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Quarterly Report – For the period ending 30 June 2014

31 July 2014

HIGHLIGHTS FOR 2nd QUARTER

- Estimated revenues for the period were US$7.0 million (1Q2014: US$5.8 million).
- Unaudited Field EBITDAX of US$4.8 million (1Q2014: US$3.9 million).
- Gross production
  - Oil: 61,863 Bbl (1Q2014: 61,291) +0.9%
  - Gas: 575,799 Mcf (1Q2014: 540,197) +6.6%
- Estimated Group EBITDAX was US$3.21 million (1Q2014: US$1.73 million).
- In New York State three Medina wells were purchased along with 822 acres of HBP leases. These wells already produced into Empire's pipelines, no additional hookup work was required.
- Four leases located in Russell County, Kansas were sold during the quarter. The leases had little upside potential. Empire received US$1,750,000 for the working interest in the wells.
- In Kansas two proved undeveloped wells were completed. Eight additional wells are scheduled over the next six months.
- Over the period the Company continued due diligence and evaluation on four separate acquisition opportunities. At the date of this report, one project was lost and three projects remain active.

OPERATING REVIEW

A. EMPIRE ENERGY USA, LLC (100%)

The Company's operations are based in the Central Kansas (oil) and in the Appalachian Basin (gas).

- For year to date the Company's EBITDA is $5.2 million, which is $0.5million behind budget.

Financials:

Description – US$	30/06/2014 3 months to	30/06/2013 3 months to	30/06/2014 Year-to-Date	30/06/2013 Year-to-Date
Net Revenue:				
Oil Sales	3,609,141	3,597,863	7,066,529	7,090,256
Natural Gas Sales	2,429,973	2,737,449	4,730,579	5,330,698
Working Interest	5,940	6,217	11,330	12,602
Net Admin Income	134,811	107,187	257,184	210,558
Other Income	793,438	136,354	815,160	168,346
Total Revenue	6,973,303	6,585,070	12,880,782	12,812,460
Production costs:				
Lease operating expenses - Oil	1,127,624	897,176	2,081,502	1,653,421
Lease operating expenses - Gas	794,313	684,560	1,609,340	1,396,784
Taxes - Oil	147,589	160,524	300,595	329,178
Taxes - Natural Gas	123,019	154,285	254,228	309,838
Total	2,192,545	1,896,545	4,245,665	3,689,221
Field EBITDAX	4,780,758	4,688,525	8,635,117	9,123,239
Less:				
Inventory adjustment	33,372	(71,106)	46,597	(68,106)
Nonrecurring expenses	378,384	437,462	1,006,108	768,106
Field Overhead	180,000	180,000	360,000	360,000
Total	591,756	546,356	1,412,705	1,060,000
Operating EBITDAX	4,189,002	4,142,169	7,222,412	8,063,239
Operating Margin				
Less:				
Field G & A	147,808	178,170	337,251	398,499
Corporate G & A	453,958	364,837	858,563	753,639
Delay rental payments	62,119	110,617	149,466	183,550
Land Overhead & Non-leasing costs	352	64,594	1,448	141,319
Total	664,237	718,218	1,346,728	1,477,007
EBITDAX	3,524,765	3,423,951	5,875,684	6,586,232

Exploration Expenses:

Description – US$	30/06/2014 3 months to	30/06/2013 3 months to	30/06/2014 Year-to-Date	30/06/2013 Year-to-Date
Less:				
Geological Services	8,554	13,575	25,713	15,600
Acquisition related expenses	244,650	37,650	563,008	58,864
Dry hole expenses	26,819	25,846	45,225	26,057
Total	280,023	77,071	633,946	100,521
EBITDA	3,244,742	3,346,880	5,241,738	6,485,711

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

Production Statistics

The table summarises Operating Statistics with a brief description of field operations for the last quarter.

Description – US$	30/06/2014 3 months to	30/06/2013 3 months to	30/06/2014 Year-to-Date	30/06/2013 Year-to-Date
Gross Production:				
Oil (Bbls)	61,863	66,234	123,301	133,549
Natural gas (Mcf)	575,799	645,675	1,131,809	1,253,673
Net Production by Region:				
Oil (Bbls)				
Appalachia	763	1,042	1,266	1,862
Mid-Con	40,189	41,177	79,328	83,486
Total Oil	40,952	42,219	80,594	85,348
Weighted Avg Sales Price ($/Bbl)				
Before Hedge	$96.47	$88.68	$94.75	$86.44
After Hedge	$88.13	$85.22	$87.68	$83.07
Natural gas ($/Mcf)				
Appalachia	441,596	500,874	875,327	971,496
Mid-Con	3,237	1,999	6,086	4,306
Total Natural Gas	444,833	502,873	881,413	975,802
Weighted Avg Sales Price ($/Mcf)				
Before Hedge	$4.52	$4.17	$4.51	$3.93
After Hedge	$5.48	$5.46	$5.38	$5.48
Oil Equivalent (Boe):				
Appalachia	74,362	84,521	147,154	163,778
Mid-Con	40,728	41,510	80,342	84,203
Total Boe	115,090	126,031	227,496	247,981
Boe/d	1,265	1,385	1,257	1,370
Weighted Avg Sales Price ($/Boe)				
Before Hedge	$51.81	$46.33	$51.05	$45.23
After Hedge	$52.52	$50.32	$51.91	$50.14
Lifting Costs (incl. taxes):				
Oil - Midcon ($/Bbl)	$31.14	$25.05	$29.56	$23.23
Natural gas - Appalachian ($/Mcf)	$2.06	$1.67	$2.11	$1.75
Oil Equivalent ($/BOE)	$19.05	$15.05	$18.66	$14.88

Operations Overview – USA

1. Appalachia (Western New York and Pennsylvania):

- Nine permits were issued for wells on the Eddy lease, in the Emerald Oil Prospect, Allegany County, NY, four of these were drilled and logged. The logs showed significant oil bearing sands.
- The Company has at least another 80 well locations which it can drill and a further 331 acres in NY are under negotiation.
- Lease extensions and new leases have added or kept 720 acres in Central New York State.
- The purchase of 3 Medina wells was completed along with 822 acres of HBP leases. These wells already produced into Empire's pipelines, so no additional hookup work was required.
- We are in final negotiations for an additional 150 existing wells, comprised of Medina wells, Bass Island Oil wells and a number of potential Bass Island Oil locations. Approximately 20,000 acres of HBP leases will be included in this acquisition.
- Two additional prospective Bass Island locations identified in Clymer Township, Chautauqua County. The cost benefits of shooting seismic are being investigated.
- Upgrades and repairs were made on pipelines and production equipment affected by the unusually cold winter.
- Empire's swab and service rigs are working to enhance production in wells.
- Work is progressing on complying with the increased regulations from both the Public Service Commission and the EPA.

2. Mid-Continental (Kansas):

- Production volumes were up slightly over the first quarter but lower than expected due to severe spring thunderstorms across the area. The stronger than normal storms resulted in various electrical component failures and downed power lines and poles. All damage has since been repaired.
- The Stice #8 was drilled and brought on line in April with an average IP of ~20 Bbl/d. The well is currently producing 3 Bbl/d and plans are to perform a polymer stimulation later this year. The Stice #9 was drilled and abandoned and the Stice #10, which was scheduled to be drilled, was postponed until data from the #9 well can be evaluated. An updated drilling schedule is being prepared with a target of an additional 7 wells to be drilled this year.
- An offer to purchase 160 acres in Graham County, Kansas, which included an existing well (3 Bbl/d) and an additional 320 adjacent acres was accepted. Closing is scheduled for July 25 with an effective date of June 1.
- The acreage and production of several companies are currently being evaluated for possible acquisition. Work continues to identify and evaluate other potential acquisitions.

- The federal government enacted law effective May 12, designating the Lessor Prairie Chicken as an endangered species. The highly controversially law is being challenged by several state governments. A multi-state, federally approved plan exists, that helps to protect producers with actions associated with the drilling, completion and operating phases of production. Empire Energy took a pro-active approach and enrolled 2,482 acres located in Gove County, Kansas, in the plan. The majority of our producing acreage is not affected with the enactment.
- Four leases located in Russell County, Kansas were sold prior to their roll-up into a producing unit. The leases had little upside potential. Empire received US$1,750,000 for their working interest in the wells.

Net Earnings:

Unaudited earnings for the period are shown below:

Description – US$	30/06/2014 3 months to	30/06/2013 3 months to	30/06/2014 Year-to-Date	30/06/2013 Year-to-Date
EBITDA	3,244,742	3,346,880	5,241,738	6,485,711
Dep, Depl, Amort & ARO	1,548,288	1,596,916	2,985,222	3,353,642
Interest	509,483	563,815	1,007,187	1,142,143
State taxes	1,782	392	1,955	1,146
	2,059,553	2,161,123	3,994,364	4,496,931
Earnings before Tax	1,185,189	1,185,757	1,247,374	1,988,780
EBITDA/Interest (times)	6.37	5.94	5.20	5.68

Capital Expenditure:

Description – US$	31/06/2014 3 months to	31/06/2013 3 months to	31/06/2014 Year-to-Date	31/06/2013 Year-to-Date
Capital Expenditures				
Acquisition Capital	(1,266,050)	-	(1,266,050)	500
New Wells - IDC	276,003	384,519	660,029	574,065
New Wells - Capital	48,372	158,707	227,548	311,245
Undeveloped Leases	(47,168)	77,366	148,483	206,602
Capital Expenditures	(988,843)	620,592	(229,990)	1,092,412

Credit Facilities:

Net debt repaid over the quarter was US$1.6 million (1Q2014: $40,804).

At the end of the quarter the Company had US$41.1 million drawn at an average cost of LIBOR + 4.35%. Empire Energy retains Credit Facility availability of ~US$159 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr US$M	Interest Rate LIBOR+	Interest Qtr US$M	Interest YTD US$M
Term	$38,111	4.50%		
Revolver	$3,000	2.50%		
	$41,111	4.35%	$1,600	$1,640

Hedging:

A hedging policy has been implemented by the Company with the underlying objective to ensure the cash flows are protected over the period the Credit Facility is drawn for the funding of a defined set of assets. Hedge contracts are a component of Empire's Credit Facility and no cash margins are required if contracts are outside the marked to market price for each commodity hedged.

The following table summarizes current hedging in place based on NYMEX – Henry Hub and WTI Contracts:

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2014	925,000	667,857	72.2%	$5.93	70,529	52,560	74.5%	$90.00
2015	1,790,000	1,166,000	65.1%	$5.45	133,280	98,160	73.6%	$90.00
2016	1,730,000	1,200,000	69.4%	$4.43	126,000	42,000	33.3%	$85.67
2017	1,675,000	570,000	34.0%	$4.57	119,500	39,600	33.1%	$85.23
2018	1,620,000	510,000	31.5%	$4.75				
Total	7,740,000	4,113,857	53.2%	$5.02	449,309	232,320	51.7%	$88.40

B. IMPERIAL OIL & GAS PTY LTD (100%):

The Company's wholly owned subsidiary, Imperial Oil & Gas Pty Ltd holds exploration permits in the Northern Territory comprising a total of 14,600,000 acres (or 59,172km^2) and covering approximately 75% of the petroleum-prospective central trough of the onshore McArthur Basin in the Northern Territory, Australia.

McArthur Basin Project Progress:

The Company's policy is to expense all exploration costs. Current quarter actual and accrued expenses:

Description – US$	3 months to 30/06/2014	3 months to 30/06/2013	Year-to-Date 30/06/2014	Year-to-Date 30/06/2013
Exploration Expenses - NT	322,815	528,706	452,097	906,629

Tenements:

The last quarter has been in preparation for drilling operations to commence within EP184. The Northern Land Council has conducted the relevant ethnographic survey across the tenement and approved the proposed work program and the initial drilling sites.

The NT Department of Mines and Energy has approved the well designs for the proposed drill sites BCFSC02, 03, 04 & 05.

Negotiations continue for land access and tenement grant on EP(A)183, 182, 181 and 180. Advice received from the traditional owners of this land within Arnhem land and the Southern Gulf country clearly indicates support for the Company exploration program across this region by more than 98% of the local Aboriginal population.

EP(A) 187 has been approved by the full council of the NLC under ALRA and tenement grant is currently pending from the NT Department of Mines and Energy.

Preliminary exploration program:

Initial drilling within the exploration program commenced in July 2014 due to delays in approvals from the NT Worksafe, NT EPA and the NT Department Mines and Energy. This drilling program commenced in July of 2014.

Current exploration activities are based on determining if the St Vidgeon formation within the Urapunga region of the Roper River region of the MacArthur Basin is in fact a geochoronostratigraphic equivalent to the proven hydrocarbon formation of the Barney Creek.

Drilling being undertaken this quarter has the objectives of defining the source rock thickness, richness and other important characteristics within the targeted prospects of the St Vidgeon Formation and determining equivalency to the Barney creek formation. The results of this program will define the source rock potential within the western margin of the McArthur Basin and expand the available source rock potential of the greater portion of Imperial acreage.

Ongoing hydrology studies have been undertaken to understand the aquifer locations and their potential impact on the exploration program.

The Company has provided a submission to the NT inquiry on fracking and the Company's Principal advisor exploration and operations, Mr Geoff Hokin, has attended the inquiry to provide evidence to support the proposal for fracking of unconventional organic black shales within the Northern Territory.

Hydrocarbon Targets – Drilling program 2014

The target shale formations have been proven to be present in outcrop and at shallow depth within EP184 allowing for relatively shallow drilling to obtain fresh core samples for further geochemical analysis. The quality of core samples recovered to date indicates a high petroleum source rock with an effective seal and significant micro faulting and jointing present to improve the potential for effective hydrocarbon migration and generation within the formation.

Commencing in January 2014 the Company has developed the required emergency response programs approved by the NT Dept. of work safe, the necessary Oil spill Contingency Plans, Environmental Management Plans, weed management and water management plans based on the initial environmental survey conducted on behalf of the company by O2 Environmental P/L and had these approved by the NT EPA and the NT Dept Mines and Energy.

The Company commenced drilling in EP184 on the 12th of July with the spudding of the drill site BCFSC05 and successfully completed the drilling of BCFSC05 and 04. The site BCFSC03 was spudded on the 23rd of July 2014 and is currently at 85m drill depth with first core recovery achieved on day one of the drilling.

To date a significant high organic black shale horizon has been encountered within the drill hole BCFSC04 and samples of this have been collected and are currently being provided to the Adelaide Sprigg Research Laboratories for geochemical and geophysical analysis. Results of these samples are not expected for approximately 12 weeks from receipt of the samples at the lab. However, in field review of the samples identifies these as being of a high quality organic nature and probably oil bearing. Geophysical down hole wire line logs using Gamma, Caliper, density, sonic, SP and resistivity has provided data indicating high potential source rock in close proximity to a surface outcrop position yet remaining below an effective marbleized seal.

The results of the current program will be fed back into the Common Risk Segment (CRS) map to further develop and refine the target regions.

This work, in conjunction with the Common Risk Segment mapping undertaken in 2013, has identified a number of zones within EP184 and EP187 of high prospectivity for conventional and shale oil and gas in the initial target depth zone from 500m to 2,500m below ground level.

A proposal has been put forward to the relevant authority to deepen one of these wells to define the location of the Coxco Formation in a near outcrop position to provide equivalency of the St Vidgeon Formation with the known hydrocarbon bearing province of the Barney Creek formation.

Imperial Oil and Gas has developed plans to expand the number of wells at various depths in the 2014 drilling season within the McArthur basin to gather fresh samples from the key shale target zones both to constrain stratigraphy and quantify shale quality.

The Company proposes to undertake further detailed Geological Field Mapping and shale sampling in key areas. Through the 2014 mapping, coring and exploration drilling program the Company expects to further define the high potential zones, prospects and leads within the basin. The initial drilling targets exist in areas proximal to existing live oil and gas finds and to existing gas pipeline infrastructure.

C. EMPIRE ENERGY GROUP LIMITED

Empire Energy Group Limited's head office is located in Sydney, Australia. Operating costs cover all Group overhead, including the costs of listing on both the Australian Securities Exchange and the OTCQX Exchange, New York, USA.

Description – US$	3 months to 30/06/2014	3 months to 30/06/2013	Year-to-Date 30/06/2014	Year-to-Date 30/06/2013
Revenue	43,613	39,588	87,185	78,617
Less Expenses:				
Consultants	82,424	54,104	163,108	175,741
Directors/Employment Costs	90,458	69,145	174,133	161,958
Listing Expenses	36,307	27,331	52,289	70,664
G&A	142,375	180,801	292,305	333,354
EBITDAX – Head office (EEG)	(307,951)	(291,793)	(594,650)	(663,100)
EBITDAX – (EEUS)	3,524,765	3,423,952	5,875,683	6,586,233
EBITDAX – GROUP	**3,216,814**	**3,132,159**	**5,281,033**	**5,923,133**

ABOUT EMPIRE ENERGY GROUP LIMITED

In early 2007, the Company established Empire Energy USA, LLC a wholly owned subsidiary. Empire Energy USA is an oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Central Kansas Uplift (Kansas). Current production is around 1,350Boe/d.

The Company holds approximately 232,000 net acres of Marcellus Shale and 148,000 net acres of Utica Shale in western New York State and Pennsylvania. In addition, the Company has Exploration Licence Applications over 14.6 million acres in the McArthur Basin, Northern Territory, Australia, which is considered prospective for oil and gas shale.

Empire Energy holds a US$200 million credit facility with Macquarie Bank Limited, which can be utilised for the acquisition and development of oil and gas assets in the USA. This facility has around US$41m of the debt facility currently drawn.

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Financial Terminology

Statements in this announcement may make reference to the terms “EBITDAX”, Field EBITDAX, “field netback” or “netback”, “cash flow” and “payout ratio”, which are non-IFRS financial measures that do not have any standardised meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Investors should be cautioned that these measures should not be construed as an alternative to net income calculated in accordance with IFRS. Management believes that these measures provide useful information to investors and management since these terms reflect the quality of production, the level of profitability, the ability to drive growth through the funding of future capital expenditures and sustainability of either debt repayment programs or distribution to shareholders. However, management have attempted to ensure these non-IFRS measures are consistent with reporting by other similar E&P companies so useful production and financial comparisons can be made.

Note regarding Barrel of Oil Equivalent

Empire Energy has adopted the standard of 6 Mcf to 1 Bbl when converting natural gas to Boe. Boe may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf to 1 Bbl is based on energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a Boe conversion ratio of 6 Mcf to 1 Bbl would be misleading as an indication of value.

Note Regarding Forward- Looking Statements

Certain statements made and information contained in this press release are forward-looking statements and forward looking information (collectively referred to as “forward-looking statements”) within the meaning of Australian securities laws. All statements other than statements of historic fact are forward-looking statements.

Glossary

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

Changes to Lease holdings 1 January 2014 through 30 June 2014

Expired

State	Type	Operator	Empire ID	WI	NRI	Acres	Maturity	Status	Formation
NY	O&G	Empire Energy E&P, LLC	310990324	1.00	0.8438	152.3	25/05/2014	Expired	All Horizons
NY	O&G	Empire Energy E&P, LLC	310990325	1.00	0.8438	51.5	25/05/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630019	1.00	0.8500	320	10/05/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630020	1.00	0.8500	-	10/05/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150630021B	1.00	0.8650	160	31/05/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150650003	1.00	0.8750	80	12/04/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150650004	1.00	0.8750	-	12/04/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	150650005	1.00	0.8750	-	12/04/2014	Expired	All Horizons
KS	Farmout	Empire Energy E&P, LLC	150790006	0.90	0.7425	280	22/05/2014	Expired	All Horizons, Except Mississippian
KS	Farmout	Empire Energy E&P, LLC	150790007	0.90	0.7425	80	22/05/2014	Expired	All Horizons, Except Mississippian
KS	Farmout	Empire Energy E&P, LLC	150790008	0.90	0.7425	80	22/05/2014	Expired	All Horizons, Except Mississippian
KS	Farmout	Empire Energy E&P, LLC	150790009	0.90	0.7425	120	22/05/2014	Expired	All Horizons, Except Mississippian
KS	O&G	Empire Energy E&P, LLC	151510004	0.99	0.8126	68	5/06/2014	Expired	All Horizons
KS	O&G	Empire Energy E&P, LLC	151650002	1.00	0.8750	160	27/04/2014	Expired	All Horizons

New

State	Type	Operator	Empire ID		NRI	Acres	Maturity	Status	Formation
NY	O&G	Empire Energy E&P, LLC	310990617	1.00	0.8438	209.8	26/05/2019	Leased, DelayRental	All Horizons
NY	O&G	Empire Energy E&P, LLC	310990619	1.00	0.8750	184.4	4/06/2019	Leased, DelayRental	All Horizons
KS	O&G	Empire Energy E&P, LLC	150510020	1.00	0.8750	320	24/02/2015	Leased, Paid Up	All Horizons
KS	O&G	Empire Energy E&P, LLC	151650003	1.00	0.8750	160	24/02/2015	Leased, Paid Up	All Horizons
KS	O&G	Empire Energy E&P, LLC	151670029	1.00	0.8750	80	5/02/2015	Leased, Paid Up	All Horizons