



**EMERALD**  
OIL AND GAS NL

**ABN: 72 009 795 046**

**ANNUAL FINANCIAL REPORT**

**for the year ended 30 June 2012**



**ABN: 72 009 795 046**

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This financial report covers the consolidated entity consisting of Emerald Oil & 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 & Gas NL is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Emerald Oil & 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 review of operations and activities in the Directors' Report on pages 4 to 25.



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## Corporate Information

### **Directors:**

Jeremy Shervington  
*Chairman*

McAndrew Rudisill  
*Non Executive Director*

Mike Krzus  
*Managing Director*

### **Company Secretary**

Graeme Smith

### **Auditors:**

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

### **Solicitors:**

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

### **Registered & Principal Office:**

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

### **Postal Address:**

P.O. Box 1153  
WEST PERTH, WA, 6872

### **Home Securities Exchange:**

Australian Securities Exchange  
Limited  
Exchange Plaza  
2 The Esplanade  
PERTH, WA, 6000

ASX Codes – EMR

### **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



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## Letter from the Chairman

Dear Shareholder,

The past year has brought major changes to the Group's asset base and business direction.

Shortly after last year's annual report was released, the Group announced its US Shale strategy, which involved growing Emerald shareholder value by establishing its wholly owned US subsidiary as an active US shale player, selectively pursuing value accretive shale acquisitions and accessing US capital markets to fund these acquisitions and related drilling programs.

Consistent with this strategy, in February 2012, the Group, through its USA subsidiary Emerald Oil Inc., acquired approximately 10,500 net lease acres located in Williston Basin in Dunn County, North Dakota, USA, including a 7.5% WI in a producing Middle Bakken oil well located on the acreage. The \$US11.85 million transaction was fully funded with a secured debt facility from a private US investor at the USA subsidiary level and included operated acreage on which the Group intended to develop its US operating capability.

Subsequent to the balance date, 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. 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).

With the Voyager transaction, Emerald exchanged its direct interests in two US shale oil assets for a substantial ownership interest in a larger company with current oil production between 900 and 1000 barrels per day of oil equivalent from Williston Basin oil wells and a much deeper and more diverse shale oil portfolio. This relieved the Group of a substantial funding burden to drill its shale oil assets and provided a more robust value proposition for Emerald shareholders, based on an aggressive Williston basin oil drilling plan.

We are currently reviewing a number of options to extract maximum shareholder value from the Group's EOX shareholding, including potentially distributing EOX shares in specie to Emerald shareholders. Tax and regulatory issues are being clarified in preparation for a proposal to shareholders. Any EOX share distribution or other potential transactions involving EOX shares would be subject to compliance with all applicable SEC Regulations, including, among other things, potential registration of any EOX transactions with the United States Securities and Exchange Commission.

Emerald's Appalachian gas business and our exploration activity in the Canning Basin will be unaffected and directors are actively considering new opportunities, in Australia and elsewhere with the potential to add substantial value for Emerald shareholders.

As the Group is no longer required to actively manage direct interests in its US shale assets, which was the main activity focus during the past year, the Group has restructured its board, management and operating practices to minimize costs while directors consider new opportunities. It is expected that the board and management will be optimally restructured in response to subsequent substantial transactions and circumstances relevant at that time.



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## Letter from the Chairman (continued)

Looking forward, Emerald's strategy will be to deliver maximum value to shareholders from its EOX holding, progress the current Appalachian gas business and ongoing Canning basin exploration, while reviewing opportunities for a substantial new opportunity to provide further Group growth potential.

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.

A handwritten signature in black ink, appearing to read "Jeremy Shervington", is written across the page. The signature is fluid and cursive, starting with a large loop and ending with a horizontal stroke that tapers to a point.

Yours sincerely,  
**Jeremy Shervington**  
**Chairman**



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## 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 2012.

### **1. DIRECTORS**

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

**Jeremy Shervington B.Juris, LLB (56)** - 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)

Non Executive Chairman, Ridge Resources Ltd (appointed 11 November 2010)

#### **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, Northern Manganese Limited (appointed 11 May 2006, resigned 22 March 2010)

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 Director, Stirling Resources Limited (appointed 13 July 2009, resigned 18 June 2010)



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## Directors' Report (continued)

### **1. DIRECTORS (CONTINUED)**

**Mike Krzus BSc (Petroleum Engineering) GAIDC, SPE. (54)** - appointed 13 August 2009

*Chief Executive Officer, Chief Operating Officer and Managing Director*

#### **EXPERIENCE AND EXPERTISE**

Mike Krzus has over 29 years' experience managing technical and business areas in upstream oil and natural gas, liquefied natural gas and geothermal gas. 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 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 & 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**

None

#### **OTHER DIRECTORSHIPS IN THE LAST THREE YEARS**

None

**Nathan Featherby (B.Com) (32)** - appointed 5 October 2011, resigned 2 August 2012

*Non Executive Director*

#### **EXPERIENCE AND EXPERTISE**

Nathan Featherby has 10 years of investment banking and natural resources investment experience. Mr Featherby is a co-founder of Ochre Management Pty Ltd ("Ochre"), a Western Australian merchant bank which focuses on corporate advisory and proprietary investments in small to medium capitalization mining and exploration companies. Prior to founding Ochre, Mr Featherby was a stockbroker and independent financier in Australia with a specialization in resources. Nathan holds a Bachelor of Commerce degree from Curtin University, Western Australia.

#### **OTHER CURRENT DIRECTORSHIPS**

Director, Rico Resources Limited (appointed 6 August 2012)

#### **OTHER DIRECTORSHIPS IN THE LAST THREE YEARS**

None.

## Directors' Report (continued)

### 1. DIRECTORS (CONTINUED)

**McAndrew Rudisill (BA (Econ) Hons) (33)** - appointed 5 October 2011

*Non Executive Director*

#### **EXPERIENCE AND EXPERTISE**

McAndrew Rudisill has 11 years of investment management and investment banking experience in the natural resources sector. Mr. Rudisill is the President and Director of Emerald Oil Inc, (NYSE MKT: EOX) 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 Rico Resources (ASX: RRI) and serves as a trustee of the Tiger Foundation, which is a philanthropic organization 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, Rico Resources Ltd (appointed 30 September 2011)

#### **OTHER DIRECTORSHIPS IN THE LAST THREE YEARS**

None.

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

*Non Executive Director*

#### **EXPERIENCE AND EXPERTISE**

Mr Hannaford is a Chartered Accountant who has worked in various corporate roles within the resources sector in Australia, Asia and Europe. Mr Hannaford is a Fellow of the Financial Services Institute of Australasia, an Associate of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce Degree.

#### **OTHER CURRENT DIRECTORSHIPS**

Non-Executive Director, Jaguar Minerals Limited (appointed 30 November 2011)

Non Executive Director, Monterey Mining Group Limited (appointed 21 December 2010)

Non Executive Chairman, Strickland Resources Limited (appointed 9 February 2011)

#### **OTHER DIRECTORSHIPS IN THE LAST THREE YEARS**

Non Executive Director, Atlantic Limited (appointed 4 July 2007, resigned 11 April 2010)

Non Executive Director, NeuroDiscovery Limited (appointed 14 April 2005, resigned 31 July 2009)





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## Directors' Report (continued)

### **1. DIRECTORS (CONTINUED)**

**Laurence Shervington LLB, SF Fin, MAICD (Lawyer) (68)** - appointed 28 March 2011, resigned 6 March 2012  
*Alternate Non Executive Director*

#### **EXPERIENCE AND EXPERTISE**

Mr Shervington is a Special Counsel in Minter Ellison's Perth corporate advisory group. He has over 35 years specialist commercial and corporate law experience and was a member of the legal sub-committee of the Corporations and Markets Advisory Committee (CAMAC) to the federal government for 15 years and was the inaugural general counsel of ASIC's Western Australian regional office. He is currently a member of the Australian Government Takeovers Panel. Mr Shervington is also a Senior Fellow of the Financial Services Institute of Australasia (FINSIA) and a director of Cooper Energy Limited.

#### **OTHER CURRENT DIRECTORSHIPS**

Non Executive Chairman, Cooper Energy Limited (appointed October 2003)

#### **OTHER DIRECTORSHIPS IN THE LAST THREE YEARS**

Alternate Non Executive Director, Horseshoe Metals Limited (appointed 14 April 2011, resigned 24 August 2012)

Alternate Non Executive Director, Australian Zircon NL (appointed 31 March 2011, resigned 22 March 2012)

### **2. COMPANY SECRETARY**

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

Morgan Barron is a qualified Chartered Accountant who has worked in various corporate roles both in Australia and Europe. He has been involved in a number of company secretarial functions and ASX transactions.

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

Mr 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.

## Directors' Report (continued)

### 3. DIRECTORS' MEETINGS

During the financial year, 9 Directors' meetings were held with the following attendances:

<b>Directors</b>	<b>Meetings Attended</b>	<b>Meetings Eligible to Attend</b>
J. Shervington	9	9
L. Shervington	-	6
M Rudisill	5	7
N Featherby	6	7
J. Hannaford	9	9
M. Krzus	9	9

### 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.

### 5. OPERATING AND FINANCIAL REVIEW

#### Activity Summary

During the year, the Group participated in 3 appraisal wells on its Sandwash Basin Niobrara shale oil play located in the Green River Basin Shale in Colorado and Wyoming and increased its GRBJV acreage position from approximately 25,000 net acres at 30 June 2011 to 45,000 net acres. The three well drilling program on the Sandwash Niobrara shale oil play was designed to identify the most prospective zones and provide technical data for detailed production well design for development drilling, which commenced in July 2012. On 22 February, 2012, the Group announced acquisition of approximately 10,500 net lease acres located in Williston Basin in Dunn County, North Dakota, USA, including a 7.5% WI in a producing Middle Bakken oil well from North Plains Energy LLC. The assets were purchased for US\$11.85m and were fully funded by a secured debt facility from a private US investor at the USA subsidiary level.

On July 11, 2012 the Group announced it had reached agreement with Voyager Oil & Gas Inc. (NYSE MKT:VOG) ("Voyager"), a publicly listed company in the United States, to acquire Emerald Oil Inc. ("Emerald US"), the Group's wholly owned subsidiary, which holds its US shale oil assets, including the Green River Basin and Williston Basin assets. The transaction closed on 26 July, 2012. In this transaction, the Group exchanged its 100% interest in Emerald US for 11.6m shares in Voyager, which was subsequently re-named Emerald Oil Inc. Emerald Oil Inc will retain Voyager's listing on the NYSE with the ticker "EOX".

The Group's Appalachian gas assets, managed through its 75% owned company Kentucky Energy Partners LLC, continued to produce approximately 200 Mcfd gas through its sweet gas facilities. KEP is currently engaged in discussions with third parties to commission a sour gas plant which would enable production from shut in KEP sour gas wells.



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## Directors' Report (continued)

### **5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **5.1 Exploration and Production Activities**

During the year, the Group focused primarily on its US shale assets, owned by its US subsidiary company Emerald Oil Inc. The subsidiary company was subsequently acquired by Voyager Oil and Gas in July, 2012 and the Group therefore no longer holds a direct interest in the Dunn Co and Green River Basin assets discussed below.

Emerald continues to progress its exploration and production activities in its Appalachian gas project in Kentucky, USA and in the Canning Basin in Western Australia.

##### **5.1.1 USA Projects**

In February 2012, Emerald's USA subsidiary Emerald Oil & Gas USA Inc acquired approximately 10,500 net lease acres, including a 7.5% WI in a producing Middle Bakken oil well from North Plains Energy LLC for \$US11.85 million. The assets are located in the Williston Basin in Dunn County, North Dakota, USA. The acquisition was fully funded by a secured debt facility from a private US investor at the USA subsidiary level.

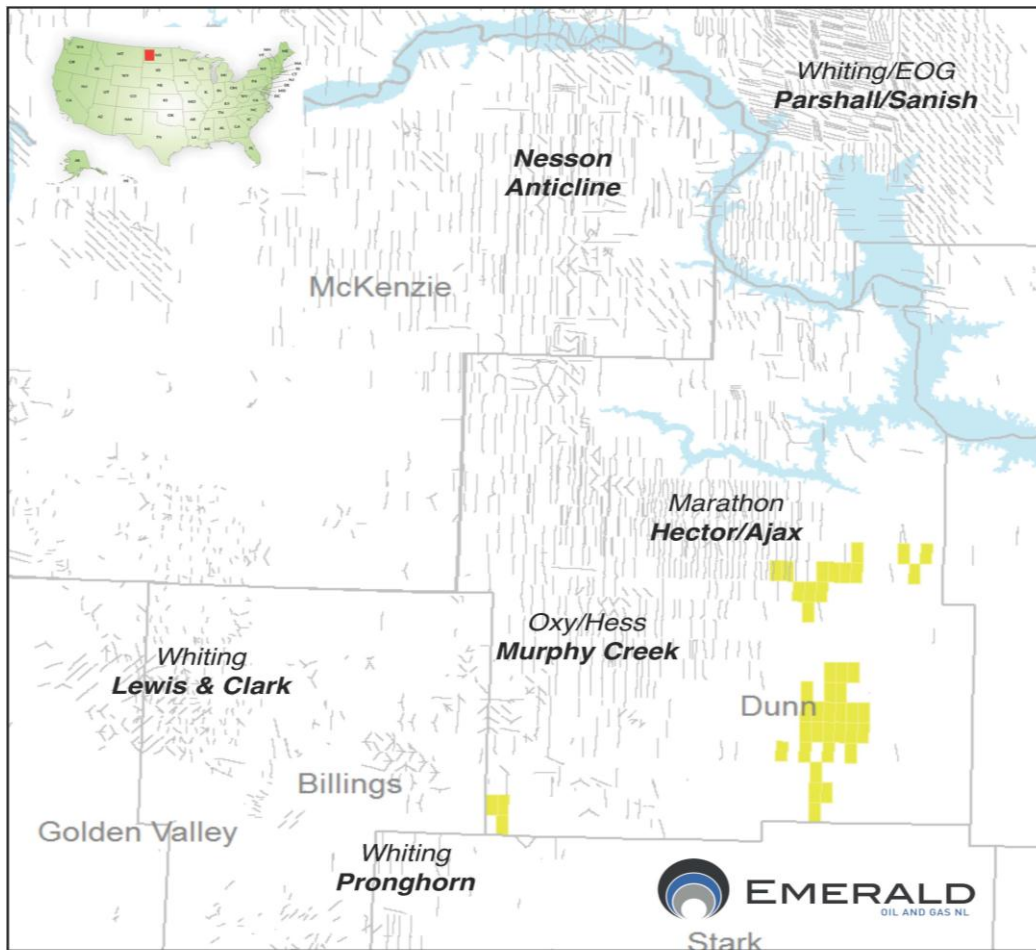
The lease acreage is prospective for oil in both Middle Bakken and Three Forks formations. Public well permitting information shows the dominant operators near these three areas to be expanding their drilling activity from nearby proved, producing areas toward the Company's newly acquired leases, some of which are immediately adjacent to producing Middle Bakken and Three Forks oil wells. The assets include a 7.48% WI in both the producing well acquired in the initial transaction and a subsequent well drilled in April 2012.

Emerald's total lease holding comprises approximately 10,500 net acres, in 45 drilling spacing units (DSUs) of 1280 acres, with Emerald's working interests in individual DSUs varying between 1.5% and 75% for a total of 8 net DSUs. Each 1280 ac DSU can potentially be drilled out with up to 4 middle Bakken wells and 3 Three Forks wells per DSU, for a total of 7 development wells per DSU.

Directors' Report (continued)

**5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**5.1.1 USA Projects (continued)**



**Williston Basin, North Dakota, USA**

**Green River Basin Niobrara Shale Oil, Moffatt and Routt Counties, Colorado and Carbon County, Wyoming**

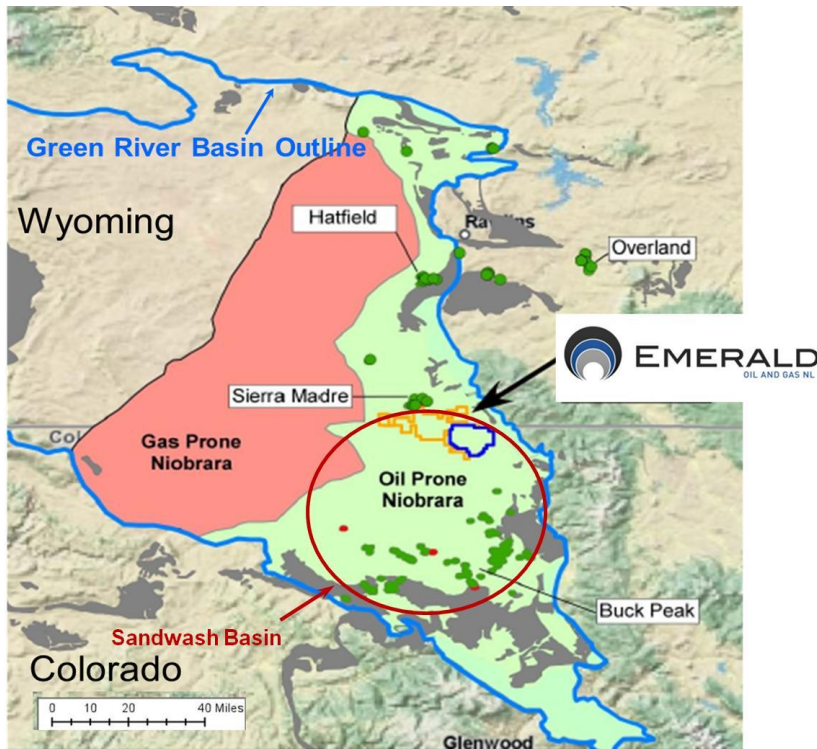
Prior to the Voyager transaction, Emerald held a 45% working interest in the Green River Basin JV (GRBJV). Entek Energy (ASX: ETE) operates the GRBJV and holds the remaining 55% working interest.

Emerald exercised its option under the terms of an Area of Mutual Agreement (AMI) with Entek to acquire approximately 20,000 additional net acres at a total cost of US\$2.4m in several lease transactions. Emerald now holds approximately 45,000 net lease acres over the Sandwash Basin Niobrara shale oil play located in the southern part of the Greater Green River Basin.

Directors' Report (continued)

**5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**5.1.1 USA Projects (continued)**



A three well appraisal program was undertaken in 2011 to appraise Niobrara shale oil potential and to gather information for the GRBJV 2012 well program. The three wells intersected multiple, intensely fractured zones above, below and within four prospective oil pay zones or "benches" in the Niobrara shale.

The entire Niobrara shale section and large shale sections above and below the Niobrara are charged with high quality, 40°API, light oil, with a Gas Oil Ratio (GOR) of between 1000 and 2000 Scf/bbl. Several small, experimental fracture stimulation treatments were undertaken in these wells, but unfortunately these were unsuccessful.

The 2011 appraisal drilling program yielded a large amount of valuable technical information which, along with competitor well information, is being used to plan the 2012 GRBJV Work Program.

The wells drilled in 2011 are effectively unstimulated and the wellbores are accessible for full scale fracture stimulation treatments. The 2012 program was planned to focus on re-entering existing wells on Emerald's acreage and applying drilling and completion techniques proven to be effective in competitor wells to the South.

## Directors' Report (continued)

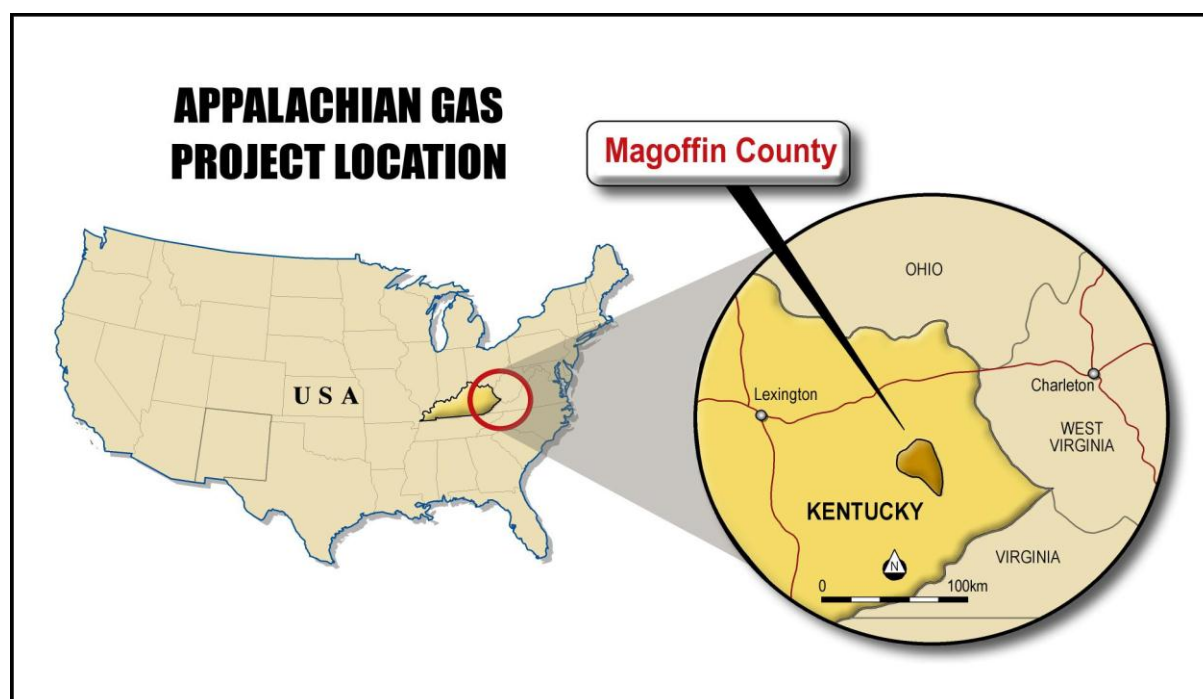
### 5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### 5.1.1 USA Projects (continued)

Well operations for 2012 commenced shortly before the Company's US shale assets were acquired by Voyager Oil and Gas Inc in July, 2012. Key objectives of the 2012 GRB work program are to establish commercial oil production from GRBJV wells and to gain further experience with various well completion techniques before planning a development well program for 2013 onwards.

#### **Appalachian Gas - Magoffin County, Kentucky**

Emerald's areas of interest in the Appalachian Basin are in Magoffin County in Eastern Kentucky. Wells in Emerald's Appalachian areas of interest typically produce from areally extensive gas bearing zones in Devonian/Silurian Corniferous limestones, the Silurian Big 6 Sandstone.



Hundreds of gas wells exist in this area, which are shut in through lack of local operational capability and pipeline access. Emerald's business model is to test existing wells with simple well flow tests to establish production potential and then selectively acquire leases and wells which are then placed on production through KEP's gas production infrastructure.

Emerald's Appalachian gas assets are operated through Kentucky Energy Partners LLC (KEP), a company owned 75% by Emerald and 25% by Slone Production LLC, a capable local gas field operator. KEP currently holds 2,500 lease acres with 29 existing wells potentially capable of gas production and a 12 km long gas gathering pipeline with sweet gas conditioning/compression facilities.

## Directors' Report (continued)

### **5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **5.1.1 USA Projects (continued)**

To date KEP has targeted sweet gas and is currently producing approximately 200 Mcfd. However, the sour gas production potential of the area is much greater

Gas from existing wells in the area contains varying levels of Hydrogen Sulphide (H<sub>2</sub>S), which must be removed prior to sale. Where H<sub>2</sub>S levels are low, the H<sub>2</sub>S can be economically removed from the wellhead gas with dry chemical scrubbers (sweet gas). Gas with higher H<sub>2</sub>S gas which cannot be produced economically with wellhead treatment (sour gas), require a gas processing plant to remove the sulphur compounds including H<sub>2</sub>S.

KEP is in discussions with a midstream gas company to provide sour gas processing and gathering infrastructure, which would enable approximately 1MMcfd of shut in KEP sour gas production to be marketed.

#### **5.1.2 Australian Exploration – Canning Basin, Western Australia**

EP104/R1 (Emerald 14.15% Working Interest; Operator: Buru Energy Ltd)

An airborne gravity gradiometry and magnetic survey was conducted over EP104. This will be used to inform renewal/relinquishment decisions in the coming year. Subsequent to the reporting period, Emerald increased its working interest from 12.5% to 14.15% as a result of a joint venture partner relinquishing their interest.

Production Licence L15 (Emerald option to acquire 12.75% Working Interest; Operator Buru Energy Ltd)

Emerald holds an option to farm in to the West Kora Production Licence L15 (two rectangular blocks, 6054 and 6126 containing the West Kora-1 oil discovery) by paying 13% of West Kora #1 work over costs to earn a 12.75% WI. Emerald is awaiting advice from Buru regarding the activity plans to re-establish oil production from West Kora #1.

EP463 & TP24 (Lacepede Islands) and WA-419-P (Offshore) (EMR 100% WI and Operator)

These permits have either been relinquished or are in the final process of being terminated with the relevant authorities.

### **5.2 Corporate**

#### **5.2.1 Director & Secretary changes**

Mr Laurance Shervington resigned as a director on 6 March 2012. 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.



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## Directors' Report (continued)

### **5. OPERATING AND FINANCIAL REVIEW (CONTINUED)**

#### **5.2.2 Capital raising**

During the year the Group raised \$3,085,795 before costs. The financing for the year consisted of a series of placements to sophisticated and institutional investors under the Company's 15% capacity.

In addition, the Group executed a number of unsecured short term convertible note loans totalling US\$370,000. These loans are unsecured and are repayable by 21 November 2012. The loans earn interest at 20% per annum. At the settlement date, lenders can elect to convert their loan to shares with the number of shares determined by the loan amount divided by the 10 day volume weighted average price of shares prior to the loan being made available to the Group.

#### **5.3 Financial Results**

The comprehensive loss of the Group for the financial year 30 June 2012 amounted to \$8,592,562 (2011: \$4,339,675) after providing for income tax, foreign exchange translation and non-controlling interests.

Comprehensive loss for the year includes impairment of exploration and evaluation expenditure of \$778,084 (2011: 2,100,000), impairment of investments accounted for using the equity method of \$2,106,993 (2011: \$nil), borrowing costs associated with certain short term loans now classified as held for sale of \$2,166,703 (2011: \$nil) and impairment loss on re-measurement of a disposal group of \$540,000 (2011: \$nil)

### **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**

There have been no significant changes in the state of affairs of the Group not otherwise disclosed in this report or the financial statements.



## 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 Voyager Transaction**

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, 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, which on that date were trading at US\$1.77 per share, resulting in a total consideration of US\$20.6m (approximately AU\$20.2m). At the date of signing these financial statements, Voyager (renamed Emerald Oil Inc.) shares are trading at US\$0.81 per share resulting in the market value of the consideration received reducing to approximately AU\$9.1m. The value of this investment will obviously fluctuate in line with fluctuations in the quoted price of the shares. The transaction was subsequently completed on 26 July 2012, and on September 4, 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 will have no further direct funding requirements for ongoing exploration & development of its Dunn County asset in the Williston Basin or its 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 Emerald shareholders will still benefit through the Group's holding in EOX. Although Emerald shareholders are no longer exposed to the relatively more leveraged upside from successful outcomes associated with a direct interest, the transaction provides drilling risk mitigation previously not available to the Company for the significant risk associated with negative well outcomes in the Sandwash Niobrara or Dunn County. Emerald is now also relieved of the onerous, direct funding burden to drill its GRB and Dunn Co assets.

Emerald will receive \$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. After settling transaction fees and final liabilities attached to the US subsidiary and repaying short term loans, the Group will have approximately \$1m in cash and be debt free.

## Directors' Report (continued)

### **8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE (CONTINUED)**

#### **8.1 Voyager Transaction (continued)**

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

Emerald will remain 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 Group 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.

Alternatives to optimally extract value from the EOX holding for Emerald shareholders include:

1. holding the EOX shares for their value growth potential;
2. trading all or a portion of the EOX holding either for cash or in shares as part of a new transaction to re-position Emerald, or;
3. distribute EOX shares in specie to Emerald shareholders

The Group has received written requests from shareholders requesting that EOX shares be distributed in specie to Emerald shareholders. The Directors are giving consideration to this possibility and are currently clarifying tax and regulatory issues related to EOX share distribution and other potential EOX share transactions. Subject to these clarifications, a proposition may potentially be put to Emerald shareholders. Any EOX share distribution or transaction involving EOX shares will be subject to compliance with all applicable SEC Regulations, including, among other things, potential registration of any EOX transactions with the United States Securities and Exchange Commission.

Emerald directors are now also actively considering new transformational opportunities, separate from its shareholding in EOX, in the US, Australia and elsewhere with the potential to add substantial value for Emerald shareholders.

The Group has restructured its board, management and operating practices to minimize costs, now that it no longer needs to actively manage direct interests in its US shale assets. It is expected that the board and management will be optimally restructured in response to subsequent substantial transaction and relevant circumstances at that time.

#### **8.2 Capital Raising**

On 18 July 2012, the Group issued 44,849,635 ordinary shares in lieu of accrued borrowing costs. Favourable share price fluctuations since the balance date resulted in a gain of \$313,947 being earned by the Group.

#### **8.3 Short Term Loans**

Since the balance date, the Group executed additional short term loans totalling \$250,000. The terms of these loans are consistent with those stated in note 20 to the financial statements.

## 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>	<b>Shares</b>		<b>Listed Options</b>		<b>Unlisted Options</b>	
	<i>Held Directly</i>	<i>Held Indirectly</i>	<i>Held Directly</i>	<i>Held Indirectly</i>	<i>Held Directly</i>	<i>Held Indirectly</i>
J. Shervington	-	8,331,915	-	-	-	-
L. Shervington	-	-	-	-	-	-
J. Hannaford	2,825,563	3,925,658	-	-	-	-
N. Featherby	-	-	-	-	-	-
M. Rudisill	-	14,750,000	-	-	-	28,920,000
M. Krzus	5,000,000	709,226	-	-	5,000,000	-
<b>Total</b>	<b>7,825,563</b>	<b>27,716,799</b>	-	-	<b>5,000,000</b>	<b>28,920,000</b>

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. The remaining balance totalling 78,733,180 listed options have now lapsed.

### 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

## Directors' Report (continued)

### 11. REMUNERATION REPORT (AUDITED) (CONTINUED)

#### 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
L. Shervington	Alternative Director for J.Shervington	Appointed 28 March 2011, resigned 6 March 2012
J. Hannaford	Non Executive Director	Appointed 14 June 2006, resigned 16 July 2012
M. Barron	Company Secretary / CFO	Appointed 24 July 2007, resigned 4 September 2012
M. Rudisill	Non Executive Director	Appointed 6 October 2011
N. Featherby	Non Executive Director	Appointed 6 October 2011, resigned 2 August 2012
M. Krzus	Managing Director	Appointed 13 August 2009

#### 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.

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.

##### *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 consultancy basis based on services provided by each person. The Managing Director is employed by the Company and a summary of his employment package is set out in (D) below. 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.

## Directors' Report (continued)

### **11. REMUNERATION REPORT (AUDITED) (CONTINUED)**

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

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.

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.

Directors' Report (continued)

**11. REMUNERATION REPORT (AUDITED) (CONTINUED)**

**C. Details of Remuneration**

Details of the remuneration of the Directors and the Key Management Personnel of Emerald Oil & 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 & 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		%
<b>2012</b>	\$	\$	\$	\$	\$	%
<b>Directors – Non Executive</b>						
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%
<b>Specified Executives</b>						
<b>Company Secretary/CFO</b>						
Morgan Barron	60,000	-	-	-	60,000	0%
<b>CEO/COO</b>						
Mike Krzus	309,460	-	27,851	-	337,311	0%
<b>Total</b>	<b>742,482</b>	<b>-</b>	<b>32,171</b>	<b>-</b>	<b>774,653</b>	<b>0%</b>
<b>2011</b>						
<b>Directors – Non Executive</b>						
Jeremy Shervington ( <i>Chairman</i> )	60,000	-	-	-	60,000	0%
Laurence Shervington	-	-	-	-	-	0%
John Hannaford	48,000	-	4,320	-	52,320	0%
Robert Berven	18,000	-	-	-	18,000	0%
<b>Specified Executives</b>						
<b>Company Secretary/CFO</b>						
Morgan Barron	70,500	-	-	-	70,500	0%
<b>CEO/COO</b>						
Mike Krzus	288,990	-	26,009	-	314,999	0%
<b>Total</b>	<b>485,490</b>	<b>-</b>	<b>30,329</b>	<b>-</b>	<b>515,819</b>	<b>0%</b>

## 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. (2011: \$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. (2011: \$nil)
- Consultancy fees of US\$200,000 p.a. (2011: US\$nil)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

N Featherby, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2011: \$nil)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

J Hannaford, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of \$48,000 p.a. (2011: \$48,000)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

Mike Krzus, Managing Director, Chief Executive Officer and Chief Operating Officer

- Annual contract, agreed and reviewed annually
- Salary of \$337,311 p.a. (2011: \$315,000 p.a.) inclusive of superannuation
- There are no termination benefits or provisions in the contract
- 3 months written notice required for termination
- 5,000,000 10c options exercisable on or before 31 March 2014. Options vest in 4 tranches and are only exercisable upon Emerald realising a volume weighted average share price of greater than 20 cents for 5 consecutive days. The expense relating to these options in the current year is \$Nil (2011: \$Nil).

#### **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 (2011: \$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**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
1) Legal	54,230	81,757
2) Serviced office charges	54,000	85,500
3) Bookkeeping, financial accounting, company secretary and admin	67,400	116,321
4) Capital raising fees	47,417	-

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 \$54,000 (2011: \$85,500) (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 \$67,400 (2011: \$116,321) (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 \$47,417 (2011: \$Nil)

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 172,600,000 unissued shares under option outstanding.

<b>Date Granted</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number shares under option</b>
11/05/2009	31/03/2014	\$0.10	5,000,000
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
			<b>172,600,000</b>

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. The remaining balance totalling 78,733,180 listed options have now lapsed.

### 14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group has paid a premium of \$18,500 (2011: \$15,984) 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.

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	\$	\$
<i>Paid or payable to HLB Mann Judd:</i>		
Audit and review fees	33,500	23,500

**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 26 and forms part of this directors' report for the year ended 30 June 2012.

**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.



M. Krzus  
 Managing Director  
 Perth  
 28 September 2012

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Emerald Oil & Gas NL for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Emerald Oil & Gas NL.



Perth, Western Australia  
28 September 2012

**L DI GIALONARDO**  
Partner, HLB Mann Judd



**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 is currently preparing a draft Diversity Policy for consideration and adoption by the Board. The Policy is expected to be in place during the second half of 2012 and will make provision for the Board to determine measurable objectives in line with the overall objectives of the policy.

As at 30 June 2012, the proportion of women employed across the Group, as a whole, and at Board level were:

	<b>Number</b>	<b>Number of Women</b>	<b>Percentage</b>
Employees	1	-	Nil
Board*	5	-	Nil

\* Includes alternate director and contractors

### **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 management as an essential component in creating shareholder value.

Management, through the Chief Executive Officer (CEO) is responsible for developing, maintaining and improving the Group's risk management and internal control system. Management provides the Board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control.

## 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 2<sup>nd</sup> 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:

<b>ASX Principle</b>	<b>Reference/comment</b>
<b>Principle 2: Structure the Board to add value</b>	
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.
<b>Principle 4: Safeguard integrity in financial reporting</b>	
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.
<b>Principle 8: Remunerate fairly and responsibly</b>	
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 2012

		<b>2012</b>	<i>As restated</i> <b>2011</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
Revenue	5	123,326	79,183
Cost of Sales		(141,097)	(40,631)
<b>Gross (loss) profit</b>		<u>(17,771)</u>	<u>38,552</u>
Other income	6	389,263	-
Corporate, legal and administration expenses		(602,858)	(1,344,098)
Consulting and contracting expenses		(413,539)	(664,167)
Other expenses	7	(794,661)	(2,285,205)
<b>Loss from operating activities</b>		<u>(1,439,566)</u>	<u>(4,254,918)</u>
Finance income		93,901	76,436
Finance expense		(1,346)	-
<b>Net finance income</b>	8	<u>92,555</u>	<u>76,436</u>
<b>Loss before income tax</b>		(1,347,011)	(4,178,482)
Income tax benefit	11	-	17,968
<b>Loss from continuing operations</b>		<u>(1,347,011)</u>	<u>(4,160,514)</u>
<b>Discontinued operations</b>			
(Loss) profit from discontinued operations	4	<u>(8,416,604)</u>	<u>4,643</u>
<b>Loss for the year</b>	9	<u>(9,763,615)</u>	<u>(4,155,871)</u>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation differences for foreign operations		1,171,053	(183,804)
<b>Other comprehensive income (loss) for the year</b>		<u>1,171,053</u>	<u>(183,804)</u>
<b>Total comprehensive loss for the year</b>		<u>(8,592,562)</u>	<u>(4,339,675)</u>
Loss for the year is attributable to:			
Owners of the parent		(9,695,166)	(4,106,282)
Non-controlling interest		(68,449)	(49,589)
		<u>(9,763,615)</u>	<u>(4,155,871)</u>
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(8,526,570)	(4,276,405)
Non-controlling interest		(65,992)	(63,270)
		<u>(8,592,562)</u>	<u>(4,339,675)</u>
Basic loss per share for loss from continuing operations attributable to owners of the parent (cents)	10	(0.155)	(0.999)
Basic loss per share for loss attributable to owners of the parent (cents)	10	(1.175)	(0.998)

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

## Consolidated Statement of Financial Position

As at 30 June 2012

	Note	2012 \$	2011 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	13	504,457	8,385,274
Trade and other receivables	14	22,073	261,025
Assets classified as held for sale	4	39,737,682	-
<b>Total current assets</b>		<b>40,264,212</b>	<b>8,646,299</b>
<b>NON-CURRENT ASSETS</b>			
Investments accounted for using the equity method	15	-	2,744,806
Property, plant and equipment	16	191,563	210,248
Exploration and evaluation expenditure	17	339,902	17,893,489
Oil and gas assets	18	569,684	-
<b>Total non-current assets</b>		<b>1,101,149</b>	<b>20,848,543</b>
<b>TOTAL ASSETS</b>		<b>41,365,361</b>	<b>29,494,842</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	172,465	1,972,862
Loans and borrowings	20	363,065	-
Other creditors	21	1,076,391	-
Liabilities classified as held for sale	4	17,693,803	-
<b>Total current liabilities</b>		<b>19,305,724</b>	<b>1,972,862</b>
<b>TOTAL LIABILITIES</b>		<b>19,305,724</b>	<b>1,972,862</b>
<b>NET ASSETS</b>		<b>22,059,637</b>	<b>27,521,980</b>
<b>EQUITY</b>			
Issued capital	22	45,627,768	42,497,549
Reserves	23	2,070,580	925,993
Accumulated losses		(25,803,075)	(16,150,151)
<b>Total equity attributable to owners of the parent</b>		<b>21,895,273</b>	<b>27,273,391</b>
Non-controlling interest		164,364	248,589
<b>TOTAL EQUITY</b>		<b>22,059,637</b>	<b>27,521,980</b>

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 2012

	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 2010	15,546,499	155,174	38,424	(242,389)	(12,054,670)	3,443,038	242,566	3,685,604
Loss for the year	-	-	-	-	(4,106,282)	(4,106,282)	(49,589)	(4,155,871)
<i>Other comprehensive income (loss)</i>								
Foreign currency translation differences	-	-	(170,124)	-	-	(170,124)	(13,680)	(183,804)
Total other comprehensive loss	-	-	(170,124)	-	-	(170,124)	(13,680)	(183,804)
Total comprehensive loss for the year	-	-	(170,124)	-	(4,106,282)	(4,276,406)	(63,269)	(4,339,675)
<i>Transactions with owners, recorded directly in equity:</i>								
Issue of ordinary shares, net of transaction costs	26,951,050	-	-	-	-	26,951,050	-	26,951,050
Share based payments	-	1,214,200	-	-	10,801	1,225,001	-	1,225,001
Non-controlling interest distributions	-	-	-	1,066	-	1,066	(1,066)	-
Non-controlling shareholders premium reserve	-	-	-	(70,358)	-	(70,358)	70,358	-
Total equity at 30 June 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 income	-	-	1,168,596	-	-	1,168,596	2,457	1,171,053
Total comprehensive income (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	<b>45,627,768</b>	<b>1,327,132</b>	<b>1,036,896</b>	<b>(293,448)</b>	<b>(25,803,075)</b>	<b>21,895,273</b>	<b>164,364</b>	<b>22,059,637</b>

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 2012

	Note	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		343,765	144,588
Interest received		93,901	76,436
Payments to suppliers and employees		(4,332,663)	(1,640,004)
Income tax benefit received		-	17,968
Net cash used in operating activities	25	<u>(3,894,997)</u>	<u>(1,401,012)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(38,465)	(292,871)
Exploration and evaluation expenditure		(20,680,951)	(7,914,992)
Payment for equity investments		(276,315)	(2,744,806)
Purchase of oil and gas assets		(1,173,631)	-
Settlement of Noxie litigation		373,762	612,063
Net cash used in investing activities		<u>(21,795,600)</u>	<u>(10,340,606)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short term loans, net of borrowing costs		15,021,047	-
Proceeds from issue of shares		3,085,795	21,500,272
Capital raising costs		(236,944)	(1,549,221)
Net cash provided by financing activities		<u>17,869,898</u>	<u>19,951,051</u>
Net (decrease) increase in cash and cash equivalents		(7,820,699)	8,209,433
Cash and cash equivalents at the beginning of the year		8,385,274	171,789
Effect of exchange rates on cash holding in foreign currencies		1,167	4,052
Cash and cash equivalents at the end of the year	13	<u>565,742</u>	<u>8,385,274</u>

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



**ABN: 72 009 795 046**

## Notes to the Financial Statements

For the year ended 30 June 2012

### **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 2012 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 28 September 2012.

### **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 International Financial Reporting Standards (IFRSs) and interpretations of the International Accounting Standards Board.

#### **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 2012

### **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) Going concern**

The Group has a working capital deficiency (excluding assets and liabilities held for sale and non-cash other creditors) of \$9,000 at the balance date and incurred a loss \$9,763,615 for the year. As a result of the Voyager transaction completed subsequent to the balance date, \$2.5m in cash became payable to the Group. This cash will be used to repay short term loans, settle transaction fees and fund the operations for the Group for the coming year. After repayment of the short term loans, the Group will be debt free and have no exploration expenditure commitments. On that basis, the Directors are confident that the Group will have adequate financial resources to continue in operational existence for the foreseeable future. Consequently, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **2. Basis of preparation (continued)**

#### **f) Adoption of new and revised standards**

In the year ended 30 June 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for 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 Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

#### **g) Comparatives**

Certain comparative disclosures have been reclassified to conform with the current year's presentation.

### **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 taking 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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **a) Principles of consolidation (continued)**

##### ***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.

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.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **a) Principles of consolidation (continued)**

##### ***Associates (continued)***

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.

#### **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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **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.

#### **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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **f) Segment reporting (continued)**

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.

#### **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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **h) Foreign currency (continued)**

##### ***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.

#### **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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 3. Summary of significant accounting policies (continued)

#### i) Income tax (continued)

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
- 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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **i) Income tax (continued)**

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. 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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **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).

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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **3. Summary of significant accounting policies (continued)**

#### **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.

#### **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.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 3. Summary of significant accounting policies (continued)

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

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.

#### 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.

##### ***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 2012

### **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 2012

### **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 2012

### **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 2012

### **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 2012

### **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 2012

### 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 & 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 2012

**4. Disposal group held for sale and discontinued operations**

The Group has 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*, as the Group expects the carrying value of these assets will primarily be recovered through a sale transaction rather than through continued use. At 30 June 2012, management was committed to a plan to sell its interest in the disposal group and on that basis the current and comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operations separately from continuing operations.

On 9 July 2012, the Group entered into a securities purchase agreement with an independent third party to sell its interests in the disposal group (see note 36 for further details). The loss from discontinued operations of \$8,416,604 (2011: \$4,643 profit) is attributable entirely to the owners of the Company.

<b>Results of discontinued operations</b>	<b>Note</b>	<b>2012</b> <b>\$</b>	<b>2011</b> <b>\$</b>
Revenue		170,283	29,428
Cost of sales		(1,098,488)	(14,957)
<b>Gross (loss) profit</b>		<u>(928,205)</u>	14,471
Corporate, legal and administration expenses		(1,278,964)	(9,828)
Consulting and other contracting expenses		(697,910)	-
Borrowing costs <sup>(1)</sup>		(2,166,703)	-
Impairment of investments accounted for using the equity method <sup>(2)</sup>	15	<u>(2,106,993)</u>	-
<b>Loss from operating activities</b>		<u>(7,178,775)</u>	4,643
Finance expense		(386,044)	-
Share of loss of equity – accounted investees	15	(311,785)	-
Impairment loss on re-measurement of disposal group <sup>(3)</sup>		<u>(540,000)</u>	-
<b>(Loss) profit before tax from discontinued operations</b>		<u>(8,416,604)</u>	4,643
Tax benefit		-	-
<b>(Loss) profit for the year from discontinued operations</b>		<u>(8,416,604)</u>	4,643

1) Borrowing costs totalling \$2,166,703 (2011: \$nil) 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 \$2,106,993 (2011: \$nil) has been recognised.



Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

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

3) An impairment loss of \$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.

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>Cash flows from (used in) discontinued operations</b>		
Net cash used in operating activities	(2,635,361)	(123,931)
Net cash from investing activities	(21,887,214)	(9,112,564)
Net cash from financing activities	14,651,924	-
<b>Net cash flows for the year</b>	<u>9,870,651</u>	<u>(9,236,495)</u>

As at 30 June 2012, the disposal group comprised the following assets and liabilities:

<b>Assets</b>	<b>30 June 2012</b>
Cash and cash equivalents	61,285
Trade and other receivables	185,829
Investments accounted for using the equity method	784,842
Plant and equipment	36,137
Exploration and evaluation expenditures	37,578,732
Oil and gas assets	<u>1,090,857</u>
Assets classified as held for sale	<u>39,737,682</u>
<b>Liabilities</b>	
Trade and other payables	1,684,877
Short term loan payable	15,503,876
Provisions	<u>505,050</u>
Liabilities directly associated with assets classified as held for sale	<u>17,693,803</u>
Net assets attributable to disposal groups classified as held for sale	<u>22,043,879</u>

**5. Revenue from continuing operations**

	<b>2012</b>	<i>As restated</i> <b>2011</b>
	\$	\$
Sale of gas	123,326	79,183
<b>Total Revenue</b>	<u>123,326</u>	<u>79,183</u>

**6. Other Income**

	<b>2012</b>	<b>2011</b>
	\$	\$
Other income	373,762	-
Foreign currency gains	15,501	-
<b>Total other income</b>	<u>389,263</u>	-

The company received \$373,762 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 2012

### 7. Other expenses

	<b>Note</b>	<b>2012</b> \$	<b>2011</b> \$
Impairment of exploration and evaluation expenditures	17	778,084	2,100,000
Impairment of oil and gas assets	18	16,577	185,205
<b>Total</b>		794,661	2,285,205

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 \$778,084 (2011: \$2,100,000) has been recognised.

### 8. Net finance income

	<b>2012</b> \$	<b>2011</b> \$
Interest income	93,901	76,436
<b>Finance income</b>	93,901	76,436
Interest expense on short term borrowings	1,346	-
<b>Finance expense</b>	1,346	-
Net finance income	92,555	76,436

### 9. Loss for the year

	<b>2012</b> \$	<b>2011</b> \$
Loss before income tax has been determined after:		
a) Employee benefits expense		
Wages, salaries and fees	742,482	575,800
Defined contribution superannuation expense	32,171	30,329
Total employee benefits expense	774,653	606,129
b) Other expenses		
Depreciation and depletion	121,105	141,619
Accretion of provision	8,682	-
Loss on sale of plant & equipment	-	474
Bank charges	2,170	1,650
	131,957	143,743

Amounts are prior to reclassifications in respect of discontinued operations.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**10. Loss per share**

	<b>2012</b>	<b>2011</b>
	\$	\$
Basic loss per share for loss from continuing operations attributable to owners of the parent (cents)	(0.155)	(0.999)
Basic loss per share for loss attributable to owners of the parent (cents)	(1.175)	(0.998)
	\$	\$
Loss from continuing operations attributable to owners of the parent	(1,278,562)	(4,110,925)
(Loss) profit attributable to discontinued operations	(8,416,604)	4,643
Loss attributable to owners of the parent	<u>(9,695,166)</u>	<u>(4,106,282)</u>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the period used in calculation of basic	824,842,249	411,630,936

The 251,344,568 (2011: 263,005,683) options outstanding at 30 June 2012 are potential ordinary shares but are antidilutive for the periods presented.

**11. Income tax**

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>(a) Income tax (benefit)</b>		
The major components of income tax (benefit) are:		
<b>Statement of Comprehensive Income</b>		
<i>Current Income Tax</i>		
Research and development tax refund	-	(17,968)
<i>Deferred Income Tax</i>		
Relating to the origination and reversal of temporary differences	-	-
Relating to the recognition of deferred tax assets arising from tax losses	-	-
Income tax (benefit) reported in the statement of comprehensive income	<u>-</u>	<u>(17,968)</u>

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**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**

	2012 \$	2011 \$
Loss before income tax	(9,763,615)	(4,173,839)
At statutory income tax rate of 30% (2011: 30%)	(2,929,085)	(1,252,151)
Non deductible expenses	252,457	193,330
Adjustments in respect of deferred income tax of prior years	-	913,088
Current tax losses not recognised as a DTA	3,673,921	313,048
Foreign tax rate adjustment	(734,579)	(167,315)
Benefit of tax losses previously not recognised	(221,310)	-
Non-assessable items	(41,404)	-
Tax benefit from offsets received	-	(17,968)
Income tax benefit	-	(17,968)

**(c) Recognised Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$
Exploration	(11,515)	-	2,188,123	738,595	2,176,608	738,595
Accruals	(15,038)	(281,002)	4,460	-	(10,578)	(281,002)
Business related costs	(65,010)	(72,370)	52,753	-	(12,257)	(72,370)
Investments	(112,275)	-	-	-	(112,275)	-
Tax losses	(2,041,498)	(385,223)	-	-	(2,041,498)	(385,223)
Tax (assets)/liabilities	(2,245,336)	(738,595)	2,245,336	738,595	-	-
Set off of tax	2,245,336	738,595	(2,245,336)	(738,595)	-	-
Net tax (assets)/liabilities	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2010 \$	Recognised in Income \$	Recognised in Equity \$	Balance 30 June 2011 \$
Exploration expenditure	999,696	(261,101)	-	738,595
Accruals	-	(281,002)	-	(281,002)
Business related costs	-	(72,370)	-	(72,370)
Tax losses	(999,696)	614,473	-	(385,223)
	-	-	-	-

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	-	2,176,608
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)
	-	-	-	-

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 11. Income tax (continued)

#### (c) Unrecognised Deferred Tax Assets and Liabilities

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

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Business related costs	244,080	211,861
Tax losses	3,516,286	1,565,295
	<u>3,760,366</u>	<u>1,777,156</u>

Prior period comparatives have been restated following lodgement of the 2010 tax returns. The adjustments made to disclosures have had no impact on the statement of comprehensive income or the statement of financial position for the prior year.

#### (d) Tax losses

Emerald Oil & 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 \$2,813,187 (2011: \$4,275,063), and available USA tax losses are estimated to be \$8,907,767 (2011: \$2,362,045).

### 12. Key Management Personnel Disclosures

#### (a) Key Management Personnel compensation

	<b>Short term benefits</b>	<b>Post employment benefits</b>	<b>Share-based payments (LTI)</b>	<b>Total</b>	<b>% Performance Related</b>
	<b>Salary and Fees</b>	<b>Superannuation</b>	<b>Options</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
2012 Consolidated	742,482	32,171	-	774,653	-
2011 Consolidated	485,490	30,329	-	515,819	-

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**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 & Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities is as follows:

**2012**

<b>Directors</b>	<b>Held at beginning of year</b>	<b>Movement during year*</b>	<b>Options Exercised</b>	<b>Held at 30 June 2012</b>
<b>Directors</b>				
J. Shervington	8,331,915	-	-	8,331,915
M.Krzus	5,709,226	-	-	5,709,226
M. Rudisill	13,534,000 <sup>(2)</sup>	1,216,000	-	14,750,000
N Featherby	-	-	-	-
J. Hannaford	6,754,221	-	-	6,754,221
<b>Specified Executives</b>				
M.Barron	400,000	-	-	400,000
<b>Total</b>	<b>34,729,362</b>	<b>1,216,000</b>	<b>-</b>	<b>35,945,362</b>

**2011**

<b>Directors</b>	<b>Held at beginning of year</b>	<b>Movement during year*</b>	<b>Options Exercised</b>	<b>Held at 30 June 2011</b>
<b>Directors</b>				
J. Shervington	4,250,977	4,080,938	-	8,331,915
M.Krzus	361,850	5,347,376	-	5,709,226
R. Berven	4,189,054	4,021,492	-	8,210,546 <sup>(1)</sup>
J. Hannaford	3,190,928	3,563,293	-	6,754,221
<b>Specified Executives</b>				
M.Barron	-	400,000	-	400,000
<b>Total</b>	<b>11,992,809</b>	<b>17,413,099</b>	<b>-</b>	<b>29,405,908</b>

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

<sup>(1)</sup> Interest at date of retirement (31 December 2010)

<sup>(2)</sup> Interest at date of appointment (5 October 2011)

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**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 & Gas NL held, directly, indirectly or beneficially, by each Director and other KMP, including their personally-related entities, is as follows:

**2012**
**Listed Options**

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2012	Vested and exercisable at 30 June 2012
<b>Directors</b>					
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
<b>Specified Executives</b>					
M. Barron	-	-	-	-	-
<b>Total</b>	<b>8,745,802</b>	<b>-</b>	<b>-</b>	<b>8,745,802</b>	<b>8,745,802</b>

**2011**
**Listed Options**

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2011	Vested and exercisable at 30 June 2011
<b>Directors</b>					
J. Shervington	-	2,040,469	-	2,040,469	2,040,469
M. Krzus	-	5,173,688	-	5,173,688	5,173,688
R. Berven	-	2,010,746	-	2,010,746	2,010,746 <sup>(1)</sup>
J. Hannaford	-	1,531,645	-	1,531,645	1,531,645
<b>Specified Executives</b>					
M. Barron	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>10,756,548</b>	<b>-</b>	<b>10,756,548</b>	<b>10,756,548</b>

<sup>(1)</sup> Interest at date of retirement (31 December 2010)

**2012**
**Unlisted Options**

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2012	Vested and exercisable at 30 June 2012
<b>Directors</b>					
J. Shervington	-	-	-	-	-
M. Krzus	5,000,000	-	-	5,000,000	5,000,000
M. Rudisill	28,920,000 <sup>(2)</sup>	-	-	28,920,000	28,920,000
N. Featherby	-	-	-	-	-
J. Hannaford	-	-	-	-	-
<b>Specified Executives</b>					
M. Barron	-	-	-	-	-
<b>Total</b>	<b>33,920,000</b>	<b>-</b>	<b>-</b>	<b>33,920,000</b>	<b>33,920,000</b>

<sup>(2)</sup> Interest at date of appointment (5 October 2011)

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**12. Key Management Personnel Disclosures (continued)**

**(c) Option holdings of Key Management Personnel (continued)**

**2011**

**Unlisted Options**

	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2011	Vested and exercisable at 30 June 2011
<b>Directors</b>					
J. Shervington	367,577	(367,577)	-	-	-
M. Krzus	5,000,000	-	-	5,000,000	5,000,000
R. Berven	-	-	-	-	-
J. Hannaford	-	-	-	-	-
<b>Specified Executives</b>					
M. Barron	200,000	(200,000)	-	-	-
<b>Total</b>	<b>5,567,577</b>	<b>(567,577)</b>	<b>-</b>	<b>5,000,000</b>	<b>5,000,000</b>

**(d) Loans to or from Key Management Personnel**

As at 30 June 2012 there were no loans to or from any Directors or other KMP.

**(e) Other Transactions and balances with Key Management Personnel**

<b>Other related parties</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
1) Legal	54,230	81,757
2) Serviced office charges	54,000	85,500
3) Bookkeeping, financial accounting, company secretary and admin	67,400	116,321
4) Capital raising fees	47,417	-

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 \$54,000 (2011: \$85,500) (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 \$67,400 (2011: \$116,321) (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 \$47,417 (2011: \$Nil)

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



**Notes to the Financial Statements (continued)**  
 For the year ended 30 June 2012

**13. Cash and Cash equivalents**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	504,457	8,385,274

**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)	504,457	8,385,274
Cash and cash equivalents attributable to disposal group held for sale (note 4)	61,285	-
	<u>565,742</u>	<u>8,385,274</u>

**14. Trade and other receivables**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade debtors	5,304	25,939
Deposits and prepayments	16,769	106,655
Other receivables	-	128,431
	<u>22,073</u>	<u>261,025</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.

**15. Investments accounted for using the equity method**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Investments in jointly controlled entities <sup>(1)</sup>	-	2,744,806

Reconciliation of movements in investments accounted for using the equity method:

Balance at 1 July	2,744,806	-
Additions	274,619	2,744,806
Reclassification to exploration and evaluation expenditure	(187,978)	
Share of loss for the year	(311,785)	-
Impairment allowance	(2,106,993)	-
Effect of foreign exchange	372,173	-
Transfer to assets classified as held for sale	(784,842)	-
Balance at 30 June	<u>-</u>	<u>2,744,806</u>

<sup>(1)</sup>At 30 June 2012, the Group held 45% (2011: 45%) of the issued share capital of Slater Dome Gathering, LLLP ("SDG, LLLP"), a company incorporated in USA. The principal activity of SDG, LLLP is being the holder of pipeline assets.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**16. Property, plant and equipment**

	<b>Plant and Equipment \$</b>	<b>Total \$</b>
<b>Year ended 30 June 2012</b>		
At 30 June 2010 net of depreciation and impairment	22,676	22,676
Additions	285,236	285,236
Disposals	(5,674)	(5,674)
Depreciation	(55,671)	(55,671)
Effect of foreign exchange	(36,319)	(36,319)
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	<u>191,563</u>	<u>191,563</u>

**At 30 June 2012**

Cost	280,245	280,245
Accumulated depreciation	(88,682)	(88,682)
Net carrying amount	<u>191,563</u>	<u>191,563</u>

**At 30 June 2011**

Cost	266,372	266,372
Accumulated depreciation	(56,124)	(56,124)
Net carrying amount	<u>210,248</u>	<u>210,248</u>

**17. Exploration and evaluation expenditure**

	<b>2012 \$</b>	<b>2011 \$</b>
Exploration and evaluation costs carried forward in respect of exploration areas of interest in the USA and Australia	<u>339,902</u>	<u>17,893,489</u>

*Reconciled as follows:*

Balance at the beginning of the year	17,893,489	2,795,342
Reclassifications to Oil & Gas assets	(542,538)	-
Reclassifications from Investments	187,978	-
Capitalised during the year	20,653,212	17,545,339
Refunds of expenditure	-	(70,352)
Impairment of exploration and evaluation expenses	(778,084)	(2,100,000)
Impairment loss on re-measurement of disposal group	(540,000)	-
Depreciation/amortisation	-	(145,806)
Effect of foreign exchange	1,044,577	(131,034)
Classified as held for sale	(37,578,732)	-
Balance at the end of the year	<u>339,902</u>	<u>17,893,489</u>

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**17. Exploration and evaluation expenditure (continued)**

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 \$778,084 (2011: \$2,100,000) 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.

**18. Oil and gas assets**

	2012 \$	2011 \$
Costs carried forward in respect of: Oil and gas assets, at cost	569,684	-
<b>Reconciliation:</b>		
<i>Reconciled as follows:</i>		
Carrying amount at beginning of the year	-	185,205
Transfer from exploration and evaluation assets	542,538	-
Additions	1,176,335	-
Depletion for the year	(88,845)	-
Impairment	(16,577)	(185,205)
Effect of foreign exchange	47,090	-
Classified as held for sale	(1,090,857)	-
Carrying amount at end of the year	569,684	-

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**19. Trade and other payables**

	<b>2012</b>	<b>2011</b>
	\$	\$
Trade creditors	72,252	749,715
Accruals	100,213	1,223,147
	<u>172,465</u>	<u>1,972,862</u>

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

**20. Loans and borrowings**

	<b>2012</b>	<b>2011</b>
	\$	\$
Short term loans – convertible notes	363,065	-
	<u>363,065</u>	<u>-</u>

These loans are unsecured and are repayable by 21 November 2012. The loans earn interest at 20% per annum. At the settlement date, lenders can elect to convert their loan to shares with the number of shares determined by the loan amount divided by the 10 day volume weighted average price of shares prior to the loan being made available to the Group. Interest totalling \$1,346 was accrued on these loans at 30 June 2012.

**21. Other creditors**

	<b>2012</b>	<b>2011</b>
	\$	\$
Accrued borrowing costs	1,076,391	-
	<u>1,076,391</u>	<u>-</u>

Other creditors include the cost of refinancing certain short term borrowings, now classified as held for sale. Subject to certain conditions being met subsequent to the balance date, this liability is to be discharged by the issue of equity in Emerald Oil & Gas NL.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 22. Issued share capital

	Number of Shares	\$
<b>(a) Issued and Paid Up Capital</b>		
Fully paid ordinary shares	898,790,281	45,627,768
<b>(b) Movements in fully paid shares on issue</b>		
Opening balance as at 1 July 2009	132,803,764	15,546,499
Issue of shares		
Issued for cash on 18 Aug 2010	5,000,000	100,000
Issued for cash on 26 Aug 2010	5,000,000	100,000
Issued for cash on 17 Sep 2010 - rights issue	127,500,000	2,550,000
Issued for cash on 20 April 2011	289,100,000	14,455,000
Issued on 31 May 2011 as consideration for acquisition of assets and jointly controlled entity	125,000,000	6,250,000
Issued for cash on 31 May 2011	52,000,000	2,600,000
Issued for cash on 28 June 2011	33,900,000	1,695,000
Issued on 28 June 2011 as consideration for transaction costs associated with acquisitions	15,000,000	750,000
Share issue costs	-	(1,549,222)
Options exercised during the year	5,432	272
<b>Total fully paid shares on issue at 30 June 2011</b>	<b>785,309,196</b>	<b>42,497,549</b>
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)
<b>Total fully paid shares on issue at 30 June 2012</b>	<b>898,790,281</b>	<b>45,627,768</b>

#### 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 & Gas NL in their capacity as equity holders.

#### **(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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 22. Issued share capital (continued)

#### (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:

<b>Parent Entity and Group</b>	<b>2012 No.</b>	<b>2011 No.</b>
Balance at beginning of the year	263,005,683	19,322,753
Issued during the year	-	246,350,000
Exercised during the year	-	(5,432)
Expired during the year	<u>(11,661,115)</u>	<u>(2,661,638)</u>
Balance at the end of the year	<u>251,344,568</u>	<u>263,005,683</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.

### 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.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **24. Segment reporting (continued)**

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

Emerald's subsidiaries Emerald Oil Inc., Emerald GRB LLC and Emerald WB LLC undertake onshore oil and gas exploration activities in the Green River Basin and Williston Basin areas of USA. The combined operations of these entities represent a single reportable segment. At 30 June 2012, the combined assets and liabilities of these entities have been classified as held for sale.

##### 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.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**24. Segment reporting (continued)**

*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.

2012 Geographical segment	Continuing Operations	Continuing Operations	Discontinued Operations	Australia	Consolidated
	USA Appalachian \$	USA Texas \$	USA Shale \$	All other segments \$	
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)

2011 Geographical segment	Continuing Operations	Continuing Operations	Discontinued Operations	Australia	Consolidated
	USA Appalachian \$	USA Texas \$	USA Shale \$	All other segments \$	
Segment revenues	79,183	-	29,428	-	108,611
Segment result	(1,162,209)	(2,048,237)	4,643	(950,068)	(4,155,871)
Segment assets	1,455,347	558,720	19,667,730	7,813,045	29,494,842
Segment liabilities	(17,042)	-	(1,725,285)	(230,535)	(1,972,862)
Included in segment result:					
Interest income	-	-	-	76,436	76,436
Net impairment (losses)/reversals:					
Exploration properties	(600,000)	(1,500,000)	-	-	(2,100,000)
Oil and gas assets	(185,205)	-	-	-	(185,205)
Depreciation and depletion	(137,549)	-	-	(4,070)	(141,619)
Acquisition of non-current assets	(587,013)	(727,373)	(16,442,872)	(73,316)	(17,830,574)



Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**25. Statement of Cash Flows**

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

<b>Cash flows from operating activities</b>	<b>2012</b> \$	<b>2011</b> \$
Loss for the year	(9,763,615)	(4,155,871)
Adjustments for non-cash items and reclassifications:		
Borrowing costs	1,013,367	-
Depreciation & depletion of assets	121,105	141,619
Accretion of provisions	8,682	-
Impairment of non-current assets	794,661	2,285,205
Interest payable	387,390	-
Impairment of equity investments	2,106,993	-
Effect of exchange rates	(15,501)	(89,982)
Bad debts	2,172	-
Share of loss of equity investments	311,785	-
Loss on re-measurement of disposal group	540,000	-
Settlement of Noxxe litigation reclassified	(373,762)	-
Loss on sale of equipment	-	474
	(4,866,723)	(1,818,555)
<i>Changes in assets and liabilities</i>		
Change in trade creditors and accruals	921,570	667,773
Change in trade and other receivables	50,156	(250,230)
<b>Cash flows used in operations</b>	<b>(3,894,997)</b>	<b>(1,401,012)</b>

**26. Interest in controlled entities**

The Company has the following subsidiaries:

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>	<b>Class of Shares</b>	<b>Percentage held</b>	
			<b>2012</b>	<b>2011</b>
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 <sup>(2)</sup>	USA	Ordinary	100%	100%
Emerald GRB LLC <sup>(2)</sup>	USA	Ordinary	100%	100%
Emerald WB LLC <sup>(1)(2)</sup>	USA	Ordinary	100%	-

(1) Entity incorporated/formed during the year.

(2) Entity held for sale at 30 June 2012

**27. Related party transactions**

**(a) Parent Entity**

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

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**27. Related party transactions (continued)**
**(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*

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Current assets	463,237	7,562,442
Non-current assets	2,100,436	20,224,162
Assets held for sale <sup>(1)</sup>	21,089,689	-
<b>Total assets</b>	<b>23,653,362</b>	<b>27,786,604</b>
<b>Liabilities</b>		
Current liabilities	1,593,725	223,535
<b>Total liabilities</b>	<b>1,593,725</b>	<b>223,535</b>
<b>Equity</b>		
Issued capital	125,990,426	122,860,207
Accumulated losses	(105,257,921)	(96,666,511)
<i>Reserves</i>		
Options reserve	1,327,132	1,369,373
<b>Total Equity</b>	<b>22,059,637</b>	<b>27,563,069</b>

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<i>Financial Performance</i>		
Loss for the year	(8,408,515)	(4,021,734)
Other comprehensive income	-	-
<b>Total comprehensive loss</b>	<b>(8,408,515)</b>	<b>(4,021,734)</b>

(1) Assets held for sale consists 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.

Refer to Note 31 for expenditure commitments.

Notes to the Financial Statements (continued)  
 For the year ended 30 June 2012

**29. Auditor's remuneration**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
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	33,500	23,500

**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:

	<b>Shares 2012 No.</b>	<b>Options 2012 No.</b>
Shares issued in lieu of borrowing costs	9,387,933	-
Shares issued in lieu of transaction fees	1,245,706	-
	10,633,639	-

On 1 March 2012, 9,387,933 shares were issued in lieu of borrowing costs associated with certain short term borrowing, classified as held for sale. The shares were issued at a deemed issue price of \$0.03 per share. The cost of these borrowings totalling \$281,638 has been included in the loss from discontinued operations in the Consolidated Statement of Comprehensive Income.

On 1 March 2012, 1,245,706 shares were issued in lieu of transaction costs associated with capital raising.

**Fair value of options granted**

There were no options granted in the year ended 30 June 2012 (2011: 50,000,000).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 31. Expenditure commitments

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Expenditure commitments</i>		
At 30 June 2012 the Group has commitments being minimum work requirements under exploration permits for petroleum as follows:	-	59,250
Less than one year	-	850
Within one to five years	-	58,400
Greater than five years	-	-
Total	-	59,250

Expenditure commitments in the prior year related to exploration permits in Western Australia and Commonwealth Waters and the minimum work requirements to maintain the permits in good standing. These permits have either been relinquished or are in the final process of being terminated with the relevant authorities at 30 June 2012. All other exploration expenditure is discretionary.

### 32. 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 33.

### 33. 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**

100% working interest (87.5% NRI) in 8 wells located in Kentucky, USA. Carrying value at 30 June 2012: \$Nil (2011: \$Nil).

KEP Projects – 75% equity interest in Kentucky Energy Partners LLC, which is progressing 3 gas projects located in Kentucky, USA. Carrying value of exploration assets at 30 June 2012: \$818,602 (2011: \$726,926).

**North West Alice (USA)** - 35% working interest (2011: 35%) in the North West Alice gas exploration project located in Texas. Carrying value at 30 June 2012: \$nil (2011: \$482,458).

**EP104/Retention Lease R1 – Canning Basin (Western Australia)** – 14.17% (2011: 12.75%) 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 2012: \$90,684 (2011: \$13,180).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **33. Joint Venture assets (continued)**

#### **Joint venture commitments and contingencies**

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

### **34. 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.

#### *b) Market Risk*

##### *Price risk*

The Group is not exposed to equity securities price risk as it holds no investments in securities classified on the statement of financial position either as available for sale or at fair value through profit or loss. The Group is exposed to commodity price risk through the future sales of oil and gas. During the current year, a total of \$293,609 (2011: \$108,611) 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 2012.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### 34. Financial Risk Management (continued)

#### 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 35 for interest rate risk exposure and sensitivity analysis.

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

### 35. 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 2012, the interest rate profile of the Group's interest-bearing financial instruments was:

<b>2012 Consolidated</b>	<b>Floating interest rate \$</b>	<b>Non interest bearing \$</b>	<b>Total \$</b>
<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>2011 Consolidated</b>			
<i>Financial assets</i>			
Cash and cash equivalents	8,339,800	45,474	8,385,274
Trade and other receivables	-	261,024	261,024
<i>Financial Liabilities</i>			
Trade and other payables	-	(1,972,862)	(1,972,862)
Net assets (liabilities)	<u>8,339,800</u>	<u>(1,666,364)</u>	<u>6,673,436</u>

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**35. Financial Instruments (continued)**

(b) Interest rate risk (continued)

*Sensitivity Analysis*

A change of 150 basis points (2011: 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 2011.

Risk Variable	Sensitivity*	Effect On:		Effect On:	
		Results 2012	Equity 2012	Results 2011	Equity 2011
		\$	\$	\$	\$
Interest Rate	+ 1.50%	(4,452)	(4,452)	125,097	125,097
	- 1.50%	4,452	4,452	(125,097)	(125,097)

(c) Currency risk

At 30 June 2012 the Group had the following exposures to US\$ foreign currency risk that is not designated in cash flow hedges:

	2012	2011
	\$	\$
<i>Financial assets</i>		
Cash and cash equivalents	422,928	1,016,303
Trade receivables	5,303	-
Total financial assets	428,231	1,016,303
Trade payables and other payables	(18,197)	(1,742,326)
Short term loans	(363,065)	-
Net exposure	46,969	(726,023)

Risk Variable	Sensitivity*	Effect On:		Effect On:	
		Results 2012	Equity 2012	Results 2011	Equity 2011
		\$	\$	\$	\$
AUD:USD rate	+ 10.0%	470	470	(72,602)	(72,602)
	- 10.0%	(470)	(470)	72,602	72,602

The possible fluctuation in exchange rates between the Australian and US dollar of +/- 10% (2011: 10%) has been determined by the Board of Directors as being a 'reasonably possible' estimate of movement.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2012

**35. 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 2012 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including the estimated interest payments.

	<b>Carrying amount liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 12 months</b>
	\$	\$	\$
<b>2012</b>			
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>
<b>2011</b>			
Trade payables and other payables	<u>1,972,862</u>	<u>1,972,862</u>	<u>1,972,862</u>
Total	<u>1,972,862</u>	<u>1,972,862</u>	<u>1,972,862</u>

**36. 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:

**Voyager Transaction**

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, 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, which on that date were trading at US\$1.77 per share, resulting in a total consideration of US\$20.6m (approximately AU\$20.2m). At the date of signing these financial statements, Voyager (renamed Emerald Oil Inc.) shares are trading at US\$0.81 per share resulting in the market value of the consideration received reducing to approximately AU\$9.1m. The value of this investment will obviously fluctuate in line with fluctuations in the quoted price of the shares. The transaction was subsequently completed on 26 July 2012, and on September 4, 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.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **36. Events subsequent to balance date (continued)**

#### **Voyager Transaction (continued)**

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 its Dunn County asset in the Williston Basin or its 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 Emerald shareholders will still benefit through the Group's holding in EOX. Although Emerald shareholders are no longer exposed to the relatively more leveraged upside from successful outcomes associated with a direct interest, the transaction provides drilling risk mitigation previously not available to the Company for the significant risk associated with negative well outcomes in the Sandwash Niobrara or Dunn County. Emerald is now also relieved of the onerous, direct funding burden to drill its GRB and Dunn Co assets.

Emerald will receive \$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. After settling transaction fees and final liabilities attached to the US subsidiary and repaying short term loans, the Group will have approximately \$1m in cash and be debt free.

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

Emerald will remain 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 Group 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.

Alternatives to optimally extract value from the EOX holding for Emerald shareholders include:

1. holding the EOX shares for their value growth potential;
2. trading all or a portion of the EOX holding either for cash or in shares as part of a new transaction to re-position Emerald, or;
3. distribute EOX shares in specie to Emerald shareholders

## Notes to the Financial Statements (continued)

For the year ended 30 June 2012

### **36. Events subsequent to balance date (continued)**

#### **Voyager Transaction (continued)**

The Group has received written requests from shareholders requesting that EOX shares be distributed in specie to Emerald shareholders. The Directors are giving consideration to this possibility and are currently clarifying tax and regulatory issues related to EOX share distribution and other potential EOX share transactions. Subject to these clarifications, a proposition may potentially be put to Emerald shareholders. Any EOX share distribution or transaction involving EOX shares will be subject to compliance with all applicable SEC Regulations, including, among other things, potential registration of any EOX transactions with the United States Securities and Exchange Commission.

Emerald directors are now also actively considering new transformational opportunities, separate from its shareholding in EOX, in the US, Australia and elsewhere with the potential to add substantial value for Emerald shareholders.

The Group has restructured its board, management and operating practices to minimize costs, now that it no longer needs to actively manage direct interests in its US shale assets. It is expected that the board and management will be optimally restructured in response to subsequent substantial transaction and relevant circumstances at that time.

#### **Capital Raising**

On 18 July 2012, the Group issued 44,849,635 ordinary shares in lieu of accrued borrowing costs. Favourable share price fluctuations since the balance date resulted in a gain of \$313,947 being earned by the Group.

#### **Short Term Loans**

Since the balance date, the Group executed additional short term loans totalling \$250,000. The terms of these loans are consistent with those stated in note 20 to the financial statements.



**ACN: 009 795 046**

## Directors' Declaration

In the opinion of the directors of Emerald Oil & 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 2012 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 2012.

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 read "M Krzus", is written over a light blue horizontal line.

M. Krzus  
Managing Director

Perth  
28 September 2012

## INDEPENDENT AUDITOR'S REPORT

To the members of Emerald Oil & Gas NL

### Report on the Financial Report

We have audited the accompanying financial report of Emerald Oil & Gas NL ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### ***Directors' responsibility for the financial report***

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

In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

***Matters relating to the electronic presentation of the audited financial report and remuneration report***

This auditor's report relates to the financial report and remuneration report of Emerald Oil & Gas NL for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

***Auditor's opinion***

In our opinion:

- (a) the financial report of Emerald Oil & Gas NL is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

**Report on the Remuneration Report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's opinion***

In our opinion the remuneration report of Emerald Oil & Gas NL for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.



**HLB MANN JUDD**  
Chartered Accountants



**L DI GIALLONARDO**  
Partner

**Perth, Western Australia**  
28 September 2012

## 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 18 September 2012 is 943,651,304 ordinary fully paid shares. All ordinary shares carry one vote per share.

#### Top 20 Shareholders as at 18 September 2012

	<u>No. of Shares Held</u>	<u>% Held</u>
1 CITICORP NOMINEES PTY LTD	161,095,004	17.07%
2 NEW FRONTIER ENERGY INC	125,000,000	13.25%
3 HSBC CUSTODY NOMINEES AUST LTD	94,627,780	10.03%
4 HSBC CUSTODY NOMINEES AUST LTD	52,570,587	5.57%
5 HSBC CUSTODY NOMINEES AUST LIMITED	40,269,080	4.27%
6 JEMAYA PTY LTD	20,300,000	2.15%
7 UBS NOMINEES PTY LTD	18,226,800	1.93%
8 ALBA CAP PTY LTD	16,500,000	1.75%
9 MERRILL LYNCH AUST NOMINEES PTY LTD	16,333,333	1.73%
10 MERRILL LYNCH AUST NOMINEES PTY LTD	11,458,136	1.21%
11 TARNEY HOLDINGS PTY LTD	11,000,000	1.17%
12 ANDREW ROACH	8,436,000	0.89%
13 CS FOURTH NOMINEES PTY LTD	8,226,879	0.87%
14 FLUE HOLDINGS PTY LTD	7,918,389	0.84%
15 DANIEL PAUL WISE	7,786,596	0.83%
16 TRANQUILO INV LTD	7,400,000	0.78%
17 STEVEN D HEINEMANN	6,573,645	0.70%
18 DRUM GAGHAN PTY LTD	6,175,915	0.65%
19 TALEX INV PTY LTD	6,000,000	0.64%
20 FOPAR NOMINEES PTY LTD	6,000,000	0.64%
	<b>631,898,144</b>	<b>66.97%</b>

#### Shares Range

	<u>No. of Holders</u>	<u>No. of Shares</u>
1 – 1,000	292	48,699
1,001 – 5,000	90	302,368
5,001 – 10,000	234	1,707,270
10,001 – 100,000	618	23,225,749
100,001 and over	415	918,367,218
	<b>1,649</b>	<b>943,651,304</b>

Number holding less than a marketable parcel size of 41,667 shares at \$0.012 per share

1,036	11,063,547
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#### Shareholders by Location

	<u>No. of Holders</u>	<u>No. of Shares</u>
Australian holders	1,593	911,445,521
Overseas holders	56	32,205,783
	<b>1,649</b>	<b>943,651,304</b>

### 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 18 September 2012

		<u>No. of Shares Held</u>	<u>% Held</u>
1	CITICORP NOMINEES PTY LTD	161,095,004	17.07%
2	NEW FRONTIER ENERGY INC	125,000,000	13.25%
3	HSBC CUSTODY NOMINEES AUST LTD	94,627,780	10.03%
4	HSBC CUSTODY NOMINEES AUST LTD	52,570,587	5.57%

### Unquoted Securities

At 18 September 2012, the Company has a total of 172,600,000 unlisted options as follows:

<u>Number of Options</u>	<u>Number of Holders</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
5,000,000	1	\$0.10	31 March 2013
117,600,000	12	\$0.05	30 April 2014
50,000,000	24	\$0.05	28 June 2014
<b>172,600,000</b>	<b>59</b>		

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

<b>Unlisted options exercisable at \$0.10 expiring on 31 March 2013</b> PBTL LIFETIME SUPERANNUATION	<u>No. of Options Held</u> 5,000,000	<u>% Held</u> 100%
<b>Unlisted options exercisable at \$0.05 expiring on 30 April 2014</b> LIBRA FUND LP LIBRA OFFSHORE MASTER FUND LP	<u>No. of Options Held</u> 27,858,211 24,221,789	<u>% Held</u> 24% 21%
<b>Unlisted options exercisable at \$0.05 expiring on 28 June 2014</b> PELAGIC CAPITAL INVESTMENTS	<u>No. of Options Held</u> 25,000,000	<u>% Held</u> 50%