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Quarterly Activities Report – 31 December 2010

31 January 2011

HIGHLIGHTS:

- On December 24 (Australian time), completed a US\$60.25 million acquisition of mainly oil producing assets in the Central Uplift Region, Kansas, USA, as well as a 17,000 acre Bakken oil shale play (WI=35%; NRI = 27%).
- The acquisition added approximately 580 Bbl/day (net) production
- The acquisition added approximately 4.8 million Bbls oil in 2P reserves (net).
- Currently producing an estimated 1,669 Boe/day (net) or 10,015 Mcfe/d (net).
- Over the past 12 months, completed US\$125 million in oil and gas related transactions.
- Finalising up to a 10 well, oil drilling program in the Kansas Uplift Region for 2011.
- Continuing Geological and Engineering studies for shale oil and gas resources in New York State covered by the Company's 303,000 acres. Currently, resource estimates:
 - Utica shale – potential resource of up to 5 Tcf GIP, (unrisked) ,with additional acreage to be reviewed;
 - Marcellus oil potential resource of estimated 70 million Bbls (based on 3% RF).
- Landowner negotiations commenced for the 14.6 million acres of shale formations secured onshore, in The Northern Territory, Australia.

MARKET ENVIRONMENT

In brief, the energy environment in which the Company operates can be described:

- **Oil** - The last quarter of 2010 saw the greatest spike in demand the world has experienced since 2004, and the second greatest since 1980. While demand is expected to grow as economies improve, the rate of increase is not likely to be as dramatic as

year-end 2010, but unknowns such as continued growth in India, China and potentially USA should keep demand high.

- **Gas** – Strong growth in shale gas production and oversupply is likely to keep prices low. There is already some move for shale production to move from gas to liquids.

All signs point to continued energy demand across the industry. Opportunities for an alternative to oil and coal, provides a ripe environment for increases in natural gas use over time.

EMPIRE ENERGY USA LLC (92%)

On December 24 2010, (Australian time), Empire Energy completed a US\$60.25 million acquisition of mainly oil producing assets based in the Central Uplift Region, Kansas and a 27% NRI in 17,000 acres in the Bakken Shale region, North Dakota, USA. The effective date for the acquisition was October 1, 2010.

The acquisition was funded as follows:

Component	Source of Funds US\$'000
Equity	\$13,800
Macquarie Bank facility	\$35,495
Mezzanine Facility	\$6,611
TOTAL PAID	\$55,906

Due to Preferential Rights Agreements a payment of US\$4,343,590 was deferred until preferential rights owners confirm whether they wish to take up their Working Interest rights. It is expected that Empire will acquire 100% of the Working Interests offered for sale.

From the cash generated by operations from the Effective Date, Empire allocated US\$100,000 towards costs associated with the Transition Management Agreement and US\$322,000 in other costs owing to the Vendor.

Production (preliminary) (US\$)

The following table summarizes oil and gas production for Kansas Uplift, KS; Mayville, NY and Hawthorne, PA:

Gas: Oil ratio 1: 6

Quarter	Net Production Mcf	Average Price \$/mmBtu	Net Production Bbl	Average Price \$/bbl	Net Production Mcf	Net Production Boe
Sep-30	495,534	\$6.27	472	\$71.03	498,366	83,061
Dec-31	527,951	\$6.24	52,026	\$77.89	901,358	150,226
YTD	1,023,485	\$6.26	52,498	\$77.83	1,338,473	233,079
per day (last qtr)	5,866		578		10,015	1,669

Note: Estimates have been made for the last 2 production months of the last quarter due to different customer payment & invoice cycles.

Items from table above:

1. The Kansas assets contributed net 51,675 Bbls and 5,970 Mcf in gas production. These results are unaudited and subject to acquisition settlement finalization by February 28, 2011.

Field Operating Revenues (preliminary) (US\$)

Quarter	Net Revenue \$000	Lease Op Expenses \$000	Taxes AdVal/Prod \$000	Field EBITDA \$000	Leases & Prospects \$000	Field Admin Expense \$000
Sep-30	\$3,269	\$1,206	\$7	\$2,056	\$66	\$63
Dec-31	\$7,469	\$2,224	\$426	\$4,819	\$220	\$70
YTD	\$10,738	\$3,430	\$433	\$6,875	\$286	\$133

Note: Estimates have been made for the last 2 production months of the last quarter due to different customer payment & invoice cycles.

Key Operating Ratios:

- Lifting Costs \$/Mcf = \$2.14 (\$1.54 previous quarter)
- Lifting Costs \$/Bbl = \$21.74 (based on information provided by the Vendor)

Items from table above:

1. The Dec 2010 quarter 'Taxes' includes \$418,918 in New York school taxes. These taxes are paid annually.
2. Leases & Prospects includes Delayed Rental Payments. These are budgeted to be lower over 2011.
3. The Kansas assets contributed around \$4.0 million in revenue and \$2.9 million in Field EBITDA. These results are unaudited and subject to acquisition settlement finalization by February 28, 2011.

Corporate Cash Flows (US\$)

1. Total Corporate Costs for the quarter were \$435,000 (previous quarter \$527,441).
2. Other, one-off Corporate Costs include:
 - Legal costs associated with potential acquisitions \$26,344 (previous quarter \$51,480).
 - Geological & Engineering consultants \$152,528 (previous quarter \$40,391).
 - Software upgrades \$24,996 (previous quarter \$2,880).
3. Interest paid over the quarter was \$431,431 (previous quarter \$437,519). Interest costs do not include funds drawn down for the December 24, 2010 acquisition.
4. One-off vendor related costs associated with the recent acquisition were \$422,000 (previous quarter \$0).
5. Loan draw down fees were approximately \$700,000 (1.5%).

Preliminary budgets indicate that Corporate Costs for the pre-existing business will continue to reduce, however, the recent acquisition will require additional resources and preliminary estimates are that Corporate Costs will increase by around \$100,000 per quarter.

Operations by Region

1. Kansas – Central Kansas Uplift oil production

- 19,280 gross acres, spanning sixteen central Kansas counties
- 99% of properties operated by Empire Energy (until February 28, properties currently under Transition Management Agreement and are operated by the Vendor).
- Average WI = 79.4%
- Average NRI = 64.7%
- Well depths range from approximately 3,200ft – 4,000ft
- Reservoirs are 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\$93.5 million
- Estimated 2P PV10 value as at acquisition date is US\$125.7 million

2. Central Kansas Uplift Region - Drilling Program

Empire is currently reviewing the drilling program and well locations identified by the Vendor. It is expected a drilling program will commence in the first half of the year, details of which are as follows:

- Up to 10 wells to be drilled
- 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

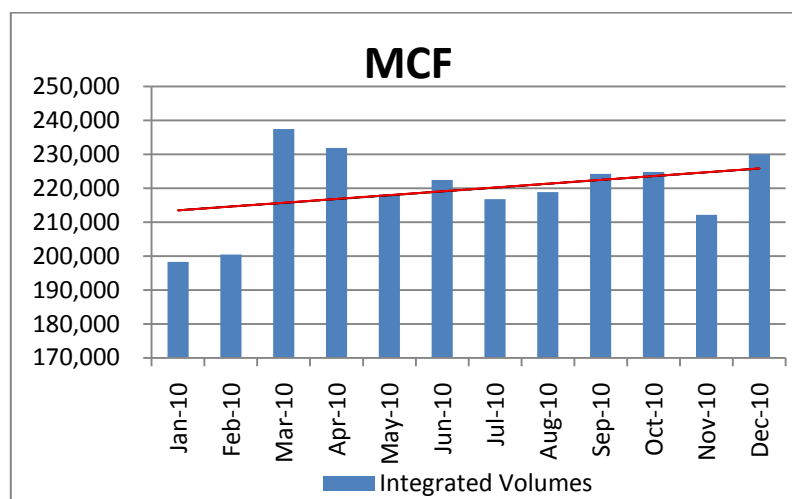
3. North Dakota – Bakken Potential

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.

- 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
- \$1.3mm D&C
- No agreed date on development program.
-

4. Mayville – New York gas production

- 303,000 gross acres, spanning nine counties in New York and 1 in Pennsylvania
- 98% of properties operated by Empire Energy
- Gross Estimated Production Dec Qtr = 587,500 Mcf (Last quarter 582,438 Mcf)
- NRI = 76.5%
- Well depths range from approximately 3,200ft – 4,000ft
- 100’s of Pud well locations for drilling at economic pricing
- 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 acquired up to 100 miles of pipeline, plus gathering networks which will enable more rapid repair and closer operational management.



5. Mayville - Marcellus/Utica Shale Potential

- Empire continues to undertake geological and engineering studies of its 303,000 acre land holding in the western New York State.
- On current geological and engineering studies, the following potential shale resources have been estimated:
 - Utica shale gas potential resource up to 5 Tcf GIP, (unrisked), with additional acreage to be included;
 - Marcellus shale oil potential resource of estimated 70 million Bbls (RF= 3%).
- The probability of success is difficult to estimate as no production or tests are known to have been undertaken in the region. For Marcellus shale gas, both TOC and Maturity levels are lower than similar formations to the south and east.
- The scope of the study reviewed basic information compiled by Empire, and public sources, 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.
- In-Place and recoverable volumes were determined through use of both probabilistic and deterministic techniques as appropriate for available data. The probabilistic technique used to determine gas in place (GIP) and recoverable gas was a Monte Carlo simulation. The outputs from the simulations were continuous distributions of GIP and recoverable gas. For presentation, the P50 case (50% certainty), calculated the GIP (Resource), as being the “Most Likely” case. Volumes are unrisked.
- 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 here are gross volume (8/8ths), and have not subtracted associated royalty burdens.

Shale Oil Potential Resources

Formation		Type	Category	MBls
Marcellus (1)	4P	Shale (Oil)	Resource	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.

6. Hawthorne – Pennsylvania gas production

- 6,500 gross acres, spanning three counties in Pennsylvania
- 100% of properties operated by Empire Energy
- Gross Estimated Production Dec Qtr = 80,974 Mcf (last quarter 59,921 Mcf)
- WI=97.0%
- NRI = 74.0%
- Well depths range from approximately 3,000ft – 3,200ft
- `60 Pud well locations for drilling at economic pricing
- This operation is a mature, long life, slow decline activity and unless there is a marked increase in gas prices, major focus will be placed on increasing operating efficiencies.

IMPERIAL OIL & GAS PTY LTD (100%):

- Since early 2010 Imperial has undertaken the screening of 26 onshore basins in Australia principally for large scale shale gas exploration. It identified two target basins in the Northern Territory and Queensland.
- NW Queensland – During the quarter under review the Company received notification from the Queensland Government that it had been unsuccessful in its application.
- Northern Territory - 14.6 million acres has been secured in onshore Northern Territory.
- All the permits constitute high risk/high return frontier plays 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 which are 1,640 million year old Palaeo-Proterozoic organic-rich black shales. Land holder negotiations are underway at present. 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 are proven 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.

Credit Facilities

At the end of the quarter the Company had ~US\$73 million drawn at an average cost of LIBOR + 4.7%. Empire Energy retains Credit Facility availability of just under US\$80 million for future acquisitions and development drilling.

	Drawdown	Interest
Component	US\$'000	
Term	\$62,898	4.5%
Revolver	\$3,000	2.5%
Mezzanine Facility	\$7,115	7.0%
TOTAL PAID DEC 30, 2010	\$73,013	4.7%

The Mezzanine Facility was increased from \$6.45 million to \$7.11 million to cover credit facility margin fees and other costs related to the transaction.

Hedging

A conservative hedging policy has been implemented by the Company. The underlying objective is to ensure the borrowing base of the Credit Facility is covered by defined future cash flow. Hedge contracts are a component of Empire's Credit Facility and no cash margins are required if contracts are outside the marked to market price for each commodity.

Following the December 24th, 2010 acquisition, Empire Energy hedged approximately 75% of forecast oil production for a period of 5 years, at an average price of US\$90.00/Bbl.

The following table summarizes current hedging in place based on NYMEX – Henry Hub and WTI Contracts:

Year	Est. Net mmBtu	Hedged mmBtu	%	Average \$/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average \$/Bbl
2011	2,230,000	1,596,589	71.6%	\$5.99	174,268	131,870	75.7%	\$90.00
2012	2,150,000	1,484,351	69.1%	\$6.10	160,441	120,800	75.3%	\$90.00
2013	2,000,000	1,407,720	70.3%	\$5.97	149,298	113,160	75.8%	\$90.00
2014	1,850,000	1,408,488	76.1%	\$5.91	141,058	105,120	74.5%	\$90.00
2015	1,650,000	1,166,000	70.7%	\$5.45	133,280	98,160	73.6%	\$90.00
Total	9,880,000	7,063,147	71.5%	\$5.90	758,345	569,110	75.0%	\$90.00

Additional natural gas hedges were applied over the end of 2010 due to a decreasing percentage of production being hedged as forecast production was increasing due to improvements in Mayville production. Due to a successful well reworking program and upgrading of pipelines Mayville production is expected to be maintained at current levels over 2011, and then decline from a higher base. Reworking wells and transportation networks is a cheaper method to maintain production than drilling new wells. However, Lease Operating Costs were higher than usual due to this work being undertaken.

Corporate

General Meeting of Members:

The Company proposes to hold a general meeting of members of the Company in late February 2011 for shareholders consideration of the following matter:

- Special resolution to change the name of the Company to '**Empire Energy Group Limited**'.
- Ordinary resolution to allow Directors' participation in the Company's Employee Share Option Plan.

Change of Company name and change of financial year

Directors believe that the proposed change of name of the Company to Empire Energy Group Limited is a more suitable reflection of the Company's current operations.

The Company's major United States based operating subsidiary Empire Energy USA LLC currently holds approximately 98% of consolidated group's total assets and was responsible for generating in excess of 98% of consolidated revenues.

In addition to the proposed change of name the Company has changed its financial year end from 30 June to 31 December, this change will take effect from 1 July 2010.

The purpose of the change in financial year end is to synchronise financial years with that of Empire Energy USA LLC.

This change will require the Company to prepare an Annual Report covering the six month period 1 July 2010 to 31 December 2010.

About Imperial Corporation

In early 2007, Imperial Corporation established Empire Energy in the USA and currently holds around 92% of its issued capital. Empire Energy is an oil and natural gas producer and also operates a small oil and gas field service operation. Total combined reserves for the enlarged group will be published at the end of this financial year, being December 31.

Empire Energy implemented a US\$100 million credit facility with Macquarie Bank Limited in early 2008 for the sole purpose of acquiring and developing oil and gas assets in the USA. This facility has been increased to US\$150 million.

For more information:

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The information in this announcement which relates to reserves is based on information compiled by:

- 1. Operations existing prior to December 2010 acquisition – reserve and resources estimates have been made available by Ralph E Davis Associates Inc, Houston, Texas, who are certified professional reservoir engineers.*
- 2. Operations acquired in December 2010 - an independent reserve report made available by LaRoche Petroleum Consultants, Houston, as a component of the data made available by the vendor for the asset sale process. Empire Energy is currently undertaking its own independent review which will be available at the end of the current financial year (December 31, 2010).*

Glossary

Bbl	- One barrel of crude oil, 42 US gallons liquid volume
Boe	- Barrel of oil equivalent, determined using the ratio of six Mcf of natural gas to Bbl of crude oil, condensate or natural gas liquids
Delay Rentals	- Payments made to Lessor to maintain leases
GIP	- Gas in place
HBP	- Held by production
NRI	- Net revenue interest
PDNP	- Proved developed non producing
PDP	- Proved, developed producing well
PV10	- Pre-tax value of a cash flow stream, over a defined time period, discounted at 10%
Royalty	- Funds received by the landowner for the production of oil or gas, free of costs, except taxes
Tcf	- Trillion cubic feet
TOC	- Total organic content
WI	- Working interest