



EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

**HALF YEAR
FINANCIAL REPORT
30 JUNE 2011**

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COMPANY INFORMATION

Directors

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

Joint Company Secretaries

D L Hughes
R V Ryan

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Share Registry

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Bankers

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

Solicitors

Clifford Chance
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Sydney NSW 2000

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Stock Exchange Listings

Australia

Australian Securities Exchange
(Home Exchange Brisbane, Queensland)
ASX Code: EEG - Ordinary Shares

United States of America

New York OTC Market: Code: EEGNY
Sponsor: Bank of New York
1 ADR for 20 Ordinary shares

www.empireenergygroup.net

EXECUTIVE CHAIRMAN'S REVIEW OF OPERATIONS

A. HIGHLIGHTS FOR THE 6 MONTHS ENDING 30 JUNE 2011

- Over the period the Company continued the consolidation of the Kansas oil producing assets (acquired 24 December 2010) into existing operations.
- Empire Energy Group EBITDA was 75% lower than the previous corresponding period at A\$7.3 million. The decline in Group EBITDA was due to the previous period including A\$25.98 million in profits from the sale of a portion of the Company's Marcellus shale acreage in June 2010.
- All significant oil and gas operations are held in the Company's major operating subsidiary, Empire Energy E&P. Results for the six months are summarised as follows (detail is shown in the following section):
 - **Field EBITDAX 108% higher at US\$9.2 million.**
 - **Revenue 102% higher at US\$13.4 million.**
 - **Production 40% higher at 245,200 Boe.**
- An experienced drilling and completion engineer employed to manage the company's Mid Continent (Kansas) operations.
- A 10+ well, oil drilling program in the Central Kansas Uplift commenced with the first 6 wells producing to tank.
- The 2 well, oil drilling program in the Williston Basin, North Dakota commenced in September 2011.
- Geological and Engineering study of the Company's significant prospective shale oil and gas resources in New York and Pennsylvania continues. Current resource estimates are:
 - ❖ Utica shale – prospective resource of up to 5 Tcf GIP, (unrisked) ,with additional acreage under review;
 - ❖ Marcellus oil prospective resource of estimated 70 million Bbls (based on a 3% recovery factor).
- Landowner negotiations continue for the 14.6 million acres of shale formations secured onshore, in the MacArthur Basin, Northern Territory, Australia.

B. OPERATIONS REVIEW

The Company continues to grow and develop its oil and gas assets. Primarily, oil and gas growth opportunities have been focused through its 95% owned subsidiary, Empire Energy USA LLC ('Empire Energy'). In addition, resources are also being allocated to the company's 100% owned subsidiary Imperial Oil & Gas P/L, to progress development of its significant potential oil and gas shale assets in the MacArthur Basin, NT, Australia.

The Company's prime strategy is to:

- a. identify additional upstream assets to acquire and integrate into existing operations;

Executive Chairman's Review of Operations (Continued)

- b. build a position of 'significance' in the oil and gas industry. The target is for Empire Energy to reach a production milestone of +2,500 Boe/day by 2012, and then up to of 10,000 Boe/day by 2015;
- c. ensure the value of the Company's achievements are reflected in its market capitalisation.

The following tables stated in US dollars summarises operations of Empire Energy E&P for the previous 6 months, compared to the comparative corresponding period:

Operating Statistics (In \$ thousands, except units)	Notes	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	% change
Gross Production:				
Oil (MBbls)		137.9	0.7	n/a
Natural gas (MMcf)		1,273.1	1,381.8	-7.9%
Gross production (MBoe)		350.0	231.0	51.5%
Net Production:				
Oil (MBbls)		88.0	0.4	n/a
Natural gas (MMcf)		943.1	1,045.2	-9.8%
Net production (MBoe)		245.2	174.6	40.4%
Net Daily Production (Boe/d):		1,355	965	40.4%
Average sales price per unit (after hedging):	1.1			
Oil (Bbl)		\$86.60	\$72.46	19.5%
Natural gas (Mcf)		\$6.07	\$6.25	-2.9%
\$/Boe		\$54.43	\$37.60	44.7%
Average sales price per unit (before hedging):				
Oil (Bbl)		\$92.96	\$72.46	28.3%
Natural gas (Mcf)		\$4.51	\$4.93	-8.6%
\$/Boe		\$50.70	\$29.68	70.8%
Lifting Costs:	1.2			
Oil (Bbl)		\$20.73	\$0.00	n/a
Natural gas (Mcf)		\$2.52	\$2.13	18.1%
\$/Boe		\$17.12	\$12.74	34.3%
2P Reserves (MMBoe)	1.6	16,800	13,850	34.3%

C. REVIEW OF OPERATIONS - EMPIRE ENERGY E&P (95%)

To assist stakeholders to gain a more precise understanding of the financial position of the company we believe that a more realistic approach is the presentation of financial results by the preparation of EBITDAX accounts. The presentation of EBITDAX is not made in accordance with the usual statutory accounting procedures. Another difference is that the statutory accounts have been based on an accrual basis. At the time of this report, actual numbers for production, income and expenses have been utilised. This method therefore generates a difference between what is shown below and what is represented in the statutory accounts. Other companies may calculate EBITDAX differently than presented below.

Executive Chairman's Review of Operations (Continued)

EBITDAX represents net income (loss) before interest expense, taxes, and depreciation, amortization development and exploration expenses. All non-cash expenses, which clearly distort the presentation of operations in the statutory accounts, have been reallocated and aggregated as a total amortization expense. The EBITDAX accounts are not meant to reconcile to the statutory accounts, but we believe that:

- EBITDAX provides stakeholders with a much simpler and clearer measure of our operating performance;
- EBITDAX is an important supplemental measure of operating performance because it eliminates items that have little bearing on our operating performance and so highlights trends in our core business that may not otherwise be apparent when relying solely on current statutory accounting and financial measures;
- securities analysts, investors and other interested parties frequently use EBITDAX in the comparative evaluation of companies, many companies which now present EBITDAX when reporting their results;
- management and external users of our financial statements, such as investors, commercial banks, research analysts and others, rely on the use of EBITDAX to assess;
 - the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
 - the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
 - our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
 - the feasibility of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Based on the premises set out above, the following EBITDAX based accounts stated in US dollars clearly show the company's oil and gas upstream operating results:

Executive Chairman's Review of Operations (Continued)

Operations (In \$ thousands)	Notes	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	% change
Net Revenue (2):				
Oil Sales		7,620	30	
Natural gas Sales		5,725	6,536	
Net Admin Income		35	65	
Other Income		19	2	
Net Revenue		<u>13,399</u>	<u>6,633</u>	102.0%
Production costs:				
Lease operating expenses - Oil	1.2	1,449	-	
Lease operating expenses - Gas	1.2	2,082	2,005	
Production taxes - Oil	1.2	376	-	
Production taxes - Natural gas	1.2	290	220	
Total		<u>4,197</u>	<u>2,225</u>	88.6%
Field EBITDAX		<u>9,202</u>	<u>4,408</u>	108.8%
Less:				
Inventory Adjustment - Oil (3)	1.4	220	-	
Nonrecurring expenses (4)		816	-	
Field G&A	1.3	131	110	
Gain on sale of oil and natural gas properties		(1,095)	(23,513)	
Leases & Prospects	1.3	64	145	
Other Capex		86	-	
		<u>222</u>	<u>(23,258)</u>	-101.0%
Operations EBITDAX		<u>8,980</u>	<u>27,666</u>	-67.5%
Less:				
Corporate G&A	1.3	778	683	
Acquisition related expenses	1.3	462	430	
		<u>1,240</u>	<u>1,113</u>	11.4%
EBITDAX		<u>7,740</u>	<u>26,553</u>	-70.9%
Less:				
Asset retirement obligations, accretion expenses		253	217	
Depreciation, depletion and amortisation		3,362	1,242	
		<u>3,615</u>	<u>1,459</u>	147.7%
EBITX		<u>4,125</u>	<u>25,094</u>	-83.6%
Interest	1.5	1,972	1,484	
State Taxes		59	-	
		<u>2,031</u>	<u>1,484</u>	
EBTX		<u>2,094</u>	<u>23,610</u>	-91.1%

Executive Chairman's Review of Operations (Continued)**D. COMMENTS ON OPERATIONS****1.1 Hedging**

Due to the corporate leverage growth model implemented by Empire Energy, a relatively aggressive hedging strategy has also been adopted. The portion of production hedged may be naturally reduced as drill bit production comes on line. Hedge gains over the period were US\$914,000 (cf US\$1.38 million for the previous corresponding period).

Gas: Production is hedged as follows:

Y/e Dec 31	2011	2012	2013	2014	2015
mmBtu Hedged	785,719	1,484,351	1,407,720	1,408,488	1,166,000
Av \$US/mmBtu	\$6.01	\$6.10	\$5.97	\$5.91	\$5.45
Est % Prod'tion	70%	69%	70%	76%	71%

Oil: Production is hedged as follows:

Y/e Dec 31	2011	2012	2013	2014	2015
Bbls Hedged	64,240	120,800	113,160	105,120	98,160
Av \$US/Bbl	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00
Est % Prod'tion	75%	75%	75%	75%	75%

The fair value (marked to market) gain/(loss) of oil and gas hedges in place for the period was US\$(0.54) million. Oil and gas hedge contracts were marked to market based on NYMEX Henry Hub and WTI forward price curves at market close on 30 June 2011.

1.2 Lifting Costs

Lifting costs include all lease operating expenses (LOE), plus all production related taxes.

Not included in LOE, are:

- US\$816,000 in nonrecurring expenses. In the 6 months this was mainly expenditure on Kansas assets, including expenditure of around US\$350,000 related to well and tank battery upgrades, plus an environmental review to ensure appropriate spill plans were in place.
- US\$64,000 in delayed rental payments.

1.3 Overhead (General & Administration)

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

- Field Office Overhead (G&A) for the six months was US\$131,000 (cf US\$110,000 in previous corresponding period).
- Corporate Overhead (G&A) for the six months was US\$1.24 million (cf US\$1.11 million). Included in this overhead expense were costs related to the acquisitions in December 2010 and 2009 respectively. For the period, acquisition related costs were \$US462,000 (cf US\$430,000).

Executive Chairman's Review of Operations (Continued)

Subject to no additional acquisitions, annual Corporate Overhead (G&A) are expected to remain at around US\$1.0 million.

1.4 Inventory

In the six month period there was a US\$220,000 (or \$56.78/Bbl) write off of non-cash charges relating to oil in tanks purchased in connection with the Kansas acquisition.

1.5 Financing

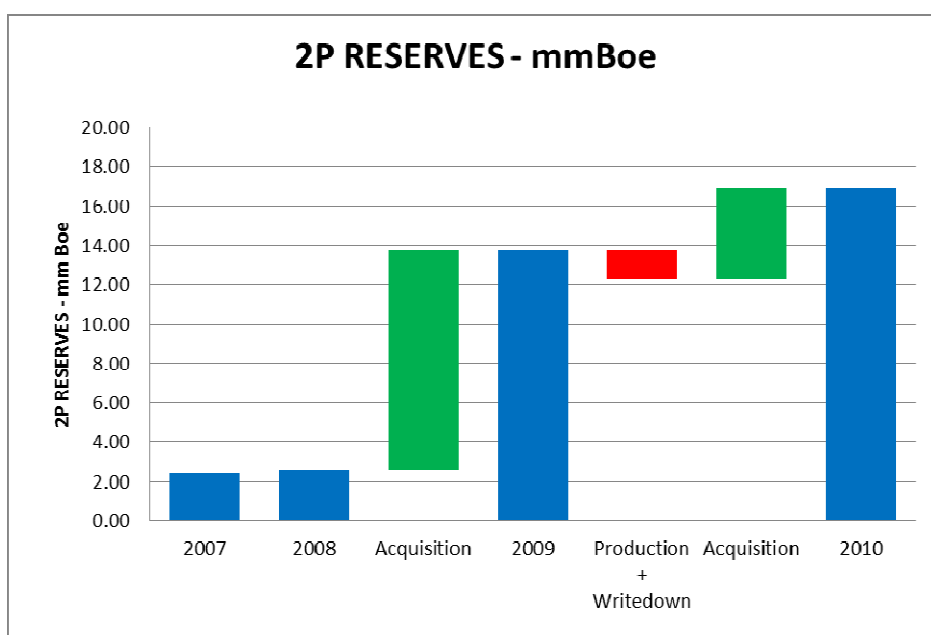
Credit Facility: The draw down on the Credit Facility as at June 30, 2011 was US\$64.4 million (cf US\$72.7 million in the previous period ending December 30, 2010) at an average rate of LIBOR+4.4%. Interest expense for the period was \$1.97 million, or an average of US\$328,000/month. Over the period ending June 30, 2011, Empire Energy repaid US\$8.8 million of existing loan facilities.

Other Facilities: Empire Energy has US\$120,000 (cf US\$229,000) in vehicle and equipment loans with local banks at normal commercial interest rates. In addition, Empire Energy has two notes with the parent company for total face value of US\$260,975 and coupon averaging 9%.

Interest Rate Risk: Interest rate risk was hedged in 2008 by entering into an interest rate swap agreement for a notional amount of US\$7.94 million, expiring June 2012 with a fixed rate of 2.015%. Over the Period a gain of US\$37,000 accrued.

1.6 Reserves

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



Executive Chairman's Review of Operations (Continued)

Resources: In addition to the proven reserves, the Group is undertaking a detailed review of its 300,000+ acres held in western New York and northern Pennsylvania. This acreage (see below) covers a number of oil and gas bearing formations, other than the Medina and Queenston currently producing most of the Groups gas production. Refer to Section 4.1 below.

1.7 Australian Operations (G&A)

Australian G&A costs for the period were A\$872,174 (cf A\$697,884 for the previous corresponding period).

E. OPERATIONS BY REGION

1. CENTRAL KANSAS UPLIFT - OIL PRODUCTION

1. Overview

- Production – Gross 761,650 Bbl/d; Net 486,000 bbl/d
- Operations spanning sixteen central Kansas counties
- 254 operating wells
- 99% of properties operated by Empire Energy.
- Average WI = 79% / NRI = 64%
- Well depths range from approximately 3,200ft – 4,000ft
- Reservoirs are water driven Arbuckle, Kansas City, Lansing and Shawnee
- Estimated 2P PV10 value US\$116 million

2. Drilling & Exploration Program

- A 10 well drilling program is currently being undertaken, with the first 6 wells completed and producing to tank
- 3D seismic programs are being undertaken to pin point structural closures
- A 5 well polymer rework program
- Wells in this area are low risk, long life wells
- Approximate cost per well US\$320,000

2. WILLISTON BASIN – SHORELINE PROJECT (NON OPERATOR)

1. Overview

The Mission Canyon Shoreline Project is located on the northeast flank of the U.S. portion of the Williston Basin just east of the Nesson Anticline. The project targets the Sherwood Member of the Mission Canyon as the primary objective, and the Bluell Member as a secondary objective. The initial prospect in the Shoreline Project, the Berthold Prospect, targets the "island crest" or "pisolite" facies. Through extensive subsurface mapping combined with core examination from many of the surrounding wells, the prospect has been developed on trend with an established fairway of production and directly offsetting a well that has produced 120,000 barrels of oil from the Sherwood. Within the fairway in the project area, wells in the Sherwood have been highly productive. Approximately 150 wells have produced greater than 19 million barrels of oil for an average of 129,000 barrels per well. In summary:

Executive Chairman's Review of Operations (Continued)

- 17,000 gross acres
- Empire Energy WI = 35.0% / NRI = 27.0%
- Target depth of wells in this area 7,500 – 8,500ft
- Based upon production histories of trend wells, anticipate reserves of 179,000 Bbls/well
- Target an initial rate of 100 Bbl/d, with a 10 month payout
- \$1.3mm D&C (drill & complete)

2. Drilling & Exploration Program

- A 2 well drilling program commenced in September 2011
- Results are expected in October 2011.

3. APPALACHIA – GAS PRODUCTION

- Production – Gross 7,050 Mcf/d; Net 5,210 Mcf/d
- ~310,000 gross acres, spanning nine counties in New York and 4 in Pennsylvania
- ~1,800 operating wells
- 98% of properties operated by Empire Energy
- WI = 97.5% / NRI = 74%
- Well depths range from approximately 3,200ft – 4,000ft
- 100's of Pud well locations for drilling at economic pricing
- Estimated 2P PV10 value US\$65.4 million
- Field operations continue to focus on reducing shrinkage from the current estimated 10% to 12% of gross production.

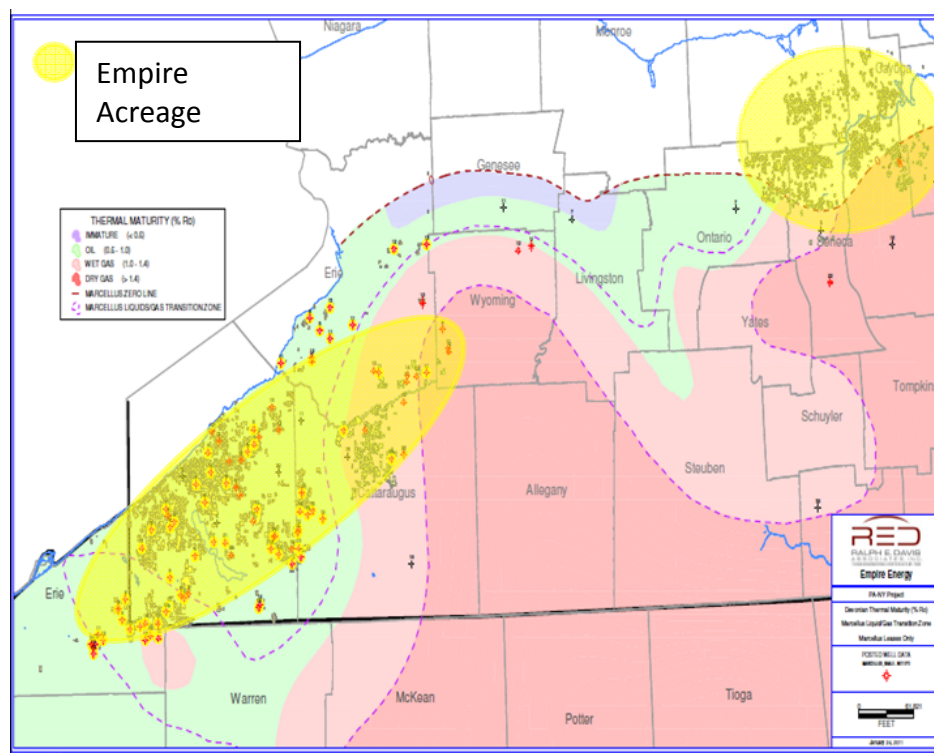
4. APPALACHIA – UNCONVENTIONAL

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

4.1 Shale Oil - Potential Resources/Reserves (4P)

Formation	Acreage	Type	Category	MBIs
Marcellus (1)	~100,000	Shale (Oil)	Resource	70,295.0
				70,295.0

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

Executive Chairman's Review of Operations (Continued)

4.2 Shale Gas Potential Resources (4P)

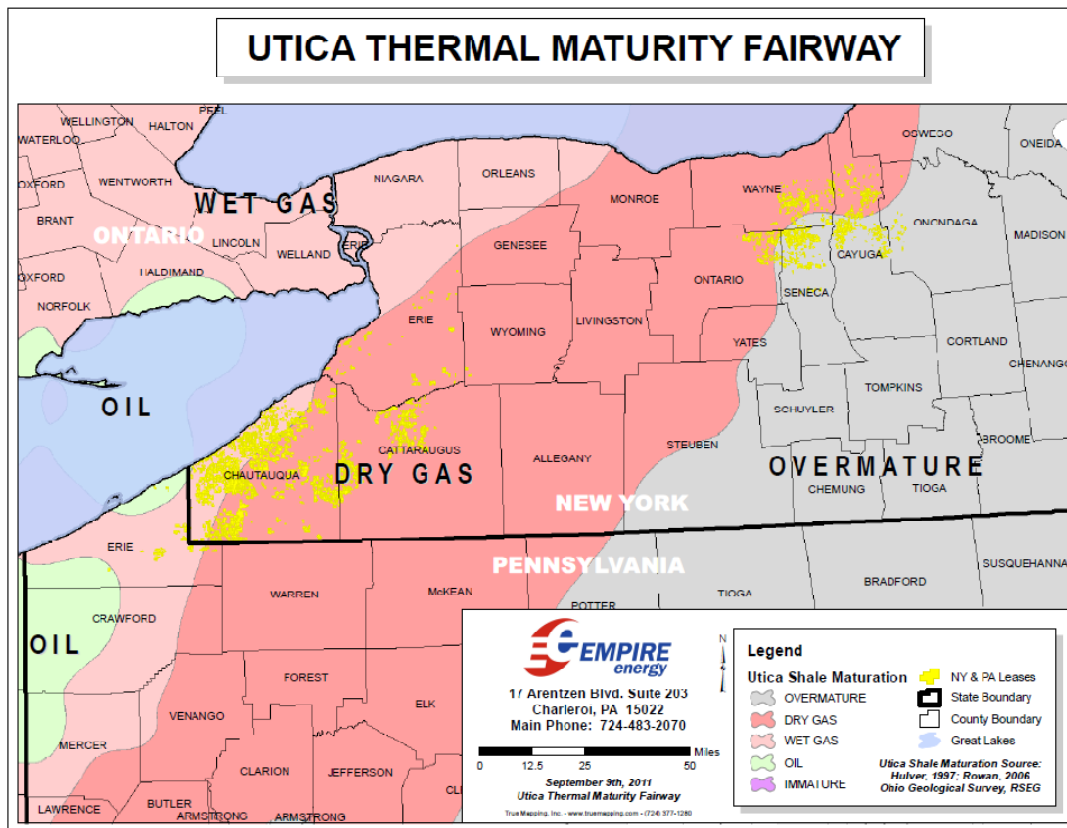
Formation	Acreage	Type	Category	GIP (Bcf)
Marcellus	100,000	Shale	Poss/Resource	199.4
Utica (1)	18,000	Shale	Resource	4,638.0
				4,837.4

Notes:

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

The following map demonstrates Empire Energy leases in relation to the Utica thermal maturity fairway which runs in a south west direction into Ohio where significant drilling activity testing the Utica shale is now underway.

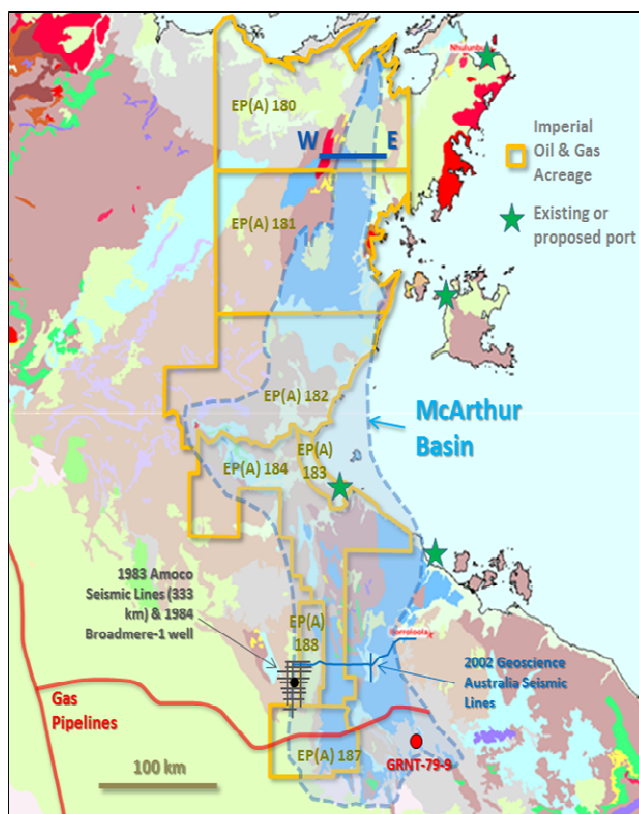
Executive Chairman's Review of Operations (Continued)



5. AUSTRALIA - UNCONVENTIONAL OIL & GAS

- In early 2010 Empire Energy Group Limited identified the MacArthur Basin as having attractive potential for shale oil and gas and has secured 5 exploration licence applications in the MacArthur Basin, Northern Territory. In summary:
 - 14.6 million acres under exploration licence application
 - Permits constitute high risk/high return frontier play at very low historic exploration maturity.
 - There has been no petroleum exploration on the Northern Territory acreage.
 - The exploration target is for shale oil and gas targets in rich black shales.
 - Land holder negotiations are underway. At the appropriate time the Company will seek to undertake a review of these opportunities with parties it has developed relationships within its operations in the USA.
 - The shales have been shown to be gas-prone (a mineral core hole (GRNT 79-9) ignited and sustained a 6m gas flare for several months).
 - Oil bleeds have been reported in geological data.

Executive Chairman's Review of Operations (Continued)



Exploration and negotiation costs over the period were A\$183,813.

F. EMPIRE DRILLING & FIELD SERVICES, LLC

Over the period, these operations posted a cash loss of US\$79,000. No drilling activities are currently being undertaken, although the company continues pipe laying and salt water hauling businesses.

The information in this announcement which relates to reserves is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas and LaRoche Petroleum Consultants, Dallas, Texas who are certified professional engineers.

Neither Ralph E Davis Associates Inc., LaRoche Petroleum Consultants nor any of their employees have any interest in Empire Energy E&P, LLC or the properties reported herein. Ralph E Davis Associates Inc, and LaRoche Petroleum Consultants consent to the inclusion in this statement of the matters based on their information in the form and context which it appears.

DIRECTORS' REPORT

The Directors of Empire Energy Group Limited ("the Company") present their report together with the Consolidated Financial Report for the half-year ended 30 June 2011 and the Auditor's Review Report thereon.

1. PRINCIPAL ACTIVITIES

During the half-year financial period ended 30 June 2011 the principal continuing activities of the consolidated entity consisted of:

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

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

2. CONSOLIDATED RESULTS

The consolidated net profit of the consolidated entity for the six month period ended 30 June 2011 after providing income tax was \$641,575 compared with a profit of \$14,201,680 for the previous corresponding period ended 30 June 2010.

3. REVIEW OF OPERATIONS

For information on a review of the Group's operations refer to the Executive Chairman's Review of Operations Report contained on pages 4 to 14 of this Interim Financial Report.

4. DIRECTORS

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

BW McLeod, B.Sc (Maths), M.Comm (Econ) Executive Chairman

Mr McLeod has had extensive experience in the Australian Capital markets. Over the past 20 years he has been involved in raising debt and equity capital for a number of projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent six years with BA Australia Limited, where he was Executive Director, responsible for the financial and capital market operations. He is Non-Executive Chairman of Mayan Iron Corporation Limited. Appointed a Director of the Company on 21 May 1996.

DH Sutton, B.Comm, ASA, ACIS Non-Executive Director

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

Prior to his current role he was a partner and director of several securities exchange member firms. He became a member of the Stock Exchange of Melbourne and subsequently Australian Securities Exchange Limited. He is Non-Executive Chairman of Silver Mines Limited and Chairman of Sinovus Mining Limited. Appointed a Director of the Company on 17 January 1997.

Director's Report (Continued)**K A Torpey, B.E., MIE Aus., CP Eng, FAusIMM, (CP)****Non-Executive Director**

Mr Torpey has over the last 40 years been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located in Australia, Ireland and Indonesia. Most of 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 and Mitsubishi. Since returning to Australia from Tara Minerals, he assumed the role of Managing Director of Denison Mines (Australia) and then of Devex Limited. Over recent years he has acted as a consultant to a number of companies involved in mining projects and new technology. He is currently the Principal of Famallon Pty Limited and a Director of Latrobe Magnesium Limited. Appointed a Director of the Company on 26 November 1992.

5. ADVISORS TO THE COMPANY**Dr D Kahn**

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

Dr John Warburton (FGS, MAICD)

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

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

Director's Report (Continued)**6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

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

I. Capital Structure

Contributed equity of the Company increased by \$13,136,207 (from \$65,097,905 to \$78,234,112) during the interim financial period as a result of:

The Company completed a Private Placement of 110,833,333 fully paid ordinary shares at \$0.12 to sophisticated and professional investors. The shares were issued in 2 Tranches:

Tranche 1 – Issue of 22,000,000 shares on 21 April 2011 @ \$0.12 pursuant to the Company's 15% placement capacity	\$2,640,000
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Tranche 2 – Issue of 88,833,333 shares on 19 May 2011 @ \$0.12 following shareholder approval at Annual General Meeting held on 17 May 2011	\$10,660,000
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On 3 June 2011 the Company issued 4,740,429 shares @ \$0.12 pursuant to a Share Purchase Plan offer which closed on 27 May 2011	\$568,851
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Less transaction costs associated with the above mentioned share issues	(\$732,644)
	<u>\$13,136,207</u>

Funds raised from the issues will be utilised towards meeting the following Company objectives:

- Achieving production targets through the aggregation of oil and gas producing assets
- Conducting development drilling on the Company's oil prospects in Kansas
- Conducting exploration drilling on the Company's shale prospects in the Appalachia and Williston Basins
- Debt re-structure and working capital purposes

II. Change of Company Name

A General Meeting of members of the Company was held on 23 March 2011. At that meeting shareholders approved the following resolutions:

- Special resolution to change the name of the Company to Empire Energy Group Limited.
- Ordinary resolution to approve participation of the Executive Chairman in the Company's private placement to sophisticated and professional investors.

The change of the Company name became effective on 23 March 2011 with the issue of a Certificate of Registration of Change of Name by the Australian Securities and Investments Commission.

Director's Report (Continued)**7. MATTERS SUBSEQUENT TO BALANCE DATE**

- The New York State Department of Environmental Conservation's ('DEC') de facto moratorium on hydraulic fracturing in New York State ended on 1 July 2011.

The DEC has released its revised recommendations on mitigating the environment impacts of high-volume hydraulic fracturing (high-volume fracturing).

Adoption of these recommendations would provide for approximately 85% of the Marcellus shales to be accessible to natural gas extraction.

The DEC planned for a 60 day public comment period commencing August 2011.

The Company has extensive Marcellus (230,000 gross acres) and Utica (225,000 gross acres) shale acreage in New York State, the ending of the hydraulic fracturing moratorium will enable the Company to seek ways to monetise this asset over the medium term.

- In July 2011 the Company commenced a 10 development well drilling program in the Central Kansas Uplift Region. The initial focus of the program was to drill low risk development wells. At the same time the objective was to delineate additional prospects and to convert probable reserves to Reserve 1P category.

Progress of the development well drilling program at the date of this report can be summarised as follows:

Well Name	Field	County, KS	WI	Status
Boxberger – Solomon #14	Hall-Gurney	Russell	70.7%	Flow rate at 4BO/d
C L Newcomer #9	Hall-Gurney	Russell	90.13%	Flow rate at 9BO/d
Kollman #15	Bemis-Shutts	Ellis	86.0%	Flow rate at 12 BO/d + 600BW/d.
Carmichael/Kollman West Unit #4	Bemis-Shutts	Ellis	90.13%	Flow rate 7BO/d + 110 BW/d
Esfeld #9	Kraft-Prusa	Barton	58.48%	Flow rate at 41 BO/d + 80BW/d.
Krankenber g #5-19	Krankenber g	Stafford	73.9%	Flow rate at 40BO/d + 165BW/d

Since 30 June 2011 the Company has contributed US\$2,024,492 in a number of instalments to Empire Energy USA LLC as equity funds. In consideration the Company will receive additional B-2 Units which will participate in profit distributions.

At the date of this report the Company held a 95% equity interest in Empire Energy USA LLC.

Director's Report (Continued)

Empire Energy USA LLC will apply these funds to meet costs associated with the following 2011 drilling programs:

- two well joint venture drilling program in North Dakota in which Empire has a 35% working interest
- 10 well development drilling program in the Kansas Central Uplift Region. At the date of this report 6 wells had been drilled

With the exception of those matters referred to above there were no other matters or circumstances that have arisen since the 30 June 2011 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2011, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 30 June 2011 of the consolidated entity

AUDITOR'S INDEPENDENCE DECLARATION

Under section 307 of *The Corporations Act 2001*.

A copy of the Auditor's Independence Declaration as required under section 307C of *The Corporations Act 2001* is set out on page 34 and forms part of the Director's Report for the six month period ended 30 June 2011.

Signed in accordance with a resolution of the Directors.



B W McLeod
13th September 2011

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the half-year ended 30 June 2011

	Note	Six months ended June 2011 \$	Six months ended June 2010 \$
Revenue		15,638,281	9,463,600
Cost of sales		(6,700,346)	(5,075,835)
Gross profit		8,937,935	4,387,765
Other income		6,000	320,939
Gain on sale of acreage	2	1,057,460	25,981,137
Gain on sale of mining tenement		-	275,000
Gain/(loss) on sale of investment		30,500	(492,332)
Gain/(loss) on foreign currency translation		(41,702)	3,671
Impairment loss on available for sale assets		(75,942)	(228,199)
Depreciation, depletion and amortisation expense		(2,778,848)	(3,787,719)
General and administrative expenses		(2,566,459)	(1,070,417)
Operating profit		4,568,944	25,389,845
Finance income		25,005	48,860
Finance costs		(3,300,350)	(3,178,821)
Profit before income tax		1,293,599	22,259,884
Income tax benefit/(expense)		(652,024)	(8,058,204)
Profit after income tax		641,575	14,201,680
Other comprehensive income			
Changes in fair value of available-for-sale equity securities		43,144	(467,858)
Exchange differences on translation of foreign operations		(1,868,436)	2,133,157
(Loss)/Gain on cash flow hedges		(2,274,119)	4,647,192
Total other comprehensive income		(4,099,411)	6,312,491
Total comprehensive income		(3,457,836)	20,514,171
Profit for the year attributable to:			
Equity holders of Empire Energy Group Limited		498,963	12,678,763
Non-controlling interests		142,612	1,522,917
		641,575	14,201,680
Total comprehensive income for the period attributable to:			
Equity holders of Empire Energy Group Limited		(3,475,826)	18,407,023
Non-controlling interests		17,990	2,107,148
		(3,457,836)	20,514,171
		Cents per share	Cents per share
Basic earnings per share	11	0.26	8.13
Diluted earnings per share	11	0.26	8.12

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at 30 June 2011

	Note	30 June 2011 \$	31 December 2010 \$
CURRENT ASSETS			
Cash and cash equivalents		10,699,261	2,622,723
Trade and other receivables		4,592,705	3,756,093
Prepayments and other current assets		388,320	68,332
Inventory		275,717	638,916
Financial assets, including derivatives		2,079,561	2,050,819
TOTAL CURRENT ASSETS		18,035,564	9,136,883
NON-CURRENT ASSETS			
Financial assets, including derivatives		3,070,647	3,821,957
Oil and gas properties	4	91,409,573	97,981,324
Property, plant and equipment	5	3,222,256	3,519,662
Intangible assets	6	1,284,313	1,036,882
TOTAL NON-CURRENT ASSETS		98,986,789	106,359,825
TOTAL ASSETS		117,022,353	115,496,708
CURRENT LIABILITIES			
Trade and other payables		4,782,581	4,376,513
Financial liabilities, including derivatives		993,366	681,478
Interest-bearing liabilities	7	56,098,902	67,508,921
Provisions	8	89,626	76,784
Current tax liability		1,355,226	1,026,272
TOTAL CURRENT LIABILITIES		63,319,701	73,669,968
NON-CURRENT LIABILITIES			
Financial liabilities, including derivatives		3,756,582	2,496,164
Interest-bearing liabilities		61,176	68,124
Provisions	8	4,371,833	4,419,585
TOTAL NON-CURRENT LIABILITIES		8,189,591	6,983,873
TOTAL LIABILITIES		71,509,292	80,653,841
NET ASSETS		45,513,061	34,842,867
EQUITY			
Contributed equity	9	78,234,112	65,097,905
Reserves		(2,558,311)	414,261
Accumulated losses		(32,148,257)	(33,275,053)
Equity attributable to:			
Equity holders of Empire Energy Group Limited		43,527,544	32,237,113
Non-controlling interests		1,985,517	2,605,754
TOTAL SHAREHOLDERS' EQUITY		45,513,061	34,842,867

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

CONSOLIDATED STATEMENTS OF CASHFLOWS
for the half-year ended 30 June 2011

Note	Six months ended June 2011 \$	Six months ended June 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	14,943,748	8,507,877
Payments to trade creditors and employees	(8,567,693)	(5,598,770)
Interest received	29,217	49,293
Interest paid	(1,922,359)	(1,626,888)
Income tax paid	-	18,005
Net cash from operating activities	4,482,913	1,349,517
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments in listed corporations	126,231	46,533
Payment for property, plant and equipment	(317,043)	(637,995)
Payment for oil & gas wells	(916,884)	-
Payments for investment in unlisted corporations	(26,650)	-
Payment for investment in listed corporations	-	(139,540)
Net cash (used in)/provided by investing activities	(1,134,346)	(731,002)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of shares (net of expenses)	13,136,207	2,304,676
Proceeds from interest bearing liabilities	277,821	508,286
Repayment of interest bearing liabilities	(8,499,455)	(26,299)
Finance lease payments	(6,448)	(5,980)
Net cash provided by financing activities	4,908,125	2,780,683
Net increase in cash held	8,256,692	3,399,198
Cash at beginning of half-year period	2,622,723	1,044,098
Effect of exchange rate changes on cash and cash equivalents	(180,154)	288,909
CASH AT THE END OF HALF-YEAR PERIOD	10,699,261	4,732,205

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the half-year ended 30 June 2011

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 January 2011	65,097,905	2,531,771	(4,588,358)	2,470,848	(33,275,053)	32,237,113	2,605,754	34,842,867
Total Comprehensive income for period								
Profit for the period					498,963	498,963	142,612	641,575
Exchange differences arising on translation of foreign operations			(1,868,436)			(1,868,436)		(1,868,436)
Loss on available-for-sale investments		60,144				60,144		60,144
Reclassification adjustment on available-for-sale investments		(17,000)				(17,000)		(17,000)
Gain/(loss) on cash flow hedges		(2,149,497)				(2,149,497)	(124,622)	(2,274,119)
Total comprehensive income for the period	-	(2,106,353)	(1,868,436)	-	498,963	(3,475,826)	17,990	(3,457,836)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	13,868,851					13,868,851		13,868,851
Less: share issue transaction costs	(732,644)					(732,644)		(732,644)
Options lapsed in period, transferred to retained earnings								
Options issued in the period				81,531		81,531		81,531
Warrants issued in the period				860,408		860,408	49,884	910,292
Dilution of Non-Controlling Interest		47,130		13,148	627,833	688,111	(688,111)	
Total transactions with owners	13,136,207	47,130	-	955,087	627,833	14,766,257	(638,227)	14,128,030
Balance 30 June 2011	78,234,112	472,548	(6,456,794)	3,425,935	(32,148,257)	43,527,544	1,985,517	45,513,061

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-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 January 2010	62,892,474	455,357	(906,014)	1,530,706	(50,705,755)	13,266,768	224,392	13,491,160
Total Comprehensive income for period								
Profit for the period					12,678,763	12,678,763	1,522,917	14,201,680
Exchange differences arising on translation of foreign operations			2,133,157			2,133,157		2,133,157
Gain/(loss) on available-for-sale investments		(467,858)				(467,858)		(467,858)
Gain/(loss) on cash flow hedges		4,062,961				4,062,961	584,231	4,647,192
Total comprehensive income for the period	-	3,595,103	2,133,157	-	12,678,763	18,407,023	2,107,148	20,514,171
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	2,229,089					2,229,089		2,229,089
Less: share issue transaction costs	(45,658)					(45,658)		(45,658)
Options lapsed in period, transferred to retained earnings								
Options issued in the period				1,093,333		1,093,333		1,093,333
Warrants issued in the period				246,433		246,433	(29,172)	217,261
Non-controlling interests arising from acquisition of Empire Energy							(118,523)	(118,523)
Total transactions with owners	2,183,431	-	-	1,339,766	-	3,523,197	(147,695)	3,375,502
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 above statements of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Empire Energy Group Limited ("Company") is a Company domiciled in Australia. The condensed consolidated interim financial report of the Company for the half-year ended 30 June 2011 comprises the Company and its controlled entities ("Consolidated Entity").

These general purpose financial statements for the interim half-year reporting period ended 30 June 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Act 2001*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

AASB 2009-12 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2009-12 from 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which had no major impact on the requirements of the amended pronouncements. The main amendment was to AASB 8 '*Operating Segments*' and required an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

AASB2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-4 from 1 January 2011. These amendments were a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 '*Financial Instruments: Disclosures*', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

equity or in the notes in accordance with ASB101 '*Presentation of Financial Statements*'; and provided guidance on the disclosure of significant events and transactions in AASB 134 '*Interim Financial Reporting*'.

AASB 2010-4 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2010-5 from 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.

NOTE 2 – GAIN ON SALE OF ACREAGE

On 30 June 2010, the Company sold its interests in Marcellus shale leaseholds in 5,897 acres for \$27,200,137. A gain of \$25,981,137 was recognised for the 5,897 acres for the period ended 30 June 2010. On 1 July 2010, the Company received \$27,200,137 in connection with the sale. The difference of \$1,219,000 represents payment for an additional 257 acres if the Company delivers clear title to the interest. The final gain from the sale of the 257 acres has been recognised as of 30 June 2011 and totalled \$1,057,460.

NOTE 3 - OPERATING SEGMENTS

Information reported to the group's chief executive officer for the purpose of resource allocation and assessment of performance is focused on the category of operations.

The Group's reportable segments are organised into the following operating segments:

- Oil and gas operations
- Investments
- Other

Information regarding these segments is presented below.

	Revenue		Segment profit/(loss)	
	Half-year ended 30 June		Half-year ended 30 June	
	2011	2010	2011	2010
Oil and gas operations	16,598,177	35,415,925	5,760,877	27,800,924
Investments	30,500	40,261	(45,442)	40,261
Other	103,563	262,425	103,563	262,425
	16,732,240	35,718,611	5,818,998	28,103,610
Finance income			25,005	48,860
Finance expense			(3,300,350)	(3,178,821)
Central administration costs & directors' salaries			(1,208,352)	(2,447,317)
Foreign exchange (loss)/gain			(41,702)	(239,339)
Not included in segment (loss)/profit				(27,109)
Profit before income tax			1,293,599	22,259,884

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

Segment profit/(loss) represents the profit/(loss) 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 2011	31 December 2010
Oil and gas operations	109,018,768	113,301,038
Investments	903,639	916,787
Other	7,099,946	1,278,883
	117,022,353	115,496,708

NOTE 4 - OIL AND GAS PROPERTIES

	\$
Cost as at 30 June 2010	64,025,839
Additions	-
Acquisition	52,212,452
Disposals	(87,882)
Effect of foreign exchange movements	(10,926,980)
Cost as at 31 December 2010	105,223,429
Additions	916,884
Acquisition	-
Disposals	-
Effect of foreign exchange movements	(5,678,798)
Cost as at 30 June 2011	100,461,515
Depletion and impairment as at 30 June 2010	(6,500,107)
Charge for the year	(2,158,533)
Provision for impairment	(407,921)
Disposals	-
Effect of foreign exchange movements	1,824,456
Depletion and impairment as at 31 December 2010	(7,242,105)
Charge for the year	(2,285,535)
Provision for impairment	-
Disposals	-
Effect of foreign exchange movements	475,698
Depletion and impairment as at 30 June 2011	(9,051,942)
Net book value as at 31 December 2010	97,981,324
Net book value as at 30 June 2011	91,409,573

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

	Cost		Accumulated Depreciation		Written Down Value	
	June 2011	December 2010	June 2011	December 2010	June 2011	December 2010
	\$	\$	\$	\$	\$	\$
Land	1,914,847	1,987,528	-	-	1,914,847	1,987,528
Buildings	283,868	240,720	(12,081)	(8,521)	271,787	232,199
Plant and equipment	867,655	780,355	(412,681)	(375,057)	454,974	405,298
Motor vehicles – leased	1,316,172	1,411,005	(750,092)	(543,514)	566,080	867,491
Office equipment	109,408	120,961	(94,840)	(93,815)	14,568	27,146
Leasehold improvements	68,846	68,846	(68,846)	(68,846)	-	-
	4,560,796	4,609,415	(1,338,540)	(1,089,753)	3,222,256	3,519,662

Office Equipment

Carrying value at beginning
 Additions
 Disposals
 Depreciation expense
 Transfer

June 2011	December 2010
\$	\$
27,146	15,619
1,045	12,599
-	-
(1,025)	(1,072)
(12,598)	
14,568	27,146

Motor Vehicles – leased

Carrying value at beginning
 Additions
 Disposals
 Amortisation
 Effect of foreign currency movements

June 2011	December 2010
\$	\$
867,491	986,217
-	130,594
(62,595)	-
(206,578)	(125,484)
(32,238)	(123,836)
566,080	867,491

Plant and equipment

Carrying value at beginning
 Additions
 Disposals
 Depreciation expense
 Transfer
 Effect of foreign currency movements

June 2011	December 2010
\$	\$
405,298	325,506
237,023	200,220
(79,878)	-
(37,624)	(78,616)
(45,070)	
(24,775)	(41,812)
454,974	405,298

Land

Carrying value at beginning
 Additions
 Disposals
 Depreciation value
 Effect of foreign currency movements

June 2011	December 2010
\$	\$
1,987,528	1,859,662
35,270	427,965
-	-
-	-
(107,951)	(300,099)
1,914,847	1,987,528

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

	30 June 2011	31 December 2010
	\$	\$
Buildings		
Carrying value at beginning	232,199	167,532
Additions	-	93,749
Disposals	-	-
Depreciation expense	(3,560)	(2,162)
Transfer	57,668	-
Effect of foreign currency movements	(14,520)	(26,920)
	271,787	232,199
NOTE 6 - INTANGIBLE ASSETS		
Goodwill on acquisition	80,039	80,039
Other intangible assets	1,204,274	956,843
	1,284,313	1,036,882
Other Intangible assets		
Carrying value at beginning	956,843	1,347,687
Assumed in business combination	-	31,013
Additions – Loan acquisition fees	665,265	-
Transfer to overriding royalty interest	(30,515)	-
Amortisation	(324,134)	(211,218)
Effect of foreign currency translation	(63,185)	(210,639)
	1,204,274	956,843

NOTE 7 - INTEREST BEARING LIABILITIES

These accounts are presented on the basis that USD\$60.1m (AUD\$56.0m) 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 next twelve month period.

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

During the period the Group repaid \$8,499,455 of its interest bearing facilities.

As at 30 June 2011 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 half-year ended 30 June 2011 (continued)

NOTE 8 - PROVISIONS

	June 2011 \$	December 2010 \$
Current		
Employee entitlements	89,626	76,784
Asset retirement obligations	-	-
	89,626	76,784
Non-current		
Asset retirement obligations	4,371,833	4,419,585

Movement in Asset Retirement Obligation

Balance at 1 January 2011	4,419,585
Write-off for the period	(47,731)
Accretion in the period, including in amortisation expense	244,543
Effect of foreign currency translation	(244,564)
Balance at 30 June 2011	4,371,833

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

NOTE 9 -CONTRIBUTED EQUITY	CONSOLIDATED			
	6 months to 30 June 2011		6 months to 31 December 2010	
	No. of shares	\$	No. of shares	\$
a) Shares				
Issued Capital				
Balance at beginning of period	162,623,254	65,097,905	162,289,921	65,075,905
Movement in ordinary share capital				
- Issues of shares pursuant to private placements to sophisticated and professional investors at \$0.12 per share	110,833,333	13,300,000	-	-
- Issues of shares pursuant to the Company's share purchase plan in May 2011 at \$0.12 per share	4,740,429	568,851	-	-
- Issue of shares pursuant to the exercise of executive options at \$0.0705 in December 2010	-	-	333,333	23,500
Less costs associated with share issues	-	(732,644)	-	(1,500)
Balance at end of period	278,197,016	78,234,112	162,623,254	65,097,905

No shares have been issued during the period since the end of the financial period and the date of this report. The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

(b) Share Options

Total number of unissued shares under option at beginning of period 33,399,998

Movements

6,800,000 unlisted executive options were granted on 29 March 2011.

5,300,000 of these options granted to a Director of the Company were approved by shareholders at a General Meeting of Members of the Company held on 23 March 2011.

These options were granted on the following terms:

- 3,500,000 options exercisable at \$0.15 expiring 1 July 2013
- 1,650,000 options exercisable at \$0.17 expiring 1 July 2013
- 1,650,000 options exercisable at \$0.18 expiring 31 December 2013 6,800,000

Total number of unissued shares under option at end of period 40,199,998

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

No options were exercised and no options expired during the financial period or in the period since the end of the financial period and up to the date of this report.

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

Shares

- 278,197,016 listed fully paid ordinary shares – ASX code- EEG

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

Options

- 40,199,998 unlisted options exercisable on the following terms:

66,666	unlisted executive options exercisable at \$0.1575 expiring 5 March 2013
6,666,667	unlisted options exercisable at \$0.12 expiring 22 December 2011
6,666,667	unlisted options exercisable at \$0.13 expiring 22 December 2011
6,666,666	unlisted options exercisable at \$0.15 expiring 22 June 2012
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
3,500,000	unlisted executive options exercisable at \$0.15 expiring 1 July 2013
1,650,000	unlisted executive options exercisable at \$0.17 expiring 1 July 2013
1,650,000	unlisted executive options exercisable at \$0.18 expiring 31 December 2013
40,199,998	

NOTE 10 - DIVIDENDS

No dividends have been declared or paid during the period.

NOTE 11 - EARNINGS PER SHARE

	June 2011	June 2010
Basic earnings per share (cents per share)	0.26	8.13
Diluted earnings per share (cents per share)	0.26	8.12
Profit used in the calculation of basic and diluted earnings per share	498,963	12,678,763
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	192,573,483	155,868,821
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	192,573,483	156,202,154

NOTE 12 - CONTINGENT LIABILITIES AND COMMITMENTS

There have been no changes in contingent liabilities, contingent assets or commitments since the last annual reporting date.

NOTE 13 - EVENTS OCCURRING AFTER THE REPORTING DATE

- The New York State Department of Environmental Conservation's ('DEC') de factor moratorium on hydraulic fracturing in New York State ended on 1 July 2011.

The DEC has released its revised recommendations on mitigating the environment impacts of high-volume hydraulic fracturing (high-volume fracturing).

Adoption of these recommendations would provide for approximately 85% of the Marcellus shales to be accessible to natural gas extraction.

The DEC planned for a 60 day public comment period commencing August 2011.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2011 (continued)

The Company has extensive Marcellus (230,000 gross acres) and Utica (225,000 gross acres) shale acreage in New York State, the ending of the hydraulic fracturing moratorium will enable the Company to seek ways to monetise this asset over the medium term.

- In July 2011 the Company commenced a 10 development well drilling program in the Central Kansas Uplift Region. The initial focus of the program was to drill low risk development wells. At the same time the objective was to delineate additional prospects and to convert probable reserves to Reserve 1P category.

Progress of the development well drilling program at the date of this report can be summarised as follows:

Well Name	Field	County, KS	WI	Status
Boxberger – Solomon #14	Hall-Gurney	Russell	70.7%	Flow rate at 4BO/d
C L Newcomer #9	Hall-Gurney	Russell	90.13%	Flow rate at 9BO/d
Kollman #15	Bemis-Shutts	Ellis	86.0%	Flow rate at 12 BO/d + 600BW/d.
Carmichael/Kollman West Unit #4	Bemis-Shutts	Ellis	90.13%	Flow rate 7BO/d + 110 BW/d
Esfeld #9	Kraft-Prusa	Barton	58.48%	Flow rate at 41 BO/d + 80BW/d.
Krankenbergs #5-19	Krankenbergs	Stafford	73.9%	Flow rate at 40BO/d + 165BW/d

Since 30 June 2011 the Company has contributed US\$2,024,492 in a number of instalments to Empire Energy USA LLC as equity funds. In consideration the Company will receive additional B-2 Units which will participate in profit distributions.

At the date of this report the Company held a 95% equity interest in Empire Energy USA LLC.

Empire Energy USA LLC will apply these funds to meet costs associated with the following 2011 drilling programs:

- two well joint venture drilling program in North Dakota in which Empire has a 35% working interest
- 10 well development drilling program in the Kansas Central Uplift Region. At the date of this report 6 wells had been drilled

With the exception of those matters referred to above there were no other matters or circumstances that have arisen since the 30 June 2011 that has significantly affect:

- the operations, in financial years subsequent to 30 June 2011, of the consolidated entity; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 30 June 2011 of the consolidated entity

LEAD AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Empire Energy Group Limited

As lead auditor for the half-year review of Empire Energy Group Limited for the six month period ended 30 June 2011 I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

Nexia Court & Co
Nexia Court & Co
Chartered Accountants


Andrew Hoffmann
Partner

Sydney
13 September 2011



DIRECTORS' DECLARATION

For the half-year ended 30 June 2011

In the opinion of the Directors of Empire Energy Group Limited:

1. The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the six month period ended on that date; and
 - b) complying with Accounting Standard AASB 134 "*Interim Financial Reporting*" and the Corporations Regulations 2001; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to Section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors



B W McLeod
Executive Chairman
Dated this 13th day of September 2011.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF EMPIRE ENERGY GROUP LIMITED

We have reviewed the accompanying interim financial report of Empire Energy Group Limited, which comprises the consolidated interim Statement of Financial Position as at 30 June 2011, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 13 and the Directors' Declaration.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 June 2011 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Empire Energy Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Independent Auditor's Report (Continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Empire Energy Group Limited is not in accordance with the Corporations Act 2001, including:

- a. giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and
- b. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Nexia Court & Co
Nexia Court & Co
Chartered Accountants

AMH
Andrew Hoffmann
Partner

Sydney
13 September 2011

