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Quarterly Report – For the period ending 30 September 2016

21 October 2016

3rd QUARTER OVERVIEW

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

- Estimated revenues US\$3.5 million (2Q2016: US\$3.5 million).
- Gross production
 - Oil: 48,530 Bbl (2Q2016: 49,766) -2.5%
 - Gas: 587,421 Mcf (2Q2016: 559,764) +4.9%
- Unaudited Operating EBITDAX US\$1.7 million (2Q2016: US\$1.5 million).
- Estimated Group EBITDAX for the period was US\$0.88 million (2Q2016: US\$0.47 million).
- 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 increasing prospective P50 resource to more than 2 billion barrels of oil equivalent.

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)

The Company is continuing to work with smaller producers with pipeline systems that will allow Empire to move gas from sales points with high transportation charges to points without these charges. Objectives are to gain up to \$0.50/Mcf. A recent review of operations by the DEC confirm no modifications to our oil producing facilities are required.

2. Mid-Continent (Kansas and Oklahoma):

Production for the third quarter of 2016 was 553 barrels of oil equivalent per day (BOED), a decrease of 51 BOED compared with the same period a year ago. The decrease was the result of normal field decline and planned production curtailment partly offset by improved well performance. A flat to slightly increasing production curve for the year was realized. A concerted effort to reduce lifting costs continued, resulting in a 12% decrease year over 2015. Capital expenditures remained nil for the quarter and rebounding oil and gas prices, coupled with lower service costs, are making drilling and recompletion activities more attractive. Acquisition opportunities continue to be evaluated.

Production:

Description	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Gross Production:				
Oil (Bbls)	48,530	55,084	146,665	167,042
Natural gas (Mcf)	587,421	594,221	1,744,891	1,691,859
Net Production by Region:				
Oil (Bbls)				
Appalachia	695	1,539	2,369	3,166
Mid-Con	30,590	34,091	90,262	104,645
Total Oil	31,285	35,630	92,631	107,811
Weighted Avg Sales Price (\$/Bbl)				
Before Hedge	38.80	41.31	36.21	45.57
After Hedge	60.88	71.32	61.46	72.20
Natural gas (Mcf)				
Appalachia	456,704	470,204	1,380,746	1,334,612
Mid-Con	2,872	1,289	10,884	7,990
Total Natural Gas	459,576	471,493	1,391,630	1,342,602
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.19	1.83	1.65	1.94
After Hedge	3.30	3.65	3.07	3.83
Oil Equivalent (Boe):				
Appalachia	76,812	79,907	232,493	225,602
Mid-Con	31,069	34,306	92,076	105,977
Total	107,881	114,213	324,569	331,579
Boe/d	1,173	1,241	1,185	1,210
Weighted Avg Sales Price (\$/Boe)				
Before Hedge	20.58	20.46	17.42	22.69
After Hedge	31.73	37.30	30.72	38.98
Lifting Costs (incl. taxes):				
Oil - Midcon (/Bbl)	22.84	23.05	22.03	24.53
Natural gas - Appalachian (/Mcf)	1.94	2.15	1.95	2.20
Oil Equivalent (/BOE)	14.88	16.05	14.64	16.89
Net Back (\$/Boe)	16.85	21.25	16.08	22.09

Financials:

Description	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Net Revenue:				
Oil Sales	1,904,695	2,541,083	5,693,046	7,783,847
Natural Gas Sales	1,516,583	1,716,389	4,270,888	5,131,601
Working Interest	2,095	2,263	5,278	8,956
Net Admin Income	88,437	87,216	282,137	262,801
Other Income	33,630	22,504	88,469	39,479
Total Revenue	3,545,440	4,369,455	10,339,818	13,226,684
Production costs:				
Lease operating expenses - Oil	672,360	822,909	1,890,129	2,496,505
Lease operating expenses - Gas	747,676	850,775	2,258,700	2,390,063
Taxes - Oil	43,027	30,224	121,762	180,037
Taxes - Natural Gas	44,626	28,183	119,572	196,304
Total	1,507,689	1,732,091	4,390,163	5,262,909
Field EBITDAX	2,037,751	2,637,364	5,949,655	7,963,775
Less:				
Inventory adjustment	(16,049)	(94,744)	45,132	124,990
Reserve Enhancements	11,000	14,343	21,606	14,841
Nonrecurring expenses	129,481	142,679	620,471	637,782
G & G Costs	486	573	19,795	41,396
Field Overhead	223,000	204,000	709,000	584,000
Total	347,918	266,851	1,416,004	1,403,008
Operating EBITDAX	1,689,833	2,370,513	4,533,651	6,560,767
Less:				
Field G & A	196,608	187,330	552,997	634,551
Corporate G & A	364,207	376,004	1,243,160	1,203,794
Delay rental payments	29,313	12,764	130,405	62,676
Land Overhead & Non-leasing costs	-	8,299	4,345	1,504
Dry hole expenses	-	-	-	-
Total	590,128	584,397	1,930,907	1,902,525
EBITDAX	1,099,705	1,786,116	2,602,744	4,658,242

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

Exploration/Acquisition Expenses:

Description	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
EBITDAX	1,099,705	1,786,116	2,602,744	4,658,242
Less:				
Geological Services	3,900	21,056	16,611	37,794
Acquisition related expenses	1,500	54,645	54,960	156,076
Capital raise expenses	-	-	30,214	17,115
Total	5,400	75,701	101,785	210,985
EBITDA	1,094,305	1,710,415	2,500,959	4,447,257

Net Earnings:

Unaudited earnings for the period are shown below:

Description	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
EBITDA	1,094,305	1,710,415	2,500,959	4,447,257
Less:				
Depn, Depl, Amort & ARO	706,546	1,497,144	2,170,997	4,504,094
Interest	668,719	499,074	1,681,918	1,509,427
(Gain) loss on sale of assets	-	(1,200)	-	617,491
P&A vs. ARO	-	-	-	143,278
Bad debts	-	11,638	-	11,638
Non-Cash & Interest Expenses	1,375,265	2,006,656	3,852,915	6,785,928
Earnings before Tax	(280,960)	(296,241)	(1,351,956)	(2,338,671)
EBITDA/Interest (times)	1.64	3.43	1.49	2.95

Capital Expenditure/Asset Sales:

Description	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Capital Expenditures				
Acquisition Capital	-	(1,234)	49,034	50,253
New Wells - IDC	(3,520)	(7,624)	592,424	92,857
New Wells - Capital	271	(41,219)	16,555	22,078
Undeveloped Leases	305	53,305	31,663	445,711
Capital Expenditures	(2,944)	3,228	689,676	610,899

Credit Facilities:

At the end of the quarter the Company had US\$40.5 million drawn at an average cost of LIBOR + 6.5%. 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	\$37,503	4.50%
Revolver	\$3,000	2.50%
	\$40,503	4.35%

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
2016	550,000	345,000	62.7%	\$ 4.30	30,500	30,000	98.4%	\$ 67.49
2017	1,700,000	1,068,000	62.8%	\$ 4.05	119,500	114,000	95.4%	\$ 66.95
2018	1,620,000	1,008,000	62.2%	\$ 4.11				
2019	1,550,000	491,500	31.7%	\$ 3.45				
	5,420,000	2,912,500	53.7%	\$ 4.00	150,000	144,000	96.0%	\$ 67.06

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	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Revenues:	3,545,440	4,369,455	10,339,818	13,226,684
Less Costs & Expenses:				
Production costs & taxes	1,855,607	1,998,941	5,806,167	6,665,917
Depn, Depletion, Amort & ARO	706,546	1,497,144	2,170,997	4,504,094
General & Administration	595,528	660,099	2,032,692	2,113,510
Income from Operations	387,759	213,271	329,962	(56,837)
Less:				
Interest	668,719	499,074	1,681,918	1,509,427
(Gain)/Loss on sale of assets	-	(1,200)	-	617,491
P&A vs. ARO	-	-	-	143,278
Bad debts	-	11,638	-	11,638
Net Income/(Loss) before Tax	<u>(280,960)</u>	<u>(296,241)</u>	<u>(1,351,956)</u>	<u>(2,338,671)</u>

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\$	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Exploration Expenses – NT	47,117	180,672	609,250	693,944

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.

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\$	3 months to 30/09/2016	3 months to 30/09/2015	Year-to-Date 30/09/2016	Year-to-Date 30/09/2015
Revenue	39,818	39,072	150,231	117,968
Less Expenses:				
Consultants	65,200	92,460	233,807	229,441
Directors/Employment Costs	60,891	65,175	195,568	192,309
Listing Expenses	10,892	31,055	66,774	78,589
G&A	126,304	95,737	355,020	319,777
EBITDAX – Head office (EEG)	-223,469	-245,355	-700,938	-702,149
EBITDAX – (EEUS)	1,099,705	1,729,614	2,446,603	4,630,478
EBITDAX – GROUP	876,236	1,484,259	1,745,666	3,928,329

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

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