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## Quarterly Report – For the period ending 30 June 2016

29 July 2016

### 2<sup>nd</sup> QUARTER OVERVIEW

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

- Low oil prices continue to affect the Company's financial results, although this has been marginally offset by an increase in gas prices.
- The Northern Territory Farm-out with AEGP Pty Ltd, an affiliate of American Energy Partners, LP ('AEP'), signed on December 22, 2015, did not close on April 20, 2016. Ongoing discussions continue with the McClendon Estate, following the deferment of the completion of the Farmout due to the unexpected passing of Mr. Aubrey McClendon.
- In the Northern Territory, an ongoing work program continues to define the Tawallah Group resource (Wollogorang and McDermott Formations) in EP 184 and EP 187.
- In New York State, there was a 15% increase in gas production over the first quarter of 2016. This was achieved through a combination of the remediation of assets purchased in the first quarter of 2016 and additional pipeline capacity.
- Following a reserve review as at June 30, 2016:
  - 2P PV10 was 51% higher at US\$67.1 million.
  - 2P reserves increase by 8% to 13.7MMBoe.
- Estimated revenues US\$3.5 million (1Q2016: US\$3.2 million).
- Gross production
  - Oil: 49,766 Bbl (1Q2016: 46,296) -7.5%
  - Gas: 559,764 Mcf (1Q2016: 476,531) +17.5%
- Unaudited Operating EBITDAX US\$1.5 million (1Q2016: US\$1.3 million).
- Estimated Group EBITDAX for the period was US\$0.47 million (1Q2016: US\$0.40 million).
- Current marked to market oil and natural gas hedge book approximately +US\$6.0 million.

## OPERATING REVIEW

### A. EMPIRE ENERGY USA, LLC (100%)

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

#### 1. Appalachia (Western New York and Pennsylvania):

There was a 15% increase in gas production over the first quarter of 2016. Most of the increase was due to completion of remediation on recently purchased gas wells along with 15 additional sales meters being put back into service following completion of maintenance projects on pipelines.

The purchase of an existing NFG meter in Chautauqua Township allowed gas sales to higher priced markets and eliminated transportation charges. A second pipeline in Clymer Township was completed to take gas to a sales point without high transportation charges.

#### 2. Mid-Continent (Kansas and Oklahoma):

Second quarter production for the Mid-Continent region was 547 BOEPD compared to 589 BOEPD during the same period 2015. This minimal decrease was achieved, despite producing fewer wells, by concentrating on maximising production from active well bores. A slight increase in production was realised during the quarter versus the first quarter of 2016. Drilling and recompletion activities were again delayed. Programs continue to review, identify and reduce lifting costs. New found best practices will be permanently incorporated into daily operations. Acquisition opportunities remain very attractive throughout the region and the Company is actively pursuing and reviewing several prospects.

**Production:**

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
<b>Gross Production:</b>				
Oil (Bbls)	49,766	56,231	98,462	111,624
Natural gas (Mcf)	559,764	584,622	1,058,094	1,093,874
<b>Net Production by Region:</b>				
Oil (Bbls)				
Appalachia	896	1,387	1,832	1,627
Mid-Con	31,367	35,247	60,048	70,277
Total Oil	32,263	36,634	61,880	71,904
<b>Weighted Avg Sales Price (\$/Bbl)</b>				
Before Hedge	39.48	51.98	34.31	47.66
After Hedge	60.34	73.46	60.94	72.72
<b>Natural gas (Mcf)</b>				
Appalachia	435,597	462,180	830,313	861,281
Mid-Con	1,991	2,538	6,402	6,701
Total Natural Gas	437,588	464,718	836,715	867,982
<b>Weighted Avg Sales Price (\$/Mcf)</b>				
Before Hedge	1.47	1.76	1.50	1.99
After Hedge	3.21	3.68	3.25	3.93
<b>Oil Equivalent (Boe):</b>				
Appalachia	73,495	78,417	140,218	145,174
Mid-Con	31,698	35,670	61,115	71,394
Total	105,193	114,087	201,333	216,568
<b>Boe/d</b>	<b>1,156</b>	<b>1,254</b>	<b>1,106</b>	<b>1,190</b>
<b>Weighted Avg Sales Price (\$/Boe)</b>				
Before Hedge	18.21	23.87	16.76	23.81
After Hedge	31.86	38.60	32.22	39.88
<b>Lifting Costs (incl. taxes):</b>				
Oil - Midcon (/Bbl)	20.45	23.43	21.65	25.36
Natural gas - Appalachian (/Mcf)	2.11	2.08	2.19	2.24
Oil Equivalent (/BOE)	15.06	15.99	15.77	17.39
<b>Net Back (\$/Boe)</b>	<b>16.80</b>	<b>22.61</b>	<b>16.45</b>	<b>22.49</b>

**Financials:**

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
<b>Net Revenue:</b>				
Oil Sales	1,946,564	2,691,013	3,771,216	5,228,989
Natural Gas Sales	1,404,072	1,709,407	2,712,720	3,401,312
Working Interest	1,200	3,007	3,183	6,693
Net Admin Income	83,635	89,139	193,700	175,585
Other Income	31,764	(5,823)	54,840	16,975
<b>Total Revenue</b>	<b>3,467,235</b>	<b>4,486,743</b>	<b>6,735,659</b>	<b>8,829,554</b>
<b>Production costs:</b>				
Lease operating expenses - Oil	586,279	786,963	1,217,554	1,673,589
Lease operating expenses - Gas	762,591	755,701	1,509,400	1,539,289
Taxes - Oil	43,263	71,307	92,552	149,788
Taxes - Natural Gas	44,611	84,099	90,948	168,120
<b>Total</b>	<b>1,436,744</b>	<b>1,698,070</b>	<b>2,910,454</b>	<b>3,530,786</b>
<b>Field EBITDAX</b>	<b>2,030,491</b>	<b>2,788,673</b>	<b>3,825,205</b>	<b>5,298,768</b>
<b>Less:</b>				
Inventory adjustment	67,467	14,182	61,181	219,734
Reserve Enhancements	9,966	(2,097)	10,606	498
Nonrecurring expenses	261,768	156,291	488,660	495,102
G & G Costs	1,868	39,777	19,310	40,823
Field Overhead	243,000	200,000	486,000	380,000
<b>Total</b>	<b>584,069</b>	<b>408,153</b>	<b>1,065,757</b>	<b>1,136,157</b>
<b>Operating EBITDAX</b>	<b>1,446,422</b>	<b>2,380,520</b>	<b>2,759,448</b>	<b>4,162,611</b>
<b>Less:</b>				
Field G & A	185,866	229,129	347,365	447,220
Corporate G & A	434,734	403,254	873,412	820,883
Delay rental payments	76,823	18,523	101,091	49,912
Land Overhead & Non-leasing costs	1,625	-	4,345	113
Dry hole expenses	30,215	-	30,215	-
<b>Total</b>	<b>729,263</b>	<b>650,906</b>	<b>1,356,428</b>	<b>1,318,128</b>
<b>EBITDAX</b>	<b>717,159</b>	<b>1,729,614</b>	<b>1,403,020</b>	<b>2,844,483</b>

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

**Notes to the above table:**

Corporate G & A was higher as legal and reserve engineering expenses related to the rollover of the Macquarie Bank Credit Facility. These are one off costs, while most costs were incurred during the first quarter, final costs relating to the rollover have been expensed during the second quarter.

**Exploration/Acquisition Expenses:**

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
<b>EBITDAX</b>	717,159	1,729,614	1,403,020	2,844,483
<b>Less:</b>				
Geological Services	4,937	12,089	12,710	16,738
Acquisition related expenses	32,170	120,571	53,460	101,431
Capital raise expenses	-	-	-	17,115
<b>Total</b>	37,107	132,660	66,170	135,284
<b>EBITDA</b>	680,052	1,596,954	1,336,850	2,709,199

**Net Earnings:**

Unaudited earnings for the period are shown below:

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
<b>EBITDA</b>	680,052	1,596,954	1,336,850	2,709,199
<b>Less:</b>				
Depn, Depl, Amort & ARO	883,213	1,544,411	1,793,728	3,006,950
Interest	529,499	508,301	1,013,199	1,010,352
(Gain) loss on sale of assets	-	-	-	618,691
P&A vs. ARO	-	143,362	-	143,278
Non-Cash & Interest Expenses	1,412,712	2,196,074	2,806,927	4,779,271
<b>Earnings before Tax</b>	(732,660)	(599,120)	(1,470,077)	(2,070,072)
<b>EBITDA/Interest (times)</b>	<b>1.28</b>	<b>3.14</b>	<b>1.32</b>	<b>2.68</b>

**Capital Expenditure/Asset Sales:**

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
Capital Expenditures				
Acquisition Capital	-	899	77,500	51,487
New Wells - IDC	593,336	8,614	595,944	100,481
New Wells - Capital	6,000	48,242	16,284	63,297
Undeveloped Leases	15,366	11,098	31,358	392,442
<b>Capital Expenditures</b>	614,702	68,853	721,086	607,707

**Credit Facilities:**

At the end of the quarter the Company had US\$40.5 million drawn at an average cost of LIBOR + 4.35%. Empire Energy retains Credit Facility availability of US\$159.5 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr US\$M	Interest Rate LIBOR +
Term	\$37,538	4.50%
Revolver	\$3,000	2.50%
	\$40,538	4.35%

With the uncertainty in the completion of the Farmout Agreement on April 20, 2016, the Company is in discussion with Macquarie Bank to review the alternatives to enhance balance sheet structure moving forward.

The Company is holding an Extraordinary General Meeting on August 12, 2016. The Meeting will seek shareholder approval to raise up to \$5 million by way of a share placement. The proposed equity raising or recapitalization will incur significant dilution to existing shareholders, but it will, along with the expected future capital flow from the Farmout Agreement:

1. Provide liquidity to acquire assets in a weak, onshore USA merger and acquisition market;
2. Enhance the balance sheet and provide adequate working capital or equity cushion to enable continued accessibility of the existing credit facility; and
3. Provide general working capital

### **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
	mmBtu	mmBtu		\$/mmBtu	Bbl	Bbl		\$/Bbl
2016	1,297,500	690,000	53.2%	\$ 4.30	94,500	49,800	52.7%	\$ 72.04
2017	1,675,000	534,000	31.9%	\$ 4.05	119,500	46,200	38.7%	\$ 72.01
2018	1,620,000	504,000	31.1%	\$ 4.11				
2019	1,550,000	242,500	15.6%	\$ 3.45				
	6,142,500	1,970,500	32.1%	\$ 4.08	214,000	96,000	44.9%	\$ 72.03

In addition the Company entered into the following collar:

Year	Est. Net	Collar	Floor	Cap
	Bbl	Bbl	\$/Bbl	\$/Bbl
2016	10,200	-	\$45.30	\$54.30
2017	21,600	-	\$45.30	\$54.30

**NET INCOME SUMMARY - USA OPERATIONS**

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

Description	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
<b>Revenues:</b>	3,467,235	4,486,743	6,735,658	8,829,554
<b>Less Costs &amp; Expenses:</b>				
Production costs & taxes	2,020,814	2,106,223	3,976,210	4,666,944
Depn, Depletion, Amort & ARO	883,213	1,544,411	1,793,727	3,006,950
General & Administration	766,369	783,566	1,422,598	1,453,411
<b>Income from Operations</b>	<b>(203,161)</b>	<b>52,543</b>	<b>(456,877)</b>	<b>(297,751)</b>
<b>Less:</b>				
Interest	529,499	508,301	1,013,200	1,010,352
(Gain)/Loss on sale of assets	-	-	-	618,691
P&A vs. ARO	-	143,362	-	143,278
<b>Net Income/(Loss) before Tax</b>	<b>(732,660)</b>	<b>(599,120)</b>	<b>(1,470,077)</b>	<b>(2,070,072)</b>

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

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

**Operations:**

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

Description – US\$	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
Exploration Expenses – NT	67,171	325,402	562,133	513,272

The Northern Territory Labor Party (‘NTLP’) recently announced that if it is elected in August 2016 it may undertake a review of, or introduce a fracking moratorium. This NTLP policy statement has put at risk the proposed Farmout Agreement with American Energy Partners affiliate, AEGP Pty Ltd. Until more certainty, the proposed 2016 seismic and drilling program has been deferred.

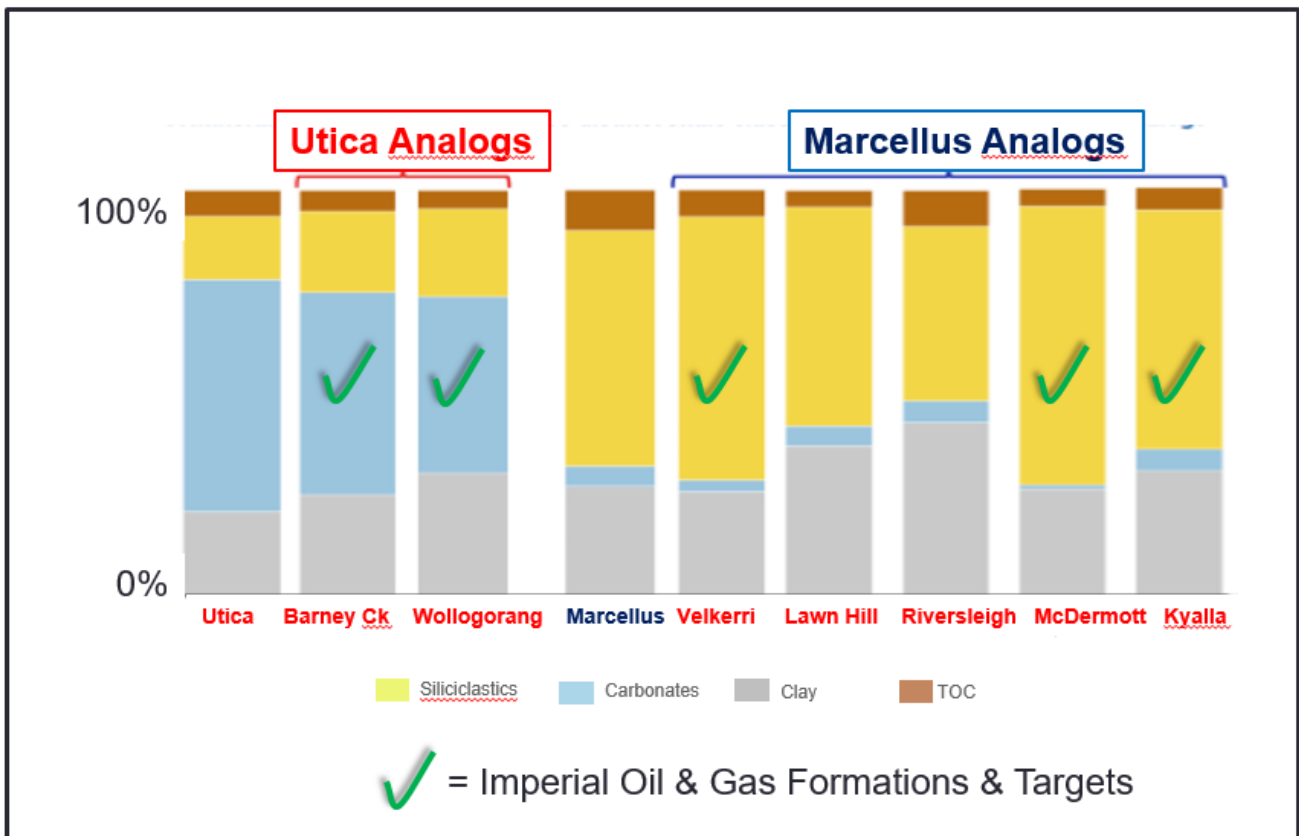
Future exploration expenses are expected to be met under the Farm-out Agreement.

**Ongoing work programs**

With the Conditions Precedent relating to the proposed Farm out with AEGP Pty Ltd not being met and the potential fracking review that the NTLP has indicated will be put in place in August 2016, the planned 2016, exploration program has been scaled back to:

- Continuing research into the petroleum generation potential of the Tawallah Group (Wollogorang and McDermott Formations) in EP 184 and EP 187. Earlier studies on the Tawallah Group by Imperial have identified high TOC potential areas over an extensive acreage (~2,000,000 acres).
- The Company expects to have a report relating to the Tawallah Prospective Resource in EP184 & 187 within weeks.
- Research and mapping of the northwards extension of the Tawallah Group Formations into the Company’s EPA’s 180, 181 and 182 where this formation represents a new potentially volumetrically important petroleum play covering up to 10,000,000 acres.
- Ongoing discussions to upgrade the McArthur Mine gas pipeline which runs W-E through the centre of EP187 subject to a successful drilling program in 2017.

The following representation is the mineralogical analysis of the major shale formations identified in the McArthur Basin which reveals two distinct shale classics, clearly identified with US analogs, namely the Utica and the Marcellus shales.





## C. 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.

Description – US\$	6 months to 30/06/2016	6 months to 30/06/2015	Year-to-Date 30/06/2016	Year-to-Date 30/06/2015
Revenue	39,114	39,188	110,413	78,896
Less Expenses:				
Consultants	85,535	68,154	168,607	136,981
Directors/Employment Costs	67,800	72,957	134,677	127,134
Listing Expenses	25,223	24,019	55,882	47,534
G&A	103,781	110,930	228,715	224,041
<b>EBITDAX – Head office (EEG)</b>	<b>(243,225)</b>	<b>(236,872)</b>	<b>(477,468)</b>	<b>(456,794)</b>
<b>EBITDAX – (EEUS)</b>	<b>717,159</b>	<b>1,729,614</b>	<b>1,356,428</b>	<b>2,844,483</b>
<b>EBITDAX – GROUP</b>	<b>473,934</b>	<b>1,492,742</b>	<b>878,960</b>	<b>2,387,689</b>

## ABOUT EMPIRE ENERGY GROUP LIMITED

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

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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 Reserves

Reserve references in this report have been extracted from the Company’s announcement “2015 Year End Reserves Review” released to the ASX on 15 March 2016. The Company confirms that it is not aware of any new information or data that materially affects the information contained in the announcement 15 March 2016 and that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. Reserves were reported as at 1 January 2016. All volumes presented are net volumes and have had subtracted associated royalty burdens. The probabilistic method was used to calculate P50 reserves. The deterministic method was used to calculate 1P, 2P & 3P reserves. The reference point used for the purpose of measuring and assessing the estimated petroleum reserves is the wellhead.

### Note Regarding Forward- Looking Statements

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

## Glossary

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

**Changes to Lease holdings 1 April 2016 through to 30 June 2016**

<u>State</u>	<u>Minerals</u>	<u>Operator</u>	<u>Empire ID</u>	<u>NRI</u>	<u>WI</u>	<u>Acres</u>	<u>Maturity</u>	<u>Status</u>	<u>Formation</u>
NY	O&G	Empire Energy E&P, LLC	310990614	0.8750	1.00	397.4	20/06/2016	Released	All Horizons
NY	O&G	Empire Energy E&P, LLC	311170606	0.8750	1.00	546.4	14/06/2016	Released	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630011	0.8438	1.00	160	7/06/2016	Released	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630012	0.8438	1.00	-	7/06/2016	Released	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630013	0.8438	1.00	-	7/06/2016	Released	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630018A	0.8750	1.00	160	28/05/2016	Released	All Horizons
KS	O&G	Oolite Energy, Corp.	151190002	0.1120	0.14	160	4/06/2016	Released	All Horizons
KS	O&G	Oolite Energy, Corp.	151190003	0.1120	0.14	-	4/06/2016	Released	All Horizons

**Note:** For a full list of petroleum tenements held by the Company and its subsidiaries please refer to the ASX Announcement dated 30 March 2016 titled 'Petroleum Tenements'.