



Level 7
151 Macquarie Street
Sydney NSW 2000
Ph: 9251 1846
Fax: 9251 0244
(ASX: EEG)
(OTCQX: EEGNY)
www.empireenergygroup.net

Quarterly Report – For the period ending 31 December 2012

31 January 2012

HIGHLIGHTS FOR 4th QUARTER

- Est. oil & gas net revenue for the period US\$6.4 million (3Q2012: US\$6.7 million).
- Unaudited Field EBITDAX of US\$4.2 million (3Q2012: US\$4.4 million).
- Gross production
 - Oil: 68,420 Bbls (3Q2012: 72,027) -5%.
 - Gas: 627,917 Mcf (3Q2012: 627,599) %Flat.
- Est. Group EBITDAX of US\$3.3 million (3Q2012: US\$2.7 million) +22%.
- Cash on hand US\$6.15 million.
- 6,666,666 options at A\$0.165 were exercised by Macquarie Bank Limited increasing their shareholding in Empire Energy Group Limited to 17.6%
- Appalachia region:
 - In New York State, the industry is waiting for a decision on fracking from the Department of Environmental Conservation. A decision is expected by mid to late February 2013.
 - Additional gas wells have been acquired which can be managed by the Company with little or no additional costs, while at the same time consolidating acreage.
 - Negotiations have been completed for the acquisition of around 600 miles of pipeline from the local utility. Once transferred to the Company it is expected shrinkage will be reduced by around 50% and add a further 400Mcf/d at no additional operating cost.
- Mid-Con region:
 - The fifth well, Apel #4 in the current drilling program was completed in January 2013. Current production from the Lansing/Kansas City formations is 30 Bbl/d with a 15% oil cut. The next well is planned for drilling in February 2013.
 - Since mid-2012, an additional 5,600 gross acres of Mississippian and Arbuckle/LKC acreage has been leased in Central Kansas. This increases the

Company's total acreage in the Central Kansas Uplift by around 30% and provides an additional 23 to 25 new drilling locations subject to completion of seismic.

- The Company is seeking opportunities to increase production in the region.
- Northern Territory:
 - On January 30, 2013 the Chairman of the Northern Land Council and a senior traditional owner in East Arnhem Land, Mr Wunungmurra, issued an Open Letter (attached to this Report) to the Chief Minister of the Northern Territory urging the fast tracking of gas development and exploration in the Territory, to help ensure the strategic 'Gas to Gove' program as well as establishing long term benefits to all Territorians.
 - In the Company's East Arnhem Land EP(A)'s 180, 181 & 182, a geological reconnaissance program and a water quality and flora & fauna study was completed over the past quarter.
 - A further meeting with the Northern Territory Chief Minister's 'strategic gas action group'.
 - Implementation of geo-modeling program for the East Arnhem Land tenements.
 - The sampling program of 650 core samples from prospective McArthur Basin black shale formations is continuing.
 - Finalizing of seismic and drilling programs for 2013 on the expectation the Exploration Agreements with the Traditional Owners will be completed prior to the end of the wet season (April/May 2013).

OPERATING REVIEW

A. EMPIRE ENERGY GROUP LIMITED

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

- Net Operating Profit/Expense: +US\$82,080 (3Q2012: -\$363,440), consisting of:
 - Revenues US\$345,500 (3Q2012: \$3,230)
 - Directors/Consultants: US\$90,860 (3Q2012: \$91,560)
 - Employment Costs: US\$65,500 (3Q2012: \$91,480)
 - Listing Expenses: US\$30,900 (3Q2012: \$58,280)
 - G&A: US\$76,140 (3Q2012: \$125,360)

Exercise of Options

On December 24, 2012, Macquarie Bank Limited exercised a tranche of 6,666,666 options at an exercise price of A\$0.165 raising A\$1.1 million in new funds. A second tranche of 6,666,666 options exercisable at A\$0.18 were not exercised and subsequently lapsed.

B. EMPIRE ENERGY USA, LLC (95%)

The Company's operations are in the Central Kansas Uplift Region (oil), Kansas and in the Appalachian Basin (gas), New York and Pennsylvania.

Operations

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.

Estimated Production

Qtr	Net Bbl	Av Price \$/bbl	Net Mcf	Av Price \$/Mcf	Net Boe	Net Boe/d
Mar-12	48,697	\$88.21	539,135	\$5.97	138,553	1,539
Jun-12	44,205	\$80.75	455,513	\$6.13	120,124	1,335
Sep-12	46,203	\$84.47	467,352	\$5.82	124,095	1,379
Dec-12	43,842	\$83.47	470,804	\$5.61	122,309	1,359
Year	182,947	\$84.33	1,932,804	\$5.88	505,081	1,384

- Kansas – production lower than forecast due to:
 - Continuing well work overs.
- Appalachia – gas production remained slightly below forecast due to:
 - High line pressure on third party distribution lines due to maintenance restricted production on sales meters.
 - Third party gas line shrinkage. As noted above, this is expected to improve once the Company can acquire the same gas lines to enable all production to be transported over Company owned and maintained gas lines through to the sales meters.

Estimated Field Operating Revenues

Qtr	Net Revenue US\$M	LOE US\$M	Prod. Taxes US\$M	Field EBITDAX US\$M	Leases US\$M	N/recurr. Expenses US\$M	F&A Costs US\$M	Field G&A US\$M	G&A (1) US\$M	Other (2) US\$M	EBITDAX US\$M
Mar-12	\$7,404	\$1,743	\$333	\$5,328	\$57	\$290	\$106	\$156	\$432	\$113	\$4,174
Jun-12	\$6,300	\$1,920	\$309	\$4,071	\$258	\$694	\$156	\$117	\$402	\$61	\$2,383
Sep-12	\$6,710	\$1,974	\$315	\$4,421	\$109	\$243	\$150	\$136	\$312	\$374	\$3,097
Dec-12	\$6,377	\$1,818	\$326	\$4,233	\$24	\$178	\$196	\$146	\$346	\$127	\$3,216
Year	\$26,791	\$7,455	\$1,283	\$18,053	\$448	\$1,405	\$608	\$555	\$1,492	\$675	\$12,870

(1) Corporate/G&A costs for US operations

(2) Major expenses include movement in inventory, acquisition costs & land/leasing costs:

- Change in inventory US\$37,000 (3Q2012: \$131,000)
- Costs relating to potential acquisitions US\$90,000 (3Q2012: \$138,000)
- Leasing & property costs US\$Nil (3Q2012: \$105,000)

Estimated Key Operating Ratios:

Qtr	Av Price	LOE	Non-recurr	Taxes	Net Other	Av Price	LOE	Non-recurr	Taxes (1)	Net Other
	\$/Bbl	\$/Bbl	\$/Bbl	\$/Bbl	\$/Bbl	\$/Mcf	\$/Mcf	\$/Mcf	\$/Mcf	\$/Mcf
Mar-12	\$88.21	\$21.12	\$4.79	\$4.16	\$1.17	\$5.97	\$1.59	\$0.17	\$0.30	-\$0.16
Jun-12	\$80.75	\$23.34	\$13.71	\$4.08	\$1.69	\$6.13	\$1.60	\$0.22	\$0.30	-\$0.45
Sep-12	\$84.47	\$23.20	\$3.33	\$3.07	\$0.00	\$5.82	\$1.93	\$0.19	\$0.37	\$0.00
Dec-12	\$83.47	\$22.22	\$2.87	\$3.58	\$0.89	\$5.61	\$1.79	\$0.11	\$0.36	\$0.00
Av Year	\$84.33	\$22.47	\$6.18	\$3.72	\$0.94	\$5.88	\$1.73	\$0.17	\$0.33	-\$0.15

(1) - Taxes include severance, ad valorem and production taxes

Estimated Netbacks:

- Kansas -oil
 - Netback Mid-Con oil: \$53.91/Bbl (3Q2012 \$54.86/Bbl).
- Appalachia – gas
 - Netback Appalachia gas: \$3.35/Mcf (3Q2012 \$3.33/Mcf).

CAPEX:

Capital expenditure incurred for the period was:

- Kansas: \$141,000 (3Q2012 \$160,000) new well.
- Appalachia: \$168,000 (3Q2012 \$331,000) relating to acquisition of tap into major national pipeline, compressor and additional wells.

Credit Facilities:

Interest expenses accrued over the quarter were \$615,000 (3Q2012: \$665,000). Net debt repaid over the quarter was US\$2.8 million (3Q2012: \$2.2 million).

At the end of the quarter the Company had US\$49.4 million drawn at an average cost of LIBOR + 4.4%. Empire Energy retains Credit Facility availability of ~US\$100.6 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr US\$M	Interest Rate LIBOR+	Interest Qtr US\$M	Interest YTD US\$M
Term	\$45,916	4.50%		
Revolver	\$3,500	2.50%		
	\$49,416	4.36%	\$615	\$1,921

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	Hedged	%	Average	Est. Net	Hedged	%	Average
	Mcf	Mcf		\$/Mcf	Bbl	Bbl		\$/Bbl
2013	2,000,000	1,407,720	70.4%	\$5.97	149,298	113,160	75.8%	\$90.00
2014	1,850,000	1,335,488	72.2%	\$5.91	141,058	105,120	74.5%	\$90.00
2015	1,650,000	1,166,000	70.7%	\$5.45	133,280	98,160	73.6%	\$90.00
2016	1,440,000	1,200,000	83.3%	\$4.43	126,616	42,000	33.2%	\$85.67
2017	1,300,000	570,000	43.8%	\$4.57	120,285	39,600	32.9%	\$85.23
2018	1,200,000	510,000	42.5%	\$4.75				
Total	9,440,000	6,189,208	65.6%	\$5.33	670,537	398,040	59.4%	\$89.07

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

The Company’s wholly owned subsidiary, Imperial Oil & Gas P/L continues to work through landowner negotiations and to prepare the necessary archaeological & work programme documents for its 7 exploration licence applications (14,500,000 acres) that cover around 75% of the petroleum prospective central trough of the onshore McArthur Basin in the Northern Territory, Australia.

McArthur Basin Expenditure:

Current quarter accrued: \$397,900 (3Q2012 \$126,170). Until actual exploration licences are issued, the Company will expense all costs in the year they occur.

McArthur Basin Project Progress:

Action over the last quarter:

- Three more meetings were held with Traditional Aboriginal Landowners in East Arnhem Land areas EP(A) 180, 181, 182 & 183 where they expressed unanimous support to finalise negotiations on the terms of Exploration Agreements for those areas. Negotiations continued to progress the terms of Exploration Agreements in EP(A) 187, 188, and 184.
- With the McArthur Basin Trough (one of the Company’s hydrocarbon targets) being around 80 km from Gove, the Company is strategically located to supply gas if petroleum exploration in the region is successful. A further meeting with the Northern Territory Chief Minister’s ‘strategic gas action group’ took place and a detailed project plan established during the period was presented and achievements to date acknowledged towards accelerating the licensing process and to fast track Imperial’s forward exploration programs in East Arnhem Land.

- In accordance with its detailed project plan, Imperial undertook a field reconnaissance program in areas EP(A) 180, 181 & 182. Senior Traditional Owners participated in all elements of the program. The objectives were to quantify access & logistics for seismic and drilling operations, undertake water quality and flora & fauna studies and to inspect relevant rock outcrops for basin geo-modeling.
- Geochemical analysis commenced on 650 samples from relevant existing cores from the prospective McArthur Basin black shale formations. Around 400 sample analyses were completed during the period and further analysis continues. These samples will help to characterize the nature and distribution of hydrocarbons in the shales within the license areas and to help predict any petroleum 'sweet spots' for shale oil and gas drilling.

ABOUT EMPIRE ENERGY GROUP LIMITED

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

For more information:

Bruce McLeod

Executive Chairman

Empire Energy Group Limited

+61 2 9251 1846

Financial Terminology

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

Note regarding Barrel of Oil Equivalent

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

Note Regarding Forward- Looking Statements

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

Glossary

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



Open Letter to the CHIEF MINISTER

If Pacific Aluminium's refinery closes, all these services will go – along with the lifetime investments of ordinary Territorians.

Without a local hospital, every expectant mother will have to be medically evacuated to Darwin. Without a high school, Aboriginal children will not get an education followed by full-time work and a productive life.

Currently Darwin has gas until 2034, after which a new gas supply must be found. Pacific Aluminium asks to purchase some of that gas, bringing forward the need to find a new gas supplier to 2027.

This is a fair and workable compromise regarding what is currently the only source of gas in the Northern Territory.

It draws the right balance between the city and the bush, and means a crucial public resource – gas – will be fairly shared by all Territorians.

It guarantees \$1.2 billion of development to upgrade the refinery and build the pipeline, with employment for Aboriginal people in communities – and continues the current \$170 million to local Darwin and Gove suppliers, and royalties and taxes to the Government for the public good.

And by doubling the market for gas it will stimulate exploration and secure gas well before 2027.

The NLC cleared the Gove pipeline route in 2004, and stands ready to fast-track that development – and gas exploration.

In 1963 I signed the historic bark petition which opposed the Gove refinery and bauxite mine and started the land rights movement, and which is now displayed in Parliament House, Canberra.

In 2011 I signed the historic mining agreement with Rio Tinto Alcan which guarantees the refinery and bauxite mine for another 42 years.

How the wheel turns!

What was conflict is now agreement, what was dispute is now Yolngu and Balanda people working together.

This was a great achievement.

Your election as Chief Minister last year was historic. You came to high office with the support of the city, the towns and the regions, and with the support of both Aboriginal and non-Aboriginal people.

'Gas to Gove' is an opportunity to fulfil the promise of your electoral victory, and deliver an outcome which benefits all Territorians and brings people together as one.



Northern Land Council

AS Chairman of the Northern Land Council and a senior traditional owner in East Arnhem Land, I urge you – in the interests of all Territorians – to exercise every power of your office to ensure a gas supply to Gove and secure the future of Pacific Aluminium's alumina refinery.

The refinery is the major employer and economic driver for Nhulunbuy and East Arnhem Land, to the immediate benefit of the town's 4,000 residents and a further 16,000 Aboriginal people living in communities.

More than 20,000 people benefit from access to the local hospital, Woolworths and other retailers, high school, service station, social clubs and other services.