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Quarterly Report – For the period ending 30 September 2013

30 October 2013

HIGHLIGHTS FOR 3rd QUARTER

- Estimated oil & gas net revenue for the period US\$6.2 million (2Q2013: US\$6.8 million).
- Unaudited Field EBITDAX of US\$4.3 million (2Q2013: US\$4.7 million).
- Gross production
 - Oil: 62,361 Bbls (2Q2013: 66,123) -5.7%
 - Gas: 630,114 Mcf (2Q2013: 653,772) -3.6%
- Estimated Group EBITDAX was US\$2.57 million (2Q2013: US\$3.22 million)
- Approximately US\$3.3 million in debt was repaid and cash on hand is US\$3.2 million.
- Continued drilling program in Kansas.
- Completion of the acquisition of ~100 miles of gas pipelines and gathering networks in New York State.
- McArthur Basin – the Company’s first tenement EP 184 was formally granted by the Minister for Mines and Energy enabling exploration activities to commence.
- During the quarter the Company completed the buyback of 40,000 units in Empire Energy USA LLC making it a 100% owned subsidiary of the Company
- In September 2013 RFC Ambrian published a comprehensive study on the unconventional oil and gas potential in Australia. The Company’s unconventional assets are described on page 188. The report, “Australian Unconventional Oil & Gas Report” is available on the Company’s website: <http://www.empireenergygroup.net/investors/research>

OPERATING REVIEW

A. EMPIRE ENERGY USA, LLC (100%)

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

During the quarter the Company completed the buyback of 40,000 units in Empire Energy USA LLC making it a 100% owned subsidiary of the Company subject to the exercise of warrants, equivalent to 10% of the total issued capital of EEUSA held by Macquarie Bank Limited on or before February 2016. The total consideration for the 40,000 units was:

- 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited; and
- 2,500,000 Performance Rights over fully paid ordinary shares in the Company subject to preconditions being met.

Financials

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

Description	30/09/2012 3 months to	30/09/2013 3 months to	30/09/2012 Year-to-Date	30/09/2013 Year-to-Date
<u>Net Revenue:</u>				
Oil Sales	3,933,708.91	3,481,676.96	11,926,814.82	10,757,642.83
Natural Gas Sales	2,638,703.67	2,531,196.15	8,120,477.32	7,841,596.55
Working Interest	1,722.84	6,578.24	7,113.79	19,180.03
Net Admin Income	84,808.56	120,734.87	299,230.76	342,937.51
Other Income	69,030.31	70,468.33	136,705.03	238,814.10
Total Revenue	6,727,974.29	6,210,654.55	20,490,341.72	19,200,171.02
<u>Production costs:</u>				
Lease operating expenses - Oil	852,787.50	813,979.51	2,550,851.13	2,467,396.95
Lease operating expenses - Gas	684,029.38	814,092.93	2,115,116.22	2,281,057.27
Taxes - Oil	143,287.08	157,911.69	522,549.87	487,688.82
Taxes - Natural Gas	173,305.04	153,041.54	471,283.06	461,455.80
Total	1,853,409.00	1,939,025.67	5,659,800.28	5,697,598.84
Field EBITDAX	4,874,565.29	4,271,628.88	14,830,541.44	13,502,572.18
<u>Less:</u>				
Inventory adjustment	131,350.00	(36,731.00)	(91,513.00)	(104,837.00)
Nonrecurring expenses	384,022.46	435,146.30	1,464,354.28	1,126,365.01
Non Field F & A	249,000.00	258,000.00	716,300.00	774,000.00
Total	764,372.46	656,415.30	2,089,141.28	1,795,528.01
Operating EBITDAX	4,110,192.83	3,615,213.58	12,741,400.16	11,707,044.17

Description	30/09/2012 3 months to	30/09/2013 3 months to	30/09/2012 Year-to-Date	30/09/2013 Year-to-Date
Less:				
Field G & A	138,395.66	194,835.84	441,677.44	593,334.74
Corporate G & A	343,468.38	356,640.66	1,160,409.00	1,110,279.18
Acquisition related expenses	140,338.89	77,765.79	269,346.91	136,629.69
Delay rental payments	109,171.46	74,367.68	236,067.21	258,519.91
Land & Leasing costs	105,000.00	269.30	206,813.00	(2,411.31)
Total	836,374.39	703,879.27	2,314,313.56	2,096,352.21
EBITDAX	3,273,818.44	2,911,334.31	10,427,086.60	9,610,691.96
Less:				
Geological Services	5,830.00	22,125.45	21,129.30	37,725.45
Dry hole expenses	10,700.22	1,516.55	101,658.11	27,573.93
Total	16,530.22	23,642.00	122,787.41	65,299.38
EBITDA	3,257,288.22	2,887,692.31	10,304,299.19	9,545,392.58

Production Statistics

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

Description	30/09/2012 3 months to	30/09/2013 3 months to	30/09/2012 Year-to-Date	30/09/2013 Year-to-Date
Gross Production:				
Oil (Bbls)	73,379.99	62,360.99	217,178.98	195,903.21
Natural gas (Mcf)	649,398.96	630,113.87	1,939,186.84	1,879,039.28
Net Production:				
Oil (Bbls)	46,630.08	39,548.93	139,214.30	124,820.87
Natural gas (Mcf)	497,221.35	462,467.00	1,490,046.65	1,434,989.34
Boe/d	1,439	1,296	1,435	1,348
Avg sales price per unit (after hedging)				
Oil (\$/Bbl)	\$84.36	\$88.03	\$85.67	\$86.18
Natural gas (\$/Mcf)	\$5.31	\$5.49	\$5.45	\$5.48
Avg sales price per unit (before hedge)				
Oil (\$/Bbl)	\$86.80	\$99.35	\$90.44	\$92.07
Natural gas (\$/Mcf)	\$2.89	\$3.69	\$2.81	\$3.85
Lifting Costs (incl. taxes):				
Oil - Midcon (\$/Bbl)	-\$23.67	-\$27.46	-\$24.27	-\$26.18
Natural gas - Appalachian (\$/Mcf)	-\$2.15	-\$2.58	-\$2.11	-\$2.36

Appalachia (Western New York and Pennsylvania):

- The purchase of over 100 miles of pipeline and metering stations from National Fuel was completed. The pipeline is split into two systems, Ripley Mina and PY3. Empire Energy has completed all construction work and modifications required on the Ripley Mina system. All work on the PY3 system is expected to be completed in November 2013. The anticipated production increase by eliminating pipeline is expected to be at least 10,500 MCF/month.
- The acquisition of a further 54 acres of mineral rights in the Bradford Oil Field, Allegany County, NY were completed. There are 20 potential locations for shallow oil wells. The permitting process is underway and drilling is scheduled to start before the end of 2013.
- The New York Public Service Commission (PSC) is implementing enhanced regulations concerning pipeline safety. New management protocols will be required which includes mapping of wells, pipelines, compressor stations and relief valves. Empire's O&M manual is being updated for PSC approval.

Mid-Continental (Kansas):

- Over the past quarter the region has experienced extreme heat along with severe electrical storms. This has caused some flooding and power outages, leading to downtime from burnt motors and fuses.
- After around 30 months of negotiations, in August Empire was able to work with the Army Corp. of Engineers, refuge officers, and state biologists to lay a new flow line across a wetlands area of the Quivera National Wildlife Refuge. The new flow line restored production of approximately 11 barrels of oil per day.
- Several meetings with C12 Energy about a possible CO₂ flood in the Hall-Gurney Field. C12 has already secured a CO₂ source and several leases and now we are negotiating the terms of a possible venture.
- Additional acreage was leased in Gove Co. and 3D seismic shoots have been planned.

Capital Expenditure:

Description	30/09/2012 3 months to	30/09/2013 3 months to	30/09/2012 Year-to-Date	30/09/2013 Year-to-Date
Acquisition Capital	25,000.00	2,250.01	1,211,000.00	2,750.01
New Wells - IDC	135,385.12	38,395.13	1,391,356.53	612,460.21
New Wells - Capital	84,704.46	116,234.41	430,356.37	427,479.72
Undeveloped Leases	285,918.93	99,849.24	1,225,842.14	306,500.08
Capital Expenditures	<u>531,008.51</u>	<u>256,728.79</u>	<u>4,258,555.04</u>	<u>1,349,190.02</u>

Wells drilled over the period:

- Two new wells in Gove County were drilled to test locations identified by seismic data acquired in 2012. The structures came in high as predicted by the seismic, but they were tight and considered uneconomic so the wells were plugged. The data gained from these new wells is being re-evaluated to determine new targets in the area.

- A further two wells were drilled in the Bemis-Shutts field with both showing multi commercial pay zones and so are being completed, initially in the Arbuckle formation.

Credit Facilities:

Interest & Taxes

Description	30/09/2012	30/09/2013	30/09/2012	30/09/2013
	3 months to	3 months to	Year-to-Date	Year-to-Date
Interest	642,053.09	537,384.45	1,951,025.16	1,679,527.61
State taxes	1,352.46	3,772.00	18,106.91	4,918.31
Earnings before Tax	643,405.55	541,156.45	1,969,132.07	1,684,445.92
EBITDA/Interest (times)	5.06	5.34	5.23	5.67

Net debt repaid over the quarter was US\$3.3 million (2Q2013: \$2.0 million).

At the end of the quarter the Company had US\$42.5 million drawn at an average cost of LIBOR + 4.34%. Empire Energy retains Credit Facility availability of ~US\$104 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	\$39,000	4.50%		
Revolver	\$3,000	2.50%		
	\$42,500	4.35%	\$537	\$1,680

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
2013	500,000	352,500	70.5%	\$5.95	36,955	28,290	76.6%	\$90.00
2014	1,850,000	1,335,488	72.2%	\$5.91	141,058	105,120	74.5%	\$90.00
2015	1,790,000	1,166,000	65.1%	\$5.45	133,280	98,160	73.6%	\$90.00
2016	1,730,000	1,200,000	69.4%	\$4.43	126,616	42,000	33.2%	\$85.67
2017	1,675,000	570,000	34.0%	\$4.57	120,285	39,600	32.9%	\$85.23
2018	1,620,000	510,000	31.5%	\$4.75				
Total	9,165,000	5,133,988	56.0%	\$5.20	558,194	313,170	56.1%	\$88.82

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

The Company's wholly owned subsidiary, Imperial Oil & Gas P/L ("Imperial") signed the Exploration Agreement for the first of its seven tenements, EP 184, during the period.

Imperial continues to make significant progress in its Traditional Owner negotiations for the other areas and the necessary archaeological, anthropological, work programme and policy submissions are nearing completion in preparation for commencement of exploration on all tenements.

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

McArthur Basin Project Progress:

Current quarter accrued expenses: US\$304,172 (2Q2013 US\$224,029). The Company's policy is to expense all exploration costs.

Tenements:

- The first of Imperial's seven exploration permit areas, EP 184 was granted on 21st August 2013 allowing for the commencement of on-ground exploration activities. EP 184 is 100% owned by Imperial and occupies 2.77 million acres (11,220 km²) comprising approximately 20% of Imperial's total McArthur Basin acreage footprint.

EP 184 is located in the highly petroleum prospective central trough of the McArthur Basin south of the Roper River. The principal target is unconventional and conventional oil & gas sourced from Palaeo-Proterozoic age black carbonaceous shales of the Barney Creek and equivalent formations.

- Prior to grant of EP 184 Imperial had prepared for the commencement of on ground exploration activities. Unfortunately due to the delay in the issue of the licence there remained insufficient time to mobilize and complete the previously proposed seismic program prior to the start of the 2013 wet season.
- Notwithstanding deferral of seismic and drilling activities into 2014, Imperial commenced a geological field program in EP 184. The aim of the field program is to locate, describe and sample important outcrops of the target black shale formations. These samples will be analyzed for their shale geochemical characteristics and be compared with those samples already analyzed by the University of Adelaide Shale Research Group. The findings of the geological field program will be described in subsequent reports.
- Further progress was achieved in engaging with the Traditional Aboriginal Landowners on the remaining Aboriginal Land leases north and south of EP 184. To date Imperial has held 22 on-country meetings with Traditional Owners. Further Lease approvals are targeted for the last quarter of 2013.

Preliminary exploration program:

- The University of Adelaide Shale Research Group completed its geochemical analysis of close to 900 individual samples collected from relevant existing cores from the prospective McArthur Basin black shale formations. The results of TOC%, T_{max}, Ro, S1, S2, porosity and other measurements have been correlated. A summary of the results from the Company's tenements is shown below.

Source Unit	Velkerri Shale	Barney Creek Shale
Samples Taken	68 (35 for SRA)	133 (89 for SRA)
TOC	Up to 7.5%	Up to 10.4%
TOC – target zones	2.0% to 7.5%	1.6% to 10.4%
Pay zones (m)	Up to 150 m	Up to 140 m
T _{max} & Hydrogen Index (HI)	Late immature/ mature	Late mature/ mature
Window	Oil, oil/gas	Oil, oil/gas
Generation Phase/Kerogen Type	Marine/II	Marine/I & II
VR _o , S1, S2 & HI	Good to excellent zone	Good to excellent zone
Porosity	N/a	0.11% to 6.86%
Av Porosity	N/a	2.25%
Av Permeability	N/a	N/a

- The geochemical results will be interpreted in the context of recent observations from nearby wells drilled in 2012 and 2013 immediately to the east and contiguous with EP 184. These include:
 - Glyde-1 which produced 3.3 million cubic feet of gas per day from the black shales. This result supports the above research findings that a significant petroleum system has been generated by the Barney Creek and other equivalent black shale formations.
 - Recent drilling result from the Lamont Pass 3 well indicated live oil in fractures along with background gas. This confirms results from the University of Adelaide Shale Research Group on behalf of Imperial that hydrocarbon maturity decreases moving from the dry gas to the oil window in the Barney Creek Shale moving from the South East to the North West of the McArthur Basin trough.

- Integration of the geochemical results with structural & burial history analysis, determination of lithofacies associations and the prediction of gross depositional environments of the target shale intervals continued during the period. The results of these studies will help high rank particular areas for shale oil and gas drilling.
- The initial field mapping and outcrop sampling exploration program within EP 184 was conducted across three West to East traverse covering approximately 114km. This program mapped and sampled outcrops of the black shale of the Barney Ck fm, St Vidgeon fm and Velkerri fm along the respective traverse. The field survey identified and mapped a number of significant thrust and fault sections and tested the existing geological maps available for the region. The results of this exploration will be incorporated into existing maps and geologic models to improve the prediction of high prospective areas for shale oil and gas.

C. EMPIRE ENERGY GROUP LIMITED OPERATING COSTS

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\$(335,380) (2Q2013: US\$(239,915), consisting of:
 - *Revenues US\$1,544 (1Q2013: US\$2,088)*
 - *Directors/Consultants: US\$101,898 (2Q2013: US\$54,104)*
 - *Employment Costs: US\$76,826 (2Q2013: US\$43,605)*
 - *Listing Expenses: US\$35,723 (2Q2013: US\$7,475)*
 - *G&A: US\$122,478 (2Q2013: US\$136,818)*

ABOUT EMPIRE ENERGY GROUP LIMITED

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

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Financial Terminology

Statements in this announcement may make reference to the terms "EBITDAX", Field EBITDAX, "field netback" or "netback", "cash flow" and "payout ratio", which are non-IFRS financial measures that do not have any standardised meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Investors should be cautioned that these measures should not be construed as an alternative to net income calculated in accordance with IFRS. Management believes that these measures provide useful information to investors and management since these terms reflect

the quality of production, the level of profitability, the ability to drive growth through the funding of future capital expenditures and sustainability of either debt repayment programs or distribution to shareholders. However, management have attempted to ensure these non-IFRS measures are consistent with reporting by other similar E&P companies so useful production and financial comparisons can be made.

Note regarding Barrel of Oil Equivalent

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

Note Regarding Forward- Looking Statements

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

Glossary

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