ASX Corporate Governance Guidelines with which the Company does not comply:

ASX Principle	Reference/comment
Principle 2: Structure the Board to add value	
2.4 The Board should establish a nomination committee	The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening and appointing new Directors. In view of the size and resources available to the Group, it is not considered that a separate nomination committee would add any substance to this process.
Principle 4: Safeguard integrity in financial reporting	
4.1 – 4.4 The Board should establish an audit committee	The Group does not have an audit committee. The Board believes that, given the small number of Directors on the Board, the Board itself is the appropriate forum to deal with this function.
Principle 8: Remunerate fairly and responsibly	
8.1 The Board should establish a remuneration committee	Given the current size of the Board, the Company does not have a remuneration committee. The Board as a whole reviews remuneration levels on an individual basis, the size of the Group making individual assessment more appropriate than formal remuneration policies. In doing so, the Board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.
8.2 Companies should clearly distinguish the structure of Non Executive Director’s remuneration from that of Executive Directors and senior executives.	The Board acknowledges the grant of options to Non Executive Directors’ is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the granting of Director Options to be reasonable in the circumstances, given the necessity to attract and retain the highest calibre of professionals to the Group, whilst maintaining the Group’s cash reserves.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Revenue	5	107,878	123,326
Cost of Sales		(153,503)	(141,097)
Gross loss		<u>(45,625)</u>	<u>(17,771)</u>
Other income	6	-	389,263
Corporate, legal and administration expenses		(680,579)	(602,858)
Consulting and contracting expenses		(286,237)	(413,539)
Fair value losses on financial assets		(128,689)	-
Other expenses	7	-	(794,661)
Loss from operating activities		<u>(1,141,130)</u>	<u>(1,439,566)</u>
Finance income		44,526	93,901
Finance expense		(34,460)	(1,346)
Net finance income	8	<u>10,066</u>	<u>92,555</u>
Loss before income tax		(1,131,064)	(1,347,011)
Income tax benefit	11	-	-
Loss from continuing operations		<u>(1,131,064)</u>	<u>(1,347,011)</u>
Loss from discontinued operations	4	<u>(6,671,291)</u>	<u>(8,416,604)</u>
Loss for the year	9	<u>(7,802,355)</u>	<u>(9,763,615)</u>
Other comprehensive (loss) income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		(207,403)	1,171,053
<i>Reclassification adjustments</i>			
Transfer of foreign exchange reserve on disposal of discontinued operations		(811,915)	-
Other comprehensive (loss) income for the year		<u>(1,019,318)</u>	<u>1,171,053</u>
Total comprehensive loss for the year		<u>(8,821,673)</u>	<u>(8,592,562)</u>
Loss for the year is attributable to:			
Owners of the parent		(7,736,915)	(9,695,166)
Non-controlling interest		(65,440)	(68,449)
		<u>(7,802,355)</u>	<u>(9,763,615)</u>
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(8,774,397)	(8,526,570)
Non-controlling interest		(47,276)	(65,992)
		<u>(8,821,673)</u>	<u>(8,592,562)</u>
Basic loss per share for loss from continuing operations attributable to owners of the parent (cents)	10	(0.113)	(0.155)
Basic loss per share for loss attributable to owners of the parent (cents)	10	(0.822)	(1.175)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2013

	Note	2013 \$	2012 \$
CURRENT ASSETS			
Cash and cash equivalents	13	403,672	504,457
Trade and other receivables	14	40,242	22,073
Financial assets at fair value through profit or loss	15	12,485,233	-
Assets classified as held for sale	4	-	39,737,682
Total current assets		12,929,147	40,264,212
NON-CURRENT ASSETS			
Property, plant and equipment	16	182,037	191,563
Exploration and evaluation expenditure	17	389,068	339,902
Oil and gas assets	18	530,149	569,684
Total non-current assets		1,101,254	1,101,149
TOTAL ASSETS		14,030,401	41,365,361
CURRENT LIABILITIES			
Trade and other payables	19	64,024	172,465
Loans and borrowings	20	-	363,065
Other creditors	21	-	1,076,391
Liabilities classified as held for sale	4	-	17,693,803
Total current liabilities		64,024	19,305,724
TOTAL LIABILITIES		64,024	19,305,724
NET ASSETS		13,966,377	22,059,637
EQUITY			
Issued capital	22	46,356,181	45,627,768
Reserves	23	1,059,713	2,070,580
Accumulated losses		(33,539,990)	(25,803,075)
Total equity attributable to owners of the parent		13,875,904	21,895,273
Non-controlling interest		90,473	164,364
TOTAL EQUITY		13,966,377	22,059,637

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Issued Capital \$	Options Reserve \$	Foreign Exchange Translation Reserve \$	Non-controlling Shareholders Premium Reserve \$	Accumulated Losses \$	Equity attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Total equity at 1 July 2011	42,497,549	1,369,374	(131,700)	(311,681)	(16,150,151)	27,273,391	248,589	27,521,980
Loss for the year	-	-	-	-	(9,695,166)	(9,695,166)	(68,449)	(9,763,615)
<i>Other comprehensive income</i>								
Foreign currency translation differences	-	-	1,168,596	-	-	1,168,596	2,457	1,171,053
Total other comprehensive loss	-	-	1,168,596	-	-	1,168,596	2,457	1,171,053
Total comprehensive loss for the year	-	-	1,168,596	-	(9,695,166)	(8,526,570)	(65,992)	(8,592,562)
<i>Transactions with owners, recorded directly in equity:</i>								
Issue of ordinary shares, net of transaction costs	3,130,219	-	-	-	-	3,130,219	-	3,130,219
<i>Share based payments:</i>								
Options expired during the year	-	(42,242)	-	-	42,242	-	-	-
Non-controlling interest distributions	-	-	-	28,872	-	28,872	(28,872)	-
Non-controlling shareholders premium reserve	-	-	-	(10,639)	-	(10,639)	10,639	-
Total equity at 30 June 2012	45,627,768	1,327,132	1,036,896	(293,448)	(25,803,075)	21,895,273	164,364	22,059,637
Loss for the year	-	-	-	-	(7,736,915)	(7,736,915)	(65,440)	(7,802,355)
<i>Other comprehensive income (loss)</i>								
Exchange gain recognised on disposal of foreign operations	-	-	(811,915)	-	-	(811,915)	-	(811,915)
Exchange differences on translation of foreign operations	-	-	(225,567)	-	-	(225,567)	18,164	(207,403)
Total other comprehensive income (loss)	-	-	(1,037,482)	-	-	(1,037,482)	18,164	(1,019,318)
Total comprehensive loss for the year	-	-	(1,037,482)	-	(7,736,915)	(8,774,397)	(47,276)	(8,821,673)
<i>Transactions with owners, recorded directly in equity:</i>								
Issue of ordinary shares, net of transaction costs	728,413	-	-	-	-	728,413	-	728,413
<i>Share based payments:</i>								
Non-controlling interest distributions	-	-	-	20,028	-	20,028	(20,028)	-
Non-controlling shareholders premium reserve	-	-	-	6,587	-	6,587	(6,587)	-
Total equity at 30 June 2013	46,356,181	1,327,132	(586)	(266,833)	(33,539,990)	13,875,904	90,473	13,966,377

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2013

	Note	2013 \$	2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		99,931	343,765
Interest received		44,526	93,901
Interest paid		(35,806)	-
Payments to suppliers and employees		(1,304,580)	(4,332,663)
Net cash used in operating activities	25	<u>(1,195,929)</u>	<u>(3,894,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(38,465)
Exploration and evaluation expenditure		(1,684,200)	(20,680,951)
Proceeds on sale of subsidiary, net of cash disposed		1,657,328	-
Payment for equity investments		-	(276,315)
Purchase of oil and gas assets		-	(1,173,631)
Settlement of Noxxe litigation		-	373,762
Net cash used in investing activities		<u>(26,872)</u>	<u>(21,795,600)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1,875,354	15,021,047
Repayment of borrowings		(363,065)	-
Proceeds from issue of shares		569	3,085,795
Capital raising costs		(103,017)	(236,944)
Net cash provided by financing activities		<u>1,409,841</u>	<u>17,869,898</u>
Net increase/(decrease) in cash and cash equivalents		187,040	(7,820,699)
Cash and cash equivalents at the beginning of the year		565,742	8,385,274
Effect of exchange rates on cash holding in foreign currencies		(349,110)	1,167
Cash and cash equivalents at the end of the year	13	<u>403,672</u>	<u>565,742</u>

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

Notes to the Financial Statements

For the year ended 30 June 2013

1. Reporting entity

Emerald Oil and Gas NL ("the Company") is a company domiciled in Australia. The Company was incorporated on 15 September 1969 and is a company limited by shares incorporated in Australia.

The consolidated financial statements of the Company for the financial year ended 30 June 2013 comprises the Company and its controlled entities (together referred to as "the Consolidated Entity" or "the Group") and the Group's interest in jointly controlled operations and jointly controlled entities.

The consolidated financial statements were authorised for issue by the Directors on 27 September 2013.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations), adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for disposal groups held for sale, which are measured at fair value.

c) Functional currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of entities comprising the consolidated entity.

d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are discussed below.

Key sources of estimation uncertainty and judgements

Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy requires estimates and assumptions as to whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. This assessment requires estimates and assumptions about the reserves, the timing of expected cashflows and future capital requirements. If after having capitalised the expenditure, a judgement is made that recovery of expenditure is unlikely, an impairment loss is recognised in profit or loss.

e) Adoption of new and revised standards

In the year ended 30 June 2013, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group.

a) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by any member of the Group. Control exists when a member of the Group has the power, directly or indirectly, to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Non-controlling interests

Non-controlling interests are allocated their share of net profit (loss) after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual arrangements.

Jointly controlled assets

The Group's interest in jointly controlled assets is brought to account by recognising in its consolidated financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods produced by the joint venture.

Associates

The Group's interest in associates is brought to account using the equity method of accounting in its consolidated financial statements, after initially being recognised at cost. The associate is a joint venture entity in which the Group is non-operator, but has significant influence.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

a) Principles of consolidation (continued)

Associates (continued)

Under the equity method, the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the consolidated entity's net investment in the associate. Goodwill included in the carrying amount of the associate is not tested separately for impairment, rather the entire carrying amount of the investment is tested as a single asset. If impairment is recognised, the amount is not allocated to the goodwill of the associate. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate and its share of the post-acquisition movements in the reserves of the associate is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of the losses in a associate equals or exceeds its interest, including any unsecured long term receivable and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting date of the associate is 30 June and its accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Transactions eliminated on consolidation

Intragroup balances (including balances related to jointly controlled operations and assets) and any unrealised gains or losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements

Loss of control of a subsidiary

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

b) Revenue

Revenue is recognised and measured at the fair value of the consideration receivable to the extent it is probably that the economic benefits will flow to the Group and the revenue can be measured reliably.

The Group uses the sales method to account for sales of natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

The following specific recognition criteria must also be met before revenue is recognised:

Revenue for product sales is brought to account when the product is passed from the Group's physical control under an enforceable contract, when selling prices are known or can be reasonably estimated and the products are in a form that requires no further treatment by the Group.

c) Finance income and expenses

Finance income comprises interest income and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest rate, applicable.

Finance expenses comprise interest expenses on borrowings, foreign currency losses and impairment losses recognised on financial assets (other than trade receivables).

d) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss, using the effective interest rate, applicable.

e) Leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

f) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

g) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST or overseas equivalent, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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 a current asset or liability in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

h) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at the foreign exchange rates ruling at the dates the fair value was determined.

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at the foreign exchange rates as at the balance date. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates at the dates of the transactions.

Foreign currency differences arising upon translation of foreign operations are recognised in other comprehensive income and presented in the foreign exchange translation reserve (FETR) within equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FETR related to that foreign operation is transferred to the profit or loss as part of the gain or loss on disposal. In the case of a partial disposal that does not result in the consolidated entity losing control over a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount in the FETR is reattributed to non-controlling interests and is not recognised in the profit or loss. For all other partial disposals, the relevant proportion of the cumulative amount in the FETR is transferred to the profit or loss.

When a settlement of a monetary item of receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, unrealised foreign exchange gains and losses on these monetary items are recognised in other comprehensive income and presented in the FETR in equity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

i) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transactions, affects neither the accounting profit nor taxable profit or loss; or

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

i) Income tax (continued)

- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority

Tax consolidation legislation

The company and its wholly owned Australian resident subsidiary have not formed a tax-consolidated group as at the balance date.

j) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

j) Business combinations (continued)

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

k) Impairment of assets

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

k) Business combinations (continued)

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

l) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

m) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at fair value and subsequently at amortised cost less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms or receivables. The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment is recognised in the statement of comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

n) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

Notes to the Financial Statements (continued) For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

o) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

The shares held in Emerald Oil Inc. (see Note 15) are classified as held for trading and included in the category "financial assets at fair value through profit or loss". All gains and losses arising from fair value adjustments on these financial assets are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

p) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

p) Plant and equipment (continued)

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

Derecognition and disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

q) Exploration and evaluation expenditure

Exploration and evaluation expenditure in relation to each area of interest is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward if rights to tenure of the area of interest are current and to the extent that they are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing. Accumulated costs in relation to an abandoned area are written off in full against the statement of comprehensive income in the period in which the decision to abandon the area is made.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

q) Exploration and evaluation expenditure (continued)

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

Once production statements are received from a particular well, the carried costs are transferred to oil and gas assets.

r) Oil & gas assets

Oil and gas assets are recognised at cost less accumulated depletion and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field on a units-of-production basis.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Although an area of interest has entered the development and production phase, exploration activities within the same area of interest may continue. Such costs, although of an exploration nature, are classified as expenditure on development phase properties and are amortised along with carried forward costs and current financial year development expenditure. Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas well.

s) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

t) Interest-bearing loans and borrowings

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

t) Interest-bearing loans and borrowings (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

u) Provisions (continued)

Provision for restoration and rehabilitation (continued)

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

v) Employee leave benefits

Wages, 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 balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

w) Share-based payments

The Group provides benefits to employees (including Directors and KMP) in the form of share-based compensation, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan (ESOP) in place to provide these benefits to Directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes method.

The Black & Scholes option pricing model takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

w) Share-based payments (continued)

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimates of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award is treated as if it were a modification of the original award, as described in the previous paragraph.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

3. Summary of significant accounting policies (continued)

x) Issued capital

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

y) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

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

z) Parent entity financial information

The financial information for the parent entity, Emerald Oil and Gas NL, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Emerald Oil and Gas NL. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

4. Disposal group held for sale and discontinued operations

On 9 July 2012, the Group ("Emerald") reached agreement with Voyager Oil and Gas Inc. (NYSE MKT: VOG) ("Voyager"), a publicly listed company in the United States, for Voyager to acquire Emerald Oil Inc. ("Emerald US"), the Group's wholly owned subsidiary, which holds its US shale oil assets. In this transaction, the Group exchanged its 100% interest in Emerald US for 11.6m ordinary shares in Voyager. The transaction was subsequently completed on 26 July 2012, and on 4 September 2012 Voyager began conducting business as Emerald Oil Inc., with the new trading symbol EOX. Mike Krzus and McAndrew Rudisill accepted roles as CEO and President, respectively, of EOX, and each will serve as a director of EOX. They both remain Emerald directors.

EOX assumed the \$17m of debt carried by Emerald prior to the transaction. Emerald received \$2.5m in cash owed to Emerald as part of the transaction under a pre-existing inter-company arrangement between Emerald and its subsidiary company.

At 30 June 2012 the Group classified its interests in Emerald Oil Inc. and its subsidiaries, Emerald GRB LLC and Emerald WB LLC ("the disposal group"), as assets held for sale under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The loss from discontinued operations of \$6,671,291 (2012: \$8,416,604) is attributable entirely to the owners of the Company.

	Note	2013 \$	2012 \$
Results of discontinued operations			
Revenue		-	170,283
Cost of sales		(40,455)	(1,098,488)
Gross loss		(40,455)	(928,205)
Corporate, legal and administration expenses		(196,858)	(1,278,964)
Consulting and other contracting expenses		-	(697,910)
Borrowing costs ⁽¹⁾		-	(2,166,703)
Impairment of investments accounted for using the equity method ⁽²⁾		-	(2,106,993)
Gain on settlement of financial liability	21	303,596	-
Profit (loss) from operating activities		66,283	(7,178,775)
Finance expense		-	(386,044)
Share of loss of equity – accounted investees		(475)	(311,785)
Impairment loss on re-measurement of disposal group ⁽³⁾		-	(540,000)
Profit (loss) before tax from discontinued operations		65,808	(8,416,604)
Income tax		-	-
Profit (loss) for the year from discontinued operations		65,808	(8,416,604)
Loss on sale of subsidiaries before income tax		(6,737,099)	-
Income tax		-	-
Loss on sale of subsidiaries after income tax		(6,737,099)	-
Loss from discontinued operations		(6,671,291)	(8,416,604)

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

4. Disposal group held for sale and discontinued operations (continued)

- 1) Borrowing costs totalling \$nil (2012: \$2,166,703) associated with certain short term borrowings were expensed as incurred. The proceeds from these borrowing were used to fund exploration and evaluation expenditure in the United States.
- 2) The Directors assessed the carrying value of the group's investment in Slater Dome Gathering LLLP ("SDG, LLLP"), in particular with regard to the net assets of SDG, LLLP and the Group's ability to realise a return on this investment. As result of that review, an impairment adjustment of \$nil (2012: \$2,106,993) has been recognised.
- 3) An impairment loss of \$nil (2012: \$540,000) on the re-measurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised.

	2013	2012
	\$	\$
Cash flows from (used in) discontinued operations		
Net cash used in operating activities	(287,410)	(2,635,361)
Net cash used in investing activities	(1,649,904)	(21,887,214)
Net cash from financing activities	1,875,354	14,651,924
Net cash flows for the year	<u>(61,960)</u>	<u>9,870,651</u>

Details of the sale of subsidiaries:

	2013	2012
	\$	\$
Consideration received:		
Voyager shares received	12,613,922	-
Repayment of intercompany loan	2,500,000	-
Net cash costs and adjustments at settlement	(826,602)	-
Total disposal consideration	<u>14,287,320</u>	-
Carrying amount of net assets sold	(21,836,334)	-
Recognition of foreign exchange reserve on sale	811,915	-
Loss on sale of subsidiaries before income tax	(6,737,099)	-
Income tax	-	-
Loss on sale of subsidiaries after income tax	<u>(6,737,099)</u>	-

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

4. Disposal group held for sale and discontinued operations (continued)

As at the date of sale and 30 June 2012, the carrying amount of assets and liabilities were:

	Date of Sale	30 June 2012
Assets	\$	\$
Cash and cash equivalents	254,256	61,285
Trade and other receivables	1,109,466	185,829
Investments accounted for using the equity method	772,638	784,842
Plant and equipment	34,577	36,137
Exploration and evaluation expenditures	37,670,656	37,578,732
Oil and gas assets	1,073,894	1,090,857
Assets sold/classified as held for sale	<u>40,915,487</u>	<u>39,737,682</u>
Liabilities		
Trade and other payables	1,482,857	1,684,877
Short term loan payable	17,099,099	15,503,876
Provisions	497,197	505,050
Liabilities directly associated with assets sold/classified as held for sale	<u>19,079,153</u>	<u>17,693,803</u>
Net assets sold/attributable to disposal groups classified as held for sale	<u>21,836,334</u>	<u>22,043,879</u>

5. Revenue from continuing operations

	2013	2012
	\$	\$
Sale of gas	107,878	123,326
Total Revenue	<u>107,878</u>	<u>123,326</u>

6. Other Income

	2013	2012
	\$	\$
Other income	-	373,762
Foreign currency gains	-	15,501
Total other income	<u>-</u>	<u>389,263</u>

The company received \$373,762 during the 2012 financial year as settlement for legal proceedings taken against Noxxe LLC for breaching its obligations to Emerald under various agreements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

7. Other expenses

	Note	2013 \$	2012 \$
Impairment of exploration and evaluation expenditures	17	-	778,084
Impairment of oil and gas assets	18	-	16,577
Total		-	<u>794,661</u>

The Directors have considered the licence, exploration and appraisal costs capitalised in respect of the exploration and evaluation assets which are carried at cost. These assets have been assessed for impairment, in particular with regard to remaining lease terms, likelihood of licence renewal, likelihood of further expenditures and ongoing appraisal for each area of interest. After assessing the potential of each project an impairment loss of \$nil (2012: \$778,084) has been recognised.

8. Net finance income

	2013 \$	2012 \$
Interest income	44,526	93,901
Finance income	<u>44,526</u>	<u>93,901</u>
Interest expense on short term borrowings	34,460	1,346
Finance expense	<u>34,460</u>	<u>1,346</u>
Net finance income	<u>10,066</u>	<u>92,555</u>

9. Loss for the year

	2013 \$	2012 \$
Loss before income tax has been determined after:		
a) Employee benefits expense		
Wages, salaries and fees	272,911	742,482
Defined contribution superannuation expense	11,234	32,171
Total employee benefits expense	<u>284,145</u>	<u>774,653</u>
b) Other expenses		
Depreciation and depletion	136,495	121,105
Accretion of provision	-	8,682
Bank charges	2,148	2,170
	<u>138,643</u>	<u>131,957</u>

2012 financial year amounts are prior to reclassifications in respect of discontinued operations.

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

10. Loss per share

	2013	2012
	\$	\$
Basic loss per share for loss from continuing operations attributable to owners of the parent (cents)	(0.113)	(0.155)
Basic loss per share for loss attributable to owners of the parent (cents)	(0.822)	(1.175)
	\$	\$
Loss from continuing operations attributable to owners of the parent	(1,065,624)	(1,278,562)
Loss attributable to discontinued operations	<u>(6,671,291)</u>	<u>(8,416,604)</u>
Loss attributable to owners of the parent	<u>(7,736,915)</u>	<u>(9,695,166)</u>
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculation of basic	941,438,002	824,842,249

The 167,600,000 (2012: 251,344,568) options outstanding at 30 June 2013 are potential ordinary shares but are antidilutive for the periods presented.

11. Income tax

	2013	2012
	\$	\$
(a) Income tax (benefit)		
The major components of income tax (benefit) are:		
Statement of Comprehensive Income		
Current income tax expense	-	-
Deferred income tax expense	-	-
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

11. Income tax (continued)

(b) Numerical reconciliation between aggregate tax benefit recognised in the statement of comprehensive income and tax benefit calculated per the statutory income tax rate

	2013 \$	2012 \$
Loss before income tax	(7,802,355)	(9,763,615)
At statutory income tax rate of 30% (2012: 30%)	(2,340,706)	(2,929,085)
Non-deductible expenses	35,857	252,457
Current tax losses not recognised as a DTA	617,350	3,452,611
Foreign tax rate adjustment	4,113	(734,579)
Non-assessable items	-	(41,404)
Non-deductible loss on sale of subsidiary	1,683,386	-
Income tax benefit	-	-

(c) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Exploration	-	11,515	(30,610)	(2,188,123)	(30,610)	(2,176,608)
Accruals	10,200	15,038	-	(4,460)	10,200	10,578
Business related costs	5,467	65,010	-	(52,753)	5,467	12,257
Investments	-	112,275	-	-	-	112,275
Tax losses	14,943	2,041,498	-	-	14,943	2,041,498
Tax assets/(liabilities)	30,610	2,245,336	(30,610)	(2,245,336)	-	-
Set off of tax	(30,610)	(2,245,336)	-	2,245,336	-	-
Net tax assets/(liabilities)	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2011 \$	Recognised in Income \$	Recognised in Equity \$	Balance 30 June 2012 \$
	Exploration expenditure	(738,595)	(1,438,013)	-
Accruals	281,002	(270,424)	-	10,578
Business related costs	72,370	(60,113)	-	12,257
Investments	-	112,275	-	112,275
Tax losses	385,223	1,656,275	-	2,041,498
	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2012 \$	Recognised in Income \$	Recognised in Equity \$	Balance 30 June 2013 \$
	Exploration expenditure	(2,176,608)	2,145,998	-
Accruals	10,578	(378)	-	10,200
Business related costs	12,257	(6,790)	-	5,467
Investments	112,275	(112,275)	-	-
Tax losses	2,041,498	(2,026,555)	-	14,943
	-	-	-	-

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

11. Income tax (continued)

(c) Unrecognised Deferred Tax Assets and Liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2013	2012
	\$	\$
Unrealised tax loss on EOX shares	38,607	-
Business related costs	165,429	244,080
Tax losses	1,786,640	3,516,286
	<u>1,990,675</u>	<u>3,760,366</u>

(d) Tax losses

Emerald Oil and Gas NL has tax losses arising in Australia which are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met. Emerald Gas USA LLC (US) has tax losses arising in the United States which are available up to a maximum of ten years.

The Group has available Australian tax losses of \$4,990,705 (2012: \$2,813,187), and available USA tax losses are estimated to be \$304,371 (2012: \$8,907,767).

12. Key Management Personnel Disclosures

(a) Key Management Personnel compensation

	Short term benefits	Post employment benefits	Share-based payments (LTI)	Total	% Performance Related
	Salary and Fees	Superannuation	Options		
	\$	\$	\$	\$	%
2013 Consolidated	272,911	11,234	-	284,145	-
2012 Consolidated	742,482	32,171	-	774,653	-

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

12. Key Management Personnel Disclosures (continued)
(b) Share holdings of Key Management Personnel

The movement during the year in the number of ordinary shares in Emerald Oil and Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities is as follows:

2013

Directors	Held at beginning of year	Movement during year*	Options Exercised	Held at 30 June 2013
Directors				
J. Shervington	8,331,915	-	-	8,331,915
M. Krzus	5,709,226	-	-	5,709,226
M. Rudisill	14,750,000	-	-	14,750,000
D. Bosio	-	-	-	-
D. Di Costa	-	-	-	-
N. Featherby	-	-	-	-(1)
J. Hannaford	6,754,221	-	-	6,754,221(2)
Specified Executives				
M. Barron	400,000	-	-	400,000(3)
Total	35,945,362	-	-	35,945,362

2012

Directors	Held at beginning of year	Movement during year*	Options Exercised	Held at 30 June 2012
Directors				
J. Shervington	8,331,915	-	-	8,331,915
M. Krzus	5,709,226	-	-	5,709,226
M. Rudisill	13,534,000(4)	1,216,000	-	14,750,000
N. Featherby	-	-	-	-
J. Hannaford	6,754,221	-	-	6,754,221
Specified Executives				
M. Barron	400,000	-	-	400,000
Total	34,729,362	1,216,000	-	35,945,362

* Movement represents shares purchased via placement, rights issue, or on market during the financial year.

(1) Interest at date of retirement (2 August 2012)

(2) Interest at date of retirement (16 July 2012)

(3) Interest at date of retirement (4 September 2012)

(4) Interest at date of appointment (5 October 2011)

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

12. Key Management Personnel Disclosures (continued)

(c) Option holdings of Key Management Personnel

The movement during the year in the number of options over ordinary shares in Emerald Oil and Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities, is as follows:

2013

Listed Options

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2013	Vested and exercisable at 30 June 2013
Directors					
J. Shervington	2,040,469	(2,040,469)	-	-	-
M. Krzus	5,173,688	(5,173,688)	-	-	-
M. Rudisill	-	-	-	-	-
N. Featherby	-	-	-	-	-
J. Hannaford	1,531,645	(1,531,645) ⁽¹⁾	-	-	-
Specified Executives					
M. Barron	-	-	-	-	-
Total	8,745,802	(8,745,802)	-	-	-

2012

Listed Options

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2012	Vested and exercisable at 30 June 2012
Directors					
J. Shervington	2,040,469	-	-	2,040,469	2,040,469
M. Krzus	5,173,688	-	-	5,173,688	5,173,688
M. Rudisill	-	-	-	-	-
N. Featherby	-	-	-	-	-
J. Hannaford	1,531,645	-	-	1,531,645	1,531,645
Specified Executives					
M. Barron	-	-	-	-	-
Total	8,745,802	-	-	8,745,802	8,745,802

⁽¹⁾ Interest at date of retirement (16 July 2012)

2013

Unlisted Options

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2013	Vested and exercisable at 30 June 2013
Directors					
J. Shervington	-	-	-	-	-
M. Krzus	5,000,000	-	-	5,000,000	5,000,000
M. Rudisill	28,920,000	-	-	28,920,000	28,920,000
D. Bosio	-	-	-	-	-
D. Di Costa	-	-	-	-	-
N. Featherby	-	-	-	-	-
J. Hannaford	-	-	-	-	-
Specified Executives					
M. Barron	-	-	-	-	-
Total	33,920,000	-	-	33,920,000	33,920,000

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

12. Key Management Personnel Disclosures (continued)

2012

Unlisted Options

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2012	Vested and exercisable at 30 June 2012
Directors					
J. Shervington	-	-	-	-	-
M. Krzus	5,000,000	-	-	5,000,000	5,000,000
M. Rudisill	28,920,000 ⁽¹⁾	-	-	28,920,000	28,920,000
N. Featherby	-	-	-	-	-
J. Hannaford	-	-	-	-	-
Specified Executives					
M. Barron	-	-	-	-	-
Total	33,920,000	-	-	33,920,000	33,920,000

⁽¹⁾ Interest at date of appointment (5 October 2011)

(d) Loans to or from Key Management Personnel

As at 30 June 2013 there were no loans to or from any Directors or other KMP.

(e) Other Transactions and balances with Key Management Personnel

Other related parties	2013	2012
	\$	\$
1) Legal	75,652	54,230
2) Serviced office charges	11,092	54,000
3) Bookkeeping, financial accounting, company secretary and admin	12,000	67,400
4) Capital raising fees	47,293	47,417
5) Consulting fees	7,656	-

1) Payments made or payable to Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for serviced offices totalling \$11,092 (2012: \$54,000) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for office bookkeeping, financial accounting, company secretarial, capital raising fees and administration services provided by John Hannaford and employees of Ventnor Capital totalling \$12,000 (2012: \$67,400) (excl GST).

4) Payments made or payable to Pelagic Capital Investments Ltd (a company associated with McAndrew Rudisill) for services relating to capital raising totalling \$47,293 (2012: \$47,417).

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

12. Key Management Personnel Disclosures (continued)

5) Payments made or payable to Pareto Capital Pty Ltd (a company associated with Davide Bosio and Dino Di Costa) for consulting services totalling \$7,656 (excl GST).

All related party services were provided on normal commercial terms and conditions.

13. Cash and Cash equivalents

	2013	2012
	\$	\$
Cash at bank and on hand	403,672	504,457

Reconciliation to statement of cash flows:

For the purposes of the statement of cash flow, cash and cash equivalents comprise of the following:

Cash at bank and on hand (above)	403,672	504,457
Cash and cash equivalents attributable to disposal group held for sale (note 4)	-	61,285
	<u>403,672</u>	<u>565,742</u>

14. Trade and other receivables

	2013	2012
	\$	\$
Current		
Trade debtors	19,986	5,304
Deposits and prepayments	4,186	16,769
Other receivables	16,070	-
	<u>40,242</u>	<u>22,073</u>

Other receivables do not bear interest and their carrying amount is equivalent to their fair value. There are no trade and other receivables considered to be impaired at balance date. There are no past due but not impaired trade and other receivables.

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

15. Financial assets at fair value through profit or loss

	2013	2012
	\$	\$
US listed equity securities	12,485,233	-

The equity investments, being shares in Emerald Oil Inc., are all classified as held for trading. The market value of all equity investments represent the fair value based on quoted prices on active markets (NYSE) as at the reporting date without any deduction for transaction costs. These investments are classified as Level 1 financial instruments. There have been no transfers between levels of the fair value hierarchy used in measuring the fair value of these financial instruments, or changes in its classification as a result of a change in the purpose or use of these assets.

16. Property, plant and equipment

	Plant and Equipment	Total
	\$	\$
Year ended 30 June 2013		
At 30 June 2011 net of depreciation and impairment	210,248	210,248
Additions	38,465	38,465
Depreciation	(32,260)	(32,260)
Effect of foreign exchange	11,247	11,247
Assets classified as held for sale	(36,137)	(36,137)
At 30 June 2012 net of depreciation and impairment	191,563	191,563
Depreciation	(26,323)	(26,323)
Effect of foreign exchange	16,797	16,797
At 30 June 2013 net of depreciation and impairment	182,037	182,037
At 30 June 2013		
Cost	303,394	303,394
Accumulated depreciation	(121,357)	(121,357)
Net carrying amount	182,037	182,037
At 30 June 2012		
Cost	280,245	280,245
Accumulated depreciation	(88,682)	(88,682)
Net carrying amount	191,563	191,563

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

17. Exploration and evaluation expenditure

	2013	2012
	\$	\$
Exploration and evaluation costs carried forward in respect of exploration areas of interest in the USA and Australia	<u>389,068</u>	<u>339,902</u>
<i>Reconciled as follows:</i>		
Balance at the beginning of the year	339,902	17,893,489
Reclassifications to Oil and Gas assets	-	(542,538)
Reclassifications from Investments	-	187,978
Capitalised during the year	20,312	20,653,212
Impairment of exploration and evaluation expenses	-	(778,084)
Impairment loss on re-measurement of disposal group	-	(540,000)
Effect of foreign exchange	28,854	1,044,577
Classified as held for sale	-	(37,578,732)
Balance at the end of the year	<u>389,068</u>	<u>339,902</u>

Throughout the financial year the Board of Directors reviewed exploration and evaluation costs capitalised on its projects and made impairment adjustments to a number of its prospects based on the directors' assessment of the assets' recoverable amount.

The directors have considered the licence, exploration and appraisal costs capitalised in respect of the exploration and evaluation assets which are carried at cost. These assets have been assessed for impairment, in particular with regard to remaining lease terms, likelihood of licence renewal, likelihood of further expenditures and ongoing appraisal for each area of interest. After assessing the potential of each project an impairment loss of \$nil (2012: \$778,084) has been recognised.

The recoverability of the carrying amount of deferred exploration and evaluation expenditure is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

18. Oil and gas assets

	2013	2012
	\$	\$
Costs carried forward in respect of: Oil and gas assets, at cost	530,149	569,684

Reconciliation:
Reconciled as follows:

Carrying amount at beginning of the year	569,684	-
Transfer from exploration and evaluation assets	-	542,538
Additions	16,851	1,176,335
Depletion for the year	(122,422)	(88,845)
Impairment	-	(16,577)
Effect of foreign exchange	66,036	47,090
Classified as held for sale	-	(1,090,857)
Carrying amount at end of the year	530,149	569,684

19. Trade and other payables

	2013	2012
	\$	\$
Trade creditors	30,024	72,252
Accruals	34,000	100,213
	64,024	172,465

Trade payables are non-interest bearing, unsecured and are usually paid within 30 days of recognition.

20. Loans and borrowings

	2013	2012
	\$	\$
Short term loans – convertible notes	-	363,065
	-	363,065

These loans were unsecured and were fully repaid during October 2012. The loans earned interest at 20% per annum. Interest totalling \$1,346 was accrued on these loans at 30 June 2012.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

21. Other creditors

	2013	2012
	\$	\$
Accrued borrowing costs	-	1,076,391
	<u>-</u>	<u>1,076,391</u>

At 30 June 2012 other creditors included the cost of refinancing certain short term borrowings, classified as held for sale. This liability was discharged by the issue of 44,849,635 ordinary shares in Emerald Oil and Gas NL on 18 July 2012 (refer Note 22(b)). The fair value of the shares issued was less than the outstanding liability, this resulted in a gain on settlement of the financial liability of \$303,596 which is disclosed as part of discontinued operations (refer Note 4). An additional foreign exchange gain of \$10,351 was also recorded.

22. Issued share capital

	Number of Shares	\$
(a) Issued and Paid Up Capital		
Fully paid ordinary shares	898,790,281	45,627,768
(b) Movements in fully paid shares on issue		
Opening balance as at 1 July 2011	785,309,196	42,497,549
Issue of shares		
Issued for cash on 23 Dec 2011	14,100,000	423,000
Issued for cash on 10 Jan 2012	8,247,447	247,795
Issued for cash on 01 Feb 2012	11,666,666	350,000
Issued for cash on 03 Feb 2012	2,500,000	75,000
Issued in lieu of borrowing and transaction costs on 01 March 2012	10,633,639	319,009
Issued for cash on 07 March 2012	16,333,333	490,000
Issued for cash on 21 March 2012	47,000,000	1,410,000
Issued for cash on 22 March 2012	3,000,000	90,000
Share issue costs	-	(274,585)
Total fully paid shares on issue at 30 June 2012	<u>898,790,281</u>	<u>45,627,768</u>
Issue of shares		
Issued in lieu of borrowing and transaction costs on 18 July 2012	44,849,635	762,444
Issued for cash on conversion of options	11,388	569
Share issue costs	-	(34,600)
Total fully paid shares on issue at 30 June 2013	<u>943,651,304</u>	<u>46,356,181</u>

Consolidated Entity

The issued capital of the Group comprises the issued capital of Emerald Gas Pty Ltd, a company deemed to be the acquirer of Emerald Oil and Gas NL under a reverse acquisition transaction. The monetary share capital balance represents the equity in Emerald Gas Pty Ltd at the time of the acquisition plus the fair value of the equity held in Emerald Oil and Gas NL and subsequent transactions with equity holders of Emerald Oil and Gas NL in their capacity as equity holders.

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

22. Issued share capital (continued)

(c) Terms and conditions of issued capital

Ordinary shares have the right to receive dividends as declared, and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(d) Share Options

Information relating to options issued, exercised and expired during the financial year and options outstanding at the end of the financial year, is set out below:

Parent Entity and Group	2013 No.	2012 No.
Balance at beginning of the year	251,344,568	263,005,683
Issued during the year	-	-
Exercised during the year	(11,388)	-
Expired during the year	(83,733,180)	(11,661,115)
Balance at the end of the year	<u>167,600,000</u>	<u>251,344,568</u>

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the Group's development there are no formal targets set for return on capital. Capital consists of issued capital as disclosed in the statement of financial position. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

23. Reserves

Nature and purpose of reserves

- 1) Options reserve - the options reserve is used to record the value of options issued for the services provided by employees and consultants.
- 2) Foreign exchange translation reserve - the foreign exchange translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
- 3) Non-controlling shareholders premium reserve - arises as a result of the adjustment made to the interest of non-controlling shareholders in the equity of Kentucky Energy Partners LLC.

Refer to the statement of changes in equity for movements in reserves for the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

24. Segment reporting

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the location of activity. Discrete financial information about each of these locations is reported to the Board of Directors on at least a monthly basis.

Reportable segments requiring disclosure are operating segments that meet any of the following thresholds:

- Segment loss greater than 10% of combined loss of loss making operating segments; and
- Segment assets greater than 10% of combined assets of all operating segments.

In accordance with AASB 8 *Segment Reporting*, the reportable segments are based on aggregated operating segments determined by the similarity of the locations, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Once reportable segments have been identified, all remaining segments that do not satisfy the thresholds are to be aggregated together to form an "all other segments" reporting segment. In accordance with AASB 8 corporate and administration activities are included in the 'all other segments' reporting segment.

The Group operates in one business segment, being the exploration of oil and gas, and two geographical segments, being Australia and USA.

Description of Operating Segments

Appalachian (USA) continuing operation

Emerald's subsidiaries Emerald Gas USA Holdings LLC, Emerald Gas Developments LLC, Emerald Kentucky Gas Ventures LLC and Kentucky Energy Partners LLC undertake onshore oil and gas exploration activities in the USA. The combined operations of these entities represent a single reportable segment.

Texas (USA) continuing operation

Emerald's subsidiary Emerald Gas USA LLC undertakes onshore oil and gas exploration activities in the USA. This entity's activities form both an operating and reportable segment.

Shale (USA) discontinued operations

The disposal group of Emerald Oil Inc., Emerald GRB LLC and Emerald WB LLC undertook onshore oil and gas exploration activities in the Green River Basin and Williston Basin areas of USA prior to disposal. The combined operations of these entities represent a single reportable segment. Refer to note 4 for details of the sale of the disposal group during the year.

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

24. Segment reporting (continued)

All Other Segments (Australia)

Emerald Gas Pty Ltd, a wholly owned subsidiary of the Company, is the holder of onshore and offshore leases in the north west of Western Australia which are prospective for hydrocarbons. The Australian oil and gas exploration operating segment does not meet the thresholds for reportable segments and have been included in all other segments for reporting purposes, which includes the administrative costs of the Company.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 to the financial statements.

2013 Geographical segment	Continuing Operations	Continuing Operations	Discontinued Operations	Australia All other segments	Consolidated
	USA Appalachian \$	USA Texas \$	USA Shale \$		
Segment revenues	107,878	-	-	-	107,878
Segment result	(256,368)	-	(6,671,291)	(874,696)	(7,802,355)
Segment assets	1,058,622	-	-	12,971,779	14,030,401
Segment liabilities	(13,250)	-	-	(50,774)	(64,024)
Included in segment result:					
Interest income	-	-	-	44,526	44,526
Interest expense	-	-	-	(34,460)	(34,460)
Depreciation and depletion	(135,980)	-	(1,005)	(515)	(137,500)
Acquisition of non-current assets	37,163	-	674,114	11,050	722,327

2012 Geographical segment	Continuing Operations	Continuing Operations	Discontinued Operations	Australia All other segments	Consolidated
	USA Appalachian \$	USA Texas \$	USA Shale \$		
Segment revenues	123,326	-	170,283	-	293,609
Segment result	(339,144)	(141,921)	(8,416,604)	(865,946)	(9,763,615)
Segment assets	1,441,336	-	39,737,682	186,343	41,365,361
Segment liabilities	(18,197)	-	(17,693,803)	(1,593,724)	(19,305,724)
Included in segment result:					
Interest income	-	-	-	93,901	93,901
Interest expense	-	-	(386,044)	(1,346)	(387,390)
Other income	-	373,762	-	15,501	389,263
Borrowing costs	-	-	(2,166,703)	-	(2,166,703)
Net impairment (losses)/reversals:					
Exploration properties	(67,574)	(482,459)	(540,000)	(228,052)	(1,318,084)
Oil and gas assets	(16,577)	-	-	-	(16,577)
Investments	-	-	(2,106,993)	-	(2,106,993)
Depreciation and depletion	(95,212)	-	(23,297)	(2,596)	(121,105)
Acquisition of non-current assets	(204,345)	-	(21,860,482)	(77,804)	(22,142,631)

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

25. Statement of Cash Flows

Reconciliation of cash flows from operations with loss after income tax:

Cash flows from operating activities	2013 \$	2012 \$
Loss for the year	(7,802,355)	(9,763,615)
Adjustments for non-cash items and reclassifications:		
Borrowing costs	(303,596)	1,013,367
Depreciation & depletion of assets	136,495	121,105
Fair value losses on financial assets at fair value through profit or loss	128,689	-
Accretion of provisions	-	8,682
Impairment of non-current assets	-	794,661
Interest payable	-	387,390
Impairment of equity investments	-	2,106,993
Effect of exchange rates	-	(15,501)
Bad debts	-	2,172
Share of loss of equity investments	475	311,785
Loss on re-measurement of disposal group	-	540,000
Settlement of Noxxe litigation reclassified	-	(373,762)
Loss on sale of subsidiaries	6,737,099	-
	(1,136,184)	(4,866,723)
<i>Changes in operating assets and liabilities</i>		
Change in trade creditors and accruals	(90,637)	921,570
Change in trade and other receivables	(2,099)	50,156
Cash flows used in operations	(1,195,929)	(3,894,997)

26. Interest in controlled entities

The Company has the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Class of Shares	Percentage held	
			2013	2012
Emerald Gas USA LLC	USA	Ordinary	100%	100%
Emerald Gas Pty Ltd	Australia	Ordinary	100%	100%
Emerald Gas USA Holdings Inc	USA	Ordinary	100%	100%
Emerald Gas Development USA LLC	USA	Ordinary	100%	100%
Emerald Gas Kentucky Ventures LLC	USA	Ordinary	100%	100%
Kentucky Energy Partners LLC	USA	Ordinary	75%	75%
Emerald Oil Inc ⁽¹⁾	USA	Ordinary	-	100%
Emerald GRB LLC ⁽¹⁾	USA	Ordinary	-	100%
Emerald WB LLC ⁽¹⁾	USA	Ordinary	-	100%

(1) Entity part of disposal group, refer Note 4.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

27. Related party transactions

(a) Parent Entity

The parent entity within the Group is Emerald Oil and Gas NL.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 26.

(c) Key Management personnel

Disclosures relating to key management personnel are set out in Note 12.

Transactions with related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

28. Parent entity disclosures

Financial Position

	2013	2012
	\$	\$
Assets		
Current assets	12,869,745	463,237
Non-current assets	1,056,933	2,100,436
Assets held for sale ⁽¹⁾	-	21,089,689
Total assets	13,926,678	23,653,362
Liabilities		
Current liabilities	50,774	1,593,725
Total liabilities	50,774	1,593,725
Equity		
Issued capital	126,718,839	125,990,426
Accumulated losses	(114,170,067)	(105,257,921)
Options reserve	1,327,132	1,327,132
Total Equity	13,875,904	22,059,637

Financial Performance

	2013	2012
	\$	\$
Loss for the year	(8,912,146)	(8,408,515)
Other comprehensive income	-	-
Total comprehensive loss	(8,912,146)	(8,408,515)

(1) Assets held for sale consisted of the carrying value of the Company's investment in Emerald Oil Inc. and subsidiaries totalling \$18,589,689 and amounts due from Emerald Oil Inc. totalling \$2,500,000.

Notes to the Financial Statements (continued)
 For the year ended 30 June 2013

29. Auditor's remuneration

	2013	2012
	\$	\$
Amounts received or due and receivable by HLB Mann Judd: Audit and review of the financial reports of the Company and any other entity in the Group	48,485	33,500

30. Share based payments

Share-based payment transactions

The Group completed the following share-based payment transactions during the year that have been recognised in the Consolidated Statement of Financial Position:

	Shares	Options
	2013	2013
	No.	No.
Shares issued in lieu of borrowing costs	44,849,635	-

On 18 July 2012, 44,849,635 shares were issued in lieu of borrowing costs associated with certain short term borrowings that were part of the disposal group. The shares were issued at a deemed issue price of \$0.017 per share. The value of the shares issued was less than the outstanding liability, this resulted in a gain on settlement of the financial liability of \$303,596 which is disclosed as part of discontinued operations (refer Note 4).

Fair value of options granted

There were no options granted in the year ended 30 June 2013 (2012: Nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

31. Contingencies

The Directors are not aware of any other contingencies that the Company is party to that are quantifiable. Contingencies in relation to joint venture assets held are set out in Note 32.

32. Joint Venture assets

The capitalised exploration expenditure in the statement of financial position includes the costs incurred on the following non-operated exploration joint venture assets:

Kentucky (USA) – Appalachian Basin

KEP Projects – 75% equity interest in Kentucky Energy Partners LLC, which is progressing gas projects located in Kentucky, USA. Carrying value of exploration assets at 30 June 2013: \$817,183 (2012: \$818,602).

North West Alice (USA)

35% working interest (2012: 35%) in the North West Alice gas exploration project located in Texas. Carrying value at 30 June 2013: \$nil (2012: \$nil).

EP104/Retention Lease R1 – Canning Basin (Western Australia) – 14.17% (2012: 14.17%) working interest in the EP104 and R1 oil and gas joint ventures with projects located in the Canning basin in Western Australia. Carrying value at 30 June 2013: \$102,034 (2012: \$90,684).

Joint venture commitments and contingencies

The Directors are not aware of any other contingent liabilities or commitments arising from the Joint Venture operations.

33. Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange and interest rate and credit risks.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar. Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to exchanges in foreign exchange rates. Emerald is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency. Risks are managed at Board level but there are currently no formal measures in place.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

33. Financial Risk Management (continued)

b) Market risk

Price risk

The Group is exposed to equity securities price risk through the investments in securities classified on the statement of financial position as at fair value through profit or loss. Risks are managed at Board level but there are currently no formal measures in place. Refer to Note 34 for price risk exposure and sensitivity analysis.

The Group is exposed to commodity price risk through the future sales of oil and gas. During the current year, a total of \$107,878 (2012: \$293,609) was received or receivable from oil and gas sales. This amount is considered immaterial and therefore a sensitivity analysis has not been included in the financial statements.

c) Credit risk

The maximum exposure of the Group and the Company to credit risk at balance date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the statement of financial position. The credit risk relates to trade and other receivables and deposits. At balance date there are no receivables past due. The Group monitors its receivables regularly to minimise its exposure to credit risk. Emerald is currently aligned with financial institutions that demonstrate high credit quality, significantly mitigating credit risk in regard to the Group's financial assets. Emerald has no significant concentration of credit risk at 30 June 2013.

d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cashflows.

e) Cashflow and Fair value Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the Group's floating interest rate cash balance which is subject to movements in interest rates. The Board monitors its cash balance on an ongoing basis and liaises with its financiers regularly to mitigate cash flow and interest rate risk. Refer to Note 34 for interest rate risk exposure and sensitivity analysis.

There were no changes to the risk management policies from prior years.

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

34. Financial Instruments

a) *Fair value*

All financial assets and financial liabilities recognised in the statement of financial position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

b) *Interest rate risk*

At 30 June 2013, the interest rate profile of the Group's interest-bearing financial instruments was:

	Floating interest rate	Non interest bearing	Total
	\$	\$	\$
2013 Consolidated			
<i>Financial assets</i>			
Cash and cash equivalents	348,039	55,633	403,672
Trade and other receivables	-	40,242	40,242
<i>Financial Liabilities</i>			
Trade and other payables	-	(64,024)	(64,024)
Net assets	<u>348,039</u>	<u>31,851</u>	<u>379,890</u>
2012 Consolidated			
<i>Financial assets</i>			
Cash and cash equivalents	71,287	433,170	504,457
Trade and other receivables	-	22,073	22,073
<i>Financial Liabilities</i>			
Trade and other payables	-	(172,465)	(172,465)
Loans and borrowings	(363,065)	-	(363,065)
Net assets (liabilities)	<u>(291,778)</u>	<u>282,778</u>	<u>(9,000)</u>

b) *Interest rate risk (continued)*

Sensitivity Analysis

A change of 150 basis points (2012: 150 basis points) in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

Risk Variable	Sensitivity	Effect On:		Effect On:	
		Results 2013	Equity 2013	Results 2012	Equity 2012
		\$	\$	\$	\$
Interest Rate	+ 1.50%	5,220	5,220	(4,452)	(4,452)
	- 1.50%	(5,220)	(5,220)	4,452	4,452

Notes to the Financial Statements (continued)
For the year ended 30 June 2013

34. Financial Instruments (continued)

c) Currency risk

At 30 June 2013 the Group had the following exposures to US\$ foreign currency risk that is not designated in cash flow hedges:

	2013	2012
	\$	\$
<i>Financial assets</i>		
Cash and cash equivalents	41,966	422,928
Trade receivables	13,250	5,303
Financial assets at fair value through profit or loss	12,485,233	-
Total financial assets	12,540,449	428,231
Trade payables and other payables	(13,250)	(18,197)
Short term loans	-	(363,065)
Net exposure	12,527,199	46,969

Risk Variable	Sensitivity	Effect On:		Effect On:	
		Results 2013	Equity 2013	Results 2012	Equity 2012
		\$	\$	\$	\$
AUD:USD rate	+ 10.0%	(1,252,720)	(1,252,720)	470	470
	- 10.0%	1,252,720	1,252,720	(470)	(470)

The possible fluctuation in exchange rates between the Australian and US dollar of +/- 10% (2012: 10%) has been determined by the Board of Directors as being a 'reasonably possible' estimate of movement. This analysis assumes that all other variables, in particular price risk, remain constant.

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

34. Financial Instruments (continued)

d) Liquidity risk

The table below sets out the Group's financial liabilities into relevant maturing groups, based on the remaining period at 30 June 2013 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including the estimated interest payments.

	Carrying amount liabilities	Contractual cash flows	Less than 12 months
	\$	\$	\$
2013			
Trade and other payables	64,024	64,024	64,024
Total	<u>64,024</u>	<u>64,024</u>	<u>64,024</u>
2012			
Trade and other payables	172,465	172,465	172,465
Loans and borrowings	363,065	394,557	394,557
Total	<u>535,530</u>	<u>567,022</u>	<u>567,022</u>

e) Price risk

At 30 June 2013 the Group was exposed to equity securities price risk due to its investment in Emerald Oil Inc ("EOX") which is publicly traded on the NYSE:

	2013	2012
	\$	\$
<i>Financial assets</i>		
Financial assets at fair value through profit or loss	12,485,233	-
Total financial assets	<u>12,485,233</u>	<u>-</u>
Net exposure	<u>12,485,233</u>	<u>-</u>

A change of 10% (2012: N/A) in the quoted share price at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Risk Variable	Sensitivity	Effect On:		Effect On:	
		Results 2013	Equity 2013	Results 2012	Equity 2012
		\$	\$	\$	\$
EOX share price	+ 10.0%	1,248,523	1,248,523	-	-
	- 10.0%	(1,248,523)	(1,248,523)	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2013

35. Events subsequent to balance date

The Group is not aware of any matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Group, the results of those operations or the state of affairs of the Company and Group in subsequent financial years, other than the following:

Deed for Merger with Ochre Group Holdings Limited ("OHG")

Emerald has entered into an Implementation Deed ("the Deed") with OGH. The Deed sets out the steps in implementing a scheme of arrangement under which, if determined to be in the best interests of Emerald shareholders and subsequently approved by Emerald shareholders, Emerald shares would be acquired by OGH in exchange for an issue of shares in OGH.

The obligations of Emerald under the Deed are subject to there being no "Superior Proposal" being made by a third party to Emerald and a corresponding provision applies to OGH.

The intent of the Deed is, in essence, that, pursuant to a scheme of arrangement ("the proposed Scheme"), Emerald shareholders would receive one fully paid ordinary share in OGH in exchange for each 2.75 ordinary fully paid shares held in Emerald. The proposed Scheme does not include any terms for the acquisition of the existing unlisted options in Emerald (117,600,000 5 cent 30 April 2014 options and 50,000,000 5 cent 28 June 2014 options).

Sale of Participating Interests – EP104 & R1

On 29 July 2013, Emerald advised the market that it had executed a Sale Agreement over all its Canning Basin interests with Key Petroleum Limited.

Emerald's Canning Basin interests included in the Sale Agreement consist of a 24.98% beneficial interest in Exploration Permit 104 and a 14.17% beneficial interest in Retention Lease 1.

The consideration to be paid for these interests by Key Petroleum consists of –

- (i) \$50,000 cash, and
- (ii) the issue of 4 million ordinary fully paid shares in Key Petroleum Limited to Emerald (or its nominee).

The transfer of the above registered interests is conditional upon standard approval by the Department of Mines and Petroleum.



ACN: 009 795 046

Directors' Declaration

In the opinion of the directors of Emerald Oil and Gas NL ("the Company"):

a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:

- i. giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year then ended; and
- ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2013.

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

On behalf of the Board

A handwritten signature in black ink, appearing to be "J. Shervington", written over a faint, light-colored signature line.

J. Shervington
Chairman
Perth
30 September 2013



ACN: 009 795 046

Independent Auditor's Report



ACN: 009 795 046

Independent Audit Report (continued)

ASX Additional Information

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

Shareholdings

The issued capital of the Company at 27 September 2013 is 943,651,304 ordinary fully paid shares. All ordinary shares carry one vote per share.

Top 20 Shareholders as at 27 September 2013

	No. of Shares Held	% Held
1 OCHRE PETROLEUM PTY LTD	155,650,000	16.49%
2 DESERTFOX PTY LTD	66,372,627	7.03%
3 P & L CAPITAL INVESTMENTS PTY LTD	66,372,627	7.03%
4 HSBC CUSTODY NOMINEES AUST LTD	55,500,873	5.88%
5 HSBC CUSTODY NOMINEES AUST LIMITED	45,240,380	4.79%
6 CITICORP NOMINEES PTY LTD	32,186,644	3.41%
7 JEMAYA PTY LTD	30,600,000	3.24%
8 BAHEN MARK JOHN	21,299,435	2.26%
9 BLU BONE PTY LTD	19,600,000	2.08%
10 UBS NOMINEES PTY LTD	18,226,800	1.93%
11 ALBA CAPITAL PTY LTD	16,500,000	1.75%
12 MERRILL LYNCH AUST NOMINEES PTY LTD	16,333,333	1.73%
13 KOBIA HLDGS PTY LTD	15,680,000	1.66%
14 DANIEL PAUL WISE	14,099,096	1.49%
15 TARNEY HOLDINGS PTY LTD	11,000,000	1.17%
16 HAMMERHEAD HLDGS PTY LTD	10,600,000	1.12%
17 FLUE HOLDINGS PTY LTD	8,968,389	0.95%
18 MERRILL LYNCH AUST NOMINEES PTY LTD	8,653,736	0.92%
19 ANDREW ROACH	8,436,000	0.89%
20 WILLIAM FLEMING	8,000,000	0.85%
	629,319,940	66.67%

Shares Range

	No. of Holders	No. of Shares
1 – 1,000	293	48,809
1,001 – 5,000	86	289,742
5,001 – 10,000	229	1,670,325
10,001 – 100,000	566	21,057,464
100,001 and over	366	920,584,964
	1,540	943,651,304

Number holding less than a marketable parcel size of 50,000 shares at \$0.01 per share

1,022 11,357,254

Shareholders by Location

	No. of Holders	No. of Shares
Australian holders	1,491	925,033,529
Overseas holders	49	18,617,775
	1,540	943,651,304

Voting Rights

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

ASX Additional Information (continued)

Substantial Shareholders as at 27 September 2013

	<u>No. of Shares Held</u>	<u>% Held</u>
1 Ochre Group Holdings Limited	155,650,000	16.49%
Desertfox Pty Ltd	66,372,627	7.03%
P & L Capital Investments Pty Ltd	66,372,627	7.03%

Unquoted Securities

At 27 September 2013, the Company has a total of 167,600,000 unlisted options as follows:

<u>Number of Options</u>	<u>Number of Holders</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
117,600,000	12	\$0.05	30 April 2014
50,000,000	24	\$0.05	28 June 2014
167,600,000	36		

Unlisted Option Holders holding greater than 20% of a class of unlisted option

Unlisted options exercisable at \$0.05 expiring on 30 April 2014	<u>No. of Options Held</u>	<u>% Held</u>
Libra Fund LP	27,858,211	24%
Libra Offshore Master Fund LP	24,221,789	21%
Unlisted options exercisable at \$0.05 expiring on 28 June 2014	<u>No. of Options Held</u>	<u>% Held</u>
Pelagic Capital Investments	25,000,000	50%