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Quarterly Report – For the period ending 31 December 2013

28 January 2014

HIGHLIGHTS FOR 4th QUARTER

- Estimated oil & gas net revenue for the period US\$6.1 million (3Q2013: US\$6.2 million).
- Unaudited Field EBITDAX of US\$4.2 million (3Q2013: US\$4.3 million).
- Gross production
 - o Oil: 83,264 Bbls (3Q2013: 62,361) +33.5%
 - o Gas: 616,300 Mcf (3Q2013: 630,114) -2.2%
- 5 new wells drilled and/or bought on line in New York and Kansas.
- Estimated Group EBITDAX was US\$2.34 million (3Q2013: US\$2.57 million).
- US\$817,505 million in debt was repaid and cash on hand is US\$2.3 million.
- Northern Land Council Approval of EP 187. Imperial Oil & Gas Pty Ltd is now waiting for the Exploration Agreement for the second of its seven tenements, EP 187 to be signed by the relevant Northern Territory Government authorities.
- The Company continues to seek acquisition opportunities, with a focus on increasing oil production in the MidCon region of the USA.

OPERATING REVIEW

A. EMPIRE ENERGY USA, LLC (100%)

The Company's operations are based in the Central Kansas (oil) and in the Appalachian Basin (gas).

Financials:

Estimates have been made for the last 2 production months of the quarter under review due to customer payment/invoice cycles. As such, there may be changes to production, revenues and operating ratios for the previous quarter as final production statements are received.

Description – US\$	31/12/2012 3 months to	31/12/2013 3 months to	31/12/2012 Year-to-Date	31/12/2013 Year-to-Date
<u>Net Revenue:</u>				
Oil Sales	3,705,626	3,428,256	15,645,036	14,219,942
Natural Gas Sales	2,815,258	2,562,339	10,935,735	10,474,607
Working Interest	1,929	5,211	9,043	24,391
Net Admin Income	99,361	117,124	398,593	436,361
Other Income	(108,797)	16,992	27,908	255,807
Total Revenue	6,513,377	6,129,922	27,016,315	25,411,108
<u>Production costs:</u>				
Lease operating expenses - Oil	798,426	924,346	3,349,284	3,397,664
Lease operating expenses - Gas	787,465	763,421	2,902,491	2,920,653
Taxes - Oil	170,937	143,995	702,187	640,960
Taxes - Natural Gas	170,564	137,104	416,707	599,986
Total	1,927,392	1,968,866	7,370,669	7,559,263
Field EBITDAX	4,585,985	4,161,056	19,645,646	17,851,845
<u>Less:</u>				
Inventory adjustment	37,761	(129,688)	(53,752)	(234,525)
Nonrecurring expenses	434,307	598,251	1,898,662	1,864,776
Field Overhead	181,000	180,000	721,300	720,000
Total	653,068	648,563	2,566,210	2,350,251
Operating EBITDAX	3,932,917	3,512,493	17,079,436	15,501,594
<u>Operating Margin</u>				
<u>Less:</u>				
Field G & A	149,782	187,493	591,460	891,395
Corporate G & A	362,503	361,875	1,522,912	1,472,448
Acquisition related expenses	89,726	117,991	359,073	254,621
Delay rental payments	26,464	56,435	261,397	313,369
Land Overhead & Non-leasing costs	73,252	72,000	456,065	288,473
Total	701,727	795,794	3,190,907	3,220,306
EBITDAX	3,231,190	2,716,699	13,888,529	12,281,288

Exploration Expenses:

Description – US\$	31/12/2012 3 months to	31/12/2013 3 months to	31/12/2012 Year-to-Date	31/12/2013 Year-to-Date
<u>Less:</u>				
Geological Services	1,600	2,860	22,729	40,586
Dry hole expenses	697	701,282	102,355	729,150
Total	2,297	704,142	125,084	769,736
EBITDA	3,228,893	2,012,557	13,763,445	11,511,552

Production Statistics

The table summarises Operating Statistics with a brief description of field operations for the last quarter.

Description – US\$	31/12/2012 3 months to	31/12/2013 3 months to	31/12/2012 Year-to-Date	31/12/2013 Year-to-Date
<u>Gross Production:</u>				
Oil (Bbls)	69,424	83,264	286,603	278,050
Natural gas (Mcf)	661,503	616,300	2,600,690	2,497,267
<u>Net Production by Region:</u>				
Oil (Bbls)				
Appalachia	809	698	4,980	3,678
Mid-Con	43,462	38,896	178,647	160,644
Total Oil	44,271	39,594	183,627	164,322
Weighted Avg Sales Price (/Bbl)				
Before Hedge	\$82.05	\$91.91	\$88.43	\$92.29
After Hedge	\$83.69	\$86.58	\$85.20	\$86.54
Natural gas (Mcf)				
Appalachia	510,923	461,799	1,984,008	1,910,106
Mid-Con	3,974	14,411	20,936	24,110
Total Natural Gas	514,897	476,210	2,004,944	1,934,216
Weighted Avg Sales Price (/Mcf)				
Before Hedge	\$3.63	\$3.68	\$3.02	\$3.80
After Hedge	\$5.48	\$5.39	\$5.46	\$5.43
<u>Oil Equivalent (Boe):</u>				
Appalachia	85,963	77,665	335,648	322,029
Mid-Con	44,125	41,298	182,136	164,662
Total Boe	130,088	118,963	517,784	486,691
Boe/d	1,445	1,333	1,419	1,333
Weighted Avg Sales Price (/Boe)				
Before Hedge	\$42.34	\$45.34	\$43.04	\$46.26
After Hedge	\$50.19	\$50.40	\$51.35	\$50.79
<u>Lifting Costs (incl. taxes):</u>				
Oil - Midcon (/Bbl)	\$24.20	\$29.68	\$24.27	\$27.08
Natural gas - Appalachian (/Mcf)	\$2.23	\$2.41	\$2.03	\$2.34
Oil Equivalent (/BOE)	\$17.07	\$19.45	\$16.45	\$18.45

Appalachia (Western New York and Pennsylvania):

- Completed two trial oil wells in the Bradford Oil Field, Allegany County, NY. The Eddy #6 and #1 both showed free oil over the Bradford Sands formations. The #6 was fracked on January 20, 2014. Surface equipment is being set for oil production. Along with the oil the well has a strong show of high btu gas. National Fuel Gas has a distribution pipeline approximately 3,000' west of Empire's lease, plans are being made to tie into it.
- Work on the PY3 pipeline was completed in November. Empire will no longer be forced to absorb line loss in National Fuels system. One-off Capital expenditure on the repair of the PY3 and Ripley Minor pipeline acquired earlier in 2013 has now been completed. All repair and upgrade work was undertaken in-house.
- Meetings continue to be scheduled with the Public Service Commission regarding natural gas gathering line regulations.
- The Company has been experimenting with new treatments for paraffin in NY wells. Paraffin is a significant problem in a number of oil wells in the region where the company operates. Production on the Reslink #1 has increased from 3bbl/day to 8bbl/day. The Company will look at duplicating this process in other wells.
- The weather has been unusually cold this winter with utility companies are using larger than normal volumes of gas from storage fields. New York City gate prices for gas have been as high as \$90/Mcf. The result is increased natural gas prices, with continued increases projected through the winter.

Mid-Continental (Kansas):

- New Well data:
 - o The "Kollman #16" well began producing from the Lower Arbuckle (20 feet pay zone) in early November 2013 producing 14.3 BOPD. An additional 48 feet of up-hole pay has been identified.
 - o The "Carmichael 'B' #6" well began producing from the Lower Arbuckle (14 feet pay zone) in late November 2013 producing about 2.6 BOPD. An additional 86 feet of up-hole pay has been identified with plans are to re-complete in the more productive top of the Arbuckle.
 - o The "Driscoll Heirs #5" well began producing from the Lower Arbuckle (20 feet pay zone) late December 2013. It has not yet reached 30 days production and is averaging around 21 BOPD. An additional 37 feet of up-hole pay has been identified.
 - o The data acquired through drilling and re-evaluating the seismic data for the "Driscoll Heirs #5" has generated a number of new drilling locations in this area.
- A number of existing wells were bought back on line in late December following a polymer treatment (20 BOPD), and several successful work overs (25 BOPD).
- Finished acquiring seismic data over Prospects in Harvey County and Gove County. Now waiting on interpretation to determine potential new drill sites.
- Weather conditions have caused some problems with some equipment and flow lines freezing. Longest downtime for any lease was for five days.
- Well down time was approximately 10%.

Capital Expenditure:

	31/12/2012	31/12/2013	31/12/2012	31/12/2013
Description – US\$	3 months to	3 months to	Year-to-Date	Year-to-Date
Capital Expenditures				
Acquisition Capital	59,250	3,500	1,270,250	6,250
New Wells - IDC	340,606	1,641,470	1,710,150	2,621,981
New Wells - Capital	7,889	71,820	438,245	507,131
Undeveloped Leases	100,095	(1,532,987)	1,325,613	(1,221,061)
Capital Expenditures	507,840	183,803	4,744,258	1,914,301

Net Earnings:

Unaudited earnings for the period are shown below:

	31/12/2012	31/12/2013	31/12/2012	31/12/2013
Description – US\$	3 months to	3 months to	Year-to-Date	Year-to-Date
Interest	776,625	536,348	2,727,650	2,215,876
State taxes	4,323	222	22,430	5,140
Earnings before Tax	780,948	536,570	2,750,080	2,221,016
EBITDA/Interest (times)	4.13	3.75	5.00	5.18

Credit Facilities:

Net debt repaid over the quarter was US\$817,505 million (3Q2013: \$3.3 million).

At the end of the quarter the Company had US\$41.7 million drawn at an average cost of LIBOR + 4.34%. Empire Energy retains Credit Facility availability of ~US\$108 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr US\$M	Interest Rate LIBOR+	Interest Qtr US\$M	Interest YTD US\$M
Term	\$38,700	4.50%		
Revolver	\$3,000	2.50%		
	\$41,700	4.35%	\$403	\$2,083

Hedging:

A hedging policy has been implemented by the Company with the underlying objective to ensure the cash flows are protected over the period the Credit Facility is drawn for the funding of a defined set of assets. Hedge contracts are a component of Empire's Credit Facility and no cash

margins are required if contracts are outside the marked to market price for each commodity hedged.

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

Year	Est. Net mmBtu	Hedged mmBtu	%	Average \$/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average \$/Bbl
2014	1,850,000	1,338,488	72.4%	\$5.93	141,058	105,120	74.5%	\$90.00
2015	1,790,000	1,166,000	65.1%	\$5.45	133,280	98,160	73.6%	\$90.00
2016	1,730,000	1,200,000	69.4%	\$4.43	126,000	42,000	33.3%	\$85.67
2017	1,675,000	570,000	34.0%	\$4.57	119,500	39,600	33.1%	\$85.23
2018	1,620,000	510,000	31.5%	\$4.75				
Total	8,665,000	4,784,488	55.2%	\$5.15	519,838	284,880	54.8%	\$88.70

B. IMPERIAL OIL & GAS PTY LTD (100%):

The Company's wholly owned subsidiary, Imperial Oil & Gas P/L ("Imperial") signed the Exploration Agreement for the second of its seven tenements, EP 187, during the period. Imperial continues to make significant progress in Traditional Owner negotiations for the remaining tenements and the necessary archaeological, anthropological, work programme and policy submissions are nearing completion in preparation for commencement of exploration on all tenements, subject to Northern Land Council approval.

The 7 exploration licence areas comprise a total of 14,600,000 acres (or 59,172km²) and cover around 75% of the petroleum-prospective central trough of the onshore McArthur Basin in the Northern Territory, Australia.

McArthur Basin Project Progress:

The Company's policy is to expense all exploration costs. Current quarter actual and accrued expenses:

	31/12/2012	31/12/2013	31/12/2012	31/12/2013
Description – US\$	3 months to	3 months to	Year-to-Date	Year-to-Date
Exploration Expenses - NT	397,900	537,564	788,567	1,635,998

Tenements:

On the 28th November 2013 Imperial was advised that the Northern Land Council had consented to the grant of EP187. Some areas of this tenement have been marked as non-consent areas for the purpose of the Local Aboriginal Groups. EP187 has been granted under the Aboriginal Land Rights Act (Northern Territory) 1976 (Cth) and is the first tenement to be granted under this Act.

EP 187 is located in the southern portion of the highly prospective McArthur Basin in the vicinity of the Tablelands and Carpentaria Highways with an existing gas pipeline infrastructure across its northern boundary. The principal target in this tenement is the unconventional and conventional oil and gas sourced from the Palaeo – Proterozoic age black carbonaceous shales of the Barney Creek Formation and from the Meso-proterozoic laminated black organic-rich mud shale's of the Velkerri Formation [total organic carbon (TOC) up to ~7.1%] within the Roper Group of the Southern and Western portion of the McArthur Basin and the Beetaloo Basin.

On the 28th of November 2013 Imperial was advised by the Northern Land Council that the grant of exploration permit EP(A)188 was not approved under section 42(6) of the Act. The Traditional Owners retain the right to continue negotiations with the Company.

Exploration program:

Imperial undertook a geological field program in EP184 through October 2013. Three geo-traverses were undertaken across EP184 over a total length of approximately 114km. The purpose of these traverse were to locate, map and sample a number of black shale outcrops within the region and to identify and map faults and folds to provide further detailed information for the geological model. The data from this mapping program was added to the geological model and used to aid in the development of common risk segment mapping. The objective of this program was to:

- Locate, describe and sample important outcrops of the target black shale formations. Field samples collected from this program were analyzed for their shale geochemical characteristics and be compared with those previous samples analyzed by the Company.
- Undertake sample analysis the targeted black shale. Measured results of up to 7.17% total organic carbon ("TOC") in surface selected samples were identified.
- Significant TOCs were found in a sample of the St Vidgeon Fm and two from the basal part of the Reward Dolomite (just above that transition zone that sits on the Barney Ck Fm). These results confirm the findings of previous research undertaken by the Company. Further analysis of the samples is being undertaken and results will be described in subsequent reports.
- Lithologies were observed and sampled, plus a 280m wide zone at the base of the Reward Fm was identified. This appears to be a transition zone between 100% dolomite in the Reward and 100% shale in the Barney Creek.
- Bedding trends and folding were better defined in the field than those shown on the 250k geology.
- To test the veracity of the existing Company geological model, the field program identified that a number of:
 1. outcrops had been misidentified on the 1:250k public available geology maps.
 2. folds had been misinterpreted as faults and faults as folds.
 3. black shales were identified that had not previously been marked as occurring within certain regions.

Preliminary common risk segment mapping has indicated that EP184 and EP187 contain a significant prospective undiscovered risked black shale resource (both Velkerri and Barney Creek) within the tenements.

C. EMPIRE ENERGY GROUP LIMITED

Empire Energy Group Limited's head office is located in Sydney, Australia. Operating costs cover all Group overhead, including the costs of listing on both the Australian Securities Exchange and the OTCQX Exchange, New York, USA.

Description – US\$	31/12/2012 3 months to	31/12/2013 3 months to	31/12/2012 Year-to-Date	31/12/2013 Year-to-Date
Revenue	382,987	43,927	555,098	161,588
Less Expenses:				
Consultants	90,860	78,295	362,608	355,932
Directors/Employment Costs	65,500	91,817	339,749	334,422
Listing Expenses	30,900	80,282	172,786	167,511
G&A	102,403	170,985	625,014	688,602
EBITDAX – Head office	93,324	(377,452)	(945,059)	(1,384,879)
EBITDAX – Group	3,324,514	2,339,247	12,943,470	10,896,409

ABOUT EMPIRE ENERGY GROUP LIMITED

Empire Energy USA is an oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Central Kansas Uplift (Kansas). Empire Energy implemented a US\$150 million credit facility with Macquarie Bank Limited for the sole purpose of acquiring and developing oil and gas assets in the USA.

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Financial Terminology

Statements in this announcement may make reference to the terms “EBITDAX”, Field EBITDAX, “field netback” or “netback”, “cash flow” and “payout ratio”, which are non-IFRS financial measures that do not have any standardised meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Investors should be cautioned that these measures should not be construed as an alternative to net income calculated in accordance with IFRS. Management believes that these measures provide useful information to investors and management since these terms reflect the quality of production, the level of profitability, the ability to drive growth through the funding of future capital expenditures and sustainability of either debt repayment programs or distribution to shareholders. However, management have attempted to ensure these non-IFRS measures are consistent

with reporting by other similar E&P companies so useful production and financial comparisons can be made.

Note regarding Barrel of Oil Equivalent

Empire Energy has adopted the standard of 6 Mcf to 1 Bbl when converting natural gas to Boe. Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf to 1 Bbl is based on energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a Boe conversion ratio of 6 Mcf to 1 Bbl would be misleading as an indication of value.

Note Regarding Forward- Looking Statements

Certain statements made and information contained in this press release are forward-looking statements and forward looking information (collectively referred to as “forward-looking statements”) within the meaning of Australian securities laws. All statements other than statements of historic fact are forward-looking statements.

Glossary

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