EMPIRE OIL & GAS NL

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Maiden Profit reported for six months ending 31 December 2014

Empire Oil & Gas NL (ASX: EGO) ("Empire") herewith provides its Interim Financial Report for the Half-Year Ended 31 December 2014.

Yours faithfully
For Empire Oil & Gas NL

Rachel Rees

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Chief Financial Officer & Company Secretary

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EMPIRE OIL & GAS NL

Empire posts maiden interim profit on increased production and lower costs

Key Points

- **Revenue up 71% to $9.28m stemming from increased well production and improved plant performance**
- **$6.4m gross profit (revenue less cash cost of sales), up from $3.4m in the previous corresponding period**
- **Net profit before tax (after depreciation and amortisation, corporate overheads and interest) of $470,000 compared with a loss of $252,520 previously**
- **Recognition of a $5.2m deferred tax benefit , stemming from increased confidence in outlook for the Red Gully project, lifts bottom-line net profit to $5.7m**
- **Gas sales volumes up 62%, condensate sales volumes up 43%**
- **Red Gully 2P Reserves increased 46% to 14.65PJ**
- **Cashflow set for significant boost from August with start of Tranche 2 gas sales to Alcoa**
- **Gas price in Alcoa contract is fixed – not impacted by falling oil price**
- **Acquisition of ERM assets completed; Empire the largest land holder in Perth Basin**
- **Growing financial strength and consolidation of acreage leaves Empire set for extensive exploration program**

Empire Oil & Gas NL (ASX: EGO) is pleased to report a maiden interim net profit of $470,000, reflecting lower costs and increased production at the Company's flagship Red Gully Gas and Condensate Project in WA.

The result compares with a $252,520 loss in the previous corresponding period, during which time Empire was commissioning Red Gully.

The ramp-up in Red Gully's performance underpinned the 71 per cent increase in revenue to $9.28 million. Gross profit, as defined by revenue minus cash costs of sales, was $6.4 million, up from $3.4 million previously.

A $5.2 million deferred tax benefit took the bottom-line net profit to $5.7 million. This was the result of the improved performance of Red Gully as well as the increase in gas reserves, which have provided more certainty regarding future production*.

The strong results came on the back of a 62 per cent increase in gas sales to 1.05 petajoules. Condensate sales rose 43 per cent to 49,036 barrels.

The financial and production figures quoted above represent the 76.39 per cent share of Red Gully which Empire owned during the period. As of 27 February, 2015, Empire increased its stake in Red Gully to 100 per cent by acquiring the interest held by ERM Power (ASX: EPW).

Significant improvements in the performance of the processing plant at the Red Gully Gas and Condensate Project combined with the more stable production rates from the Red Gully-1 well aggregated to underpin the substantial turnaround in Empire's results. The average uptime over the six months was 95 per cent (excluding planned downtime).

Empire's considerable achievements during the period were highlighted by its success in the perforation and test program on the B Sands at the Red Gully-1 well.

These results supported a 46 per cent increase in Red Gully's 2P gas reserves, taking them to 14.65PJ while 2P condensate reserves rose 21 per cent to 561,500 barrels (see ASX announcement dated 22 January, 2015).

The increased reserves have strengthened Empire's confidence that it can supply all the gas under Tranche 2 of Red Gully's sales contract with Alcoa.

Empire expects sales under Tranche 2 to start by September. This will see the Company's operating cashflow increase by more than $1 million per month.

Alcoa pre-paid $25 million to the Red Gully JV for the gas currently being supplied under the Tranche 1 contract, meaning Empire is not generating any cashflow89ii from existing gas sales. Currently, its sole cashflow is derived from condensate sales.

The importance of Tranche 2 also lies in the fact that all gas sales under the Alcoa contract are at a fixed price (indexed to inflation) and are therefore not affected by recent falls in oil price.

As well as increasing Red Gully's reserves ahead of Tranche 2, Empire also secured shareholder approval during the period to buy the WA gas assets of ERM, including its share of Red Gully.

By holding 100 per cent of the equity in most of its tenements, Empire is ideally placed to launch an extensive exploration program.

Empire Chief Executive Ken Aitken said it had been an outstanding six months for the Company at every level.

"We have reduced costs while recording a notable performance improvement at Red Gully," Mr Aitken said. "We have also enjoyed strong success with the Red Gully B Sands program and positioned ourselves to grow our cashflow significantly through Tranche 2 gas supply."

"At the same time, the completion of the ERM acquisition means we are now well placed to unlock the value of our tenements through an extensive exploration program."

"Empire has the largest land holding in the highly prospective Perth Basin and will use its growing financial strength and its 100 per cent ownership of the tenements to create wealth for shareholders."

**The net deferred tax asset is recognised based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised in future.*

The FY15 Half Year results were as follows:

	Half-year ended 31 December 2014 $	Half-year ended 31 December 2013 $
Revenue	9,284,115	5,436,124
Cost of sales (excl. depreciation and amortisation)	(2,849,798)	(2,053,109)
Gross profit (excl. depreciation and amortisation)	6,434,317	3,383,015
Net other expenses (incl. corporate overheads)	(2,478,217)	(1,895,623)
EBITDAX*	3,956,100	1,487,392
Exploration impairment / write-down	(218,688)	(5,902)
EBITDA	3,737,412	1,481,490
Depreciation & amortisation	(3,092,292)	(1,697,015)
EBIT	645,120	(215,525)
Net finance costs	(174,899)	(36,995)
Net profit / (loss) before tax	470,221	(252,520)
Tax benefit	5,241,644	0
Net profit / (loss) for the period	5,711,865	(252,520)

* *EBITDAX r*epresents the Group's Earnings before interest, tax, depreciation, amortisation and exploration impairment / write-offs. Together with EBITDA (Earnings before interest, tax, depreciation and amortisation) and EBIT (Earnings before interest and tax), the EBITDAX figure are non-IFRS measures that are presented to provide investors with further information and perspective on the overall financial performance and operations of the Group. These financial measures are unaudited however the figures have been extracted from the financial statements, which have been subject to review by the Group's auditor. Please refer to the financial statements, which were subject to the half-year review completed by the auditors, for the IFRS financial information.