



EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

**HALF YEAR
FINANCIAL REPORT
30 JUNE 2014**

CONTENTS

COMPANY INFORMATION	3
EXECUTIVE CHAIRMAN’S REVIEW OF OPERATIONS	4
DIRECTORS’ REPORT	19
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME	21
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	22
CONSOLIDATED STATEMENTS OF CASHFLOWS	23
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	24
NOTES TO THE FINANCIAL STATEMENTS	26
LEAD AUDITOR’S INDEPENDENCE DECLARATION	36
DIRECTORS’ DECLARATION	37
INDEPENDENT AUDITOR’S REPORT	38

COMPANY INFORMATION

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Company Secretary

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Solicitors

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

Executive Chairman's Review of Operations

KEY POINTS FOR THE 6 MONTHS ENDING 30 JUNE 2014

- **Field EBITDAX US\$8.7million** (30 June 2013: \$9.1million).
- **Production slightly lower at 1,277 Boe/d** (30 June 2013: 1,362).
- **Group Revenue steady at US\$12.9 million.**
- **Group EBITDAX \$5.2 million** (30 June 2013: \$5.8 million).
- **10 wells drilled in the Allegany County, NY**
- **2 development and 1 exploration well drilled in Kansas**
- **Cash at the end of the half year was \$4,262,042**
- **Undrawn debt available under finance facility of \$158 million**

REVIEW OF OPERATING RESULTS

The Group's oil and gas production operations are carried out through its US subsidiary Empire Energy E&P, LLC ('Empire E&P'). In addition, the Company maintains a small Head Office in Australia and manages the exploration program in the McArthur Basin, Northern Territory, through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd.

Overview

Historically the Company's US operations have had a major emphasis on paying down debt, while building up acreage including the purchase of seismic over a number of the new leases. With debt now at more conservative levels, the Company is placing an increasingly heavy focus on growth through drill bit. Short term this may require an increase in the existing credit facility. Success has been 100% for the 12 wells already drilled in Allegany County, New York since October 2012 and a 67% success rate for the 3 wells drilled in Kansas. A further 7 wells are targeted to be drilled through to the end of 2014, six of these being in Kansas.

As shown below the Company has 200+ drill locations in New York State and with additional acreage in Kansas an anticipated a further 10 to 15 new locations. In addition, as previously noted a number of assets that the Company has made offers for previously are now back in negotiation.

Over the period, the Company has been working towards the potential IPO of its USA assets on the Nasdaq – Growth Market. A preliminary S-1 has been filed with the SEC. The Company continues to work with its Underwriter and Advisors towards finalising this process, subject to market conditions.

Production from US operations:

1. Gross natural gas production: 6,474 Mcf/d; and
2. Gross oil production: 675 Bbl/d; or
3. Net production: 1,277 Boe/day.

Operating Wells:

1. Mid-Con: 272 producers, 59 disposal and injection wells, 23 shut in.
2. Appalachia: 2,057 producers of which 290 were shut in (on production rotation) at the end of June 2014.

In the Northern Territory the Company completed an initial exploration drilling program in August 2014, discussions are under way with various parties to secure a joint venture partner to enable further exploration activity. The Company continues to focus on ongoing negotiations to secure land access and tenement grant for EP(A)183, 182,181 and 180. EP(A)187 has been approved and is currently pending grant from the NT Department of Mines and Energy.

Executive Chairman's Review of Operations (Continued)

A. OPERATING STATS

TABLE A

Operating Statistics		6 Months Ended		
(Units in thousands)	Notes	30 June 2014	30 June 2013	% change
Gross Production:				
Oil (MBbls)		122.89	133.55	-8%
Natural gas (MMcf)		1,176.43	1,253.67	-6%
Net Production:				
Oil (MBbls)		79.00	85.35	-7%
Natural gas (MMcf)		921.54	975.80	-6%
Net production (Mboe):	1.0	232.59	247.98	-6%
Net Daily Production (Boe/d):				
		1,277	1,362	-6%
Average sales price per unit (after hedging):				
Oil (\$/Bbl)		\$88.05	\$83.07	6%
Natural gas (\$/Mcf)		\$5.24	\$5.48	-4%
Oil Equivalents (Bbls)		\$50.68	\$50.14	1%
Average sales price per unit (before hedging):				
Oil (\$/Bbl)		\$95.26	\$86.44	10%
Natural gas (\$/Mcf)		\$4.41	\$3.93	12%
Oil Equivalents (Bbls)		\$49.84	\$45.23	10%
Lifting Costs (incl taxes):				
Oil (\$/Bbl)	1.1	\$28.46	\$23.23	23%
Natural gas (\$/Mcf)		\$2.05	\$1.75	17%
Oil Equivalents (Bbls)		\$17.80	\$14.88	20%
2P Reserves (MMBoe)				
	1.2	9.6	11.6	-17%

Notes to Table A:

- 1.0** Conversion of natural gas (1,000mmbtu) to a barrel of oil equivalent is based on a 6:1 ratio. Although this conversion ratio may be useful in terms of energy equivalents, it is not relevant in terms of value equivalent, with NYMEX Henry Hub currently at \$3.97/Mcf and WTI at \$92.97/Bbl.
- 1.1** **Lifting Costs** - includes lease operating expenses, production and ad valorem taxes.
- 1.2** **2P Reserves** – reserves where updated as of December 31, 2013 by Ralph E Davis Associates, Inc., Houston, TX (Appalachian assets) and LaRoche Petroleum Consultants Ltd, Dallas, TX (Kansas assets). At balance date, due to prevailing gas prices it was determined that the booked natural gas Puds and Probables were uneconomic and as such a further 1.3MMBoe of reserves were not included in 2P Reserve calculations.

Executive Chairman's Review of Operations (Continued)

EBITDAX Reporting

In addition to the information presented in the financial report, to assist stakeholders in gaining a clearer understanding of the financial and operational aspects of the Company, a presentation of financial results with reference to EBITDAX reporting has been included.

Statements may make reference to the terms "EBITDAX", Field EBITDAX, "netback", "cash flow" and "payout ratio", which are non-IFRS financial measures that do not have any standardised meaning prescribed by IFRS. 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.

IFRS accounts have been based on an accrual basis (effective date). The EBITDAX accounts, based on production date, are not meant to reconcile to the statutory accounts. However EBITDAX prepared on an effective date basis can be reconciled to the statutory accounts. At the time of this EBITDAX report, actual numbers for production, income and expenses have been utilised. The following EBITDAX report is prepared on a production date basis.

EBITDAX represents net income (loss) before interest expense, taxes, depreciation, amortization, development and exploration expenses. Management believes that:

- EBITDAX provides stakeholders with a simple and clear measure of our operating performance;
- EBITDAX is an important measure of operating performance and 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 now present EBITDAX when reporting their results;
- Management and external users of our financial statements, such as investors, 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.

Other companies may calculate EBITDAX differently than as presented. Based on the premises set out above, the following schedules present comparative operating statistics and financials on an EBITDAX basis:

Executive Chairman's Review of Operations (Continued)

TABLE B

Operations - EBITDAX		6 Months Ended		
(In \$ thousands)	Notes	30 June 2014	30 June 2013	% change
Net Revenue:				
Oil Sales	1.3	6,956	7,090	-2%
Natural Gas Sales	1.3	4,820	5,331	-10%
WI Income		11	13	-15%
Net Admin Income	1.4	254	211	20%
Other Income		815	168	385%
Net Revenue		12,856	12,813	0%
Production costs:				
Lease operating expenses - Oil		\$1,953	\$1,653	18%
Lease operating expenses - Gas		\$1,632	\$1,397	17%
Taxes - Oil		\$295	\$329	-10%
Taxes - Natural gas	1.5	\$261	\$310	-16%
		\$4,141	\$3,689	12%
Field EBITDAX		\$8,715	\$9,124	-4%
<i>Gross Margin</i>		<i>67.8%</i>	<i>71.2%</i>	
Less:				
Inventory Adjustment	1.6	\$47	\$(68)	-169%
Nonrecurring expenses	1.7	\$1,051	\$768	37%
Field Overhead	1.8	\$360	\$360	0%
		\$1,458	\$1,060	38%
Operating EBITDAX		\$7,257	\$8,064	-10%
<i>Operating Margin</i>		<i>56.4%</i>	<i>62.9%</i>	
Less:				
Field G&A	1.9	\$324	\$398	-19%
Corporate G&A	1.10	\$854	\$754	13%
Delayed rental payments		\$203	\$184	10%
Land & leasing costs	1.11	\$1	\$141	-99%
Head Office Net G&A	1.12	\$702	\$757	-7%
		\$2,084	\$2,234	-7%
EBITDAX		\$5,173	\$5,830	-11%
<i>Net Margin</i>		<i>40.2%</i>	<i>45.5%</i>	

Executive Chairman's Review of Operations (Continued)

Notes to Table B:

- 1.3 Oil and Natural Gas Sales** –include realised hedges, being (\$0.76) million and \$0.57 million for natural gas and oil respectively. Gas sales over the period were lower than budgeted due to several operational issues outside the Company's control. This included high pressure in gas pipelines due to pipelines closures or redirections while being either upgraded or repaired. The Company expects this position to improve over the remainder of the year.
- 1.4 Net Admin Income** – as operator for approximately 99% of the Company's assets, the Company charges Working Interest Owners a fee to cover expenses such as administration, general insurance, supervision etc.
- 1.5 Taxes** – relate to production and includes production, severance and ad valorem taxes.
- 1.6 Inventory Adjustment** – adjustment for oil in tanks as of June 30, 2014.
- 1.7 Nonrecurring expenses** – expenses not normally associated with the day to day costs of production. Significant costs can relate to pump jack replacements, split casings, added pay zones and polymer treatment programs for wells where the oil cut is decreasing due to an increasing flow of water. A polymer treatment program can cost up to \$125,000/well and an added pay zone between \$50,000 to \$75,000/well. These costs are expensed. Nonrecurring costs for the MidCon alone were 61% higher than the prior period at \$892,000.
- 1.8 Field Overhead** –field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease and land management, general property insurances, environmental and reserve reporting etc. Comparisons include Landman in both Appalachia and Mid-Con.
- 1.9 Field G&A** – Empire Energy has field offices in each region it operates. Appalachia operations are relatively personnel intensive including the management of over 3,700 leases, 1,600 right of ways, 20 marketing agreements, 35 employees and 2 contract pumpers operating across a large area of western New York and western Pennsylvania. Kansas operations consist of around 200 leases, 6 employees and 13 contract pumpers operating across a large area (12 counties) of central Kansas. Field G&A expenses include expenses such as utilities, IT, postage, office rental (where applicable) etc.
- 1.10 Corporate G&A** – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA where a staff of 6 hold responsibility for financial management, control and reporting and HR Services. Significant expenses for the period were - salaries and wages \$151,386; audit/tax and accounting \$204,322; travel and accommodation \$106,638; rent and accommodation costs \$75,864; Professional Services \$100,230 and Management and Director fees \$159,000 (of which \$75,000 was paid to Empire Energy Group Limited). Costs have been higher than expected over the period due to preparation for the potential IPO of the USA assets.
- 1.11 Land & Leasing Costs** – costs related to land leasing expenses for new leases and renewals.
- 1.12 Head Office Net G&A** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants \$182,029; salaries \$115,875; audit & accounting \$75,563; listing related expenses \$44,602; rent, communications and IT \$83,331.

Executive Chairman's Review of Operations (Continued)

B. NET EARNINGS

TABLE C

Net Earnings		6 months		
(In \$ thousands)	Notes	30 June 2014	30 June 2013	% change
EBITDAX		\$5,173	\$5,830	-11%
Geological Services		\$30	\$16	88%
Acquisition related expenses	1.13	\$579	\$59	881%
Dry Hole Expenses		\$45	\$26	73%
Exploration – Australia		\$303	\$579	-48%
		\$957	\$680	41%
EBITDA		\$4,216	\$5,150	-18%
Less:				
ARO, accretion, lease expiration	1.14	\$245	\$377	-35%
Depn, depletion and amortisation		\$2,467	\$2,986	-17%
		\$2,712	\$3,363	-19%
EBIT		\$1,504	\$1,787	-16%
Interest	1.15	\$1,093	\$1,147	-5%
State Taxes		\$2	\$1	100%
Net Earnings		\$409	\$639	-36%

Notes to Table C:

- 1.13** **Acquisition related expenses** – Directly associated with actual and potential acquisitions and include legal, tax and accounting advice, transition fees, recruitment and relocation costs, geological and engineering expenses. These are driven by the acquisitions successfully concluded, in progress or not completed.
- 1.14** Includes one-off lease expiration write downs.
- 1.15** **Credit Facility** - The draw down on the Macquarie Bank Limited Credit Facility as at 30 June 2014 was \$41.1 million (cf \$41.7 million at Dec 2013) at an average rate of LIBOR+4.0%. Over the period \$0.6 million of the existing loan facility was repaid. Interest expense is estimated to average \$160,000/mth over 2014.

Executive Chairman's Review of Operations (Continued)

C. RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS

At the time of this EBITDAX report, actual numbers for production, income and expenses have been utilised. This method therefore generates an additional difference between what is shown in the EBITDAX and what is represented in the statutory accounts.

The EBITDAX in Table B and Net Earnings in Table C report operational activities of the Group. The note below provides reconciliation to the financial statements.

Net Earning - Effective Date (In \$ thousands)	6 months	
	30 June 2014	30 June 2013
Net Earnings- production date	\$409	\$639
Net Earnings- effective date	\$896	\$753
Intergroup management fee	\$75	\$75
Revenue and expenses (remaining Empire Group)		
Other Income	\$11	\$157
Other Income*	-	\$22
Impairment of assets*	-	\$(35)
General and administration – head office	\$(11)	\$(12)
General and administration – other*	\$(238)	\$(229)
Finance costs – other*	\$(86)	\$(242)
Net loss before income tax expense	\$647	\$489
* Indicates non-cash items		

COMMENTS ON OPERATIONS

1.1 Hedging

Due to the leverage growth model implemented by Empire Energy, an aggressive hedging strategy is adopted to ensure commodity risk is eliminated over the period that a major portion of debt financing is repaid. The Empire Energy acquisition model metric is to target a 5 year debt repayment from project cash flows. The portion of production hedged will be naturally reduced as drill bit production comes on line.

Year	Est. Net mmBtu	Hedged mmBtu	%	Ave \$/mmBtu	Est. Net Bbl	Hedged Bbl	%	Av \$/Bbl
2014	925,000	667,857	72.2%	\$5.93	70,529	52,560	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	7,740,000	4,113,857	53.2%	\$5.02	449,309	232,320	51.7%	\$88.40

The fair value loss (marked to market) of combined oil and gas hedges in place for the Period was \$1,444,455 (net of tax). Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on 30 June 2014.

Executive Chairman's Review of Operations (Continued)

1.2 Exploration & Development

Capex	6 months		
(In \$ thousands)	30 June 2014	30 June 2013	% change
Acquisitions	\$(1,266)	\$1	-100%
New wells - IDC	\$914	\$574	59%
New well - Capital	\$324	\$311	4%
Undeveloped Leases	\$149	\$207	-28%
	\$121	\$1,093	-89%

Expenditure: Drilling expenditure over the first 6 months of 2014 was related to 3 wells in Kansas and 10 wells in New York. Plans are in place for the drilling of 7 wells to be drilled through to the end of 2014. IDC's from this proposed drilling program should be sufficient to offset tax payable by the Unit holder for the 2014 period.

1.3 Reserves

Net 3P Reserves: An updated Reserve Estimate was carried out as of December 31, 2013 and can be reviewed in the 2013 Annual Report. At the date of that Reserve Report no reserves had been calculated for the Emerald Oil Prospect. These will be calculated once production commences and will be incorporated in the December 31, 2014 Reserve Estimate.

D. EMERALD OIL PROSPECT – ALLEGANY COUNTY, NY

Over 1,000 acres of land has now been leased or optioned within the region of the Emerald Oil Prospect, with around 75% contiguous to existing leases. Providing the oil bearing sands continue in the expected direction this has now provided 200+ drilling locations.

The Emerald Oil Prospect acreage has been acquired gradually over the past 12 months as part of the Company's ongoing active leasing program. Acreage has been acquired at minimal cost, and with the prospect located adjacent to existing assets it allows the Company to utilise existing personnel to manage the drilling program without additional substantial cost. The drilling program falls into the Company's key metrics of low production risk and the ability to generate consistent positive cash flow.

The geology of the field, with producing formations at a depth of around 1,300ft indicates that the pay zone of these Upper Devonian Bradford Sands continue at an aggregated thickness of round 35-40ft in four directions, although thinning to the East, from where the Company has been drilling.

Field calculations of potential EUR reserves have been completed. Due to restrictions on reporting reserves until independent production calculations can be provided, the Company is not in a position to make this data available. However, with a D&C cost per well of around \$110,000, the Company believes all wells drilled and completed will be economic and will demonstrate adequate returns on investment.

E. APPALACHIA - UNCONVENTIONAL

- Both the Company's potential Marcellus and Utica shale regions are shown in the following maps. (On the two maps, Empire E&P leases are highlighted).
- The tables below the maps summarize reserves/resources as estimated by Ralph E Davis Associates, Houston. All volumes presented are gross volume (8/8ths). Associated royalty burdens are generally between 12.5% to 15.0%.

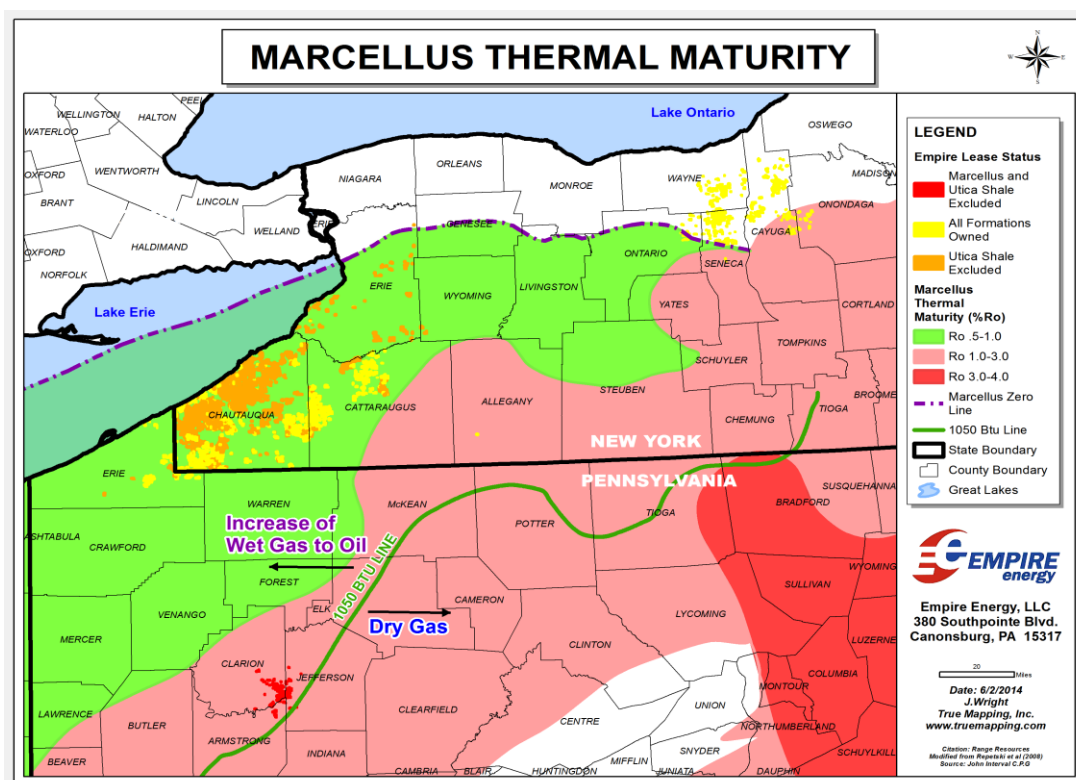
Executive Chairman's Review of Operations (Continued)

2.1 Unconventional Shale – Possible Reserves/Potential Resources

2.1.1 Marcellus Shale

The Devonian-aged Marcellus Shale is an unconventional reservoir that produces natural gas, NGLs and oil and is the largest unconventional natural gas field in the U.S. The productive limits of the Marcellus Shale cover over 90,000 square miles within Pennsylvania, West Virginia, Ohio and New York. The Marcellus Shale is a black, organic rich shale deposit generally productive for dry gas at depths between 6,000 ft to 10,000 ft. Production from the brittle, natural gas-charged shale reservoir is best derived from fracking horizontal wellbores that exceed 2,000 ft in lateral length and involve multi-stage fracture stimulations.

The Company currently leases 232,010 gross acres in the Marcellus Shale. Almost all of this acreage is located in western New York where the Marcellus Shale formations are shallower, between 2,500 ft to 4,000 ft, but a significant portion of this acreage is considered to lie in the less mature, or wet gas and/or liquid zones. Approximately 95% of the acreage is held by production. Horizontal drilling and fracking technology has continued to advance in other parts of the Marcellus Shale, resulting in increased EURs and reduced well costs in the shale industry. Fracking has proven to be very successful in major shale plays in the Marcellus in nearby States of Pennsylvania, West Virginia and Ohio.



Formation	Total Acreage	Acreage ⁽³⁾	Type	Category	MBbl	Bcf	MMboe
Marcellus ⁽¹⁾	232,010	~130,000	Oil	3P	91,000		91
Marcellus ⁽²⁾	232,010	~20,000	Gas	2C		50	8

(1) Estimated Marcellus Shale OIP is 115,000 Bbbls per 5 acres. The most likely outcome for potential recoverable oil based on a 3% RF (recovery factor) is 700 Bbbls per acre.

(2) Estimated Marcellus Shale GIP is 8 Bcf per 640 acres. The Monte Carlo Simulation Estimated Recoverable Resource (P50) for natural gas based on a 20% RF or an unrisks 1.6 Bcf per 640 acres.

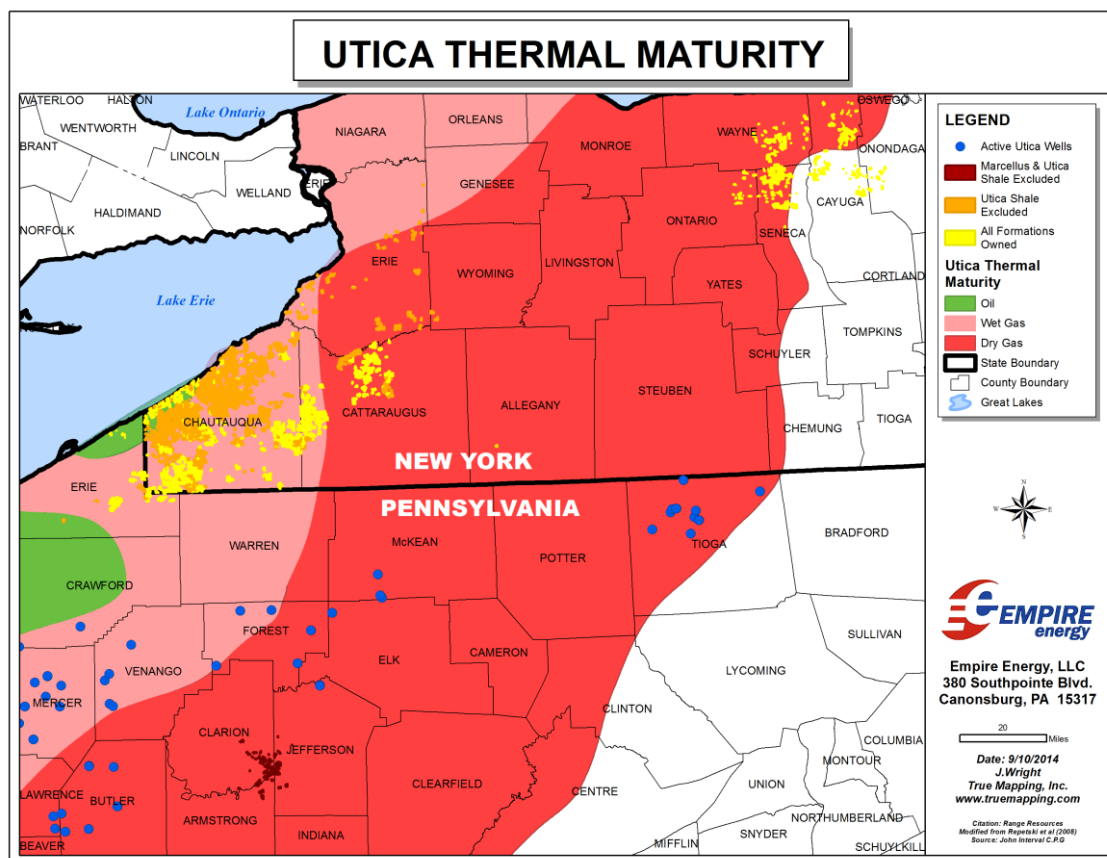
(3) Reserves & Resources are calculated on a portion of western Marcellus acreage only.

Executive Chairman's Review of Operations (Continued)

2.1.2. Utica Shale

The Ordovician aged Utica Shale is an unconventional reservoir underlying the Marcellus Shale. The productive limits of the Utica Shale cover over 80,000 square miles within Ohio, Pennsylvania, West Virginia and New York. The Utica Shale is an organic-rich continuous black shale, with productive zones occurring across all maturity zones producing dry gas, wet gas and liquids from depths of around 4,500 ft to 10,000 ft. Based on initial drilling results of our peers, we believe the Utica Shale is a premier North American shale play. We currently lease 141,521 gross acres in the Utica Shale. Most of this acreage is located in New York and 74% of it is held by production. Horizontal drilling and fracturing technology has continued to advance in other parts of the Utica Shale, resulting in increased EURs and reduced well costs in the shale industry.

Recently Royal Dutch Shell PLC released results from two Utica wells in Tioga County, PA, 100 miles to the northeast of the nearest horizontal Utica producer. One well had an initial flow back rate of 11.2 MMcf/d while the other observed peak flow back rates of 26.5 MMcf/d.



Formation	Total Acreage	Acreage ⁽²⁾	Type	Category	MBbl	Bcf	MMboe
Utica ⁽¹⁾	141,521	100,000	Gas	2C		1,092	182

⁽¹⁾ The Monte Carlo Simulation Estimated Recoverable Resource (P50) for natural gas on an unrisks basis.

⁽²⁾ The Utica shale gas potential resource has only been calculated for the western region where drill data is available. Based on data from just 2 wells the northern region potential looks limited. Recent exploration and production by third parties will enable additional acreage to be included in updated resource calculations.

Executive Chairman's Review of Operations (Continued)

2.1.3. The New York Fracking Moratorium

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 moratorium was subsequently extended.

The DEC has released its revised recommendations on mitigating the environment impacts of high-volume hydraulic fracturing (high-volume fracturing), the public comment period on the proposed regulations regarding high-volume hydraulic fracturing ended on 11 January 2013.

In February 2013 Health Commissioner Dr. Nirav Shah sent a letter to the DEC stating the Department of Health will need more time to complete its review of the health impact assessment of hydrofracking contained in DEC's mammoth environmental impact statement. This review has not yet been finalised.

The DEC have indicated they will not take any final action or make any decision regarding hydraulic fracturing until after the health review is completed and DEC, through the environmental impact statement, is satisfied that this activity can be done safely in New York State.

As a result of the New York fracking moratorium, the Company has not been able to develop the most lucrative aspects of its lease holdings in New York.

Given the sizable assets held by the Company, if and when the permit ban is rescinded the Company will be in an excellent position to take advantage of what will undoubtedly be a changing business climate in New York State.

F. MCARTHUR BASIN, NT – A LARGE EMERGING PETROLEUM PLAY

The McArthur Basin is an underexplored yet emerging petroleum frontier basin with direct indications of oil and gas. To date there has been very little petroleum exploration in the Batten Trough, located in the southern portion of the McArthur Basin and no petroleum exploration in the Walker Trough located in the northern portion of the McArthur Basin.

The Company's wholly owned subsidiary, Imperial Oil & Gas Pty Ltd ("IOG"), holds approximately 14.6 million acres of leases and lease applications in the onshore McArthur Basin. Encouragingly recent exploration wells drilled directly along trend in the nearby south McArthur Basin in 2012 discovered gas in the same thick carbon-rich black petroliferous shales that are widespread in IOG's acreage. The six months under review have been predominately spent in preparation for exploration drilling in EP184. Activities undertaken during this period include:

- Northern Land Council (NLC) completion of required ethnographic survey's across EP(A)180, EP(A)181, EP(A)183.
- Continued negotiations for tenement grant for EP(A)183,182,181 and 180. EP(A)187 has been approved by the NLC and tenement grant is pending from the NT Department of Mines and Energy.
- Review of field samples from IOG's October 2013 mapping program.
- Review of historic 2D seismic data on McArthur Basin.
- Development of Common Risk Segment Mapping for target regions.
- Work program approvals for exploration drilling program in EP184.
- Securing suppliers and contractors for the drilling program in EP184.

Whilst exploration drilling was scheduled to commence in the first half of the year due to delays in approval from the various government departments drilling did not commence until July 2014. As at the date of this report the Company's 2014 exploration drilling program has now been completed with the drilling of four explorations core holes within the St Vidgeon region of EP 184.

Based on a series of selectively chosen, step-out locations from shale outcrop, the wells were sited on "Proof of Concept" analysis, with the objective of substantiating the research conducted by the IOG and Adelaide Research Institute in 2012 & 2013 in identifying the shale beds within the McArthur Basin. A further objective was to prove that the shale beds contained sufficient organic material, consisted of the correct porosity and fractability and are of sufficient age and thermal maturity to hold significant recoverable petroleum reserves.

Executive Chairman's Review of Operations (Continued)

Key Objectives of Drilling Program

- Drill in near outcrop position the St Vidgeon Formation of the Vizard group to gain fresh rock samples for laboratory analyses of the rock types to ascertain equivalency of the strata to the known Barney Creek formation. The Barney Creek formation is prevalent throughout IOG's tenements.
- Gain knowledge of the geo-mechanical, mineralogical and geophysical nature of the formation to develop an understanding of the rock types and effective drilling techniques prior to the Company undertaking drilling of deeper exploration wells close to the centre of the basin.
- Historical data and mineral exploration holes drilled across the region have previously indicated that shale beds within these formations are widespread, thick and buried deep enough to generate oil and gas.

Exploration Methodology

- Four shallow outcrop core holes BCFSC02, 03, 04 and 05 were drilled in the North West portion of EP184. Each of these holes was targeted to drill to a depth of 100m plus or minus 20 metres using a Hydco 1200 drilling rig (shown in figure 1 below) to provide a minimal environmental footprint.



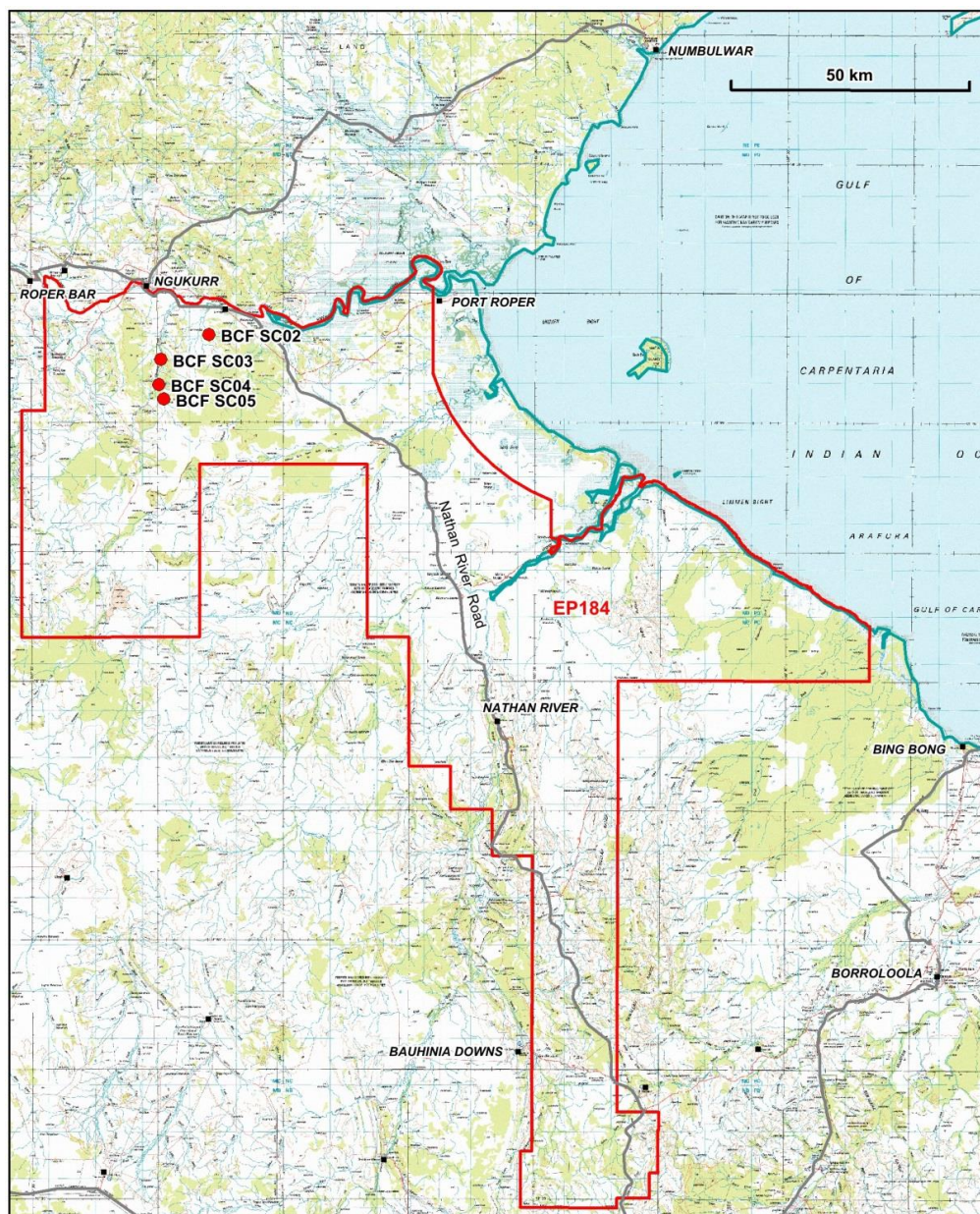
On completion of drilling of the initial four core holes site BCFSC04 was selected to be deepened to a planned total depth of approximately 300m to test the basal horizon of the St Vidgeon formation to determine equivalency to the Coxco dolomite that is known to occur further to the south within the McArthur Basin.

Key Outcomes of Drilling Program

- Exploration core hole BCFSC04 intersected a 12m thick unweathered formation of highly carbonaceous band of shales and puggy mudstones between 93m and 105m depth. The principle zone of interest lies between 95 and 102m where the shales displayed extremely dark high gloss material. Samples of the fluid collected from the well have been taken for laboratory analysis.
- The exploration wells identified and confirmed the presence of black shales present within the target St Vidgeon formation. These shales are in the order of 10 to 12m thick in near outcrop position and there is clear visual evidence of potential for hydrocarbon generation of this target deeper within the syncline.

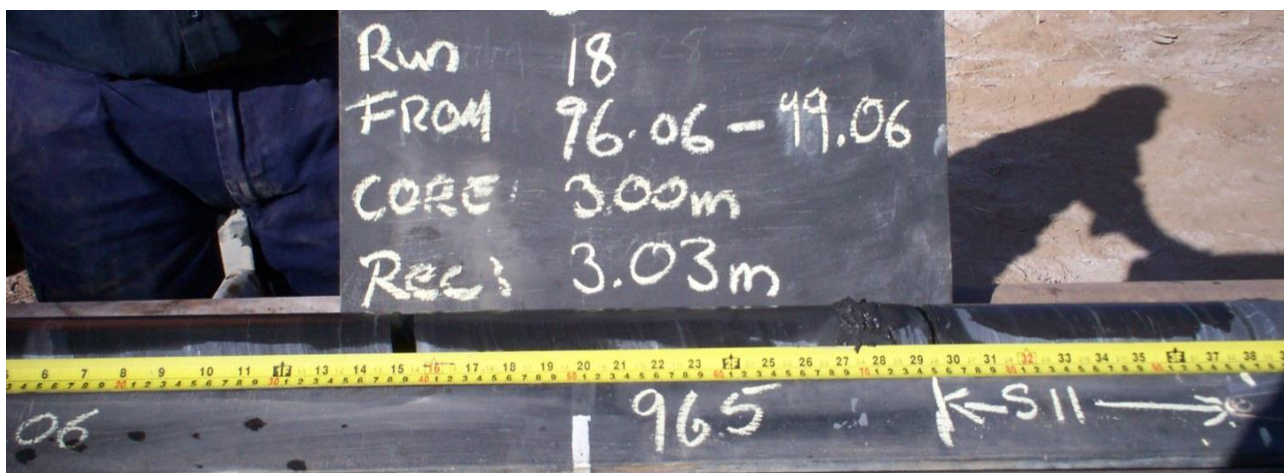
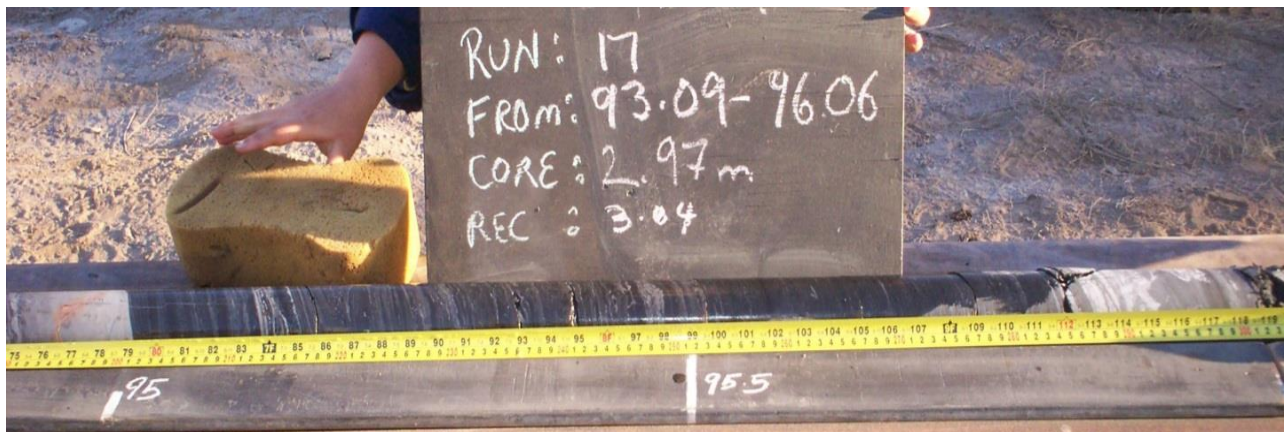
Executive Chairman's Review of Operations (Continued)

- Rock types above and below the shale band within BCFSC04 contained massive siltstones and shales, dolomitic and highly silicified. These rocks form a tight seal above and below the black shales.



- The above map identifies the locations for the initial core drill sites within EP184.

Executive Chairman's Review of Operations (Continued)



NB: Black shale interbedded with mudstone and tuff bands within BCFSC04 exploration hole.

Ongoing Objectives in the Northern Territory

- The 2014 exploration program has confirmed the value of the resources and time applied by IOG in the development of a 3D model and the integrated Risk Segment Map for the McArthur Basin.
- Not only has IOG been able to intersect extrapolated shale beds, but the exploration program confirms that this region of the McArthur Basin contains prospective hydrocarbon generation shales.
- From the analysis of historical core available, IOG previously informed shareholders that it considered the McArthur Basin to be in the liquids rich thermal maturity window. Laboratory analysis

Executive Chairman's Review of Operations (Continued)

of the core samples and liquids recovered in the recent program should be available within a short time frame.

- A series of core samples were taken from the drill locations and have been sent for analysis to assess the source rock potential of the target formation for the potential to produce sufficient and commercially viable hydrocarbons.
- With dip and thickness parameters identified, over the 2015 dry season IOG will seek to implement a seismic program and if possible additional stratigraphic wells to test the same shale beds which would be expected to be thicker and further pressurised moving east from the western outcrop edge to the centre of the basin in EP184 and EPA's 180 to 183.

G. FUTURE

The Company's strategy remains to:

- Identify and acquire additional accretive oil and gas producing assets utilizing the undrawn portion (approx. \$158 million) of the existing credit facility.
- Accelerate leasing programs in both New York and the MidCon.
- Continue to drill wells on existing lease holdings in Kansas and the Emerald Oil Prospect in New York.
- Focus on existing well re-works to maintain a steady state of production as well as reducing both oil and gas lifting costs.
- Continue negotiations in regard to the granting of the remaining 6 exploration applications in the McArthur Basin, NT.
- Subject to market conditions, seek to complete an Initial Public Offering on the Nasdaq – Growth Market Exchange of up to 20% of the USA operating subsidiary.

I would like to acknowledge the many employees, shareholders and stakeholders who have provided support and assistance in continuing the development of the Company.

Bruce McLeod
Chairman & CEO

The information in this report which relates to the Company's reserves is based on and fairly represents information prepared by Mr Allen C Barron, President of Ralph E Davis Associates Inc, Houston, Texas. Mr Barron is a licensed professional petroleum engineer with over five years experience. Mr Barron consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. Ralph E Davis Associates Inc is a Texas registered engineering firm.

Neither Mr Allen C Barron nor Ralph E Davis Associates Inc, nor any of their employees have any interest in Empire Energy E&P, LLC or the properties reported herein.

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.

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 2014 and the Auditor's Review Report thereon.

1. PRINCIPAL ACTIVITIES

During the six month financial period ended 30 June 2014 the principal continuing activities of the consolidated entity consisted of:

- the acquisition, development, production, exploration and sale of oil and natural gas. The Empire Group sells its oil and gas products primarily to owners of domestic pipelines and refiners located in Pennsylvania, New York and Kansas.
- continued progression of conventional and unconventional exploration targets in the Northern Territory.
- 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 2014 after providing income tax was US\$1,220,655 compared with a net loss of US\$356,562 for the previous corresponding period ended 30 June 2013.

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 18 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 - Executive Chairman
DH Sutton - Non-Executive Director
K A Torpey - Non-Executive Director

5. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial half year.

6. EVENTS SUBSEQUENT TO REPORTING DATE

- 1) Exploration Drilling Program
Over July and August 2014 the Company through its wholly owned subsidiary Imperial Oil & Gas Pty Ltd commenced exploration drilling in the McArthur Basin, Northern Territory. To date 4 shallow core holes have been drilled. Further information on this program can be found on page 14, section F of the Chairman's Review of Operations.
- 2) Registration of US Prospectus
On 9 July 2014 the Company announced it had filed a preliminary Form S-1 with the SEC. An IPO of the Company's US assets would provide the Company with a reliable source of equity capital and allow the Company greater flexibility in negotiating asset acquisitions.

Director's Report (Continued)

With the exception of those matters referred to above there is no other matter or circumstance that has arisen since 30 June 2014 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2014 of the group;
- the results of those operations; or
- state of affairs, in financial years subsequent to 30 June 2014 of the group

On 11 September 2014 the financial report was authorised for issue by a resolution of Directors.

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 38 and forms part of the Director's Report for the six month period ended 30 June 2014. Signed in accordance with a resolution of the Directors.



B W McLeod

Signed at Sydney this 12th of September 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the half-year ended 30 June 2014

	Note	Six months ended June 2014 US\$	Six months ended June 2013 US\$
Revenue from continuing operations		12,329,914	13,457,198
Other income		858,091	384,065
		13,188,005	13,841,263
Expenses			
Oil and gas production		(5,788,991)	(5,741,152)
Exploration assets written off		(331,052)	(604,767)
Lease expiration expenses	2	(56,364)	(96,982)
Impairment of assets		-	(35,105)
Depreciation, depletion and amortisation		(2,384,965)	(2,476,215)
General and administration		(2,615,011)	(2,233,719)
Finance costs		(1,012,129)	(1,146,939)
Finance costs (non-cash)		(352,090)	(1,017,128)
Other expenses		-	-
Profit/(Loss) before income tax expense from continuing operations		647,403	489,256
Income tax benefit/(expense)	3	573,252	(845,818)
Profit/(Loss) after income tax benefit/(expense) from continuing operations		1,220,655	(356,562)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Gain on the revaluation of available-for-sale assets		(135,945)	(103,045)
Exchange differences on translation of foreign operations		29,862	(129,950)
Net change in the fair value of cash flow hedges, net of tax		(1,444,455)	(348,864)
Other comprehensive income for the period, net of tax		(1,550,538)	(581,860)
Total comprehensive income for the period		(329,883)	(938,422)
Profit/(Loss) for the period is attributable to:			
Equity holders of Empire Energy Group Limited		1,220,665	(436,618)
Non-controlling interests		-	80,056
		1,220,665	(356,562)
Total comprehensive income for the period is attributable to:			
Equity holders of Empire Energy Group Limited		(329,883)	(990,325)
Non-controlling interests		-	51,903
		(329,883)	(938,422)
		Cents per share	Cents per share
Basic earnings per share	11	0.40	(0.14)
Diluted earnings per share	11	0.40	(0.14)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	30 June 2014 US\$	31 December 2013 US\$
CURRENT ASSETS			
Cash and cash equivalents		4,262,042	2,322,720
Trade and other receivables		5,655,771	4,674,518
Prepayments and other current assets		667,575	203,316
Inventory		923,682	995,610
Financial assets, including derivatives		1,801,390	2,327,334
Current income tax receivable		-	201,533
TOTAL CURRENT ASSETS		13,310,460	10,725,031
NON-CURRENT ASSETS			
Financial assets, including derivatives		2,052,064	3,493,532
Oil and gas properties	5	94,466,267	96,763,108
Property, plant and equipment	5	776,017	874,252
Intangible assets	6	68,217	68,217
Deferred tax asset		3,782,748	-
TOTAL NON-CURRENT ASSETS		101,145,313	101,199,109
TOTAL ASSETS		114,455,773	111,924,140
CURRENT LIABILITIES			
Trade and other payables		6,300,861	5,746,774
Financial liabilities, including derivatives		1,116,948	542,633
Interest-bearing liabilities	7	40,632,068	41,099,354
Provisions	8	10,382	5,351
TOTAL CURRENT LIABILITIES		48,060,259	47,394,112
NON-CURRENT LIABILITIES			
Financial liabilities, including derivatives		715,049	-
Interest-bearing liabilities		61,628	62,607
Provisions	8	7,845,851	7,788,880
Deferred Tax Liability		8,550,000	7,316,000
TOTAL NON-CURRENT LIABILITIES		17,172,258	15,167,487
TOTAL LIABILITIES		65,232,787	62,561,599
NET ASSETS		49,222,986	49,362,541
EQUITY			
Contributed equity	9	73,683,238	73,683,238
Reserves		5,060,456	6,420,666
Accumulated losses		(29,520,708)	(30,741,363)
Equity attributable to:			
Equity holders of Empire Energy Group Limited		49,222,986	49,362,541
Non-controlling interests		-	-
TOTAL SHAREHOLDERS' EQUITY		49,222,986	49,362,541

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

CONSOLIDATED STATEMENT OF CASHFLOWS

for the half-year ended 30 June 2014

	Six months ended June 2014 US\$	Six months ended June 2013 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	11,027,548	13,706,490
Payments to suppliers and employees	(7,891,357)	(10,037,480)
Interest received	1,128	1,384
Interest paid	(1,011,991)	(1,146,939)
Income taxes paid	(80,964)	519,563
Net cash flows from operating activities	2,044,364	3,043,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of oil and gas assets	1,769,209	-
Proceeds from sale of investments in equities	-	154,197
Payments for oil and gas assets	(1,213,824)	(690,361)
Payments for property, plant and equipment	(36,399)	(319,671)
Payments for investments in equities	-	(104,525)
Net cash flows from investing activities	518,986	(960,360)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuing of shares	-	469
Repayment of interest bearing liabilities	(624,398)	(3,641,350)
Finance lease payments	(979)	(11,775)
Loan acquisition costs	-	(494,169)
Distribution to non-controlling interest	-	-
Net cash flows from financing activities	(625,377)	(4,146,825)
Net increase/(decrease) in cash and cash equivalents	1,937,973	(2,064,167)
Cash and cash equivalents at beginning of financial period	2,322,720	6,189,192
Effect of exchange rate changes on cash and cash equivalents	1,349	(52,083)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	4,262,042	4,072,942

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

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2014

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 31 December 2013	73,683,238	2,772,068	108,810	3,539,788	(30,741,363)	49,362,541	-	49,362,541
Total Comprehensive income for period								
Profit after income tax from continuing operations	-	-	-	-	1,220,655	1,220,655	-	1,220,655
Exchange differences on translation of foreign operations	-	-	29,862	-	-	29,862	-	29,862
Gain on the revaluation available-for-sale investments, net of tax	-	(135,945)	-	-	-	(135,945)	-	(135,945)
Net change in the fair value of cash flow hedges, net of tax	-	(1,444,455)	-	-	-	(1,444,455)	-	(1,444,455)
Total comprehensive income for the period	-	(1,580,400)	29,862	-	1,220,655	(329,883)	-	(329,883)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Less: share issue transaction costs	-	-	-	-	-	-	-	-
Options lapsed in period, transferred to retained earnings	-	-	-	-	-	-	-	-
Options issued during the period	-	-	-	190,328	-	190,328	-	190,328
Warrants issued during the period	-	-	-	-	-	-	-	-
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	190,328	-	190,328	-	190,328
Balance at 30 June 2014	73,683,238	1,191,668	138,672	3,730,116	(29,520,708)	49,222,986	-	49,222,986

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

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013

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 31 December 2012	73,325,555	3,936,996	211,699	2,562,100	(30,576,059)	49,460,291	1,653,384	51,113,675
Total Comprehensive income for period								
Profit after income tax from continuing operations	-	-	-	-	(436,618)	(436,618)	80,056	(356,562)
Exchange differences on translation of foreign operations	-	-	(129,950)	-	-	(129,950)	-	(129,950)
Gain on the revaluation available-for-sale investments, net of tax	-	(103,046)	-	-	-	(103,046)	-	(103,046)
Net change in the fair value of cash flow hedges, net of tax	-	(320,711)	-	-	-	(320,711)	(28,153)	(348,864)
Total comprehensive income for the period	-	(423,756)	(129,950)	-	(436,618)	(990,325)	51,903	(938,422)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Less: share issue transaction costs	469	-	-	-	-	469	-	469
Options lapsed in period, transferred to retained earnings	-	-	-	(9,744)	9,744	-	-	-
Options issued during the period	-	-	-	223,967	-	223,967	-	223,967
Warrants issued during the period	-	-	-	406,400	-	406,400	19,685	426,085
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total transactions with owners	469	-	-	620,622	9,744	630,836	19,685	650,521
Balance at 30 June 2013	73,326,024	3,513,240	81,749	3,182,722	(31,002,932)	49,100,803	1,724,972	50,825,775

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 2014

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 2014 comprises the Company and its controlled entities ("Consolidated Entity").

These general purpose financial statements for the interim half-year reporting period ended 30 June 2014 have been prepared in accordance with complied Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Reporting Standard IAS 34 *Interim Financial Reporting*.

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 2013 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*.

Due to international operations, the Company's cash flows and economic returns are denominated in US dollars ("US\$"). The Company changed the currency in which it presents its consolidated financial statements from Australian dollars ("A\$") to US\$ on 1 July 2011.

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

Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of \$34,749,799. This is primarily due to the Board determining that debt facilities be classified as current liabilities.

In January 2013 the debt facilities were extended for a further three years. The Company has decided to maintain the debt facility as a current liability.

Due to the liquidity of operating assets, the Board also determined that the USA operating assets could be classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 material impact on the financial performance or position of the consolidated entity.

NOTE 2 – LEASE EXPIRATION EXPENSES

A charge of \$56,364 has been taken against the book value of undeveloped leases which have expired, or are to expire. The Company has an ongoing program to renew expiring lease, to take up options on expiring leases or acquire new leases if and when possible. The charge is a non-cash entry which has no effect on cash-flows.

NOTE 3 – INCOME TAX EXPENSE

Included in the income tax benefit for the six month period is a benefit of \$383,750 which relates to revising the estimated deferred tax liability to reflect changes made on lodgement of the Income tax Return for Imperial Resources LLC.

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 4 - OPERATING SEGMENTS

The Empire Group has two reportable segments as described below. Information reported to the Empire Group's chief executive office for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

	Oil & Gas		Investments		Other		Eliminations		Total	
<i>in USD</i>	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue (external)	12,329,914	13,457,198	-	-	-	-	-	-	12,329,914	13,457,198
Other income (excluding Finance income)	845,751	228,046	-	153,044	12,340	2,975	-	-	858,091	384,065
Reportable segment profit/(loss) before tax	2,870,390	3,502,362	-	117,939	(861,628)	(969,067)	-	-	2,008,762	2,651,234
Finance income	1,128	-	219,645	1,094,786	1,731	2,089	(219,645)	(1,094,786)	2,859	2,089
Finance costs	(1,578,304)	(3,254,057)	-	-	(5,559)	(4,796)	219,645	1,094,786	(1,364,218)	(2,164,067)
<i>Profit/(loss) for the period before tax</i>									647,403	489,256
Reportable segment assets	113,987,551	112,604,626	6,379,083	36,114,042	173,509	1,598,090	(6,084,370)	(35,527,520)	114,455,773	114,789,238

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Included in Other income above are gains disclosed separately of the face of the statement of profit and loss and other comprehensive income.

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

- Oil and gas operations - includes all oil and gas operations located in the USA. Revenue is derived from the sale of oil and gas and operation of wells.
 - Investments - includes all investments in listed and unlisted entities, including the investment in Empire Energy Group USA LLC, (eliminated on consolidation). Revenue is derived from the sale of the investments.
 - Other - includes all centralised administration costs and other minor other income.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 5 - OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US\$							
At 1 January 2014	111,088,040	4,225,828	30,591	328,948	717,691	709,698	117,100,796
Additions	1,053,471	160,353	-	120	36,279	-	1,250,223
New asset retirement obligation	-	-	-	-	-	-	-
Write-off of asset retirement obligation	-	-	-	-	-	-	-
Reclassifications	(706,120)	-	-	-	-	-	(706,120)
Disposals	(736,016)	-	-	-	-	-	(736,016)
Expiration costs	-	(56,386)	-	-	-	-	(56,386)
Write-off of exploration expense	-	-	-	-	-	-	-
Write-off to prepayments/inventory	-	-	-	-	51,165	(51,165)	-
At 30 June 2014	110,699,375	4,329,795	30,591	329,068	805,135	658,533	116,852,497
Accumulated Depreciation in US\$							
At 1 January 2014	(18,550,760)	-	-	(37,697)	(460,355)	(403,121)	(19,451,933)
Depreciation and depletion	(2,245,000)	-	-	(6,277)	(68,471)	(65,217)	(2,384,965)
Disposals	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Transfers	232,857	-	-	-	-	-	232,857
At 30 June 2014	(20,562,903)	-	-	(43,974)	(528,826)	(468,338)	(21,604,041)
Opening written down value	92,537,280	4,225,828	30,591	291,251	257,336	306,577	97,648,863
Impact of foreign currency adjustments	-	-	-	-	(831)	(5,341)	(6,173)
Closing written down value	90,136,472	4,329,795	30,591	285,094	275,478	184,854	95,242,284

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 5 - OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US\$							
At 1 January 2013	106,126,081	5,587,535	30,591	304,209	612,386	722,155	113,382,957
Additions	2,606,338	457,900	-	6,077	77,140	116,388	3,263,843
New asset retirement obligation	1,418,263	-	-	-	-	-	1,418,263
Write-off of asset retirement obligation	(49,530)	-	-	-	-	-	(49,530)
Reclassifications	986,887	(938,076)	-	-	-	-	48,811
Disposals	-	-	-	-	(4,339)	(77,678)	(82,017)
Expiration costs	-	(152,379)	-	-	-	-	(152,379)
Write-off of exploration expense	-	(729,150)	-	-	-	-	(729,150)
Write-off to prepayments/inventory	-	-	-	-	51,165	(51,165)	-
At 31 December 2013	111,088,039	4,225,830	30,591	310,286	736,352	709,700	117,100,798
Accumulated Depreciation in US\$							
At 1 January 2013	(13,694,760)	-	-	(23,885)	(343,131)	(364,093)	(14,425,869)
Depreciation and depletion	(4,856,000)	-	-	(11,946)	(119,090)	(39,028)	(5,026,064)
Disposals	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
At 31 December 2013	(18,550,760)	-	-	(35,831)	(462,221)	(403,121)	(19,451,933)
Opening written down value	92,431,321	5,587,535	30,591	280,324	274,131	358,062	98,957,088
Impact of foreign currency adjustments	-	-	-	-	(1,578)	(9,927)	(11,505)
Closing written down value	92,537,279	4,225,830	30,591	274,455	272,553	296,652	97,637,360

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2014 (continued)

	June 2014 \$	December 2013 \$
NOTE 6 - INTANGIBLE ASSETS		
Goodwill	68,217	68,217
Other intangible assets	-	-
	68,217	68,217
Other Intangible assets		
Carrying value at beginning	-	2,150
Transfer to debt	-	-
Amortisation	-	(2,150)
	-	-

NOTE 7 - INTEREST BEARING LIABILITIES

These accounts are presented on the basis that all 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. In January 2013 the Company extended the Facility for a further 3 years through to 28 February 2016.

Under the terms of the Loan Facility ("Facility"), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding.

The expected loan repayments over the next 12 months comprise:

- Repayment of 90% of any monthly free cashflows

During the period the Group repaid \$606,661 of its interest bearing facilities.

As at 30 June 2014 the loan covenants were all in compliance.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 8 - PROVISIONS

	June 2014 \$	December 2013 \$
Current		
Employee entitlements	10,382	5,351
Non-current		
Asset retirement obligations	7,845,851	7,788,880
Movement in Asset Retirement Obligation		
Balance at beginning of period	7,788,880	6,015,635
Additions	-	1,418,263
Write-off of accrued plugging costs	(131,584)	(49,530)
Accretion in the period, included in amortisation expense	188,555	404,512
Balance at end of period	7,845,851	7,788,880

The Empire Group makes full provision for the future costs of decommissioning oil and gas production facilities and pipelines on a discounted basis on the installation or acquisition of those facilities.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2050.

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. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works. Furthermore, the timing of decommissioning is likely to depend on when the assets cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2014 (continued)

NOTE 9 - CONTRIBUTED EQUITY

a) Shares

Issued Capital

Balance at beginning of period

Movement in ordinary share capital

- There was no movement in the ordinary share capital of the Company during the period.

Balance at 30 June 2014

CONSOLIDATED	
6 months to 30 June 2014	
No. of shares	US\$
308,863,682	73,683,238
-	-
308,863,682	73,683,238

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 1 January 2014

13,500,000

Movements

Granted

- 4,250,000 options were granted to Macquarie Bank Limited on 30 January 2014 as a component of an amendment to an existing credit facility (which only allowed for the acquisition of producing assets and associated development) but now allows for a broader funding. The options are exercisable @ A\$0.12 and expire 26 February 2016

4,250,000

Since the end of the half-year financial period a further 6,500,000 options have been granted pursuant to the Company's Employee Share Option Plan. Terms of the options granted are as follows:

- 3,500,000 options exercisable @ A\$0.15 expiring 31 December 2016
- 1,500,000 options exercisable @ A\$0.17 expiring 31 December 2016
- 1,500,000 options exercisable @ A\$0.18 expiring 31 December 2016

Exercised

No options were exercised during or since the end of the half-year financial period.

-

Expired

1,000,000 executive options expired during the quarter ended 30 June 2014 for failure to meet the minimum term of employment requirement pursuant to the terms of the Employee Share Option Plan. Terms of the options which expired are as follows:

(1,000,000)

- 500,000 options exercisable @ A\$0.35 expiring 31 December 2014
- 500,000 options exercisable @ A\$0.17 expiring 31 December 2015

At the date of these accounts the company has 23,250,000 unissued shares held under option.

Balance as at 30 June 2014

16,750,000

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

NOTE 9 - CONTRIBUTED EQUITY (Continued)

(c) Performance Rights

Total number of unissued shares subject to Performance Rights at 1 January 2014 2,500,000

Movements

No Performance Rights have been exercised or granted during or since the end of the half-year financial period.

Balance as at 30 June 2014	2,500,000
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At balance date the Empire Group had the following securities on issue:

Shares

308,863,682 listed fully paid ordinary shares – ASX Code EEG

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

Options

At balance date the Company had 16,750,000 unissued shares under option.

These options are exercisable on the following terms:

Number of options		Exercise Price (A\$)	Expiry Date
6,500,000	Executive Options	\$0.35	31 December 2014
1,500,000	Executive Options	\$0.18	31 December 2015
4,500,000	Executive Options	\$0.17	31 December 2015
4,250,000	Options	\$0.12	26 February 2016
16,750,000			

Performance Rights

At balance date the Company had 2,500,000 unissued shares subject to Performance Rights. The Performance Rights are subject to certain preconditions being met.

NOTE 10 - DIVIDENDS

No dividends have been declared or paid during the period.

NOTE 11 - EARNINGS PER SHARE

	June 2014	June 2013
Basic earnings per share (cents per share)	0.40	(0.14)
Diluted earnings per share (cents per share)	0.40	(0.14)
Profit/(Loss) used in the calculation of basic and diluted earnings per share	1,220,655	(436,618)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	308,863,682	304,863,682
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	308,863,682	304,863,682

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2014 (continued)

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

1) Exploration Drilling Program

Over July and August 2014 the Company through its wholly owned subsidiary Imperial Oil & Gas Pty Ltd commenced exploration drilling in the McArthur Basin, Northern Territory. To date 4 shallow core holes have been drilled. Further information on this program can be found on page 14, section F of the Chairman's Review of Operations.

2) Registration of US Prospectus

On 9 July 2014 the Company announced it had filed a preliminary Form S-1 with the SEC. An IPO of the Company's US assets would provide the Company with a reliable source of equity capital and allow the company greater flexibility in negotiating asset acquisitions.

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 2014 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
Chartered Accountants

Sydney

Date 12 September 2014



Robert Mayberry
Partner

Sydney Office

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DIRECTORS' DECLARATION

For the half-year ended 30 June 2014

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 2014 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 12th day of September 2014.

INDEPENDENT AUDITOR'S REPORT

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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 2014, Statement of Profit or Loss and Other 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 Group 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 2014 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*.

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 2014 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*.

A handwritten signature in black ink that reads "Nexia Court & Co".

Nexia Court & Co
Chartered Accountants

Sydney

Date 12 September 2014

A handwritten signature in black ink that appears to read "Robert Mayberry".

Robert Mayberry
Partner