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## Quarterly Report – For the period ending 30 September 2011

26 October 2011

### HIGHLIGHTS FOR 3<sup>RD</sup> QUARTER

- Unaudited Field EBITDDA of US\$4.67 million achieved (2Q: US\$4.37 million).
- Gross production
  - Oil: 68,727 bbls (2Q: 68,567) +.23%.
  - Gas: 690,731 Mcf (2Q: 654,365) +5.6%.
- Group EBITDA of US\$3.6 million.
- Cash on hand US\$9.37 million.
- 8 wells drilled and 7 wells completed as part of a 10 oil drilling program being completed for the Kansas Uplift Region. 1 well was drilled and plugged and abandoned. The 9<sup>th</sup> well in the drilling program has been spudded.
- The first 2 oil production wells at the Company's joint venture in the 17,000 acre Williston Basin, North Dakota project have been drilled. One well is currently being completed, while a review of the remaining well continues.
- 4 existing Kansas wells have been targeted for polymer reworks.
- 25 shallow gas wells and 3,074 HBP acres were purchased in Chautauqua County NY for US\$125,000. The wells are producing around 1,600 Mcf/m, but will save Empire Energy around US\$70,000 in meter replacements once Empire Energy acquires a pipeline network off one of its customers. Payback is expected to be around 12 to 18 months.
- Archeological programs along with Landowner negotiations continuing for the Company's shale resources in the Northern Territory, Australia.
- With the expansion of the Company's operations a larger office space has been secured at Canonsburg, PA, approximately 30 miles from Pittsburgh, PA. The US operations will assume the lease on December 1, 2011.

- Other revenues/expenses for the quarter:
  - Of total revenue, non oil & gas revenues were US\$242,452
  - Leasing and delayed rentals costs were US\$31,000.
  - Field admin. costs were US\$139,000 of which \$32,000 was spent on upgrading and implementing computer systems in Kansas.
  - Net overhead for the USA was US\$403,000 and Australia US\$280,088.
- Exploration & Project Development Costs for the quarter were US\$1.95 million.
- Corporate cash flow items of significance include:
  - Taxes paid of US\$1.05 million (relating to 2010 profits)
  - Debt repaid US\$2.02 million.

## EMPIRE ENERGY USA LLC (95%)

For the following sections relating to production and income, 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 both production, revenues and operating ratios for the previous quarter (in this case the June 2011 quarter) as final production statements are received by Empire. In addition, the drilling and field services operations, which have a negligible effect on results, have also been consolidated into revenue and earnings.

The following table summarizes oil and gas production and revenues for the Company's operations in the Central Kansas Uplift Region, Kansas and in the Appalachian Basin with operations based at Mayville, NY and Hawthorne, PA.

### Estimated Production (US\$)

Qtr	Net Production Mcf	Average Price \$/mmBtu	Net Production Bbl	Average Price \$/bbl	Net Production Boe	Net Production Boe/d
Dec 31/10(1)	1,023,485	\$6.26	52,498	\$77.83	233,079	1,281
Mar 31/11	467,953	\$6.20	44,095	\$86.14	122,087	1,357
Jun 30/11	485,077	\$5.93	43,907	\$88.09	124,753	1,386
Sept 30/11	524,042	\$5.99	44,453	\$83.91	131,793	1,464
<b>YTD</b>	<b>1,477,072</b>	<b>\$6.03</b>	<b>132,455</b>	<b>\$86.04</b>	<b>378,633</b>	<b>1,402</b>

**Note: (1)** Dec 31/10 = 6 months following the Company's change of balance date from June 30 to Dec 31.

## **Estimated Field Operating Revenues (US\$)**

Qtr	Net Revenue \$'000	Lease Op. Expenses \$'000	Prod. Taxes \$'000	Field EBITDA \$'000	Leases & Prospects \$'000	N/recurr. Expenses \$'000	Field G&A \$'000
Dec 31/10(1)	\$10,738	\$3,340	\$433	\$6,965	\$286	\$0	\$133
Mar 31/11	\$6,646	\$1,796	\$304	\$4,547	\$42	\$359	\$93
Jun 30/11 (2)	\$6,787	\$2,055	\$360	\$4,372	\$23	\$461	\$128
Sept 30/11	\$7,052	\$2,045	\$333	\$4,674	\$31	\$237	\$139
YTD	\$20,485	\$5,896	\$997	\$13,593	\$97	\$1,057	\$360

Note: (1) 6 months Dec 31/10 = 6 months following the Company's change of balance date from June 30 to Dec 31.

(2) Inventory adjustments for oil are included in LOE's. Increases June LOE by \$220,000 and reduces Sept by \$19,000.

## **Estimated Key Operating Ratios:**

Qtr	Av Price \$/Bbl	Lifting Cost \$/Bbl	Non-recurr \$/Bbl	Av Price \$/Mcf	Lifting Cost \$/Mcf	Non-recurr \$/Mcf
Mar 31/11	\$86.14	\$20.75	\$7.80	\$6.20	\$2.40	\$0.03
Jun 30/11	\$88.09	\$20.87	\$10.21	\$5.93	\$2.56	\$0.03
Sept 30/11	\$83.91	\$26.43	\$4.47	\$5.99	\$2.26	\$0.05

Note: (1) Sept 11 lifting costs are estimates only.

Oil lifting costs in the September quarter are higher than normal due to maintenance programs and salt water disposal costs. The lifting costs are expected to move back to around \$21.00/Bbl in the 4<sup>th</sup> quarter.

## **Corporate Operations (USA):**

Net Corporate Costs for the quarter were US\$402,809 (previous quarter \$354,000). Included in the current quarters costs are half year audit and reserve engineering costs of \$83,000 (previous quarter \$34,000). Net Corporate Costs for Australian operations for the quarter were US\$280,000.

## **Interest Expenses (US\$):**

Interest expenses over the quarter were \$805,129 (previous quarter \$972,000). The reduction in interest was due to repayment of debt outstanding.

## **Project Development**

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

1. Continued Kansas drilling and rework programs.
2. Williston Basin drilling program with the running of pipe for completion of one of the two wells drilled now underway.

3. Continuing geological and engineering work of the Company's 303,000 acre land holding in the Western New York State.
4. Progress on land holder negotiations for the potential large scale shale resources in the MacArthur Basin, Northern Territory.

### **Credit Facilities**

At the end of the quarter the Company had ~US\$61.8 million drawn at an average cost of LIBOR + 4.4%. Empire Energy retains Credit Facility availability of ~US\$88.2 million, subject to normal energy borrowing base requirements, for future acquisitions and development drilling.

Component	Drawdown US\$'000	Interest LIBOR + %pa
Term	\$58,800	4.5%
Revolver	\$3,000	2.5%
<b>TOTAL 30 Sept 2011</b>	<b>\$61,800</b>	<b>4.4%</b>

Over the period the Company repaid US\$2.02 million in borrowings.

### **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.

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	550,000	388,196	70.6%	\$6.06	45,000	31,780	70.0%	\$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>8,200,000</b>	<b>5,854,755</b>	<b>71.4%</b>	<b>\$5.89</b>	<b>629,077</b>	<b>469,020</b>	<b>74.6%</b>	<b>\$90.00</b>

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

The Company's wholly owned subsidiary, Imperial Oil & Gas P/L continues to work through landowner negotiations and archaeological requirements for the 6 exploration licence applications covering around 90% of the McArthur Basin in The Northern Territory, Australia. In summary:

- 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.
- The shales are proven to be gas-prone (a 1979 mineral corehole ignited and sustained a 6m gas flare for several months).
- Oil bleeds and bitumen staining are commonly observed in mineral cores.
- Traditional Land Owner negotiation meetings have commenced.
- To date 4 such meetings have taken place in Imperial's EP(A) 180 & 181 permits and EP(A) 184, 187 & 188 where there is an existing pipeline supplying gas to the McArthur Mine.

## **CORPORATE**

Over the period the Company subscribed US\$2.02 million for further Units in Empire Energy USA, LLC the Company's current percentage holding is ~95%.

### **Change in Presentation Currency for Financial Reporting**

The Company announced to the ASX on 14 October 2011 that it had adopted United States Dollars ("USD") as the presentation currency for Financial Reporting with effect from 1 July 2011.

The Group's first reported financial information in the new presentation currency will be the quarterly cashflow report.

Future interim half-year and full year financial statements will also be presented in USD. This change has been introduced as a result of the following:

- Increasing contribution of the US operations to the consolidated results of the Group; and
- Intention to list on a USA securities exchange in the near future; and
- Increasing interest in the Company's operations from potential US based investors and financiers.

Given that approximately 99% of the Group's revenue and at least 94% of its assets and liabilities are denominated in USD's, this change will provide shareholders and other users of the financial reports with a more accurate reflection of the Company's underlying performance. The Company will continue to report financial statements under Australian IFRS Accounting Standards.

This reporting change has no impact on the underlying business or the associated cash flow of the Group.

## ABOUT EMPIRE ENERGY GROUP LIMITED

In early 2007, the Company established Empire Energy USA, LLC and currently holds around 95% of its issued capital. Empire Energy USA is an oil and natural gas producer and also 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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## Glossary

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