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## Quarterly Report – For the period ending 31 March 2011

**29 April 2011**

### HIGHLIGHTS

- Unaudited Field EBITDDA of \$4.35 million achieved.
- 2P reserves of 14.8 million Boe.
- Operational control of the December 2010 US\$56.2 million acquisition of oil producing assets in the Central Uplift Region, Kansas USA achieved on 1 February 2011.
- As an asset purchase the Company was required to rebuild operations in Kansas. A new field supervisor, a consulting geologist/geophysicist and Landman were engaged.
- Negotiations were completed on 27 April 2011 for the employment of an experienced drilling and completion engineer as Vice President, Mid-Con operations.
- Preferential rights for a group of wells resulting from the Company's acquisition of the Kansas assets was completed over January and February 2011 with no disruption to the Company's retained assets.
- Geological, engineering and permitting programs for the initial 3 wells of the proposed Kansas oil drilling program is being completed for the Kansas Uplift Region. A drilling rig has been booked commencing the last week of May 2011 with the first well spudded prior to 1 June 2011.
- Pre drilling work finalized for the first 2 oil production wells on the Company's joint venture in the 17,000 acre Williston Basin (Empire Energy WI=35%; NRI = 27%). The first well is expected to be spudded in early July 2011.
- Several new leases adjacent to existing leases have been secured in Kansas.

- Landowner negotiations are to commence in May 2011 for the Company's significant potential shale formations secured onshore, in the Northern Territory, Australia.
- In April 2011 the Company successfully completed a capital raising of \$13.2 million. The proceeds will be utilized for an oil drilling program in Kansas, the Company's contribution to 2 joint venture wells in the Williston Basin-North Dakota, debt repayment, working capital, leasing and a small acquisition of a pipeline in New York State which when controlled by Empire Energy will enable control over repairs and gas flow.

## EMPIRE ENERGY USA LLC (92%)

On 23 December 2010, Empire Energy completed a US\$56.2 million acquisition of mainly oil producing assets based in the Central Uplift Region, Kansas and a 27% NRI in 17,000 acres in the Bakken Shale region, North Dakota, USA. The effective date for the acquisition was 1 October 2010. Operational control took place on 1 February 2011.

### Production (estimates only) (US\$)

NOTE: The following information is for guidance only as complete production statements and invoicing for the previous quarter have not yet been received. The following table summarizes, with estimates, oil and gas production for the Company's current operations, namely the Central Uplift, KS; Mayville, NY and Hawthorne, PA.

Gas: Oil ratio 1:6

Period	Net Production Mcf	Average Price \$/mmBtu	Net Production Bbl	Average Price \$/bbl	Net Production Mcfe	Net Production Boe
6/mths Dec 31	982,689	\$6.27	54,398	\$81.44	1,309,077	218,180
Qtr Mar 31	478,630	\$6.22	45,243	\$85.53	750,086	125,014
YTD	478,630	\$6.22	45,243	\$85.53	750,086	125,014
<b>per day (last qtr)</b>	<b>5,318</b>		<b>503</b>		<b>8,334</b>	<b>1,389</b>

*Note: Estimates have been made for the last 2 production months of the last quarter due to different customer payment & invoice cycles. 6 months Dec 31 = 6 months following the Company's change of balance date from June 30 to Dec 31.*

### Field Operating Revenues (estimates only) (US\$)

Period	Net Revenue \$000	Lease Op Expenses \$000	Taxes AdVal/Prod \$000	Field EBITDA \$000	Leases & Prospects \$000	Field Admin Expense \$000
6 mths Dec 31	\$10,830	\$3,120	\$421	\$7,289	\$286	\$133
Qtr Mar 31	\$6,866	\$2,310	\$206	\$4,351	\$41	\$68
YTD	\$6,866	\$2,310	\$206	\$4,351	\$41	\$68

*Note: Estimates have been made for the last 2 production months of the last quarter due to different customer payment & invoice cycles. 6 months Dec 31 = 6 months following the Company's change of balance date from June 30 to Dec 31.*

### **Key Operating Ratios:**

- Lifting Costs \$/Mcf = \$2.07 (\$2.14 previous quarter)
- Lifting Costs \$/Bbl = \$21.44

### **Items from table above:**

1. Leases & Prospects includes Delayed Rental Payments.
2. Over the period, 4 producing oil wells in Kansas were taken out of production for various periods for the repair of cracked casing and replacement of oil pipelines. Total cost, included in lease operating expenses, but excluded from lifting costs, was \$272,000.

### **Corporate Cash Flows (US\$)**

1. Total corporate costs for the quarter were \$474,432 (previous quarter a cost of \$435,000).
2. Non-recurring items included in Corporate Costs:
  - Indirect costs associated with the Kansas acquisition \$22,966 (previous quarter \$26,344).
  - Year end financial and auditing costs \$111,627, which are expected to be reduced if no additional acquisitions and following the appointment of a Financial Controller.
  - Software upgrades \$10,997 (previous quarter \$24,996) related to the Kansas acquisition.
3. Direct costs associated with the Kansas acquisition \$327,678 (previous quarter \$422,000). A significant portion of these costs are currently subject to final settlement with the vendor.
4. Interest paid over the quarter was \$937,374 (previous quarter \$431,431) which includes interest costs of \$92,000 paid for the 2010 period.

### **Project Development**

The Company will make future announcements on its following projects as new information becomes available. This includes:

1. Kansas drilling program
2. Williston drilling program
3. Continuing geological and engineering work of the Company's 303,000 acre land holding in the western New York State, which have been calculated to contain a prospective Utica shale gas resource of up to 5 Tcf GIP, (unrisked) and a Marcellus shale oil prospective resource of an estimated 70 million Bbls (RF= 3%).
4. Progress on land holder negotiations for the potential large scale shale resources in the MacArthur Basin, Northern Territories.

## Credit Facilities

At the end of the quarter the Company had ~US\$73 million drawn at an average cost of LIBOR + 4.7%. Empire Energy retains Credit Facility availability of just under US\$80 million for future acquisitions and development drilling.

Component	Drawdown	Interest Margin
	US\$'000	over LIBOR
Term	\$62,898	4.5%
Revolver	\$3,000	2.5%
Mezzanine Facility	\$6,850	7.5%
<b>TOTAL 31 MAR 2011</b>	<b>\$73,013</b>	<b>4.7%</b>

## Hedging

A conservative hedging policy has been implemented by the Company. The underlying objective is to ensure the borrowing base of the Credit Facility is covered by defined future cash flow. 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.

Following the 24 December 2010 acquisition, Empire Energy hedged approximately 75% of forecast oil production for a period of 5 years, at an average price of US\$90.00/Bbl.

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
2011	2,230,000	1,596,589	71.6%	\$5.99	174,268	131,870	75.7%	\$90.00
2012	2,150,000	1,484,351	69.1%	\$6.10	160,441	120,800	75.3%	\$90.00
2013	2,000,000	1,407,720	70.3%	\$5.97	149,298	113,160	75.8%	\$90.00
2014	1,850,000	1,408,488	76.1%	\$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
<b>Total</b>	<b>9,880,000</b>	<b>7,063,147</b>	<b>71.5%</b>	<b>\$5.90</b>	<b>758,345</b>	<b>569,110</b>	<b>75.0%</b>	<b>\$90.00</b>

## **IMPERIAL OIL & GAS PTY LTD (100%)**

- During 2010 Imperial undertook the screening of 26 onshore basins in Australia principally for large scale shale gas exploration.
- The onshore Northern Territory McArthur Basin was high graded and 14.6 million acres has successfully been secured in 7 permits.
- The McArthur Basin provides high risk/high return frontier unconventional petroleum plays at very low historic exploration maturity.
- The exploration targets are organic-rich black gas and oil shales of Palaeo- and Meso-Proterozoic & age ( 1,640 million year old).
- The shales are proven to be gas-prone (a 1979 mineral core hole ignited and sustained a 6m gas flare for several months).
- Oil bleeds and bitumen staining are commonly observed in mineral cores.
- Preparations for a series of Traditional land Owner negotiation meetings has commenced.
- The first such meeting is planned for the southern permits that contain an existing gas transmission pipeline.
- At the appropriate time the Company will seek to undertake a review of these opportunities with parties it has developed relationships within its operations in the USA.

## **CORPORATE**

### **Change of Company name**

At a General Meeting of members of the Company held on 23 March 2011 shareholders approved a special Resolution to change the name of the Company to Empire Energy Group Limited. The change of name became effective on 24 March 2011 with the issue of a certificate of registration of change of name by the Australian Securities and Investments Commission.

The new ASX code for the company EEG took effect from 25 March 2011.

### **Annual General Meeting**

The Company changed its financial year end from 30 June to 31 December with effect from 1 July 2010 to synchronise its financial year with that of its major United States based operating subsidiary Empire Energy USA LLC.

This change has required the Company to prepare an Annual Report covering the six month period 1 July 2010 to 31 December 2010, and bring forward its Annual General Meeting date.

The Annual General Meeting of Empire Energy Group Limited will be held at the offices of Nexia Court & Co., Level 29 Tower Building, Australia Square, 264 George Street, Sydney on Tuesday 17 May 2011 at 10.00am.

## **SUBSEQUENT EVENTS**

### **Capital Raisings**

On 15 April 2011 the Company announced that it had completed a private placement of 110 million fully paid ordinary shares at 12 cents per share to sophisticated investors.

The issue to be completed in two tranches will raise \$13.2 million before costs.

Tranche 1 issue completed on 21 April 2011 resulted in the issue of 22 million shares pursuant to the Company's 15% placement capacity as provided for under Listing Rule 7.1. Tranche 2 will be for the remaining 88 million shares and will be subject to shareholder approval at the Company's Annual General Meeting.

Including the issue of shares under Tranche 1 the Company's total issued capital is now 184,623,254 fully paid ordinary shares.

In addition, Directors have resolved to provide eligible shareholders with the opportunity to subscribe to an offer of up to \$2 million of shares on the same terms as the recently completed private placement through participation in an Empire Energy Group Limited Share Purchase Plan ("Plan"). The right to participate in the Plan is available exclusively to Australian and New Zealand shareholders registered as holders of fully paid ordinary shares at 7.00pm EST on 14 April 2011 (the record date).

The Plan provides for eligible registered holders to purchase up to A\$10,000 worth of additional shares at 12 cents per share. The issue price represents an 18.36% discount to the weighted average market price over the five ASX trading days immediately preceding the announcement date of 15 April 2011 on which the Company's shares traded. The current Share Purchase Plan timetable provides for offer documents to be dispatched to eligible shareholders on 4 May 2011 with the closing date for acceptances being 5pm EST on 27 May 2011.

Funds raised from these issues will be utilised towards achieving the following Company objectives:

- Achieving production targets through the aggregation of oil and gas producing assets
- Conducting development drilling on the Company's oil prospects in Kansas
- Conducting exploration drilling in the Company's oil shale prospects in the Appalachian and Williston Basins
- Debt restructure and general working capital purposes

## About Empire Energy Group Limited

In early 2007, the Company established Empire Energy USA, LLC and currently holds around 92% of its issued capital. Empire Energy USA is an oil and natural gas producer and operates a small oil and gas field service operation. It has operations in Appalachia (New York and Pennsylvania) and the Central Kansas Uplift (Kansas). Total combined 2P reserves for the enlarged group are estimated at 14.8 million Boe.

Empire Energy implemented a US\$100 million credit facility with Macquarie Bank Limited in early 2008 for the sole purpose of acquiring and developing oil and gas assets in the USA. This facility has been increased to US\$150 million.

For more information:

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*The information in this announcement which relates to reserves and resources is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas, who are certified professional reservoir engineers.*

## Glossary

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