EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

DECEMBER 2016 ANNUAL REPORT

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CORPORATE DIRECTORY

Directors
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K A Torpey

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US Auditors
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Pittsburgh PA 15222

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Telephone: 1300 85 05 05

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Sydney NSW 2000

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PNC Bank
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One PNC Plaza
Pittsburgh PA 15222

Company Secretary
R V Ryan

Australian Solicitors
Clifford Chance
Level 16
1 O'Connell Street
Sydney NSW 2000

US Solicitors
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K&L Gates Center
210 Sixth Avenue
Pittsburgh PA 15222-2613

Barry Conge Harris LLP
1800 West Loop South, Suite 750
Houston, TX 77027

Stock Exchange Listings

Australia
Australian Securities Exchange
(Home Exchange Sydney, New South Wales)

ASX Code: EEG - Ordinary Shares

United States of America
New York OTCQB Market:
Code: EEGNY
OTC#: 452869103
Sponsor: Bank of New York
1 ADR for 20 Ordinary shares

www.empireenergygroup.net

Executive Chairman's Review of Operations

A. 2016 OVERVIEW & HIGHLIGHTS

GROUP

- Revenue $14.5 million (2015: $18.2 million).
- Profit after Income Tax Income $16.5 million (2015: -$27.0 million).
- EBITDAX $3.8 million (2015: $6.0 million).
- Net tangible Assets US$36.1 million or US$0.10 cents per share.
- Underwritten rights issue for A$6.1 million announced 14 December 2016, currently being completed.

USA – APPALACHIA & MIDCON

- As with the global upstream oil and gas industry, the Company's USA operations traded within a difficult environment throughout the first half of 2016 with oil and gas prices at 20 year lows. Price improvements in oil and then gas from around the half year, along with a conservative hedging program enabled the Company to generate a positive result for the year.
- An individual oil well efficiency monitoring system implemented in mid-2015 was able to monitor individual oil wells on a daily basis based on spot oil price volatility. This enable critical production savings to be made throughout the 2016 year.
- With service costs at 15 year lows the Company is planning on drilling at least 6 to 8 gross wells over 2017. The first well to be drilled is expected to be spudded in Kansas is early April 2017. At least 6 gross drilled locations in Kansas have been prioritised with a further 4 to 6 in Kay County, Oklahoma.
- Gross oil production 194,000 Bbls (Net 123,000 Bbls) (2015: Gross 216,000 Bbls).
- Gross natural gas production 2.4 Bcf (Net 1.9 Bcf) (2015: Gross 2.2 Bcf).
- Net production 1,203 Boe/d (2015: 1,192 Boe/d).
- 2P Reserves 15.0 MMBoe, (2015:12.7 MMBoe) with 2P PV10 of $91.5 million (2015: $44.5 million).
- Outstanding hedges as at December 31, 2016 valued at $3.3 million.
- US$200 million credit facility extended to February 2019.

AUSTRALIA – NORTHERN TERRITORY

- In December 2015, the Company entered into a US$75,000,000 Farm-out agreement ("Farmout") for the development of its Northern Territory (NT) assets with AEGP Australia Pty Ltd (AEGP) a company controlled by Mr Aubrey K. McClendon. In March 2016 Mr McClendon was tragically killed in an accident. The Personal Representative of the McClendon Estate has confirmed that that Estate will not continue with the Farmout. Refer to page 16.
- A Prospective Resource P(50) (**"PRP(50)"**) of ~2.1 billion Boe or ~12.0Tcfe was announced in February 2016 for the Company's NT Assets. The PRP(50) covers approximately 5.5 million acres of the total 14.6 million acres held by the Company and with an average shale thickness of 330 feet. In most of the area reviewed, the shale thickness can be considerably thicker than that used for the PRP(50) estimate. (Refer to page 11 for definition of Prospective Resource)
- Over 2015/16 Imperial Oil & Gas Pty Ltd (**"Imperial"**) completed an extensive review of historical data which showed the Tawallah and McDermott Group of shales significantly extend the McArthur Basin tenements providing the possibility of adding very significant additional resources to the current PRP(50). Refer to page 14.

B. OPERATIONS

The Company maintains a small head office in Australia and manages the oil & gas production operations through its 100% owned USA subsidiary Empire Energy E&P, LLC (**"Empire E&P"**). The exploration program in the McArthur Basin, Northern Territory, is operated through its 100% owned subsidiary Imperial.

Executive Chairman's Review of Operation (Continued)

C. OPERATIONS REVIEW – USA

TABLE A

Operating Statistics	Notes	Dec 31, 2016	Dec 31, 2015	% change
Gross Production:				
Oil (MBbls)		194	216	-10%
Natural gas (MMcf)		2,362	2,222	6%
Net Production:				
Oil (MBbls)		123	140	-12%
Natural gas (MMcf)		1,895	1,769	7%
Net production (MBoe):	1.0	439	435	1%
Net Daily Production (Boe/d):		1,203	1,192	1%
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$62.21	$72.31	-14%
Natural gas ($/Mcf)		$ 3.04	$ 3.84	-21%
Oil Equivalents ($/Boe)		$30.59	$38.93	-21%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$38.52	$43.46	-11%
Natural gas ($/Mcf)		$ 1.76	$ 1.84	-4%
Oil Equivalents ($/Boe)		$18.40	$21.49	-14%
Lifting Costs (incl taxes):	1.1			
Oil ($/Bbl)		$21.54	$24.53	-12%
Natural gas ($/Mcf)		$ 1.61	$ 2.23	-28%
Oil Equivalents ($/Boe)		$13.01	$16.97	-23%
2P Reserves (MMBoe):		15.0	12.7	18%

Notes to Table A
1.0 **BOE** - based on SEC guidelines of an oil:gas ratio of 1:6.
1.1 **Lifting Costs** - includes lease operating expenses, production and ad valorem taxes.

D. NET PRODUCTION BY REGION - USA

TABLE B

Operating Statistics	Notes	Dec 31, 2016	Dec 31, 2015	% change
Oil (MBbls)				
Appalachia		3	4	-25%
Mid-Con		120	136	-11%
Total (MBbls)		123	140	-12%
Natural gas (MMcf)				
Appalachia		1,880	1,761	7%
Mid-Con		15	8	67%
Total (MMcf)		1,895	1,769	7%

Executive Chairman's Review of Operation (Continued)

E. REVIEW OF OPERATING RESULTS

USA OPERATIONS

In addition to the information presented in this financial report, to assist stakeholders in gaining a more comprehensive understanding of the operations the financial results have also been prepared with reference to an EBITDAX format.

The presentation of "EBITDAX" accounting, which is a non-IFRS or statutory financial measure, may therefore not be comparable to similar measures presented by other companies. Management have attempted to ensure that EBITDAX accounting presented is consistent with reporting by other similar E&P companies so a useful production and financial comparison can be made. The EBITDAX accounts, based on the production date, are not meant to reconcile to the statutory accounts as the latter have been prepared on an accrual basis (effective date). However, if the EBITDAX accounts are prepared on an effective date basis they can then be reconciled to the statutory accounts.

EBITDAX represents net income (loss) before interest expense, taxes, and depreciation, amortization, development and exploration expenses. Nonrecurring expenses have been included in EBITDAX. In summary, all revenues and operating expenses of the Company's business are included in EBITDAX. All non-cash expenses, which may distort the presentation of operations as shown in the statutory accounts, have been either eliminated or reallocated and aggregated below the EBITDAX line.

In summary, we believe that:

- EBITDAX provides stakeholders with a much simpler and clear measure of our operating performance.
- EBITDAX is an important supplemental measure of operating performance because it eliminates items that have little bearing on our operating performance and so highlights trends in our core business that may not otherwise be apparent when relying solely on current statutory accounting and financial measures.
- EBITDAX is the material component of the covenants that are imposed on the Company under our credit agreements.
- Securities analysts and investors generally use EBITDAX (cash flow modelling) in the comparative evaluation of companies.
- Management and external users of our financial statements, rely on the use of EBITDAX to assess:
    - the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
    - the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
    - our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
    - the feasibility and effectiveness of acquisitions and capital expenditure projects; and
    - the overall rates of return on alternative investment opportunities.

Other companies may calculate EBITDAX differently than as presented. Based on the premises set out above, the following schedules present comparative operating statistics and financials on an EBITDAX basis:

RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS

For the EBITDAX report actual numbers for production, income and expenses have been utilised. This method generates differences between what is shown in the EBITDAX accounts and what is represented in the statutory accounts.

The table below provides a reconciliation EBITDAX to the financial statements.

Executive Chairman's Review of Operation (Continued)

Net Earning - Effective Date (In $ thousands)	**31 December 2016**	**31 December 2015**
EBITDAX- production date	**$3,794**	**$6,020**
Net Earnings- effective date	**$(4,161)**	**$(6,588)**
Intergroup management fee	$150	$150
Revenue and expenses (remaining Empire Group)		
Other Income	$10	$168
Unrealised derivative movements*	$(7,590)	$(306)
General and administration – head office	$(10)	$(6)
General and administration – other*****	$(46)	$(456)
Write back/(Impairment) of asset *	$28,144	$(22,203)
Net (loss)/profit before income tax expense	$16,497	$(29,241)
* ***Indicates non-cash items***		

EBITDAX in Table C relates to Empire Energy E&P and Net Earnings in Table D reports operational activities of Empire Energy Group.

Executive Chairman's Review of Operation (Continued)

TABLE C

Operations *(In $ thousands)*	Notes	Dec 31, 2016	Dec 31, 2015	% change
Net Revenue:				
Oil Sales	1.0	7,666	10,153	-24%
Natural Gas Sales	1.0	5,757	6,790	-15%
Working Interest		8	12	-33%
Net Admin Income	1.1	369	356	4%
Other Income		119	166	-28%
Total Revenue		13,919	17,477	-20%
Production costs:				
Lease operating expenses – Oil		2,529	3,292	-23%
Lease operating expenses - Gas		2,903	3,247	-11%
Taxes - Oil	1.2	126	190	-34%
Taxes - Natural Gas	1.2	153	197	-22%
Total		5,711	6,926	-18%
Field EBITDAX		**8,208**	**10,551**	**-22%**
Less:				
Inventory adjustment	1.3	(3)	160	-102%
Reserve Enhancements	1.4	22	63	-65%
Nonrecurring expenses	1.5	756	821	-8%
G & G Costs		26	51	-49%
Field Overhead	1.6	1,250	788	59%
Total		2,051	1,883	-9%
Operating EBITDAX		**6,157**	**8,668**	**-29%**
Operating Margin		44.2%	49.6%	
Operating Margin				
Less:				
Field G & A	1.7	658	989	-33%
Corporate G & A	1.8	1,555	1,565	-1%
Delay rental payments		142	74	92%
Land Overhead & Non-leasing costs		6	11	-45%
Dry hole expenses		-	9	-100%
Total		2,361	2,648	-11%
EBITDAX		**3,796**	**6,020**	**-37%**
Net Margin		27.3%	34.4%	

Executive Chairman's Review of Operation (Continued)

Notes to Table C:

1.0 Oil and Natural Gas Sales –includes realised net hedges of $5.4 million for natural gas and oil.

1.1 Net Admin Income – as operator for approximately most of the Company's assets, the Company charges Working Interest Owners a fee to cover expenses such as administration, general insurance and supervision etc., or COPAS expenses. As part of this cost there is a net margin which accrues to the Company.

1.2 Taxes – includes production, severance and ad valorem taxes.

1.3 Inventory Adjustment – adjustment for oil in tanks as of December 31, 2016.

1.4 Reserve Enhancements – capital costs relating to the development of behind pipe reserves, plus polymer treatment program for wells.

1.5 Nonrecurring expenses – Costs relating to ongoing upgrade of well bores, wellhead equipment well and tank battery sites etc.

1.6 Field Overheads – field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease administration and land management, general property insurances, environmental and reserve reporting etc. Around 50% of this is covered by Net Admin Income (refer Note 1.1 above). Over 2016 the Company reallocated expenses between Field G&A and Field Overhead with the former now including all supervisory and direct field administration costs. Aggregate costs between both cost centres remained the same.

1.7 Field G&A - Empire Energy has field offices in each region it operates. Operations are expansive with over 2,200 operating wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 40 employees and 15 contract pumpers operating in two regional areas, Appalachia and the Mid-Con. Field G&A expenses include expenses such as utilities, IT, postage, office rental, third party reservoir engineering reviews etc. Over 2016 the Company reallocated expenses between Field G&A and Field Overhead with the later now including all supervisory and direct field administration costs. Aggregate costs between both cost centres remained the same.

1.8 Corporate G&A – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA., were a staff of 4 full time and 2 part time hold responsibility for financial management, control and reporting, plus HR Services. Major expenses for the period were - salaries and wages $311,970; audit/tax and accounting $165,975; travel and accommodation $70,010; rent and associated, IT and office costs $159,748; Professional Services $140,532 and Management and Director Fees $403,000 (of which $150,000 was paid to Empire Energy Group Limited).

Executive Chairman’s Review of Operation (Continued)

F. NET EARNINGS

TABLE D

Net Earnings *(In $ thousands)*	**Notes**	**Dec 31, 2016**	**Dec 31, 2015**	**% change**
EBITDAX		**3,796**	**6,020**	**-37%**
Geological Services		17	29	-41%
Acquisition related expenses	1.9	55	262	-79%
Capital Raising Expenses		21	17	24%
Australian HQ	1.10	1,140	1,203	-5%
Northern Territory exploration expenses		289	946	-69%
Total		1,522	2,457	-38%
EBITDA		**2,274**	**3,563**	**-36%**
Less:				
Expiration costs		299	426	-30%
ARO		478	422	13%
Depn, Depletion, Amortisation		1,621	6,227	-74%
Total		2,398	7,075	-66%
EBIT		**(124)**	**(3,512)**	**-96%**
Less:				
Interest		2,416	2,060	17%
Interest (non-cash)	1.11	369	510	-28%
(Gain) loss on sale of **assets (non-cash)**		42	614	-93%
P&A vs. **ARO (non-cash)**		150	357	-58%
Bad debts **(non-cash)**		(26)	-	100%
Net Earnings before Tax		**(3,075)**	**(7,053)**	**-56%**

Notes to Table D:

1.9 **Acquisition related expenses** – Directly associated with acquisitions and include legal, engineering, tax and accounting advice, transition fees, recruitment and relocation costs.

1.10 **Australian HQ** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants $342,903; salaries $246,850; audit & accounting $102,218; listing related expenses $60,262; rent, communications, IT hardware and support services $162,723. Australian expenses currency translation at AUD/USA 0.7236.

1.11 **Interest (non-cash)** – decreased due to warrant amortisation from previous years taken up in 2015.

G. CAPITAL EXPENDITURE

Capex *(In $ thousands)*	**Notes**	**Dec 31, 2016**	**Dec 31, 2015**	**% change**
Capital Expenditures				
Acquisition Capital		49	884	-94%
New Wells - IDC		580	878	-34%
New Wells - Capital		23	26	-12%
Undeveloped Leases		32	899	-96%
Northern Territory, Australia		499	1,465	-66%
Total		**1,183**	**4,152**	**-72%**

Executive Chairman's Review of Operation (Continued)

H. CREDIT FACILITY

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2016 was $40.1 million (cf $39.4 million at Dec 2015) at an average rate of LIBOR+6.5%. Principal repayments made in 2016 and 2015 were ~$465,000 and ~$3.7 million respectively. Interest expense is estimated to average $220,000/mth over 2017. The Credit Facility expires on 17 April 2019.

I. HEDGING

Due to the risk/growth model implemented by Empire, a comprehensive hedging strategy has been adopted to ensure a reduction in commodity risk over the period that a major portion of debt financing is repaid. The portion of production hedged will naturally reduce as drill bit production comes on line or on the other hand increase as non-economic wells are shut-in.

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2017	1,700,000	1,068,000	62.8%	$4.05	119,500	114,000[a]	95.43%	$66.95
2018	1,620,000	1,008,000	62.2%	$4.11				
2019	1,550,000	498,000	32.1%	$3.45				
Total	4,870,000	2,574,000	52.9%	$3.96	119,500	114,000	95.43%	$66.95

[a] Includes a collar implemented for additional 1,800Bbl/month over 2017 at $45.30/$54.30

The fair value (marked to market) of combined oil and gas hedges in place as at December 31, 2016 was $3.3 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2016.

J. RESERVES – USA

The Company's reserves are reviewed annually by independent third party reserve engineers. The scope of the reviews is to prepare an estimate of the proved, probable and possible reserves attributable to Empire's ownership position in the subject properties.

Reserves as at December 31, 2016 – USA (NYMEX Strip Dec 31, 2016)

Reserves - As of Dec 31, 2016	Oil (Mbbls)	Gas (MMcf)	MBoe	Gross Wells	Capex US$M	PV0 US$M	PV10 US$M
Reserves & Region							
Proved Developed Producing	1,647	27,045	6,155	1,637	$0	$80,033	$36,626
Proved Developed Non-producing	492	38	498	15	$1,647	$12,606	$6,267
Proved Behind Pipe	152	40	159	9	$582	$5,878	$1,416
Proved Undeveloped	1,111	101	1,128	58	$10,479	$31,803	$12,164
Total 1P	**3,402**	**27,224**	**7,939**	**1,719**	**$12,708**	**$130,320**	**$56,473**
Probable	3,085	23,923	7,072	153	$42,376	$132,816	$34,984
Total 2P	**6,487**	**51,147**	**15,012**	**1,872**	**$55,084**	**$263,136**	**$91,457**
Possible	1,620	4,024	2,291	222	$24,945	$54,576	$8,866
Possible - NY Shale	90,740	12,460	92,817				
Total 3P	**98,847**	**67,631**	**110,119**	**2,094**	**$80,029**	**$317,712**	**$100,323**
Prospective Resource P(50) Shale (NY)	203,500	1,221,000	407,000				
Prospective Resource P(50) - Aus (NT)	222,000	11,076,000	2,068,000				
Total Reserves & Resources	**524,347**	**12,364,631**	**2,585,119**				

Notes to Reserves

- "Prospective Resources" is the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
- The scope of the Reserve Studies reviewed basic information to prepare estimates of the reserves and contingent resources.

Executive Chairman's Review of Operation (Continued)

- The quantities presented are estimated reserves and resources of oil and natural gas that geologic and engineering data demonstrate are "In-Place", and can be recovered from known reservoirs.
- Oil prices are based on NYMEX West Texas Intermediate (WTI).
- Gas prices are based on NYMEX Henry Hub (HH).
- Prices were adjusted for any pricing differential from field prices due to adjustments for location, quality and gravity, against the NYMEX price. This pricing differential was held constant to the economic limit of the properties.
- All costs are held constant throughout the lives of the properties.
- 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.
- "PV0" Net revenue is calculated net of royalties, production taxes, lease operating expenses and capital expenditures but before Federal Income Taxes.
- "PV10" is defined as the discounted Net Revenues of the company's reserves using a 10% discount factor.
- "1P Reserves" or "Proved Reserves" are defined as Reserves which have a 90% probability that the actual quantities recovered will equal or exceed the estimate.
- "Probable Reserves" are defined as Reserves that should have at least a 50% probability that the actual quantities recovered will equal or exceed the estimate.
- "Possible Reserves" are defined as Reserves that should have at least a 10% probability that the actual quantities recovered will equal or exceed the estimate.
- "Bbl" is defined as a barrel of oil.
- "Boe" is defined as a barrel of oil equivalent, using the ratio of 6 Mcf of Natural Gas to 1 Bbl of Crude Oil. This is based on energy conversion and does not reflect the current economic difference between the value of 1 Mcf of Natural Gas and 1 Bbl of Crude Oil.
- "M" is defined as a thousand.
- "MMBoe" is defined as a million barrels of oil equivalent.
- "Mcf" is defined as a thousand cubic feet of gas.
- All volumes presented are net volumes and have had subtracted associated royalty burdens.
- Utica shale gas potential resources have only been calculated for the region where drill data is available.
- Very few wells have been drilled into the Utica in Western NY and NW Pennsylvania. Estimates for GIP have been made were the few existing wells have been drilled. Empire holds additional acreage outside the current potential resource region. It is expected that as with shale characteristics, the shale formations will continue within the remaining acreage. The potential GIP should increase if more data was available.
- Reserve estimates have been prepared by the following independent reserve engineers:
- New York & Pennsylvania (Appalachia) and Kansas (Mid-Con) - Ralph E. Davis Associates, Inc.
- Oklahoma (Mid-Con) - Pinnacle Energy Services, LLC.
- Northern Territory - Muir & Associates P/L and Fluid Energy Consultants.
- The following NYMEX price strip, as at December 31, 2016, was used to calculate reserves and cash flow:

Year	$/Bbl	$/Mcf
2017	56.26	3.62
2018	56.54	3.09
2019	56.08	2.87
2020	56.05	2.88
2021	56.23	2.91
2022	56.57	2.94
2023	57.48	3.02
2024	57.88	3.16
2025	58.10	3.31
2026	58.10	3.46
2027	58.10	3.61
2028	58.10	3.76
2029+	58.10	3.89

Executive Chairman's Review of Operation (Continued)

Reconciliation of Reserves – USA (NYMEX Strip Dec 31, 2016)

Reserves/Resources - MBoe	1P	2P	3P(2)	Prospective (P50)**
As at December 31, 2015				
Appalachia	3,968	5,142	98,623	203,467
Mid-Con	1,964	7,557	7,710	0
Northern Territory (3)				1,846,500
TOTAL	**5,932**	**12,699**	**106,333**	**2,049,967**
Production 2016				
Appalachia	-316			
Mid-Con	-123			
Changes (1)				
Appalachia	1,047	862	2,399	
Mid-Con	1,399	1,451	1,387	
Northern Territory (3)				221,500
As at December 31, 2016				
Appalachia	4,699	6,004	101,022	203,467
Mid-Con	3,240	9,008	9,097	0
Northern Territory (3)				2,068,000
TOTAL	**7,939**	**15,012**	**110,119**	**2,271,467**
Change	34%	18%	4%	11%
				** Unrisked

(1) Includes acquisitions, divestments, discoveries, extensions and revisions.

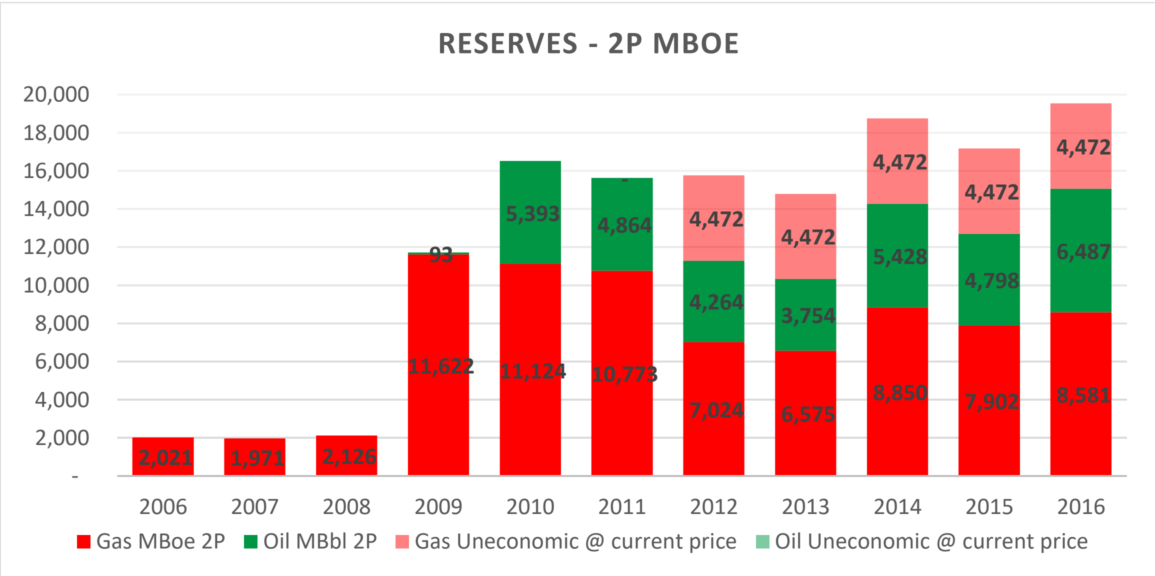
(2) 3P includes shale reserves but subject to current fracking ban in NY State.

(3) The Company has completed its initial stage of delineating a prospective resource in its Northern Territory MacArthur Basin acreage. Over the past 3 years this program has included on ground exploration (where possible under Aboriginal Land requirements), review of existing well and log data, assaying of core and 3D geological modelling of the entire basin. Based on this data, the Company has had completed an independent Prospective Resource P(50) estimate of 2,068 MMBoe. Prospective resources are as yet, undiscovered and as such carry significant exploration risk. The degree of uncertainty is 'most likely'.

(4) 1P, 2P & 3P are calculated on a deterministic basis with applicable volumes are measured at the wellhead.

(5) Unrisked - this estimate of prospective petroleum resources must be read in conjunction with the cautionary statement on page 11.

Net 2P Reserves: An updated Reserve Estimate was carried out as of December 31, 2016 at the NYMEX strip as at December 31, 2016. An updated summary of 2P Reserves is shown below. Total 2P reserves are 15.0 MMBoe. Approximately 4.5 MMBoe of 2P reserves are uneconomic at current oil/gas prices. Uneconomic reserves are mostly held by production and will be written back at higher gas prices.



Executive Chairman's Review of Operation (Continued)

Reconciliation of Economic Summary Projections – USA (NYMEX Strip Dec 31, 2016)

Eco Projections PV10 ($M)	1P	2P	3P (2)
As at December 31, 2015			
Appalachia	$12,727	$14,494	$15,746
Mid-Con	$15,808	$30,004	$31,149
TOTAL	**$28,535**	**$44,498**	**$46,895**
Sales 2016			
Appalachia	-$3,626		
Mid-Con	-$4,865		
Changes (1)			
Appalachia	$8,520	$6,793	$13,223
Mid-Con	$27,909	$40,166	$40,205
As at December 31, 2016			
Appalachia	$17,621	$21,287	$28,969
Mid-Con	$38,852	$70,170	$71,354
TOTAL	**$56,473**	**$91,457**	**$100,323**
Change	98%	106%	114%

(1) Includes changes in strip prices, acquisitions, divestments, discoveries, extensions and revisions.
(2) Excludes any value attributable to NY shale reserves.
(3) Reserves by: RE Davis Associates, Inc. & Pinnacle Energy Services, LLC

Land Position

The following table summarises the Company's land holdings in Appalachia and the Mid-Continental regions in the United States and the Northern Territory, Australia, as at December 31, 2016.

State	Total (Gross Acres)	HBP	Marcellus	Utica	Miss.	CKU	2017	2018	2019+
NY	262,260	246,890	262,260	127,757	-	-	3,232	1,418	10,705
PA	15,198	15,198	8,293	6,975	-	-	-	-	-
OK	4,937	-	-	-	4,937		3,497	1,440	-
KS	16,340	15,780	-	-	6,098	15,620	480	80	-
NT	~14,600,000								
TOTAL	14,898,735	277,868	270,553	134,732	11,035	15,620	7,209	2,938	10,705

Marcellus/Utica = Shales, Appalachia
Miss. = Mississippi Lime, MidCon
CKU = Central Kansas Uplift:
Arbuckle, Simpson, Viola, Lansing/Kansas City

K. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY

Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd ("Imperial"), secured 100% interest in 59,000 square km (14.6 million acres) of prospective shale gas exploration acreage, approximately equal to 75% of the entire petroleum prospective central depositional trough of the Proterozoic McArthur Basin. The McArthur Basin is an underexplored petroleum frontier basin.

- Over 2015/16 Imperial completed an extensive review of historical petroleum, mineral and water bore drilling and, where available, seismic and gravity data which showed the Tawallah Group of shales significantly extend within EP 184, EPA 183 and EP 187 in the McArthur Basin tenements. The study confirmed there is recognised source potential in the Tawallah Group units specifically within the McDermott and Wollogorang Formations as originally reported by Jackson et al (1987). A review has shown that historical core hole data identified shale source rock prospectivity in the Wollogorang and McDermott Formations of the Tawallah Group with live oil reported within the McDermott Formation in the GSD7 well drilled by BHP in 1995 (Brescianini and Brown 1995). The oil was described as coming from a 230 foot interval between 1800 and 2030 foot drill depth. This data was supported by mineral diamond drilling in 2014 that intersected 66ft of thick black organic rich shale intervals of the formation

Executive Chairman's Review of Operation (Continued)

in a near surface positon on a domal anticline in the southern McArthur Basin. The presence of this deeper hydrocarbon generation from these formations demonstrates the increased potential for hydrocarbons below the Barney Creek Shale in EP187 and previously considered barren regions of EP184.

- The work by Imperial has identified key correlations of interest across the Imperial tenements as the McDermott Formation with the Cottee Formation on the Arnhem Shelf and the Wollogorang Formation correlation with the McCaw Formation in the same area. This correlation may also include the Bonanza Creek Formation and the top of the Dhunganda Formation in the Walker Fault zone within EP(A) 180, 181 and 182. Importantly the McCaw Formation is generally considered to be 820 -1000 feet thick and locally up to 1300 feet thick. While the Cottee Formation is 1000 ft. thick and the Dhunganda Formation can be up to 1650 ft. thick.

- A PRP(50) has not been calculated for the McDermott formation, but total areas mapped are approximately 2,000,000 acres, with an expected net average thickness of around 400 feet and with projected TOC's between 6% to 7% in the EP187, EP184 and EP(A)183 and EP(A)188. The correlation work over 2016 showed that the same Tawallah Group of shales (and/or equivalents) extend northwards, underlying the Barney Creek shale equivalents in EPA's 180, 181 and 182, adding a further estimated 10,000,000 acres to the potential resource base. This has the possibility of adding very significant additional resources to the current PRP(50). A study undertaken by Imperial in 2016 shows that the Wollogorang Shales extend through EP 184, 187 and EPA 188 into the northern McArthur EPA's 180,181 and 182. Utilising a geological discount factor of only 0.1 (discounted by 90%) a PRP(50) = 221 MMBoe (3.7Tcfe) was calculated for the known Wollogorang Shales within the Company's tenements. Refer to table below.

- The Northern Territory Labor Party recently announced a review of fracking practices and procedures. While this review is being undertaken there will be no seismic or drilling done by Imperial.

The Company had completed at its request an independent Prospective Resource as set out below:

INDEPENDENTLY CERTIFIED ESTIMATED PROSPECTIVE RESOURCE (Unrisked)					
IDENTIFIED		**AREA M ac**	**P90**	**P50**	**P10**
Barney Creek Formation	Bcf	2,982	3,304	8,699	20,172
	MMBO		66	174	403
Velkerri Formation	Bcf	635	383	1,192	3,086
	MMBO		8	24	62
Wollogorang Formation	Bcf	1,384	524	1,185	2,371
	MMBO		10	24	47
TOTAL	**MMBOE**		**786**	**2,068**	**4,783**

Conversion Factor oil:gas is 1:6. Refer to page 11 for definition of Prospective Resource

L. COMPONENT PERSONS STATEMENT

The information in this report which relates to the Company's reserves is based on, and fairly represents, information and supporting documentation prepared by or under the supervision of the following qualified petroleum reserves and resources evaluators, all of whom are licensed professional petroleum engineer's, geologists or other geoscientists with over five years' experience and are qualified in accordance with the requirements of Listing Rule 5.42:

Name	*Organisation*	*Qualifications*	*Professional Organisation*
Allen Barron	*Ralph E Davis Associates, Inc*	*BSc*	*SPE*
John P Dick	*Pinnacle Energy Services, LLC*	*BPE*	*SPE*
Wal Muir	*Muir and Associate P/L*	*BSc,MBA*	*PESA*

** SPE: Society of Petroleum Engineers*
**PESA: Petroleum Exploration Society of Australia*
None of the above evaluators or their employers have any interest in Empire Energy E&P, LLC or the properties reported herein. The evaluators mentioned above consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

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.

DIRECTORS' REPORT
for the financial year ended 31 December 2016

In respect of the financial year ended 31 December 2016, the Directors of Empire Energy Group Limited ("Company") present their report together with the Financial Report of the Company and of the consolidated entity ("Empire Group"), being the Company and its controlled entities, and the Auditor's Report thereon.

DIRECTORS

The following persons held office as Directors of Empire Energy Group Limited at any time during or since the end of the financial year:

B W McLeod	Executive Chairman
D H Sutton	Non-Executive Director
K A Torpey	Non-Executive Director

All the Directors have been in office since the start of the financial year unless otherwise stated.

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of:

The acquisition, development, production, exploration and sale of oil and natural gas. The Empire Group sells its oil and gas products primarily to owners of domestic pipelines and refiners located in Pennsylvania, New York and Kansas.

Reviewing new exploration, development and business opportunities in the oil and gas sector to enhance shareholder value.

The Company holds two exploration licences and five licence applications over 14.6 million acres in the McArthur Basin, in the Northern Territory. Work undertaken to date has shown this region to be highly prospective for oil and gas shale.

CONSOLIDATED RESULTS

The consolidated net profit of the Empire Group for the financial year ended 31 December 2016 after providing for income tax was US$16,448,929 compared to a consolidated net loss for the previous corresponding reporting period of US$26,998,997.

REVIEW OF OPERATIONS

For information on a review of the Empire Group's operations refer to the Executive Chairman's Review of Operations Report contained on pages 4 to 15 of this annual report.

DIVIDENDS

The Directors have not recommended the payment of a final dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial period under review.

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

MATTERS SUBSEQUENT TO BALANCE DATE

1) In December 2015, the Company entered into a US$75,000,000 Farm-out agreement ("Farmout") for the development of its Northern Territory (NT) assets with AEGP Australia Pty Ltd (AEGP) a company controlled by Mr Aubrey K. McClendon. The agreement included Imperial Oil & Gas's 20% share of the Second Phase project funding. In March 2016 Mr McClendon was tragically killed in an accident. The Personal Representative of the McClendon Estate has confirmed that that Estate will not continue with the Farmout and in early 2017 AEGP and

Directors' Report
for the year ended 31 December 2016

the Company agreed on the terms of a Termination Agreement for the Farmout. On 23rd January 2017 the Company signed the Termination Agreement and remains waiting for the return of the document from the McClendon Estate.

2) On 14 December 2016 Empire Energy Group Limited (the 'Company') announced a 11 for 5 pro-rata renounceable rights issue ('Offer') to raise approximately $6.1 million. The Offer was fully underwritten by 153 Fish Capital Pte Ltd ('153 Fish Capital').

   The Offer closed on the 27 January 2017. Existing shareholders took up 236,538,079 new shares under the Offer. The shortfall to the Offer was 527,553,373 shares amounting to approximately $4.2 million ("Shortfall Amount").

   The Underwriter had forwarded to the Company Application Forms from Sub underwriters for a total of approximately $5.5 million ("Funds") being approximately $1.3 million more than the Shortfall Amount. However, as of close of business on 17 February 2017 approximately $1.6 million of the Shortfall Amount had been received and shares have been issued.

   On 23 February 2017 the Company placed an additional 37,750,000 shares to investors as part of the shortfall.

   The Company is working with 153 Fish Capital to facilitate the placement of the remaining shortfall shares being $2.2 million. The Company does not have the available issuance capacity under ASX Listing Rule 7.1 to place the shares equivalent to the Shortfall without seeking shareholder approval.

   A General Meeting of the Company is being scheduled for the end of April 2017 with a date yet to be finalised as at the date of this report, to seek shareholder approval for the issue of 187,500,000 shares amounting to $1.5 million to place the remainder of the shortfall amount. The remainder of the shortfall will be issued under ASX Listing Rule 7.1 and 7.1A.

3) On 23 February 2017 the Company issued 17,693,153 shares to 153 Fish Capital Pte Ltd as a fee offset for the Offer.

   Following the share issues mentioned above the issued capital of the Company is 835,470,109 fully paid ordinary shares.

There were no other matters or circumstances that have arisen since 31 December 2016 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2016, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2016 of the Empire Group.

INFORMATION ON DIRECTORS

Bruce William McLeod, B.Sc (Maths), M.Com (Econ) Age 64
Executive Chairman

Experience and Expertise
Mr McLeod has had extensive experience in the Australian capital markets. Over the past 22 years he has been involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent 6 years with a major international bank, where he was Executive Director, responsible for the financial and capital markets operations.

Appointed a Director of the Company on 21 May 1996.

Special Responsibilities
Chairman of the Board – Chief Executive Officer and Member of Audit Committee

Other Current Directorships
Chairman of Anson Resources Limited.

Former Directorships in Last 3 Years
None.

Directors' Report
for the year ended 31 December 2016

David Henty Sutton, B.Com ACIS Age 73
Non-Executive Director

Experience and Expertise
Mr Sutton has many years' experience as a Director of companies involved with share broking and investment banking. He is the Executive Chairman and Director of Avalon Pacific Capital Pty Ltd (formerly Dayton Way Financial), a boutique financial services company focussing on the global resource sector.

Prior to his current roles he was a partner and director of several securities exchange member firms. He became a member of the Stock Exchange of Melbourne and subsequently Australian Securities Exchange Limited.
Appointed a Director of the Company on 17 January 1997.

Special Responsibilities
Member of Remuneration Committee and Member of Audit Committee

Other Current Directorships
Sinovus Mining Limited, and Avalon Pacific Capital Pty Ltd (formerly Dayton Way Financial)

Former Directorships in Last 3 Years
Silver Mines Limited, EHG Corporation Ltd, Chairman Precious Metals Limited

Kevin Anthony Torpey**,** B.E., MIE Aus., CP Eng, FAusIMM, (CP) Age 77
Non-Executive Director

Experience and Expertise
Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 42 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia.

Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani. For the last 20 years his association has mainly been as a corporate officer initially as Managing Director of Denison Mines (Australia) and then Managing Director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies.

Appointed a Director of the Company on 26 November 1992.

Special Responsibilities
Member of Remuneration Committee and Member of Audit Committee

Other Current Directorships
Non-Executive Director of Latrobe Magnesium Limited

Former Directorships in Last 3 Years
None

COMPANY SECRETARY

Rachel Ryan
Ms Ryan was employed in the Company's Corporate Finances division in February 2006. She was appointed Joint Company Secretary on 21 July 2010 and assumed the role of Company Secretary on 31 July 2013. Ms Ryan also serves in the role of General Manager Operations.

EXECUTIVES

Kylie Arizabaleta B.Bus (Acct) (Fin)
Financial Controller
Ms Arizabaleta was appointed to the position of Financial Controller in March 2012. Before joining Empire Energy Group Limited she worked in the private practice as an external auditor and holds over 8 years' experience.

Dr John Warburton (FGS, MAICD)
Director, Imperial Oil & Gas Pty Ltd
Dr Warburton was appointed as an advisor to the Empire Energy Group in February 2010 and from March 2011 to March 2014 served as CEO of the Company's wholly owned subsidiary Imperial Oil & Gas Pty Ltd. He continues as Non-Executive Director of Imperial Oil & Gas. A Geoscientist by profession, Dr Warburton has 34 years of technical

Directors' Report
for the year ended 31 December 2016

and leadership experience in International Petroleum E&P including 11 years with BP and 4 years as General Manager Exploration & New Business for LASMO-Eni in Pakistan. Dr Warburton is currently Exploration & New Business Advisor to Oil Search Limited and is a Non-Executive Director of Senex Energy Limited.

Dr Warburton's operated & non-operated petroleum expertise covers the Middle East, Central and East Asia, Africa, Pakistan, Europe, Australia, New Zealand and PNG. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 30 internationally recognised technical articles with particular focus on petroleum systems in complex fold and thrust belts.

Dr Warburton has a First Class B.Sc. Honours Degree in Geological Sciences and a Ph.D. in Structural Geology. He is a Member of the Australian Institute of Company Directors, an Alumni of Cranfield Business School UK, a Fellow of the Geological Society of London and serves on the External Advisory Board at the Centre for Integrated Petroleum Engineering & Geoscience at the University of Leeds, UK.

Geoff Hokin MSc(Hons) Geology; MSc Geology; Dip Coal Geology; Dip Training & Assessment, Cert IV Bus Mgmt.; Cert IV TAA; IQA ISO9000 & ISO14000 BMP
Explorations & Operations, Imperial Oil & Gas Pty Ltd
Mr Hokin holds the qualifications of Master Science (Honours) in Geology and a Master Science Geology (exploration, and basin setting and analysis). He has 14 years' experience as an exploration geologist in the unconventional gas and coal sectors with various senior geology roles with a number of companies including Armour Energy Limited, Metgasco Limited, and Arrow Energy Limited. Mr Hokin has extensive geological and executive management experience to Executive Director level in other operations. He also holds post graduate qualifications in Anthropology and Cross Cultural Psychology with a particular focus on the Australian Aboriginals of Arnhem Land and the Southern Gulf region of the Northern Territory Australia.

MEETINGS OF DIRECTORS

The number of Directors' meetings and committee meetings held and the attendance by each of the Directors of the Company at those meetings during the financial year were:

	Directors' Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
Mr B W McLeod	17	17	-	-	7	7
Mr D H Sutton	17	17	1	1	7	7
Mr K A Torpey	17	17	1	1	7	7

The audit committee comprises the full Board of Directors. Mr D H Sutton and Mr K A Torpey were members of the remuneration committee during the financial year.

Retirement, Election and Continuation in Office of Directors

Mr D Sutton is the Director retiring by rotation at the next Annual General Meeting in accordance with Article 50.1 of the Company's Constitution and being eligible offers himself for re-election.

Remuneration Report – Audited

This report outlines the remuneration arrangements in place for Directors and Executives of the Empire Group.

REMUNERATION COMMITTEE

The Remuneration Committee reviews and approves policy for determining executives remuneration and any amendments to that policy. The Committee makes recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

The members of the Remuneration Committee during the period were:

D H Sutton – Independent Non-Executive Chairman
K A Torpey – Independent Non-Executive

The Committee meets as often as required but not less than once per year. The Committee met once during the period and Committee member's attendance record is disclosed in the table of Directors Meetings shown above.

Directors' Report
for the year ended 31 December 2016

Executive Directors' and Executive Remuneration

Executive remuneration and other terms of employment are reviewed annually and are based predominantly on the past year's growth of the Empire Group's net tangible assets and shareholder value, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation and other bonuses and incentives linked to predetermined performance criteria. Executive Directors and executives are able to participate in an Employee Share Option Scheme.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Consolidated Entity's operations. Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Performance Based Remuneration

As part of the Executive Directors' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives and that of the Empire Group and shareholders.

Performance in relation to the KPIs will be assessed annually, with bonuses being awarded depending on performance of the Empire Group over the past year. Following the assessment, the KPIs will be reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency assessed in relation to the Empire Group's goals and shareholder wealth.

Non-Executive Directors' Remuneration

Remuneration of Non-executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time. Non-executive Directors are also able to participate in an Employee Share Option Scheme.

The Board undertakes an annual review of its performance and the performance of the Board Committees against performance goals set. Details of the nature and amount of each element of the remuneration of each Director and each specified executive of the Empire Group receiving the highest remuneration are set out in the following tables.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2016	**Cash salary and fees US$**	**Bonus payments US$**	**Non-monetary US$**	**Super contributions US$**	**Long service leave**	**Share/option based payments***	**Total US$**
Directors							
B W McLeod	342,925[(1)]	-	26,414	-	-	15,288	384,627
K A Torpey	14,886	-	-	2,010	-	-	16,896
D H Sutton	-	-	-	14,886	-	-	14,886
J Warburton	26,795	-	-	-	-	-	26,795
Executives							
A Boyer	253,000[(2)]	-	62,559	-	-	3,893	319,452

[(1)] Includes accrued $216,732 but not paid. * Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to $0. The non-cash cost of the above options issued under the ESOP over the year was $18,185 the non-cash loss on options relating to the above directors that expired over the year was $30,976. The net non-cash cost of options issued to the above directors and executives for the year was $(12,790).
[(2)] Includes $78,000 of previous payments from 2013 to 2016 not paid.

Directors' Report
for the year ended 31 December 2016

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2015	Cash salary and fees US$	Bonus payments US$	Non-monetary US$	Super contributions US$	Long service leave	Share/option based payments*	Total US$
Directors							
B W McLeod	330,149	-	25,211	-	-	46,769	402,129
K A Torpey	15,048	-	-	1,354	-	-	16,402
D H Sutton	-	-	-	15,048	-	-	15,048
J Warburton	83,191	-	-	-	-	-	83,191
Executives							
A Boyer	178,000	-	65,326	-	-	8,499	251,825

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the ESOP. The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to $0. The non-cash cost of the above options issued under the ESOP over the year was $55,268 the non-cash loss on options relating to the above directors that expired over the year was $25,649. The net non-cash cost of options issued to the above directors and executives for the year was $29,618.

Service Agreements

Terms of employment with Mr B W McLeod (Executive Chairman) have been formalised in a service agreement. The terms of this agreement are as detailed below:

Terms of the agreement:
- Agreed management consultant fees of A$460,735 in 2016 to be reviewed annually by the remuneration committee
- Payment of termination benefits apply other than for gross misconduct
- Performance based incentive bonus based on annual performance set against key performance indicators
- Long term incentives occurring up on the monetisation of an asset, this long term incentive continues beyond term of the agreement
- Other benefits include provision of fully maintained motor vehicle and participation in the Company's Director/Employee Share Option Plan

The terms of the agreement have been approved by the remuneration committee.

There are no other service agreements in place formalising the terms of remuneration of directors or specified executives of the Company and the consolidated entity.

Loans to Directors and Executives

There were no loans made to Directors or Specified Executives of the Company and the consolidated entity during the period commencing at the beginning of the financial period and up to the date of this report.

There are no loans outstanding at the date of this report.

Share Options Granted to Directors and Specified Executives

During the financial year there were no executive options to acquire ordinary shares granted to Directors and specified executives of the Company.

At the date of this report there were no unissued shares held under option to Directors and specified executives.

Directors' Interests and Benefits

The relevant interest of each director and specified executive in the share capital of the Company as at the date of this report is:

Particulars of Interests in the Issued Capital of the Company

	Direct Interest		Indirect Interest	
Director	Shares	Options	Shares	Options
B W McLeod	-	-	24,229,999	-
D H Sutton	1,683,079	-	384,333	-
K A Torpey	377,776	-	5,378,116	-

End of Audited Remuneration Report

Directors' Report
for the year ended 31 December 2016

SHARE OPTIONS

Movements

Grant of Options

The following options were granted during the financial year:

Number		Exercise Price Pre Rights Issue A$	Exercise Price post Rights Issue A$*	Expiry Date
1,000,000	Unlisted options	$0.03	$0.028	25 August 2019

* Following a Pro-Rata Rights Issue announced in December 2016 the exercise price of outstanding options were adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22.

No options were granted during the period since the end of the financial year and up to the date of this report.

Exercise of Options

No options were exercised during the financial year or in the period since the end of the financial year and up to the date of this report.

Expiry of Options

The following options expired during the financial period:

Number		Exercise Price post Rights Issue A$	Expiry Date
4,250,000	Unlisted options	$0.119	26 February 2016
3,500,000	Unlisted options	$0.149	31 December 2016
1,500,000	Unlisted options	$0.169	31 December 2016
1,500,000	Unlisted options	$0.179	31 December 2016
10,750,000			

No options have expired since the end of the financial year and up to the date of this report.

At the date of this report the total number of unissued shares held under option was 1,000,000. These options are exercisable on the following terms.

Number		Exercise Price pre Rights Issue A$	Exercise Price post Rights Issue A$*	Expiry Date
1,000,000	Unlisted options	$0.03	$0.028	25 August 2019

*** Adjustment of Option exercise prices**

Following the completion of a Pro-Rata Rights Issue announced in December the exercise prices of 1,000,000 outstanding options were adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22 as outlined above.

Directors' Report
for the year ended 31 December 2016

PERFORMANCE RIGHTS

During the 2013 financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buy back of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

Fair Market Value of Consideration Received by the Company	Performance rights exercisable
Less than $25.0 million	0.0%
At least $25.0 million but less than $45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by $45.0 million.
$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE

During the financial year Empire Energy Group Limited paid an insurance premium, insuring the Company's Directors (as named in this report), Company Secretary, executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Environmental Regulations

There are significant environmental regulations surrounding mining activities which have been conducted by the Empire Group. However, there has been no breach of these regulations during the financial period or since the end of the financial period and up to the date of this report.

Declaration by the Group Executive Officer and Chief Financial Controller

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Controller in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the financial year ended 31 December 2016 present a true and fair view in all material aspects of the financial position and performance and are in accordance with relevant accounting standards.

Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Details of amounts paid or payable to the auditor for non-audit services are outlined in Note 32 to the financial statements.

The audit firm is engaged to provide tax compliance services. The Directors believe that given the size of the Empire Group's operations and the knowledge of those operations by the audit firm that it is appropriate for the auditor to provide these services. The Directors are of the opinion that these services will not compromise the auditor's independence requirements of the *Corporations Act 2001*.

Directors' Report
for the year ended 31 December 2016

Auditors' Independence Declaration Under Section 307 of the *Corporations Act 2001*

A copy of the Auditors' Independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 25 and forms part of the Director's Report for the financial year ended 31 December 2016.

Auditor

Nexia Australia continues in office in accordance with Section 327 of the *Corporations Act 2001*. No officers of the Empire Group were previously partners of the audit firm.

This report is made in accordance with a resolution of the Directors.

B W McLEOD
Director
Sydney 17 March 2017

The Board of Directors
Empire Energy Group Limited
Level 7, 151 Macquarie Street
SYDNEY NSW 2000

17 March 2017

To the Board of Directors of Empire Energy Group Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit partner for the audit of the financial statements of Empire Energy Group Limited for the financial year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia

Nexia Sydney Partnership

Lester Wills
Partner

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	Year ended December 2016 US$	Year ended December 2015 US$
Sales Revenue	5a	14,538,956	18,236,209
Cost of Sales	6	(8,604,524)	(9,701,346)
Gross Profit		5,934,432	8,534,863
Other income	5b	229,770	493,278
General and administration expenses		(3,301,879)	(4,746,575)
Exploration expenses		(318,869)	(955,295)
Other non-cash expenses	8a	16,373,999	(30,507,331)
Operating Profit/(Loss) before interest costs		18,917,453	(27,181,060)
Net interest (expense)/income	7	(2,420,361)	(2,059,868)
Profit/ (Loss) before income tax expense		16,497,092	(29,240,928)
Income tax (expense)/benefit	9a	(48,163)	2,241,931
Profit/ (Loss) after income tax benefit from continuing operations		16,448,929	(26,998,997)
Other comprehensive income			
(Loss) on the revaluation of available-for-sale assets		-	(5,145)
Exchange differences on translation of foreign operations		26,890	(175,883)
Other comprehensive income for the year, net of tax		26,890	(181,028)
Total comprehensive income for the year		16,475,819	(27,180,025)
		Cents per share	Cents per share
Basic earnings per share	28	4.76	(7.84)
Diluted earnings per share	28	4.76	(7.84)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Note	As at December 2016 US$	As at December 2015 US$
CURRENT ASSETS			
Cash and cash equivalents		641,493	1,126,543
Trade and other receivables	10	2,175,522	1,874,474
Prepayments	11	437,535	672,044
Inventories	12	544,772	553,184
Financial assets, including derivatives	13	2,022,174	5,579,991
TOTAL CURRENT ASSETS		5,821,496	9,806,236
NON-CURRENT ASSETS			
Financial assets, including derivatives	13	1,334,091	5,766,521
Oil and gas properties	14	83,943,173	58,275,023
Property, plant and equipment	14	487,872	532,286
Intangible assets	15	68,217	68,217
TOTAL NON-CURRENT ASSETS		85,833,353	64,642,047
TOTAL ASSETS		91,654,849	74,448,283
CURRENT LIABILITIES			
Trade and other payables	16	3,871,331	3,760,766
Interest-bearing liabilities	17	38,656,987	40,460,495
Provisions	18	6,986	12,377
TOTAL CURRENT LIABILITIES		42,535,304	44,233,638
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	17	-	31,560
Provisions	18	12,902,647	11,496,833
Deferred income tax liability	9(e)	-	-
TOTAL NON-CURRENT LIABILITIES		12,902,647	11,528,393
TOTAL LIABILITIES		55,437,951	55,762,031
NET ASSETS		36,216,898	18,686,252
EQUITY			
Contributed equity	19	74,239,177	74,240,545
Reserves		5,175,471	4,436,865
Accumulated losses		(43,197,750)	(59,991,158)
TOTAL SHAREHOLDERS' EQUITY		36,216,898	18,686,252

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Total Equity
Balance at 31 December 2015	**74,240,545**	**127,396**	**(96,233)**	**4,405,702**	**(59,991,158)**	**18,686,252**	**18,686,252**
Total Comprehensive income for year							
Profit after income tax from continuing operations	-	-	-	-	16,448,929	16,448,929	16,448,929
Exchange differences on translation of foreign operations	-	-	26,890	-	-	26,890	26,890
Total comprehensive income for the year	**-**	**-**	**26,890**	**-**	**16,448,929**	**16,475,819**	**16,475,819**
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	30,304	-	-	-	-	30,304	30,304
Less: share issue transaction costs	(31,672)	-	-	-	-	(31,672)	(31,672)
Options lapsed in period, transferred to retained earnings	-	-	-	(344,479)	344,479	-	-
Options issued during the year – share-based payments	-	-	-	36,613	-	36,613	36,613
Warrants issued during the year	-	-	-	1,019,582	-	1,019,582	1,019,582
Total transactions with owners	**(1,368)**	**-**	**-**	**711,716**	**344,479**	**1,054,827**	**1,054,827**
Balance at 31 December 2016	**74,239,177**	**127,396**	**(69,343)**	**5,117,418**	**(43,197,750)**	**36,216,898**	**36,216,898**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Total Equity
Balance at 31 December 2014	**73,683,238**	**132,541**	**79,650**	**4,228,939**	**(32,992,161)**	**45,132,207**	**45,132,207**
Total Comprehensive income for year							
Profit after income tax from continuing operations	-	-	-	-	(26,998,997)	(26,998,997)	(26,998,997)
Exchange differences on translation of foreign operations	-	-	(175,883)	-		(175,883)	(175,883)
Gain on the revaluation available-for-sale investments, net of tax	-	(5,145)	-	-	-	(5,145)	(5,145)
Total comprehensive income for the year	**-**	**(5,145)**	**(175,883)**	**-**	**(26,998,997)**	**(27,180,025)**	**(27,180,025)**
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	571,563	-	-	-	-	571,563	571,563
Less: share issue transaction costs	(14,256)	-	-	-	-	(14,256)	(14,256)
Options lapsed in period, transferred to retained earnings	-	-	-	-	-	-	-
Options issued during the year – share-based payments	-	-	-	176,763	-	176,763	176,763
Warrants issued during the year	-	-	-	-	-	-	-
Total transactions with owners	**557,307**	**-**	**-**	**176,763**	**-**	**734,070**	**734,070**
Balance at 31 December 2015	**74,240,545**	**127,396**	**(96,233)**	**4,405,702**	**(59,991,158)**	**18,686,252**	**18,686,252**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Note	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		14,417,766	21,191,292
Payments to suppliers and employees		(11,993,762)	(17,640,200)
Interest received		298	4,416
Interest paid		(2,267,051)	(2,074,475)
Income taxes paid		(48,163)	179,851
Net cash flows from operating activities	27(b)	109,088	1,660,884
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of oil and gas assets		49,419	201,815
Proceeds from sale of investments in equity		-	207,030
Payments for oil and gas assets		(119,038)	(1,468,461)
Payments for property, plant and equipment		(69,281)	(21,371)
Net cash flows from investing activities		(138,900)	(1,080,987)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuing of shares		(1,368)	557,307
Repayment of interest bearing liabilities		(464,881)	(3,180,449)
Finance lease payments		(13,298)	(10,874)
Net cash flows from financing activities		(479,547)	(2,634,016)
Net (decrease)/increase in cash and cash equivalents		(509,359)	(2,054,119)
Cash and cash equivalents at beginning of financial year		1,126,543	3,092,991
Effect of exchange rate changes on cash and cash equivalents		24,309	87,671
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	27(a)	641,493	1,126,543

The above consolidated statements of cash flow should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The financial report covers Empire Energy Group Limited and its controlled entities ("Empire Group"). Empire Group is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange. The parent entity of the Empire Group is incorporated and domiciled in Australia with its core operations in the United States of America ("USA").

The principal activities of the Empire Group during the financial year are described in the Directors' Report.

The financial report of the Empire Group for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of Directors on 17 March 2017.

Basis of preparation

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, and the requirements of the *Corporations Act 2001,* as appropriate for for-profit orientated entities. The consolidated financial statements have been prepared on a cost basis, modified, where applicable, by the measurement at fair value of available-for-sale financial assets and derivative financial instruments.

Statement of compliance

The financial report complies with Australian Accounting Standards ('AASB's'). Compliance with AASBs ensures that the financial report, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards ('IFRS').

Presentation currency

Due to sustained international growth, the Empire Group's cash flows and economic returns are now principally denominated in US dollars ("US$"). From 1 July 2011, Company changed the currency in which it presents its consolidated and parent Company financial statements from Australian dollars to US dollars.

New, revised or amending Accounting Standards and Interpretations adopted

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Empire Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2016.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of Empire Energy Group Limited and its controlled entities.

Controlled entities are all those entities over which the Empire Group has the power to govern the financial and operating policies. Controlled entities are consolidated from the date on which control is transferred to the Empire Group and cease to be consolidated from the date on which control is transferred out of the Empire Group.

Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost.

All intercompany transactions, balance, including unrealised profits arising from intercompany transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in the equity attributable to the parent.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-controlling interest in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position. Losses incurred by the Empire Group are attributed to non-controlling interest in full, even if that results in a deficit balance.

Foreign Currency Translations

The financial report is presented in United States Dollars (US$) which is the functional currency for the majority of the entities within the Empire Group. The functional currency of Empire Energy Group Limited is in Australian Dollars.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to US dollars at the foreign exchange rate ruling at that date.

Foreign operations

The assets and liabilities of entities that have a functional currency in A$ are translated to US$ at exchange rates at the reporting date. The revenue and expense of entities that have a functional currency in A$ are translated to US dollars at exchange rates at the dates of the transaction. Foreign currency differences on translation are recognised directly in equity.

Revenue recognition

Natural gas revenue

Revenue from the sale of natural gas is recognised when natural gas has been delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. Natural gas is sold by the Empire Group under contracts with terms ranging from one month up to the life of the well. Virtually all of the Empire Group contracts' pricing provisions are tied to a market index with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of natural gas and prevailing supply and demand conditions, so that the price of the natural gas fluctuates to remain competitive with other available natural gas suppliers.

Because there are timing differences between the delivery of natural gas and the Empire Group's receipt of a delivery statement, the Empire Group has unbilled revenues. These revenues are accrued based upon volumetric data from the Empire Group's records and the Empire Group's estimates of the related transportation and compression fees, which are, in turn, based upon applicable product prices.

Oil revenue

Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer and can be measured reliably, which is usually at the time of lifting, transferred into a vessel, pipe or other delivery mechanism.

Well operations

Well operations and pipeline income are recognised when persuasive evidence of an arrangement exists, services have been rendered, collection of revenues is reasonably assured and the sales price is fixed or determinable. The Empire Group is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly

operating and accounting costs, insurance and other recurring costs. The Empire Group might also receive additional compensation for special nonrecurring activities, such as reworks and recompletions.

Finance income

Finance income comprises interest income on funds invested as well as fair value gains on oil and gas derivatives the group is party to. Interest income is recognised as it accrues, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

Inventories

Inventories consists of crude oil, stated at the lower of cost to produce or market and other production supplies intended to be used in natural gas and crude oil operations.

Financial Assets, including derivatives

The Empire Group utilises oil and gas forward contracts to manage the exposure to price volatility. The Empire Group recognises its derivatives on the consolidated statement of financial performance at fair value at the end of each period. Changes in the fair value of the oil and gas forward contracts are recognised in the statement of profit and loss.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting for gas producing activities. Costs to acquire mineral interests in gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells and related asset retirement costs are capitalised. Depletion is based on cost less estimated salvage value using the unit-of-production method. The process of estimating and evaluating gas reserves is complex, requiring significant decisions in the evaluation of geological, geophysical, engineering and economic data. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Empire Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The capitalised value of a finance lease is also included within property, plant and equipment. Plant and equipment are depreciated over their estimated useful lives using the straight line method as follows:
Plant and equipment 10-20%

Assets are depreciated from the date of acquisition. Profits and losses on sales of property, plant and equipment are taken into account in determining the results for the year.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recoverable amount of assets

At each reporting date, the Empire Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Empire Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or Empire Groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Certain investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. For unlisted investments, where information regarding the fair value is unreliable, the investment is held at cost under AASB139. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date.

Intangible Assets

Intangible assets consist of goodwill. Goodwill is tested for impairment annually under AASB 136.

Interest-bearing liabilities

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Provisions – Employee Benefits

Obligations for contributions to accumulation plans are recognised as an expense in the consolidated statements of comprehensive income as incurred.

Liabilities for employee benefits for wages, salaries, annual leave and represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Empire Group expects to pay as at the reporting date including related on-costs, such as, workers compensation insurance, superannuation and payroll tax.

Asset Retirement Obligations

Asset retirement obligations are recognised when the Empire Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The present value of the estimated asset retirement costs is capitalised as part of the carrying amount oil and gas properties. For the Empire Group, asset retirement obligations primarily relate to the plugging and abandonment of oil and gas-producing facilities.

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. The liability is discounted using a discount rate that reflects market conditions as at reporting date. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs,

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

remaining lives of the wells, if regulations enact new plugging and abandonment requirements, or there is a change in the market-

based discount rate. Changes in the estimated timing of decommissioning or decommissions cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas properties. The unwinding of the discount of the asset retirement obligation is recognised as a finance cost.

Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

Empire Energy Group and its wholly-owned Australian resident entities form a tax-consolidated Empire Group. As a consequence, all members of the tax-consolidated Empire Group have been taxed as a single entity since 1 July 2003. The head entity within the tax-consolidated Empire Group is Empire Energy Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Empire Group are recognised in the separate financial statements of the members of the tax-consolidated Empire Group using the ‘separate taxpayer within Empire Group’ approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Empire Group and are recognised by the Empire Group as amounts payable/(receivable) to/from other entities in the tax-consolidated Empire Group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Empire Group as an equity contribution or distribution.

The Empire Group recognises deferred tax assets arising from unused tax losses of the tax consolidated Empire Group to the extent that it is probable that future taxable profits of the tax consolidated Empire Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated Empire Group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Empire Group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity’s obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated Empire Group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the statement of cash lows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Earnings per share

Earnings per share is calculated by dividing the profit attributable to the owners of Empire Energy Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

There are no preference shares issued in Empire Energy Group Limited, thereby resulting in no dilutive effect being noted in any calculation of diluted earnings per share.

Share based payment transactions

The Empire Group provides benefits to directors and senior executives of the Empire Group through the executive share option plan whereby eligible participants render services in exchange for options over shares.

New Accounting Standards and Interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

New and Revised Standards that are effective for Annual Periods beginning on or after 1 January 2017

AASB 2016-*1 Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]*

This Standard amends AASB 112 *Income Taxes* to clarify the circumstances in which the recognition of deferred tax assets may arise in respect of unrealised losses on debt instruments measured at fair value.

AASB 2016-2 *Disclosure Initiative: Amendments to AASB 107*

This Standard amends ASB 107 *Statement of Cash Flows* to include additional disclosures and reconciliation relating to changes in liabilities arising from financing activities, including both changes arising from cashflows and non-cash changes.

AASB 2016-3 *Clarifications to AASB 15*

This Standard amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence, it provides further practical expedients on transition to AASB 15.

AASB 2016-5 *Classifications and Measurement of Share-based Payment Transactions*

This Standard amends AASB 2 *Share-based Payment* to address:

(a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
(c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

AASB 2014-10 *Sale of Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128)*

Amends AASB 10 and AASB128 to remove the inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The mandatory application date of AASB 2014-10 has been amended and deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2015-140.

AASB 9 *Financial Instruments*

AASB 9 includes requirements for the classification and measurement of financial assets and incorporates amendments to the accounting for financial liabilities and hedge accounting rules to remove the quantitative hedge effectiveness tests and have been replaced with a business model test.

AASB 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139 as follows:

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instrument that are not held for trading in other comprehensive income.
(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

    i. Where the fair value option is used for financial liabilities the change in fair value, the change attributable to changes in credit risk are present in other comprehensive income (OCI) and the remaining change is presented in profit or loss.

AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were made to other standards as a result of AASB 9 by AASB 2014-7 and AASB 2014-8. The mandatory application date of AASB 9 has been deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2014-1.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and four interpretations issued by the AASB and amends the principles for recognising revenue from contracts with customers. The Standard requires an entity to recognise revenue on a basis that depicts the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, an entity shall apply all of the following steps:

(a) identify the contract with a customer;
(b) identify the separate performance obligations in the contract;
(c) determine the transaction price;
(d) allocate the transaction price to the separate performance obligations in the contract; and
(e) recognise revenue when (or as) the entity satisfies a performance obligation.

Consequential amendments to other Standards are made by AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15.*

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

AASB 16 *Leases*

AASB 16 replaces AASB 117 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise
a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measure right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 *Statement of Cash Flows*.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.

Early application is permitted provided the entity also applies AASB 15 *Revenue from Contracts with Customers* at or before the same date.

Estimates and assumptions

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

- Note 8 – Impairment expense
- Note 9 – Income tax
- Note 14 – Oil and gas properties
- Note 18 – Provisions for liabilities and charges
- Note 24 – Share based payments

Judgments

In the process of applying the Empire Group’s accounting policies, the Directors have made the following judgments at apart from those involving estimates, which may have the most significant effect on the amounts recognised in the consolidated financial statements:

Reserves base

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production and other capital costs. The current NYMEX forward oil and gas price curves are used for price assumptions. The Empire Group uses suitably qualified persons to prepare annual evaluation of proven hydrocarbon reserves, compliant with US professional standards for petroleum engineers.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped reserves.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

The calculation of the UOP rate of depreciation, depletion and amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. Estimates of gas reserve quantities provide the basis for calculation of depletion, depreciation and amortisation and impairment, each of which represents a significant component of the consolidated financial statements.

These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions, and unforeseen operational issues

Impairment indicators

The fair value of oil and gas properties is determined with reference to estimates of recoverable quantities of reserves (as outlined above) to determine the estimated future cash flows. An impairment loss is recognised for the amount by which the asset or Empire Group of assets carrying value exceeds the present value of its future cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value-in-use, using an asset's estimated future cash flows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Significant judgement – Impairment of oil and gas assets

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future oil price and discount rates.

The estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

The discount rates applied to the future forecast cash flows are based on the Group's weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the country in which the asset operates.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in impairment losses or the reversal of previous impairment losses.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments or reversals of impairments under the different sets of assumptions in subsequent reporting periods.

Asset retirement obligations

Asset retirement costs will be incurred by the Empire Group at the end of the operating life of some of Empire Group's facilities and properties. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Share-based payments

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

3. GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of $36.71m. This is primarily due to the Board determining the debt facilities be classified as current liabilities although the current credit facility does not expire until 17 February 2019. Net assets are $36.22m.

On 14 December 2016 the Company announced an 11 for 5 pro-rata renounceable rights issue at an issue price of $0.008 per new share to raise approximately $6.1m before costs. The offer was fully underwritten and closed on the 27th of January 2017 with the Company receiving applications for $1.9m. The shortfall to the offer was $4.2m and the Company has issued a further $2.0m to the date of this report (leaving a shortfall of $2.2m). The Company announced on the 2 March 2017, and it is working with the Underwriter to complete raising the funds equivalent to the shortfall amount and in the short term expects to enter into an Escrow Agreement with the Underwriter to secure the shortfall in funds.

The directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will secure the additional funds to meet both working capital and capital expenditure requirements, as and when required. However, if the Group is not successful in securing sufficient additional funds through the Underwriter or through other arrangements when required, then to meet its expenditure targets there may be uncertainty about whether the Group is able to realise assets and/or extinguish liabilities in the normal course of business at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Empire Group's principal financial instruments, other than derivatives comprise bank loans, available for sale financial assets, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Empire Group's operations. The Empire Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations. The Empire Group also enters derivative transactions, principally commodity hedges.

The board has overall responsibility for the determination of the Empire Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Empire Group's finance function. The board receives monthly reports through which it reviews the effectiveness of the processes put in place and appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Empire Group's competitiveness and flexibility.

The Empire Group is exposed to risks that arise from its use of financial instruments. The main risks arising from the Empire Group's financial instruments are interest rate risk, commodity price risk, liquidity risk, equity risk and credit risk. This note describes the Empire Group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Empire Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Further details regarding these policies are set out below:

(A) MARKET RISK

(i) Foreign Exchange Risk

The Empire Group's core operations are located in the United States where both revenues and expenditures are recorded. The Statement of Financial Position can be affected by movement in the US$/A$ exchange rates upon translation of the A$ operations into the US$ presentation currency.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Empire Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US$ for US operations and maintaining a minimum cash balance in Australia.

Excluding presentation translation adjustments, the Empire Group's exposure to foreign exchange risk at the reporting date is limited to loans and investments between the Parent entity and the US subsidiaries.

(ii) Commodity Price Risk

The Empire Group's revenues and cash flows are exposed to commodity price fluctuations, in particular oil and gas prices. The Empire Group enters forward commodity hedges to manage its exposure to falling spot oil and gas prices. To mitigate a portion of the exposure to adverse market changes, the Empire Group's commodity hedging programs utilise financial instruments based on regional benchmarks including NYMEX WTI for oil and NYMEX Natural Gas Henry Hub for gas.

The Empire Group enters into derivative instruments for the Empire Group's production to protect against price declines in future periods while retaining some of the benefits of price increases. While these derivatives are structured to reduce exposure to changes in price associated with the derivative commodity, they also limit benefits the Empire Group might otherwise have received from price changes in the physical market. The Empire Group believes the derivative instruments in place continue to be effective in achieving the risk management objectives for which they were intended.

The Empire Group's policy is to maintain a balance between spot and hedged sales. For the year ended 31 December 2016 the Empire Group hedged approximately 98% of its oil (2015: 78%) and 63% of its total gas production (2015: 59%).

For 2017 the Empire Group has approximately 95% of estimated oil production hedged at $67/Bbl and 63% of current estimated gas production hedged at $4.05/Mcf.

(iii) Interest rate risk

The Empire Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. The Empire Group's exposure to interest rate risk at 31 December 2016 is set out in the following tables.

The Empire Group's exposure to the risk of changes in market interest rates relates primarily to the Empire Group's long-term debt obligations with a floating interest rate in the US. The Empire Group manages its interest cost using a mix of fixed and variable rate debt.

The Empire Group's policy is to continually review the portion of its US$ borrowings that are either at floating or fixed rates of interest. To manage this mix in a cost-efficient manner, the Empire Group previously entered into interest rate swaps, in which Empire agrees to exchange, at specified intervals, the difference between fixed and variable interest rate amounts calculated by reference to an agreed upon notional principal amount. These swaps were designated to hedge underlying debt obligations. There are no interest rate swaps at 31 December 2016.

The Empire Group monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
31 December 2016						
Financial Assets						
Cash and cash equivalents	1.65	641,493	-	-	-	641,493
Trade and other receivables		-	-	-	2,175,522	2,175,522
Financial assets		-	-	-	3,356,265	3,356,265
		641,493	-	-	5,531,787	6,173,280
Financial Liabilities						
Trade & other payables		-	-	-	3,871,331	3,871,331
Financial liabilities, including derivatives		-	-	-	-	-
Interest-bearing liabilities	7.27	-	38,656,987	-	-	38,656,987
		-	38,656,987	-	3,871,331	42,528,318

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
31 December 2015						
Financial Assets						
Cash and cash equivalents	1.13	1,126,543	-	-	-	1,126,543
Trade and other receivables		-	-	-	1,874,474	1,874,474
Financial assets		-	-	-	11,346,512	11,346,512
		1,126,543	-	-	13,220,986	14,347,529
Financial Liabilities						
Trade & other payables		-	-	-	3,760,766	3,760,766
Financial liabilities, including derivatives		-	-	-	-	-
Interest-bearing liabilities	4.00	-	40,460,495	31,560	-	40,492,055
		-	40,460,495	31,560	3,760,766	44,252,821

(iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2016, had the WTI NYMEX and Henry Hub prices increase/decreased by 10% and 10% respectively, with all other variables held constant, the Empire Group's post-tax profit for the year would not change due to the extent of effective hedging of oil and gas production. Equity would not have changed under either scenario.

The directors do not expect any reduction in interest rates during 2017. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US$390,000.

(B) CREDIT RISK

Credit risk is the risk that the other party to the financial instrument will fail to discharge their financial obligation in respect of that instrument resulting in the Empire Group incurring a financial loss. The Empire Group's exposure to credit risk arises from potential default of the counter party with the maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Empire Group.

The Empire Group trades only with recognised, credit worthy third parties. In the US, trade receivables, (balances with oil and gas purchases) have not exposed the Empire Group to any bad debt to date. All derivatives are with the same counterparty.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

In the US, all of the purchasers that the Empire Group's operators choose to deal with are major oil or gas companies.

Trade and other receivable balances are monitored on an ongoing basis with the Empire Group's exposure to bad debts minimal.

The maximum exposure to credit risk at balance date is as follows:

	2016 US$	2015 US$
Trade, other receivables, and derivatives	5,438,127	12,618,358

The maximum exposure to credit risk at balance by country is as follows:

	2016 US$	2015 US$
Australia	-	-
United States of America	5,438,127	12,618,358

(C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Empire Group being unable to meet its obligations in an orderly manner as they arise.

The Empire Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Empire Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Funding is in place with reputable financial institutions in the US and Australia. The borrowing base is re-determined and reviewed once a year. Bank compliance reporting is undertaken quarterly and adherence to covenants checked regularly. Management also regularly monitors actual and forecast cash flows to manage liquidity risk.

Maturity Analysis	**Fair Value US$**	**Carrying Amount US$**	**Contractual Cash flows US$**	**1 year US$**	**1-5 years US$**
31 December 2016					
Non Derivatives					
Current					
Trade and other payables	3,871,331	3,871,331	3,871,331	3,871,331	-
Interest bearing liabilities	40,156,562	37,636,987	40,156,562	40,156,562	-
Non-current					
Interest bearing liabilities	-	-	-	-	-
Derivatives					
Financial asset	(3,283,904)	(3,283,904)	(3,283,904)	(2,022,174)	(1,261,730)
Financial liability	-	-	-	-	-

Maturity Analysis	**Fair Value US$**	**Carrying Amount US$**	**Contractual Cash flows US$**	**1 year US$**	**1-5 years US$**
31 December 2015					
Non Derivatives					
Current					
Trade and other payables	3,760,766	3,760,766	3,760,766	3,760,766	-
Interest bearing liabilities	40,557,729	40,460,495	40,557,729	40,557,729	-
Non-current					
Interest bearing liabilities	31,560	31,560	31,560	-	31,560
Derivatives					
Financial asset	(10,873,451)	(10,873,451)	(10,873,451)	(5,579,991)	(5,293,460)
Financial liability	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(D) EQUITY RISK

The Empire Group is exposed to equity securities price risk arising from investments held by the Empire Group which are classified as available for sale assets. Investments in equity securities are managed by the Board.

The Empire Group relies on equity markets to raise capital for its exploration and development activities, and is thus exposed to equity market volatility.

Equity price risk arises from investments in equity securities and Empire Energy Group Limited's issued capital.

The Company's equity risk is considered minimal and as such no sensitivity analysis has been completed.

Fair Value of Financial Assets and Liabilities

The fair value of all monetary financial assets and liabilities of Empire Energy Group Limited approximate their carrying value there were no off-balance financial assets and liabilities at year end.

Fair value of financial instruments

The Empire Group is required to classify financial instruments, measured at fair value, using a three level hierarchy, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Consolidated 31 December 2016 Assets	Level 1	Level 2	Level 3	Total
Unlisted available-for-sale equities	-	-	72,360	72,360
Fair value of derivatives	-	3,283,904	-	3,283,904
Total assets	-	3,283,904	72,360	3,356,264
Liabilities				
Fair value of derivatives	-	-	-	-
Total liabilities	-	-	-	-

Consolidated 31 December 2015 Assets	Level 1	Level 2	Level 3	Total
Unlisted available-for-sale equities	-	-	473,060	473,060
Fair value of derivatives	-	10,873,451	-	10,873,451
Total assets	-	10,873,451	473,060	11,346,511
Liabilities				
Fair value of derivatives	-	-	-	-
Total liabilities	-	-	-	-

There were no transfers between levels during the financial year.

Capital Risk Management
The Company considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic operation needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt the Company considers not only its short-term position but also its long-term operational and strategic objectives.

5. REVENUE

	2016 US$	2015 US$
a. Sales revenue		
Revenue from oil and gas sales	13,626,195	17,581,328
Revenue from well operations	912,761	654,881
	14,538,956	18,236,209
b. Other income		
Gain on sale of investment	-	161,782
Interest income	298	4,416
Rental income	9,500	6,334
Other income	219,972	320,746
	229,770	493,278

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

	2016 US$	2015 US$
6. COST OF SALES		
Oil and gas production	(8,604,524)	(9,701,346)
	(8,604,524)	(9,701,346)
7. INTEREST EXPENSE		
Interest paid/payable on financial liabilities	(2,420,361)	(2,059,868)
	(2,420,361)	(2,059,868)

8. EXPENSES		
a. Other non-cash expenses		
Leasing expiration expenses (note 8c)	298,600	426,200
Impairment of assets (note 8c)	(27,762,128)	22,202,568
Depreciation, depletion and amortisation	2,213,627	5,770,977
Finance costs (note 8b)	1,131,819	1,098,565
Unrealised derivative movement	7,589,547	305,548
Other expenses	154,536	703,473
Total other expenses	(16,373,999)	30,507,331
b. Finance expenses (non-cash)		
Accretion of asset retirement obligation (note 18)	477,568	422,431
Unwind of discount of debt	654,251	676,134
Total finance costs (non-cash)	1,131,819	1,098,565

c. Profit/(loss) before income tax includes the following specific expenses:		
Depreciation, depletion and amortisation		
Oil & Gas properties and plant & equipment (note 14)	2,213,627	5,770,977
	2,213,627	5,770,977
Employee benefits expense		
Defined contribution superannuation expense	17,665	16,345
Other employee expenses	3,940,621	3,504,424
Total employee benefits expense	3,958,285	3,520,769
Impairment expense[a]		
Impairment of additional asset retirement obligation	400,000	2,455,568
Impairment of available for sale financial assets and receivables	482,336	-
Impairment of property plant & equipment	296,274	19,747,000
Reversal of impairment of property plant & equipment	(28,940,738)	-
Total (write back)/impairment expense	(27,762,128)	22,202,568
Loss on disposal of property, plant & equipment	-	703,473
Leasing expiration expense [b]	298,600	426,200

(a) Impairment expense
For the period 31 December 2016, the Company wrote back the oil and gas properties by $28,940,738 due to the increase in oil prices resulting in an increase of the recoverable amount of those assets[1]. Furthermore, an increase in the asset retirement obligation of $400,000, resulting from the accounting differences between US GAAP and IFRS, was recognised as an impairment charge.
[1] An impairment of oil and gas properties was also recognised during the year of $296,274.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

8. EXPENSES (Continued)

(b) Leasing expiration expense
A charge of $298,600 has been taken against the book value of undeveloped leases which have expired, or are to expire. The Company has an ongoing program to renew expiring leases, to take up options on expiring leases or acquire new leases if and when possible. The charge is a non-cash entry which has no effect on cash-flows.

9. INCOME TAX

	2016 US$	2015 US$
a. Income tax expense		
Current tax	48,163	(179,851)
Deferred tax	-	(2,062,080)
Income tax benefit attributable to continuing operations	48,163	(2,241,931)
Deferred income tax expense included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 9(e))	-	(2,062,080)
	-	(2,062,080)
b. Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax	16,497,092	(29,240,928)
Tax at the Australian tax rate of 30% (2015: 30%)	4,949,128	(8,772,278)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Non-deductible expenses	13,477	9,795
Withholding tax paid	34,788	18,892
Deferred tax asset in relation to tax losses and temporary differences (utilised)/not recognised	(5,257,551)	10,510,504
Effect of difference in overseas tax rates	308,321	(4,008,844)
Income tax benefit	48,163	(2,241,931)
c. Deferred tax assets not recognised relate to the following:		
Tax losses	4,202,418	4,071,782
Capital losses	141,410	141,410
Temporary differences relating to Oil & Gas assets	-	9,486,489
Other	291,842	-
	4,635,670	13,699,681

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

9. INCOME TAX (Continued)

The potential benefit of the deferred tax asset attributable to tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the asset.

d. Dividend Franking Account

There are no franking account credits available as at 31 December 2016.

	2016 US$	2015 US$
e. Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Forward commodity contracts	1,238,534	-
Oil & Gas and Property, Plant & Equipment	574,412	8,378,469
Other	95,261	81,904
	1,908,207	8,460,373
Set-off of deferred tax liabilities pursuant to set-off provisions (note f)	(1,908,207)	(8,460,373)
Net deferred tax liabilities	-	-
f. Deferred tax assets		
The balance comprises temporary differences attributable to:		
Accrued asset retirement obligation	1,429,237	1,245,839
Oil & Gas and Property, Plant & Equipment	-	7,214,534
Other	478,970	-
	1,908,207	8,460,373
Set-off of deferred tax assets pursuant to set-off provisions (note e)	(1,908,207)	(8,460,373)
Net deferred tax assets	-	-

10. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	2,119,597	1,821,890
Other	55,925	52,584
	2,175,522	1,874,474

11. PREPAYMENTS

Prepayments	437,535	672,044

12. INVENTORIES

Crude oil and production supplies	544,772	553,184

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

13. FINANCIAL ASSETS, INCLUDING DERIVATIVES

	2016 US$	2015 US$
Current		
Oil and gas price forward contracts	2,022,174	5,579,991
Non-current		
Oil and gas price forward contracts	1,261,731	5,293,460
Shares – other corporations:		
• Unlisted available-for-sale equities (at cost)	628,401	629,102
Less: accumulated impairment on unlisted equities	(556,041)	(156,041)
Total Non-current	1,334,091	5,766,521

Commodity hedge contracts outstanding are outlined below.

2016 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2015 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	**Swap Price**	**Premium**	**Product**		**Period**	**Swap Price**	**Premium**	**Product**	
Jan 17 - Dec 17	4.57	$Nil	66,000	mmbtu	Jan 16 - Dec 16	4.37	$Nil	72,000	mmbtu
Jan 17 - Dec 17	4.57	$Nil	504,000	mmbtu	Jan 16 - Dec 16	4.49	$Nil	72,000	mmbtu
Jan 17 - Dec 17	3.45	$Nil	420,000	mmbtu	Jan 16 - Dec 16	4.49	$Nil	528,000	mmbtu
Jan 17 - Dec 17	3.45	$Nil	78,000	mmbtu	Jan 16 - Dec 16	4.37	$Nil	528,000	mmbtu
Jan 18 - Dec 18	4.75	$Nil	54,000	mmbtu	Jun 16 - Dec 16	3.45	$Nil	105,000	mmbtu
Jan 18 - Dec 18	4.75	$Nil	456,000	mmbtu	Jan 17 - Dec 17	4.57	$Nil	66,000	mmbtu
Jan 18 - Dec 18	3.45	$Nil	420,000	mmbtu	Jan 17 - Dec 17	4.57	$Nil	504,000	mmbtu
Jan 18 - Dec 18	3.45	$Nil	78,000	mmbtu	Jan 17 - Dec 17	3.45	$Nil	420,000	mmbtu
Jan 19 - Dec 19	3.45	$Nil	420,000	mmbtu	Jan 17 - Dec 17	3.45	$Nil	78,000	mmbtu
Jan 19 - Dec 19	3.45	$Nil	78,000	mmbtu	Jan 18 - Dec 18	4.75	$Nil	54,000	mmbtu
					Jan 18 - Dec 18	4.75	$Nil	456,000	mmbtu
					Jan 18 - Dec 18	3.45	$Nil	420,000	mmbtu
					Jan 18 - Dec 18	3.45	$Nil	78,000	mmbtu
					Jan 19 - Dec 19	3.45	$Nil	420,000	mmbtu
					Jan 19 - Dec 19	3.45	$Nil	78,000	mmbtu
2016 OIL - WTI - NYMEX					**2015 OIL - WTI - NYMEX**				
Jan 17 - Dec 17	85.23	$Nil	39,600	BO	Jan 16 - Dec 16	85.67	$Nil	42,000	BO
Jan 17 - Dec 17	63.10	$Nil	52,800	BO	Jan 16 - Dec 16	63.10	$Nil	52,800	BO
Jan 17 - Dec 17	45.30 – 54.30	$Nil	21,600	BO	Jan 17 - Dec 17	85.23	$Nil	39,600	BO
					Jan 17 - Dec 17	63.10	$Nil	52,800	BO

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$							
At 1 January 2016	116,883,304	7,243,258	30,591	328,948	716,286	639,941	125,842,328
Additions	115,719	74,849	-	-	39,614	29,667	259,849
New asset retirement obligation	1,022,525	-	-	-	-	-	1,022,525
Write-off of asset retirement obligation	(45,249)	-	-	-	-	-	(45,249)
Reclassifications	-	-	-	-	-	-	-
Sale of wells	(96,670)	-	-	-	-	-	(96,670)
Disposals	(791,938)	(435,062)	-	-	-	-	(1,227,000)
Expiration costs	-	(298,600)	-	-	-	-	(298,600)
Write-off of exploration expense	(34,060)	-	-	-	-	-	(34,060)
At 31 December 2016	117,053,631	6,584,445	30,591	328,948	755,900	669,608	125,423,123
Accumulated Depreciation in US$							
At 1 January 2016	(65,603,144)	-	-	(62,803)	(593,570)	(501,221)	(66,760,738)
Depreciation and depletion	(2,100,077)	-	-	(12,554)	(49,926)	(51,070)	(2,213,627)
Write-off sale of wells	8,825	-	-	-	-	-	8,825
Write-off plugged wells	19,249	-	-	-	-	-	19,249
Impairment	(696,274)	-	-	-	-	-	(696,274)
Write-back of impaired assets	28,940,738	-	-	-	-	-	28,940,738
At 31 December 2016	(39,430,683)	-	-	(75,357)	(643,496)	(552,291)	(40,701,827)
Opening written down value	**51,280,160**	**6,994,863**	**30,591**	**266,145**	**118,401**	**117,149**	**58,807,309**
Impact of foreign currency adjustments	**-**	**(264,220)**	**-**	**-**	**(4,318)**	**(21,713)**	**(290,251)**
Closing written down value	**77,622,948**	**6,320,225**	**30,591**	**253,591**	**108,086**	**95,604**	**84,431,045**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$							
At 1 January 2015	113,043,192	6,723,646	30,591	328,948	717,543	633,942	121,477,864
Additions	2,779,610	1,213,873	-	-	4,107	20,078	4,017,668
New asset retirement obligation	3,205,890	-	-	-	-	-	3,205,890
Write-off of asset retirement obligation	(88,341)	-	-	-	-	-	(88,341)
Disposals	(2,057,047)	(268,061)	-	-	(5,364)	(14,079)	(2,344,551)
Expiration costs	-	(426,200)	-	-	-	-	(426,200)
At 31 December 2015	116,883,304	7,243,258	30,591	328,948	716,286	639,941	125,842,328
Accumulated Depreciation in US$							
At 1 January 2015	(37,890,234)	-	-	(50,250)	(508,320)	(461,204)	(38,910,008)
Depreciation and depletion	(5,616,528)	-	-	(12,553)	(85,177)	(56,719)	(5,770,977)
Write-off sale of wells	88,694	-	-	-	-	-	88,694
Disposals	-	-	-	-	(73)	16,702	16,629
Impairment	(22,202,568)	-	-	-	-	-	(22,202,568)
Change in ARO	17,492	-	-	-	-	-	17,492
At 31 December 2015	(65,603,144)	-	-	(62,803)	(593,570)	(501,221)	(66,760,738)
Opening written down value	**75,152,958**	**6,723,646**	**30,591**	**278,698**	**206,231**	**157,258**	**82,549,382**
Impact of foreign currency adjustments	**-**	**(248,395)**	**-**	**-**	**(4,315)**	**(21,571)**	**(274,281)**
Closing written down value	**51,280,160**	**6,994,863**	**30,591**	**266,145**	**118,401**	**117,149**	**58,807,309**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

At 31 December 2016, the group reassessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy.

Estimates of recoverable amounts are based on an asset's value in use or fair value less costs to sell, using a discounted cash flow method, and are most sensitive to the key assumptions described in note 2.

Recoverable amounts for the year ended 31 December 2016 are:

Oil and gas assets	Subsurface assets US$	Recoverable amount US$
Kansas	43,196,646	47,979,160
Appalachia	33,972,400	33,972,400
Total	77,169,046	81,951,560

The post tax discount rate that has been applied to the above oil and gas assets is 8%. The write-back charges noted above primarily result from a higher oil and gas price environment.

	2016 US$	2015 US$
15. INTANGIBLE ASSETS		
Goodwill	68,217	68,217
	68,217	68,217
16. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	3,843,827	3,746,225
Other creditors	27,504	14,541
	3,871,331	3,760,766
17. INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	31,257	12,996
Bank loan -secured	38,625,730	40,447,499
	38,656,987	40,460,495
Non-current		
Finance lease liability	-	31,560

Classification of Borrowings

These accounts are presented on the basis that all borrowings have been classified as current liabilities. This treatment is as a result of a strict application of the relevant provisions of AASB 101 Presentation of Financial Statements ("AASB 101"). This accounting standard requires the Group to classify liabilities as current if the Group does not have an unconditional right to defer payment for twelve months at period end. However, the expected repayment of the borrowings is not for complete repayment within the twelve month period.

In February 2016 the Company extended the Facility for a further 3 years through to 26 February 2019.

Credit Facility Summary

Empire Energy USA, LLC maintains a long-term credit facility with Macquarie Bank Limited (Macquarie), which matures on 17 February 2019, consisting of the following:

Revolver facility (revolving line-of-credit):	$50,000,000
Term Loan facility:	$150,000,000

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

17. INTEREST-BEARING LIABILITIES (Continued)

Uses of credit facility:

Revolver:	To refinance existing debt and to undertake acquisitions. The Revolver is subject to a borrowing base consistent with normal and customary oil and gas lending practices of the bank.
Term Loan:	As an acquisition and development term credit facility to undertake acquisitions and support capital expenditure under an agreed development plan for oil and gas properties and services companies in the United States. Drawdown on the Term Facility is based on predefined benchmarks and segregated in tranches.

Credit facility structure

Revolver:	Borrowing base limit	$3,000,000
	Interest rate	LIBOR+6.5%
	Availability (1)	Nil
	Maturity	Feb 2019
	Repayment	Feb 2019

(1) the borrowing base limit changes with operations and opportunities with approval of the lender.

Term Loan:	Borrowing base limit	$35,083,291
	Current portion payable	$1,500,000
	Interest rate	LIBOR+6.5%
	Availability (1)	Nil
	Maturity	Feb 2019
	Repayment (2)	Amortization

(1) draw down is based on predefined benchmarks, with approval of the lender.
(2) repayment is monthly from net cash flow and capital transaction proceeds of USA operations, with remaining payable at maturity.

Other features of the credit facility:

- Outstanding borrowings under the facilities are secured by a majority of the assets of the Company. The Revolver and Term Facility are guaranteed by the Company.
- Reserve Assessment of 1P reserves are based on third party reserve engineering consultants.
- Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. These include certain operational and financial covenants for which the Company is required to maintain, the most restrictive of which is the adjusted proved developed producing (PDP) present value (PV).

Key financial covenants:	1.5x 1P PV10 coverage to net loan (after adjustment for cash & hedges). 1.0x PDP PV10 coverage to net loan (after adjustment for cash & hedges). 1.0x Current Ratio. 1.8x EBITDA/Interest Ratio.
Fees:	1.0% on draw down amount.

Amendments to Credit Facility:

In February 2016, the credit facility was extended for 3 years. Under this extension the Company agreed to allocate US$5 million of the initial US$7.5 million payment to be received on April 20, 2016 from AEGP Australia Pty Ltd (AEGP) a company controlled by Mr Aubrey K. McClendon (as part of an 80% Farmout of the Company's interest in its McArthur Basin, Northern Territory project). Following the tragic death of Mr McClendon in March 2016 the McClendon Estate confirmed that that Estate be unlikely to continue with the Farmout. Without receipt of the US$5 million, the Company entered into two amendments to the credit facility to ensure continued compliance with key covenant ratios. The key amendments were as follows:

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

17. INTEREST-BEARING LIABILITIES (Continued)

- The payment of US$5 million from the Farmout Agreement was confirmed as being cancelled.
- In its place, a payment of US$1.5 million was due on September 16, 2016 from a proposed equity raising. An extension was further granted and the amount was to be repaid (or offset for an asset purchase) to February 2017. This amount has been repaid/offset.
- The average margin payable on the credit facility increased from LIBOR+4.35% to LIBOR+6.5%. This increase in margin led to a breach in the interest cover ratio which was waiver in September 2016 leading to a change in the interest rate coverage ratio.
- The Interest Rate Coverage Ratio was reduced from 2.5x to 1.8x.

The original Macquarie credit agreement assigned warrants to Macquarie to purchase 10% of the equity in the Company's subsidiary Empire Energy USA, LLC (EEUSA). Under the new Credit Facility signed in February 2016, previous warrants expired and were replaced with a new agreement. Keys points in relation to the warrants are as follows:

- Macquarie can exercise warrants at $0.01 to purchase 10% of the equity in EEUSA.
- Costs of the warrants are treated as a transaction cost and amortised over the life of the loan.
- Amortisation of the warrants over the current period is $295,828.

Under the terms of the Loan Facility ("Facility"), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding. The Company repays the facilities monthly to the extent of an applicable percentage of net operating cash flow and capital transactions. Principal payments made in 2016 and 2015 were approximately $464,880 and $3,665,000, respectively.

The expected loan repayments over the next 12 months comprise payment of 90% of any monthly free cash flow.

A summary of period end debt is as follows:

	2016 US$	2015 US$
Term		
Tranche		
Tranche A	6,181,553	6,181,553
Tranche B	10,583,403	10,583,403
Tranche C	10,360,349	9,585,871
Tranche D	10,000,000	10,000,000
Revolver	3,000,000	3,000,000
Sub-Total	40,125,305	39,350,827
Less discount on debt	-	(97,234)
Less deferred financing costs, net	(1,499,575)	-
	38,625,730	39,253,593
Acquisition Commitment (1)	-	1,193,896
Finance Lease Liability	31,257	13,006
Total Current Debt	38,656,987	40,460,495
Current portion due 31 December 2016	1,500,000	-
Residual current balance	37,156,987	40,460,495
Current debt per balance sheet	38,656,987	40,460,495

(1) In February 2016 the Company elected not to complete a purchase of assets and as such the debt liability was not drawn. Refer to Note 33 (3).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

18. PROVISIONS	2016 US$	2015 US$
Current		
Employee entitlements	6,986	12,377
Non-current		
Asset retirement obligations	12,902,647	11,496,833
Movement in Asset Retirement Obligation		
Balance at beginning of the period	11,496,833	7,953,969
Additions for the period	622,802	353,413
Write-off accrued plugging costs	(94,556)	(113,922)
Accretion expense for the period, included in finance costs	477,568	422,431
Change in estimate[(a)]	400,000	2,880,942
Balance end of the period	12,902,647	11,496,833

(a) Due to the write down of oil and gas properties to their recoverable amount, $400,000 has been written off as impaired from the carrying value of the oil and gas properties, refer to Note 8c.

Asset Retirement Obligation

The Empire Group makes full provision for the future costs of decommissioning oil and gas production facilities and pipelines on a discounted basis on the installation or acquisition of those facilities.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2050. The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works. Furthermore, the timing of decommissioning is likely to depend on when the assets cease to produce at economically viable rates. This in turn will depend upon the future oil and gas prices, which are inherently uncertain.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

19. CONTRIBUTED EQUITY	2016 US$	2015 US$
a) Shares		
Issued Capital		
Balance at beginning of period	74,240,545	73,683,238
Movement in ordinary share capital		
- Issue of 35,450,195 fully paid ordinary shares in September 2015 @ A$0.023 pursuant to a Pro-Rata Rights Issue	-	571,563
- Issue of 2,000,000 fully paid ordinary shares in July 2016 @ A$0.01 in lieu of cash payment for fees for services rendered	15,042	-
- Issue of 1,000,000 fully paid ordinary shares in August 2016 @ A$0.02 in lieu of cash payment for fees for services rendered	15,262	-
Less costs associated with the share issues detailed above	(1,441)	(14,256)
Less costs associated with capital raise	(30,231)	-
Balance as at 31 December 2016	74,239,177	74,240,545
b) Shares	**No. of shares**	**No. of shares**
Movements in ordinary issued shares		
Balance at beginning of period	344,313,877	308,863,682
Movement in ordinary share capital		
- Issue of 35,450,195 fully paid ordinary shares in September 2015 @ A$0.023 pursuant to a Pro-Rata Rights Issue	-	35,450,195
- Issue of 2,000,000 fully paid ordinary shares in July 2016 @ A$0.01 in lieu of cash payment for fees for services rendered	2,000,000	-
- Issue of 1,000,000 fully paid ordinary shares in August 2016 @ A$0.02 in lieu of cash payment for fees for services rendered	1,000,000	-
- Balance as at 31 December 2016	347,313,877	344,313,877

Share Options

Movements

Granted
1,000,000 options were granted during the financial period. The options were granted in lieu of payment for services rendered to the Company. The exercise price of the granted options is $0.028* expiring 25 August 2019. No options were granted since the end of the financial year and up to the date of this report.

Exercise of Options
No options were exercised during the financial year or in the end of the financial year and up to the date of this report.

Expiry/Lapse of Options
The following unlisted options were not exercised by their expiry date and as a consequence have lapsed:

- 4,250,000 unlisted options at A$0.119 expiring 26 February 2016
- 3,500,000 unlisted options at A$0.149 expiring 31 December 2016
- 1,500,000 unlisted options at A$0.169 expiring 31 December 2016
- 1,500,000 unlisted options at A$0.179 expiring 31 December 2016

No options have expired since the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

19. CONTRIBUTED EQUITY (Continued)

At balance date the Empire Group had on issue, the following securities:

Shares
- 347,313,877 listed fully paid ordinary shares – ASX Code: EEG

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during the year, or since the year-end.

Options

At balance date the Company had 1,000,000 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price A$	Expiry Date
1,000,000	Unlisted options	$0.03*	25 August 2019

*** Adjustment of Option exercise prices**

In February 2017 following the completion of a Pro-Rata Rights Issue announced in December 2016 the exercise price of 1,000,000 outstanding options expiring 25 August 2019 was adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22. with the adjusted exercise price being $0.028.

Performance Rights

During the 2013 financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buyback of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

Fair Market Value of Consideration Received by the Company	Performance rights exercisable
Less than $25.0 million	0.0%
At least $25.0 million but less than $45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by $45.0 million.
$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

20. RESERVES

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale assets until the investment is derecognised.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Option Reserve
The option reserve comprises the value of options issued but not exercised at balance date.

21. CONTINGENT LIABILITIES

Empire Energy Group Limited has executed a Deed of Guarantee and indemnity in favour of Macquarie Bank Limited guaranteeing the obligations of each of Empire Energy USA LLC and its subsidiary Empire Energy E&P LLC pursuant to the Macquarie Bank Limited credit facility.

The Empire Group is involved in various legal proceedings arising out of the normal conduct of its business. In the opinion of management, the ultimate resolution of such matters will not have a material effect on the consolidated financial position or results of operations of the Empire Group.

The Empire Group is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Empire Group has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or clean-up is probable, and the costs can be reasonably estimated. The Empire Group maintains insurance that may cover in whole or in part certain environmental expenditures. At 31 December 2016, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

There have been no changes in contingent liabilities since the last annual reporting date.

22. CONTINGENT ASSETS

The Company has a claim outstanding against the JV Partner for a 75% interest in the Carrolltown Prospect Gas Wells. The Company expects to receive ~US$40,000 in compensation.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

23. COMMITMENTS FOR EXPENDITURE

Exploration and Mining Tenement Leases
In order to maintain current rights of tenure to exploration and mining tenements, the Company and the companies in the consolidated entity are required to outlay lease rentals and to meet the minimum expenditure requirements of the various Government Authorities. These obligations are subject to re-negotiation upon expiry of the relevant leases or when application for a mining licence is made. No expenditure commitment exists at 31 December 2015.

i) Equipment and Operating Leases	**2016 US$**	**2015 US$**
Commitments in relation to equipment/motor vehicle leases contracted for at and subsequent to the reporting date but not recognised as liabilities:		
Not later than one year	291,469	311,842
Later than one year not later than two years	225,469	158,794
Later than two years not later than five years	328,937	82,000
More than five years	-	-
	845,875	552,636

The Company leased its US corporate headquarters under a non-cancellable operating lease of monthly payments of approximately $7,700 through February 2017. Net rental expense approximated $97,000 and $87,000, net of reimbursements, for the year ended 31 December 2016 and 31 December 2015. The Company extended the lease terms through February 2022 with reduced monthly payments ranging from $3,665 to $3,966 over the course of the agreement. The Kansas headquarters four-year lease agreement is of monthly payments of approximately $2,800 through April 2017. The agreement was extended through April 2021 with monthly payments ranging from $2,853 to $2,945. The net rental expense approximated $34,000 for the years ended December 31, 2016 and 2015.

The Company leases trucks under an operating agreement. The term of the agreement begins upon the delivery of each truck and lasts for a period of up to 48 months. Lease payments in 2016 and 2015 were approximately $320,000 and $249,000 respectively. The Empire Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

ii) Property Licence

The Company has entered into a cancellable licence agreement over the occupation of office premises. The leased assets were pledged as security over the lease commitment.

The term of the occupancy licence was for a term of 59 months and concluded on 30 June 2011. Since expiry of the occupancy licence the Company has occupied the premises on a month to month basis. Terms on a new licence agreement are being negotiated.

24. SHARE BASED PAYMENTS

Year Ending – 31 December 2016
During the current financial the following share based payments occurred:
The Company granted 2,000,000 ordinary fully paid shares to a company in July 2016 in lieu of cash payment of A$20,000 for services rendered, at a deemed issued price of $0.01 per share.

The Company granted 1,000,000 ordinary fully paid shares to a company in August 2016 in lieu of cash payment of A$20,000 for services rendered, at a deemed issued price of $0.02 per share along with 1,000,000 unlisted options exercisable at $0.03 prior to 25 August 2019. Options were issued for nil cash consideration.

During the 2016 financial year no options were granted pursuant to the Employee Share Option Plan 2014.

Year Ending – 31 December 2015
During the 2015 financial year no share based payments occurred.

During the 2015 financial year no options were granted.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

24. SHARE BASED PAYMENTS (Continued)

a) Options

The options outstanding at 31 December 2016 are detailed below.

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during year	Expired during year	Exercised during year	Balance at end of year
26 February 2014	26 February 2016	11.9 cents	4,250,000	-	4,250,000	-	-
15 July 2014(1)	31 December 2016	14.9 cents	3,500,000	-	3,500,000	-	-
15 July 2014(1)	31 December 2016	16.9 cents	1,500,000	-	1,500,000	-	-
15 July 2014(1)	31 December 2016	17.9 cents	1,500,000	-	1,500,000	-	-
25 August 2016(2)	25 August 2019	0.03 cents	-	1,000,000	-	-	1,000,000
			10,750,000	1,000,000	(10,750,000)	-	1,000,000

(1) Options granted pursuant to Employee Share Plan approved 30 May 2014. The plan provides for vesting restrictions on minimum period of employment

(2) Options granted in lieu of cash payment for fees for services rendered to the Company

b) Expenses arising from share based payment transactions

Year ending - 31 December 2016

The share based payments transactions costs during the financial year relate to previously granted options based on a pro-rata portion of the vesting period was A$49,195.

Year ending - 31 December 2015

The share based payments transactions costs during the financial year relate to previously granted options based on a pro-rata portion of the vesting period was A$234,933.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

25. SEGMENT INFORMATION

The Empire Group has two reportable segments as described below. Information reported to the Empire Group's chief executive office for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

	Oil & Gas		Investments		Other		Eliminations		Total	
in USD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue (external)	14,538,955	18,236,209	-	-	-	-	-	-	14,538,955	18,236,209
Other income (excluding Finance income)	219,972	320,745	-	161,782	(140,312)	(345,898)	-	-	79,660	136,629
Reportable segment profit/(loss) before tax	21,185,415	(22,512,492)	-	(2,293,786)	(1,137,179)	(1,285,838)	-	-	20,048,236	(26,092,116)
Finance income	298	4,416	358,972	347,882	738	5,205	(358,972)	(347,882)	1,036	9,621
Finance costs	(3,901,079)	(3,500,513)	-	-	(10,073)	(5,802)	358,972	347,882	(3,552,180)	(3,158,433)
Profit/(loss) for the period before tax									**16,497,092**	**(29,240,928)**
Reportable segment assets	92,267,669	74,734,756	72,361	173,061	203,888	243,617	(889,069)	(703,151)	91,654,849	74,448,283
Reportable segment liabilities	55,437,951	55,762,031	889,069	703,151		-	(889,069)	(703,151)	55,437,951	55,762,031
Other material non-cash items:										
Gain on disposal of acreage										
- Depreciation and amortisation	(2,200,961)	(5,758,201)	-	-	(12,666)	(12,802)	-	-	(2,213,627)	(5,771,003)
- Impairment expense	(1,178,610)	(22,202,568)	-	-	-	-	-	-	(1,178,610)	(22,202,568)
- Reversal of impairment	28,940,738	-	-	-	-	-	-	-	28,940,738	-
- Gain on disposal	-	-	-	161,782	-	-	-	-	-	161,782
- Lease expiration costs	(298,600)	(426,200)		-	-	-	-	-	(298,600)	(426,200)
Non-cash items included in Finance costs:										
- Asset retirement obligation accretion	(477,845)	(422,431)	-	-	-	-	-	-	(477,845)	(422,431)
- Discount on debt & overriding royalty interest	(654,251)	(676,135)	-	-	-	-	-	-	(654,251)	(676,135)
- Fair value gain/(loss) on forward commodity contracts	-	-	-	-	-	-	-	-		-
Capital expenditure	(1,213,093)	(4,743,805)	-	-	(69,281)	(24,185)	-	-	(1,282,374)	(4,767,900)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

25. SEGMENT INFORMATION (Continued)

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Included in Other income above are gains disclosed separately of the face of the statement of Comprehensive Income.

The Empire Group's reportable segments under AASB 8 are as follows:
- Oil and gas operations - includes all oil and gas operations located in the USA. Revenue is derived from the sale of oil and gas and operation of wells.
- Investments - includes all investments in listed and unlisted entities, including the investment in Empire Energy Group USA (eliminated on consolidation). Revenue is derived from the sale of the investments.
- Other - includes all centralised administration costs and other minor other income.

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs and directors' salaries, finance income and finance expense, gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Geographical information

All Revenue from external customers is derived from operations in the USA.

The majority of the Empire Group's assets are located in the USA.

Major customers

Revenues from two major customers of the Empire Group's Oil & Gas segment represents approximately $13,230,448 (2015: two major customer $12,400,622) of the Empire Group's total revenues.

26. RELATED PARTY DISCLOSURES

a. Disclosures Relating to Directors

i. The names of persons who were directors of the Company at any time during the financial year were:
- B W McLeod
- D H Sutton
- K A Torpey

ii. Directors' Shareholdings

Number of shares held by the Company Directors

Director	Balance at 1 January 2016	Acquired during period through Pro Rata Rights Issue	Other changes during period	Balance at 31 December 2016
B W McLeod	8,924,997	-	-	8,924,997
D H Sutton	734,295	-	-	734,295
K A Torpey	2,191,449	-	-	2,191,449

Option holdings

Number of options over ordinary shares in the Company held during the financial period by each Director of the Company, including their related entities are set out below:

Director	Balance at 1 January 2016	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2016	Vested exercisable at 31 December 2016
B W McLeod	3,000,000	-	-	3,000,000	-	-
D H Sutton	-	-	-	-	-	-
K A Torpey		-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

26. RELATED PARTY DISCLOSURES (Continued)

The options held by Directors' were issued under an Employee Share Option Plan and were exercisable on the following basis and subject to a minimum term of employment conditions:

Director	No. of options	Exercise Price A$	Expiry Date
B W McLeod	1,500,000	$0.179	31 December 2016
	1,500,000	$0.169	31 December 2016

iii. Transactions with Key Management Personnel

	2016 US$	2015 US$
1) B W McLeod is a director and shareholder of Eastern & Pacific Capital Pty Limited. The Empire Group incurred the following transactions:		
- Management consultant fees	342,925*	330,149
- Bonus payment	-	-
* of this amount $126,193 was paid during the financial period		
2) Aggregate amounts payable to Directors and their related Companies at balance date:		
- Eastern & Pacific Capital		
- Management consultant fees accrued during the year	216,732	66,809
- Bonus payments accrued from previous years	29,750	30,260
- Reimbursements	33,761	-
3) J Warburton is a director and CEO of wholly-owned subsidiary Imperial Oil & Gas Pty Limited. The Empire Group paid the following transactions:		
- Advisory fees	2,137	56,104
- Director fees	26,795	27,086

b. Disclosures Relating to Controlled Entities

Empire Energy Group Limited is the ultimate controlling Company of the Consolidated Entity comprising the Company and its wholly-owned controlled companies.

During the year, the Company advanced and received loans, and provided accounting and administrative services to other companies in the Consolidated Entity. These balances, along with associated charges, are eliminated on consolidation.

c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			December 2016 %	December 2015 %
Controlling Empire Group				
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	100
Empire Energy Holdings, LLC	USA	Units	100	100
Empire Energy USA, LLC	USA	Units	100	100
Empire Energy (MidCon), LLC	USA	Units	100	100
Empire Energy E&P, LLC	USA	Units	100	100

All entities are audited by Nexia Australia with the exception of Empire Energy Holdings, LLC, Empire Energy USA LLC, Empire Energy (MidCon), LLC and Empire Energy E&P, LLC which are companies incorporated in the USA and are audited by Schneider Downs.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

27. NOTES TO THE STATEMENT OF CASH FLOWS

	December 2016 US$	December 2015 US$
(a) Reconciliation of Cash		
Cash at the end of the financial year is shown in Statement of Financial Position as follows:		
Cash at bank and in hand	641,493	1,126,543
(b) Reconciliation of profit after income tax expense to net cash flows from operating activities		
Profit/(Loss) for the period after income tax expense	16,448,929	(26,998,997)
Adjustments for non-cash items:		
Depreciation & amortisation expense	2,213,627	5,770,977
Impairment of property, plant & equipment	696,274	22,202,568
Impairment of available for sale assets and related receivables	482,366	-
Loss/(gain) on disposal of property, plant & equipment	-	703,473
(Write-back) of property, plant & equipment	(28,940,738)	-
Expiration of leases	332,660	426,200
Profit/Loss on disposal of available for sale financial assets	-	(161,782)
Discount on debt	654,251	676,135
Asset retirement obligation accretion	428,538	407,823
Share-based payment expense	36,613	176,761
Unrealised loss/(gain) on forward commodity contracts	7,589,547	305,548
Operating profit before changes in working capital and provisions	(57,933)	3,508,706
Change in Trade and other receivables	(383,384)	2,597,380
Change in Prepayments and other current assets	234,508	(429,860)
Change in Inventories	8,412	57,818
Change in Current tax asset	-	-
Change in Trade and other payables	312,876	(2,011,212)
Change in Provisions	(5,394)	132
Change in Deferred Tax Liability	-	(2,062,080)
	167,021	(1,847,822)
Net cash flows from operating activities	109,088	1,660,884

(c) Non-Cash Financing and Investing Activities
During the current financial the following non cash financing and investing activities occurred:

The Company granted 2,000,000 ordinary fully paid shares to a company in July 2016 in lieu of cash payment of $20,000 for services rendered, at a deemed issued price of $0.01 per share.

The Company granted 1,000,000 ordinary fully paid shares to a company in August 2016 in lieu of cash payment of $20,000 for services rendered, at a deemed issued price of $0.02 per share along with 1,000,000 unlisted options exercisable at $0.03 prior to 25 August 2019. Options were issued for nil cash consideration.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

27. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

A proportional value of options already issued based on a pro-rata portion of the vesting period was expensed during the financial year as follows:

- 3,500,000 options exercisable @ A$0.149 expiring 31/12/2016	A$27,252
- 1,500,000 options exercisable @ A$0.169 expiring 31/12/2016	A$10,471
- 1,500,000 options exercisable @ A$0.179 expiring 31/12/2016	A$10,068
- 1,000,000 option exercisable @ A$0.028 expiring 25/08/2019	A$1,404
	A$49,195

During the previous financial year there were no non cash financing and investing activities.

28. EARNINGS PER SHARE

	2016	2015
Basic earnings per share (cents per share)	4.76	(7.84)
Diluted earnings per share (cents per share)	4.76	(7.84)
Profit/loss used in the calculation of basic and diluted earnings per share	16,448,929	(26,998,997)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	345,634,425	344,313,877
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	345,634,425	344,313,877

29. SUPERANNUATION COMMITMENTS

The Empire Group contributed to externally managed accumulation superannuation plans on behalf of employees. Empire Group contributions are made in accordance with the Empire Group's legal requirements.

30. PARENT ENTITY INFORMATION

	2016 US$	2015 US$
Information relating to Empire Energy Group Limited:		
Current Assets	146,433	143,675
Total Assets	35,921,121	34,361,251
Current Liabilities	(1,531,433)	(209,243)
Total Liabilities	(1,531,433)	(240,802)
Shareholder's Equity:		
Issued Capital	(74,239,177)	(74,240,544)
Reserves		
- Fair value reserve	(575,677)	(575,677)
- Foreign currency translation reserve	8,000,137	7,995,916
- Options reserve	(1,510,540)	(1,646,201)
- Share based payment reserve	(167,567)	(168,442)
- General Reserve	(241,272)	(241,144)
Accumulated Losses	34,344,408	34,821,211
Total Shareholder's Equity	(34,389,688)	(34,054,881)
Profit/(loss) for the period	461,128	664,713
Total Comprehensive income	456,907	(1,403,332)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

31. DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION

Determination of Remuneration of Directors

Remuneration of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriate qualified independent persons.

Remuneration of the executive director is determined by the Remuneration Committee (refer statement of Corporate Governance Practices and the Remuneration Report for further details).

In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Empire Group's level of operations.

Determination of Remuneration of Other Key Management Personnel

Remuneration of senior executives is determined by the Remuneration Committee (refer statement of Main Corporate Governance Practices for further details). In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Empire Group's level of operations.

Directors' and Executive Officers' Remuneration
Details of the nature and amount of each major element of the remuneration of each director of the Empire Group and each named officer of the Empire Group and the Consolidated Entity receiving the highest remuneration are:

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2016	**Cash salary and fees US$**	**Bonus payments US$**	**Non-monetary US$**	**Super contributions US$**	**Long service leave**	**Share/option based payments ***	**Total US$**
Directors							
B W McLeod	342,925[(1)]	-	26,414	-	-	15,288	384,627
K A Torpey	14,886	-	-	2,010	-	-	16,896
D H Sutton	-	-	-	14,886	-	-	14,886
J Warburton	26,795	-	-	-	-	-	26,795
Executives							
A Boyer	253,000[(2)]	-	62,559	-	-	3,893	319,452

[(1)] Includes accrued $216,732 but not paid. * Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The net cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of previous options issued. Once the options reach vesting date, the cost shown amortises to $0. The Cost of the above options issued under the ESOP over the year was $18,185. The loss on options relating to the above directors that expired over the year was $30,975. The net cost of options issued to the above directors and executives for the year was $(12,791).
[(2)] Includes $78,000 of previously accrued payments over the 2013 to 2016 period.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2015	**Cash salary and fees US$**	**Bonus payments US$**	**Non-monetary US$**	**Super contributions US$**	**Long service leave**	**Share/option based payments ***	**Total US$**
Directors							
B W McLeod	330,149	-	25,211	-	-	46,769	402,129
K A Torpey	15,048	-	-	1,354	-	-	16,402
D H Sutton	-	-	-	15,08	-	-	15,048
J Warburton	83,191	-	-	-	-	-	83,191
Executives							
A Boyer	178,000	-	65,326	-	-	8,499	251,825

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the ESOP. The net cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of previous options issued. Once the options reach vesting date, the cost shown amortises to $0. The Cost of the above options issued under the ESOP over the year was $55,268. The loss on options relating to the above directors that expired over the year was $25,649. The net cost of options issued to the above directors and executives for the year was $29,618.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

32. AUDITORS' REMUNERATION

	2016 US$	2015 US$
Audit Services		
Auditors of the Company – Nexia Australia:		
Audit and review of financial reports	89,536	99,400
Other auditors:		
Audit and review of financial reports	89,588	188,016
	179,124	287,416
Other services		
Auditors of the Company – Nexia Australia:		
Taxation services	12,682	9,211
Other auditors:		
Taxation services	1,303	1,029
	13,985	10,240

33. MATTERS SUBSEQUENT TO BALANCE DATE

1) In December 2015, the Company entered into a US$75,000,000 Farm-out agreement ("Farmout") for the development of its Northern Territory (NT) assets with AEGP Australia Pty Ltd (AEGP) a company controlled by Mr Aubrey K. McClendon. The agreement included Imperial's 20% share of the Second Phase project funding. In March 2016 Mr McClendon was tragically killed in an accident. The Personal Representative of the McClendon Estate has confirmed that that Estate will not continue with the Farmout and in early 2017 AEGP and the Company agreed on the terms of a Termination Agreement for the Farmout. On 23rd January 2017 the Company signed the Termination Agreement and remains waiting for the return of the document from the McClendon Estate.

2) On 14 December 2016 Empire Energy Group Limited (the 'Company') announced a 11 for 5 pro-rata renounceable rights issue ('Offer') to raise approximately $6.1 million. The Offer was fully underwritten by 153 Fish Capital Pte Ltd ('153 Fish Capital').

   The Offer closed on the 27 January 2017. Existing shareholders took up 236,538,079 new shares under the Offer. The shortfall to the Offer was 527,553,373 shares amounting to approximately $4.2 million ("Shortfall Amount").

   The Underwriter had forwarded to the Company Application Forms from Sub underwriters for a total of approximately $5.5 million ("Funds") being approximately $1.3 million more than the Shortfall Amount. However, as of close of business on 17 February 2017 approximately $1.6 million of the Shortfall Amount had been received and shares have been issued.

   On 23 February 2017 the Company placed an additional 37,750,000 shares to investors as part of the shortfall.

   The Company is working with 153 Fish Capital to facilitate the placement of the remaining shortfall shares being $2.2 million. The Company does not have the available issuance capacity under ASX Listing Rule 7.1 to place the shares equivalent to the Shortfall without seeking shareholder approval.

   A General Meeting of the Company is being scheduled for the end of April 2017 with a date yet to be finalised as at the date of this report, to seek shareholder approval for the issue of 187,500,000 shares amounting to $1.5 million to place the remainder of the shortfall amount. The remainder of the shortfall will be issued under ASX Listing Rule 7.1 and 7.1A.

3) On 23 February 2017 the Company issued 17,693,153 shares to 153 Fish Capital Pte Ltd as a fee offset for the Offer.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

33. MATTERS SUBSEQUENT TO BALANCE DATE (Continued)

Following the share issues mentioned above the issued capital of the Company is 835,470,109 fully paid ordinary shares.

There were no other matters or circumstances that have arisen since 31 December 2016 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2016, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2016 of the Empire Group.

DIRECTORS' DECLARATION

In the opinion of the directors of Empire Energy Group Limited (the "Company"):

a The financial statements and notes of the Company and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 19 to 21, are in accordance with the *Corporations Act 2001,* including:

i Giving a true and fair view of the Company's and Group's financial position as at 31 December 2016 and of their performance, for the year ended on that date; and

ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b the financial report also complies with the International Financial Reporting Standards as disclosed in note 1; and

c there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Office and the Chief Financial Controller for the year ended 31 December 2016.

Signed in accordance with a resolution of the directors.

B W McLEOD
Director

Dated: 17 March 2017

Independent Auditor's Report to the Members of Empire Energy Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Empire Energy Group Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001.*

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to Note 3 'Going concern' of the financial report, which indicates the Group has an excess of current liabilities over current assets of $36.71m as at 31 December 2016. The Company is currently finalising the shortfall in the rights issue of $2.2m with the Underwriter.

In Note 3, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, if the Group is not successful in securing sufficient additional funds through the Underwriter or through other arrangements when required, there exists a material uncertainty that may cast significant doubt as to whether the Group will be able to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Impairment of oil and gas properties *Refer to note 14 (Oil and Gas properties and property, plant and equipment)* At 31 December 2016, the Group has capitalised proved oil and gas assets of $77.62m. AASB 136 *Impairment of Assets* requires that the recoverable amount of an asset, or cash generating unit to which it belongs, be determined whenever an indicator of impairment exists. The Group's assessment of the recoverable amount of its producing oil and gas properties was a key audit matter because the carrying value of the assets are material to the financial statements and management's assessment of recoverable amounts incorporate significant internal and external judgements and assumptions including commodity prices, available reserves, residual values and discount rates.	Our procedures included, amongst others: ▪ Assessing whether the external expert engaged by management to provide independent valuations were appropriately experienced and qualified; ▪ We evaluated management's key assumptions and estimates used to determine the recoverable amount of its assets, including those related to forecast commodity prices and revenue, costs, discount rates and estimated residual values; ▪ We checked the mathematical accuracy of the cash flow models, testing inputs from valuation reports produced, as well as external inputs, including spot and forward prices for crude oil (WTI) and gas at the reporting date; ▪ We assessed the accuracy of management's forecasting by assessing the reliability of historical forecasts and reviewing whether current market conditions would impact those forecasts; and ▪ Assessing whether appropriate disclosure regarding significant areas of uncertainty has been made in the financial report.
Asset retirement obligations *Refer to note 18 (Provisions)* The measurement of the provision for Asset Retirement Obligations incorporates significant judgement and uncertainty, with cost estimates varying in response to many factors including changes in technology, legal requirements, discount rates, past experience at other production sites, and estimates of future restoration costs. The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations	Our procedures included, amongst others: ▪ Evaluating management's process of estimating and measuring the provision for asset retirement obligations; ▪ Evaluating whether the discount rate applied by management to the forecast cash outflows is appropriate and consistent with the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; ▪ We considered the Group's estimates of plugging costs per well, including assessment of whether there have been changes in technology or costs that would materially impact those estimates. We compared the estimates for plugging costs against actual costs incurred in 2016; ▪ We considered whether the key assumptions and judgements used in management's estimates were consistently applied in measuring the asset retirement provision and in assessing the recoverable amount of the related assets; and ▪ We performed sensitivity analysis on management's estimates used in calculating the obligation.

Key audit matter	How our audit addressed the key audit matter
or their interpretation. This was a key area of audit focus due to the size and nature of these estimates and their consequential effects on assessing the recoverable amount of producing assets.	
Revenue estimates *Refer to note 5 (Revenue) and note 10 (Trade and Other Receivables)* Due to timing differences between the delivery of oil and gas and the receipt of the delivery statement from the customers, the Group has recognised accrued revenues of $1.4m at balance date. These revenues are accrued based on volumetric data from the Group's records and estimated sales prices for the relevant months. These considerations combined create an area of significant estimation which we have determined to be a key audit matter.	Our procedures included, amongst others: We evaluated management's process for estimating delivered but un-invoiced oil and gas sales by: ▪ assessing the historical accuracy of management's estimates by comparing previous estimates to the actual delivery for that period; ▪ comparing estimates of line loss to historical data, as part of the calculation for November (gas) and December (oil and gas) revenues; ▪ testing a sample of leases by comparing revenue by well to revenue as per leases, as well as agreeing production to relevant purchaser statements; and ▪ to the extent possible, compared the amounts accrued for oil and gas deliveries to subsequent receipts and/or delivery statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 21 of the directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Nexia

Nexia Sydney Partnership

Lester Wills
Partner
Dated: 17 March 2017
Sydney

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 28 February 2017

Name	Number of Shares	% Holding
Macquarie Bank Limited (Metals & Energy CAP DIV A/C)	53,666,666	6.42

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	302	118,528	0.01
1,001 – 5,000	725	2,042,686	0.24
5,001 – 10,000	415	3,113,143	0.37
10,001 – 100,000	860	33,308,788	3.99
100,001 and over	514	796,886,964	95.38
Total number of holders	2,816	835,470,109	100.00

i	Number of holders of less than a marketable parcel	2,119
ii	Percentage held by 20 largest holders	39.62

c Twenty Largest Shareholders grouped as at 9 March 2016

	Name	Number of Shares	% Holding
1	Macquarie Bank Limited <Metals & Energy Cap Div A/C>	53,666,666	6.42
2	Fanchel Pty Ltd	30,000,000	3.59
3	Mr Sean Anthony Dennehy	23,011,521	2.75
4	HSBC Custody Nominees (Australia) Limited	22,831,265	2.73
5	Rhodes Capital Pty Ltd <McLeod Super Fund A/C>	20,149,998	2.41
6	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	19,200,000	2.30
7	Chifley Portfolios Pty Ltd <David Hannon A/C>	17,750,000	2.12
8	153 Fish Capital Pte Ltd	17,693,153	2.12
9	Colowell Pty Ltd <David Dagg Family A/C>	13,717,396	1.64
10	Transition Metals Pty Ltd	12,877,015	1.54
11	Mr Ee Chye Chuan	12,500,000	1.50
12	Low Peng Koon	12,500,000	1.50
13	Ms Geraldine Tan Choon Shan	12,500,000	1.50
14	Soh Chei-Yong + Susie See	12,500,000	1.50
15	Serlett Pty ltd <Diligent Inv Superfund A/C>	11,439,038	1.37
16	Asenna Wealth Solutions Pty Ltd	10,875,000	1.30
17	Classic Roofing Pty Limited <Superannuation Fund Account>	9,600,000	1.15
18	Colowell Pty Ltd <The Sherwood Super Fund A/C>	7,680,000	0.92
19	Mr Liang Kwang Lim + Mrs Jennifer Lynne Lim <Lims Super Fund A/C>	7,600,000	0.91
20	WYT Nominees Pty Ltd <C & E Wong Super Fund A/C>	7,367,118	0.88
		335,458,170	40.14

d Voting Rights

On a show of hands every member present in person or by proxy shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for every share except if the issue price has not been paid in full, then the holder is only entitled to a fraction of a vote on that share, being, the quotient of the amount paid up divided by the issue price of that share.

SHAREHOLDER INFORMATON (Continued)

UNQUOTED SECURITIES AS AT 7 MARCH 2017

Class of unquoted securities	No. of securities	No. of holders
- Unlisted options exercisable at $0.28 expiring 25 August 2019	1,000,000	1
Unlisted Performance Rights subject to certain preconditions being met	2,500,000	1

Voting Rights

There are no voting rights attached to any of the unquoted securities listed above.

LIST OF MINERAL LEASES – USA AND AUSTRALIA

A full list of the mineral (oil & gas) leases and rights of way held by the Company was announced on the Australian Securities Exchange on 17 March 2017. Given the extensive list (61 pages) it was not practical to include this listing in the Annual Report of the Company.

CORPORATE GOVERNANCE STATEMENT

The Company's corporate governance statement can be found on the Company's website at the following location:
http://empireenergygroup.net/company-overview/corporate-governance