



IMPERIAL CORPORATION LIMITED
and its controlled entities

2010 ANNUAL REPORT

CONTENTS

COMPANY INFORMATION	3
EXECUTIVE CHAIRMAN'S REVIEW OF OPERATIONS	4
DIRECTORS' REPORT	10
AUDITOR'S INDEPENDENCE DECLARATION	18
CORPORATE GOVERNANCE STATEMENT	19
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	25
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	26
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	27
CONSOLIDATED STATEMENTS OF CASH FLOW	29
NOTES TO THE FINANCIAL STATEMENTS	30
DIRECTORS' DECLARATION	65
INDEPENDENT AUDITORS REPORT	66
SHAREHOLDER INFORMATION	68

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.imperialcorporation.com.au

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)

IMP - 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. IMPERIAL CORPORATION

The major objective of Imperial Corporation Limited ('Imperial') over the past 12 months has been the continued growth and development of the Company in the oil and gas industry. Primarily the focus has been its subsidiary, Empire Energy USA LLC ('Empire Energy') ensuring that it achieves a critical mass whereby it can ultimately IPO on a North American Stock Exchange. Following the US\$38 million acquisition of 1,800 shallow natural gas wells and 300,000 acres in New York State, ('Mayville Acquisition') in December 2009 it was not until mid 2010 that these assets were bedded down, new management systems implemented and personnel employed to take on the increased work load. Following the Mayville Acquisition, the number of wells owned increased from around 180 to approximately 2,000 shallow gas wells, employees increased from 10 by another 29, and daily gross production increased from ~1,000 Mcfe/day to ~7,600 Mcfe/day.

Moving forward, Imperial's prime strategy is to:

- a. Identify new oil and gas assets for Imperial/Empire Energy to acquire and integrate into its existing operations; and
- b. Develop a sustainable energy business moving forward to ensure value to all Company stakeholders and that the value of the operating assets are reflected in the market capitalisation of the Company.

From October 2009 through to June 30, 2010 ("Period"), Imperial consolidated Empire Energy due to the following transactions (set out below). As from 1 October 2009 Imperial increased its ownership in Empire Energy to approximately 92%, due to the following:

- a. The transfer of 5 operating natural gas wells from Imperial to Empire Energy, valued at US\$1.1 million.
- b. Equity contribution of US\$4 million to complete the Mayville Acquisition.
- c. As part of the Mayville Acquisition, Macquarie Bank provided US\$10.6575 million in bridging finance and Imperial issued Macquarie Bank 33,333,332 options (post consolidation). To offset this cost, Empire Energy issued A Units to Imperial.
- d. On April 21, 2010 Empire Energy extended the Bridging loan and Imperial issued Macquarie Bank 2 million (post consolidation) fully paid shares. To offset this cost, Empire Energy issued additional A Units to Imperial.

In addition to the oil and gas activities in the USA, Imperial is undertaking a program to identify non-conventional sources of oil and gas within Australia and elsewhere. Applications have been made for areas in Queensland and the Northern Territory. An announcement will be made if and when the Company is successful in this process. Imperial's Australian operations are expected to remain limited to a small office staff of 3 to 4 people and the reliance of highly qualified consultants when specialised input is required.

B. COMMENTS ON RESULTS OF MAIN OPERATING SUBSIDIARY

Empire Energy holds a 100% interest in two subsidiaries, Empire Energy E&P, LLC and Empire Drilling & Field Services, LLC. 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.

The Review of Operations for Empire Energy E&P is based on the Period (over which Imperial consolidated Empire in its accounts, being October 1, 2009 through to June 30, 2010). However, gross oil and gas production, for comparative purposes, is based on a financial year to year basis. It should be noted that the Mayville Acquisition was effective from December 1, 2009 and is for 7 months only.

Executive Chairman's Review of Operations (Continued)
C. REVIEW OF OPERATIONS - EMPIRE ENERGY E&P, LLC

9 mths ended June 30, 2010 US\$	Note	2010	2009
Gross Production – Mcfe (12 months)	1.1	1,728,816	342,216
Gross Daily Production – Mcfe/day	1.1	7,650	937
Net Production – Mcfe (9 months)	1.1	1,248,329	194,656
Net Oil & Gas Revenue (9 months)	1.1	\$6.32m	
Av Price \$/Mcf	1.1	\$5.06	\$6.46
Lifting Costs \$/Mcf	1.3	\$1.41	\$1.03
Revenue from Operations	1.1	\$8.07m	
Field EBITDDA		\$6.00m	
Less:			
Field G&A		(\$0.16m)	
Delayed Rental Payments		(\$0.12m)	
Opex		(\$0.16m)	
Other		(\$0.01m)	
Operations EBITDDA		\$5.55m	
Less:			
Acquisition related costs	1.4	(\$0.47m)	
G&A – Corporate OH	1.4	(\$0.76m)	
Plus:			
EBITDDA		\$4.32m	
Less:			
Depletion		(\$1.43m)	
Asset Retirement Obligations		(\$0.26m)	
Depreciation & Amortisation		(\$0.34m)	
Income from Operations		\$2.29m	
Plus:			
Net proceeds from sale of acreage		\$23.5m	
EBIT		\$25.9m	
Interest	1.5	\$1.59m	
Tax Provision	1.6	\$6.8m	
1P Reserves	1.7	74.7 Bcf	12.9 Bcf

This table includes existing assets for 9 months and the Mayville Acquisition assets for 7 months.

1.1 Revenue from Operations

Volume: Daily gross metered paid production was 7,650 Mcfe/day (2009: 937 Mcfe/day) or gross production of 1.66 Bcfe for the Period or 1.73 Bcfe for the 12 months. Shrinkage is estimated at around 8%.

Net sales production has been described in terms of gas equivalents based on the oil:gas conversion ratio of 1:6. (Total net oil production was less than 500 Bbls). Net gas sales production for the period was 1,248,329 Mcfe (2009: 194,656 Mcfe).

Production was distributed between operational districts as follows:

District	Operating Wells	Gross Gas Volume MMcf	% Total	Oil Volume Bbl	% Total
Mayville, NY	1,450	1,381	83.0%	0	
Hawthorne, PA	155	283	17.0%	0	
Total	1,605	1,664	100%	0	

The Group owns approximately 2,000 wells, some are shut in while others are non producing for a variety of reasons. Most are expected to be brought back in-line.

Sales: Net oil and gas sales for the Period were \$US6.32 million (2009: n/a). In addition hedging revenue on closed out hedges was US\$1.43 million. Net Revenue was US\$8.07 million over the Period. Net Revenue Interest was 75%

Executive Chairman's Review of Operations (Continued)

for the Period (2009: n/a). JIB revenues and expenses have been netted out to provide a net revenue of US\$0.27 million of the total other income of US\$0.32 million.

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

\$/Mcf 12 months Y/e June 30 US\$	2010	2009
Gas (Av price per Mcf)	\$5.06	\$6.46
Oil (av Price per Bbl)	-	-

1.2 Hedging

Production: Gas production is hedged as follows:

Y/e June 30	2011	2012	2013	2014
mmBtu Hedged	1,470,000	1,361,500	1,185,000	1,025,000
Av \$US/mmBtu	\$6.24	\$6.27	\$6.26	\$6.20
Est % Production	65%	64%	61%	55%

In addition, hedges are held for a six month Period July to Dec 2014 for 469,000 mmBtu at \$6.19/mmBtu.

Over the Period Empire Energy closed out production hedges generating a return of US\$1.43 million.

The fair value gain (marked to market) gain of natural gas hedges in place for the Period was US\$3.09 million. Gas hedge contracts as at June 30, 2010 were valued based on the forward gas curve as at NYMEX Henry Hub close on June 30, 2010.

1.3 Lease Operating Costs

Operating Margin: The gross operating margin excluding opex, production, taxes, field G&A and non cash items (such as depletion, depreciation and amortisation expenses) averaged 77% for the Period (2009: n/a).

Lifting Costs: Due to negligible oil production, lifting costs are described in terms of \$/Mcfe.

Lifting Costs US\$	2010	2009
\$/Mcfe (fixed & variable costs only)	\$1.11	n/a
\$/Mcfe (Total)	\$1.41	n/a

Lifting costs (Total) include, production taxes, delayed rental payments, field G&A and opex.

1.4 Overhead (General & Administration)

Empire Energy manages its USA operations from a corporate head office based outside Pittsburgh, Pennsylvania. The head office consists of the Chairman, the Interim CFO (part time) and 3 full time employees. Occupational Health & Safety and Human Resources (other than payroll) are contracted out to specialists.

In logistical terms the Mayville 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 pumpers operating across a large area of western New York State. All expenditure relating to this acquisition has been completed. Over the Period, Empire Energy allocated one-off expenditure of US\$413,739 related to the Mayville Acquisition (legal, financial, engineering and due diligence expenses) and a further US\$209,027 in implementing new communications, management and accounting systems and training. Total costs being US\$622,766 have been both expensed (US\$471,286 see below) and capitalised.

Executive Chairman's Review of Operations (Continued)

G&A Expenses to June 30, 2010 US\$	2010	2009
Total G&A	\$1,229,835	n/a
Acquisition & Systems	(\$471,286)	
Continuing G&A	\$758,549	

The continuing G&A expenses for the Period (9 months) are not necessarily indicative for the following 12 months due to additional head office costs relating to the growth of operations.

1.5 Financing

Interest to June 30, 2010 US\$	2010	2009
Interest paid	\$1,769,369	n/a

Credit Facility: The draw down on the Credit Facility as at June 30, 2010 was US\$42.6 million. This was reduced by the repayment of the Bridging Loan, US\$10.6575 million, on July 3, 2010. A further net US\$1.7 million has been repaid from cash flow through to 30 September 2010.

As at September 30, 2010 total outstanding loans on the Macquarie Bank facility are US\$31.1 million at an average rate of LIBOR+4.6%. Interest expense following the repayment of the Bridging Loan is estimated at \$130,000/mth from July 2010.

Other Facilities: Empire Energy has \$125,061 in vehicles (3 trucks) and equipment (1 excavator) loans with local banks at normal commercial interest rates. In addition, Empire Energy has two notes with Imperial for total face value of \$260,975 and coupon of 8 and 10%.

Convertible Preference Units: Equity funding for Empire Energy has been undertaken by Imperial via the issue of Units issued in 2 tranches. The first tranche of \$3 million was in late 2006 with a coupon of 12%pa. The second tranche of \$4 million was in December 2009 with a coupon of 10%pa. Interest accrued and owing on the Units was US\$1,420,000 as at June 30, 2010.

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 loss of US\$106,390 accrued.

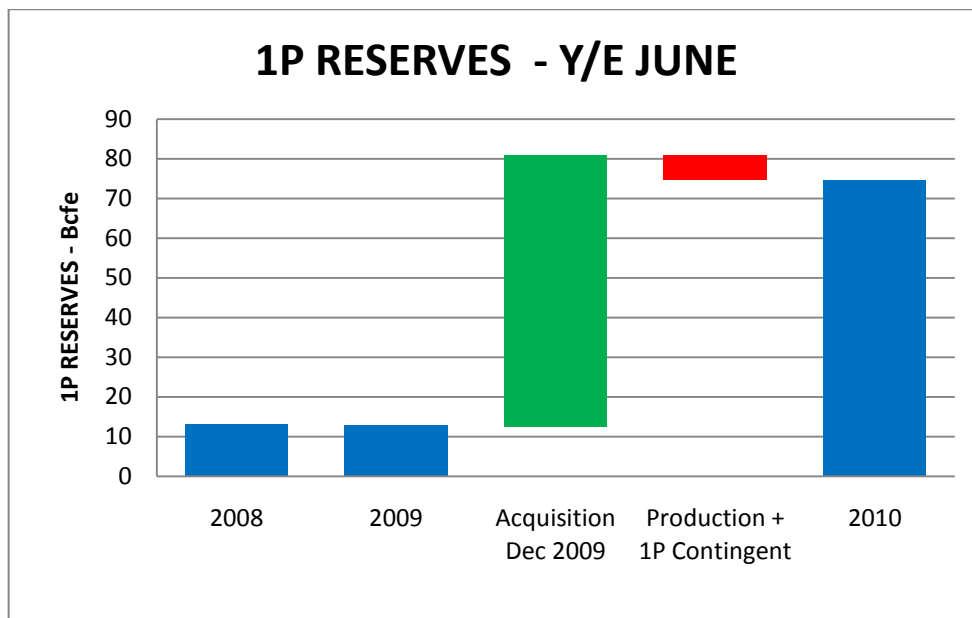
1.6 Cash

On July 2, 2010 Empire Energy received US\$24.6 million for the sale of land and so after the repayment of the Bridging Loan currently has US\$15 million cash at bank. Empire Energy is not a taxpaying entity, however its shareholders are liable for tax liabilities and a distribution will be made to enable shareholders to cover tax liabilities. A provision of US\$6.8million has been made for potential tax liabilities. Operations and development programs will affect the final amount of tax payable which will not be known until March 2011.

Executive Chairman's Review of Operations (Continued)

1.7 Reserves

Net Reserves: The Mayville Acquisition in December 2009 substantially increased the Groups reserves. Over the year the Group produced on a net basis 1.26 Bcfe. An updated Reserve Estimate was carried out in September 2010, based on the forward price curve set in early September 2010 and a spot price of US\$3.85/mmBtu. Approximately 4.8 Bcf of 1P Reserves are considered contingent as they are non-economic at the current prices. An updated summary of 1P Reserves is shown below. Total 1P reserves stand at 74.7 Bcfe. (Reserves were prepared by Ralph E Davis Associates, Inc Houston, Texas, USA, certified professional engineers).



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

1.8 Exploration & Development

Expenditure: Over the last half of 2009 eight shallow wells in Hawthorne District were drilled. Total cost was US\$1,192,109. All eight wells were successful in finding commercial quantities of gas, with the last well going on-line in February 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.

More importantly, 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.

1.9 Balance Sheet – Major Items

On June 18, 2010 Empire Energy entered into an agreement to sell its Marcellus Shale rights in the Hawthorne District. The transaction was finalised on July 2, 2010. Proceeds of US\$23.5 million have been brought to account in the Balance Sheet, with a US\$1.1 million provision made for any future title defects. Refer to Section 1.6 for potential future tax liability following the disposal of the asset.

Executive Chairman's Review of Operations (Continued)**D. 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 cash loss of US\$397,464.

However, since June 2010 the Groups operations have been fully engaged, following the introduction of more competitive footage rates supported by the need for many Marcellus players to retain leases.

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 year ended 30 June 2010

In respect of the financial year ended 30 June 2010, the Directors of 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 Imperial Corporation Limited at anytime during or since the end of the financial year:

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 year 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 and New York.

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 after providing for income tax was \$12,415,089 compared with a profit of \$6,185,605 for the previous corresponding period. A gain on sale of acreage \$25,981,137 was recorded in the period.

Review of Operations

Highlights of operations during the period under review included:

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.

On 23 December 2009 the Company contributed US\$4 million in equity to Empire Energy USA, LLC (Empire Energy) increasing its holding to approximately 90%. That interest increased to approximately 90% in June 2010 with the issue of additional equity in consideration of the Company issuing shares and options to Macquarie Bank Limited as a cost component of the bridging loan facility and an extension of that facility.

On 23 December 2009 the Company through Empire Energy acquired certain oil and gas assets based at Mayville, New York State, USA ("Mayville Assets") for US\$38 million.

The assets included approximately 303,000 gross acres of land in the Appalachian Basin, 1,800 natural gas wells producing approximately 5,000 Mcfpd at existing production levels.

Independent reserves forecasts estimate 1P reserves of approximately 66Bcfe and 3P reserves of 72 Bcfe.

The land acquired included at least 250 proved undeveloped locations and over 260 other prospective locations. Focusing on multi-level gas bearing horizons the Company would have hundreds of additional drilling targets.

The acquisition not only significantly increases oil and gas production and reserves but more importantly offers significant development opportunities over a number of multi-level gas producing horizons in the Northern Appalachian Basin.

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 year were as follows:

Directors' report (Continued) **For the year ended 30 June 2010**

(i) Capital Structure

Contributed equity of the Company increased by \$3,100,677 (from \$61,975,228 to \$65,075,905) during the financial year as a result of:

- Issue of 186,538,462 fully paid ordinary shares at \$0.0052 pursuant to a private placement	\$970,000
- Issue of 58,600,000 fully paid ordinary shares at \$0.0052 pursuant to a private placement in January 2010	\$304,720
- Issue of 319,397,920 fully paid ordinary shares at \$0.0052 pursuant to Company share purchase plan in February 2010	\$1,660,869
- Issue of 5,000,000 fully paid ordinary share at \$0.0047 pursuant to the exercise of executive options in May 2010	\$23,500
- Issue of 2,000,000 post consolidation fully paid ordinary shares at \$0.12 representing settlement of fees associated with the extension of the Macquarie Bank Bridging loan facility.	\$240,000
- Less transaction costs associated with the share issues detailed above	(98,412)
	<u>\$3,100,677</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.

The share consolidation took effect on 4 June 2010 resulting in the Company's then issued capital of 2,404,369,728 fully paid ordinary shares being reduced to 160,289,921.

2,000,000 post consolidation fully paid ordinary shares were issued at \$0.12 to Macquarie Bank Limited in June 2010 to extend the bridging loan facility, increasing the Company's total issued capital at balance date to 162,289,921 fully paid ordinary shares. In addition, at the share consolidation date the Company had 272,848,315 unlisted options on issue.

In accordance with the 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.

(ii) Operations

On 23 December 2009 the Company contributed US\$4 million in equity to Empire Energy USA LLC ("Empire Energy") increasing its equity holding to approximately 90%.

These funds were utilised as an equity contribution by Empire Energy for the acquisition of the Mayville Assets from in New York and Pennsylvania for US\$38 million. The assets acquired include approximately 303,000 gross acres of land in the Appalachian Basin, 1,800 natural gas wells, currently producing 6.5 Mmcfd. Independent reserves forecasts estimate 1P reserves of approximately 66 Bcfe and 3P reserves of 72 Bcfe.

On 21 June 2010, the Company announced that it had entered into a conditional purchase and sale agreement for the sale of a tract of Empire Energy's Marcellus shale acreage and access to associated rights of way and pipelines where relevant.

This sale will have no effect on Empire Energy's existing natural gas production operations in Pennsylvania and New York State.

Matters Subsequent to Balance Date

Funds of US\$24.6 million raised from completion of the sale of a tract of Marcellus Shale acreage were received by Empire Energy on 2 July 2010. US\$10.65 million of these funds were then utilised to repay the Macquarie Bank bridging loan facility. The remaining funds will be directed towards the payment of tax and the acquisition of additional producing oil and gas assets in the USA.

There were no other matters or circumstances that have arisen since 30 June 2010 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2010, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 30 June 2010 of the consolidated entity.

Directors' report (Continued)
For the year ended 30 June 2010**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 57
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 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 in sharebroking and investment banking. He is a Director of Martin Place Securities Pty Limited, a licenced securities dealer where he is responsible for corporate finance and sharebroking activities. 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.

Former Directorships in Last 3 Years

None.

Kevin Anthony Torpey, B.E., MIE Aus., CP Eng, FAusIMM, (CP) Age 71
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

Directors' report (Continued) **For the year ended 30 June 2010**

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 Imperial Corporation 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, Tiara Coal Limited and Australian Bauxite Limited.

Rachel Ryan

Ms Ryan has been employed in the Company's corporate finances division since 2006 and 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. 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. 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 year were:

Director	Directors' Meetings		Remuneration Committee Meetings	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office
Mr B W McLeod	10	10	-	-
Mr D H Sutton	9	10	1	1
Mr K A Torpey	10	10	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.

Directors' report (Continued)

For the year ended 30 June 2010

Retirement, Election and Continuation in Office of Directors

Mr K A Torpey 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 Imperial Corporation 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.

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 Imperial Corporation Limited and each specified executive of the Company and the consolidated entity receiving the highest remuneration are set out in the following tables.

Directors' report (Continued)
For the year ended 30 June 2010

2010	Base emolument \$	Super contributions \$	Bonus Payments \$	Other Benefits \$	Total \$
Directors	Primary				
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	4,860	-	5,236	64,096
Empire Energy Executives					
A Boyer	75,571	-	-	5,101	80,672
B Waller	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.

2009	Base emolument \$	Super contributions \$	Bonus Payments \$	Other Benefits \$	Total \$
Directors	Primary				
B W McLeod	200,000	-	161,783	24,499	386,282
K A Torpey	20,000	1,800	-	-	21,800
D H Sutton	-	20,000	-	-	20,000
M K Maloney	20,000	1,800	-	-	21,800
Specified Executive of the Company					
D L Hughes	54,000	4,860	-	6,000	64,860

The bonus expense to B W McLeod of \$161,783 includes an adjustment of \$109,528 relating to the 2008 period.

There is no other element of remuneration.

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 64% (2009: 42%). Refer above for discussion on performance based remuneration.

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 \$300,000 per annum to be reviewed annually at July1 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, life income and health insurance, participation in the Company's executive option plan and membership of Empire Energy 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 year 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 year or during the period since the end of the financial year and up to the date of the report.

Directors' report (Continued) **For the year ended 30 June 2010**

At the date of this report there were 333,333 post capital consolidation unissued shares under option to a Director of the Company. These options are exercisable at \$0.0705 (adjusted for capital consolidation and rights issue) prior to 6 December 2010.

Directors' Interests and Benefits

The relevant interest of each director 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	-
D H Sutton	542,468	333,333	-	-
K A Torpey	94,444	-	2,013,672	-
Specified Executives				
David L Hughes	1,319,404	-	93,047	-

Share Options

Movements

Granted

In December 2009 200,000,000 options to acquire fully paid ordinary shares were issued to Macquarie Bank Limited as a cost component of the US\$10,000,000 bridging loan facility. These options were issued on the following terms:
 100,000,000 options exercisable at \$0.011 prior to 22 December 2012
 100,000,000 options exercisable at \$0.012 prior to 22 December 2012

In June 2010, 20,000,000 post consolidation options to acquire fully paid ordinary options were also issued to Macquarie Bank Limited as a component of the bridging loan facility. These options were issued on the following terms:

6,666,667 options exercisable at \$0.12 prior to 22 December 2011
 6,666,667 options exercisable at \$0.135 prior to 22 December 2011
 6,666,666 options exercisable at \$0.15 prior to 22 June 2012

No options were granted in the period since the end of the financial year.

Exercised

5,000,000 executive options expiring 6 December 2010 were exercised at \$0.0047 in May 2010. No options have been exercised in the period since the end of the financial year.

36,521,733 unlisted options exercisable at \$0.01 expiring 16 April 2010 were not exercised by their expiry date and as a consequent have lapsed. No options have expired since the end of the financial year.

At the date of this report the total number of unissued shares under option was 37,856,547. These options are exercisable on the following terms:

Number		Exercise Price	Expiry Date
333,333	Executive options	\$0.0705	6 December 2010
4,123,216		\$0.135	12 December 2010
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
<u>37,856,547</u>			

END OF AUDITED REMUNERATION REPORT

Directors' report (Continued)
For the year ended 30 June 2010**Directors' and Officers' Indemnities and Insurance**

During the financial year Imperial Corporation 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 Imperial. However, there has been no breach of these regulations during the financial year or in the period subsequent to the end of the financial year and up to the date of this report.

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 twelve months period ended 30 June 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 \$7,860.

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 18 and forms part of the Directors Report for the twelve month period ended 30 June 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 30 September 2010

AUDITOR'S INDEPENDENCE DECLARATION

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF IMPERIAL CORPORATION LIMITED

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

As lead audit partner for the audit of the financial statements of Imperial Corporation Limited for the financial year ended 30 June 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

David Gallery

David Gallery
Partner

Dated: 30 September 2010
Sydney



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 followed 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 their 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.

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.

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 a majority of independent directors, 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	14 years 4 months
David Sutton	Non-Executive–Independent	13 years 8 months
Kevin Torpey	Non-Executive– Independent	17 years 10 months

The Board currently holds up to 12 scheduled meeting each year together with any ad hoc meetings as may be necessary. The Board met 10 times during the year and Directors attendance is disclosed on page 13 of the Director's 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.

Corporate Governance Statement (Continued)

For directors retiring by rotation, the board assesses that director before recommending re-election.

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.

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.

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 Nominations 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 a policy on how and when the directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all Directors and employees to seek approval from the Chairman and Company Secretary prior to dealing in the Company's securities.

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. Details of both the Company's code of conduct and share trading policy have been posted on the Company's website.

Corporate Governance Statement (Continued)

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 year ended 30 June 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.

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. He 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.

Corporate Governance Statement (Continued)

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate their 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.imperialcorporation.com.au

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 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.

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.

Corporate Governance Statement (Continued)

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 Company does not comply with recommendation 8.1 in relation to the composition of the remuneration committee in that it does not have at least three members. At this stage of the Company's development the board considers it neither appropriate nor cost effective to adopt the ASX Corporate Governance guidelines.

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 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 13.

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 year ended 30 June 2010

	Note	2010 \$	2009 \$
Revenue	3(a)	11,064,941	1,287,264
Cost of sales		(5,811,869)	(208,226)
Gross profit		5,253,072	1,079,038
Other income	3(b)	520,297	201,600
Gain on sale of acreage	3(e)	25,981,137	-
Gain on sale of mining tenement		275,000	-
Gain/(loss) on sale of investment		195,471	6,411,874
Gain/(loss) on foreign currency translation		(239,339)	1,001,951
Impairment loss on available for sale assets		(228,199)	(589,955)
Depreciation, depletion and amortisation expense		(4,302,372)	(251,136)
Share of loss on equity accounted investments		(22,295)	(180,407)
General and administrative expenses		(2,669,185)	(1,141,445)
Operating profit		24,763,587	6,531,520
Finance income	3(d)	118,673	776,168
Finance costs	3(d)	(4,390,961)	(1,122,083)
Profit before income tax		20,491,299	6,185,605
Income tax expense	6(a)	(8,076,209)	-
Profit after income tax		12,415,090	6,185,605
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		(532,346)	(5,979,625)
Exchange differences on translation of foreign operations		1,341,880	(44,613)
Gain on cash flow hedges		3,628,264	-
Total other comprehensive income		5,135,292	(6,024,238)
Total comprehensive income		17,550,382	161,367
Profit for the year attributable to:			
Equity holders of Imperial Corporation Limited		11,044,503	6,185,605
Non-controlling interests		1,370,587	-
		12,415,090	6,185,605
Total comprehensive income for the year attributable to:			
Equity holders of Imperial Corporation Limited		15,887,422	161,367
Non-controlling interests		1,662,960	-
		17,550,382	161,367
		Cents per share	Cents per share
Basic earnings per share	25	8.92	0.37
Diluted earnings per share	25	7.01	0.37

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION **as at 30 June 2010**

	Note	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	24(i)	4,732,206	8,421,250
Trade and other receivables	7	30,384,057	265,931
Prepaid and other current assets	8	357,853	35,032
Financial assets	9	2,285,713	-
TOTAL CURRENT ASSETS		37,759,829	8,722,213
NON-CURRENT ASSETS			
Trade and other receivables	7	-	1,327,571
Financial assets	9	2,909,340	4,589,062
Oil and gas properties	10	57,525,732	2,729,329
Property, plant and equipment	11	3,354,535	33,648
Intangible assets	12	1,427,726	-
Investments accounted for using the equity method	9	-	(2,996)
TOTAL NON-CURRENT ASSETS		65,217,333	8,676,614
TOTAL ASSETS		102,977,162	17,398,827
CURRENT LIABILITIES			
Trade and other payables, including derivatives	13	3,067,910	309,355
Interest-bearing liabilities	14	49,837,084	3,112,248
Provisions	15	4,556,272	46,285
Current tax liability		8,060,247	-
TOTAL CURRENT LIABILITIES		65,521,513	3,467,888
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	14	74,816	-
TOTAL NON-CURRENT LIABILITIES		74,816	-
TOTAL LIABILITIES		65,596,329	3,467,888
NET ASSETS		37,380,833	13,930,939
EQUITY			
Contributed equity	16	65,075,905	61,975,228
Reserves	17	8,148,075	1,724,699
Accumulated losses	18	(38,026,992)	(49,768,989)
Equity attributable to:			
Equity holders of Imperial Corporation Limited		35,196,988	13,930,939
Non-controlling interests		2,183,845	-
TOTAL SHAREHOLDERS' EQUITY		37,380,833	13,930,939

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

CONSOLIDATED STATEMENTS 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 STATEMENT OF CHANGES IN EQUITY
for the Year Ended 30 June 2009**

Consolidated	Issued Capital	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of parent	Non- Controlling Interests	Total Equity
Balance at 1 July 2008	60,726,964	7,567,130	(70,124)	603,225	(56,295,183)	12,532,012	-	12,532,012
Total Comprehensive income for period								
Profit for the period					6,185,605	6,185,605		6,185,605
Exchange differences arising on translation of foreign operations			(44,613)			(44,613)		(44,613)
Loss on available-for-sale investments		67,459				67,459		67,459
Reclassification adjustment on available-for-sale investments transferred to the profit & loss		(6,387,674)				(6,387,674)		(6,387,674)
Share of changes to post acquisition reserves of equity accounted Investment					340,589	340,589		340,589
Loss on cash flow hedges								
Total comprehensive income for the period	-	(6,320,215)	(44,613)	-	6,526,194	161,366	-	161,366
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	1,319,302			(10,704)		1,308,598		1,308,598
Less: share issue transaction costs	(71,038)					(71,038)		(71,038)
Total transactions with owners	1,248,264	-	-	(10,704)	-	1,237,560	-	1,237,560
Balance at 30 June 2009	61,975,228	1,246,915	(114,737)	592,522	(49,768,989)	13,930,939	-	13,930,939

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW **for the year ended 30 June 2010**

	Note	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		9,658,436	1,582,944
Payments to trade creditors and employees		(7,617,595)	(2,007,177)
Interest received		118,672	294,438
Interest paid		(2,026,129)	(590,401)
Net cash from operating activities	24(ii)	133,384	(720,196)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(946,719)	(9,823)
Proceeds from sale of investments in listed corporation		265,897	14,476,472
Proceeds from sale of mining lease		275,000	-
Proceeds from sale of property, plant & equipment		16,364	-
Payments for investment in unlisted corporations		(125,000)	(51,555)
Payment for investment in listed corporations		(484,539)	(222,750)
Acquisition of Empire Energy, net of cash acquired	27(i)	486,215	-
Acquisition of Mayville Assets, net of cash acquired	27(ii)	(42,556,200)	-
Net cash used in investing activities		(43,068,982)	14,192,344
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		3,100,677	1,298,815
Proceeds from interest bearing liabilities		38,956,064	-
Proceeds from converting options		-	9,783
Costs associated with issuing equity		-	(71,038)
Repayment of interest bearing liabilities		(3,054,486)	(6,230,309)
Proceeds from borrowings		-	-
Issue of convertible notes		-	-
Finance lease payments		(24,389)	(7,043)
Loan to other entities		(15,000)	(81,963)
Repayment of related party loans		-	(50,000)
Net cash provided by / (used in) financing activities		38,962,866	(5,131,755)
Net (decrease)/increase in cash held		(3,972,732)	8,340,393
Cash at beginning of financial year		8,411,278	115,501
Effect of exchange rate changes on cash and cash equivalents		293,659	(44,616)
CASH AT THE END OF FINANCIAL YEAR	24(i)	4,732,205	8,411,278

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010

1. SIGNIFICANT ACCOUNTING POLICIES

a. Corporate Information

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

Separate financial statements for Imperial Corporation 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 Imperial Corporation Limited as an individual entity is included in Note 28.

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 year ended 30 June 2010 was authorised for issue in accordance with a resolution of Directors on 30 September 2010

New, revised or amending Standards and Interpretation

The consolidated entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are most relevant to the consolidated entity.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Standards and Interpretations are most relevant to the consolidated entity.

Revised AASB 101 Presentation of Financial Statements

The consolidated entity has applied the revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the consolidated entity now presents all owner changes in the statement of changes in equity. The balance sheet is now referred to as the statement of financial position. There is a requirement to present a third statement of financial position if there is a restatement of comparatives through either a correction of error, change in accounting policy or a reclassification. The cash flow statement is now referred to as the statement of cash flows.

AASB 3 Business Combinations

The consolidated entity has applied the revised AASB 3 for all new business combinations acquired on or after 1 July 2009. As well the expensing of transaction costs and minority interest now being referred to as non-controlling interest, there are a number of significant changes – refer to the 'business combinations' accounting policy for further details.

Revised AASB 127 Consolidated and Separate Financial Statements

The consolidated entity has applied the revised AASB 127 from 1 July 2009. The revised standard requires changes in ownership interest of a subsidiary without a change in control to be accounted for as a transaction with owners in their capacity as owners. It also changes the accounting for losses incurred by a partially owned subsidiary as well as the loss if control of a subsidiary – refer to 'principles of consolidation' accounting policy for further details.

AASB 2008 -7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

This amendment is applicable from 1 July 2009 and removes the references to cost method. The distinction between pre and post acquisition profits is no longer relevant as all dividends are now recognised in profit or loss – refer to the 'principles of consolidation' accounting policy for further details.

AASB 7 – Financial Instruments: Disclosure

This amended standard is applicable from 1 July 2009 and requires additional disclosure about the fair value measurement of financial instruments, using a three level fair value hierarchy. The amendments also clarify the disclosure requirements about liquidity transactions and assets used for liquidity management.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (Continued)

AASB 8 Operating Segments

The consolidated entity has applied AASB 8, which replaces AASB 114 'Segment Reporting' from 1 July 2009. AASB 8 requires a "management approach" to segment reporting based on the information reported internally. Refer to note 22.

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 Imperial Corporation Limited and its controlled entities during the year ended 30 June 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 Imperial Corporation 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

The preparation of the Group's consolidated financial statements that complies with IFRS 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 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 6 – Income tax
- Note 7 – Impairment losses
- Note 10 – Oil and gas properties
- Note 15 – Provisions for liabilities and charges

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (Continued)

4. Judgments

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

5. Reserves base

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgemental 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 amortization 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.

6. 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 amortization 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
-

7. 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).

8. 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.

9. 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (Continued)

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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.

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

16. 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.

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.

17. 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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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.

18. 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 capitalized. 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.

19. Pre-license costs

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

20. 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.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

- Plant and equipment	2010	2009
	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.

26. 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.

27. 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.

28. 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.

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

29. Intangible Assets

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

30. Accounts payables

Trade and other payables are stated at cost.

31. Asset Retirement Obligation

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 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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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.

32. 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.

33. Provisions – Employee Benefits

Defined contribution plans

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.

34. 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.

35. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 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 2009-8 Amendments to AASB 2 – Group Cash-Settled Share based Payment Transactions

These amendments are applicable to annual reporting periods beginning on or after 1 January 2010. The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. These amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two interpretations are superseded by these amendments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

AASB 2009-10 Amendments to AASB 132 – Classification of Rights Issues

These amendments are applicable to annual reporting periods beginning on or after 1 February 2010. These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

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 adoption of this standard from 1 July 2010 will not have a material impact on the consolidated entity.

36. 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 Imperial Corporation Limited.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (Continued)

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.

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.

37. 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

DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilises commodity-based derivative instruments to manage a portion of the Company's exposure to price risk from natural gas sales. These instruments consist of New York Mercantile Exchange or NYMEX index-based future contracts for natural gas production prices. These derivative instruments have the effect of locking in for specified periods (at predetermined prices or ranges of prices) the prices the Company receives for the volume of natural gas to which the derivative relates.

The Company is exposed to the effect of market fluctuations in the prices of natural gas as they relate to Company's natural gas sales. Price risk represents the potential risk of loss from adverse changes in the market price of oil and natural gas commodities. The Company employs established policies and procedures to manage the risks associated with these market fluctuations using commodity derivatives. The Company's policy prohibits the use of natural gas derivative instruments for speculative purposes.

Economic Hedging Strategies

The Company's results of operations and operating cash flows are affected by changes in market prices for natural gas. To mitigate a portion of the exposure to adverse market changes, the Company has entered into various derivative instruments. As of June 30, 2010 the Company's natural gas derivative instruments were composed of NYMEX index-based contracts for natural gas production pricing.

- For "swap" instruments, the Company, receives a fixed price for the hedged commodity and pays a floating market price to the counterparty. The fixed-price payment and the floating price payment are netted, resulting in a net amount due to or from the counterparty.
- Collars contain a fixed-floor price (put) and ceiling price (call). If the market price exceeds the ceiling strike price or falls below the fixed-floor strike price, the Company receives the fixed-floor price and pays the

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

market prices. If the market price is between the ceiling and the floor strike price, no payments are due from either party.

The Company enters into derivative instruments for the Company'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 Company might otherwise have received from price changes in the physical market. The Company believes the derivative instruments in place continue to be effective in achieving the risk management objectives for which they were intended.

The Company has approximately 77,000 to 132,000 mcf of monthly production hedged at amounts ranging from US\$6.00 to US\$8.15/mcf expiring in January 2013 through November 2014. In addition, the Company has a collar with a ceiling price of US\$12.00/mcf and a floor of US\$8.00/mcf for 2,000 mcf of monthly production through August 2010. The value of these items was an asset of approximately AUD\$4,403,728 at June 30, 2010.

The Company's risk management policy sets out the Company's overall risk management framework and policies, including monthly review by the board of the Company's financial position and financial forecasts, and maintaining adequate insurances.

Principal financial instruments

The principal financial instruments are as follows:

- Cash and cash equivalents
- Trade and other receivables
- Available for sale financial assets
- Trade and other payables
- Derivatives used for hedging

Financial instrument risk exposure and management

In common with all other business, 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, liquidity risk, currency risk, share market 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.

General objective, policies and processes

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. Further details regarding these policies are set out below:

- 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.

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:

	2010	2009
Trade, other receivables, and derivatives	35,145,317	1,628,534

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)**

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

	2010	2009
Australia	60,714	151,399
United States of America	35,084,603	1,477,135

- Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet its financial obligations in relation to financial instrument as and when they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 90 days.

	Fair Value	Carrying Amount	Contractual Cash flows \$	< 6 months \$	6-12 months \$	1-3 years \$
Maturity Analysis						
2010						
Non Derivatives						
Current						
Trade and other payables	11,128,157	11,128,157	11,128,157	3,051,948	8,076,209	
Interest bearing liabilities	49,837,084	49,837,084	49,837,084	12,495,645	37,341,439	
Non-current						
Interest bearing liabilities	74,816	74,816	74,816			74,816
Derivatives						
Cashflow hedge asset	4,403,728	4,403,728	4,403,728	776,136	1,375,050	2,118,015
Interest rate swap liability	223,460	223,460	223,460	92,330	54,602	76,527

2009

Non Derivatives

Current

Trade and other payables	309,355	309,355	309,355	309,355		
Interest bearing liabilities	3,112,248	3,112,248	3,180,714	3,180,714		

Non-current

Interest bearing liabilities	-	-	-	-		
------------------------------	---	---	---	---	--	--

Interest bearing liabilities
- Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments.

It is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

1) 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 Groups exposure to interest rate risk at 30 June 2010 is set out in the following tables:

	%	Floating Interest Rate	Fixed Interest Maturing in		Non-Interest Bearing	Total
			1 Year or Less	Over 1 to 5 Years		
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
		4,638,223			36,030,944	40,669,167
Financial Liabilities						
Trade & Other Payables	-		-		3,067,910	3,067,910
Interest-bearing liabilities	4.8%		49,911,900		-	49,911,900
			49,911,900		3,067,910	52,979,810

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

			Fixed Interest Maturing in			
	%	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
2009						
Financial Assets						
Cash and cash equivalents	2.75%	8,420,944			306	8,421,250
Trade and other receivables	-				300,963	300,963
Financial assets	-			3,577,413		3,577,413
		8,420,944	-	3,577,413	301,269	12,299,626
Financial Liabilities						
Trade & Other Payables	-				309,355	309,355
Interest-bearing liabilities	12%		3,112,248			3,112,248
			3,112,248		309,355	3,421,603

2) Currency risk

The Group's policy is, where possible to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient funds of that currency to settle them) cash already denominated in that currency will where possible, be transferred from elsewhere in the Group.

In order to monitor the continuing effect of this policy, the Group receives forecasts of the major currencies held by the Group, of liabilities due for settlement and expected cash reserves.

At balance date the Group is exposed to currency risk for payables in United States dollars.

- Share Market Risk

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	2010	2009
Listed Companies		
White Cliff Nickel	10,400	10,000
Earth Heat Resources	68,996	22,000
Golden Cross Resources	7,973	14,720
Central Rand Gold	16,875	168,041
Shaw River Resources	310,500	667,333
Peel Exploration Limited	192,500	-
Viking Ashanti Limited	25,300	-
Pepinnini Minerals Limited	9,100	22,750
Unlisted Companies		
Entermo Limited	25,000	25,000
Erin Holdings	-	78,805
Aphrodite Gold Limited	125,000	-

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

- Equity Risk

Equity price risk arises from investments in equity securities and Imperial Corporation Limited's issued capital.

With the sale of the Group's equity investment in Bemax Resources Limited for \$14,432,973 in August 2008 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 Imperial Corporation Limited approximate their carrying value there were no off-balance financial assets and liabilities at year end.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 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 2010	Level 1	Level 2	Level 3	Total
Assets				
Ordinary shares	-	4,403,728	-	4,403,728
Cashflow hedge	641,644	-	-	641,644
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.

3 REVENUE AND EXPENSES

	Consolidated	
	2010 \$	2009 \$
a) Revenue		
Revenue from gas sales	9,112,212	1,287,264
Revenue from drilling operations	150,059	-
Revenue from well operations (Note 27)	1,802,670	-
	11,064,941	1,287,264
b) Other Income		
Sundry revenue	224,766	139,195
Rental income	37,669	62,405
Profit on disposal of wells	257,862	-
	520,297	201,600
c) Other Expenses		
Doubtful debts	1,083	23,500
Rental expense on operating lease	164,640	164,640
Exploration expenditure	211,501	20,866
Superannuation	53,516	28,460

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

	Consolidated	
	2010	2009
	\$	\$
d) Finance Income and Expense		
Interest income from other parties	118,673	294,438
Interest income from equity accounted investment	-	481,730
Total interest income	118,673	776,168
Interest paid	2,114,759	602,282
Fees and charges	2,276,202	519,801
Total finance costs	4,390,961	1,122,083
e) Individually significant items		
Gain on the sale of Bemax Resources Limited securities	-	6,387,674
Gain from the sale of acreage	25,981,137	-

On 30 June 2010, the Company sold its interests in oil and gas leaseholds in 5,897 acres for \$27,200,137, located in the Marcellus formation. 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 30 June, 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).

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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:

2010	Base emolument \$	Super contributions \$	Bonus Payments \$	Other Benefits \$	Total \$
	Primary				
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	4,860	-	5,236	64,096
Empire Energy Executives					
A Boyer	75,571	-	-	5,101	80,672
B Waller	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.

2009	Base emolument \$	Super contributions \$	Bonus Payments \$	Other Benefits \$	Total \$
	Primary				
Directors					
B W McLeod	200,000	-	161,783	24,499	386,282
K A Torpey	20,000	1,800	-	-	21,800
D H Sutton	-	20,000	-	-	20,000
M K Maloney	20,000	1,800	-	-	21,800

Specified Executive of the Company

D L Hughes	54,000	4,860		6,000	64,860
------------	--------	-------	--	-------	--------

The bonus expense to B W McLeod of \$161,783 includes an adjustment of \$109,528 relating to the 2008 period.

Remuneration payments to B W McLeod have been expensed against cost of sales.

- All of the above payments are short-term employee benefits with the exception of super contributions that are classified as post-employment benefits.

5 AUDITORS' REMUNERATION

	2010 \$	2009 \$
Auditing the year end financial statements - Nexia Court & Co	61,000	46,320
Half year review – Nexia Court & Co	38,773	33,862
Taxation services – Nexia Court & Co	7,860	16,150

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 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:

	Consolidated	
	2010	2009
	\$	\$
Profit/(Loss) before income tax	20,491,299	6,185,605
Prima facie income tax/(benefit) @ 30% on the Loss before income tax	6,147,390	1,711,949
Non-deductible expenses	499,424	35,052
Unfavourable income tax rate difference between Australian head entity and United States tax resident subsidiary	1,048,923	-
Deferred tax asset in relation to timing differences (recouped)/ not recognised	19,128	(16,659)
Benefit of tax and capital losses recouped not previously recognised	-	(1,730,342)
Deferred tax asset in relation to tax losses not recognised	361,344	-
Income tax expense	8,076,209	-

An assessable capital gain \$6,422,874 realised by the Company in 2009 was partially offset by available capital losses.

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

Tax losses	3,966,708	3,666,559
Timing differences	26,086	49,408
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 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)
7 TRADE AND OTHER RECEIVABLES

	2010 \$	2009 \$
Current		
Trade receivables	2,709,386	199,084
Other receivables		66,847
- Sale of acreage	27,607,013	-
- Other	67,658	-
	30,384,057	265,931
Non-current		
Loans to related companies	-	1,486,199
Provision for diminution in value of loans to related/controlled companies	-	(158,628)
	-	1,327,571

8 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments	357,851	35,032
-------------	---------	--------

9 FINANCIAL ASSETS

Current		
Shares – Other corporations		
- Listed available-for-sale (at fair value)	-	-
Derivatives designated and effective as hedging instruments carried at fair value		
Gas price forwards	2,285,713	-
	2,285,713	
Non-current		
Derivatives designated and effective as hedging instruments carried at fair value		
Gas price forwards	2,117,696	-
Shares – Other corporations		
- Listed available-for-sale (at fair value)	641,644	904,844
- Unlisted (at cost)	228,805	4,567,528
Less accumulated impairment	(78,805)	(883,310)
	150,000	3,684,218
	2,909,340	4,589,062

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)
10 OIL AND GAS PROPERTIES
Cost as at 1 July 2008

Additions	3,044,904
Transferred from exploration and evaluation assets	102,604
Change in asset retirement obligations	-
Disposals	-
Effect of foreign exchange movements	491,598
Cost as at 30 June 2009	3,639,106

Additions	420,923
Acquisition	54,727,208
Transferred from exploration and evaluation assets	-
Change in decommissioning provision	-
Disposals	(32,755)
Effect of foreign exchange movements	2,419,063
Cost as at 30 June 2010	61,173,545

Depletion and impairment as at 1 July 2008	(542,112)
Charge for the year	(367,655)
Provision for impairment	-
Disposals	-
Deletions	-
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	(3,647,813)
--	--------------------

Net book value as at 30 June 2009	2,729,329
--	------------------

Net book value as at 30 June 2010	57,525,732
--	-------------------

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 30 June 2010. Unproved gas properties approximated \$1,841,000 at 30 June 2010. Capitalized costs of producing gas properties, after considering estimated residual salvage values, are depreciated and depleted by the unit-of production method.

11 PLANT AND EQUIPMENT

	Cost		Accumulated Depreciation		Written Down Value	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Land	1,859,662	-	-	-	1,859,662	-
Buildings	175,252	-	(7,720)	-	167,532	-
Plant and equipment	667,598	61,000	(342,092)	(61,000)	325,506	-
Motor vehicles – leased	1,498,534	36,150	(512,317)	(15,364)	986,217	20,786
Office equipment	108,363	103,662	(92,744)	(90,800)	15,619	12,862
Leasehold improvements	68,846	68,846	(68,846)	(68,846)	-	-
	<u>4,378,255</u>	<u>269,658</u>	<u>(1,023,719)</u>	<u>(236,010)</u>	<u>3,354,535</u>	<u>33,648</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

	2010	2009
	\$	\$
Office Equipment		
Carrying value at beginning	12,862	5,435
Additions	4,701	9,823
Disposals	-	-
Depreciation expense	(1,944)	(2,396)
	15,619	12,862
Motor Vehicles – leased		
Carrying value at beginning	20,786	26,208
Additions	1,193,276	-
Disposals	(140,333)	-
Amortisation	(129,114)	(5,422)
Effect of foreign currency movements	41,602	-
	986,217	20,786
Plant and equipment		
Carrying value at beginning	-	-
Additions	369,444	-
Disposals	-	-
Depreciation expense	(57,826)	-
Effect of foreign currency movements	13,888	-
	325,506	-
Land		
Carrying value at beginning	-	-
Additions	1,775,024	-
Disposals	-	-
Depreciation value	-	-
Effect of foreign currency movements	84,638	-
	1,859,662	-
Buildings		
Carrying value at beginning	-	-
Additions	164,027	-
Disposals	-	-
Depreciation expense	(2,155)	-
Effect of foreign currency movements	5,660	-
	167,532	-
12 INTANGIBLE ASSETS		
Goodwill on acquisition	80,039	-
Other intangible assets acquired in business combination	1,347,687	-
	1,427,726	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

13 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES	2010	2009
Current	\$	\$
Trade creditors	2,309,536	207,983
Revenue distribution	492,786	-
Hedging Derivatives – Interest rate swap	223,460	-
Finance lease liabilities	-	-
Other creditors	42,128	101,372
	3,067,910	309,355
14 INTEREST-BEARING LIABILITIES		
Current		
Bank Overdraft	-	9,972
Finance lease liability	187,909	10,759
Bank loan -secured	49,569,345	-
Other loans	32,746	48,861
Other loans – related party	47,084	42,656
Convertible notes	-	3,000,000
	49,837,084	3,112,248
Non-current		
Finance lease liability	74,816	-
Convertible notes	-	-
	74,816	-

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

A 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 (3.5% at June 30, 2010) or the London InterBank Offered Rate (LIBOR) (0.41% at June 30, 2010) rate plus 2.5%. At June 30, 2010, the Company's rate option was LIBOR. Total availability under the Revolver at June 30, 2010 was \$0. The borrowing base limit changes with operations and acquisition opportunities.

A 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\$100,000,000. 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.

In addition, 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 to for the acquisition of additional properties and the further development of all properties, is \$35,900,000. Interest accrues on the outstanding borrowings at rate options selected by the Company and based on the prime lending rate or the LIBOR rate plus 4.0%. At June 30, 2010, the Company's rate option was LIBOR. Total availability under the Term Facility at June 30, 2010 was \$0. 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 June 30, 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 18,250 and 20,153 in 2010 and 2009, respectively, of non diluting warrants (at \$.01) equivalent to 10% of the issued capital of the Company prior to the

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

issuance of an initial public offering. In addition, the bank also received a 3% overriding royalty interest in the properties of the Company. The total funds received during 2010 of approximately US\$34,000,000 were allocated US\$210,000 to the warrants, US\$1,127,000 to the overriding royalty interest and US\$32,663,000 to the debt. In 2009, the total funds received of approximately US\$7,600,000 were allocated US\$1,227,000 to the warrants and US\$6,543,000 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 amortized to interest expense over the term of five years.

A summary of debt at June 30, 2010 is as follows:

	AUD \$	USD \$
Term		
Tranche 1	7,254,925	6,183,350
Tranche 2	-	-
Tranche 3	28,581,588	24,360,000
Tranche 4 (Bridging loan)	12,504,445	10,657,500
Revolver	3,519,990	3,000,000
Sub-Total	51,860,948	44,200,850
Less – Discount on debt	(2,291,603)	1,953,049
Total debt	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 \$US7,940,000 expires in July 2012 with a fixed rate of 2.015%. The fair value of this swap agreement is recorded as a liability of \$AUD223,460 (\$US191,000) and the corresponding impact recorded in other accumulated comprehensive income.

CLASSIFICATION OF BORROWINGS

These accounts are presented on the basis that USD\$42.25 million (AUD\$49.6m) 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. As at balance date the amount outstanding on the Facility was US\$33.55 million (AUD\$39.36m). 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.

In terms of the Facility the directors identified two breaches of covenants as at December 31, 2009. Further detail on the relevant circumstances is provided below. Discussions and correspondence with the lender prior to and after 31 December 2009 gave management and directors confidence that these situations would be resolved. The facilities remain in place and the lender did not at any stage require immediate repayment.

If the loan covenants had not been breached, the loans would remain classified as a current liability as the Group does not have an unconditional right to defer any portion of the loan beyond a twelve month period given the repayment stipulations.

The expected loan repayments in the next twelve months comprise:

- Repayment of the bridging loan of US\$10.66m (AUD11.94m); and
- Repayment of 90% of any monthly free cash flows.

As at December 31, 2009, two loan covenants within the Facility were not satisfied:

- Due to costs associated with the US\$38 million transaction, plus other corporate overheads related to other potential acquisitions, Total Interest Cover ratio (EBITDA/Interest expense) was 2.64, but should have been not less than three times;
- In addition, annual production from existing operations (excluding Mayville assets) was 38,141 Mcf less than a pre-set designated target. This target will be reset following the recent acquisition.

As at June 30, 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 year ended 30 June 2010 (Continued)
15 PROVISIONS
Current

Employee entitlements

Asset retirement obligations

2010	2009
\$	\$
75,620	46,285
4,480,652	-
4,556,272	46,285

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 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.

16 CONTRIBUTED EQUITY
a) Shares
Issued Capital

Balance at beginning of period

Movement in ordinary share capital

-Issue of 186,538,462 fully paid ordinary shares in December 2009 @ \$0.0052 pursuant to a private placement

-Issue of 58,600,000 fully paid ordinary shares in January 2010 @ \$0.0052 pursuant to a private placement

-Issue of 319,397,920 fully paid ordinary shares in February 2010 @ \$0.0052 pursuant to a share purchase plan

-Issue of 5,000,000 fully paid ordinary shares in May 2010 at \$0.0047 pursuant to the exercise of executive options

- 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

- Issue of 978,267 fully paid ordinary shares at \$0.01 pursuant to the exercise of options expiring 16 April 2010

- Issue of 185,544,945 fully paid ordinary shares in June 2009 at \$0.007 pursuant to a private placement

- Transfer from option reserve on exercise of options

Less costs associated with the share issues detailed above

Balance as at 30 June 2010

30 June 2010	30 June 2009
\$	\$
61,975,228	60,726,964
970,000	-
304,720	-
1,660,869	-
23,500	-
240,000	-
-	9,783
-	1,298,815
-	10,704
(98,412)	(71,038)
65,075,905	61,975,228

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

16 CONTRIBUTED EQUITY (Continued)	30 June 2010 No.	30 June 2009 No.
b) Shares		
Movements in ordinary issued shares		
Balance at beginning of period	1,834,833,346	1,648,310,134
Movement in ordinary share capital		
-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>2,404,369,728</u>	<u>-</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	-
- Issue of fully paid ordinary shares at \$0.01 in July 2008 pursuant to the exercise of options	-	978,267
- Issue of fully paid ordinary shares at \$0.007 in June 2009 pursuant to a private placement	-	185,544,945
Balance as at 30 June 2010	<u>162,289,921</u>	<u>1,834,833,346</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

Share Options Movements

Granted

- In December 2009 200,000,000 options to acquire fully paid ordinary shares were issued to Macquarie Bank Limited as a component of the US\$10,000,000 bridging loan facility. These options were issued on the following terms:
 - 100,000,000 options exercisable at \$0.011 prior to 22 December 2012
 - 100,000,000 options exercisable at \$0.012 prior to 22 December 2012
- In June 2010 20,000,000 post consolidation options to acquire fully paid ordinary options were also issued to Macquarie Bank Limited as a component of the bridging loan facility. These options were issued on the following terms:
 - 6,666,667 options exercisable at \$0.12 prior to 22 December 2011
 - 6,666,667 options exercisable at \$0.135 prior to 22 December 2011
 - 6,666,666 options exercisable at \$0.15 prior to 22 June 2012

No options were granted during the period since the end of the financial year.

Exercised

- 5,000,000 executive options expiring 6 December 2010 were exercised at \$0.0047 in May 2010.

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

Expiry

- 36,521,733 unlisted options exercisable at \$0.01 expiring 16 April 2010 were not exercised by their expiry date and as a consequence have lapsed.

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

Convertible Notes Movements

During the financial year 3,000,000 \$1.00 convertible notes were redeemed. The balance of outstanding notes on issue at balance date was nil.

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

Shares

- 162,289,921 listed fully paid ordinary shares – IMP

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

- 333,333 unlisted executive options exercisable at \$0.0705 expiring 6 December 2010
- 66,666 unlisted executive options exercisable at \$0.1575 expiring 5 March 2013
- 4,123,216 unlisted options exercisable at \$0.135 expiring 12 December 2010
- 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

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 160,289,981 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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.

17 RESERVES

	2010 \$	2009 \$
Fair value reserve	4,050,460	1,246,915
Foreign currency translation reserve	1,227,143	(114,737)
Options reserve	2,870,472	592,521
	<u>8,148,075</u>	<u>1,724,699</u>

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.

18 ACCUMULATED LOSSES

	2010 \$	2009 \$
Accumulated losses at the beginning of the financial year	(49,768,989)	(55,954,594)
Share of changes to post acquisition reserves of associates	697,494	340,589
Profit for the year	<u>11,044,503</u>	<u>6,185,605</u>
Accumulated losses at the end of the financial year	<u>(38,026,992)</u>	<u>(49,768,989)</u>

19 CONTINGENT LIABILITIES

Imperial has provided certain tax indemnities to an investor under agreements relating to research and development of Vitrokele Core Technology.

Imperial 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 June 30, 2010, the Company had no environmental contingencies requiring specific disclosure or accrual.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2010 (Continued)

20 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 30 June 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:

	2010 \$	2009 \$
Not later than one year	18,789	17,223
Later than one year not later than two years	18,789	18,789
Later than two years not later than five years	68,589	56,366
More than five years	-	29,446
	<u>106,167</u>	<u>121,824</u>

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	192,605	185,198
Later than one year not later than two years	-	192,605
	<u>192,605</u>	<u>377,803</u>

21 SHARE BASED PAYMENTS

a) Executive Option Plan

The establishment of the Imperial Corporation 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.

Consolidated – 2010

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

Consolidated – 2009

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)

Grant Date	Expiry Date	Exercise Price original	Post Capital Consol- idation	Original number granted	Balance at start of year	Exercised during year	Amended on consolidation	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	10,000,000	(5,000,000)	(4,666,667)	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	1,000,000		(933,334)	66,666

The original exercise price of options held at balance date has been adjusted to reflect the capital consolidation effected on 4 June 2010. The exercise price of options granted on 6 December 2005 and held at balance date has also been adjusted by a given formula following the pro-rata rights issue to shareholders in June 2006.

b) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2010 \$	2009 \$
Options issued under executive option plan	-	-
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 2010.

22 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 AASB8. 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 year ended 30 June 2010 (Continued)

	Revenue		Segment Profit/(Loss)	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Oil and gas operations	37,303,940	1,287,264	27,785,021	909,054
Mineral exploration	275,000	-	275,000	-
Investments	199,895	6,411,874	199,895	6,411,874
Other	258,011	201,600	262,425	-
	38,036,846	7,900,738	28,522,341	7,320,928
Finance income			118,672	776,168
Finance expense			(4,390,961)	(1,122,083)
Central administration costs and Directors salaries			(3,249,295)	(1,141,445)
Foreign exchange (loss) gain			(239,339)	1,001,951
Not included in segment profit/(loss)			(270,119)	(649,914)
(Loss)profit before income tax			20,491,299	6,185,605

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.

	30 June 2010	30 June 2009
Oil and gas operations	99,909,191	6,598,580
Mineral Exploration	-	-
Investments	791,644	904,844
Other	2,276,327	9,895,403
	102,977,162	17,398,827

23 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 2009	Received during year on exercise of options	Other changes during year	Adjustment on share consolidation	Balance at 30 June 2010
B W McLeod	76,221,553	-	8,653,845	(79,217,039)	5,658,359
D H Sutton	8,137,025	-	-	(7,594,557)	542,468
K A Torpey	23,737,144	5,000,000	2,884,615	(29,513,643)	2,108,116

* Other changes refers to shares purchased or sold and executive options during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

23 RELATED PARTY DISCLOSURES (Continued)

Option Holdings

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

Director	Balance at 1 July 2009	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 30 June 2010	Adjustment on share consolidation	Vested exercisable at 30 June 2010
B W McLeod	-	-	-	-	-	-	-
D H Sutton	5,000,000	-	-	-	-	(4,666,667)	333,333
K A Torpey	5,000,000	-	(5,000,000)	-	-	-	-

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

Executive	Balance at 1 July 2009	Received during year on exercise of options	Other changes during year	Adjustment on share consolidation	Balance at 30 June 2010
D L Hughes	19,263,704	-	1,923,076	(19,774,329)	1,412,451

Optionholdings

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 2009	Granted during year as remuneration	Exercised during year	Expiring during year	Balance at 30 June 2010	Vested exercisable at 30 June 2010
D L Hughes	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)
23 RELATED PARTY DISCLOSURES (Continued)
iv. Transactions with Key Management Personnel

	2010 \$	2009 \$
1) B W McLeod is a director and shareholder of Eastern & Pacific Capital Pty Limited. The Company paid the following transactions:		
- Management consultant fees	300,000	200,000
- Interest accrued on loan facility	-	-
- Repayment of interest accrued on loan facility	-	2,589
- Loans advanced to Company	-	-
- Loans repaid by Company	-	67,895
- Bonus payment	580,109	161,783
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	4,428	4,012
- 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.	-	72,000
- Trade debtor balance year end	-	46,200
- Investment Earth Heat Resources Ltd	96,854	22,000
- 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	26,084	21,656
- Eastern & Pacific Capital		
- Loans	-	-
- Interest	-	-
- Bonus	596,892	131,783
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	19,180	
- The Company provides drilling services to ANR amount receivable to the Company	152,745	
These transactions are conducted on commercial terms		

b. Disclosures Relating to Controlled Entities

Imperial Corporation 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 year ended 30 June 2010 (Continued)**
c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			2010 %	2009 %
Controlling Company				
Imperial Corporation 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	80.86	80.86
Imperial Resources LLC	USA	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	-
Empire Energy USA LLC	USA	Ordinary	92	50

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.

24 NOTES TO THE STATEMENTS OF CASH FLOWS

	2010 \$	2009 \$
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	4,732,206	8,421,250
Bank overdraft	-	(9,972)
	<u>4,732,206</u>	<u>8,411,278</u>
ii Reconciliation of net cash from operating activities to profit for the year.		
Profit for the year	20,491,299	6,185,606
Depreciation, depletion and amortisation expense	4,302,372	251,136
Accrued interest	8,311	(469,849)
Equity-settled share based payment transactions	2,103,333	-
Impairment loss on available for sale assets	228,199	589,955
Share in JV losses	22,295	180,407
Cost of arranging finance	253,189	519,801
Profit on sale of acreage	(25,981,137)	
Profit on sale of mining tenements	(275,000)	(6,411,874)
Profit on disposal of property, plant and equipment	(257,862)	-
Profit on sale of investments	(195,471)	-
Unrealised foreign exchange (gain)/loss	-	(1,135,414)
	<u>699,528</u>	<u>(290,232)</u>
Changes in assets and liabilities:		
Change in receivables and other assets	(1,789,328)	3,867
Change in creditors and provisions	<u>1,223,184</u>	<u>(433,831)</u>
Net Cash from operating activities	<u>133,384</u>	<u>(720,196)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

a. Non-Cash Financing and Investing Activities

- During the current financial year 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 is 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.

There were no non-cash financing or investing transactions during the previous financial year.

b. Acquisition and Disposal of Controlled Entities

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. Refer also to Note 27.

25 EARNINGS PER SHARE

	2010	2009
Basic earnings per share (cents per share)	8.92	0.37
Diluted earnings per share (cents per share)	7.01	0.37
Profit/(loss) used in the calculation of basic and diluted earnings per share	12,415,089	6,185,605
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	139,185,452	1,657,362,914
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	177,041,999	1,662,918,331

26 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.

27 ACQUISITION OF SUBSIDIARY

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.

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%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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 sufficient energy related assets until a critical mass is achieved to enable an IPO or trade sale. Once the recent acquisition has been bedded down Empire Energy will seek additional acquisition opportunities which will expand Empire Energy'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 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

(ii) 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	<u>10,000,000</u>	<u>11,199,000</u>
	38,000,000	42,556,200

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2010 (Continued)

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.

(iii) Acquisitions and Disposals of Controlled Entities

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.

Disposal

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

Previous financial year – 2009

Acquisitions and Disposals

There were no acquisitions or disposals of controlled entities during the year 2009 financial year.

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

28 PARENT ENTITY INFORMATION

Information relating to Imperial Corporation Limited:

	2010 \$	2009 \$
Current assets	2,174,555	8,433,108
Total assets	15,802,869	15,120,436
Current liabilities	1,189,115	3,428,869
Total liabilities	1,263,931	3,428,869
Contributed equity	65,075,905	61,975,228
Accumulated losses	(54,044,872)	(52,293,385)
Reserves	3,507,905	2,009,904
Total shareholders' equity	14,538,938	11,691,747
Profit or (loss) of the parent entity	(1,751,484)	4,699,914
Total comprehensive income of the parent entity	(2,166,817)	(1,620,302)
Details of any guarantees entered into by the parent entity in relation to debt of its subsidiaries refer 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	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010 (Continued)
29 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2010	2009
	\$	\$
Class A Units in Empire Energy USA LLC	-	(2,996)
Class B-1 Units in Empire Energy USA LLC	-	3,147,152
Class B-2 Units in Empire Energy USA LLC	-	1,095,394
Adjusted for shares of loss for the period	-	(180,407)
Impairment loss	-	(481,730)
	-	<u>3,577,413</u>
Less: Class B convertible preference units included in financial assets	-	(2,485,015)
Less: Class C units included in financial assets	-	<u>(1,095,394)</u>
	-	<u>(2,996)</u>

As per Note 27, the investment in Empire Energy is now consolidated in the Group's results effective from 30 September 2009.

30 MATTERS SUBSEQUENT TO BALANCE DATE

Funds of US\$24.6 million raised from completion of the sale of a tract of Marcellus Shale acreage were received by Empire Energy on 2 July 2010. US\$10.65 million of these funds were then utilised to repay the Macquarie Bank bridging loan facility. The remaining funds will be directed towards the repayment of tax and the acquisition of additional producing oil and gas assets in the USA.

The remaining funds will be directed towards the acquisition of additional producing oil and gas assets in the USA.

There were no other matters or circumstances that have arisen since 30 June 2010 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2010, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 30 June 2010 of the consolidated entity.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Imperial Corporation 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 16, 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 30 June 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 Officer and the Chief Financial Officer for the year ended 30 June 2010.

Signed in accordance with a resolution of the directors.



B W McLEOD
Director

Dated: 30 September 2010

**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
IMPERIAL CORPORATION LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Imperial Corporation Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation 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.

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



Level 29, 264 George Street
Sydney, NSW 2000
P O Box H195
Australia Square NSW 1215
Telephone: 61 2 9251 4600
Fax: 61 2 9251 7138

**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
IMPERIAL CORPORATION 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 Imperial Corporation 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 30 June 2010 and of its 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; 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 14 to 16 of the directors' report for the year ended 30 June 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 Imperial Corporation Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Nexia Court & Co.

Nexia Court & Co
Chartered Accountants

Sydney
Dated: 30 September 2010

David Gallery
David Gallery
Partner

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 3 September 2010

Name	Number of Shares	% Holding
Imperial Investments Pty Ltd	13,274,723	8.18
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	309	140,495	.09
1,001 – 5,000	1,107	3,147,170	1.94
5,001 – 10,000	707	5,299,593	3.27
10,001 – 100,000	1,168	38,117,856	23.49
100,001 and over	252	115,584,807	71.21
Total number of holders	3,543	162,289,921	100.00

i Number of holders of less than a marketable parcel 1,428

ii Percentage held by 20 largest holders 34.39%

c Twenty Largest Shareholders as at 15 July 2010

	Name	Number of Shares	% Holding
1	Imperial Investments Pty Ltd	13,274,723	8.18
2	WYT Nominees Pty Ltd <C&E Wong Super Fund A/C>	10,245,118	6.31
3	Ms Michelle Wong	3,781,575	2.33
4	Eastern & Pacific Capital Pty Ltd <B W McLeod Super Fund A/C>	3,532,110	2.18
5	Peter Alfred Ternes	3,000,000	1.85
6	Armco Barriers Pty Ltd	2,733,333	1.68
7	Macquarie Bank Limited	2,000,000	1.23
8	Mr Hafeezhussein Hatimali Bana	1,865,079	1.15
9	Lai Yiu Sham	1,804,109	1.11
10	Mr Christopher John Wilson & Ms Wei Mun Judienna Chang <Wilson SuperFund A/C>	1,500,000	0.92
11	Mr Kenneth Murray & Mrs Ruth Murray <Murray Super Fund A/C>	1,466,666	0.90
12	Famallon Pty Ltd <Famallon No 2 Super Fund A/C>	1,418,813	0.87
13	Classic Roofing Pty Limited <Superannuation Fund Account>	1,333,333	0.82
14	Mr David Laurence Hughes	1,319,404	0.81
15	Brian William Atkinson	1,200,000	0.74
16	Classic Roofing Pty Ltd	1,200,000	0.74
17	Eastern & Pacific Capital Pty Ltd	1,101,996	0.68
18	Mr Gary John Spelta & Mrs Narelle Spelta	1,101,044	0.68
19	Mr Christopher John Wilson & Ms Wei Mun Judienna Chang	1,000,000	0.62
20	Rocfin Pty Ltd	952,380	0.59
		52,829,683	34.39

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)
LIST OF MINING TENEMENTS

Prospect	Tenement	Granted	Holder/ Applicant	Interest	
				30/06/2010	30/06/2009

New South Wales

May Day	ML	1361	17/01/1995	IM	-	100%
---------	----	------	------------	----	---	------

The Group's interest in ML 1361 was sold in September 2009.

UNQUOTED SECURITIES AS AT SEPTEMBER 2010

Class of unquoted securities	No. of securities	No. of holders
Options		
- Executive options exercisable at \$0.0705 expiring 6 December 2010	333,333	1
- Executive options exercisable at \$0.01575 expiring 5 March 2013	66,666	1
- Unlisted options exercisable at \$0.135 expiring 12 April 2010	4,123,216	15
Holders of 20% or more of this class of option		
Name of Holder	No. Held	% Holding
Queensland MMI Pty Ltd ATF QMM Superfund	907,936	22.02
RAH STC Pty Ltd – ATF MEH Retirement A/C	850,205	20.62

Unlisted Options issued to Macquarie Bank Limited as a component of the bridging loan facility.

Unlisted Options		
- 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

Voting Rights

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