EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

HALF YEAR
FINANCIAL REPORT
30 JUNE 2012

CONTENTS

COMPANY INFORMATION

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Stock Exchange Listings

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

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

EXECUTIVE CHAIRMAN'S REVIEW OF OPERATIONS

HIGHLIGHTS FOR THE 6 MONTHS ENDING 30 JUNE 2012

- **Field EBITDAX 3% higher at US$9.8million** (30 June 2011: $9.6million).
- **Revenue 2% higher at US$13.8 million.**
- **Production steady at 1,393 Boe/d.**
- **10+ 2012 Drilling program underway with 3 wells producing and 4th well undergoing completion.**
- **Debt pay down of US$5.4 million.**
- **Commencement of geological studies on the Company's Northern Territory, McArthur Basin Exploration Licences.**

REVIEW OF OPERATIONS

A summary of operations during the six months under review is as follows:

- Empire Energy operates approximately 1,800 gas wells and 256 oil wells. Current production is ~1,400 Boe/d (36% oil).

- Several wells drilled in 2011 are now being reworked targeting additional up-hole formations.

- The Group continues to identify additional behind pipe Bass Island oil formation in New York State.

- Landowner negotiations continue for the 14.5 million acres of shale formations secured onshore, in the MacArthur Basin, Northern Territory, Australia. It is expected that 3 licences will be finalised in the short term. In May geological studies commenced on these licence application areas to identify the most prospective areas for shale and gas drilling. Analysis of existing core from the region commenced in September 2012.

- The Group has recently employed an experienced landman to commence management of the Group's extensive New York land holdings in expectation of the lifting of the fracking moratorium.

- The Group continues to negotiate potential acquisitions to identify additional upstream assets to integrate into existing operations and to reach a production milestone of +5,000 Boe/d.

REVIEW OF OPERATING RESULTS

The Group's operations are mainly carried out through its 95% owned USA subsidiary Empire Energy Group USA, LLC and its 100% owned subsidiary Empire Energy E&P, LLC ('Empire E&P'). 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 Ltd.

USA OPERATIONS

In addition to the information presented in the financial report, and to assist stakeholders in gaining a more complete understanding of the major operating aspects of Empire E&P, we have included a presentation of financial results with reference to EBITDAX.

Executive Chairman's Review of Operations (Continued)

Statements 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. 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. Another difference is that the statutory accounts have been based on an accrual basis (effective date). The EBITDAX accounts (production date) are not meant to reconcile to the statutory accounts however the 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, and depreciation, amortization development and exploration expenses. All non-cash expenses, which may distort the presentation of operations in the statutory accounts, have been reallocated and aggregated as a total amortization expense. We believe that:

- EBITDAX provides stakeholders with a simple and clear measure of our operating performance;
- EBITDAX is an important supplemental 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, commercial banks, research analysts and others, rely on the use of EBITDAX to assess;
    - the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
    - the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
    - our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
    - the feasibility of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Based on the premises set out above, the following EBITDAX based accounts clearly show the Empire E&P's oil and gas upstream operating results:

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

Executive Chairman's Review of Operations (Continued)

TABLE A

Operations (In $ thousands)	Notes	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011	% change
Net Revenue:	1			
Oil Sales		$7,950	$7,629	4%
Natural gas Sales		$5,497	$5,960	-8%
WI Income		$5	$13	-62%
Net Admin Income		$214	$33	548%
Other Income		$152	-$34	-547%
Net Revenue		$13,818	$13,601	2%
Production costs:	2			
Lease operating expenses - Oil		$1,870	$1,432	31%
Lease operating expenses - Gas		$1,473	$1,944	-24%
Taxes - Oil		$380	$369	3%
Taxes - Natural gas		$299	$304	-2%
Total		$4,022	$4,049	-1%
Field EBITDAX		**$9,796**	**$9,552**	3%
Gross Margin		*70.9%*	*70.2%*	
Less:				
Inventory Adjustment		-$222	$220	-201%
Nonrecurring expenses	3	$1,124	$834	35%
Field F&A	4	$329	$290	13%
Delayed Rental Payments		$88	$73	21%
		$1,319	$1,417	-7%
Operating EBITDAX		**$8,477**	**$8,135**	4%
Operating Margin		*61.3%*	*59.8%*	
NetBack at Operating EBITDAX Level				
Oil ($/Bbl)		$61.96	$66.15	-6%
Natural gas ($/Mcf)		$3.88	$3.77	3%
Less:				
Field G&A	5	$301	$260	16%
Corporate G&A	6	$811	$971	-16%
Acqusition related expenses		$129	$124	4%
Land & Leasing Costs		$102	$19	437%
Geological Services		$16	$14	14%
Gain of Sale of Properties		$0	-$1,095	-100%
		$1,359	$293	364%
EBITDAX		**$7,118**	**$7,842**	-9%
Net Margin		*51.5%*	*57.7%*	
Less:				
Asset retirement obligations, accretion expenses		$358	$253	42%
Depreciation, depletion and amortisation	7	$4,582	$3,362	36%
		$4,940	$3,615	37%
EBITX		**$2,178**	**$4,227**	-48%
Less:				
Exploration Expenses		$91	$95	-4%
Interest	8	$1,309	$1,964	-33%
State Taxes		$17	$61	-72%
Net Earnings- production date	**9**	**$761**	**$2,107**	-64%

Executive Chairman's Review of Operations (Continued)

NOTES TO TABLE A

There will be minor variations in the comparative amounts due to the re-definition of some income and expense categories.

1. Revenue: Due to the corporate leverage growth model implemented by Empire Energy, an aggressive hedging strategy has been adopted. The portion of production hedged may be naturally reduced as drill bit production comes on line. Hedge benefits for gas sales were $2.74 million for gas sales and ($0.55) million for oil sales (combined US$1.19 million gain for the previous corresponding period).

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2012	1,050,000	735,576	70.1%	$6.07	124,081	59,340	47.8%	$90.00
2013	2,000,000	1,398,716	69.9%	$5.97	149,298	113,160	75.8%	$90.00
2014	1,850,000	1,329,488	71.9%	$5.91	141,058	105,120	74.5%	$90.00
2015	1,650,000	1,272,488	77.1%	$5.45	133,280	98,160	73.6%	$90.00
2016	1,440,000	600,000	41.7%	$4.49				
Total	7,990,000	5,336,268	66.8%	$5.68	547,717	375,780	68.6%	$90.00

2. Production Costs: Lifting costs include all lease operating expenses (LOE). They do not include non-recurring expenses.

- Oil production costs increased by 31%. This was mainly due to:
  - Comparing the current six month period with the previous corresponding period immediately after acquisition of the oil assets by Empire E&P. The vendor had no repair and maintenance or work over programs in place at handover date and it was not until towards mid 2011 that a formalised work program was recommenced.
  - A new chemical treatment program was implemented due to an ineffective program implemented at acquisition. The previous program led to a large number of wells going off line due to failure of rod parts and pumps.
  - There was a significant catch up in neglected well head repairs and maintenance. This has largely been completed over this financial period.
  - Although actual oil production costs for the period increased by 31%, on a per barrel basis, lifting costs, excluding taxes increased by 25% to $20.33/Bbl for the period.
  - Taxes were $4.13/Bbl (previous corresponding period $4.19/Bbl).

- Gas production costs decreased by 24%. This was mainly due to:
  - Work undertaken over 2010 and 2011 caught up with a number of years of neglected repairs and maintenance expenditure and the operations have now reached a steady state of programmed maintenance.
  - With gas prices dropping to their lowest levels in many years, a well rotation program was introduced were production dropped slightly, but overtime was reduced significantly.
  - Gas lifting costs, excluding taxes, decreased by 22% to $1.53/Mcf for the period.
  - Taxes were $0.31/Mcf (previous corresponding period $0.31/Mcf).

It is expected that oil lifting costs will reduce over the second half of 2012 following the completion of the catch-up maintenance program undertaken over the past 12 months.

Executive Chairman's Review of Operations (Continued)

3. **Nonrecurring Expenses:** One-off expenses related repair and maintenance programs, pipeline and tank battery repairs and work over costs (predominately split casings, re-setting of pump jack gearing, replacement of electric pumps and electric motors etc).

Of the US$1.12 million in non-recurring costs, US$988,000 related to Kansas oil production. This was $690,000 over budget due to heavy and urgently required repairs and work overs. Also included were polymer treatments on 2 producing wells ($130,000) and the completion of the tank and location remediation program. With the exception of the latter, a short payback on this expenditure is expected from increased production and reduced downtime.

This major expenditure portion of this program was completed by mid-2012.

For the period nonrecurring expenses were $10.69/Bbl (previous corresponding period $6.22) and $0.15/Mcf ($0.29)

4. **Field F&A:** Direct costs related to the operation and supervision of producing oil and gas fields, including district management, insurances, environmental reporting and land services. This has increased over the previous corresponding period as Empire E&P has built up land services including the appointment of experienced landmen in both New York and Kansas and a production manager in New York. In addition there were costs of $153,130 relating to the digitisation of 3,500+ leases and associated formations for New York and Pennsylvania land holdings, plus recruitment expenses following the hiring an experienced landman to manage the Empire E&P's Appalachia land holdings. This land program is expected to continue over the remainder of 2012 to ensure all Empire E&P's land assets are available in a digital format by lease and formation. As part of the rationalisation of uneconomic production at current gas prices, Empire E&P is seeking to assign gas wells and leases back to land owners in circumstances where Empire E&P does not hold the deep shale formations.

5. **Field G&A:** Operating expenses for each district field office Empire E&P operates from (Hawthorne, PA Mayville, NY, Wichita, KS) and other direct costs not specifically related to the production of oil and gas. Expenses include utilities, professional services, IT management, reservoir reporting etc.

6. **Corporate G&A:** Empire E&P manages its USA operations from a corporate head office based outside Pittsburgh, Pennsylvania. Significant expenses for the period were - salaries and wages $215,000; audit and accounting $95,000; tax reporting $53,000; travel and accommodation $56,000; rent $45,000 and consulting expenses $170,000 (of which $75,000 was paid to Empire Energy Group Limited).

7. **Depreciation and Amortisation:** This also included a one-off non-cash charge of $913,825 relating to the write down of maturing and expired leases.

8. **Financing Credit Facility:** The draw down on the Credit Facility as at June 30, 2012 was US$52.7 million (US$64.4 million in the previous period ending June 30, 2011) at an average rate of LIBOR+4.7%. Interest expense for the period was $1.32 million, or an average of US$220,000/month. Over the period ending June 30, 2012, Empire Energy repaid US$5.4 million of existing loan facilities.

Interest Rate Risk: Interest rate risk was hedged in 2008 by entering into an interest rate swap agreement for a notional amount of US$7.94 million, expiring June 2012 with a fixed rate of 2.015%. Over the Period a gain of US$108,000 accrued.

Executive Chairman's Review of Operations (Continued)

9. **<u>Net Earnings – Effective Date:</u>** 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 A reports operational activities of Empire E&P. The below note includes the Group operations to enable reconciliation to the financial statements.

	6 Months Ended June 30, 2012 (In $ thousands)
Net Earnings- production date	$761
Net Earnings - effective date	$596

	US$ 30 June 2012 (In $ thousands)
Net Earnings - effective date (Empire E&P only)	596
Intergroup management fee	75
Revenue and expenses (remaining Empire Group)	
Other income	23
Oil and gas production*	(129)
Exploration assets written off	(338)
Impairment of assets*	(141)
Depreciation, depletion and amortisation*	(10)
General and administration – head office	(502)
General and administration – other*	(488)
Finance costs – interest expense	(42)
Finance costs – other*	(563)
Net loss before income tax expense	(1,519)

Indicates non-cash items

Executive Chairman's Review of Operations (Continued)

CAPITAL EXPENDITURE

TABLE B

Capex (In $ thousands)	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011	% change
Acquisitions	$2,191,566	$0	n/a
Exploration	$0	$0	n/a
Other	$0	$459,701	n/a
New wells	$1,440,805	$0	n/a
	$3,632,371	$459,701	690%

Major expenditure over the period was the acquisition of Gove County, Kansas oil wells (Effective Date June 1, 2012) and development acreage and the acquisition of a small number of gas wells, pipelines and gathering networks in New York State. The New York acquisition is of strategic importance as the pipelines acquired will give Empire Energy much closer control over co-operative pipeline networks, enabling the Empire E&P to undertake pipeline repairs to prevent loss of gas being transported.

OPERATING STATISTICS

TABLE C

Operating Statistics	Notes	6 Months Ended June 30, 2012	6 Months Ended June 30, 2011	% change
Gross Production:				
Oil (MBbls)		142.4	137.9	3%
Natural gas (MMcf)		1,262.0	1,291.0	-2%
Net Production:				
Oil (MBbls)		92.0	88.1	4%
Natural gas (MMcf)		961.1	983.9	-2%
Net production (Mboe):	1	252.2	252.1	0%
Net Daily Production (Boe/d):		1,393	1,393	0%
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$86.38	$86.60	0%
Natural gas ($/Mcf)		$5.72	$6.07	-6%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$92.36	$92.96	-1%
Natural gas ($/Mcf)		$2.87	$4.51	-36%
Lifting Costs (incl taxes):				
Oil ($/Bbl)		$24.46	$20.73	18%
Natural gas ($/Mcf)		$1.84	$2.28	-19%
2P Reserves (MMBoe)	2	11.8	16.8	-30%
3P+3C Reserves (MMBoe)		264.7	269.9	-2%

Executive Chairman's Review of Operations (Continued)

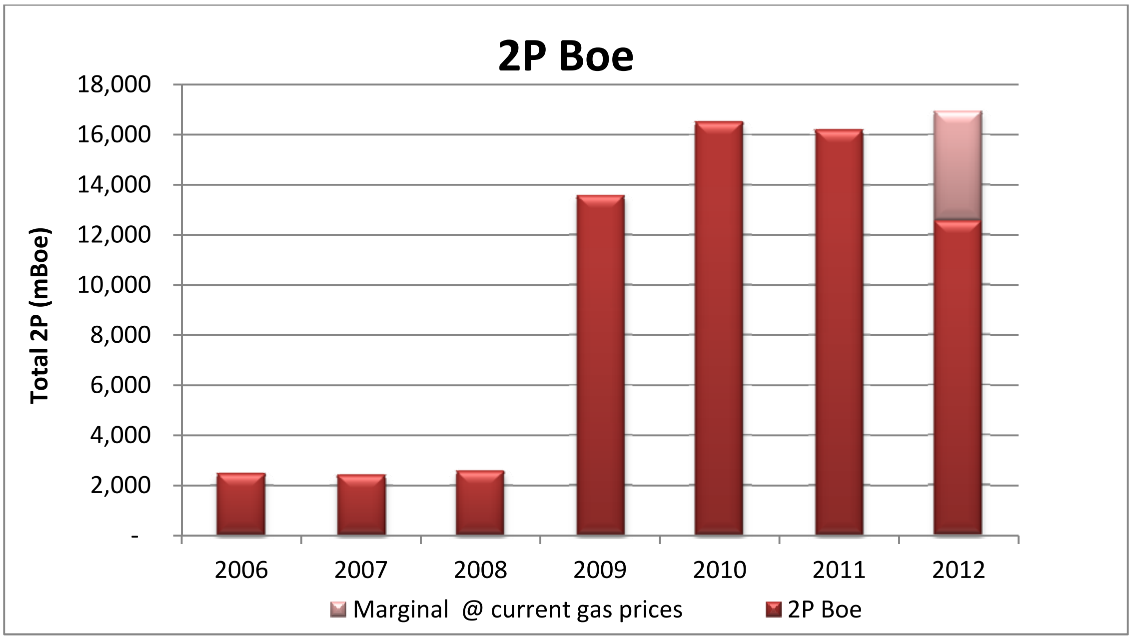
NOTES TO TABLE C – Operating Statistics

1. Barrel of Oil Equivalent

Empire E&P has adopted the SEC 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.

2. Reserves

Independent Reserve Estimates were carried out as at January 1, 2012. Approximately 26 Bcf (4.3 MMBoe) of 2P Reserves are considered contingent as they are marginally economic at the current gas price. Total 2P reserves are 12.55 MMBoe, excluding reserves marginally economic as noted. (Reserves are prepared annually by Ralph E Davis Associates, Inc., Houston, Texas, USA, certified reservoir engineers and LaRoche Petroleum Consultants, Inc., Houston, Texas, USA, certified reservoir engineers).



OPERATIONS BY REGION

The Company's USA operations have their Headquarters at Canonsburg, Pennsylvania. A team of 4 full time and 3 part time employees mange all financial, IT, Human Resources and operational aspects of the USA business. Two full time and 1 part time employee operate from the Sydney office.

CENTRAL KANSAS UPLIFT - OIL PRODUCTION

- Production – Gross 138,092 Bbl; Net 88,106 Bbl; Gross 27,426 Mcf; Net 8,239 Mcf.
- Net Daily Production 492 Bbl/d (previous corresponding period 484 Bbl/d).
- Operations spanning sixteen central Kansas counties
- 254 operating wells.

Executive Chairman's Review of Operations (Continued)

- 99% of properties operated by Empire Energy.
- Average WI = 79% / NRI = 64%.
- Well depths range from approximately 3,200ft – 4,000ft.
- Reservoirs are water driven Arbuckle, Lansing-Kansas City, Mississippian and Shawnee.
- 2P = 4.3 MMBbl
- Estimated 2P PV10 value US$108 million.
- Employees 18 (including contractors).

Drilling & Exploration Program

- A 10 well drilling program is currently being undertaken, with the first 3 completed and producing to tank with the 4th well expected to be completed in the next 2 weeks.
- Approximate cost per completed well US$350,000.

WILLISTON BASIN – SHORELINE PROJECT (NON OPERATOR)

- No work was undertaken over the period.

APPALACHIA – CONVENTIONAL OIL & GAS PRODUCTION

- Production – Gross 1,262,025 Mcf; Net 961,080 Mcf, Gross 4,564 Bbl; Net 2,679 Bbl.
- Net Daily Production – 5,369 Mcf/d (previous corresponding period 5,406 Mcf/d).
- ~300,000 gross acres, spanning nine counties in New York and 4 in Pennsylvania.
- ~1,800 operating wells.
- 99% of properties operated by Empire Energy.
- WI = 97.5% / NRI = 76%.
- Well depths range from approximately 3,200ft – 4,000ft.
- 100's of Pud locations for drilling at economic pricing.
- 2P = 45.1 Bcf.
- Estimated 2P PV10 value US$43.5 million.
- Field operations continue to focus on reducing shrinkage from the current estimated 10% to 12% of gross production.
- Employees 39 (including contractors).

APPALACHIA – UNCONVENTIONAL

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

Executive Chairman's Review of Operations (Continued)

Shale - Potential Resources/Reserves (3P+3C) – Total Marcellus Acreage +200,000ac

Formation	Reserve Acreage	Type	Category	
Marcellus (1)	~100,000 (2)	Oil (1)	Resource (3C)	70,295.0 MBbl
Marcellus	~100,000 (2)	Gas (4)	Possible (3P)	199.4 Bcf

Shale - Potential Resources (3C) – Total Utica Acreage +140,000ac

Formation	Reserve Acreage	Type	Category	GIP
Utica (3)	18,000 (2)	Gas	Resource (3C)	4,638.0 Bcf

Notes:
(1) Wells within the defined Marcellus oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. The most likely outcome was utilized with a 3% RF (recovery factor).
(2) Resource based on portion of total estimated Marcellus and Utica acreage.
(3) Utica shale gas potential resources have only been calculated for the region where drill data is available. Very few wells have been drilled into the Utica and estimates for GIP have only been made were the few existing wells have been drilled. Empire holds additional acreage outside the current potential resource region. It is expected that as with shale characteristics, the shale formations will continue within the remaining acreage. The potential GIP should increase if more data was available.
(4) Under current capital and gas prices, it is estimated that the Marcellus shale gas wells would be uneconomic.

WHOLLY OWNED OPERATIONS

Net Operating Costs for the parent company and its wholly owned subsidiaries were $835,223 ($864,808 in the corresponding period). Major expenses were consultants $190,757; salaries $149,220; audit & accounting $129,987; listing related expenses $80,713; rent and IT $85,028 and foreign withholding tax $85,000. Depreciation, amortisation & impairment charges were $487,677 ($495,792).

AUSTRALIA - UNCONVENTIONAL OIL & GAS

In early 2010 Empire Energy Group Limited identified the MacArthur Basin as having attractive potential for shale oil and gas and has secured 7 exploration licence applications in the MacArthur Basin, Northern Territory. The Company is seeking to have 3 of the licences issued in the short term. Exploration and negotiation costs over the period were US$337,890 (US$183,813).

The information in this announcement which relates to reserves is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas and LaRoche Petroleum Consultants, Dallas, Texas who are certified professional engineers with over five years experience and are qualified in accordance with the requirements of ASX Listing Rule 5.11.

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

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 2012 and the Auditor's Review Report thereon.

1. PRINCIPAL ACTIVITIES

During the half-year financial period ended 30 June 2012 the principal continuing activities of the consolidated entity consisted of:

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

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

2. CONSOLIDATED RESULTS

The consolidated net loss of the consolidated entity for the six month period ended 30 June 2012 after providing income tax was US$342,780 compared with a profit of US$662,682 for the previous corresponding period ended 30 June 2011.

To assist stakeholders to gain a more precise understanding of the financial operations of the Company, as shown in the Executive Chairman's Review of Operations Report contained on pages 4 to 13, the financial results have been prepared under the traditional EBITDAX accounting format.

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 13 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

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

a) Capital Structure

Contributed equity of the Company increased by US$985,923 from (US$71,195,874 to US$72,181,797) during the interim financial period as a result of:

Director's Report (Continued)

Issue of 6,666,666 fully paid ordinary shares in June 2012 pursuant to the exercise of unlisted options @A$0.15 expiring 22/6/12	US$990,380
Less ASX costs associated with the conversion of options	US($4,457)
	US$985,923

Funds raised from the exercise of options was applied towards the reduction of bank debt.

6. MATTERS SUBSEQUENT TO BALANCE DATE

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

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

The DEC planned for a 60 day public comment period commencing August 2011. The public comment period was then extended to January 2012, The DEC is currently in the process of preparing responses to the 13,000 comments it received during the first public comment period and the tens of thousands of comments it received during the second public comment period. These responses are to be included in the final Supplemental Generic Environmental Impact Statement (SGEIS) and the final regulations which the DEC has indicated will be released later this year.

The Company has extensive Marcellus (~200,000 net acres) and Utica (~140,000 net acres) shale acreage in New York State, the ending of the hydraulic fracturing moratorium will enable the Company to seek ways to monetise this asset over the medium term.

With the exception of those matters referred to above there is no other matter or circumstance that has arisen since 30 June 2012 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2012 of the group;
- the results of those operations; or
- state of affairs, in financial years subsequent to 30 June 2012 of the group

On 7 September 2012 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 31 and forms part of the Director's Report for the six month period ended 30 June 2012.

Signed in accordance with a resolution of the Directors.

B W McLeod
Signed at Sydney this 13th of September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 30 June 2012

	Note	Six months ended June 2012 US$	Six months ended June 2011 US$
Revenue from continuing operations		13,730,272	13,826,117
Gain on sale of acreage	2	-	1,092,250
Other income		174,461	238,076
		13,904,733	15,156,443
Expenses			
Oil and gas production		(5,500,942)	(4,984,196)
Exploration assets written off		(523,631)	-
Lease expiration expenses		(913,825)	-
Impairment of assets		(140,537)	(211,787)
Depreciation, depletion and amortisation		(2,370,016)	(2,618,785)
General and administration		(2,341,868)	(2,345,100)
Finance costs		(3,579,153)	(3,660,418)
Other expenses		(54,258)	-
(Loss)/Profit before income tax expense from continuing operations		(1,519,497)	1,336,157
Income tax benefit/(expense)		1,176,717	(673,475)
(Loss)/profit after income tax (expense)/benefit from continuing operations		(342,780)	662,682
Other comprehensive income			
Gain on the revaluation of available-for-sale assets		(405,403)	46,333
Exchange differences on translation of foreign operations		45,289	61,639
Net change in the fair value of cash flow hedges, net of tax		1,184,926	(1,291,915)
Other comprehensive income for the period, net of tax		824,812	(1,183,943)
Total comprehensive income for the period		482,032	(521,261)
(Loss)/profit for the period is attributable to:			
Equity holders of Empire Energy Group Limited		(343,783)	515,380
Non-controlling interests		1,003	147,303
		(342,780)	662,683
Total comprehensive income for the period is attributable to:			
Equity holders of Empire Energy Group Limited		334,121	(539,843)
Non-controlling interests		147,911	18,582
		482,032	(521,261)
		Cents per share	Cents per share
Basic earnings per share	11	(0.12)	0.27
Diluted earnings per share	11	(0.12)	0.27

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	30 June 2012 US$	31 December 2011 US$
CURRENT ASSETS			
Cash and cash equivalents		3,955,927	4,448,495
Trade and other receivables		4,881,676	5,577,262
Prepayments and other current assets		250,008	417,677
Inventory		971,083	585,822
Financial assets, including derivatives		4,382,000	4,243,779
Current income tax receivable		2,068,233	552,000
TOTAL CURRENT ASSETS		16,508,927	15,825,035
NON-CURRENT ASSETS			
Financial assets, including derivatives		7,419,912	6,942,218
Oil and gas properties	5	93,400,198	96,460,487
Property, plant and equipment	5	6,752,332	3,842,386
Intangible assets	6	76,835	83,308
TOTAL NON-CURRENT ASSETS		107,649,277	107,328,399
TOTAL ASSETS		124,158,204	123,153,434
CURRENT LIABILITIES			
Trade and other payables		6,710,119	4,161,263
Financial liabilities, including derivatives		26,451	1,229,486
Interest-bearing liabilities	7	50,450,451	53,896,869
Provisions	8	80,124	93,464
Current tax liability		-	-
TOTAL CURRENT LIABILITIES		57,267,145	59,381,082
NON-CURRENT LIABILITIES			
Financial liabilities, including derivatives		-	1,136,390
Interest-bearing liabilities		47,365	54,806
Provisions	8	5,404,244	4,944,295
Deferred Tax Liability		9,750,000	7,610,331
TOTAL NON-CURRENT LIABILITIES		15,201,609	13,745,822
TOTAL LIABILITIES		72,468,754	73,126,904
NET ASSETS		51,689,450	50,026,530
EQUITY			
Contributed equity	9	72,181,797	71,195,874
Reserves		8,976,939	8,421,566
Accumulated losses		(31,353,960)	(31,327,674)
Equity attributable to:			
Equity holders of Empire Energy Group Limited		49,804,776	48,289,766
Non-controlling interests		1,884,674	1,736,764
TOTAL SHAREHOLDERS' EQUITY		51,689,450	50,026,530

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 2012

	Note	Six months ended June 2012 US$	Six months ended June 2011 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		14,567,629	14,218,674
Payments to suppliers and employees		(7,105,261)	(7,813,652)
Interest received		35,707	25,827
Interest paid		(1,323,414)	(1,981,370)
Income taxes paid		65,025	-
Net cash flows from operating activities		6,239,686	4,449,479
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments in equities		-	134,022
Payments for oil and gas assets	5	(1,617,767)	(947,049)
Payments for property, plant and equipment	5	(358,400)	(327,485)
Payments for investments in equities		(100,000)	(28,619)
Payments for promissory note		(300,000)	-
Net cash flows from investing activities		(2,376,167)	(1,169,131)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuing of shares		985,923	14,011,545
Proceeds from interest bearing liabilities		-	286,961
Repayment of proceeds from issuing shares		-	-
Repayment of interest bearing liabilities		(5,374,554)	(8,779,087)
Finance lease payments		(6,842)	(6,448)
Distribution to non-controlling interests		-	-
Net cash flows from financing activities		(4,395,473)	5,512,971
Net (decrease)/increase in cash and cash equivalents		(531,954)	8,793,319
Cash and cash equivalents at beginning of financial period		4,448,495	2,665,474
Effect of exchange rate changes on cash and cash equivalents		39,386	31,143
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD		3,955,927	11,489,936

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2012

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 2011	71,195,874	5,249,754	150,387	3,021,425	(31,327,674)	48,289,766	1,736,764	50,026,530
Total Comprehensive income for period								
Profit after income tax from continuing operations	-	-	-	-	(343,783)	(343,783)	1,003	(342,780)
Exchange differences on translation of foreign operations	-	-	45,289	-	-	45,289	-	45,289
Gain on the revaluation available-for-sale investments, net of tax	-	(405,403)	-	-	-	(405,403)	-	(405,403)
Net change in the fair value of cash flow hedges, net of tax	-	1,038,018	-	-	-	1,038,018	146,908	1,184,926
Total comprehensive income for the period	**-**	**632,615**	**45,289**	**-**	**(343,783)**	**334,122**	**147,911**	**482,032**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	990,380	-	-	-	-	990,380	-	990,380
Less: share issue transaction costs	(4,457)	-	-	-	-	(4,457)	-	(4,457)
Options lapsed in period, transferred to retained earnings	-	-	-	(317,498)	317,497	-	-	-
Options issued during the period	-	-	-	194,964	-	194,964	-	194,964
Warrants issued during the period	-	-	-	-	-	-	-	-
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	-	-
Total transactions with owners	**985,923**	**-**	**-**	**(122,533)**	**317,497**	**1,180,888**	**-**	**1,180,888**
Balance at 30 June 2012	**72,181,797**	**5,882,370**	**195,676**	**2,898,893**	**(31,353,960)**	**49,804,776**	**1,884,674**	**51,689,450**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2010	55,486,551	2,021,792	334,942	2,057,718	(26,847,184)	33,053,819	2,343,821	35,397,640
Effect of prior period adjustment		789,850			(4,270,000)	(3,480,150)		(3,480,150)
Revised 31 December 2010	55,486,551	2,811,642	334,942	2,057,718	(31,117,184)	29,573,669	2,343,821	31,917,490
Total Comprehensive income for year								
Profit for the period	-	-	-	-	515,380	515,380	147,303	662,683
Exchange differences on translation of foreign operations	-	-	61,639	-	-	61,639	-	61,639
Loss on available-for-sale investments	-	64,589	-	-	-	64,589	-	64,589
Reclassification adjustment on available-for-sale investments transferred to the profit & loss	-	(18,256)	-	-	-	(18,256)	-	(18,256)
Issue of warrants						-		-
Loss on cash flow hedges, net of tax	-	(1,163,194)	-	-	-	(1,163,194)	(128,722)	(1,291,915)
Total comprehensive income for the period	**-**	**(1,116,861)**	**61,639**	**-**	**515,380**	**(539,843)**	**18,582**	**(521,261)**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	14,793,059	-	-	-	-	14,793,059	-	14,793,059
Less: share issue transaction costs	(781,514)	-	-	-	-	(781,514)	-	(781,514)
Options lapsed in the period, transferred to retained earnings	-	-	-	-	-	-	-	-
Options issued during the period	-	-	-	87,555	-	87,555	-	87,555
Warrants issued during the period	-	-	-	888,716	-	888,716	51,525	940,241
Dilution of non-controlling interest	-	38,242	-	11,568	571,884	621,694	(621,694)	-
Total transactions with owners	**14,011,545**	**38,242**	**-**	**987,838**	**571,884**	**15,609,510**	**(570,169)**	**15,039,341**
Balance at 30 June 2011	**69,498,096**	**1,733,023**	**396,581**	**3,045,556**	**(30,029,920)**	**44,643,337**	**1,792,234**	**46,435,571**

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 2012

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 2012 comprises the Company and its controlled entities ("Consolidated Entity").

These general purpose financial statements for the interim half-year reporting period ended 30 June 2012 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 2011 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.*

Because of sustained international growth, the Empire Group's cash flows and economic returns are now denominated in US dollars ("US$"). From 1 July 2011, the Company changed the currency in which it presents its consolidated financial statements from Australian dollars ("A$") to US$. The change has no impact on the net results of the consolidated entity other than presentation in US$ instead of A$. The Directors' consider the change in presentation currency will provide shareholders with a more consistent and meaningful presentation of the Empire Group's underlying performance.

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 $40,758,218. This is primarily due to the Debt facilities being classified as a current liability as the debt facilities are due to expire in February 2013. The Directors are currently considering their options, including extending the facilities which the Director's believe is highly likely.

There is an inherent uncertainty as to whether the facilities can be refinanced or extended.

This material uncertainty may cast significant doubt as to the Empire Group's ability to continue as a going concern.

The ongoing operations of the Empire Group is dependent upon the successful refinancing or extension of the existing debt facilities.

In the event that the Empire Group does not refinance or extend the terms of the debt facilities, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (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. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets.
The consolidated entity has applied *AASB 2010-8* from 1 January 2012. Amendments offer a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life.
AASB 1054 Australian Additional Disclosures
The consolidated entity has applied *AASB1054* amendments from 1 January 2012. The standard sets out the Australian-specific disclosures, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

AASB 2011-1 Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project
The consolidated entity has applied *AASB 2011-1* amendments from 1 January 2012.They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRS but without any intention to change requirements.

NOTE 2 – GAIN ON SALE OF ACREAGE

On 30 June 2010, the Consolidated Entity sold its interests in Marcellus shale leaseholds in 5,897 acres for $25,708,374. A gain of $23,529,373 was recognised for the 5,897 acres for the period ended 30 June 2010. On 1 July 2010, the Company received $24,616,124 in connection with the sale. The difference of $1,092,250 represents payment for an additional 257 acres from which the Consolidated Entity delivered clear title to the interest, and recognised the gain from the sale in the period ended 30 June 2011.

NOTE 3 – LEASE EXPIRATION EXPENSES

A charge of $913,825 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 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	
in USD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue (external)	13,730,272	13,826,117	-	-	-	-	-	-	13,730,272	13,826,117
Other income (excluding Finance income)	147,235	1,162,807	-	31,503	7,835	110,189	-	-	155,070	1,304,499
Reportable segment profit/(loss) before tax	3,127,984	6,201,897	(158,881)	(46,937)	(928,838)	(1,184,212)	-	-	2,040,265	4,970,748
Finance income	-	-	526,508	93,538	19,391	25,827	(526,508)	(93,538)	19,391	25,827
Finance costs	(4,096,951)	(3,740,537)	-	-	(8,710)	(13,419)	526,508	93,538	(3,579,153)	(3,660,418)
Profit/(loss) for the period before tax									**(1,519,497)**	**1,336,157**
Reportable segment assets	122,298,851	115,784,737	35,164,747	27,901,362	1,565,222	7,624,632	(34,870,616)	(26,929,923)	124,158,204	124,380,808

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 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 2012 (continued)

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

	Note	Oil & Gas	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$							
At 1 January 2012		108,452,479	2,056,355	304,209	1,374,626	721,319	112,908,988
Additions		3,424,874	658	-	386,978	764	3,813,274
Write-off of asset retirement obligation		(4,939)	-	-	-	-	(4,939)
Disposals		(2,898,787)	-	-	(153,203)	-	(3,051,990)
Write-off of exploration expenses		(185,742)	-	-	-	-	(185,742)
Transfer to prepaid expenses		(350,155)	-	-	-	-	(350,155)
Reclassifications		(2,669,279)	(2,026,389)	-	4,695,668	-	-
Lease expiration expenses		(913,825)	-	-	-	-	(913,825)
At 30 June 2012		104,854,626	30,624	304,209	6,304,069	722,083	112,215,611
Accumulated Depreciation in US$							
At 1 January 2012		(11,991,992)	-	(16,181)	(372,260)	(225,682)	(12,606,115)
Depreciation and depletion		(2,227,623)	-	(3,902)	(61,654)	(70,368)	(2,363,547)
Disposals		2,765,187	-	-	140,937	-	2,906,124
Impairment		-	-	-	-	-	-
Reclassification		-	-	-	-	-	-
At 30 June 2012		(11,454,428)	-	(20,083)	(292,977)	(296,050)	(12,063,538)
Opening written down value		**96,460,487**	**2,056,355**	**288,028**	**1,002,366**	**495,637**	**100,302,873**
Impact of foreign currency adjustments		**-**	**-**	**-**	**128**	**329**	**457**
Closing written down value		**93,400,198**	**30,624**	**284,126**	**6,011,220**	**426,362**	**100,152,530**

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (continued)

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

	Note	Oil & Gas	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$							
At 1 January 2011		106,938,571	2,019,925	244,644	985,976	1,434,004	111,623,120
Additions		2,755,266	36,430	-	418,415	23,243	3,233,354
Write-off of asset retirement obligation		(50,717)	-	-	-	-	(50,717)
Disposals		-	-	-	(304,285)	(775,546)	(1,079,831)
Write-off of exploration expense		(471,265)	-	-	(5,102)	-	(476,367)
Reclassifications		(369,226)	-	59,565	279,806	29,855	-
Transfers to inventory		(350,150)	-	-	-	-	(350,150)
At 31 December 2011		108,452,479	2,056,355	304,209	1,374,810	711,556	112,899,409
Accumulated Depreciation in US$							
At 1 January 2011		(7,360,152)	-	(8,660)	(546,482)	(552,373)	(8,467,667)
Depreciation and depletion		(4,631,840)	-	(7,557)	(136,955)	(232,525)	(5,008,877)
Disposals		-	-	-	313,450	699,707	1,013,157
Impairment		-	-	-	-	(133,347)	(133,347)
At 31 December 2011		(11,991,992)	-	(16,217)	(369,987)	(218,538)	(12,596,734)
Opening written down value		**99,578,419**	**2,019,925**	**235,984**	**439,493**	**881,631**	**103,155,452**
Impact of foreign currency adjustments		**-**	**-**	**-**	**7**	**191**	**198**
Closing written down value		**96,460,487**	**2,056,355**	**287,992**	**1,004,830**	**493,209**	**100,302,873**

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (continued)

	June 2012 $	December 2011 $
NOTE 6 - INTANGIBLE ASSETS		
Goodwill	68,217	68,217
Other intangible assets	8,618	15,091
	76,835	83,308
Other Intangible assets		
Carrying value at beginning	15,091	82,466
Transfer to debt	-	(31,520)
Amortisation	(6,473)	(35,855)
	8,618	15,091

NOTE 7 - INTEREST BEARING LIABILITIES

a. As at June 30, 2012 the Company, through its wholly owned subsidiary Imperial Resources, LLC had advanced US$2.68 million in unsecured convertible loans (with a 10% coupon and converting to ordinary Units on a 1:1 basis) to its 95.38% owned subsidiary Empire Energy USA, LLC.

For each of the loans interest is accruing at the interest rate shown. The Company has the option to convert each loan to ordinary Units. If The Company converted all loans to Ordinary Units it would hold 95.85% of the total issued capital of Empire Energy USA, LLC (in addition Macquarie Bank Limited holds warrants to take up 10% of the total diluted ordinary Units on issue).

b. 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.

Under the terms of the Loan Facility (“Facility”), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding. This is expected to be repaid within a 3 year period. The Facility is due to expire in February 2013, it is anticipated that the facility will be rolled over. Negotiations for renewal of the Facility are expected to commence within the next two months.

During the period the Group repaid $5,374,554 of its interest bearing facilities.

As at 30 June 2012 the loan covenants were all in compliance.

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (continued)

NOTE 8 - PROVISIONS	**June 2012 $**	**December 2011 $**
Current		
Employee entitlements	80,124	93,464
Non-current		
Asset retirement obligations	5,404,244	4,944,295
Movement in Asset Retirement Obligation		
Balance at beginning of period	4,944,295	4,491,624
Additions	107,107	-
Write-off of accrued plugging costs	(4,939)	(50,717)
Accretion in the period, included in amortisation expense	357,781	503,388
Balance at end of period	5,404,244	4,944,295

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 2012 (continued)

NOTE 9 - CONTRIBUTED EQUITY

	CONSOLIDATED 6 months to 30 June 2012	
	No. of shares	US$
a) Shares		
Issued Capital		
Balance at beginning of period	291,530,350	71,195,874
Movement in ordinary share capital		
- Issues of fully paid ordinary shares in June 2012 pursuant to the exercise of options expiring 22/6/12	6,666,666	990,380
Less: ASX costs associated with the share issue	-	(4,457)
Balance at 30 June 2012	298,197,016	72,181,797

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 2012	26,866,664
Movements	
Granted	
- 3,250,000 options were granted pursuant to the Company's Employee Share Option Plan to key management personnel on 20 April 2012,the options are exercisable @ A$0.35 and expire 31 December 2014	
- 3,500,000 options were granted pursuant to the Company's Employee Share Option Plan to Directors on 1 June 2012 following shareholder approval obtained at AGM held 31 May 2012. The options are exercisable @ A$0.35 and expire 31 December 2014.	
- 250,000 options were granted pursuant to the Company's Employee Share Option Plan to key management personnel on 30 June 2012,the options are exercisable @ A$0.35 and expire 31 December 2014.	7,000,000
No options were granted since the end of the half-year financial period	
Exercised	
- 6,666,666 unlisted options were exercised by Macquarie Bank Limited in June 2012. The options were exercisable @ A$0.15 and expiring 22 June 2012.	(6,666,666)
No options were exercised since the end of the half-year financial period	
Expired	
No options have expired during or since the end of the half-year financial period	-
Balance as at 30 June 2012	27,199,998

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (continued)

NOTE 9 -CONTRIBUTED EQUITY (Continued)

At balance date the Empire Group had the following securities on issue:

Shares

298,197,016 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 27,199,993 unissued share under option.
These options are exercisable on the following terms:

Number of options		Exercise Price (A$)	Expiry Date
6,666,666		$0.165	22 December 2012
6,666,666		$0.18	22 December 2012
66,666	Executive Options	$0.1575	5 March 2013
3,500,000	Executive Options	$0.15	1 July 2013
1,650,000	Executive Options	$0.17	1 July 2013
1,650,000	Executive Options	$0.18	31 December 2013
7,000,000	Executive Options	$0.35	31 December 2014
27,199,998			

NOTE 10 - DIVIDENDS

No dividends have been declared or paid during the period.

NOTE 11 - EARNINGS PER SHARE

	June 2012	June 2011
Basic earnings per share (cents per share)	(0.12)	0.27
Diluted earnings per share (cents per share)	(0.12)	0.27
(Loss)/Profit used in the calculation of basic and diluted earnings per share	(343,783)	515,380
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	291,823,390	192,573,483
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	291,823,390	192,573,483

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2012 (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 - BUSINESS COMBINATIONS

On 17 July 2012 Empire Energy E&P, LLC announced that it had acquired a 97.9% working interest in producing petroleum properties located in Gove County in the Central Kansas Uplift, Kansas (the "Acquired Assets") for a purchase price of US$1.7 million in cash, subject to closing adjustments. The effective date of this transaction was 1 June 2012 and has been reflected in this financial report. No cash was paid prior to 30 June 2012 and the acquisition-date fair value of assets acquired and liabilities assumed was the same as the total consideration.

The Acquired Assets consist of 3,360 gross (2,648 net) acres on land with total preliminary estimated proved and probable recoverable reserves of 470,000 barrels of oil. As at July 1, 2012 the working interest production from the Acquired Assets was approximately 20 Bbl/d, which Empire Energy expects to increase through targeting 2 behind pipe Mississippian and Pennsylvanian carbonate opportunities identified by 3D seismic, plus an initial 11 seismic identified drilling locations to be targeted over 2012/13. The Company is the operator of the new assets.

NOTE 14 - EVENTS OCCURRING AFTER THE REPORTING DATE

The Company has extensive Marcellus (~200,000 net acres) and Utica (~140,000 net acres) shale acreage in New York State, the ending of the hydraulic fracturing moratorium will enable the Company to seek ways to monetise this asset over the medium term.

With the exception of those matters referred to above there is no other matter or circumstance that has arisen since 30 June 2012 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2012 of the group;
- the results of those operations; or
- state of affairs, in financial years subsequent to 30 June 2012 of the group

The financial report was authorised for issue by a resolution of Directors.

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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 2012 I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Andrew Hoffmann
Partner

Sydney
13 September 2012

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DIRECTORS' DECLARATION

For the half-year ended 30 June 2012

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 2012 and of its performance, as represented by the results of its operations and its cash flows, for the six month period ended on that date; and

    b) complying with Accounting Standard AASB 134 "*Interim Financial Reporting*" and the Corporations Regulations 2001; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

B W McLeod
Executive Chairman
Dated this 13th day of September 2012.

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INDEPENDENT AUDITOR'S REPORT

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

We have reviewed the accompanying interim financial report of Empire Energy Group Limited, which comprises the consolidated interim Statement of Financial Position as at 30 June 2012, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 14 and the Directors' Declaration.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 June 2012 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 2012 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1, "Going Concern" in the financial report, which indicates that the consolidated entity has an excess of current liabilities over current assets of $40,758,218 at the year-end and the debt facilities expire in February 2013. These conditions, along with matters set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Andrew Hoffmann
Partner

Sydney
13 September 2012