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Quarterly Report – For the period ending 31 December 2017

31 January 2018

4th QUARTER OVERVIEW

The Directors wish to provide the following update on the Company's operations:

- Estimated revenues US$3.5 million (3Q2017: US$3.5 million).
- Gross production
    - Oil: 46,576 Bbl (3Q2017: 50,409) -7.6%
    - Gas: 595,249 Mcf (3Q2017: 606,756) -1.9%
- In Kansas a ~3% net working interest over 190 wells, or 6.25Bbl/d, was acquired from existing well owners.
- Unaudited Operating EBITDAX US$1.4 million (3Q2017: US$1.5 million).
- Continuing focus is being directed to the acquisition and bolt-on opportunities.
- Estimated Group EBITDAX for the period was US$730,492 (3Q2017: US$720,565).
- Northern Territory program payments of ~US$230,000 (3Q2017: ~US$74,000).

OPERATING REVIEW

A. EMPIRE ENERGY USA, LLC (100%)

The Company's USA operations are in the Mid-Con (oil) and the Appalachian Basin (oil & gas). The Company remains focused on reducing operating costs and overheads.

1. Appalachia (Western New York and Pennsylvania)

Appalachia region produced ~463,000Mcf (net) for the quarter. Gas prices are remaining relatively stable, there appears to be nothing significant happening to change the price trends we have been experiencing for the past 2 years. Politically there was not any change in policy or regulations. Mayville focused on repairs and preparation for the winter season.

2. Mid-Continent (Kansas and Oklahoma):

The Mid-Continent Region produced 30,232 Bbl (net) during the fourth quarter compared to 2016 results of 30,198 Bbl (net). Focus over the quarter remained on maintaining minimal downtime, although severe cold weather, somewhat hampered efforts during the period.

The Carmichael A #19 was recompleted in the upper Arbuckle and continues to produce 5 BOPD. The significance of this is that the well was producing 2 BOPD and 393 BWPD with high electrical, chemical and well servicing costs. It is now intermediately pumping on a time clock producing 5 BOPD and a trace of water with reduced lifting costs of 89% per barrel.

Completion techniques were analyzed on all Arbuckle wells and a change in stimulation and testing resulted in the additional production and significant lower lifting costs.

The Joe Driscoll #7 was a candidate well chosen to utilize newly introduced Nano technology to enhance production along with addressing various downhole corrosion and paraffin problems. The 1.5 BOPD well was marginally profitable due to associated problems with the downhole conditions. The relatively inexpensive stimulation was applied resulting in production increasing to 9.5 BOPD and so far, no downhole mechanical issues.

These two wells are two examples of new operating techniques and technologies to increase production while lowering lifting costs.

The upcoming year looks positive for the region. Oil prices are on the climb, shut in wells are being evaluated for start-up and additional wells are being reviewed for possible candidates to undergo recompletions or the Nano technology. Potential acquisitions are continually being evaluated in both Kansas and Oklahoma.

Production:

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Gross Production:				
Oil (Bbls)	46,576	47,480	190,225	194,419
Natural gas (Mcf)	595,249	580,359	2,337,682	2,361,740
Net Production by Region:				
Oil (Bbls)				
Appalachia	529	390	3,051	2,515
Mid-Con	30,232	30,198	122,119	120,738
Total Oil	30,761	30,588	125,170	123,253
Weighted Avg Sales Price ($/Bbl)				
Before Hedge	50.37	44.39	45.73	38.52
After Hedge	62.93	63.38	61.61	62.21
Natural gas (Mcf)				
Appalachia	462,855	461,640	1,852,821	1,875,101
Mid-Con	2,974	3,751	9,292	14,709
Total Natural Gas	465,829	465,391	1,862,113	1,889,810
Weighted Avg Sales Price ($/Mcf)				
Before Hedge	2.24	2.27	2.40	1.74
After Hedge	2.94	3.25	2.97	3.02
Oil Equivalent (Boe):				
Appalachia	77,672	77,330	311,854	315,032
Mid-Con	30,727	30,823	123,668	123,189
Total	108,399	108,153	435,522	438,221
Boe/d	**1,178**	**1,176**	**1,193**	**1,201**
Weighted Avg Sales Price ($/Boe)				
Before Hedge	23.91	22.34	23.41	18.32
After Hedge	30.51	31.90	30.40	30.53
Lifting Costs (incl. taxes):				
Oil - Midcon (/Bbl)	21.20	22.22	20.55	21.49
Natural gas - Appalachian (/Mcf)	1.74	1.73	1.65	1.61
Oil Equivalent (/BOE)	13.51	13.72	12.97	13.01
Net Back ($/Boe)	17.00	18.18	17.45	17.52

Financials:

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Net Revenue:				
Oil Sales	1,935,645	1,938,510	7,711,903	7,667,928
Natural Gas Sales	1,370,396	1,509,681	5,526,284	5,703,071
Working Interest	1,150	2,337	3,566	7,615
Net Admin Income	80,356	85,160	340,406	368,998
Other Income	62,329	26,674	126,148	113,192
Total Revenue	3,449,876	3,562,362	13,708,307	13,860,804
Production costs:				
Lease operating expenses - Oil	630,263	677,001	2,476,938	2,529,141
Lease operating expenses - Gas	742,003	770,854	2,817,049	2,895,882
Taxes - Oil	21,739	2,610	95,513	121,595
Taxes - Natural Gas	63,033	33,028	246,362	152,807
Total	1,457,038	1,483,493	5,635,862	5,699,425
Field EBITDAX	1,992,838	2,078,869	8,072,445	8,161,379
Less:				
Inventory adjustment	(13,186)	(48,134)	29,897	(3,002)
Reserve Enhancements	1,420	500	3,636	22,106
Nonrecurring expenses	256,352	133,373	810,361	756,448
G & G Costs	3,588	6,435	3,859	26,231
Field Overhead	309,000	309,000	1,236,000	1,250,000
Total	557,174	401,174	2,083,753	2,051,783
Operating EBITDAX	1,435,664	1,677,695	5,988,692	6,109,596
Less:				
Field G & A	155,158	98,184	601,702	658,179
Corporate G & A	341,263	306,964	1,484,098	1,561,204
Delay rental payments	1,367	12,237	94,875	138,441
Land Overhead & Non-leasing costs	-	1,610	3,696	6,379
Total	497,788	418,995	2,184,371	2,364,203
EBITDAX	937,876	1,258,700	3,804,321	3,745,393

Revenue 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.

Exploration/Acquisition Expenses:

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
EBITDAX	937,876	1,258,700	3,804,321	3,745,393
Less:				
Geological Services	-	-	-	16,611
Acquisition related expenses	(137,930)	-	(75,858)	54,960
Capital raise expenses	-	-	58,432	21,304
Dry hole expenses	-	21,304	-	-
Total	(137,930)	21,304	(17,426)	92,875
EBITDA	1,075,806	1,237,396	3,821,747	3,652,518

Net Earnings:

Unaudited earnings for the period are shown below:

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
EBITDA	1,075,800	1,237,396	3,821,747	3,652,518
Less:				
Depn, Depl, Amort & ARO	591,272	213,546	2,339,432	2,384,543
Interest	748,062	724,926	2,946,382	2,406,844
(Gain) loss on sale of assets	152,795	42,319	101,302	42,319
P&A vs. ARO	-	150,111	-	150,111
Bad debts	18,393	(26,219)	401,750	(26,219)
Non-Cash & Interest Expenses	1,510,522	1,104,683	5,788,866	4,957,598
Earnings before Tax	(434,716)	132,713	(1,967,119)	(1,305,080)
EBITDA/Interest (times)	**1.44**	**1.71**	**1.30**	**1.52**

Capital Expenditure/Asset Sales:

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Capital Expenditures				
Acquisition Capital	81,861	-	81,811	49,034
New Wells - IDC	2,095	(42,276)	277,127	580,363
New Wells - Capital	5,670	6,000	167,505	22,555
Undeveloped Leases	32	706	2,488	32,035
Capital Expenditures	89,658	(35,570)	528,931	683,987

Credit Facilities:

At the end of the quarter the Company had US$37.9 million drawn at an average cost of LIBOR + 6.5%. The Company repaid US$273,920 of the Credit Facility. Empire Energy retains Credit Facility availability of US$162.05 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 +
Term	$34,947	6.50%
Revolver	$3,000	6.50%
	$37,947	6.50%

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
2018	1,620,000	1,008,000	62.2%	$4.11	-	-	-	-
2019	1,550,000	498,000	32.1%	$3.45	-	-	-	-
	3,170,000	1,506,000	47.5%	$3.89	-	-	-	-

NET INCOME SUMMARY - USA OPERATIONS

The accompanying table is for comparative purposes and consists of unaudited, condensed, consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements, although the Company believes that the disclosures made below are adequate to make the information not misleading.

Description	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Revenues:	3,449,876	3,562,362	13,708,307	13,860,804
Costs & Expenses:				
Production costs & taxes	2,014,212	1,884,667	7,719,615	7,751,209
Depn, Depletion, Amort & ARO	591,272	213,546	2,339,432	2,384,543
General & Administration	359,858	440,299	2,166,945	2,457,077
Income from Operations	484,534	1,023,850	1,482,315	1,267,975
Interest	748,062	724,926	2,946,382	2,406,844
(Gain)/Loss on sale of assets	152,795	42,319	101,302	42,319
P&A vs. ARO	-	150,111	-	150,111
Bad debts	18,393	(26,219)	401,750	(26,219)
Net Income/(Loss)	(434,716)	132,713	(1,967,119)	(1,305,080)

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

The Company's operations are in the Northern Territory, Australia.

<u>Operations:</u>

Current quarter actual and accrued expenses and capitalized costs. (Company policy is to expense all exploration costs):

Description – US$	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Exploration Expenses – NT	65,507	12,547	122,227	621,797

The Company is planning to complete necessary On-Country meetings and Exploration Deeds with Traditional Owners for EPA 180, 181 & 182 once certainty on the fracking moratorium is known. In addition, the Company has: (i) initiated a program to further extend the required work programs over EP's 184 & 187 while the fracking moratorium remains in place; and (ii) received approval from the Northern Land Council to extend the negotiation period for EPA 180, 181, 182 and 183 for a further 12 months from the beginning of November 2017.

C. EMPIRE ENERGY GROUP LIMITED

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

Description – US$	3 months to 31/12/2017	3 months to 31/12/2016	Year-to-Date 31/12/2017	Year-to-Date 31/12/2016
Revenue	39,440	41,940	151,527	192,171
Less Expenses:				
Consultants	67,235	86,480	268,318	320,287
Directors/Employment Costs	49,242	82,001	266,629	277,569
Listing Expenses	11,325	7,800	43,356	74,574
G&A	119,022	111,852	516,825	466,872
EBITDAX – Head office (EEG)	(207,384)	(246,193)	(943,601)	(947,131)
EBITDAX – (EEUS)	937,876	1,258,700	3,804,321	3,745,393
EBITDAX – GROUP	**730,492**	**1,012,507**	**2,860,720**	**2,798,262**

ABOUT EMPIRE ENERGY GROUP LIMITED

Empire Energy is a conventional oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Mid-Con (Kansas and Oklahoma). In 2010 the Company secured approximately 14.6 million acres in the McArthur Basin, Northern Territory, which is considered highly prospective for large shale oil and gas conventional and unconventional resources. Work undertaken by the Company over the past 5 years demonstrates that the Central Trough of the McArthur Basin, of which the Company holds around 80%, is a major Proterozoic depo-centre that forms one segment of a series of extensive prolific hydrocarbon basins extending through Oman, Siberia and southern China, and which contain resources of many billions of barrels of oil equivalent.

Financial Terminology

Statements in this announcement may refer 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 Reserves

Reserve references in this report have been extracted from the Company's announcement "2016 Year End Reserves Review" released to the ASX on 20 February 2017. The Company confirms that it is not aware of any new information or data that materially affects the information contained in the announcement 20 February 2017 and that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. Reserves were reported as at 1 January 2017. All volumes presented are net volumes and have had subtracted associated royalty burdens. The probabilistic method was used to calculate P50 reserves. The deterministic method was used to calculate 1P, 2P & 3P reserves. The reference point used for measuring and assessing the estimated petroleum reserves is the wellhead.

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

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