EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

DECEMBER 2014 ANNUAL REPORT

CONTENTS

CORPORATE DIRECTORY

Directors
B W McLeod (Executive Chairman)
D H Sutton
K A Torpey

Registered Offices
Australian Office
Level 7
151 Macquarie Street
Sydney NSW 2000

US Office
380 Southpointe Boulevard
Suite 130
Canonsburg PA 15317

Auditors
Nexia Australia
Level 16,1 Market Street
Sydney NSW 2000

US Auditors
Schneider Downs & Co. Inc
One PPG Place, Suite 1700
Pittsburgh PA 15222

Share Registry
Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Telephone: 1300 85 05 05

Bankers
Macquarie Bank Limited
50 Martin Pace
Sydney NSW 2000

Australia & New Zealand Banking Group Limited
242 Pitt Street
Sydney NSW 2000

PNC Bank

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

Reed Smith LLP
599 Lexington Ave
New York NY 10022

Stock Exchange Listings

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

ASX Code: EEG - Ordinary Shares

United States of America
New York OTCQX 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. 2014 OVERVIEW

USA

- Revenue $23.4 million. (2013: $25.4 million)
- Operating EBITDAX $11.8 million. (2013: $15.5 million)
- Gross oil production 240,200 Bbls (Net 154,900 Bbls). (2013: Gross 256,500 Bbls)
- Gross natural gas production 2.4 Bcf (Net 1.9 Bcf). (2013: Gross 2.5 Bcf)
- Average 2014 net production 1,291 Boe/d. (2013: 1,347 Boe/d)
- 2P reserves increased by ~40% to 14.3 MMBoe (2013:10.3 MMBoe) producing an NPV10 of $87 million at NYMEX Strip as at December 31, 2014.
- Over 2014 the Company has drilled and completed 21 wells, 12 in New York (0 dry wells) and 9 in the Mid-Con (2 dry wells) for a 95% success rate.
- The current environment for E&P companies is very challenging, but this has presented opportunities to expand production, increase development assets and offer alternatives to enhance operating efficiencies. On this basis the Company is:
    - Seeking to further aggregate joint venture acreage in northern Oklahoma and also to drill up to 4 joint venture wells over 2015. At current pricing and costs a typical Mississippian vertical well generates an IRR ~30%.
    - In negotiation with several partners with attractive farm-in structures.
    - Reviewing opportunities to increase production and development assets through acquisition.
- The Company recognised a non-cash impairment charge of ~$9.8 million, after tax, on its 2014 full year accounts. The impairment charge relates to the historic book value of USA oil and gas assets and is based on the NYMEX Strip as at December 31, 2014. Over the same period the Company recognised an after tax gain of ~$6.9 million on its hedging contracts which will be realised over the next 3 years.

AUSTRALIA

- A Prospective Resource P(50) estimate for the Company's McArthur Basin tenements was announced in early 2015. Refer to below.
- Negotiations with Traditional Owners and potential joint venture partners continue for the Company's tenements in the McArthur Basin, Northern Territory Australia.
- Finalisation of negotiations and agreement for EP 187, awarded in early 2015.
- Drilling of four exploration core holes in EP 184 in the McArthur Basin.
- Completion of the first stage of Risk Segment Mapping over the Company's McArthur Basin Tenements.

Executive Chairman's Review of Operation (Continued)

B. OPERATIONS

The Company maintains a small head office in Australia and manages the oil and 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 Oil & Gas Pty Ltd. Operations over 2014 and events since Balance Date can be summarised as follows:

- Current production is 1,291 Boe/d (~60% oil by revenue). Overall production decreased by around 4% for the year.

- The Company's annual drilling program is to drill at least 5 to 10 wells per year.

- In December 2014 the Company announced its 50/50 Joint Venture ('JV') with Raya Group Limited for the acquisition and development of acreage in Northern Oklahoma. The Companies propose to undertake a low cost, vertical drilling program targeting Mississippi Lime and Wilcox formations. The JV provides Empire the ability to consolidate a larger contiguous acreage position allowing for more efficient development through economies of scale and cost sharing. The initial target for the acquisition is +9,000 net acres. The JV agreement was signed on January 29, 2015.

- The Company's focus will be to drill and complete new wells in its Mississippi Lime play in northern Oklahoma. At current prices a typical well drilled in the Mississippi chert is expected to produce a +30% IRR.

- The Company is continuing negotiations for additional opportunities such as acreage and production acquisitions, joint ventures and farm-in's to increase production with an emphasis on the Mid-Con region and a focus on oil production.

- Landowner negotiations continue for the 14.6 million acres of shale formations secured onshore, in the McArthur Basin, Northern Territory, Australia. The first of the Company's exploration permits EP184 was granted in August 2013. EP187 was approved by aboriginal landowners in late 2013 with formal grant of the Exploration Permit by the Northern Territory Government in March 2015.

- In December 2014 New York State Governor Cuomo announced his intention to prohibit large-scale hydraulic fracturing in New York. The State Department of Environmental Conservation ('DEC') has not yet issued its report on which the Governors decision was made and the moratorium on fracking in New York State remains in place. To formalise the New York State position on high volume fracking the DEC is required to issue a final Supplemental Generic Environmental Impact Statement, that Commissioner Joseph Martens says should be completed by the end of March 2015. The document is expected to be closely scrutinized by fracking supporters, looking very closely for ways to legally challenge the fracking ban. The Company is currently reviewing avenues to recover value for what it believes is its right to develop its oil and gas shale resources in good faith.

- On March 20, 2015 the Federal Government released its guidelines for fracking on Federal Lands through the USA, including New York State. There is no indication how Federal approvals throughout the USA reconciles with a fracking ban in New York State.

Executive Chairman's Review of Operation (Continued)

C. OPERATIONS REVIEW – USA

TABLE A

Operating Statistics				
(Units in thousands)	Notes	Dec 31, 2014	Dec 31, 2013	% change
Gross Production:				
Oil (MBbls)		240.23	256.52	-6%
Natural gas (MMcf)		2,427.75	2,526.51	-4%
Net Production:				
Oil (MBbls)		154.96	164.48	-6%
Natural gas (MMcf)		1,898.36	1,962.11	-3%
Net production (MBoe):	1.0	471.35	491.50	-4%
Net Daily Production (Boe/d):		1,291	1,347	-4%
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$84.90	$85.89	-1%
Natural gas ($/Mcf)		$ 5.00	$ 5.37	-7%
Oil Equivalents (Boe)		$48.04	$50.20	-4%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$87.42	$91.18	-4%
Natural gas ($/Mcf)		$ 3.93	$ 3.77	4%
Oil Equivalents (Boe)		$44.57	$45.56	-2%
Lifting Costs (incl taxes):	1.1			
Oil ($/Bbl)		$28.20	$24.04	17%
Natural gas ($/Mcf)		$ 2.11	$ 1.73	22%
Oil Equivalents (Boe)		$17.76	$14.96	19%
2P Reserves (MMBoe):		14.3	10.3	39%

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.

Executive Chairman's Review of Operation (Continued)

D. NET PRODUCTION BY REGION - USA

TABLE B

Operating Statistics				
(In thousands)	Notes	Dec 31, 2014	Dec 31, 2013	% change
Oil (MBbls)				
Appalachia		3.41	3.64	-6%
Mid-Con		151.55	160.84	-6%
Total (MBbls)		154.96	164.48	-6%
Natural Gas (MMcf)				
Appalachia (MMcf)		1,880.81	1,947.78	-3%
Mid-Con		17.55	14.33	22%
Total (MMcf)		1,898.36	1,962.11	-3%

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 of Empire Energy Group, 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.

Executive Chairman's Review of Operation (Continued)

- 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

At the time of this EBITDAX report, actual numbers for production, income and expenses have been utilised. This method therefore generates an additional difference between what is shown in the EBITDAX and what is represented in the statutory accounts.

EBITDAX in Table C below and Net Earnings in Table D which follow, report operational activities of Empire Energy Group. The table below provides a reconciliation to the financial statements.

Net Earning - Effective Date		
(In $ thousands)	Dec 31, 2014	Dec 31, 2013
Net Earnings- production date	$(3,088)	$369
Net Earnings- effective date	$(2,336)	$535
Intergroup management fee	$150	$150
Revenue and expenses (remaining Empire Group)		
Other Income	$18	$216
Other Income*	-	$38
Finance Income	$6,616	-
Impairment of assets*	$(13,995)	$(33)
General and administration – head office	$(18)	$(216)
General and administration – other*	$(368)	$(400)
Finance costs – other*	-	$(2,177)
Other expenses	-	-
Net loss before income tax expense	$(9,933)	$(1,887)
* ***Indicates non-cash items***		

Executive Chairman's Review of Operation (Continued)

TABLE C

Operations (In $ thousands)	Notes	Dec 31, 2014	Dec 31, 2013	% change
Net Revenue:				
Oil Sales	1.0	$13,156	$14,126	-7%
Natural gas Sales	1.0	$9,466	$10,522	-10%
WI Income		$23	$24	-4%
Net Admin Income	1.1	-	$453	-100%
Other Income		$740	$256	189%
Net Revenue		$23,385	$25,381	-8%
Production costs:				
Lease operating expenses - Oil		$3,741	$3,363	11%
Lease operating expenses - Gas		$3,384	$2,895	17%
Taxes - Oil		$629	$575	9%
Taxes - Natural gas	1.2	$617	$487	27%
Total		$8,371	$7,320	14%
Field EBITDAX		**$15,014**	**$18,061**	-17%
Gross Margin		*64.2%*	*71.2%*	
Less:				
Inventory Adjustment	1.3	$163	$(235)	-169%
Reserve Enhancements	1.4	$347	$417	-17%
Nonrecurring expenses	1.5	$1,646	$1,345	22%
G&G Costs		$118	$10	1,080%
Non Field F&A	1.6	$720	$720	0%
Delayed Rental Payments		$260	$314	-17%
		$3,254	$2,571	27%
Operating EBITDAX		**$11,760**	**$15,490**	-24%
Operating Margin		*50.3%*	*61.0%*	
Less:				
Field G&A	1.7	$694	$796	-13%
Corporate G&A	1.8	$1,801	$1,492	21%
Acquisition related expenses	1.9	$661	$255	159%
Land & Leasing Costs	1.10	$8	$288	-97%
Head Office Net G&A	1.11	$1,387	$1,367	1%
		$4,551	$4,198	8%
EBITDAX		**$7,209**	**$11,292**	-36%
Net Margin		*30.8%*	*44.5%*	

Executive Chairman's Review of Operation (Continued)

Notes to Table C:

1.0 **Oil and Natural gas Sales** –includes realised net hedges of $1.6 million for natural gas and oil.

1.1 **Net Admin Income –** as operator for approximately 99% of the Company's assets, the Company charges Working Interest Owners a fee to cover expenses such as administration, general insurance and supervision etc., generally known as COPAS expenses. As part of this cost there is a profit 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, 2014.

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. These costs were higher than budgeted with nonrecurring costs expected to decline over 2015 as well maintenance programs are completed. The environment of lower oil prices makes it difficult to achieve an adequate payback on future well upgrades.

1.6 **Non Field F&A** – 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.

1.7 **Field G&A** - Empire Energy has field offices in each region it operates. In logistical terms operations are intensive with over 2,000 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, reservoir engineering reviews etc.

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, financial control, reporting and HR Services. Major expenses for the period were - salaries and wages $296,533; audit/tax and accounting $376,081; travel and accommodation $200,520; rent and accommodation costs $152,313; Professional Services $176,517 and Management and Director fees $329,650 (of which $150,000 was paid to Empire Energy Group Limited).

1.9 **Acquisition related expenses** – Directly associated with acquisitions and include legal, tax and accounting advice, transition fees, recruitment and relocation costs and engineering expenses. These are driven by the acquisitions that have been bid on or that are currently in progress or negotiation. Several acquisitions and/or potential mergers which were developed over 2014 continue under negotiations.

1.10 **Land & Leasing Costs** – costs related to land leasing expenses for new leases and renewals.

1.11 **Head Office (Australian) Net G&A** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants $449,452; salaries $290,127; audit & accounting $124,016; listing related expenses $99,398; rent, communications, IT hardware and support services $180,952.

Executive Chairman's Review of Operation (Continued)

F. NET EARNINGS

TABLE D

Net Earnings				
(In $ thousands)		Dec 31, 2014	Dec 31, 2013	% change
EBITDAX		**$7,209**	**$11,292**	**-36%**
Geological Services		$35	$41	-15%
Capital Raising Expenses	1.12	$595	-	100%
Dry Hole Expenses		$443	$729	-39%
Exploration - Australia		$461	$1,303	-65%
		$1,534	$2,073	-26%
EBITDA		**$5,675**	**$9,219**	-38%
Less:				
ARO, accretion expenses		$567	$957	-41%
Depn, depletion & amortisation		$6,009	$5,360	-12%
		$6,576	$6,317	4%
EBIT		**$(901)**	**$2,902**	N/A
Interest		$2,187	$2,533	-14%
Net Earnings		**$(3,088)**	**$369**	N/A

Notes to Table D:

1.12 Over 2014 the Company commenced a capital raising program in the USA. A prospectus was lodged mid-year 2014. Due to market conditions the raising was not pursued, however the Company is now PCAOB compliant to enable a capital raising in the future.

G. CAPITAL EXPENDITURE

Capex			
(In $ thousands)	Dec 31, 2014	Dec 31, 2013	% change
Acquisitions	$(1,252)	$6	n/a
New wells - IDC	$2,392	$4,021	-41%
New wells - well head equipment	$1,066	$507	110%
Undeveloped Leases	$1,211	$(1,212)	200%
Exploration - Australia (EP 184)	$1,490	-	n/a
	$4,907	**$3,322**	**48%**

Expenditure: A total of 9 wells were drilled in Kansas of which 6 had been bought on line by the end of 2014, 2 wells drilled were dry and were plugged and abandoned. A total of 12 wells were drilled in Appalachia in the newly identified Emerald Oil Field. The wells were due to be bought on line in early 2015, but due to the recent very cold winter the wells were covered in over 10 feet of snow. The wells should now be bought on line in April 2015.

Executive Chairman's Review of Operation (Continued)

H. CREDIT FACILITY

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2014 was $42.5 million (cf $41.7 million at Dec 2013) at an average rate of LIBOR+4.2%. Principal repayments made in 2014 and 2013 were ~$3.7 million and ~$7.7 million respectively. Over 2014 Empire made drawdowns totalling $3.5 million for drilling. Interest expense is estimated to average $160,000/mth over 2015. The Company has exceeded the minimum cumulative payment obligation through the maturity date of the credit facility.

I. HEDGING

Due to the 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.

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2015	1,790,000	1,166,000	65.1%	$5.45	133,280	98,160	73.6%	$90.00
2016	1,730,000	1,305,000	75.4%	$4.35	126,000	42,000	33.3%	$85.67
2017	1,675,000	1,068,000	63.8%	$4.05	119,500	39,600	33.1%	$85.23
2018	1,620,000	1,008,000	62.2%	$4.11				
2019	1,550,000	491,500	31.7%	$3.45				
Total	8,365,000	5,038,500	60.2%	$4.40	378,780	179,760	47.5%	$87.94

The fair value (marked to market) of combined oil and gas hedges in place as at December 31, 2014 was $9.9 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2014.

Executive Chairman's Review of Operation (Continued)

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, 2014 – USA (NYMEX Strip Dec 31, 2014)

Reserves - As of Jan 1, 2015	Oil (Mbbls)	Gas (MMcf)	MBoe	Gross Wells	Capex US$M	PV0 US$M	PV10 US$M
Region (Reserves) - USA							
Proved Developed Producing	1,792	26,716	6,245	2,108	$0	$107,097	$45,549
Proved Developed Non-producing	324	26	328	45	$2,334	$12,733	$5,471
Proved Behind Pipe	0	38	6	1	$31	$92	$25
Proved Undeveloped	387	2,143	744	76	$11,871	$10,273	$2,211
Total 1P	**2,503**	**28,923**	**7,323**	**2,230**	**$14,236**	**$130,195**	**$53,256**
Probable	2,925	24,174	6,954	265	$70,699	$143,599	$33,404
Total 2P	**5,428**	**53,097**	**14,277**	**2,495**	**$84,935**	**$273,794**	**$86,660**
Possible	1,436	3,820	2,072	234	$28,811	$37,587	$7,943
Possible - Shale (NY)	90,740	12,600	92,840				
Total 3P	**97,604**	**69,517**	**109,189**	**2,729**	**$113,746**	**$311,381**	**$94,603**
Prospective Resource P(50) - Australia (NT)	198,000	9,891,000	1,846,500				
Prospective Resource P(50) - Shale (NY)	0	1,220,800	203,467				
Total Reserves & Resources	**295,604**	**11,181,317**	**2,159,156**		**$113,746**	**$311,381**	**$94,603**

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.
- 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.

Executive Chairman's Review of Operation (Continued)

- "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) - Ralph E. Davis Associates, Inc.
    - Kansas (Mid-Con) - LaRoche Petroleum Consultants Ltd.
    - 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, 2014, was used to calculate reserves and cash flow:

Year	$/Bbl	$/Mcf
2015	56.26	3.03
2016	62.63	3.46
2017	66.55	3.76
2018	68.50	3.96
2019	69.75	4.12
2020	70.58	4.25
2021	71.28	4.37
2022	71.57	4.49
2023	71.62	4.61
2024	71.62	4.69

Executive Chairman's Review of Operation (Continued)

Reconciliation of Reserves – USA (NYMEX Strip Dec 31, 2014)

Net Reserves/Resources - Mboe	1P	2P	3P	Prospective (P50)**
As at January 1, 2014				
Appalachia [(2)]	5,322	6,575	95,589	203,467
Mid-Con	3,087	3,754	4,122	
TOTAL	**8,409**	**10,329**	**99,711**	**203,467**
Production				
Appalachia	-311			
Mid-Con	-155			
Changes[(1)]				
Appalachia	133	-5	5,761	-
Mid-Con	-753	3,954	3,718	-
As at January 1, 2015				
Appalachia [(2)]	5,144	6,570	101,350	203,467
Mid-Con	2,180	7,708	7,840	
Northern Territory	-	-	-	1,846,500[(3)]
TOTAL	**7,324**	**14,278**	**109,190**	**2,049,967**

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

(2) Includes shale reserves although proposed fracking ban in NY State affect approximately 95% of the Company's leases. These reserves have been included but with zero value. On the 28 January 2015 the DEC Commissioner informed the public that the planned ban on large-scale fracking can be revisited by the State at any time, but likely won't be in the near future. The Company does not expect this to happen in the short to medium term. Wells within the defined Marcellus oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. A conservative 3% recovery factor was utilised.

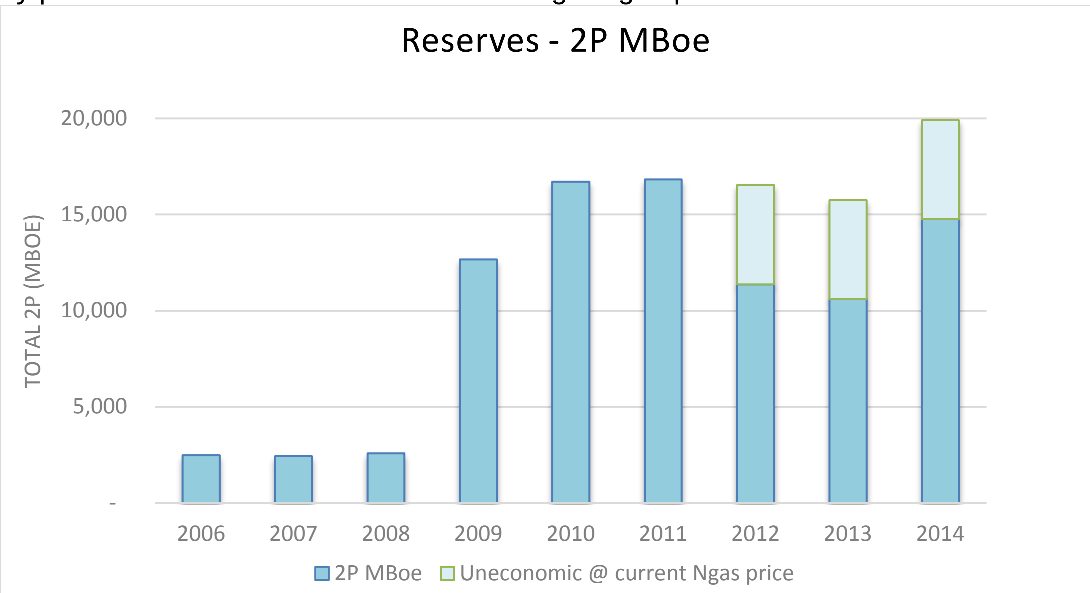
1P, 2P & 3P are calculated on a deterministic basis with applicable volumes are measured at the wellhead.

(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 1,846 MMBoe, unrisked. Prospective resources are as yet undiscovered and as such carry significant exploration risk. The degree of uncertainty is 'most likely'.

** Unrisked - this estimate of prospective petroleum resources must be read in conjunction with the cautionary statement on page13.

Executive Chairman's Review of Operation (Continued)

Net 2P Reserves: An updated Reserve Estimate was carried out as of December 31, 2014 at the NYMEX strip as at December 31, 2014. An updated summary of 2P Reserves is shown below. Total 2P reserves are 14.3 MMBoe. Due to the extended payback of conventional gas wells drilled and completed in the Appalachia region, most natural gas reserves have been excluded. This resulted in a right down of approximately 5 MMboe. These reserves are mainly held by production and will be written back at higher gas prices.



In 2012 30.9MMcf Appalachia Natural gas placed into contingent category due to marginal profitability at current prices

Reconciliation of Economic Summary Projections – USA (NYMEX Strip Dec 31, 2014)

Reserves - PV10	1P	2P	3P
As at January 1, 2014			
Appalachia (2)	$28,866	$39,036	$43,557
Mid-Con	$76,145	$91,919	$100,494
Hedging	$4,123		
TOTAL	**$109,134**	**$130,955**	**$144,051**
Sales 2014			
Appalachia	-$7,617		
Mid-Con	-$13,151		
Hedges Realised	-$1,636		
Changes (1)			
Appalachia	$2,873	-$9,207	-$6,272
Mid-Con	-$33,860	-$35,088	-$43,176
Hedging	$7,422		
As at January 1, 2015			
Appalachia (2)	$24,122	$29,829	$37,285
Mid-Con	$29,134	$56,831	$57,318
Hedging	$9,909		
TOTAL	**$63,165**	**$86,660**	**$94,603**

(1) Includes changes in strip prices, acquisitions, divestments, discoveries, extensions and revisions.
(2) Excludes any value attributable to shale reserves.

Executive Chairman's Review of Operation (Continued)

Land Position

The following table summarises the Company's land holdings in the Northern Territory Australia and the Appalachia and Mid-Continental regions in the United States as at December 31, 2014.

							Expiry			
State	**Total**	**HBP**	**Marcellus**	**Utica**	**Miss**	**CKU**	**2015**	**2016**	**2017**	**2018+**
	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac	Net Ac
NY	265,806	224,589	235,191	130,642	-	-	13,638	5,420	17,075	4,886
PA	15,727	15,552	8,543	7,058	-	-	125	-	-	50
OK	3,337	3,337	-	-	3,337	-	-	-	-	3,337
KS	20,899	20,019	-	-	2,100	17,919	480	-	-	-
NT	~14,600,000									
TOTAL	14,905,769	263,497	243,734	137,700	5,437	17,919	14,243	5,420	17,075	8,273

Miss. = Mississippi Lime
CKU = Central Kansas Uplift:
Arbuckle
Simpson
Viola
Lansing/Kansas City

K. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY

In 2010 Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas ("Imperial"), completed a regional opportunity screening program and proactively 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 central trough of the Proterozoic McArthur Basin.

The McArthur Basin is an underexplored petroleum frontier basin with direct positive indications of oil & gas. Exploration wells drilled in the nearby Southern McArthur Basin in 2012 discovered gas in the same thick carbon-rich black proliferous shales that are widespread in Imperial's acreage.

Estimated Potential Resource

The Company has completed its initial stage of delineating a prospective resource in its Northern Territory McArthur 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, reinterpretation of existing seismic, assaying of core and 3D geological modelling of the basin. Based on this data, the Company has had completed an independent Prospective Resource P(50) estimate of 1,846 MMBoe, unrisked.

2014 Work Program

Over 2014 Imperial drilled four exploration core holes in the St Vidgeon region of Northern EP184. The drilling was done to ascertain if the shale-bearing formations in the region contain petroleum source rocks of sufficient quality to generate potentially recoverable hydrocarbon reserves. The drilling confirmed that the St Vidgeon Formation contains carbonaceous black

Executive Chairman's Review of Operation (Continued)

shale. Calculations indicate the original TOC content of the St Vidgeon organic shale encountered was in the order of up to 3.85%.

Land access agreements to progress grant approvals for the tenements EP(A) 180, 181, 182 and 183 have advanced with the Traditional Owners and the Northern Land Council (NLC). With final agreement for tenements EP(A) 180, 181 and 182 now expected by the end of 2015.

Formal granting of EP187 by the Department of Mines and Energy occurred in March 2015.

Ongoing Exploration program

Although affected by international commodity markets, Imperial is continuing to develop plans for its Northern Territory acreage, including:

- Planning an exploration program for EP187. This will include, the reinterpretation of all available seismic data across this exploration permit as well as all available geomagnetic, electromagnetic and digital elevation data. Where available data from historical bore holes will be reviewed and reinterpreted in light of more recent available data.

- Continued field mapping and shale sampling along key outcrop intervals to further constrain the petroleum potential of the prospective Barney Creek and the Velkerri Formation.

- Continue the development of the Tenements Lead & Prospect Inventory including identifying drilling targets in areas proximal to existing live oil and gas shows or finds and to existing gas pipeline infrastructure and/or right of ways. Such targets will be further quantified and ranked as drilling candidates.

- Ongoing hydrology and mapping studies.

- Due to the scale and the potential of the McArthur Basin to provide a source of natural gas to the expanding LNG industry the Company is seeking a potential partner/s to develop the project over the medium to long term.

Competent 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*
William Kazmann	*LaRoche Petroleum Consultants, Ltd*	*MSc*	*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 2014

In respect of the financial year ended 31 December 2014, 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 loss of the Empire Group for the financial year ended 31 December 2014 after providing for income tax was US$4,753,285 compared to a consolidated net loss for the previous corresponding reporting period of US$2,263,197.

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 18 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.

Directors' Report
for the year ended 31 December 2014

MATTERS SUBSEQUENT TO BALANCE DATE

1) Joint Venture with Raya Group
In February 2015 the Company entered into a Joint Venture with Raya Group Limited. The Joint Venture allows both parties to jointly identify, acquire and develop oil and gas leases in an area of mutual interest in Northern Oklahoma, USA.

2) Exploration Permit
Exploration Permit EP187 in the Northern Territory was formally granted by the Northern Territory Government in March 2015.

There were no other matters or circumstances that have arisen since 31 December 2014 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2014, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2014 of the Empire Group.

INFORMATION ON DIRECTORS

Bruce William McLeod, B.Sc (Maths), M.Com (Econ) Age 62
Executive Chairman

Experience and Expertise
Mr McLeod has had extensive experience in the Australian capital markets. Over the past 20 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 Mayan Iron Corporation Ltd.

Former Directorships in Last 3 Years
None.

David Henty Sutton, B.Com ACIS Age 71
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 an Executive Director of 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
Chairman of Silver Mines Limited, EHG Corporation Ltd, Precious Metals, Sinovus Mining Limited, and Dayton Way Financial.

Former Directorships in Last 3 Years
AAT Corporation Limited.

Directors' Report
for the year ended 31 December 2014

Kevin Anthony Torpey, B.E., MIE Aus., CP Eng, FAusIMM, (CP) Age 76
Non-Executive Director

Experience and Expertise
Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 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 & CEO, 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 32 years of technical 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 the Director of Sydney-based Petroleum Exploration Business Consultancy Insight Exploration and he maintains a strong global executive network.

Dr Warburton's extensive operated & non-operated petroleum expertise covers the Middle East, Kazakhstan, Azerbaijan, North & West Africa, Pakistan, Europe, Australia, New Zealand, PNG, SE Asia, China, Korea and Japan. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 28 internationally recognised technical articles with particular focus on petroleum exploration 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 geology; Dip TAA, Cert IV Bus Mgmt.; Cert IV TAA
Explorations & Operations, Imperial Oil & Gas Pty Ltd
Mr Hokin holds the qualifications of Master Science (Honours) in Geology (exploration, and basin setting and analysis). He has 12 years' experience as an exploration geologist in the unconventional gas and coal sectors with

Directors' Report
for the year ended 31 December 2014

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 business experience to Company Director level in other operations.

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	16	16	-	-	2	2
Mr D H Sutton	16	16	2	2	2	2
Mr K A Torpey	16	16	2	2	2	2

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 H 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 twice during the period and Committee member's attendance record is disclosed in the table of Directors Meetings shown above.

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

Directors' Report
for the year ended 31 December 2014

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 2014	**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	377,322	72,148***	44,480	-	-	86,901	580,851
K A Torpey	18,058	-	-	1,625	-	10,085	29,768
D H Sutton	-	-	-	18,058	-	10,085	28,143
J Warburton	96,265	-	-	-	-	-	96,265
Empire Energy Executives							
A Boyer	168,000	6,650	48,852	-	-	16,972	240,474

** 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 $124,043 the non-cash loss on options relating to the above directors that expired over the year was $54,868. The net non-cash cost of options issued to the above directors and executives for the year was $69,175.
*** Under the terms of the existing performance plan Mr B W McLeod would have been eligible for a payment of $72,148 in 2014 based on the increase in 2P reserves. Due to the current conditions of the energy industry, the Company and Mr McLeod have agreed to defer the payment for a period of 12 months, or until an earlier time when both the Remuneration Committee and Mr McLeod agree that conditions are suitable for the performance payment to be granted in part or in full.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2013	**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	385,237	-	58,520	-	-	151,981	595,738
K A Torpey	19,359	-	-	1,742	-	26,134	47,235
D H Sutton	-	-	-	19,359	-	26,134	45,493
J Warburton	275,763	-	-	-	-	-	275,763
Empire Energy Executives							
A Boyer	173,000	-	46,667	-	-	18,104	237,771

** 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 $222,353 the non-cash loss on options relating to the above directors that expired over the year was $131,116. The net non-cash cost of options issued to the above directors and executives for the year was $91,237.

Service Agreements

Remuneration and other 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:

Directors' Report
for the year ended 31 December 2014

Terms of the agreement:

- Base salary of A$417,900 per annum to be reviewed at least 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 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 6,500,000 executive options to acquire ordinary shares were granted to Directors and specified executives of the Company. 3,000,000 executive options were granted to a Director following the approval of shareholders at an annual general meeting of members of the Company held on 30 May 2014. In addition 3,500,000 executive options were granted to specified executives of the Company.

All options were issued pursuant to the Company's Employee Share Option Plan which provides vesting restrictions based on minimum term of employment conditions.

At the date of this report there were 12,500,000 unissued shares held under option to Directors and specified executives. These options are exercisable of the following basis:

Number		Exercise Price A$	Expiry Date
1,500,000	Executive options	$0.18	31 December 2015
4,500,000	Executive options	$0.17	31 December 2015
3,500,000	Executive options	$0.15	31 December 2016
1,500,000	Executive options	$0.17	31 December 2016
1,500,000	Executive options	$0.18	31 December 2016
12,500,000			

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	165,239	-	7,073,126	6,000,000
D H Sutton	438,301	-	194,999	-
K A Torpey	118,055	-	2,073,394	-

End of Audited Remuneration Report

SHARE OPTIONS

Movements

Grant of Options

During the financial year 6,500,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions. The options were granted on the following terms:

Directors' Report
for the year ended 31 December 2014

No. of Options	Executive Options	Exercise Price A$	Expiry Date
3,500,000	executive options	$0.15	31 December 2016
1,500,000	executive options	$0.17	31 December 2016
1,500,000	executive options	$0.18	31 December 2016

During the financial year 4,250,000 options were granted to Macquarie Bank Limited as a component for amending the existing terms of the Company's credit facility. The unlisted options are exercisable at A$0.12 and expire 26 February 2016.

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
6,500,000 unlisted options exercisable at A$0.35 were not exercised by their expiry date of 31 December 2014 and as a consequence have lapsed.

During the financial year the following options lapsed due to the holder of the options not meeting the minimum terms of employment requirement under the Employee Share Option Plan:

500,000 unlisted options exercisable at A$0.35 prior to 31 December 2014 lapsed.
500,000 unlisted options exercisable at A$0.17 prior to 31 December 2015 lapsed.

At the date of this report the total number of unissued shares held under option was 16,750,000. These options are exercisable on the following terms.

Number		Exercise Price A$	Expiry Date
1,500,000	Executive options	$0.18	31 December 2015
4,500,000	Executive options	$0.17	31 December 2015
4,250,000	Macquarie Bank Limited	$0.12	26 February 2016
3,500,000	Executive options	$0.15	31 December 2016
1,500,000	Executive options	$0.17	31 December 2016
1,500,000	Executive options	$0.18	31 December 2016
16,750,000			

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' Report
for the year ended 31 December 2014

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 Chief Executive Officer and Chief Financial Officer

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Officer 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 2014 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 34 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*.

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 27 and forms part of the Director's Report for the financial year ended 31 December 2014.

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 31 March 2015

nexia australia

the next solution

AUDITOR'S INDEPENDENCE DECLARATION

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

31 March 2015

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 2014, 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 Court & Co

Nexia Court & Co.
Chartered Accountants

Robert Mayberry
Partner

Sydney Office
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

Corporate Governance Statement

OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council ("CGC").

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been adopted this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX best practice recommendations, the Company's corporate government practices are regularly reviewed and are available on the Company's website. www.empireenergygroup.net

Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations. This statement provides details of the Company's adoption of the best practice recommendations.

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

Board Responsibilities

The Board of directors is accountable to shareholders for the performance of the Company. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities are encompassed in a formal charter published on the Company's website. The charter is reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:
- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

Directors' Education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

Role of Chairman and Chief Executive Officer (CEO)

The Chairman is also the Chief Executive Officer and is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman is also responsible for implementing the consolidated entity's strategies and Board policies.

The Chief Executive Officer has been delegated responsibility for managing the day to day operations of the Empire Group.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the board of directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the responsibility of the board. Performance is assessed against pre-determined objectives on a regular basis.

Corporate Governance Statement

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and that shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

Composition of the Board

Currently the Board of Directors comprises three members, one executive non-independent Director, who is also the Chairman and Chief Executive Officer and two non-executive independent Directors, all of whom have a broad range of skills and expertise.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendations 2.2 and 2.3 which provides that the chair should be an independent Director and the role of the chair and CEO should not be exercised by the same individual.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be an independent chairman and a separate CEO.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the Empire Group in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of seven.

Details of the members of the board, their experience, expertise and qualifications are set out in the Director's Report on pages 20 to 22.

The position/status and term in office of each Director at the date of this report is as follows: -

Name of Director	Position/Status	Term in Office
Bruce McLeod	Executive Chairman – Non-Independent	18 years 4 months
David Sutton	Non-Executive – Independent	17 years 8 months
Kevin Torpey	Non-Executive – Independent	21 years 10 months

The Board currently holds up to 12 scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 16 times during the year and Directors attendance is disclosed on page 22 of the Directors' Report.

Access to independent professional advice

All directors are required to bring an independent judgment to bear on Board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

Nomination committee

The Company does not comply with recommendation 2.4 in that the board has not yet formed a separate nomination committee. All matters that would normally be responsibility of a nomination committee are dealt with by the full board of Directors.

The Company has not adopted recommendation 2.4 as the board considers that the Company and the board are currently not of sufficient size to justify the establishment of a separate nomination committee.

Corporate Governance Statement

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.
For directors retiring by rotation, the board assesses that director before recommending re-election.

Board performance evaluation

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Individual directors use an approved form to assess the performance of the Board and the Chairman.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for Empire Group's ethical practices. A copy of these documents has been posted on the Company's website.

Approach to diversity

The Board recognises the benefits of diversity at boards in senior management and within the organisation generally and recognises the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company has established a diversity policy which set out the beliefs, goals and strategies of the Company and makes reference to all the characteristics that makes individuals different from each other. The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. The Company is committed to gender diversity at all levels of the organisation. Gender equality is a key component of the Company's diversity strategy. The implementation of this policy aims to reflect both the circumstances of the Company and the industry in which it operates.

The Company's diversity policy includes a requirement that:

- the Board establish measurable objectives for achieving gender diversity; and
- the Board assess annually the objectives set for achieving gender diversity; and
- the Board assess annually the progress made towards achieving the objectives set.

In accordance with this policy and ASX corporate governance principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 3 to 5 years as Director and senior executive positions become vacant and appropriately skilled candidates are available. Representation of female employees in the organisation workforce is as follows:

	Actual at 31 December 2014		Empire Group Objective		Progress towards meeting objective	
	Number	Percentage	Number	Percentage	Number	Percentage
Whole organisation	11	18%	15	25%	3	73%
Senior Executive positions	3	30%	4	40%	-	-
Board	-	-	1	25%	-	-

A copy of the Company's diversity policy has been posted on the Company's website.

Corporate Governance Statement

Policy on dealing in Company securities

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the specific prohibition on insider trading Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

a. the release of the Empire Group's annual results to the ASX
b. the release of the Empire Group's half-year results to the ASX
c. the release of the Empire Group's quarterly cashflow and activities reports to the ASX
d. the annual general meeting
e. such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event)

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the Company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit Committee

The audit committee comprises of the full Board of Directors.

The committee met twice during the year under review.

The committee has adopted a formal charter, a copy of the formal charter is posted on the Company's website.
The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;

- monitoring corporate risk management practices;

- review and approval of the consolidated entity's accounting policies and procedures;

- reviewing external audit plans;

- reviewing the nomination, performance and independence of the external auditors; and

- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The audit committee has received confirmation in writing from the Chief Executive Officer and Chief Financial Officer that:

The Empire Group's financial statements for the financial year ended 31 December 2014 present a true and fair view in all material respects of the Empire Group's financial position and operational results and are in accordance with relevant accounting standards.

The structure of the audit committee does not comply with recommendation 4.2 in that it does not consist only of non-executive independent Directors and it is chaired by an independent chair who is not chair of the board.

The Board considers that the Company and the Board are not of sufficient size to warrant the establishment of a separate audit committee.

Corporate Governance Statement

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, Nexia Australia, were appointed in 1992. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Australia confirms that they conform with the requirements of the statement.

Nexia Australia are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

PRINCIPLE 5 – MAKING TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of the matters concerning the Company.

The Company has a written policy on information disclosure that focuses on ensuring compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. The Company Secretary is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

A copy of the Company's policy of continuous disclosure is posted on the Company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company has adopted a shareholder communication policy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Empire Group; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Empire Group.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

A copy of the Company's shareholder communications policy is posted on the Company's website.

The Company also posts corporate information in the Investor Section of its Company website at www.empireenergygroup.net

Corporate Governance Statement

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the Company's performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The chief executive officer and chief financial officer have stated in writing to the board that:

- The Empire Group's financial reports present a true and fair view in all material respects of the Empire Group's financial position and operating results and are in accordance with relevant accounting standards.

- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

- The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The board requires this declaration to be made bi-annually.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The Board has established a remuneration committee. The committee comprised the following members during the year:

Mr D Sutton – Independent Non-Executive
Mr K Torpey – Independent Non-Executive

Mr D Sutton is the Chairman of the remuneration committee.

The Company does not comply with recommendation 8.2 as the remuneration committee does not have at least three members. The Board considers that the function of the remuneration committee is not jeopardised by its current structure. The Board considers that the size of the Company does not warrant the appointment of additional members to the Remuneration Committee.

The committee has adopted a formal charter, a copy of the formal charter has been posted on the Company's website. The main responsibilities of the Remuneration Committee include:

- review and approve the Company's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

The committee met twice during the year and the Committee Members attendance record is disclosed in the table of Director's Meetings included in the Directors' Report at page 22.

Corporate Governance Statement

Executive Directors and Executive remuneration

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive directors

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Share Option Plan.

Further information on directors and executive remuneration is included in the audited remuneration report which forms part of the directors' report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Note	Year ended December 2014 US$	Year ended December 2013 US$
Revenue from continuing operations	5	23,570,157	25,886,370
Other income	6	898,141	681,667
		24,468,298	26,568,037
Expenses			
Oil and gas production		(12,130,866)	(11,328,681)
Exploration assets written off		(780,082)	(2,023,255)
Leasing expiration expenses	8	(188,518)	(152,379)
Impairment of assets	8	(13,995,331)	(33,470)
Depreciation, depletion and amortisation	8	(5,842,203)	(5,028,214)
General and administration		(5,305,912)	(4,470,650)
Finance costs	7	(2,021,849)	(2,232,176)
Finance costs (non-cash)	7	(709,755)	(3,158,384)
Finance income	7	6,615,916	-
Other Expenses		(42,807)	(28,265)
Loss before income tax expense from continuing operations		(9,933,109)	(1,887,437)
Income tax benefit/(expense)	9a	5,179,824	(375,760)
Loss after income tax expense from continuing operations		(4,753,285)	(2,263,197)
Other comprehensive income			
Loss on the revaluation of available-for-sale assets		(151,750)	(220,121)
Exchange differences on translation of foreign operations		(29,160)	(102,889)
Other comprehensive income for the year, net of tax		(180,910)	(323,010)
Total comprehensive income for the year		(4,934,195)	(2,586,207)
Loss for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(4,753,285)	(2,343,254)
Non-controlling interests		-	80,056
		(4,753,285)	(2,263,198)
Total comprehensive income for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(4,934,195)	(2,644,068)
Non-controlling interests		-	51,903
		(4,934,195)	(2,592,165)
		Cents per share	Cents per share
Basic earnings per share	29	(1.54)	(0.77)
Diluted earnings per share	29	(1.54)	(0.77)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Note	As at December 2014 US$	As at December 2013 US$
CURRENT ASSETS			
Cash and cash equivalents		3,092,991	2,322,720
Trade and other receivables	10	4,471,855	4,674,518
Prepayments	11	242,184	203,316
Inventories	12	611,002	995,610
Financial assets, including derivatives	13	6,558,148	2,327,334
Current income tax receivable		-	201,533
TOTAL CURRENT ASSETS		14,976,180	10,725,031
NON-CURRENT ASSETS			
Financial assets, including derivatives	13	5,157,977	3,493,532
Oil and gas properties	14	81,876,604	96,763,108
Property, plant and equipment	14	672,778	874,252
Intangible assets	15	68,217	68,217
TOTAL NON-CURRENT ASSETS		87,775,576	101,199,109
TOTAL ASSETS		102,751,756	111,924,140
CURRENT LIABILITIES			
Trade and other payables	16	5,771,978	5,746,774
Financial liabilities, including derivatives	17	-	542,633
Interest-bearing liabilities	18	41,776,843	41,099,354
Provisions	19	12,245	5,351
TOTAL CURRENT LIABILITIES		47,561,066	47,394,112
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	18	42,434	62,607
Provisions	19	7,953,969	7,788,880
Deferred income tax liability	9(e)	2,062,080	7,316,000
TOTAL NON-CURRENT LIABILITIES		10,058,483	15,167,487
TOTAL LIABILITIES		57,619,549	62,561,599
NET ASSETS		45,132,207	49,362,541
EQUITY			
Contributed equity	20	73,683,238	73,683,238
Reserves		4,441,130	3,932,889
Accumulated losses		(32,992,161)	(28,253,586)
Equity is attributable to:			
Equity holders of Empire Energy Group Limited		45,132,207	49,362,541
TOTAL SHAREHOLDERS' EQUITY		45,132,207	49,362,541

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 2014

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2013	73,683,238	284,291	108,810	3,539,788	(28,253,586)	49,362,541	-	49,362,541
Total Comprehensive income for year								
Profit after income tax from continuing operations	-	-	-	-	(4,753,285)	(4,753,285)	-	(4,753,285)
Exchange differences on translation of foreign operations	-	-	(29,160)	-	-	(29,160)	-	(29,160)
Gain on the revaluation available-for-sale investments, net of tax	-	(151,750)	-	-	-	(151,750)	-	(151,750)
Total comprehensive income for the year	**-**	**(151,750)**	**(29,160)**	**-**	**(4,753,285)**	**(4,934,195)**	**-**	**(4,934,195)**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Less: share issue transaction costs	-	-	-	-	-	-	-	-
Options lapsed in period, transferred to retained earnings	-	-	-	(14,710)	14,710	-	-	-
Options issued during the year – share-based payments	-	-	-	317,238	-	317,238	-	317,238
Warrants issued during the year	-	-	-	386,623	-	386,623	-	386,623
Total transactions with owners	**-**	**-**	**-**	**689,151**	**14,710**	**703,861**	**-**	**703,861**
Balance at 31 December 2014	**73,683,238**	**132,541**	**79,650**	**4,228,939**	**(32,992,161)**	**45,132,207**	**-**	**45,132,207**

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 2013

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2012	73,325,555	3,936,996	211,699	2,562,100	(30,576,059)	49,460,291	1,653,384	51,113,675
Correction to prior period balances	-	(3,712,200)	-	-	3,712,200	-	-	-
Balance at 31 December 2012 (restated)	**73,325,555**	**224,796**	**211,699**	**2,562,100**	**(26,863,859)**	**49,460,291**	**1,653,384**	**51,113,675**
Total Comprehensive income for year								
Profit after income tax from continuing operations	-	-	-	-	(2,343,254)	(2,343,254)	80,056	(2,263,198)
Exchange differences on translation of foreign operations	-	-	(102,889)	-	(5,956)	(108,845)	-	(108,845)
Gain on the revaluation available-for-sale investments, net of tax	-	(220,121)	-	-	-	(220,121)	-	(220,121)
Total comprehensive income for the year	**-**	**(220,121)**	**(102,889)**	**-**	**(2,349,210)**	**(2,672,220)**	**80,056**	**(2,592,164)**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	372,520	-	-	-	-	372,520	-	372,520
Less: share issue transaction costs	(14,837)	-	-	-	-	(14,837)	-	(14,837)
Options lapsed in period, transferred to retained earnings	-	-	-	(9,744)	9,744	-	-	-
Options issued during the year	-	-	-	461,514	-	461,514	-	461,514
Warrants issued during the year	-	-	-	424,929	-	424,929	19,685	444,614
Acquisition of non-controlling interest without change in control	-	279,616	-	100,989	949,739	1,330,344	(1,753,125)	(422,781)
Total transactions with owners	**357,683**	**279,616**	**-**	**977,688**	**959,483**	**2,574,470**	**(1,733,400)**	**841,030**
Balance at 31 December 2013	**73,683,238**	**284,291**	**108,810**	**3,539,788**	**(28,253,586)**	**49,362,541**	**-**	**49,362,541**

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 2014

	Note	Year ended 31 December 2014 US$	Year ended 31 December 2013 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		23,919,521	26,868,135
Payments to suppliers and employees		(16,938,010)	(17,696,844)
Interest received		3,916	3,087
Interest paid		(2,021,849)	(2,218,897)
Income taxes paid		127,436	568,610
Net cash flows from operating activities	28(b)	5,091,014	7,524,091
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of oil and gas assets		1,769,209	-
Proceeds from sale of investments in equity		-	250,580
Payments for oil and gas assets		(6,700,803)	(2,100,482)
Payments for property, plant and equipment		(95,233)	(1,152,845)
Payments for investments in equities		-	(89,480)
Net cash flows from investing activities		(5,026,827)	(3,092,227)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest bearing liabilities		4,500,603	-
Net proceeds from issuing of shares		-	(14,837)
Repayment of interest bearing liabilities		(3,736,186)	(7,731,600)
Finance lease payments		(20,173)	22,416
Distribution to non-controlling interests		-	(56,216)
Loan acquisition costs		-	(494,169)
Net cash flows from financing activities		744,244	(8,274,406)
Net increase in cash and cash equivalents		808,431	(3,842,542)
Cash and cash equivalents at beginning of financial year		2,322,720	6,189,192
Effect of exchange rate changes on cash and cash equivalents		(38,160)	(23,930)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	28(a)	3,092,991	2,322,720

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 2014

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"). Separate financial statements for Empire Group as an individual entity are no longer presented as the consequence of a change to the *Corporations Act 2001;* limited financial information for Empire Group, as an individual entity, is included in Note 32.

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 2014 was authorised for issue in accordance with a resolution of Directors on 31 March 2015.

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

Because of 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 2014 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 2014.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Those oil and gas reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest; and over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Empire Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 included 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

The Empire Group and its wholly-owned Australian resident entities are part of a tax-consolidated Empire Group. As a consequence, all members of the tax-consolidated Empire Group are taxed as a single entity from 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Correction of prior period balances

Empire undertook a review of its hedge accounting policy during the year and found that in order to comply with AASB 139 Financial instruments: Recognition and Measurement, any fair value gains and losses should be recognised in the statement of profit and loss at each reporting date where in previous periods, gains or losses were taken to equity. This error has been rectified by restating each of the affected financial statement line items to prior periods as follows:

	December 2013			December 2012		
Consolidated Statement of Financial Position (Extract)	**Previous Amount $000**	**Adjustment $000**	**Restated Amount $000**	**Previous Amount $000**	**Adjustment $000**	**Restated Amount $000**
Reserves	6,421	(2,488)	3,933	6,711	(3,712)	2,999
Accumulated losses	(30,741)	2,488	(28,253)	(30,576)	3,712	(26,864)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

	December 2013		
Consolidated Statement of Profit or Loss and Other Comprehensive Income (Extract)	**Previous Amount $000**	**Adjustment $000**	**Restated Amount $000**
Finance costs	(1,245)	(1,913)	(3,158)
Profit before income tax	**26**	**(1,913)**	**(1,887)**
Income tax expense	(1,065)	689	(376)
Loss for the period	(1,039)	(1,224)	(2,263)
Other comprehensive income for the year, net of tax	(1,547)	1,224	(323)
Total comprehensive income for the year	(2,586)	-	(2,586)
(Loss) for the year is attributable to:			
Equity holders of Empire Energy Group Limited	(1,119)	(1,224)	(2,343)
Basic earnings per share (cents)	(0.37)	(0.40)	(0.77)
Diluted earnings per share (cents)	(0.37)	(0.40)	(0.77)

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 2014. 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.

AASB 9 Financial Instruments, 2009-011 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase 1 of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured to amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value.

This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal

The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 January 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

New and Revised Standards that are effective for Annual Periods beginning on or after 1 January 2014

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets

Amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

AASB 2013-4 Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]

Amends AASB 139 *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

AASB 2013-7 Amendments to Australian Accounting Standards - Life Insurance Contracts

Amends AASB 1038 arising from AASB 10 *Consolidated Financial Statements* in relation to consolidation and interests of policyholders.

AASB1031 Materiality

Deletes all the previous Australian guidance in AASB 1031 on materiality, including the quantitative thresholds, and cross references the definition of 'material' to the *Framework for the Preparation and Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

AASB 1053 Application of Tiers of Australian Accounting Standards (Reduced Disclosure Regime)

This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:
i) Tier 1: Australian Accounting Standards
ii) Tier 2: Australian Accounting Standards -Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7, 2012-11, 2013-6 and 2014-2.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The amendment removes the requirements in AASB 124 to disclose individual KMP remuneration, equity holdings, loans, and other transactions and balances in relation to disclosing entities that are not companies.

AASB 2014-1 Amendments to Australian Accounting Standards

This Standard makes amendments to other Accounting Standards for:
A. *Annual Improvements to IFRSs 2010–2012 Cycle* and *Annual Improvements to IFRSs 2011–2013 Cycle* – applicable from 1 July 2014. Amendments relate to:

AASB 2 – clarifying vesting and non-vesting conditions in share-based payment arrangements;
AASB 3 – clarifies that contingent consideration in a business combination is accounted for at fair value through profit and loss;
AASB 8 – disclosure of the judgements used in applying the aggregation criteria and of segment assets;
AASB 3 – clarifies that business combination requirements do not apply to the formation of joint arrangements in the financial statements of the joint arrangement itself;
AASB 116/138 – clarification of proportionate restatement of accumulated depreciation on revaluation of property, plant and equipment and intangibles;
AASB 124 – clarification of KMP where an entity has a management entity/responsible entity;
AASB 13 - Clarification of the scope exemption for measuring the fair value of financial assets and liabilities on a portfolio basis;
AASB 3/140 – clarifying the interrelationship between AASB 3 and AASB 140 when classifying property as either an investment property or property, plant and equipment and whether that property constitutes a business.

B. Amendments to AASB 119 *Employee Benefits* in relation to the requirements for contributions from employees or third parties that are linked to service – applicable from 1 July 2014;

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Amendments to particular Australian Accounting Standards to delete their references to AASB 1031 *Materiality* – applicable from 1 July 2014;

D. Amendments to AASB 1 *First-time Adoption of Australian Accounting Standards*, which arise from the issuance of AASB 14 *Regulatory Deferral Accounts* - applicable from 1 July 2016;

E. Defers the application date of AASB 9 *Financial Instruments* to annual reporting periods beginning on or after 1 January 2018 and other consequential amendments - applicable from 1 January 2015.

AASB 2014-3 Accounting for Acquisitions of Interests in Joint Operations – Amendments to AASB 11

This amendment to AASB 11 *Joint Arrangements* requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3.

AASB 9 (2014) Financial Instruments

AASB 9 (2014) 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 instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
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.
d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

    i) The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
    ii) 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 also made to other standards as a result of AASB 9 by AASB 2014-7 and AASB 2014-8.

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the Empire Group's consolidated financial statements. Management are required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and recognised contingent liabilities at the end of the reporting period and amounts of revenues and expenses recognised during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

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:

- Note 8 – Impairment expense
- Note 9 – Income tax
- Note 14 – Oil and gas properties
- Note 19 – Provisions for liabilities and charges
- Note 25 – Share based payments

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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

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.

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).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 ordinary course of business.

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of $32,584,886. This is primarily due to the Board determining that debt facilities be classified as current liabilities as described in Note 18 under classification of borrowings.

In January 2013 the debt facilities were extended for a further three years. The Company has decided to maintain the debt facility as a current liability.

Due to the liquidity of operating assets, the Board also determined that the USA operating assets could be classified as current assets.

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 interest rate swaps and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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, with not more than 75% of production being hedged at any point in time. For the year ended 31 December 2014 the Empire Group hedged approximately 47% of its oil (2013: 72%) and 60% of its total gas production (2013: 75%).

The Empire Group has approximately 3,687 thousand cubic feet (mcf) of monthly natural gas production and 197,000 barrels of oil production hedged at amounts ranging from $4.36 to $6.30/mcf for natural gas expiring in January 2015 through December 2019 and $85.23 to $90 per barrel for oil expiring in January 2015 through December 2017.

(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 2014 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 2014.

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

			Fixed Interest Maturing in			
	%	Floating Interest Rate	1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
31 December 2014						
Financial Assets						
Cash and cash equivalents	1.86	3,092,991	-	-	-	3,092,991
Trade and other receivables		-	-	-	4,471,855	4,471,855
Financial assets		-	-	-	11,716,125	11,716,125
		3,092,991	-	-	16,187,980	19,280,971
Financial Liabilities						
Trade & other payables		-	-	-	5,771,978	5,771,978
Financial liabilities, including derivatives		-	-	-	-	-
Interest-bearing liabilities	4.14	-	41,776,843	42,434	-	41,819,277
		-	41,776,843	42,434	5,771,978	47,591,255

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 2013						
Financial Assets						
Cash and cash equivalents	1.86	2,322,720	-	-	-	2,322,720
Trade and other receivables		-	-	-	4,674,518	4,674,518
Financial assets		-	-	-	5,820,866	5,820,866
		2,322,720	-	-	10,495,384	12,818,104
Financial Liabilities						
Trade & other payables		-	-	-	5,746,774	5,746,774
Financial liabilities, including derivatives		-	-	-	542,633	542,633
Interest-bearing liabilities	4.00	-	41,099,354	62,607	-	41,161,961
		-	41,099,354	62,607	6,289,407	47,451,368

(iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2014 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 2015. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US$417,000.

(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.

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

	2014 US$	2013 US$
Trade, other receivables, and derivatives	15,497,982	9,638,786

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

	2014 US$	2013 US$
Australia	-	-
United States of America	15,497,982	9,638,786

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforseen, 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 2014					
Non Derivatives					
Current					
Trade and other payables	5,771,978	5,771,978	5,771,978	5,771,978	-
Interest bearing liabilities	41,776,843	41,776,843	41,776,843	41,776,843	-
Non-current					
Interest bearing liabilities	42,434	42,434	42,434	-	42,434
Derivatives					
Financial asset	(11,178,999)	(11,178,999)	(11,178,999)	(6,558,148)	(4,620,851)
Financial liability	-	-	-	-	-

Maturity Analysis	Fair Value US$	Carrying Amount US$	Contractual Cash flows US$	1 year US$	1-5 years US$
31 December 2013					
Non Derivatives					
Current					
Trade and other payables	5,746,751	5,746,751	5,746,751	5,746,774	-
Interest bearing liabilities	41,099,354	41,099,354	41,099,354	41,099,354	-
Non-current					
Interest bearing liabilities	62,607	62,607	62,607	-	62,607
Derivatives					
Financial asset	(5,105,716)	(5,105,716)	(5,105,716)	(2,327,334)	(2,778,382)
Financial liability	542,633	542,633	542,633	542,633	-

(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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

In addition, the Empire Group undertakes limited investment in listed and seed capital opportunities. Unlisted investments are held at cost less impairment as no market valuation is available.

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.

Consolidated **31 December 2014** **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale – equity securities	55,106	-	-	55,106
Unlisted available-for-sale equities	-	-	482,020	482,020
Fair value of derivatives	-	11,178,999	-	11,178,999
Total assets	55,106	11,178,999	482,020	11,716,125
Liabilities				
Fair value of derivatives	-	-	-	-
Total liabilities	-	-	-	-

Consolidated **31 December 2013** **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale – equity securities	225,669	-	-	225,669
Unlisted available-for-sale equities	-	-	489,480	489,480
Fair value of derivatives	-	5,105,716	-	5,105,716
Total assets	225,669	5,105,716	489,480	5,820,865
Liabilities				
Fair value of derivatives	-	542,633	-	542,633
Total liabilities	-	542,633	-	542,633

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 investment 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

	2014 US$	2013 US$
Revenue from oil and gas sales	22,678,332	24,976,934
Revenue from drilling operations	-	-
Revenue from well operations	891,825	909,436
	23,570,157	25,886,370

6 OTHER INCOME

	2014 US$	2013 US$
Gain on sale of investment	-	206,274
Gain on sale of asset	739,208	-
Interest income	3,916	3,779
Rental income	18,196	8,912
Other income	136,821	462,702
	898,141	681,667

7 FINANCE COSTS/INCOME

	2014 US$	2013 US$
Interest paid/payable on financial liabilities	2,021,849	2,216,758
Accretion of asset retirement obligation (note 19)	378,334	404,512
Unwind of discount on debt	331,421	555,029
Unwind of overriding royalty interest	-	300,895
Fair value loss on forward commodity contracts	-	1,913,366
Total finance costs	2,731,604	5,390,560
Fair value gain on forward commodity contracts	6,615,916	-
Total finance income	6,615,916	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

8 EXPENSES

Profit/(loss) before income tax includes the following specific expenses:	2014 US$	2013 US$
Depreciation, depletion and amortisation		
Oil & Gas properties and plant & equipment (note 14)	5,842,203	5,026,064
Intangible assets (note 15)	-	2,150
	5,842,203	5,028,214
Employee benefits expense		
Defined contribution superannuation expense	47,617	37,377
Other employee expenses	4,610,362	4,140,429
Total employee benefits expense	4,657,979	4,177,806
Impairment expense		
Impairment for oil and gas properties	13,995,331	-
Impairment of available-for-sale financial assets[a]	-	33,470
Total impairment expense	13,995,331	33,470
Loss on disposal of property, plant & equipment	-	28,265
Leasing expiration expenses [b]	188,518	152,379

(a) Impairment expense
For the period 31 December 2014 the Company impaired the oil and gas properties by $13,995,331 due to the decline in oil prices.

(b) Leasing expiration expense
A charge of $188,518 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

9 INCOME TAX

	2014 US$	2013 US$
a. Income tax expense		
Current tax	74,096	143,646
Deferred tax	(5,253,920)	246,000
Adjustments for current tax of prior periods	-	(59,915)
Income tax (benefit)/expense attributable to continuing operations	5,179,824	375,760
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease/ in deferred tax assets (note 9(f))	-	-
Increase/(decrease) in deferred tax liabilities (note 9(e))	(5,253,920)	246,000
	(5,253,920)	246,000
b. Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss)/profit before income tax	(9,933,109)	(1,887,437)
Tax at the Australian tax rate of 30% (2013: 30%)	(2,979,933)	(556,231)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Income tax not assessable	-	-
- Non-deductible expenses	(2,834,729)	-
- Other deductible expenses	-	-
Difference in overseas tax rates	-	-
Tax (over)/underprovided in prior year	441,150	341,416
State taxes paid or payable	-	250
Withholding tax paid	41,848	136,617
Deferred tax asset in relation to tax losses and temporary differences not recognised	148,839	463,708
Income tax expense/(benefit)	(5,179,824)	375,760
c. Deferred tax assets not recognised relate to the following:		
Tax losses	2,698,822	2,549,383
Capital losses	141,410	141,410
	2,839,632	2,690,793

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 2014.

	2014 US$	2013 US$
e. Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Forward commodity contracts	3,699,298	2,053,387
Oil & Gas and Property, Plant & Equipment	8,270,981	6,619,573
Other	60,267	
	12,030,546	8,672,960
Set-off of deferred tax liabilities pursuant to set-off provisions (note f)	(9,968,466)	(1,356,960)
Net deferred tax liabilities	2,062,080	7,316,000
f. Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses carried forward	1,380,617	245,685
Accrued asset retirement obligation	1,083,512	1,099,028
Oil & Gas and Property, Plant & Equipment	7,348,127	-
Other	156,210	12,247
	9,968,466	1,356,960
Set-off of deferred tax assets pursuant to set-off provisions (note e)	(9,968,466)	(1,356,960)
Net deferred tax assets	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

10 TRADE AND OTHER RECEIVABLES

	2014 US$	2013 US$
Current		
Trade receivables	4,413,218	4,608,646
Other	58,637	65,872
	4,471,855	4,674,518

11 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments	242,184	203,316

12 INVENTORIES

Crude oil and production supplies	611,002	995,610

13 FINANCIAL ASSETS, INCLUDING DERIVATIVES

Current		
Oil and gas price forward contracts	6,558,148	2,327,334
Non-current		
Oil and gas price forward contracts	4,620,851	2,778,382
Shares – other corporations:		
• Listed available-for-sale equities (at fair value)	55,106	225,670
• Unlisted available-for-sale equities (at cost)	638,061	645,521
Less: accumulated impairment on unlisted equities	(156,041)	(156,041)
Total Non-current	5,157,977	3,493,532

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

13 FINANCIAL ASSETS, INCLUDING DERIVATIVES (Continued)

Commodity hedge contracts outstanding are outlined below.

2014 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2013 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	**Swap Price**	**Premium**	**Product**		**Period**	**Swap Price**	**Premium**	**Product**	
-	-	-	-	-	Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu
-	-	-	-	-	Jan 14 - Dec 14	6.21	$Nil	238,372	mmbtu
-	-	-	-	-	Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu
-	-	-	-	-	Jan 14 - Dec 14	6.26	$Nil	238,372	mmbtu
-	-	-	-	-	Jan 14 - Dec 14	6.30	$Nil	5,000	mmbtu
					Jan 14 - Dec 14	5.27	$Nil	217,000	mmbtu
Jan 15 - Dec 15	5.45	$Nil	1,116,000	mmbtu	Jan 15 - Dec 15	5.45	$Nil	1,116,000	mmbtu
					Jan 14 - Dec 14	5.27	$Nil	159,000	mmbtu
Jan 15 - Dec 15	5.45	$Nil	156,000	mmbtu	Jan 15 - Dec 15	5.45	$Nil	156,000	mmbtu
Jan 16 - Dec 16	4.49	$Nil	72,000	mmbtu	Jan 16 - Dec 16	4.49	$Nil	72,000	mmbtu
Jan 16 - Dec 16	4.49	$Nil	528,000	mmbtu	Jan 16 - Dec 16	4.49	$Nil	528,000	mmbtu
Jan 16 - Dec 16	4.37	$Nil	528,000	mmbtu	Jan 16 - Dec 16	4.37	$Nil	528,000	mmbtu
Jan 17 - Dec 17	4.57	$Nil	504,000	mmbtu	Jan 17 - Dec 17	4.57	$Nil	504,000	mmbtu
Jan 18 - Dec 18	4.75	$Nil	456,000	mmbtu	Jan 18 - Dec 18	4.75	$Nil	456,000	mmbtu
2014 OIL - WTI - NYMEX					**2013 OIL - WTI - NYMEX**				
					Jan 14 - Dec 14	90	$Nil	105,120	BO
Jan 15 - Dec 15	90	$Nil	98,160	BO	Jan 15 - Dec 15	90	$Nil	98,160	BO
Jan 16 - Dec 16	85.67	$Nil	42,000	BO	Jan 16 - Dec 16	85.67	$Nil	42,000	BO
Jan 17 - Dec 17	85.23	$Nil	39,600	BO	Jan 17 - Dec 17	85.23	$Nil	39,600	BO

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

14 OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$								
At 1 January 2014		111,088,039	4,225,830	30,591	310,286	736,352	709,700	117,100,798
Additions		3,836,441	2,874,877	-	-	76,233	19,000	6,806,551
New asset retirement obligation		53,360	-	-	-	-	-	53,360
Write-off of asset retirement obligation		(48,441)	-	-	-	-	-	(48,441)
Reclassifications		120	-	-	(120)	-	-	-
Disposals		(1,886,327)	(25)	-	18,782	(95,042)	(94,756)	(2,057,368)
Expiration costs		-	(377,036)	-	-	-	-	(377,036)
Write-off of exploration expense		-	-	-	-	-	-	-
Write-off to prepayments/inventory		-	-	-	-	-	-	-
At 31 December 2014		113,043,192	6,723,646	30,591	328,948	717,543	633,942	121,477,864
Accumulated Depreciation in US$								
At 1 January 2014		(18,550,760)	-	-	(35,831)	(462,221)	(403,121)	(19,451,933)
Depreciation and depletion		(5,577,000)	-	-	(12,553)	(126,516)	(126,134)	(5,842,203)
Disposals		232,857	-	-	(1,866)	80,417	68,051	379,459
Impairment		(13,995,331)	-	-	-	-	-	(13,995,331)
At 31 December 2014		(37,890,234)	-	-	(50,250)	(508,320)	(461,204)	(38,910,008)
Opening written down value		**92,537,279**	**4,225,830**	**30,591**	**274,455**	**274,131**	**306,579**	**97,648,865**
Impact of foreign currency adjustments		**-**	**-**	**-**	**-**	**(2,992)**	**(15,482)**	**(18,474)**
Closing written down value		**75,152,958**	**6,723,646**	**30,591**	**278,698**	**206,231**	**157,258**	**82,549,382**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$								
At 1 January 2013		106,126,081	5,587,535	30,591	304,209	612,386	722,155	113,382,957
Additions		2,606,338	457,900	-	6,077	77,140	116,388	3,263,843
New asset retirement obligation		1,418,263	-	-	-	-	-	1,418,263
Write-off of asset retirement obligation		(49,530)	-	-	-	-	-	(49,530)
Reclassifications		986,887	(938,076)	-	-	-	-	48,811
Disposals		-	-	-	-	(4,339)	(77,678)	(82,017)
Expiration costs		-	(152,379)	-	-	-	-	(152,379)
Write-off of exploration expense		-	(729,150)	-	-	-	-	(729,150)
Write-off to prepayments/inventory		-	-	-	-	51,165	(51,165)	-
At 31 December 2013		111,088,039	4,225,830	30,591	310,286	736,352	709,700	117,100,798
Accumulated Depreciation in US$								
At 1 January 2013		(13,694,760)	-	-	(23,885)	(343,131)	(364,093)	(14,425,869)
Depreciation and depletion		(4,856,000)	-	-	(11,946)	(119,090)	(39,028)	(5,026,064)
Disposals		-	-	-	-	-	-	-
Impairment		-	-	-	-	-	-	-
At 31 December 2013		(18,550,760)	-	-	(35,831)	(462,221)	(403,121)	(19,451,933)
Opening written down value		**92,431,321**	**5,587,535**	**30,591**	**280,324**	**274,131**	**358,062**	**98,957,088**
Impact of foreign currency adjustments		**-**	**-**	**-**	**-**	**(1,578)**	**(9,927)**	**(11,505)**
Closing written down value		**92,537,279**	**4,225,830**	**30,591**	**274,455**	**272,553**	**296,652**	**97,637,360**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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

At 31 December 2014, 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 and resulting impairment write-downs recognised in the year ended 31 December 2014 are:

Oil and gas assets	**Subsurface assets US$**	**Recoverable amount US$**
Kansas	43,167,043	31,999,221
Appalachia	28,293,059	25,465,550
Total	71,460,102	57,454,771

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

	2014 US$	**2013 US$**
15 INTANGIBLE ASSETS		
Goodwill	68,217	68,217
Other intangible asset	-	-
	68,217	68,217
Movement in Other Intangible assets		
Carrying value at beginning of financial year	-	2,150
Transfer to debt	-	-
Amortisation	-	(2,150)
Carrying value end of financial year	-	-
16 TRADE AND OTHER PAYABLES		
Current		
Trade creditors	5,696,470	5,677,120
Other creditors	75,508	69,654
	5,771,978	5,746,774
17 FINANCIAL LIABILITIES, INCLUDING DERIVATIVES		
Current		
Oil and gas forward price contracts	-	542,633
	-	542,633
18 INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	18,928	99,273
Bank loan -secured	41,757,915	41,000,081
	41,776,843	41,099,354
Non-current		
Finance lease liability	42,434	62,607

In February 2008, the Empire Group entered into a Credit Facility totalling $200,000,000 under the following terms:

A $50,000,000 revolving line-of-credit facility (Revolver) used to refinance existing debt and to undertake future acquisitions; the Revolver is subject to a borrowing base consistent with normal and customary oil and gas lending practices of the bank. The borrowing base limit at the time of the replacement was $3,000,000 and is re-determined from time to time in accordance with the Revolver based on changes with operations and opportunities. Interest

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

18 INTEREST-BEARING LIABILITIES (Continued)

accrues on the outstanding borrowings at rate options selected by the Company and based on the prime lending rate (3.25% at December 31, 2014) or the London Inter-Bank Offered Rate (60-Day NOTE LIBOR) (0.21445% at December 31, 2014) plus 2.5%. At December 31, 2014, the Company's rate option was London Inter-Bank Offered Rate (LIBOR). There was no availability under the Revolver at December 31, 2014 and 2013.

A $150,000,000 acquisition and development term credit facility (Term Facility) was used to refinance an existing facility, 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. There is $2,100,000 available under Tranche C-6 of the Term Facility.

Loans under the facilities are secured by the assets of the Company. Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. 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 2014 and 2013 were approximately $3,703,000 and $7,699,000, respectively. The Company has exceeded the minimum cumulative principal payment obligation through the maturity date of the credit facilities.

The discount on the debt is approximately $583,000 and $361,000 at 31 December 2014 and 2013, respectively. Additional interest expense of $164,000 and $579,000 for the years ended December 31, 2014 and 2013 is related to the amortization of the discount on debt.

In 2014, in connection with the Revolver and Term Facility, the bank received 14,131 of non-diluting warrants ($0.01) equivalent to 10% of the issued capital of the Empire Energy USA, LLC (2013: 16,252). In addition, the bank also receives a 3% overriding royalty interest in the acquired properties of the Company.

In conjunction with the debt financing by the bank in 2010, Empire Energy Group Limited issued options on 500 million shares (33,333,333 options following a share consolidation). These options were independently valued at $1,687,000. The recorded value of the options of $1,687,000 was expensed over the life of the loan facility.

In February 2014 a further 4,250,000 unlisted options exercisable at A$0.12 and expiring 26 February 2016 were issued to the bank to enable further drawdown on the Credit Facility. These options were independently valued at A$195,500. The recorded value of the options of $1,687,000 was expensed over the life of the loan facility.

A summary of period end debt is as follows:

	2014 US$	2013 US$
Term		
Tranche	1,720,233	-
Tranche 1	6,181,553	6,181,553
Tranche 3	19,585,871	19,585,871
Tranche 4	12,027,354	12,950,814
Revolver	3,000,000	3,000,000
Sub-Total	42,515,011	41,718,238
Less – Discount on debt:	(757,096)	(718,157)
Total debt	41,757,915	41,000,081

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

18 INTEREST-BEARING LIABILITIES (Continued)

CLASSIFICATION OF BORROWINGS

These accounts are presented on the basis that all debt has 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 Empire Group to classify liabilities as current if the Empire 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 January 2013 the Company extended the Facility for a further 3 years through to 28 February 2016.

Under the terms of the Loan Facility ("Facility"), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding.

The expected loan repayments over the next 12 months comprise:

- Repayment of 90% of any monthly free cashflows

As at 31 December 2014 and during the year the loan covenants were in compliance.

19 PROVISIONS

	2014 US$	2013 US$
Current		
Employee entitlements	12,245	5,351
Non-current		
Asset retirement obligations	7,953,969	7,788,880
Movement in Asset Retirement Obligation		
Balance at beginning of the period	7,788,880	6,015,635
Additions for the period	53,359	1,418,263
Write-off accrued plugging costs	(266,604)	(49,530)
Accretion expense for the period, included in finance costs	378,334	404,512
Balance end of the period	7,953,969	7,788,880

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 2014

20 CONTRIBUTED EQUITY	**2014 US$**	**2013 US$**
a) Shares		
Issued Capital		
Balance at beginning of period	73,683,238	73,325,555
Movement in ordinary share capital		
- Issue of 4,000,000 fully paid ordinary shares in September 2013 @ A$0.10 as part consideration for the acquisition of Empire Energy USA.	-	372,520
Less costs associated with the share issues detailed above	-	(14,837)
Balance as at 31 December 2014	73,683,238	73,683,238

b) Shares	**No. of shares**	**No. of shares**
Movements in ordinary issued shares		
Balance at beginning of period	308,863,682	304,863,682
Movement in ordinary share capital		
- Issue of fully paid ordinary shares in September 2013 @ A$0.10 as part consideration for the acquisition of Empire Energy USA	-	4,000,000
- Balance as at 31 December 2014	308,863,682	308,863,682

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

20 CONTRIBUTED EQUITY (Continued)

Share Options

Movements

Granted
During the financial year 6,500,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions.

No options were granted in the period since the end of the financial year.

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:

- 6,500,000 unlisted options at A$0.35 expiring 31 December 2014

The following unlisted options lapsed due to not meeting the minimum terms of employment requirement under the Employee Share Option Plan:

- 500,000 unlisted options at A$0.35 prior to 31 December 2014
- 500,000 unlisted options at A$0.17 prior to 31 December 2015

Since the end of the financial year no further unlisted options had expired.

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

Shares

- 308,863,682 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 16,750,000 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price A$	Expiry Date
1,500,000	Executive options	$0.18	31 December 2015
4,500,000	Executive options	$0.17	31 December 2015
4,250,000	Macquarie Bank Limited	$0.12	26 February 2016
3,500,000	Executive options	$0.15	31 December 2016
1,500,000	Executive options	$0.17	31 December 2016
1,500,000	Executive options	$0.18	31 December 2016
16,750,000			

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:

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

20 CONTRIBUTED EQUITY (Continued)

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.

21 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.

22 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 2014, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

In 1986 Empire Energy Group Limited provided certain tax indemnities to an investor under agreements relating to research and development of Vitrokele Core Technology.

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

23 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 2014

24 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 2014.

i) Equipment and Operating Leases	**2014 US$**	**2013 US$**
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	307,311	300,543
Later than one year not later than two years	215,381	260,543
Later than two years not later than five years	214,152	300,641
More than five years	-	-
	736,844	861,727

The Company leased its US corporate headquarters under a non-cancellable operating lease of monthly payments of approximately $6,900 through February 2013 and $7,400 through February 2017. Net rental expense approximated $89,000 and $86,000, net of reimbursements, for the year ended 31 December 2014 and 31 December 2013.

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 2014 and 2013 were approximately $235,000 and $183,000 respectively. The Empire Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

24 COMMITMENTS FOR EXPENDITURE (Continued)

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.

25 SHARE BASED PAYMENTS

a) Employee Share Option Plan 2014

A new executive share option plan was approved by shareholders at the annual general meeting of members held on 30 May 2014. This plan replaces the previous executive option plan approved by shareholders on 30 November 2010. Persons eligible to participate include executive officers of the Company or a subsidiary, including a director holding salaried employment or office in the Company or subsidiary.

Options are granted under the plan for no consideration. The vesting date of options granted under the plan is subject to minimum term of employment conditions. Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on a minimum of the weighted average market price of shares sold in the ordinary course of trading on the ASX during the 5 trading days ending on the date the option is granted multiplied by 0.8.each option entitles the holder to subscribe for 1 unissued share.

Year Ending – 31 December 2014
During the financial year the following options were granted pursuant to the Employee Share Option Plan 2014.

No. of Options	Grant Date	Vesting Date	Exercise Date A$	Expiry Date
3,500,000	15 July 2014	15 July 2016	$0.15	31 December 2016
1,500,000	15 July 2014	15 July 2016	$0.17	31 December 2016
1,500,000	15 July 2014	15 July 2016	$0.18	31 December 2016
6,500,000				

Year Ending – 31 December 2013
During the 2013 financial year the following options were granted pursuant to the Employee Share Option Plan 2010.

No. of Options	Grant Date	Vesting Date	Exercise Date A$	Expiry Date
1,500,000	28 June 2013	28 June 2015	$0.18	31 December 2015
5,000,000	28 June 2013	28 June 2015	$0.17	31 December 2015
6,500,000				

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

25 SHARE BASED PAYMENTS (Continued)

b) Options

During the 2014 financial year 4,250,000 options were granted to Macquarie Bank Limited as a component for amending the terms of the Company's credit facility. The unlisted options are exercisable at A$0.12 and expire 26 February 2016.

The options outstanding at 31 December 2014 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
20 April 2012(1)	31 December 2014	35 cents	1,250,000	-	1,250,000	-	-
31 May 2012(1)	31 December 2014	35 cents	3,500,000	-	3,500,000	-	-
30 June 2012(1)	31 December 2014	35 cents	2,250,000	-	2,250,000	-	-
28 June 2013(1)	31 December 2015	18 cents	1,500,000	-	-	-	1,500,000
28 June 2013(1)	31 December 2015	17 cents	5,000,000	-	500,000	-	4,500,000
26 February 2014	26 February 2016	12 cents	-	4,250,000	-	-	4,250,000
15 July 2014(2)	31 December 2016	15 cents	-	3,500,000	-	-	3,500,000
15 July 2014(2)	31 December 2016	17 cents	-	1,500,000	-	-	1,500,000
15 July 2014(2)	31 December 2016	18 cents	-	1,500,000	-	-	1,500,000
			13,500,000	10,750,000	(7,500,000)	-	16,750,000

(1) Options granted pursuant to Employee Share Plan approved 30 November 2010. The plan provides for vesting restrictions on minimum period of employment.

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

c) Expenses arising from share based payment transactions

Year ending - 31 December 2014
6,500,000 future options were granted pursuant to the Empire Group's Employee Share Options Plan.

4,250,000 future options were granted to Macquarie Bank Limited as a component for amending the existing terms of the Company's credit facility.

The share based payments transactions costs during the financial year for these options and previously granted options based on a pro-rata portion of the vesting period was $351,370.

Year ending - 31 December 2013
6,500,000 future options were granted pursuant to the Empire Groups Employee Share Options Plan. The share based payments transactions costs during the financial year for these options and previously granted options based on a pro-rata portion of the vesting period was $406,090.

4,000,000 fully paid ordinary shares and 2,500,000 performance rights were issued as consideration for a minority interest buy back in Empire Energy USA LLC. The cost of the fully paid ordinary shares for this financial period was $372,520. The share based payments transactions costs for the Performance Rights during the financial year for these Performance Rights based on a pro-rata portion of the vesting period was $50,333

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

26 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	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue (external)	23,570,157	25,886,370	-	-	-	-	-	-	23,570,157	25,886,370
Other income (excluding Finance income)	136,821	462,702	739,208	206,274	18,196	8,912	-	-	894,225	677,888
Reportable segment profit/(loss) before tax	(6,217,981)	3,298,413	739,208	172,804	(1,731,561)	(1,800,803)	-	-	(7,210,334)	1,590,414
Finance income	6,619,832	3,087	408,561	1,324,977	4,913	(3,745)	(408,561)	(1,324,977)	6,624,745	(658)
Finance costs	(3,130,637)	(6,706,759)		-	(9,528)	(8,777)	408,561	1,324,977	(2,731,604)	(5,390,599)
Profit/(loss) for the period before tax									**(9,933,109)**	**(1,887,437)**
Reportable segment assets	102,071,512	110,743,730	1,588,259	5,680,847	443,326	765,259	(1,351,341)	(5,265,696)	102,751,716	111,924,140
Reportable segment liabilities	56,268,208	57,295,903		-		-	1,351,341	5,265,696	57,619,549	62,561,599
Other material non-cash items:										
Gain on disposal of acreage										
- Depreciation and amortisation	(5,817,881)	(5,009,458)	-	-	(23,809)	(18,760)	-	-	(5,841,690)	(5,028,218)
- Impairment expense	(13,995,331)	-	-	(33,470)	-	-	-	-	(13,995,331)	(33,470)
- Gain on disposal	-	-	739,208	206,274	-	-	-	-	739,208	206,274
- Lease expiration costs	(188,518)	(152,379)	-	-	-	-	-	-	(188,518)	(152,379)
Non-cash items included in Finance costs:										
- Asset retirement obligation accretion	(378,334)	(404,512)	-	-	-	-	-	-	(378,334)	(404,512)
- Discount on debt & overriding royalty interest	(331,421)	(855,924)	-	-	-	-	-	-	(331,421)	(855,924)
Fair value gain/(loss) on forward commodity contracts	6,615,916	(1,913,366)							6,615,916	(1,913,366)
Capital expenditure	(6,764,678)	(4,482,501)	-	-	(95,233)	(199,604)	-	-	(6,859,911)	(4,682,105)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

26 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 $16,263,408 (2013: one major customer $18,379,323) of the Empire Group's total revenues.

27 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 31 December 2013	Acquired during period through Share Purchase Plan	Other changes during period	Balance at 31 December 2014
B W McLeod	7,238,365	-	-	7,238,365
D H Sutton	663,300	-	-	663,300
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 2014	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2014	Vested exercisable at 31 December 2014
B W McLeod	5,000,000	3,000,000	-	2,000,000	6,000,000	-
D H Sutton	750,000	-	-	750,000	-	-
K A Torpey	750,000	-	-	750,000	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

27 RELATED PARTY DISCLOSURES (Continued)

The options held by Directors' were issued under an Employee Share Option Plan and are 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	$0.18	31 December 2015
	1,500,000	$0.17	31 December 2015
	1,500,000	$0.18	31 December 2016
	1,500,000	$0.17	31 December 2016

iii. Transactions with Key Management Personnel

		2014 US$	2013 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	377,322	385,237
	- Bonus payment	72,148	-
2)	Aggregate amounts payable to Directors and their related Companies at balance date:		
	- Eastern & Pacific Capital		
	- Bonus and consulting fees	82,104	193,322
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	69,178	275,763
	- Director fees	27,087	-

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

27 RELATED PARTY DISCLOSURES (Continued)

c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
Controlling Empire Group			December 2014 %	December 2013 %
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Mega First Mining NL	Vanuatu	Ordinary	100	100
Imperial Technologies Pty Limited[1]	Australia	Ordinary	Nil	100
Imperial Resources, LLC[2]	USA	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	100
Empire Energy USA, LLC	USA	Ordinary	100	100

All entities are audited by Nexia Australia with the exception of Mega First Mining NL, a Company incorporated in Vanuatu and Empire Energy USA LLC and Imperial Resources, LLC the latter two companies incorporated in the USA which is audited by Schneider Downs.

[1] During the 2013 financial year the Company made application for the voluntary deregistration of Imperial Technologies Pty Limited a non-operating subsidiaries under subsection 601AA(2) of the Corporations Act 2001. The Company was deregistered on 20 February 2014.

[2] Renamed Empire Energy Holdings, LLC on 28 January 2015.

28 NOTES TO THE STATEMENT OF CASH FLOWS

	December 2014 US$	December 2013 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	3,092,991	2,322,720
(b) Reconciliation of profit after income tax expense to net cash flows from operating activities		
Loss for the period after income tax expense	(4,753,285)	(2,263,197)
Adjustments for non-cash items:		
Depreciation & amortisation expense	5,842,203	5,028,214
Impairment of property, plant & equipment	13,995,331	-
(Gain)/Loss on disposal of Property, plant & equipment	(693,211)	74,293
Write-off ARO	-	40,387
Write-off of exploration expenditure	186,348	729,151
Expiration of leases	188,518	152,379
Impairment of available for sale financial assets	-	33,470
Profit/Loss on disposal of available for sale financial assets	-	(206,274)
Discount on debt	331,421	853,785
Asset retirement obligation accretion	378,334	404,512
Share-based payment expense	317,239	461,514
Unrealised (gain)/loss on forward commodity contracts	(6,615,916)	1,913,366
Operating profit before changes in working capital and provisions	9,176,182	7,221,600
Change in Trade and other receivables	204,456	423,346
Change in Prepayments and other current assets	345,257	(80,154)
Change in Inventories	384,608	(189,964)
Change in Current tax asset	201,533	652,342
Change in Trade and other payables	25,204	(668,863)
Change in Provisions	6,894	(80,216)
Change in Deferred Tax Liability	(5,253,920)	246,000
	(4,085,968)	302,491
Net cash flows from operating activities	5,091,014	7,524,091

(c) Non-Cash Financing and Investing Activities

During the current financial year the following transactions occurred:

The Company granted 6,500,000 executive options to acquire ordinary shares in the capital of the Company to Directors and specified executives of the Company. 3,500,000 of these Options are exercisable at A$0.15 and expire on 31 December 2016, 1,500,000 Options are exercisable at A$0.17 and expire on 31 December 2016 the remaining 1,500,000 Options are exercisable at A$0.18 and expire 31 December 2016. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in January 2015 at A$178,000.

The Company granted 4,250,000 options to Macquarie Bank Limited as a component for amending the existing terms of the Company's credit facility. The unlisted options are exercisable at A$0.12 and expire 26 February 2016. These options were independently valued in July 2014 at A$195,500.

28 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

A proportional value of these options together with previously granted options based on a pro-rata portion of the vesting period was expensed during the financial year as follows:

- 5,000,000 options exercisable @ A$0.17 expiring 31/12/2015	A$220,178
- 4,250,000 options exercisable @ A$0.12 expiring 26/02/2015	A$89,984
- 3,500,000 options exercisable @ A$0.15 expiring 31/12/2016	A$23,498
- 1,500,000 options exercisable @ A$0.17 expiring 31/12/2016	A$9,028
- 1,500,000 options exercisable @ A$0.18 expiring 31/12/2016	A$8,682
	A$351,370

During the previous financial year the following transactions occurred:

- The Company granted 6,500,000 executive options to acquire ordinary shares in the capital of the Company to Directors and specified executives of the Company. 5,000,000 of these Options are exercisable at A$0.17 and expire on 31 December 2015, the remaining 1,500,000 Options are exercisable at A$0.18 and expire 31 December 2015. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in July 2013 at A$213,000.

- 4,000,000 fully paid ordinary shares and 2,500,000 performance rights were issued as consideration for a minority interest buy back in Empire Energy USA LLC. The cost of the fully paid ordinary shares for this financial period was $372,520. The share based payments transactions costs for the Performance Rights during the financial year for these Performance Rights based on a pro-rata portion of the vesting period was $56,250.

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29 EARNINGS PER SHARE

	2014	2013
Basic earnings per share (cents per share)	(1.54)	(0.77)
Diluted earnings per share (cents per share)	(1.54)	(0.77)
Loss/profit used in the calculation of basic and diluted earnings per share	(4,753,285)	(2,343,258)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	308,863,682	306,014,367
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	308,863,682	306,014,367

30 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.

31 BUSINESS COMBINATIONS

There were no business combinations in the financial year ending 31 December 2014.

32 PARENT ENTITY INFORMATION

	2014 US$	2013 US$
Information relating to Empire Energy Group Limited:		
Current Assets	295,941	426,182
Total Assets	36,805,066	37, 963,007
Current Liabilities	(527,335)	(915,315)
Total Liabilities	(5,518,802)	(2,814,206)
Shareholder's Equity:		
Issued Capital	(73,683,238)	(73,683,238)
Reserves		
- Fair value reserve	(6,659)	(176,017)
- Foreign currency translation reserve	(661,657)	(29,981)
- Options reserve	(1,465,232)	(1,160,728)
- Share based payment reserve	(172,650)	(174,624)
- General Reserve	(235,167)	(145,196)
Accumulated Losses	35,964,477	37,526,298
Total Shareholder's Equity	(40,260,126)	(37,843,486)
Loss for the period	(496,131)	(628,642)
Total Comprehensive income	(1,290,509)	(2,267,791)

33 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.

33 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (Continued)

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 2014	**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	377,322	72,148***	44,480	-	-	86,901*	580,851
K A Torpey	18,058	-	-	1,625	-	10,085*	29,768
D H Sutton	-	-	-	18,058	-	10,085*	28,143
J Warburton	96,265	-	-	-	-	-	96,265
Empire Energy Executives							
A Boyer	168,000	6,650	48,852	-	-	16,972*	240,474

* 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 $124,043. The loss on options relating to the above directors that expired over the year was $54,868. The net cost of options issued to the above directors and executives for the year was $69,175.
*** Under the terms of the existing performance plan Mr B W McLeod would have been eligible for a payment of $72,148 in 2014 based on the increase in 2P reserves. Due to the current conditions of the energy industry, the Company and Mr McLeod have agreed to defer the payment for a period of 12 months, or until an earlier time when both the Remuneration Committee and Mr McLeod agree that conditions are suitable for the performance payment to be granted.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2013	**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	385,237	-	58,520	-	-	151,981*	595,738
K A Torpey	19,359	-	-	1,742	-	26,134*	47,235
D H Sutton	-	-	-	19,359	-	26,134*	45,493
J Warburton	275,763	-	-	-	-	-	275,763
Empire Energy Executives							
A Boyer	173,000	-	46,667	-	-	18,104*	237,771

* 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 $222,353 the loss on options relating to the above directors that expired over the year was $131,116. The net cost of options issued to the above directors and executives for the year was $91,237.

34 AUDITORS' REMUNERATION

Audit Services	2014 US$	2013 US$
Auditors of the Company – Nexia Australia:		
Audit and review of financial reports	100,156	89,872
Other auditors:		
Audit and review of financial reports	206,262	150,466
	306,418	240,338
Other services		
Auditors of the Company – Nexia Australia:		
Taxation services	23,860	10,116
Other auditors:		
Taxation services	68,937	55,262
	92,797	65,378

35 MATTERS SUBSEQUENT TO BALANCE DATE

1) Joint Venture with Raya Group
In February 2015 the Company entered into a Joint Venture with Raya Group Limited. The Joint Venture allows both parties to jointly identify, acquire and develop oil and gas leases in an area of mutual interest in Northern Oklahoma, USA.

2) Exploration Permit
Exploration Permit EP187 in the Northern Territory was formally granted by the Northern Territory Government in March 2015.

There were no other matters or circumstances that have arisen since 31 December 2014 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2014, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2014 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 22 to 24, 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 2014 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 Officer for the year ended 31 December 2014.

Signed in accordance with a resolution of the directors.

B W McLEOD
Director

Dated: 31 March 2015

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMPIRE ENERGY GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Empire Energy Group Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors as at the time of this auditor's report.

Sydney Office
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

Independent member of Nexia International

Opinion

In our opinion:

(a) the financial report of Empire Energy Group Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 24 of the directors' report for the year ended 31 December 2014. 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.

Opinion

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001.*

Nexia Court & Co

Nexia Court and Co
Chartered Accountants

Robert Mayberry
Partner

Sydney

Dated: 31 March 2015

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 17 March 2015

Name	Number of Shares	% Holding
Macquarie Bank Limited (Metals & Energy CAP DIV A/C)	53,666,666	17.38
HSBC Custody Nominees (Australia) Limited – A/C 2	25,916,533	8.39

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	327	130,259	0.04
1,001 – 5,000	841	2,368,015	0.77
5,001 – 10,000	477	3,628,733	1.17
10,001 – 100,000	867	32,533,933	10.53
100,001 and over	315	270,202,742	87.49
Total number of holders	2,827	308,863,682	100.00

i Number of holders of less than a marketable parcel 1,913

ii Percentage held by 20 largest holders 50.19

c Twenty Largest Shareholders as at 17 March 2015

	Name	Number of Shares	% Holding
1	Macquarie Bank Limited <Metals & Energy Cap Div A/C>	53,666,666	17.38
2	HSBC Custody Nominees (Australia) Limited - A/C 2	25,916,533	8.39
3	WYT Nominees Pty Ltd <C & E Wong Super Fund A/C>	11,200,451	3.63
4	Rhodes Capital Pty Ltd <McLeod Super Fund A/C>	6,175,056	2.00
5	Armco Barriers Pty Ltd	6,000,000	1.94
6	Ms Michelle Wong	5,431,098	1.76
7	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	4,400,000	1.42
8	Mr Sean Dennehy	4,227,644	1.37
9	Commonwealth Energy Assets LLC	4,000,000	1.30
10	Remond Holdings Pty Limited <The Defina A/C>	3,951,401	1.28
11	Mr Kenneth Murray & Mrs Ruth Murray <Murray Super Fund A/C>	3,800,000	1.23
12	J P Morgan Nominees Australia Limited	3,769,160	1.22
13	Chifley Portfolios Pty Ltd <David Hannon A/C>	3,675,321	1.19
14	Dryca Pty Ltd <Dryca Employees Ret/F A/C>	3,180,000	1.03
15	Fanchel Pty Ltd	3,145,900	1.02
16	McGee Constructions Pty Ltd <McGorman Super Fund A/C>	2,875,000	0.93
17	Classic Roofing Pty Limited <Superannuation Fund Account>	2,700,000	0.87
18	CK Corporate Pty Ltd <CK A/C>	2,350,000	0.76
19	Australian Executor Trustees Limited <No 1 Account>	2,296,147	0.74
20	Serlett Pty Ltd <Diligent Inv Superfund A/C>	2,257,532	0.73
		155,017,909	50.19

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 17 MARCH 2015

Class of unquoted securities	No. of securities	No. of holders
Unlisted Executive Options issued under the terms of the Company's executive option plan		
- Executive options exercisable at $0.18 expiring 31 December 2015	1,500,000	1
- Executive options exercisable at $0.17 expiring 31 December 2015	4,500,000	7
- Executive options exercisable at $0.12 expiring 26 February 2016	4,250,000	1
- Executive options exercisable at $0.15 expiring 31 December 2016	3,500,000	7
- Executive options exercisable at $0.17 expiring 31 December 2016	1,500,000	1
- Executive options exercisable at $0.18 expiring 31 December 2016	1,500,000	1
Unlisted Performance Rights subject to certain preconditions being met	2,5000,000	1

Voting Rights

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

LIST OF PETROLEUM EXPLORATION LICENCE APPLICATIONS & EXPLORATION LICENCES - AUSTRALIA

Permit	State	Status	Interest
EP(A) 180	NT	Under application	100%
EP(A) 181	NT	Under application	100%
EP(A) 182	NT	Under application	100%
EP(A) 183	NT	Under application	100%
EP 184*	NT	Granted	100%
EP 187	NT	Granted	100%
EP(A) 188	NT	5 year moratorium	100%

**Pastoral Lease subject to Native Title*

LIST OF MINERAL LEASES - USA

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 30 March 2015. Given the extensive list (67 pages) it was not practical to include this listing in the Annual Report of the Company.