



EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

DECEMBER 2010 ANNUAL REPORT

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Company Information

Directors

B W McLeod (Executive Chairman)
D H Sutton
K A Torpey

Registered Office

Level 7
151 Macquarie Street
Sydney NSW 2000
Telephone: (02) 9251 1846
Facsimile: (02) 9251 0244

Auditors

Nexia Court & Co
Level 29, Tower Building
Australia Square
264 George Street
Sydney NSW 2000

US Auditors

Schneider Downs & Co. Inc
1133 Penn Avenue
Pittsburgh PA 15222

Share Registry

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone: 1300 85 05 05

www.empireenergygroup.net

Joint Company Secretaries

D L Hughes
R V Ryan

Bankers

Australian & New Zealand Banking Group Limited
Macquarie Bank Limited
PNC Bank

Solicitors

Chang, Pistilli & Simmons
Level 13
95 Pitt Street
Sydney NSW 2000

US Solicitors

K&L Gates LLP
K&L Gates Center
210 Sixth Avenue
Pittsburgh PA 15222-2613

Stock Exchange Listings

Australia

Australian Securities Exchange
(Home Exchange Brisbane, Queensland)

ASX Code: EEG - Ordinary Shares

United States of America

New York OTC Market: Code: IMPGY
OTC#: 452869103
Sponsor: Bank of New York
1 ADR for 20 Ordinary shares

Executive Chairman's Review of Operations

A. EMPIRE ENERGY GROUP LIMITED

On 23 March 2011, to more accurately reflect operations, shareholders approved the change of name of the Company to Empire Energy Group Limited.

B. HIGHLIGHTS

- On December 23 2010, the Company's subsidiary Empire Energy E&P, LLC (Empire Energy) completed a US\$56.2 million acquisition of oil producing assets in the Kansas Central Uplift Region, USA, plus acquired 17,000 gross acres of potential Bakken oil shale in the Williston Basin, ND, USA. (WI=35%; NRI = 27%).
- The acquisition added approximately 550 Bopd (net) production.
- The acquisition added approximately 4.8 million Boe oil in 2P reserves (net).
- Current production is estimated 1,550 Boe/day (net).
- Over the past 12 months, the Company has completed approximately US\$120 million in oil and gas related transactions.
- A 10+ well, oil drilling program in the Central Kansas Uplift region is being finalised for 2011.
- A continuing Geological and Engineering study of the Company's significant prospective shale oil and gas resources in New York and Pennsylvania is being undertaken. Currently, resource estimates are:
 - ❖ Utica shale – prospective resource of up to 5 Tcf GIP, (unrisked) ,with additional acreage under review;
 - ❖ Marcellus oil prospective resource of estimated 70 million Bbls (based on a 3% recovery factor).
- Landowner negotiations commenced for the 14.6 million acres of shale formations secured onshore, in the MacArthur Basin, Northern Territory, Australia.

C. OPERATIONS REVIEW

Over the past 6 months the Company has continued its growth in the oil and gas industry. Primarily the focus has been through its subsidiary, Empire Energy USA LLC ('Empire Energy') ensuring that it achieves the crucial objective of expanding the oil production and development component of its operations. The first step of this program was achieved in December 2010 when Empire Energy acquired approximately 550 Boe/day production and 4.8 million Bbls of 2P Reserves in the Kansas Central Uplift Region. The acquisition cost was US\$56.2 million.

Following the implementation of new management and IT systems implemented over 2010, the new Kansas assets have been seamlessly melded into Empire Energy's operations. Three new personnel were required to ensure controlled management of the expanded business following the acquisition. This included an industry experienced Financial Controller, an additional accounts payable analyst, both located at Empire Energy's Headquarters and a Land Administration Manager positioned in Wichita Kansas. A Production Engineer is currently being identified, Geology, Geophysicists and Leasing will be undertaken on a contractual basis, with highly qualified professionals already in place, working with Empire Energy management.

The acquisition included around 240 operating wells. In total Empire Energy is now operating around 2,200 oil and gas wells producing approximately 1,550 Boe/day (net).

Moving forward the Company's prime strategy is to:

- a. Identify new upstream assets to acquire and integrate into existing operations; and
- b. Build a position of 'significance' in the oil and gas industry. The target would be to reach an initial production milestone of over 2,500 Boe/day by 2012, and then up to of 10,000 Boe/day by 2015; and
- c. Ensure the value of the Company's achievements are reflected in its market capitalisation.

In addition to the upstream activities in the USA, the Company has identified potential large scale unconventional sources of shale oil and gas in the MacArthur Basin, Northern Territory, Australia.

Executive Chairman's Review of Operations (Continued)

D. RESULTS OF MAIN OPERATING SUBSIDIARY

The following Review of Operations has been completed for Empire Energy E&P on the basis that the statutory accounts do not provide a clear picture of the Company's operations. The following simplifies the statutory accounts and segregates operating and non-operating items, with the objective of more clearly reflecting the operational cash flow of Empire Energy E&P. A Field EBITDDA is provided, which is a measure generally used as an evaluation tool in the comparison of exploration and production (E&P) companies.

E. REVIEW OF OPERATIONS - EMPIRE ENERGY E&P, LLC

US\$ million	Note	Six months to Dec 31, 2010	Six months to June 30, 2010
Gross Production – Gas (Mcf)	1.1	1,301,759	1,366,929
Gross Production – Oil (Bbl)	1.1	87,491	963
Net Production – Gas (Mcf)	1.1	982,689	1,025,197
Net Production – Oil (Bbl)	1.1	54,398	482
Daily Net production (Boe/d)		1,514	949
Lifting Cost \$/Boe	1.4	\$16.23	\$12.84
Net Revenue			
Net Gas Revenue	1.1	\$6.16	\$6.54
Net Oil Revenue		\$4.43	\$0.03
Other		\$0.24	\$0.19
Total Revenues		\$10.83	\$6.76
Av Price \$/Mcf		\$6.27	\$6.38
Av Price \$/Bbl	1.1	\$81.44	\$62.31
Revenue from Operations	1.1	\$10.83	\$6.76
Field EBITDA	1.3	\$7.71	\$4.78
<i>Less:</i>			
Field G&A		-\$0.10	-\$0.07
Leases & Prospects		-\$0.29	-\$0.09
Capex		-\$0.29	-\$0.12
Ad Val & Production Taxes		-\$0.42	-\$0.22
Other		\$0.00	\$0.00
Operations EBITDA		\$6.61	\$4.28
<i>Less:</i>			
Acquisition related costs	1.5	-\$0.78	-\$0.36
G&A – Corporate OH	1.5	-\$1.00	-\$0.76
EBITDA		\$4.83	\$3.16
<i>Less:</i>			
Interest	1.6	-\$1.01	-\$1.48
EBTDA		\$3.82	\$1.68
<i>Less:</i>			
Depletion		-\$1.87	-\$1.16
Asset Retirement Obligations		-\$0.25	-\$0.22
Depreciation & Amortisation		-\$0.32	-\$0.28
EBT		\$1.38	\$0.02
2P Reserves	1.7	16.8mmBoe	12.4mmBoe

Executive Chairman's Review of Operations (Continued)

F. COMMENTS ON OPERATIONS

1.1 Production

Volume: Oil production is for 3 months only.

Revenues: Net oil and gas sales were US\$9.07 million for the six month period. In addition hedging revenue on closed out hedges was US\$1.73 million.

Price: Average prices received during the Period were as follows:

US\$ - Av Pricing	Dec 2010	Jun 2010
Gas (Av price per Mcf)	\$6.27	\$6.38
Oil (av Price per Bbl)	\$81.44	\$62.31

1.2 Hedging

Due to the leverage growth model implemented by Empire Energy, a relatively aggressive hedging strategy has been adopted. The portion of production hedged will be naturally reduced as drill bit production comes on line.

Gas: Production is hedged as follows:

Y/e Dec 31	2011	2012	2013	2014	2015
mmBtu Hedged	1,596,589	1,484,351	1,407,720	1,408,488	1,166,000
Av \$US/mmBtu	\$5.99	\$6.10	\$5.97	\$5.91	\$5.45
Est % Prod'tion	72%	69%	70%	76%	71%

Oil: Production is hedged as follows:

Y/e Dec 31	2011	2012	2013	2014	2015
Bbls Hedged	131,870	120,800	113,160	105,120	98,160
Av \$US/Bbl	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00
Est % Prod'tion	75%	75%	75%	75%	75%

The fair value gain (marked to market) gain of oil and gas hedges in place for the Period was US\$1.9 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2010.

1.3 Lease Operating Expenses (LOE):

Field EBITDA: US\$7.71 million, generating an Operating Margin of 71% after Lease Operating Expenses (LOE).

Operating Margin: The gross operating margin excluding production, taxes, field G&A, capex, leasing, delayed rentals and non-cash items (such as depletion, depreciation and amortisation expenses) averaged 71% for the 6 months to December, 2010 (Jun 2010: 71%).

1.4 Lifting Costs:

US\$mm LOE	Dec 2010	Jun 2010
\$/Boe	\$16.23	\$12.85

Lifting costs include production taxes.

Although not included in LOE, in the six months to December 2010, the Company spent around US\$600,000 in one-off capex, mainly in Mayville, NY and US\$300,000 on securing leases in both Hawthorne, PA and Mayville, NY. A majority of this expenditure is non-recurring.

1.5 Overhead (General & Administration)

Empire Energy manages its USA operations from a corporate head office based outside Pittsburgh, Pennsylvania. It has small Field Offices in each region it operates.

In logistical terms the Mayville, NY acquisition was capital and personnel intensive as it included the acquisition of over 1,800 wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 30 employees and 10 contract

Executive Chairman’s Review of Operations (Continued)

pumpers operating across a large area of western New York State. All expenditure relating to this acquisition has been completed.

Acquisition costs related to the Kansas assets were considerably lower in proportional terms, even though the Company acquired significant acreage and around 450 wells. However, all management and information systems had been implemented over early to mid 2010 and the Kansas acquisition fitted seamlessly into existing operations. Empire Energy now has the management and information systems to incrementally add onto operations without incurring additional costs.

In summary, over head expenses can be summarised as:

US\$mm - G&A	Dec 2010	Jun 2010
Total G&A	\$1.78	\$1.02
Acquisition & Systems	(\$0.78)	(\$0.36)
Continuing forecast G&A	\$1.0	\$0.66

1.6 Financing

US\$mm - Interest	Dec 2010	Jun 2010
Interest paid	\$1.01	\$1.48

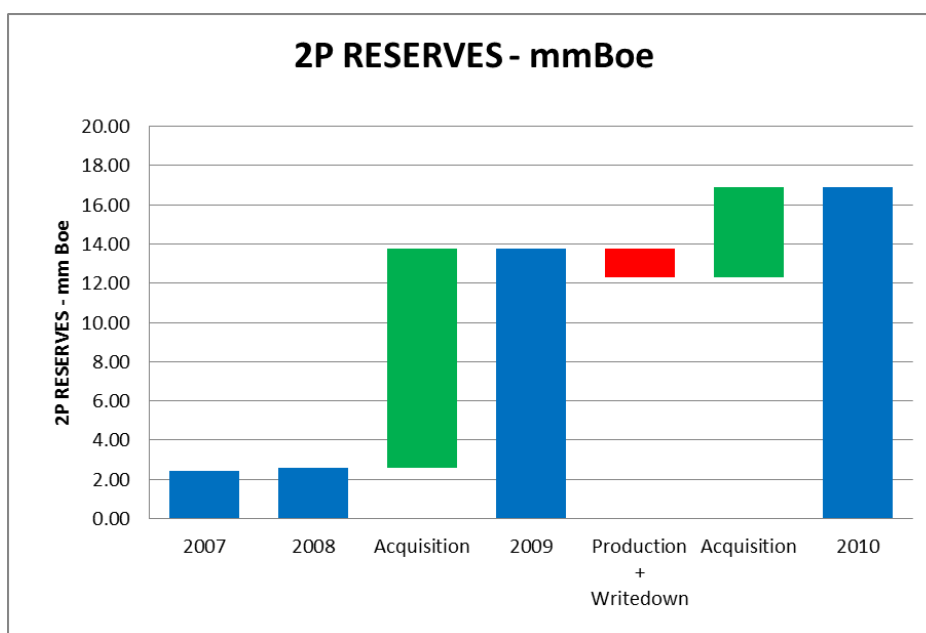
Credit Facility: The draw down on the Credit Facility as at 31 December 2010 was US\$72.9 million at an average rate of LIBOR+4.2%. Interest expense is estimated to average \$200,000/mth over 2011. Over 2010, Empire Energy repaid US\$13.6 million of existing loan facilities.

Other Facilities: Empire Energy has US\$229,859 in vehicle and equipment loans with local banks at normal commercial interest rates. In addition, Empire Energy has two notes with the parent company for total face value of US\$260,975 and coupon averaging 9%.

Interest Rate Risk: Interest rate risk was hedged in 2008 by entering into an interest rate swap agreement for a notional amount of US\$7.94 million, expiring June 2012 with a fixed rate of 2.015%. Over the Period a gain of US\$135,000 accrued.

1.7 Reserves

Net Reserves: The Kansas Acquisition in December 2010 substantially increased reserves. An updated Reserve Estimate was carried out in December 2010. Approximately 4.8 Bcf of 1P Reserves are considered contingent as they are non-economic at the current prices. An updated summary of 2P Reserves is shown below. Total 2P reserves stand at 16.8 million Boe. (Reserves were prepared by Ralph E Davis Associates, Inc Houston, Texas, USA, certified professional engineers).



Executive Chairman's Review of Operations (Continued)

Resources: In addition to the 1P reserves, the Group is undertaking a detailed review of its 300,000+ acres held in western New York and northern Pennsylvania. This acreage (see below) covers a number of oil and gas bearing formations, other than the Medina and Queenston currently producing most of the Groups gas production. Refer to Section H.4. below.

1.8 Exploration & Development

Expenditure: No drilling was undertaken over the last six months of 2010.

Capital Expenditure: With low gas prices the Group has the opportunity to upgrade existing facilities to increase production. The assets bought under the Mayville Acquisition were dilapidated with little capital expenditure being spent on the 1,800 wells and gathering networks and pipelines over the last 5 or 6 years. An initial 6 month focus on upgrading and repairing pipelines and wellheads production has produced a 6% increase in the average production compared to 2009. Other opportunities such as delivering to alternative pipelines and customers, servicing and reworking existing wells and reviewing behind pipe opportunities will continue to provide production improvements.

Low gas prices are causing a rationalisation of assets in the industry, and within the region of the Group's existing assets, possible opportunities exist to add bolt-on production assets and infrastructure at attractive costs.

G. SALE OF MARCELLUS ACREAGE

On 2 July 2010 Empire Energy received US\$24.6 million for the sale of land, and after the repayment of a portion of the Company's debt facility retained US\$15 million cash at bank, which was utilised for the acquisition of the Kansas assets.

A portion of the tax payable on approximately US\$15 million received from the sale was offset by the Kansas acquisition, being completed within 180 days from the receipt of the Marcellus shale proceeds.

H. OPERATIONS BY REGION.

1. CENTRAL KANSAS UPLIFT - OIL PRODUCTION

1. Overview

- 18,000 gross acres, spanning sixteen central Kansas counties (after finalisation of preferential rights)
- 99% of properties operated by Empire Energy.
- Average WI = 79.4% / NRI = 64.7%
- Well depths range from approximately 3,200ft – 4,000ft
- Reservoirs are water driven Arbuckle, Kansas City, Lansing and Shawnee
- 100% of the Kansas properties are HBP with proven offset drilling locations identified;
 - ❖ 17 PDNP wells to be re-worked
 - ❖ 31 Pud locations
 - ❖ 56 Probable locations
- Estimated 1P PV10 value as at acquisition date is US\$90.8 million
- Estimated 2P PV10 value as at acquisition date is US\$115.5 million

2. Drilling Program

A drilling program is currently being planned based on well locations identified by the Vendor. It is expected the drilling program will commence in the first half of 2011, details of which are as follows:

- At least 10 wells to be drilled in 2011
- Extensive 3D seismic to pin point structural closures
- Wells in this area are low risk, long life wells
- Approximate cost per well US\$400,000
- Target formations are Arbuckle, Kansas City, Lansing and Shawnee
- Target depth approximately 4,200ft per well
- Based on 13 well average, new well EUR = 26,613 Bbls (8/8ths) with IP = 887Bbl/m
- Historic success rate over past 4 years is 90% from 41 wells

Executive Chairman's Review of Operations (Continued)

2. WILLISTON BASIN – BAKKEN SHALE OIL POTENTIAL

The Bakken Shale oil field stretches from Canada down into North Dakota and Montana. There are a number of producing wells in the region of Empire's acreage. In summary, Empire Energy's interest is:

- 17,000 gross acres
- Non operator
- WI = 35.0% / NRI = 27.0%
- Target depth of wells in this area 7,000 – 7,500ft
- 15 miles to the west a EOG well produced an IP = 4,000 Bbl/d
- 2 well commitment mid 2011
- \$1.3mm D&C (drill & complete)
- No agreed date on development program.

3. APPALACHIA – GAS PRODUCTION

- ~310,000 gross acres, spanning nine counties in New York and 4 in Pennsylvania
- 98% of properties operated by Empire Energy
- WI = 98.5% / NRI = 76.5%
- Well depths range from approximately 3,200ft – 4,000ft
- 100's of Pud well locations for drilling at economic pricing
- Estimated 1P PV10 value as at acquisition date is US\$58.9 million
- Estimated 2P PV10 value as at acquisition date is US\$65.4 million
- Field operations focused on reducing shrinkage from a current estimated 10% to 12% of production. Significant inroads have been made in this area over the past 12 months, since Empire acquired the assets, as shown by gross gas production below. Further improvements are expected over 2011 as Empire is currently in negotiation to acquire a number of gas wells which could be effectively integrated into current operations and enable further control of pipeline management if it can successfully acquire up to 100 miles of pipeline.

4. APPALACHIA – UNCONVENTIONAL

- Empire continues geological and engineering review of its 303,000 acre land holding in western New York and northern Pennsylvania.
- The scope of the study reviewed basic to prepare estimates of the reserves and contingent resources. Reserve and resource estimates were prepared by Ralph E Davis Associates, using acceptable evaluation principals and were based, in large part, on the basic information as supplied.
- The quantities presented are estimated reserves and resources of oil and natural gas that geologic and engineering data demonstrate are "In-Place", and can be recovered from known reservoirs. All volumes presented are gross volume (8/8ths), and have not subtracted associated royalty burdens.

Shale Oil Potential Resources

Formation	Type	Category	MBIs
Marcellus (1)	4P	Shale (Oil)	70,295.0
			70,295.0

- (1) Wells within the defined Marcellus oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. The most likely outcome was utilized with a 3% RF (recovery factor).

Shale Gas Potential Resources

Formation	Type	Category	GIP (Bcf)	
Marcellus	4P	Shale	Poss/Resource	199.4
Utica (2)	4P	Shale	Resource	4,638.0
			4,837.4	

Notes:

- (2) Utica shale gas potential resources have only been calculated for the region where drill data is available. Very few wells have been drilled into the Utica and estimates for GIP have only been made where the few existing wells have been drilled. Empire holds additional acreage outside the current potential resource region. It is expected that as with shale characteristics, the shale formations will continue within the remaining acreage. The potential GIP should increase if more data was available.
- (3) Under current capital and gas prices, it is estimated that the Marcellus shale gas wells would be uneconomic.

Executive Chairman's Review of Operations (Continued)

5. AUSTRALIA - UNCONVENTIONAL OIL & GAS

- Since early 2010 Empire Energy Group Limited has undertaken the screening of 26 onshore basins in Australia principally for large scale shale gas exploration. The Company identified the MacArthur Basin as having attractive potential and has been successful in securing 5 licenses in the MacArthur Basin, Northern Territory. In summary:
 - 14.6 million acres under exploration licence application
 - Permits constitute high risk/high return frontier play at very low historic exploration maturity.
 - There has been no petroleum exploration in the Northern Territory acreage.
 - The exploration target is for shale oil and gas targets in rich black shales.
 - Land holder negotiations are underway. At the appropriate time the Company will seek to undertake a review of these opportunities with parties it has developed relationships within its operations in the USA.
 - The shales have been shown to be gas-prone (a mineral core hole ignited and sustained a 6m gas flare for several months).
 - Oil bleeds have been reported in geological data.

I. EMPIRE DRILLING & FIELD SERVICES, LLC

The advent of the 'Marcellus Gas Rush' has seen the dynamics of the gas drilling and field services industry change significantly in the region the Group operates. This is mainly due to the nature and scale of the horizontal drilling that is part of the Marcellus Shale development program. Smaller vertical drilling rigs, such as the Group operates are extremely cost effective for shallow (up to 4,000 feet) wells but not capable of drilling deeper, horizontal wells. At the same time low gas prices meant traditional producers halted drilling. Over the Period, the operations posted a small cash loss.

The information in this report which relates to reserves is based on information compiled by Mr Allen Barron, of Ralph E Davis Associates Inc, Houston, Texas. Mr Barron is a certified professional engineer with over 40 years experience.

Neither Ralph E Davis Associates Inc, nor any of its employees have any interest in Empire Energy E&P, LLC or the properties reported herein. Mr Barron consents to the inclusion in this statement of the matters based on his information in the form and context which it appears.

Directors' Report for the six months ended 31 December 2010

In respect of the six months ended 31 December 2010, the Directors of Empire Energy Group Limited (formerly Imperial Corporation Limited) present their report together with the Financial Report of the Company and of the consolidated entity, being the Company and its controlled entities, and the Auditor's Report thereon.

Directors

The following persons held office as Directors of Empire Energy Group Limited at anytime during or since the end of the financial period:

B W McLeod	Executive Chairman
D H Sutton	Non-Executive Director
K A Torpey	Non-Executive Director

All the Directors have been in office since the start of the financial year unless otherwise stated.

Principal Activities

During the financial period the principal continuing activities of the consolidated entity consisted of:

The acquisition, development, production, exploration and sale of oil and natural gas. The Company sells its oil and gas products primarily to owners of domestic pipelines and refiners located in Pennsylvania, New York and Kansas.

Reviewing new exploration, development and business opportunities in the oil and gas sector to enhance shareholder value.

Consolidated Results

The consolidated net profit of the consolidated entity for the six month period ended 31 December 2010 after providing for income tax was \$4,929,165 compared with a profit of \$12,415,090 for the year ended 30 June 2010.

Review of Operations

For information on a review of the Group's operations refer to the Executive Chairman's Review of Operations Report contained on pages 4 to 10 of this annual report.

Dividends

The Directors have not recommended the payment of a final dividend.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial period were as follows:

(i) Sale of Marcellus Shale Acreage

The Company through Empire Energy USA LLC received funds US\$24.6 million in early July 2010 from completion of the sale of a tract of Marcellus Shale Acreage. US\$10.65 million of these funds were then utilised to repay the Macquarie Bank Bridging Loan Facility. A further US\$13.8 million was utilised as the Company's equity contribution towards the US\$56.2 million acquisition cost of the oil producing assets based in the Kansas Central Uplift Region.

(ii) Acquisition of oil assets

On 29 December 2010 the Company announced that its 92% owned subsidiary, Empire Energy USA LLC had completed the acquisition of oil producing assets based in the Kansas Central Uplift Region, Kansas, plus a 35% working interest (27% NRI) in 17,000 acres with Bakken potential in North Dakota.

Key aspects of the acquisition were:

- 245 producing ~ 550 Bbls/day;
- 18,000 gross acres – 100% HPB and operated
- - 79.4%/66.4% NRI average
- Net 1P reserves of 3.75mmBoe at an allocated cost of \$15.61/Boe;
- Net 2P reserves of 4.8mmBoe at an allocated cost of \$12.20/Boe;
- 17 PDNP, 31 Pud and 56 Probable locations for work over or future drilling;
- >99% of production is >38 API oil;
- 10 Salt water disposal agreements;
- 2P, PV10 = ~\$115 million based on the current forward pricing

Acquisition costs at settlement were US\$56.2 million.

Directors' report (Continued)

For the six months ended 31 December 2010

The acquisition, is consistent with the Company's strategy of acquiring stable, long life, slow decline oil and gas assets with significant upside through development drilling.

Matters Subsequent to Balance Date

On 23 March 2011 the Company held a general meeting of members. At that meeting shareholders approved a change of name of the Company to Empire Energy Group Limited and the participation of B W McLeod in the Employee Share Option Plan. The change of name became effective on 23 March 2011 with the issue of a certificate of registration of change of name by the Australian Securities and Investments Commission. The Company's new ASX code is EEG.

There were no other matters or circumstances that have arisen since 31 December 2010 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2010, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2010 of the consolidated entity.

Likely Developments

Except for information disclosed on certain developments and the expected results of those developments included in this report under Review of Operations, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Information on Directors

Bruce William McLeod, B.Sc (Maths), M.Com (Econ) Age 58
Executive Chairman

Experience and Expertise

Mr McLeod has had extensive experience in the Australian capital markets. Over the past 15 years he has been involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent 6 years with BA Australia Limited, where he was Executive Director, responsible for the financial and capital markets operations.

Appointed a Director on 21 May 1996.

Special Responsibilities

Chairman of the Board

Other Current Directorships

Non-Executive Director of Carnegie Wave Energy Limited and Chairman of Mayan Iron Corporation Ltd.

Former Directorships in Last 3 Years

Bemax Resources Limited from October 2000 to July 2008.

Earth Heat Resources Ltd from 6 February 2008 to 22 January 2010.

David Henty Sutton, B.Com ASA ACIS Age 67

Non-Executive Director

Experience and Expertise

Mr Sutton has many years experience as a Director of companies involved with share broking and investment banking. He was executive chairman 2002 to 2010 of Martin Place Securities Pty Ltd, a boutique investment firm holding an AFS Licence. He currently owns and manages Dayton Way Financial Pty Ltd, a boutique financial services company focussing on the global resource sector.

Prior to his current role he was a partner and director of several securities exchange member firms. He became a member of the Stock Exchange of Melbourne and subsequently Australian Securities Exchange Limited.

Appointed a Director of the Company on 17 January 1997.

Special Responsibilities

Member of Remuneration Committee

Other Current Directorships

Non-Executive Director of Earth Heat Resources Ltd, SilverMines Limited and Chairman of Sinovus Mining Limited.

**Directors' report (Continued)
For the six months ended 31 December 2010****Former Directorships in Last 3 Years**

None.

Kevin Anthony Torpey, B.E., MIE Aus., CP Eng, FAusIMM, (CP) Age 72
Non-Executive Director

Experience and Expertise

Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia. Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani. For the last 20 years his association has mainly been as a corporate officer initially as Managing Director of Denison Mines (Australia) and then Managing Director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies. Appointed a Director of the Company on 26 November 1992.

Special Responsibilities

Member of Remuneration Committee

Other Current Directorships

Non-Executive Director of Latrobe Magnesium Limited

Former Directorships in Last 3 Years

None

Joint Company Secretaries**David Hughes**

Mr Hughes was appointed to the position of Company Secretary on 11 November 1992. Before joining Empire Energy Group Limited he has held similar positions with other listed companies for over 20 years. He is currently acting as Company Secretary/Joint Company Secretary of the following other listed public companies:

Latrobe Magnesium Limited, Hudson Investment Group Limited, Hudson Resources Limited, Tiaro Coal Limited, and Joint Company Secretary of Australian Bauxite Limited, Sovereign Gold Company Limited and Raffles Capital Limited.

Rachel Ryan

Ms Ryan has been employed in the Company's corporate finances division since 2006 and now serves as General Manager Finance. She was appointed Joint Company Secretary on 21 July 2010.

Advisors to the Company**Dr D Kahn**

Dr Kahn was appointed an advisor to the Company in March 2010. Dr Kahn has 15 years of diverse experience in the petroleum industry. During the past seven years he has been a principal in companies focused on developing strategies for exploiting unconventional oil and gas assets. He has developed expertise in property evaluations, business analysis and development, budgeting and strategic planning, reservoir engineering with particular emphasis on enhanced oil recovery, drilling and completion operations, midstream & downstream technologies, and marketing. Dr Kahn has worked for Baker Hughes, Halliburton and Texaco E&P. Dr Kahn is currently a director of Gale Force Inc, Sonic Technology Inc. and WHL Energy Limited. His education includes a Bachelor's in Engineering from McGill University and Master's in Chemical and Petroleum Engineering, as well as a PhD in the same discipline, from Ecole Nationale Supérieure du Pétrole et des Moteurs (Paris).

Dr John Warburton (FGS, MAICD)

Dr Warburton was appointed as an advisor to the Company in February 2010 and as a director and Chief Executive Officer to the Company's wholly owned subsidiary Imperial Oil and Gas Pty Ltd on 18 March 2011. A Geoscientist by profession, Dr Warburton has 27 years of technical and leadership experience in International Petroleum E&P including 11 years with BP and 4 years as General Manager Exploration & New Business for LASMO-Eni in Pakistan. Dr Warburton is the Director of Sydney-based Petroleum Exploration Business Consultancy Insight Exploration and he maintains a strong global executive network.

Dr Warburton's extensive operated & non-operated petroleum expertise covers the Middle East, Kazakhstan, Azerbaijan, North & West Africa, Pakistan, Europe, Australia, New Zealand, PNG, SE Asia, China, Korea and Japan.

Directors' report (Continued)

For the six months ended 31 December 2010

John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 28 internationally recognised technical articles with particular focus on petroleum exploration in complex fold and thrust belts.

Dr Warburton has a First Class B.Sc. Honours Degree in Geological Sciences and a Ph.D. in Structural Geology. He is a Member of the Australian Institute of Company Directors, an Alumni of Cranfield Business School UK and a Fellow of the Geological Society of London. Insight Exploration is a Sustaining Member of the Petroleum Exploration Society of Great Britain.

Meetings of Directors

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial period were:

Director	Directors' Meetings		Remuneration Committee Meetings	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office
Mr B W McLeod	7	7		
Mr D H Sutton	7	7	1	1
Mr K A Torpey	7	7	1	1

The Board has yet to appoint an audit committee. The matters that would normally be the responsibility of an audit committee are dealt with by the full Board of Directors.

Retirement, Election and Continuation in Office of Directors

Mr David Sutton is the Director retiring by rotation at the next Annual General Meeting in accordance with Article 50.1 of the Company's Constitution and being eligible offers himself for re-election.

Remuneration Report – Audited

This report outlines the remuneration arrangements in place for Directors and Executives of Empire Energy Group Limited.

Remuneration Committee

The Remuneration Committee reviews and approves policy for determining executives remuneration and any amendments to that policy.

The Committee makes recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

The members of the Remuneration Committee during the period were:

D H Sutton – Independent Non-Executive
K A Torpey – Independent Non-Executive

The Committee meets as often as required but not less than once per year.

The Committee met once during the period and Committee member's attendance record is disclosed in the table of Directors Meetings shown above.

Executive Directors' and Executive Remuneration

Executive remuneration and other terms of employment are reviewed annually and are based predominantly on the past year's growth of the Company's net tangible assets and shareholder value, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation and other bonuses and incentives linked to predetermined performance criteria. Executive Directors and executives are able to participate in an Employee Share Option Scheme.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Consolidated Entity's operations. Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Directors' report (Continued)
For the six months ended 31 December 2010
Performance Based Remuneration

As part of the Executive Directors' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives and that of the Company and shareholders.

Performance in relation to the KPIs will be assessed annually, with bonuses being awarded depending on performance of the Company over the past year. Following the assessment, the KPIs will be reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency assessed in relation to the Company's goals and shareholder wealth, before KPIs are set for the following year.

Non-Executive Directors' Remuneration

Remuneration of Non-executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time. Non-executive Directors are also able to participate in an Employee Share Option Scheme.

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year.

Details of the nature and amount of each element of the remuneration of each Director of Empire Energy Group Limited and each specified executive of the Company and the consolidated entity receiving the highest remuneration are set out in the following tables.

December 2010 (6 months)	Short term benefits			Post-employment benefits	Long-term benefits	Total \$
	Cash salary and fees \$	Bonus Payments \$	Non-monetary \$	Super contributions \$	Long service leave	
Directors						
B W McLeod	225,000	200,000	47,590	(27,000)		445,590
K A Torpey	10,000	-	-	900		10,900
D H Sutton	-	-	-	10,000		10,000
Specified Executive of the Company						
D L Hughes	39,000	-	10,299	3,510	792	53,601
R Ryan	44,000	-	372	3,960		48,332
Empire Energy Executives						
A Boyer	52,917	-	4,763	-		57,680
B Waller	52,917	-	-	-		52,917

The cash component of \$225,000 paid to B W McLeod includes a prior period adjustment of \$50,000

June 2010	Short term benefits			Post-employment benefits	Long-term benefits	Total \$
	Cash salary and fees \$	Bonus Payments \$	Non-monetary \$	Super contributions \$	Long service leave	
Directors						
B W McLeod	300,000	580,109	25,658	-	-	905,767
K A Torpey	20,000	-	-	1,800		21,800
D H Sutton	-	-	-	20,000		20,000
Specified Executive of the Company						
D L Hughes	54,000	-	5,236	4,860	-	64,096
Empire Energy Executives						
A Boyer (from September 2009)	75,571	-	5,101	-		80,672
B Waller (from September 2009)	75,571	-	-	-		75,571

The bonus expense to B W McLeod of \$580,109 includes an adjustment of \$330,109 relating to the 2009 period.

Directors' report (Continued)

For the six months ended 31 December 2010

The base remuneration shown above for B W McLeod represents amounts paid to Eastern & Pacific Capital Pty Ltd for management consulting services. B W McLeod is a Director and shareholder of Eastern & Pacific Capital Pty Ltd. For B W McLeod, the percentage of remuneration based on performance was 45% (2010: 64%).

Service Agreements

Remuneration and other terms of employment with Mr B W McLeod (Executive Chairman) have been formalised in a service agreement. The terms of this agreement are as detailed below:

Terms of the agreement:

- Base salary of \$350,000 per annum to be reviewed at least annually by the remuneration committee
- Payment of termination benefits apply other than for gross misconduct
- Performance based incentive bonus based on annual performance set against key performance indicators
- Other benefits include provision of fully maintained motor vehicle, participation in the Company's executive option plan and membership of Empire Energy USA, LLC management incentive scheme.

These terms are currently under review by the remuneration committee.

There are no other service agreements in place formalising the terms of remuneration of directors or specified executives of the Company and the consolidated entity.

Loans to Directors and Executives

There were no loans made to Directors or Specified Executives of the Company and the consolidated entity during the period commencing at the beginning of the financial period and up to the date of this report.

There are no loans outstanding at the date of this report.

Share Options Granted to Directors and Specified Executives

There were no options issued to Directors or specified executives of the Company during the financial period. Since the end of the financial period 5,300,000 executive options to acquire ordinary shares were granted to a Director following the approval of shareholders at a general meeting of members held on 23 March 2011. In addition a further 1,500,000 options were granted to specified executives of the Company. All options were issued pursuant to the terms of the Company's Employee Share Option Plan.

At the date of this report there were 6,866,666 unissued shares under option to a Director and specified executives. These options are exercisable on the following basis:

Number	Executive Options	Expiry Date
66,666 executive options	\$0.1575	5 March 2013
• 3,500,000 executive options	\$0.15	1 July 2013
• 1,650,000 executive options	\$0.17	1 July 2013
• 1,650,000 executive options	\$0.18	31 December 2013

- Vesting of these options is subject to minimum period of employment conditions

Directors' Interests and Benefits

The relevant interest of each director and specified executive in the share capital of the Company as at the date of this report is:

Particulars of Interests in the Issued Capital of the Company

Director	Direct Interest		Indirect Interest	
	Shares	Options	Shares	Options
B W McLeod	340,277	-	5,318,082	5,300,000
D H Sutton	438,301	-	544,999	-
K A Torpey	94,444	-	2,013,672	-
Specified Executives				
David L Hughes	1,319,404	750,000	93,047	-
Rachel Ryan	28,571	816,666	-	-

Directors' report (Continued)
For the six months ended 31 December 2010

Share Options

Movements

Grant of Options

No options were granted during the financial period.

Since the end of the financial period 6,800,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's Employee Share Option Plan following the approval of shareholders at a general meeting of members held on 23 March 2011.

The options were granted on the following terms:

No. of Options	Vesting Date	Exercise Date	Expiry Date
3,500,000	23 March 2013	\$0.15	1 July 2013
1,650,000	23 March 2013	\$0.17	1 July 2013
1,650,000	23 March 2013	\$0.18	31 December 2013

Exercised

333,333 executive options expiring 6 December 2010 were exercised at \$0.0705 in December 2010. No options have been exercised in the period since the end of the financial period.

4,123,216 unlisted options exercisable at \$0.135 expiring 12 December 2010 were not exercised by their expiry date and as a consequent have lapsed. No options have expired since the end of the financial period.

At the date of this report the total number of unissued shares under option was 40,199,998. These options are exercisable on the following terms:

Number		Exercise Price	Expiry Date
6,666,667		\$0.12	22 December 2011
6,666,667		\$0.135	22 December 2011
6,666,666		\$0.15	22 June 2012
6,666,666		\$0.165	22 December 2012
6,666,666		\$0.18	22 December 2012
66,666	Executive options	\$0.1575	5 March 2013
3,500,000	Executive options	\$0.15	1 July 2013
1,650,000	Executive options	\$0.17	1 July 2013
1,650,000	Executive options	\$0.18	31 December 2013
<u>40,199,998</u>			

End of Audited Remuneration Report

Directors' and Officers' Indemnities and Insurance

During the financial period Empire Energy Group Limited paid an insurance premium, insuring the Company's Directors (as named in this report), company secretaries, executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Environmental Regulations

There are significant environmental regulations surrounding mining activities which have been conducted by Empire Energy Group Limited. However, there has been no breach of these regulations during the financial period or to the end of the financial period and up to the date of this report.

Directors' report (Continued)
For the six months ended 31 December 2010

Declaration by the Chairman and Chief Financial Officer

The Directors have received and considered declarations from the Chairman and Company Secretary in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the six months ended 31 December 2010 present a true and fair view in all material aspects of the financial position and performance and are in accordance with relevant accounting standards.

Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Details of amounts paid or payable to the auditor for non-audit services provided during the period by the auditor and details relating to auditor independence are:

- Taxation compliance services \$2,423

The audit firm is engaged to provide tax compliance services and internal control reviews. The Directors believe that given the size of the Company's operations and the knowledge of those operations by the audit firm that it is appropriate for the auditor to provide these services. The Directors are of the opinion that these services will not compromise the auditor's independence requirements of the *Corporations Act 2001*.

Auditors' Independence Declaration Under Section 307 of the *Corporations Act 2001*

A copy of the Auditors' Independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 19 and forms part of the Directors Report for the six month period ended 31 December 2010.

Auditor

Nexia Court & Co continues in office in accordance with Section 327 of the *Corporations Act 2001*. No officers of the Company were previously partners of the audit firm.

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



B W McLEOD
Director

Sydney 31 March 2011

AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors
Empire Energy Group Limited
Level 7, 151 Macquarie Street
SYDNEY NSW 2000

31 March 2011

Dear Board Members

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Empire Energy Group Limited.

As lead audit partner for the audit of the financial statements of Empire Energy Group Limited for the financial period ended 31 December 2010, 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.

Yours sincerely

Nexia Court & Co.

Nexia Court & Co.
Chartered Accountants

Gallery

David Gallery
Partner



Corporate Governance Statement

OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the “Principles of Good Corporate Governance and Best Practice recommendations” set by the ASX Corporate Governance Council (“CGC”).

However, given the current size of both the Company’s operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been adopted this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX best practice recommendations, the Company’s corporate government practices are regularly reviewed and are available on the Company’s website.

Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations. This statement provides details of the Company’s adoption of the best practice recommendations.

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

Board Responsibilities

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board’s responsibilities are encompassed in a formal charter published on the Company’s website. The charter is reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

Directors’ Education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

Role of Chairman and Chief Executive Officer (CEO)

The Chairman is also the Chief Executive Officer and is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman is also responsible for implementing the consolidated entity’s strategies and Board policies.

The Chief Executive Officer has been delegated responsibility for managing the day to day operations of the Company.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the board of directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the chief responsibility of the board.

Performance is assessed against pre-determined objectives on a regular basis.

Corporate Governance Statement (Continued)

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and that shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

Composition of the Board

Currently the Board of Directors comprises three members, one executive non-independent Director, who is also the Chairman and Chief Executive Officer and two non-executive independent Directors, all of whom have a broad range of skills and expertise.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendations 2.2 and 2.3 which provides that the chair should be an independent Director and the role of the chair and CEO should not be exercised by the same individual.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be an independent chairman and a separate CEO.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of seven.

Details of the members of the board, their experience, expertise and qualifications are set out in the Directors Report on pages 12 to 13.

The position/status and term in office of each Director at the date of this report is as follows: -

Name of Director	Position/Status	Term in Office
Bruce McLeod	Executive Chairman – Non-Independent	15 years 4 months
David Sutton	Non-Executive – Independent	14 years 8 months
Kevin Torpey	Non-Executive – Independent	18 years 10 months

The Board currently holds up to 12 scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 7 times during the period and Directors attendance is disclosed on page 14 of the Directors' Report.

Access to independent professional advice

All directors are required to bring an independent judgment to bear on Board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

Nomination committee

The Board has not yet formed a separate nominations committee and that all matters that would normally be the responsibility of a nominations committee are dealt with by the full Board of Directors.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders. For directors retiring by rotation, the board assesses that director before recommending re-election.

Corporate Governance Statement (Continued)

The Australian Securities Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee.

Board performance evaluation

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Individual directors use an approved form to assess the performance of the Board and the Chairman.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices. A copy of these documents has been posted on the Company's website.

Approach to diversity

The Company is yet to establish a diversity policy although it recognises the benefits of diversity at boards in senior management and within the organisation generally and recognises the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company does not currently comply with recommendation 3.2 which requires ASX listed entities to establish a diversity policy which includes a requirement that:

- The board establish measurable objectives for achieving gender diversity; and
- The board assess annually both the measurable objectives for achieving gender diversity and the process in achieving them.

The implementation of an appropriate diversity policy to reflect the circumstances of the Company and the industry in which the Company operates is currently under review with this task being delegated to the Company's Nomination Committee.

While no formal policy is currently in place the Company is committed to providing an environment in which all employees are treated with fairness, respect and have equal access to employment opportunities at work.

Female employees are represented in the organisation workforce as follows

Whole workforce:	15%
Senior executives:	25%
Board Members:	Nil

Policy on dealing in Company securities

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the specific prohibition on insider trading Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

- a. the release of the Company's annual results to the ASX
- b. the release of the Company's half-year results to the ASX
- c. the release of the Company's quarterly cashflow and activities reports to the ASX

Corporate Governance Statement (Continued)

- d. the annual general meeting
- e. such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event)

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit Committee

No separate audit committee has been established and the role of the audit committee is undertaken by the full Board of Directors.

The committee met twice during the year under review.

The committee has adopted a formal charter, a copy of the formal charter is posted on the Company's website. The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The audit committee has received confirmation in writing from the Chief Executive Officer and Chief Financial Officer that:

The Company's financial statements for the financial period ended 31 December 2010 present a true and fair view in all material respects of the Company's financial position and operational results and are in accordance with relevant accounting standards.

The structure of the audit committee does not comply with recommendation 4.2 in that it does not consist only of non-executive independent Directors and it is chaired by an independent chair who is not chair of the board.

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, Nexia Court & Co., were appointed in 1992. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Court & Co. confirms that they conform with the requirements of the statement.

Nexia Court & Co. are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Corporate Governance Statement (Continued)

PRINCIPLE 5 – MAKING TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of the matters concerning the Company.

The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company has a written policy on information disclosure that focuses on ensuring compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. The Company Secretary is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

A copy of the Company's policy of continuous disclosure is posted on the Company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

The Company also posts corporate information in the Investor Section of its Company website at www.empireenergygroup.net

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the company's performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

Corporate Governance Statement (Continued)

The chairman and chief financial officer have stated in writing to the board that:

- The Company's financial reports present a true and fair view in all material respects of the Company's financial position and operating results and are in accordance with relevant accounting standards.
- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The board requires this declaration to be made bi-annually.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The Board has established a remuneration committee. The committee comprised the following members during the year:

- Mr D Sutton – Independent Non-Executive
- Mr K Torpey – Independent Non-Executive

Mr D Sutton is the Chairman of the remuneration committee.

The committee has adopted a formal charter. The main responsibilities of the Committee include: -

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

The committee met once during the year and the Committee Members attendance record is disclosed in the table of Directors Meetings included in the Directors' Report at page 14.

Executive Directors and Executive remuneration

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive directors

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Share Option Plan and Employee Share Purchase Plan.

Further information on directors and executive remuneration is included in the remuneration report which forms part of the directors' report.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the six months ended 31 December 2010

	Note	Six months Ended December 2010 \$	Year Ended June 2010 \$
Revenue	3(a)	14,040,866	11,064,941
Cost of sales		(7,036,580)	(5,811,869)
Gross profit		7,004,286	5,253,072
Other income	3(b)	160,367	520,297
Gain on sale of acreage	3(e)	-	25,981,137
Gain on sale of mining tenement		-	275,000
Gain/(loss) on sale of investment		123,240	195,471
Gain/(loss) on foreign currency translation		(8,843)	(239,339)
Impairment loss on available for sale assets		(62,125)	(228,199)
Depreciation, depletion and amortisation expense		(3,260,654)	(4,302,372)
Share of loss on equity accounted investments		-	(22,295)
General and administrative expenses		(3,262,684)	(2,669,185)
Operating profit		693,587	24,763,587
Finance income	3(d)	39,906	118,673
Finance costs	3(d)	(1,857,960)	(4,390,961)
Profit before income tax		(1,124,467)	20,491,299
Income tax benefit/(expense)	6(a)	6,053,629	(8,076,209)
Profit after income tax		4,929,162	12,415,090
Other comprehensive income			
Share of changes to post acquisition reserves of equity accounted investments		-	697,494
Changes in fair value of available-for-sale equity securities		184,143	(532,346)
Exchange differences on translation of foreign operations		(5,815,501)	1,341,880
(Loss)/Gain on cash flow hedges		(1,857,770)	3,628,264
Total other comprehensive income		(7,489,128)	5,135,292
Total comprehensive income		(2,559,966)	17,550,382
Profit for the year attributable to:			
Equity holders of Empire Energy Group Limited		4,352,315	11,044,503
Non-controlling interests		576,847	1,370,587
		4,929,162	12,415,090
Total comprehensive income for the year attributable to:			
Equity holders of Empire Energy Group Limited		(2,981,875)	15,887,422
Non-controlling interests		421,909	1,662,960
		(2,559,966)	17,550,382
		Cents per share	Cents per share
Basic earnings per share	27	2.68	8.92
Diluted earnings per share	27	2.68	7.01

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 December 2010

	Note	December 2010 \$	June 2010 \$
CURRENT ASSETS			
Cash and cash equivalents	26(i)	2,622,723	4,732,206
Trade and other receivables	7	3,756,093	30,384,057
Prepayments and other current assets	8	68,332	357,853
Inventory	9	638,916	-
Financial assets, including derivatives	10	2,050,819	2,285,713
TOTAL CURRENT ASSETS		9,136,883	37,759,829
NON-CURRENT ASSETS			
Financial assets, including derivatives	10	3,821,957	2,909,340
Oil and gas properties	11	97,981,324	57,525,732
Property, plant and equipment	12	3,519,662	3,354,535
Intangible assets	13	1,036,882	1,427,726
TOTAL NON-CURRENT ASSETS		106,359,825	65,217,333
TOTAL ASSETS		115,496,708	102,977,162
CURRENT LIABILITIES			
Trade and other payables	14	4,376,513	2,844,450
Financial liabilities, including derivatives	15	681,478	223,460
Interest-bearing liabilities	16	67,508,921	49,837,084
Provisions	17	76,784	4,556,272
Current tax liability	6	1,026,272	8,060,247
TOTAL CURRENT LIABILITIES		73,669,968	65,521,513
NON-CURRENT LIABILITIES			
Financial liabilities, including derivatives	15	2,496,164	-
Interest-bearing liabilities	16	68,124	74,816
Provisions	17	4,419,585	-
TOTAL NON-CURRENT LIABILITIES		6,983,873	74,816
TOTAL LIABILITIES		80,653,841	65,596,329
NET ASSETS		34,842,867	37,380,833
EQUITY			
Contributed equity	18	65,097,905	65,075,905
Reserves	19	414,261	8,148,075
Accumulated losses	20	(33,275,053)	(38,026,992)
Equity attributable to:			
Equity holders of Empire Energy Group Limited		32,237,113	35,196,988
Non-controlling interests		2,605,754	2,183,845
TOTAL SHAREHOLDERS' EQUITY		34,842,867	37,380,833

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the six months ended 31 December 2010

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 1 July 2010	65,075,905	4,050,460	1,227,143	2,870,472	(38,026,992)	35,196,988	2,183,845	37,380,833
Total Comprehensive income for period								
Profit for the period					4,352,315	4,352,315	576,847	4,929,162
Exchange differences arising on translation of foreign operations			(5,815,501)			(5,815,501)		(5,815,501)
Loss on available-for-sale investments		184,143				184,143		184,143
Loss on cash flow hedges		(1,702,832)				(1,702,832)	(154,938)	(1,857,770)
Total comprehensive income for the period	-	(1,518,689)	(5,815,501)	-	4,352,315	(2,981,875)	421,909	(2,559,966)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	23,500					23,500		23,500
Less: share issue transaction costs	(1,500)					(1,500)		(1,500)
Options lapsed in period, transferred to retained earnings				(399,624)	399,624	-		-
Total transactions with owners	22,000	-	-	(399,624)	399,624	22,000	-	22,000
Balance 31 December 2010	65,097,905	2,531,771	(4,588,358)	2,470,848	(33,275,053)	32,237,113	2,605,754	34,842,867

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 1 July 2009	61,975,228	1,246,915	(114,737)	592,522	(49,768,989)	13,930,939	-	13,930,939
Total Comprehensive income for period								
Profit for the period					11,044,503	11,044,503	1,370,587	12,415,090
Exchange differences arising on translation of foreign operations			1,341,880			1,341,880		1,341,880
Loss on available-for-sale investments		(532,346)				(532,346)		(532,346)
Share of changes to post acquisition reserves of equity accounted investment					697,494	697,494		697,494
Profit on cash flow hedges		3,335,891				3,335,891	292,373	3,628,264
Total comprehensive income for the period	-	2,803,545	1,341,880	-	11,741,997	15,887,422	1,662,960	17,550,382
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	3,199,089					3,199,089		3,199,089
Less: share issue transaction costs	(98,412)					(98,412)		(98,412)
Issue of shares and options to Macquarie (Note 3)				1,863,333		1,863,333		1,863,333
Issue of warrants in Empire Energy to Macquarie Bank				414,617		414,617	38,340	452,957
Non-controlling interests arising from acquisition of Empire Energy							482,545	482,545
Total transactions with owners	3,100,677	-	-	2,277,950	-	5,378,627	520,885	5,899,512
Balance 30 June 2010	65,075,905	4,050,460	1,227,143	2,870,472	(38,026,992)	35,196,988	2,183,845	37,380,833

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW
for the six months ended 31 December 2010

	Note	December 2010 \$	June 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		13,379,769	9,658,436
Payments to trade creditors and employees		(9,094,839)	(7,617,595)
Interest received		16,691	118,672
Interest paid		(1,834,744)	(2,026,129)
Net cash from operating activities	26(ii)	2,466,877	133,384
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		-	(946,719)
Proceeds from sale of investments in listed corporation		157,952	265,897
Proceeds from sale of mining lease		-	275,000
Proceeds from sale of property, plant & equipment		-	16,364
Proceeds from sale of acreage		24,221,281	-
Payments for investment in unlisted corporations		-	(125,000)
Payment for investment in listed corporations		(126,725)	(484,539)
Acquisition of Empire Energy, net of cash acquired	29(ii)	-	486,215
Acquisition of Mayville Assets, net of cash acquired	29(iii)	-	(42,556,200)
Acquisition of Kansas Assets, net of cash acquired	29(i)	(54,975,787)	-
Net cash used in investing activities		(30,723,279)	(43,068,982)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		-	3,100,677
Proceeds from interest bearing liabilities		41,865,323	38,956,064
Repayment of proceeds from issuing shares		23,500	-
Repayment of interest bearing liabilities		(13,372,051)	(3,054,486)
Finance lease payments		(6,210)	(24,389)
Loan to other entities		-	(15,000)
Net cash provided by / (used in) financing activities		28,510,562	38,962,866
Net (decrease)/increase in cash held		254,160	(3,972,732)
Cash at beginning of financial year		4,732,206	8,411,278
Effect of exchange rate changes on cash and cash equivalents		(2,363,644)	293,659
CASH AT THE END OF FINANCIAL YEAR	26(i)	2,622,722	4,732,205

The above consolidated statements of cash flow should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES

a. Corporate Information

The financial report covers Empire Energy Group Limited ("Empire Group" or "Company"), a company limited by shares whose shares are publicly traded on the Australian Securities Exchange. Empire Group is incorporated and domiciled in Australia. The presentation currency and functional currency of the consolidated entity is Australian dollars.

Separate financial statements for Empire Energy Group Limited as an individual entity are no longer presented as the consequence of a change to the *Corporations Act 2001*. However, limited financial information for Empire Energy Group Limited as an individual entity is included in Note 30.

The principal activity of the Company and its controlled entities ("Group") during the financial year are described in the Directors Report.

The financial report of the Company for the six months ended 31 December 2010 was authorised for issue in accordance with a resolution of Directors on 31 March 2011.

The Group has changed their year-end from June to December to align with the operations in the United States. The amounts presented in the financial statements are not entirely comparable as the periods differ.

b. Basis of Preparation

The consolidated financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards issued by the Australian Accounting Standards Board. The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments that have been measured at fair value.

It is also recommended that the financial report be considered together with any public announcements made by Empire Energy Group Limited and its controlled entities during the six month period ended 31 December 2010. In accordance with continuous disclosure obligations arising under both the *Corporation Act 2001* and Australian Securities Exchange Listing Rules.

c. Statement of Compliance

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

d. A summary of the significant accounting policies of the group under AIFRS are disclosed below.

1. Basis of Consolidation

The consolidated financial statements comprise the financial statements of Empire Energy Group Limited and its controlled entities ('the Group').

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost.

2. Critical accounting judgments, estimates and assumptions

In preparing the Group's consolidated financial statements. Management are required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and recognised contingent liabilities at the end of the reporting period and amounts of revenues and expenses recognised during the reporting period. Estimates and

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

3. Estimates and assumptions

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

- Note 4 – Impairment indicators
- Note 5 – Income tax
- Note 18 – Oil and gas properties
- Note 29 – Provisions for liabilities and charges

4. Judgments

In the process of applying the Group's accounting policies, the Directors have made the following judgments at 4a to 4d, apart from those involving estimates, which may have the most significant effect on the amounts recognised in the consolidated financial statements:

a. Reserves base

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production and other capital costs. The current NYMEX forward oil and gas price curves are used for price assumptions. The Group uses suitably qualified persons to prepare annual evaluation of proven hydrocarbon reserves, compliant with US professional standards for petroleum engineers.

b. Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped reserves.

The calculation of the UOP rate of depreciation, depletion and amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. Estimates of gas reserve quantities provide the basis for calculation of depletion, depreciation and amortisation and impairment, each of which represents a significant component of the consolidated financial statements.

These factors could include:

- Changes in proved reserves
- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

c. Impairment indicators

The fair value of oil and gas properties is determined with reference to estimates of recoverable quantities of reserves (as outlined above) to determine the estimated future cash flows. An impairment loss is recognised for the amount by which the asset or group of assets carrying value exceeds the present value of its future cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

d. Asset retirement obligations

Asset retirement costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

5. Income taxes

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

6. Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

7. Fair Value and hierarchy of financial instruments

The consolidated entity is required to classify financial instruments, measured at fair value, using a three level hierarchy, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

8. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Those oil and gas reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest; and over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

9. Cash and cash equivalents

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

10. Foreign Currency Translations

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date.

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Foreign currency differences on translation are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

11. Revenue recognition

Natural gas revenue

Revenue from the sale of natural gas is recognised when natural gas has been delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. Natural gas is sold by the Company under contracts with terms ranging from one month up to the life of the well. Virtually all of the Company contracts' pricing provisions are tied to a market index with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of natural gas and prevailing supply and demand conditions, so that the price of the natural gas fluctuates to remain competitive with other available natural gas suppliers.

Because there are timing differences between the delivery of natural gas and the Company's receipt of a delivery statement, the Company has unbilled revenues. These revenues are accrued based upon volumetric data from the Company's records and the Company's estimates of the related transportation and compression fees, which are, in turn, based upon applicable product prices.

Oil revenue

Revenue from the sale oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer and can be measured reliably, which is usually at the time of lifting, transferred into a vessel, pipe or other delivery mechanism.

Where forward sales and purchase contracts have been determined to be for trading purposes, the associated sales and purchases are reported net.

Drilling operations

The Company offers its drilling services under footage-based service contracts. Footage-based contracts provide for the drilling, of wells at footage rates and are generally completed within three to five days after the commencement of drilling. The Company provides geological, engineering and drilling supervision on the drilling and completion process and uses subcontractors to perform completion services and accordingly, has risk of loss in performing services under these arrangements. Accordingly, the Company reports revenue under these agreements gross of related expenses. Anticipated losses, if any, on uncompleted contracts are recorded at the time that the estimated total costs exceed the estimated total contract revenue.

Well operations

Well operations and pipeline income are recognised when persuasive evidence of an arrangement exists, services have been rendered, collection of revenues is reasonably assured and the sales price is fixed or determinable. The Company is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly operating and accounting costs, insurance and other recurring costs. The Company might also receive additional compensation for special nonrecurring activities, such as reworks and recompletions.

Rental Income

Rental income is recognised in profit and loss on a straight line basis over the term of the lease.

Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Other revenue is recognised as it accrues

12. Taxation

Income tax expense

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Other Taxes

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the 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 ATO are classified as operating cash flows.

13. Derivative Financial Instruments and Hedging Activities

The Company utilises interest rate swap agreements and oil and gas forward contracts to manage the exposure to interest rate changes on certain variable rate credit agreements and price volatility, respectively. The Company recognises its derivatives on the consolidated statement of financial performance at fair value at the end of each period. Changes in the fair value of the interest rate swaps and oil and gas forward contracts that are designated and meet the required criteria for a cash flow hedge are reported in consolidated comprehensive income.

14. Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting for gas producing activities. Costs to acquire mineral interests in gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells and related asset retirement costs are capitalised. Depletion is based on cost less estimated salvage value using the unit-of-production method. The process of estimating and evaluating gas reserves is complex, requiring significant decisions in the evaluation of geological, geophysical, engineering and economic data. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

15. Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

16. Exploration and evaluation costs

During the geological and geophysical exploration phase, costs are charged against income as incurred. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., by drilling further wells), are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient and continued progress is made in assessing the commerciality of the hydrocarbons. All such costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised.

17. Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

18. Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the asset retirement obligation, for qualifying assets and borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

19. Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other maintenance costs are expensed as incurred.

20. Depreciation

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

21. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The capitalised value of a finance lease is also included within property, plant and equipment. Plant and equipment are depreciated over their estimated useful lives using the straight line method as follows:

- Plant and equipment	December 2010	June 2010
	10% – 20%	10% – 20%

Assets are depreciated from the date of acquisition. Profits and losses as sales of property, plant and equipment are taken into account in determining the results for the year.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

22. Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

23. Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Certain investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

24. Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written when identified.

25. Intangible Assets

Intangible assets consist of a customer relationship agreement and loan acquisition costs. The customer relationship agreement is being amortised on a straight-line basis over 15 years. The loan acquisition costs are being amortized over the life of the related loans.

26. Accounts payables

Trade and other payables are stated at cost.

27. Asset Retirement Obligation

The Group's accounts for its asset retirement obligations, plugging costs, which requires that the fair value of an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalised as part of the carrying amount oil and gas properties. For the Group, asset retirement obligations primarily relate to the abandonment of gas-producing facilities.

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. The liability is discounted using credit-adjusted, risk-free interest rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs or remaining lives of the wells, or if regulations enact new plugging and abandonment requirements.

28. Interest-bearing liabilities

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

29. Provisions – Employee Benefits

Obligations for contributions to accumulation plans are recognised as an expense in the consolidated statements of comprehensive income as incurred.

Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance, superannuation and payroll tax.

30. Share based payment transactions

The group provides benefits to directors and senior executives of the group through the executive share option plan whereby eligible participants render services in exchange for options over shares. There has been no share based payment transactions during the year.

31. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations, most relevant to and not early adopted by the consolidated entity, are set out below.

AASB 9-Financial Instruments and 2009-11 Amendments arising from AASB 9

These standard and consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. This standard introduces new classification and measurement models for financial assets as part of phase 1 of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'. It uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. The standard also removes the impairment requirements for financial assets held at fair value. The accounting for financial liabilities has not been amended by the IASB and continues to be classified and measured in accordance with AASB 139. The consolidated entity will adopt this standard from 1 January 2013 but the impact of its adoption is yet to be assessed by the consolidated entity

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

AASB 2009-12 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 January 2011 will not have a material impact on the consolidated entity.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 January 2011 will not have a material impact on the consolidated entity.

AASB 2010 -5 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 January 2011 will not have a material impact on the consolidated entity.

AASB 124 Related Party Disclosures (December 2009)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. The revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 January 2011 will not have a material impact on the consolidated entity.

32. Tax consolidation

The company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from 1 July 2003. The head entity within the tax-consolidated group is Empire Energy Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

33. Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable / (payable) equal in amount to the tax liability / (asset) assumed. The inter-entity receivables / (payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives comprise bank loans, available for sale financial assets, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations. The Group also enters derivative transactions, principally interest rate swaps and commodity hedges.

The board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The board receives monthly reports through which it reviews the effectiveness of the processes put in place and appropriateness of the objectives and policies it sets. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The group is exposed to risks that arise from its use of financial instruments. The main risks arising from the group's financial instruments are interest rate risk, foreign exchange risk, commodity price risk, liquidity risk, currency risk, equity risk, and credit risk. This note describes the group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Further details regarding these policies are set out below:

(A) MARKET RISK

(i) Foreign Exchange Risk

The Group's core operations are located in the United States where both revenues and expenditures are recorded. The balance sheet can be significantly affected by movement in the USD/AUD exchange rates upon translation of the USD operations into AUD.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in USD for USD operations and maintaining a minimum cash balance in Australia.

The Group's exposure to foreign exchange risk at the reporting date is limited to the transfer for funding from the US operations to fund the Australian head office.

(ii) Commodity Price Risk

The Group's revenues and cash flows are exposed to commodity price fluctuations, in particular oil and gas prices. The Group enters forward commodity hedges to manage its exposure to falling spot oil and gas prices. To mitigate a

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

portion of the exposure to adverse market changes, the Group's commodity hedging programs utilise financial instruments based on regional benchmarks including Nymex WTI for oil and NYMEX Natural Gas Henry Hub for gas.

The Group enters into derivative instruments for the Group's production to protect against price declines in future periods while retaining some of the benefits of price increases. While these derivatives are structured to reduce exposure to changes in price associated with the derivative commodity, they also limit benefits the Group might otherwise have received from price changes in the physical market. The Group believes the derivative instruments in place continue to be effective in achieving the risk management objectives for which they were intended.

The Group's policy is to maintain a balance between spot and hedged sales, with not more than 75% of production being hedged at any point in time. For the year ended 31 December 2010, the Group hedged approximately 75% of its oil (2009:71%) and 72% of its total gas production (2009:70%).

Has approximately 150,000 thousand cubic feet (mcf) of monthly natural gas production and 9,000 barrels of oil production hedged at amounts ranging from US\$6.00 to US\$8.15/mcf for natural gas expiring in January 2013 through November 2015 and US\$90 per barrel for oil through December 2015. In addition the Group has a collar with a ceiling price of \$12.00/mcf and a floor of US\$8.00/mcf for 2,000 mcf of monthly production through August 2010.

(iii) Interest rate risk

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. The Group's exposure to interest rate risk at 31 December 2010 is set out in the following tables:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate in the US. The Group manages its interest cost using a mix of fixed and variable rate debt. The Group's policy is to maintain a portion of its USD Borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest rate amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The Group monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

	%	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest Bearing	Total
			1 Year or Less	Over 1 to 5 Years		
31 December 2010						
Financial Assets						
Cash and cash equivalents	4.3%	2,622,723				2,622,723
Trade and other receivables					3,824,425	3,824,425
Financial assets					5,872,776	5,872,776
		2,622,723			9,697,201	12,319,924
Financial Liabilities						
Trade & Other Payables					4,376,513	4,376,513
Financial liabilities, including derivatives	-				3,177,642	3,177,642
Interest-bearing liabilities	4.3%		67,508,921	68,124		67,577,045
			67,508,921	68,124	7,554,155	75,131,200

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest Bearing	Total
			1 Year or Less	Over 1 to 5 Years		
30 June 2010						
Financial Assets						
Cash and cash equivalents	4.2%	4,638,223			93,983	4,732,206
Trade and other receivables	-				30,741,908	30,741,908
Financial assets	-				5,195,053	5,195,053
		<u>4,638,223</u>			<u>36,030,944</u>	<u>40,669,167</u>
Financial Liabilities						
Trade & Other Payables	-		-		2,844,450	2,844,450
Financial liabilities, including derivatives					223,460	223,460
Interest-bearing liabilities	4.8%		49,837,084	74,816	-	49,911,900
			<u>49,837,084</u>	<u>74,816</u>	<u>3,067,910</u>	<u>52,979,810</u>

(iv) Group Sensitivity

Based on the financial instruments held at 31 December 2010, had the WTI Nymex and Henry Hub prices increase/decreased by 10% and 10% respectively, with all other variables held constant, the Group's post-tax profit for the year would not change in the year due to the extent of effective hedging of oil and gas production. Equity would not have changed under either scenario.

The directors do not expect any reduction in interest rates during 2011. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately \$650,000.

(B) CREDIT RISK

Credit risk is the risk that the other party to the financial instrument will fail to discharge their financial obligation in respect of that instrument resulting in the Group incurring a financial loss. The Group's exposure to credit risk arises from potential default of the counter party with the maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

The Group trades only with recognised, credit worthy third parties. In the US, trade receivables, (balances with oil and gas purchases) have not exposed the Group to any bad debt to date.

In the US, all of the purchasers that the Group's operators choose to deal with are major oil companies with an "AAA" credit rating.

Trade and other receivable balances are monitored on an ongoing basis with the Group's exposure to bad debts minimal.

The maximum exposure to credit risk at balance date is as follows:

	December 2010 \$	June 2010 \$
Trade, other receivables, and derivatives	8,780,414	35,145,317

The maximum exposure to credit risk at balance by country is as follows:

	December 2010 \$	June 2010 \$
Australia	221,839	60,714
United States of America	8,558,575	35,084,603

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

(C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise.

The Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Funding is in place with reputable financial institutions in the US and Australia. The borrowing base is re-determined and reviewed once a year. Bank compliance reporting is undertaken quarterly and adherence to covenants checked regularly. Management also regularly monitors actual and forecast cash flows to manage liquidity risk.

Maturity Analysis	Fair Value \$	Carrying Amount \$	Contractual Cash flows \$	1 year \$	1-3 years \$
December 2010					
Non Derivatives					
Current					
Trade and other payables	5,402,785	5,402,785	5,402,785	5,402,785	
Interest bearing liabilities	67,508,921	67,508,921	67,508,921	67,508,921	
Non-current					
Interest bearing liabilities	68,124	68,124	68,124		68,124
Derivatives					
Cashflow hedge asset	(4,955,989)	(4,955,989)	(4,955,989)	(2,050,819)	(2,905,170)
Cashflow hedge liability	3,009,179	3,009,179	3,009,179	513,015	2,496,164
Interest rate swap liability	168,463	168,463	168,463		

Maturity Analysis

June 2010

Non Derivatives

Current

Trade and other payables	11,128,157	11,128,157	11,128,157	11,128,157	
Interest bearing liabilities	49,837,084	49,837,084	49,837,084	49,837,084	

Non-current

Interest bearing liabilities	74,816	74,816	74,816		74,816
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Derivatives

Cashflow hedge asset	(4,403,728)	(4,403,728)	(4,403,728)	(2,285,713)	(2,118,015)
Interest rate swap liability	223,460	223,460	223,460	146,932	76,527

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

(D) EQUITY RISK

The Group is exposed to equity securities price risk arising from investments held by the Company which are classified as available for sale assets. Investments in equity securities are managed by the full Board. A formal risk management policy over investments has not yet been developed as it is considered a minor risk to the Group.

The Company relies on equity markets to raise capital for its exploration and development activities, and is thus exposed to equity market volatility.

In addition, the Company in consultation with its professional advisers, undertakes limited investment in listed and seed capital opportunities. The following summarises current listed and unlisted investments:

Investments Listed Companies	December 2010	June 2010
White Cliff Nickel	-	10,400
Earth Heat Resources	116,555	68,996
Golden Cross Resources	-	7,973
Central Rand Gold	13,500	16,875
Shaw River Resources	403,545	310,500
Peel Exploration Limited	260,250	192,500
Viking Ashanti Limited	28,600	25,300
Pepinnini Minerals Limited	-	9,100
Aphrodite Gold Limited	68,750	125,000
Unlisted Companies		
Entermo Limited	-	25,000
Arrcon Group	25,587	-

Unlisted investments are held at cost as no market valuation is available.

Equity price risk arises from investments in equity securities and Empire Energy Group Limited's issued capital.

The Group's equity risk is considered minimal and as such no sensitivity analysis has been completed.

Fair Value of Financial Assets and Liabilities

The fair value of all monetary financial assets and liabilities of Empire Energy Group Limited approximate their carrying value there were no off-balance financial assets and liabilities at year end.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

Fair value of financial instruments

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated 31 December 2010	Level 1	Level 2	Level 3	Total
Assets				
Ordinary shares	891,200	-	-	891,200
Cash flow hedge	-	4,955,989	-	4,955,989
Total assets	891,200	4,955,989	-	5,847,189
Liabilities				
Cash flow hedge and interest rate swap	-	3,177,642	-	3,177,642
Total liabilities	-	3,177,642	-	3,177,642
Consolidated 30 June 2010	Level 1	Level 2	Level 3	Total
Assets				
Ordinary shares	641,644	-	-	641,644
Cash flow hedge	-	4,403,728	-	4,403,728
Total assets	641,644	4,403,728	-	5,045,372
Liabilities				
Interest swap	-	223,460	-	223,460
Total liabilities	-	223,460	-	223,460

There were no transfers between levels during the financial year.

Capital Risk Management

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt the group considers not only its short-term position but also its long-term operational and strategic objectives.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

3 REVENUE AND EXPENSES

	Consolidated	
	December 2010 \$	June 2010 \$
a) Revenue		
Revenue from oil and gas sales	11,901,806	9,112,212
Revenue from drilling operations	297,345	150,059
Revenue from well operations	1,841,715	1,802,670
	14,040,866	11,064,941
b) Other Income		
Sundry revenue	151,131	224,766
Rental income	9,236	37,669
Profit on disposal of wells	-	257,862
	160,367	520,297
c) Other Expenses		
Doubtful debts	(467)	1,083
Rental expense on operating lease	82,320	164,640
Exploration expenditure	-	211,501
Superannuation	(12,590)	53,516

	Consolidated	
	December 2010 \$	June 2010 \$
d) Finance Income and Expense		
Interest income from other parties	39,906	118,673
Interest income from equity accounted investment	-	-
Total interest income	39,906	118,673
Interest paid	1,857,960	2,114,759
Fees and charges	-	2,276,202
Total finance costs	1,857,960	4,390,961
e) Individually significant items		
Gain from the sale of acreage	-	25,981,137

On 30 June 2010, the Company sold its interests in Marcellus shale leaseholds in 5,897 acres for \$27,200,137. A gain of \$25,981,137 was recognised for the 5,897 acres for the period ended 30 June 2010. On 1 July 2010, the Company received \$27,200,137 in connection with the sale. The difference of \$1,219,000 represents payment for an additional 257 acres if the Company delivers clear title to the interest. The gain from the sale of the 257 acres has not been recognised as of 31 December 2010.

4 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION

Determination of Remuneration of Directors

Remuneration of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriate qualified independent persons.

Remuneration of the executive director is determined by the Remuneration Committee (refer statement of Corporate Governance Practices and the Remuneration Report for further details).

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Company's level of operations.

Determination of Remuneration of Other Key Management Personnel

Remuneration of senior executives is determined by the Remuneration Committee (refer statement of Main Corporate Governance Practices for further details). In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Company's level of operations.

Directors and Executive Officers' Remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and each named officer of the Company and the Consolidated Entity receiving the highest remuneration are:

December 2010 (6 months)	Short term benefits			Post-employment benefits	Long-term benefits	Total \$
	Cash salary and fees \$	Bonus Payments \$	Non-monetary \$	Super contributions \$	Long service leave	
Directors						
B W McLeod	225,000	200,000	47,590	(27,000)		445,590
K A Torpey	10,000	-	-	900		10,900
D H Sutton	-	-	-	10,000		10,000
Specified Executive of the Company						
D L Hughes	39,000	-	10,299	3,510	792	53,601
R Ryan	44,000	-	372	3,960		48,332
Empire Energy Executives						
A Boyer	52,917	-	4,763	-		57,680
B Waller	52,917	-	-	-		52,917

The cash component of \$225,000 paid to B W McLeod includes a prior period adjustment of \$50,000

June 2010	Short term benefits			Post-employment benefits	Long-term benefits	Total \$
	Cash salary and fees \$	Bonus Payments \$	Non-monetary \$	Super contributions \$	Long service leave	
Directors						
B W McLeod	300,000	580,109	25,658	-	-	905,767
K A Torpey	20,000	-	-	1,800		21,800
D H Sutton	-	-	-	20,000		20,000
Specified Executive of the Company						
D L Hughes	54,000	-	5,236	4,860	-	64,096
Empire Energy Executives						
A Boyer (from September 2009)	75,571	-	5,101	-		80,672
B Waller (from September 2009)	75,571	-	-	-		75,571

The bonus expense to B W McLeod of \$580,109 includes an adjustment of \$330,109 relating to the 2009 period.

5 AUDITORS' REMUNERATION

	December 2010 \$	June 2010 \$
Auditing the financial statements - Nexia Court & Co	48,723	61,000
Half year review – Nexia Court & Co	-	38,773
Taxation services – Nexia Court & Co	2,434	7,860

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

6 INCOME TAX

a. Income tax expense

The amount of income tax expense/(benefit) attributable to the financial year differs from the amount of the prima facie income tax expense/(benefit) as follows:

	December 2010 \$	June 2010 \$
Profit/(Loss) before income tax	(1,124,467)	20,491,299
Prima facie income tax/(benefit) @ 30% on the Loss before income tax	(337,340)	6,147,390
Income tax not assessable	(884,478)	-
Non-deductible expenses	1,052,988	499,424
Other deductible expenses	(5,151)	-
Unfavourable/(favourable) income tax rate difference between Australian head entity and United States tax resident subsidiary	322,266	1,048,923
Deferred tax asset in relation to timing differences (recouped)/ not recognised	(5,070,111)	19,128
Benefit of tax and capital losses recouped not previously recognised	(1,131,803)	-
Deferred tax asset in relation to tax losses not recognised	-	361,344
Income tax expense/(benefit)	(6,053,629)	8,076,209

b. Deferred tax assets not recognised relate to the following:

Tax losses	2,834,904	3,966,708
Timing differences	39,892	26,086
Capital losses	-	-

The potential benefit of the deferred tax asset attributable to tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the asset.

c. Dividend Franking Account

There are no franking account credits available as at 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

7 TRADE AND OTHER RECEIVABLES

	December 2010 \$	June 2010 \$
Current		
Trade receivables	3,541,552	2,709,386
Receivables from sale of acreage	-	27,607,013
Other	214,541	67,658
	3,756,093	30,384,057

8 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments	68,332	357,853
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9 INVENTORY

Oil in stocks	638,916	-
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10 FINANCIAL ASSETS, INCLUDING DERIVATIVES

Current

Oil and gas price forward contracts – used for hedging	2,050,819	2,285,713
	2,050,819	2,285,713

Non-current

Oil and gas price forward contracts – used for hedging	2,905,170	2,117,696
Shares – Other corporations		
- Listed available-for-sale (at fair value)	891,200	641,644
- Unlisted (at cost)	129,392	228,805
Less accumulated impairment	(103,805)	(78,805)
	25,588	150,000
	3,821,957	2,909,340

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

11 OIL AND GAS PROPERTIES

	\$
Cost as at 30 June 2009	3,639,106
Additions	420,923
Acquisition	54,727,208
Disposals	(32,755)
Effect of foreign exchange movements	2,419,063
Cost as at 30 June 2010	<u>61,173,545</u>
Additions	-
Acquisition	52,212,452
Disposals	(87,882)
Effect of foreign exchange movements	(10,926,980)
Cost as at 31 December 2010	<u>102,371,135</u>
Depletion and impairment as at 30 June 2009	(909,777)
Charge for the year	(1,599,394)
Provision for impairment	(1,095,430)
Disposals	-
Effect of foreign exchange movements	(43,212)
Depletion and impairment as at 30 June 2010	<u>(3,647,813)</u>
Charge for the year	(2,158,533)
Provision for impairment	(407,921)
Disposals	-
Effect of foreign exchange movements	1,824,456
Depletion and impairment as at 31 December 2010	<u>(4,389,811)</u>
Net book value as at 30 June 2010	<u>57,525,732</u>
Net book value as at 31 December 2010	<u>97,981,324</u>

Unproved gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognised at the time of impairment by providing an impairment allowance. Management determined that no impairment allowance was necessary at 31 December 2010. Unproved gas properties approximated \$3,212,401 (30 June 2010: \$2,159,878) at 30 June 2010. Capitalised costs of producing gas properties, after considering estimated residual salvage values, are depreciated and depleted by the unit-of production method.

12 PLANT AND EQUIPMENT

	Cost		Accumulated Depreciation		Written Down Value	
	December 2010	June 2010	December 2010	June 2010	December 2010	June 2010
	\$	\$	\$	\$	\$	\$
Land	1,987,528	1,859,662	-	-	1,987,528	1,859,662
Buildings	240,720	175,252	(8,521)	(7,720)	232,199	167,531
Plant and equipment	780,355	667,598	(375,057)	(342,092)	405,298	325,506
Motor vehicles – leased	1,411,005	1,498,534	(543,514)	(512,317)	867,491	986,217
Office equipment	120,961	108,363	(93,815)	(92,744)	27,146	15,619
Leasehold improvements	68,846	68,846	(68,846)	(68,846)	-	-
	<u>4,609,415</u>	<u>4,378,255</u>	<u>1,089,753</u>	<u>(1,023,719)</u>	<u>3,519,662</u>	<u>3,354,535</u>

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

12 PLANT AND EQUIPMENT (Continued)

	December 2010 \$	June 2010 \$
Office Equipment		
Carrying value at beginning	15,619	12,862
Additions	12,599	4,701
Disposals	-	-
Depreciation expense	(1,072)	(1,944)
	27,146	15,619
Motor Vehicles – leased		
Carrying value at beginning	986,217	20,786
Additions	130,594	1,193,276
Disposals	-	(140,333)
Amortisation	(125,484)	(129,114)
Effect of foreign currency movements	(123,836)	41,602
	867,491	986,217
Plant and equipment		
Carrying value at beginning	325,506	-
Additions	200,220	369,444
Disposals	-	-
Depreciation expense	(78,616)	(57,826)
Effect of foreign currency movements	(41,812)	13,888
	405,298	325,506
Land		
Carrying value at beginning	1,859,662	-
Additions	427,965	1,775,024
Disposals	-	-
Depreciation value	-	-
Effect of foreign currency movements	(300,099)	84,638
	1,987,528	1,859,662
Buildings		
Carrying value at beginning	167,532	-
Additions	93,749	164,027
Disposals	-	-
Depreciation expense	(2,162)	(2,155)
Effect of foreign currency movements	(26,920)	5,659
	232,199	167,532
13 INTANGIBLE ASSETS		
Goodwill on acquisition	80,039	80,039
Other intangible assets acquired in business combination	956,843	1,347,687
	1,036,882	1,427,726
Other Intangible assets		
Carrying value at beginning	1,347,687	
Assumed in business combination	31,013	
Amortisation	(211,218)	
Effect of foreign currency translation	(210,639)	
	956,843	

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

	December 2010 \$	June 2010 \$
14 TRADE AND OTHER PAYABLES		
Current		
Trade creditors	4,321,048	2,309,536
Revenue distribution	-	492,786
Other creditors	55,465	42,128
	4,376,513	2,844,450
15 FINANCIAL LIABILITIES, INCLUDING DERIVATIVES		
Current		
Hedging derivatives – Interest rate swap	168,463	223,460
Oil and gas price forward contracts	513,015	-
	681,478	223,460
Non-current		
Oil and gas price forward contracts	2,496,164	-
16 INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	239,312	187,909
Bank loan -secured	67,185,705	49,569,345
Other loans	34,417	32,746
Other loans – related party	49,487	47,084
	67,508,921	49,837,084
Non-current		
Finance lease liability	68,124	74,816

In February 2008, the Company entered into a facility maturing February 2013, consisting of two components as follows:

US\$50,000,000 revolving line-of-credit facility (Revolver) used to refinance existing debt and to undertake future acquisitions; the Revolver will be subject to a borrowing base consistent with normal and customary oil and gas lending practices of the bank. The borrowing base limit at the time of the replacement was US\$3,000,000 and is redetermined from time to time in accordance with the Revolver. Interest accrues on the outstanding borrowings at rate options selected by the Company and based on the prime lending rate (3.25% at 31 December 2010) or the London InterBank Offered Rate (LIBOR) (0.27078% at 31 December 2010) rate plus 2.5%. At 31 December 2010, the Company's rate option was LIBOR. Total availability under the Revolver at 31 December 2010 was \$0. The borrowing base limit changes with operations and acquisition opportunities.

US\$50,000,000 acquisition and development term credit facility (Term Facility) was amended in December 2009 to include an addition of Tranche 4 with availability of an additional US\$50,000,000. The amendment brought the total available under this Term Facility to US\$150,000,000. This Term Facility is used to refinance an existing facility, undertake acquisitions and support capital expenditure under an agreed development plan for oil and gas properties and services companies. Drawdown on the Term Facility will be based on predefined benchmarks. Under the facility a further US\$4,700,000 (Tranche 1 as amended) has been committed to a defined development drilling program that commenced in April 2008, which is subject to independently generated reserve reports showing standard asset-loan coverage customary for commercial loan facilities; this amount under the Term Facility may be converted to the Revolver. The total available under Tranche 2, which will be used to pay additional capital costs associated with the development of properties, is US\$6,046,000, as amended. The total available under Tranche 3, which will be used for the acquisition of additional properties and the further development of all properties, is \$35,900,000. Tranche 4 originated with the 2010 acquisition with a total borrowed under Tranche 4 of approximately US\$35,300,000 at 31 December 2010. Interest accrues on the outstanding borrowings at rate options selected by the Company and based on prime lending rate or the LIBOR rate plus 4.0% At 31 December 2010 the Company's rate option was LIBOR. Total availability under the Term Facility at 31 December 2010 was AU\$76.0m. The borrowing base limit changes with operations and acquisition opportunities.

Loans under the facilities are secured by the assets of the Company. Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. As at 31 December 2010 the Company was in compliance with their financial ratios. Beginning in March 2008, the Company started to repay the facilities monthly to the extent of an applicable percentage of net operating cash flow.

In connection with the Revolver and Term Facility, the bank received warrants (at \$.01) equivalent to 10% of the issued capital of the Company prior to the issuance of an initial public offering. Following the issue of new equity in

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

the Company the bank received in December 2010: Nil and June 2010: 18,250 new units respectively. In addition, the bank also received a 3% overriding royalty interest in the net revenue interest in the properties held by the Company.

The total funds received during 2010 of approximately US\$42.0m were allocated \$3.0m to the overriding royalty interest (paid over the 40 year life of the properties) and \$39.0m to the debt.

In 2009, the total funds received of approximately US\$7,600,000 were allocated US\$1.2m to the warrants and US\$6.5m to the debt. In accordance with the Debt Topic of the Codification, the values assigned to both the debt and the warrants were allocated based on their relative fair values. The relative fair value of the warrants, which were determined using the management's pricing model in accordance with the Fair Value Measurements and Disclosures Topic of the Codification, were recorded as additional paid-in capital and reduced the carrying value of the debt. The discount on the debt is being amortised to interest expense over the term of five years.

A summary of period end debt is as follows:

	31 December 2010		30 June 2010	
	AUD \$	USD \$	AUD \$	USD \$
Term				
Tranche 1	6,082,410	6,181,553	7,254,925	6,183,350
Tranche 2	-	-	-	-
Tranche 3	21,116,110	21,460,303	28,581,588	24,360,000
Tranche 4	34,688,620	35,254,045	12,504,445	10,657,500
Revolver	2,951,884	3,000,000	3,519,990	3,000,000
Bridge loan	6,701,656	6,810,892	-	-
Sub-Total	71,540,680	72,706,793	51,860,948	44,200,850
Less – Discount on debt	4,354,975	4,425,961	(2,291,603)	1,953,049
Total debt	67,185,705	68,280,832	49,569,345	42,247,801

The Company entered into an interest rate swap agreement to reduce the impact of interest rate changes on the Company's variable rate term loan effective July 2009, The notional amount of \$US7.9m expires in July 2012 with a fixed rate of 2.015%. The fair value of this swap agreement is recorded as a liability of \$168,463 (2009: \$223,460) and the corresponding impact recorded in other accumulated comprehensive income.

CLASSIFICATION OF BORROWINGS

These accounts are presented on the basis that USD\$68.2m (AUD\$67.1m) of borrowings have been classified as current liabilities. This treatment is as a result of a strict application of the relevant provisions of AASB 101 *Presentation of financial statements ("AASB 101")*. This accounting standard requires the Group to classify liabilities as current if the Group does not have an unconditional right to defer payment for twelve months at period end. However, the expected repayment of the borrowings is not for complete repayment within the twelve month period.

Under the terms of the Loan Facility ("Facility"), excluding the bridging loan (see below), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding. This is expected to be repaid within a 3 year period with the Facility expiring in February 2013, or the facility will be rolled to an extended date.

The expected loan repayments in the next twelve months comprise:

- Repayment of the bridging loan of US\$6.8m (AUD\$6.7m); and
- Repayment of 90% of any monthly free cash flows.

As at 31 December 2010 the loan covenants were in compliance. Management obtained confirmation from the lender that it did not require the Group to repay the loans in advance of the originally agreed schedule.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

17 PROVISIONS

	December 2010 \$	June 2010 \$
Current		
Employee entitlements	76,784	75,620
Asset retirement obligations	-	4,480,652
	<u>76,784</u>	<u>4,556,272</u>
Non-current		
Asset retirement obligations	<u>4,419,585</u>	-

Movement in Asset Retirement Obligation

Balance at 1 July 2010	4,480,652
Assumed in a business combination	454,681
Accretion in the period, including in amortisation expense	222,995
Effect of foreign currency translation	<u>(738,743)</u>
Balance at 31 December 2010	<u>4,419,585</u>

The Company accounts for its asset retirement obligations, plugging costs, which requires that the fair value of an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalised as part of the carrying amount oil and gas properties. For the Company, asset retirement obligations primarily relate to the abandonment of oil and gas producing facilities.

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. The liability is discounted using credit-adjusted, risk-free interest rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs or remaining lives of the wells, or if regulations enact new plugging and abandonment requirements.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2010 (Continued)

18 CONTRIBUTED EQUITY	December 2010	June
	\$	2010
		\$
a) Shares		
Issued Capital		
Balance at beginning of period	65,075,905	61,975,228
Movement in ordinary share capital		
- Issue of 333,333 fully paid ordinary shares in December 2010 @ \$0.0705 pursuant to the exercise options	23,500	-
-Issue of 186,538,462 fully paid ordinary shares in December 2009 @ \$0.0052 pursuant to a private placement	-	970,000
-Issue of 58,600,000 fully paid ordinary shares in January 2010 @ \$0.0052 pursuant to a private placement	-	304,720
-Issue of 319,397,920 fully paid ordinary shares in February 2010 @ \$0.0052 pursuant to a share purchase plan	-	1,660,869
-Issue of 5,000,000 fully paid ordinary shares in May 2010 at \$0.0047 pursuant to the exercise of executive options	-	23,500
- Issue of 2,000,000 post consolidation fully paid ordinary in June 2010 representing fees associated with the extension of the Macquarie Bank Bridging Loan Facility	-	240,000
Less costs associated with the share issues detailed above	(1,500)	(98,412)
Balance as at 31 December 2010	<u>65,097,905</u>	<u>65,075,905</u>
b) Shares		
Movements in ordinary issued shares		
Balance at beginning of period	162,289,921	1,834,833,346
Movement in ordinary share capital		
- Issue of fully paid ordinary shares in December 2010 @ \$0.0705 pursuant to the issue of executive options	333,333	-
-Issue of fully paid ordinary shares in December 2009 @\$0.0052 pursuant to a private placement	-	186,538,462
-Issue of fully paid ordinary shares in January 2010 @ \$0.0052 pursuant to a private placement	-	58,600,000
-Issue of fully paid ordinary shares in February 2010 @ \$0.0052 pursuant to a share purchase plan	-	319,397,920
-Issue of fully paid ordinary shares in May 2010 at \$0.0047 pursuant to the exercise of executive options	-	5,000,000
	<u>162,623,254</u>	<u>2,404,369,728</u>
Conversion of issued capital following 1 for 15 capital consolidation	-	160,289,921
- Issue of fully paid ordinary shares at \$0.12 in June 2010 to extend Bridging Loan Facility	-	2,000,000
Balance as at 31 December 2010	<u>162,623,254</u>	<u>162,289,921</u>

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

Share Options Movements

Granted

No options were granted during the financial period.

Since the end of the financial period 6,800,000 options have been granted under the Employee Share Option Plan.

Exercised

- 333,333 executive options expiring 6 December 2010 were exercised at \$0.0705 in December 2010.

No options have been exercised in the period since the end of the financial period.

Expiry

- 4,123,216 unlisted options exercisable at \$0.135 expiring 12 December 2010 were not exercised by their expiry date and as a consequence have lapsed.

No options have expired since the end of the financial period.

At balance date the Company had on issue, the following securities:

Shares

- 162,623,254 listed fully paid ordinary shares – ASX Code: EEG

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during the year, or since the year-end.

Options

At balance date the Company had 33,399,998 unissued shares under option. These options are exercisable on the following terms:

66,666	unlisted executive options exercisable at \$0.1575 expiring 5 March 2013
6,666,666	unlisted options exercisable at \$0.165 expiring 22 December 2012
6,666,666	unlisted options exercisable at \$0.18 expiring 22 December 2012
6,666,667	unlisted options exercisable at \$0.12 expiring 22 December 2011
6,666,667	unlisted options exercisable at \$0.135 expiring 22 December 2011
6,666,666	unlisted options exercisable at \$0.15 expiring 22 June 2012
<u>33,399,998</u>	

Share Consolidation

Shareholders approved the consolidation of the Company's share capital on a one for fifteen basis at a general meeting of members held on 27 May 2010.

At the share consolidation date, 4 June 2010 the Company's pre-consolidation issued capital was 2,404,369,728 fully paid ordinary shares which on a post-consolidation basis became 160,289,921 fully paid ordinary shares. In addition, at the share consolidation date the Company had 272,848,315 unlisted options on issue.

In accordance with ASX Listing Rule 7.22 these options were consolidated on the same ratio as the ordinary shares and the exercise price amended in inverse proportion to that ratio.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during or since year end.

19 RESERVES

	December 2010 \$	June 2010 \$
Fair value reserve	2,531,771	4,050,460
Foreign currency translation reserve	(4,588,358)	1,227,143
Options reserve	2,470,848	2,870,472
	<u>414,261</u>	<u>8,148,075</u>

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale assets until the investment is derecognised and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Option Reserve

The option reserve comprises the value of options issued but not exercised at balance date.

20 ACCUMULATED LOSSES

	2010 \$	2009 \$
Accumulated losses at the beginning of the financial period	(38,026,992)	(49,768,989)
Share of changes to post acquisition reserves of associates	-	697,494
Transfer from option reserve	399,624	-
Profit for the period	4,352,315	11,044,503
	<u>(33,275,053)</u>	<u>(38,026,992)</u>
Accumulated losses at the end of the financial year		

21 CONTINGENT LIABILITIES

Empire Energy Group Limited has provided certain tax indemnities to an investor under agreements relating to research and development of Vitrokele Core Technology.

Empire Energy Group Limited has executed a Deed of Guarantee and indemnity in favour of Macquarie Bank Limited guaranteeing the obligations of each of Empire Energy USA LLC and its subsidiaries Empire Energy E&P LLC and Empire Drilling and Field Services LLC pursuant to the Macquarie Bank Limited credit facility.

The Company is involved in various legal proceedings arising out of the normal conduct of its business. In the opinion of management, the ultimate resolution of such matters will not have a material effect on the consolidated financial position results of operations or of the Company.

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or cleanup is probable, and the costs can be reasonably estimated. The Company maintains insurance that may cover in whole or in part certain environmental expenditures. At 31 December 2010, the Company had no environmental contingencies requiring specific disclosure or accrual.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

22 COMMITMENTS FOR EXPENDITURE

Exploration and Mining Tenement Leases

In order to maintain current rights of tenure to exploration and mining tenements, the Company and the companies in the consolidated entity are required to outlay lease rentals and to meet the minimum expenditure requirements of the various Government Authorities. These obligations are subject to re-negotiation upon expiry of the relevant leases or when application for a mining licence is made. No expenditure commitments exist at 31 December 2010.

i) Equipment Leases

Commitments in relation to equipment/motor vehicle leases contracted for at and subsequent to the reporting date but not recognised as liabilities:

	December 2010 \$	June 2010 \$
Not later than one year	18,789	18,789
Later than one year not later than two years	18,789	18,789
Later than two years not later than five years	59,195	68,589
More than five years	-	-
	96,773	106,167

The group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

ii) Property Licence

The Company has entered into a cancellable licence agreement over the occupation of office premises. The leased assets are pledged as security over the lease commitment.

The term of the occupancy licence is for 59 months concluding 30 June 2011.

Licence fees in relation to this agreement are payable as follows:

Within one year	82,320	192,605
Later than one year not later than two years	-	-
	82,320	192,605

Terms on the extension of the licence agreement are being negotiated.

23 SHARE BASED PAYMENTS

a) Executive Option Plan

The establishment of the Empire Energy Group Limited executive option plan was approved by shareholders at a general meeting of members held on 18 May 2000. Persons eligible to participate include executive officers of the company or a subsidiary, including a director holding salaried employment or office in the company or subsidiary. Options are granted under the plan for no consideration. Options are granted for a five year term and are fully vested.

Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on a minimum of the weighted average market price of shares sold in the ordinary course of trading on the ASX during the 5 trading days ending on the date the option is granted multiplied by 0.8.

Each option entitles the holder to subscribe for 1 unissued share.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

a) Employee Share Option Plan 2010

A new executive share option plan was approved by shareholders at the annual general meeting of members held on 30 November 2010. This plan replaces the previous executive option plan approved by shareholders on 18 May 2000. Persons eligible to participate include executive officers of the company or a subsidiary, including a director holding salaried employment or office in the company or subsidiary.

Options are granted under the plan for no consideration. The vesting date of options granted under the plan is subject to minimum term of employment conditions.

Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on a minimum of the weighted average market price of shares sold in the ordinary course of trading on the ASX during the 5 trading days ending on the date the option is granted multiplied by 0.8. Each option entitles the holder to subscribe for 1 unissued share.

Consolidated – 31 December 2010

There were no options granted pursuant to the executive option plan during the financial period.

Consolidated – 30 June 2010

There were no options granted pursuant to the executive option plan during the previous financial year.

The options outstanding at 31 December 2010 as detailed below were granted under the terms of an executive option plan approved by shareholders at a general meeting of members held on 18 May 2000.

The original exercise price and the number of options granted has been amended to reflect the capital consolidation effected on 4 June 2010.

Grant Date	Expiry Date	Exercise Price original	Post Capital Consolidation	Original number granted	Balance at start of year (amended for 15:1 consolidation)	Exercised during year	Balance at end of year
6 July 2000	6 July 2005	9 cents	n/a	14,350,000	expired unexercised		-
6 December 2005	6 December 2010	.065 cents	7.05 cents	49,000,000	333,333	333,333	-
6 December 2005	6 December 2010	.08 cents	n/a	15,000,000	-		-
5 March 2008	5 March 2013	1.05 cents	15.75 cents	1,000,000	66,666		66,666

b) Expenses arising from share based payment transactions

Period ending – 31 December 2010

There were no share based payment transactions during the period under review.

Period ending – 30 June 2010

Total expenses arising from share based payment transactions recognised during the period as costs of finance were as follows:

	December 2010 \$	June 2010 \$
Options and shares issued to Macquarie Bank	-	2,103,333

As detailed in Note 16, the Company issued options and shares to Macquarie Bank as part of the financing arrangements. The fair value of the options and shares has been recognised as a borrowing expense in the year 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

During the period since balance date the following options have been granted under the employee share option plan 2010:

No. of Options	Vesting Date	Exercise Date	Expiry Date
5,000,000	23 March 2013	\$0.15	1 July 2013
1,650,000	23 March 2013	\$0.17	1 July 2013
1,650,000	23 March 2013	\$0.18	31 December 2013

24 SEGMENT INFORMATION

The Group has adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed. Information reported to the Group's chief executive office for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

The Group's reportable segments under AASB 8 are therefore as follows:

- Oil and gas operations
- Mineral exploration
- Investments
- Other

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2010 (Continued)

	Revenue		Segment Profit/(Loss)	
	31 December 2010	30 June 2010	31 December 2010	30 June 2010
Oil and gas operations	14,118,432	37,303,940	1,635,520	27,785,021
Mineral exploration	-	275,000	-	275,000
Investments	123,240	199,895	123,240	199,895
Other	82,801	258,011	82,800	262,425
	14,324,473	38,036,846	1,841,560	28,522,341
Finance income			39,906	118,672
Finance expense			(1,857,960)	(4,390,961)
Central administration costs and Directors salaries			(1,147,973)	(3,249,295)
Foreign exchange (loss) gain			-	(239,339)
Not included in segment profit/(loss)			-	(270,119)
(Loss)profit before income tax			(1,124,467)	20,491,299

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Included in segment revenue above are gains disclosed separately of the face of the statement of Comprehensive Income.

Segment (loss)/profit represents the (loss)/profit earned by each segment without allocation of central administration costs and directors' salaries, finance income and finance expense, gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by reportable operating segment.

	31 December 2010	30 June 2010
Oil and gas operations	113,301,038	99,909,191
Mineral exploration	-	-
Investments	916,787	791,644
Other	1,278,883	2,276,327
	115,496,708	102,977,162

25 RELATED PARTY DISCLOSURES
a. Disclosures Relating to Directors

- i. The names of persons who were directors of the Company at any time during the financial year were:
 - B W McLeod
 - D H Sutton
 - K A Torpey

ii. Directors' Shareholdings
Number of shares held by Company Directors

Director	Balance at 1 July 2010	Received during period on exercise of options	Other changes during period	Balance at 31 December 2010
B W McLeod	5,658,359	-	-	5,658,359
D H Sutton	542,468	333,333	-	875,801
K A Torpey	2,108,116	-	-	2,108,116

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

25 RELATED PARTY DISCLOSURES (Continued)

Option holdings

Number of options over ordinary shares in the Company held during the financial period by each Director of the Company, including their related entities are set out below:

Director	Balance at 1 July 2010	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2010	Vested exercisable at 31 December 2010
B W McLeod	-	-	-	-	-	-
D H Sutton	333,333	-	333,333	-	-	-
K A Torpey	-	-	-	-	-	-

The options held by D H Sutton were issued under an employee option plan. These options are exercisable at \$0.0705 (amended for capital consolidation) prior to 6 December 2010.

iii. Key Management Personnel

Shareholdings

Specified Executive	Balance at 1 July 2010	Received during period on exercise of options	Other changes during period	Balance at 31 December 2010
D L Hughes	1,412,451	-	-	1,412,451
R Ryan	28,571	-	-	28,571

Option holdings

Number of options over ordinary share in the Company held during the financial year by each of the specified executives of the Company, including their related entities are set out below.

Specified Executive	Balance at 1 July 2010	Granted during period as remuneration	Exercised during year	Expiring during period	Balance at 31 December 2010	Vested exercisable at 31 December 2010
D L Hughes	-	-	-	-	-	-
R Ryan	66,666	-	-	-	66,666	66,666

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2010 (Continued)

25 RELATED PARTY DISCLOSURES (Continued)

iv. Transactions with Key Management Personnel

	December 2010 \$	June 2010 \$
1) B W McLeod is a director and shareholder of Eastern & Pacific Capital Pty Limited. The Company paid the following transactions:		
- Management consultant fees	225,000	300,000
- Interest accrued on loan facility	-	-
- Repayment of interest accrued on loan facility	-	-
- Loans advanced to Company	-	-
- Loans repaid by Company	-	-
- Bonus payment	200,000	580,109
2) W McLeod lent funds to the Company and received repayments of some of this loan. Interest has been accrued on this loan		
- Interest accrued on loan facility	2,403	4,428
- Loan repaid	-	-
3) D H Sutton is a director of a related party Earth Heat Resources Ltd.		
- Rental income and management fees received in 2010, debt was repaid through equity. The company received 4,261,559 shares. At the date of settlement these fully paid ordinary listed shares were valued at \$96,854.	-	-
- Trade debtor balance year end	-	-
- Investment Earth Heat Resources Ltd	116,555	96,854
- The Company lent funds to Earth Heat Limited and received interest on this loan. This loan was repaid during the same period.	-	15,000
- Interest received on loan	-	496
4) Aggregate amounts payable to Directors and their related Companies at balance date:		
- B W McLeod		
- Loan	21,000	21,000
- Interest	28,487	26,084
- Eastern & Pacific Capital		
- Loans		-
- Interest		-
- Bonus and consulting fees	757,146	596,892
5) B Waller and A Boyer are both directors of American Natural Resources ("ANR")		
- The Company reimburses ANR for use of vehicles		24,820
- ANR pays the Company for use of office and employment services	20,863	19,180
- The Company provides drilling services to ANR amount receivable to the Company	218,382	152,745
These transactions are conducted on commercial terms		

b. Disclosures Relating to Controlled Entities

Empire Energy Group Limited is the ultimate controlling company of the Consolidated Entity comprising the Company and its wholly-owned controlled companies.

During the year, the Company advanced and received loans, and provided accounting and administrative services to other companies in the Consolidated Entity. The accounting and administrative services were provided free of charge, and the loans were interest free and unsecured.

NOTES TO THE FINANCIAL STATEMENTS
for the six months ended 31 December 2010 (Continued)

c. Investments in Controlled Companies

Controlling Company	Country of Incorporation	Class of Share	Interest Held	
			December 2010 %	June 2010 %
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Vodex Pty Limited	Australia	Ordinary	100	100
Mega First Mining NL	Vanuatu	Ordinary	100	100
Imperial Mining Investments Pty Limited	Australia	Ordinary	100	100
Jasinv Pty Limited	Australia	Ordinary	100	100
Jasrad Pty Limited	Australia	Ordinary	100	100
Imperial Technologies Pty Limited	Australia	Ordinary	100	100
Imperial Management Services Pty Limited	Australia	Ordinary	100	100
OzNetwork Pty Limited	Australia	Ordinary	81	81
Imperial Resources LLC	USA	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	100
Empire Energy USA LLC	USA	Ordinary	92	92

All entities are audited by Nexia Court & Co with the exception of Mega First Mining NL, a Company incorporated in Vanuatu and Empire Energy USA LLC incorporated in the USA which is audited by Schneider Downs.

26 NOTES TO THE STATEMENTS OF CASH FLOWS

	December 2010 \$	June 2010 \$
i Reconciliation of Cash		
For the purpose of the Statement of Cash Flows, Cash includes Cash at Bank.		
Cash at the end of the financial year is shown in the Balance Sheet as follows:		
Cash at Bank	2,622,723	4,732,206
Bank overdraft	-	-
	<u>2,622,723</u>	<u>4,732,206</u>
ii Reconciliation of net cash from operating activities to profit for the year.		
Profit for the year	(1,124,467)	20,491,299
Depreciation, depletion and amortisation expense	3,260,654	4,302,372
Accrued interest	-	8,311
Equity-settled share based payment transactions	-	2,103,333
Impairment loss on available for sale assets	62,125	228,199
Share in JV losses	-	22,295
Cost of arranging finance	-	253,189
Profit on sale of acreage	-	(25,981,137)
Profit on sale of mining tenements	-	(275,000)
Profit on disposal of property, plant and equipment	-	(257,862)
Profit on sale of investments	(123,240)	(195,471)
Changes in assets and liabilities:	<u>2,690,832</u>	<u>699,528</u>
Change in receivables and other assets	(1,080,330)	(1,789,328)
Change in creditors and provisions	1,472,135	1,223,184
Net Cash from operating activities	<u>2,466,877</u>	<u>133,384</u>

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

a. Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities during the current financial period.

During the previous financial year the following transactions occurred:

- The Company issued 2,000,000 post consolidation shares at \$0.12 to Macquarie Bank Limited in settlement of fees associated with the extension of the bridging loan facility.
- In addition the Company granted 33,333,332 options (amended for capital consolidation) to acquire ordinary shares in the capital of the Company at various exercise prices and expiry dates as a cost component of the Macquarie Bank Bridging loan facility.

These options were independently valued at \$1,863,333 in June 2010. The value of these options was expensed during the current reporting period.

- The Company acquired a motor vehicle with a fair value of \$101,103 by means of a finance lease. This acquisition was not reflected in full in the cashflow statement.
- In September 2009 the Company executed an agreement with Peel Exploration Limited to sell its May Day Gold-base metal project (ML 1361) south of Cobar in Central NSW. Consideration for the sale was the issue of 2.75 million fully paid ordinary shares (2009 at \$261,250 value) and the replacement of the environmental bond.
- The Company had a trade debtor balance of \$210,000 owed by a listed company. The trade debtor undertook a company restructure, as part of this restructure the Company agreed to accept 4,261,559 shares as full and final settlement of this debt.

b. Acquisition and Disposal of Controlled Entities

Refer also to Note 29.

27 EARNINGS PER SHARE

	December 2010	June 2010
Basic earnings per share (cents per share)	2.68	8.92
Diluted earnings per share (cents per share)	2.68	7.01
Profit/(loss) used in the calculation of basic and diluted earnings per share	4,352,315	12,415,089
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	162,342,457	139,185,452
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	162,342,457	177,041,999

28 SUPERANNUATION COMMITMENTS

The Company contributed to externally managed accumulation superannuation plans on behalf of employees. Company contributions are made in accordance with the Company's legal requirements.

29 BUSINESS COMBINATIONS

On December 23, 2010, Empire Energy E&P, LLC purchased certain specified assets & assumed corresponding liabilities from Amadeus Petroleum, Inc. and T-N-T Engineering, Inc. for \$55,009,751 (USD \$55,906,410). The effective date of the transaction was 1 October 2010. In the six month period ended 31 December 2010, the acquisition of the Amadeus and T-N-T contributed revenue of \$4,660,480 (USD \$4,403,201) and profit of \$1,924,273 (USD \$1,818,045). It is impracticable to disclose the impact to revenue and profit for the six month period if the acquisition had occurred on 1 July 2010 as the information is not available.

On 30 September 2009 the Group, through its wholly owned subsidiary Imperial Resources LLC, obtained control of Empire Energy USA LLC through the transfer of gas wells. The wells were transferred at fair value, resulting in a net gain to the Group of \$257,862.

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

Imperial Resources Limited's equity interest increased from 50% voting interest to 71.4% as a result of the issue of series "A" units as consideration for the transfer of 5 producing wells in the Appalachian Basin at fair value.

On 23 December 2009 the Group's equity interest increased to approximately 90% of all issued capital (prior to dilution of warrants of approximately 9% held by Macquarie Bank) when the Company contributed US\$4,000,000 capital to meet the equity contribution of the acquisition costs of Mayville Assets for US\$38,000,000. The Group's voting interest remained at 71.4%

In June 2010 the voting interest increased to 83% and the total interest increased to approximately 92% when the Company received additional shares in consideration of the Company issuing shares and options to Macquarie Bank Limited as a cost component of the Bridging Loan Facility and extension of that facility.

Empire Energy USA LLC is part of the Company's growth strategy to aggregate energy related assets in the USA. Once the recent acquisition has been bedded down Empire Energy will seek additional acquisition opportunities which will expand Empire Energy Group's exposure to the oil sector.

In the nine month period to 30 June 2010 Empire Energy, including the acquisition of Mayville Assets, contributed revenue of USD\$33,063,125 (AUD\$36,760,967) and profit of USD\$21,133,610 (AUD\$23,296,949). It is impracticable to disclose the impact to revenue and profit for the year if the acquisitions had occurred on 1 July 2009 as the information is not available.

(i) Acquisition of Amadeus and T-N-T Engineering Assets

On 23 December 2010 the Group acquired Amadeus and T-N-T for consideration of \$55,009,751.

	USD	AUD
Consideration Transferred:		
Cash	13,804,404	13,583,001
Macquarie Bank		
- Funding facility	35,256,596	34,691,131
- Bridging Loan	6,810,892	6,701,655
	55,871,892	54,975,787
The purchase price was allocated as follows:		
Land, property & equipment	1,384,350	1,362,147
Oil & Gas properties	55,149,634	54,265,113
Asset Retirement Obligation	(462,092)	(454,681)
Environmental Obligation	(200,000)	(196,792)
	55,871,892	54,975,787

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2010 (Continued)

(ii) Acquisition of Empire Energy

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date of 30 September 2009 consideration transferred.

	USD	AUD
Transfer of producing wells at fair value	1,133,890	1,288,365
Equity interest already held at fair value	2,389,944	2,715,537
	<u>3,523,834</u>	<u>4,003,902</u>

Identifiable assets acquired and liabilities assumed:

	USD	AUD
Cash and cash equivalents	427,919	486,216
Trade and other receivables	258,218	293,397
Other current assets	179,619	204,089
Derivatives	470,200	534,258
Oil and gas properties and Property, plant and equipment	11,606,297	13,187,481
Intangible assets	281,181	319,488
Trade and other payables	(730,653)	(887,005)
Financial liabilities	<u>(8,562,476)</u>	<u>(9,728,988)</u>
	3,880,305	4,408,936

Goodwill

Goodwill has been recognised as a result of the acquisition as follows:

	USD	AUD
Total consideration transferred	3,523,834	4,003,902
Non-controlling interest	424,688	482,545
Less fair value of identifiable assets	<u>(3,880,305)</u>	<u>(4,408,936)</u>
Goodwill	68,218	77,511

(iii) Acquisition of Mayville Assets

On 23 December 2009 Empire Energy acquired Mayville Assets for a consideration of \$42,556,200

Consideration transferred:

	USD	AUD
Cash	4,000,000	4,479,600
Macquarie Bank		
- Funding facility	24,000,000	26,877,600
- Bridging loan	10,000,000	11,199,000
	<u>38,000,000</u>	<u>42,556,200</u>

The purchase price was allocated as follows:

	USD	AUD
Land	1,579,984	1,769,424
Buildings	89,637	100,082
Equipment	56,350	63,106
Motor Vehicles	383,420	429,392
Oil and gas properties	39,099,967	43,788,053
Accrued plugging obligations	<u>(3,209,088)</u>	<u>(3,593,857)</u>
	38,000,000	42,556,200

All the assets acquired in the transaction have been recognised at their acquisition date cost, while translation and merger integration costs associated with the transaction have been expensed as incurred.

There were no acquisitions or disposals of controlled entities during the six months ending 31 December 2010.

(iv) Acquisitions and Disposals of Controlled Entities

Disposal

There were no acquisitions or disposals of controlled entities during the financial period.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 31 December 2010 (Continued)

Previous financial year – June 2010

Acquisitions

Cobalt Energy Pty Ltd was incorporated on 23 April 2010 as a shelf Company. It is proposed that this Company be utilised as the vehicle to investigate resource based investment opportunities in Queensland.

The Groups equity interest in Empire Energy USA LLC is held through its wholly owned subsidiary, Imperial Resources LLC.

Disposals

There were no disposals of controlled entities during the previous financial year.

30 PARENT ENTITY INFORMATION

	December 2010 \$	June 2010 \$
Information relating to Empire Energy Group Limited:		
Current assets	1,185,831	2,174,555
Total assets	21,764,792	15,802,869
Current liabilities	1,262,945	1,189,115
Total liabilities	1,331,069	1,263,931
Contributed equity	65,097,905	65,075,905
Accumulated losses	(46,954,502)	(54,044,872)
Reserves	2,290,320	3,507,905
Total shareholders' equity	20,433,723	14,538,938
Profit or (loss) of the parent entity	6,690,746	(1,751,484)
Total comprehensive income of the parent entity	6,874,889	(2,166,817)
Details of any guarantees entered into by the parent entity in relation to debt of its subsidiaries refer to note 19		
Details of any contingent liabilities of the parent entity		
Details of any contractual commitment by the parent entity for the acquisition of property, plant or equipment	-	-

31 MATTERS SUBSEQUENT TO BALANCE DATE

On 23 March 2011 the Company held a general meeting of members. At that meeting shareholders approved a change of name of the Company to Empire Energy Group Limited and the participation of B W McLeod in the Employee Share Option Plan. The change of name became effective on 23 March 2011 with the issue of a certificate of registration of change of name by the Australian Securities and Investments Commission. The Company's new ASX code is EEG.

There were no other matters or circumstances that have arisen since 31 December 2010 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2010, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2010 of the consolidated entity.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Empire Energy Group Limited (the "Company"):
 - a The financial statements and notes of the Company and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 14 to 17, are in accordance with the *Corporations Act 2001*, including:
 - i Giving a true and fair view of the Company's and Group's financial position as at 31 December 2010 and of their performance, for the year ended on that date; and
 - ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - b the financial report also complies with the International Financial Reporting Standards as disclosed in note 1(c); and
 - c there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Office and the Chief Financial Officer for the year ended 31 December 2010.

Signed in accordance with a resolution of the directors.



B W McLEOD
Director

Dated: 31 March 2011

INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF EMPIRE ENERGY GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Empire Energy Group Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1c, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, 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. These Auditing 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 procedures include reading the other information in the annual report to determine whether it contains any material inconsistencies with the financial report.

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



**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
EMPIRE ENERGY GROUP LIMITED
(CONTINUED)**

Independence

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

Auditors' Opinion

In our opinion:

- a. the financial report of Empire Energy Group Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of consolidated entity's financial position as at 31 December 2010 and of its performance for the period ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1c.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 16 of the directors' report for the period ended 31 December 2010. 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 Empire Energy Group Limited for the period ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

Nexia Court & Co.

Nexia Court & Co
Chartered Accountants

Sydney
Dated: 31 March 2011

David Gallery
David Gallery
Partner

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 15 March 2011

Name	Number of Shares	% Holding
Imperial Investments Pty Ltd	13,274,723	8.16
WYT Nominees Pty Ltd (C&E Wong Super Fund A/C)	10,245,118	6.31

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	311	139,047	.09
1,001 – 5,000	1,046	2,976,434	1.82
5,001 – 10,000	647	4,888,486	3.01
10,001 – 100,000	1,043	34,931,789	21.48
100,001 and over	231	119,687,498	73.60
Total number of holders	3,278	162,623,254	100.00

i Number of holders of less than a marketable parcel 1,122

ii Percentage held by 20 largest holders 37.80%

c Twenty Largest Shareholders as at 15 March 2011

Name	Number of Shares	% Holding
1 Imperial Investments Pty Ltd	13,274,723	8.16
2 WYT Nominees Pty Ltd <C&E Wong Super Fund A/C>	10,245,118	6.31
3 Peter Alfred Ternes	6,000,000	3.69
4 Armco Barriers Pty Ltd	4,000,000	2.46
5 Michelle Wong	3,781,575	2.32
6 Eastern & Pacific Capital Pty Ltd (B W McLeod Super Fund A/C)	3,532,110	2.18
7 Hafeezhussein Hatimali Bana	2,569,242	1.58
8 Classic Roofing Pty Ltd (Superannuation Fund Account)	2,000,000	1.23
9 Macquarie Bank Limited	2,000,000	1.23
10 Lai Yiu Sham	1,804,109	1.11
11 Mr Christopher John Wilson & Ms Wei Mun Judienna Chang <Wilson Super Fund A/C>	1,500,000	0.92
12 Mr Kenneth Murray & Mrs Ruth Murray <Murray Super Fund A/C>	1,466,666	0.90
13 Famallon Pty Ltd <Famallon No 2 Super Fund A/C>	1,418,813	0.87
14 Mr David Laurence Hughes	1,319,404	0.81
15 Classic Roofing Pty Ltd	1,210,000	0.74
16 Brian William Atkinson	1,166,667	0.72
17 Eastern & Pacific Capital Pty Ltd	1,101,996	0.68
18 Bigson Pty Ltd (Mike Gibson Super Fund)	1,066,666	0.66
19 Serlett Pty Ltd (Diligent Super Fund A/C)	1,005,532	0.62
20 Vanessa Hickey	1,000,000	0.61
	61,462,621	37.80

d Voting Rights

On a show of hands every member present in person or by proxy shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for every share except if the issue price has not been paid in full, then the holder is only entitled to a fraction of a vote on that share, being, the quotient of the amount paid up divided by the issue price of that share.

SHAREHOLDER INFORMATION (Continued)

UNQUOTED SECURITIES AS AT 31 MARCH 2011

Class of unquoted securities	No. of securities	No. of holders
Unlisted Options issued to Macquarie Bank Limited as a component of the bridging loan facility.		
- Unlisted options exercisable at \$0.165 expiring 22 December 2012	6,666,666	1
- Unlisted options exercisable at \$0.18 expiring 22 December 2012	6,666,666	1
- Unlisted options exercisable at \$0.12 expiring 22 December 2011	6,666,667	1
- Unlisted options exercisable at \$0.135 expiring 22 December 2011	6,666,667	1
- Unlisted options exercisable at \$0.15 expiring 22 June 2012	6,666,666	1
Unlisted Executive Options issued under the terms of the Company's executive option plan		
- Executive options exercisable at \$0.1575 expiring 5 March 2013	66,666	1
- Executive options exercisable at \$0.15 expiring 1 July 2013	3,500,000	3
- Executive options exercisable at \$0.17 expiring 1 July 2013	1,650,000	1
- Executive options exercisable at \$0.18 expiring 31 December 2013	1,650,000	1

Voting Rights

There are no voting rights attached to any of the unquoted securities listed above.

LIST OF EXPLORATION LICENCE APPLICATIONS

Permit	State	Status	Interest
EP(A) 180	NT	Under application	100%
EP(A) 181	NT	Under application	100%
EP(A) 182	NT	Under application	100%
EP(A) 183	NT	Under application	100%
EP(A) 184	NT	Under application	100%
EP(A) 185*	NT	Under application	100%
EP(A) 186*	NT	Under application	100%
EP(A) 187	NT	Under application	100%
EP(A) 188	NT	Under application	100%

* *Competing applications*