EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

DECEMBER 2015 ANNUAL REPORT

CONTENTS

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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

Letter to Shareholders

Dear Shareholders

The year to December 31, 2015 was a busy year for the Company.

The highlight for 2015 was the realization of the Farmout Agreement with American Energy Partners, LP (”AEP”) for the Company’s Northern Territory (“NT”), Australia 14.6 million acres which are considered highly prospective for large shale oil and gas conventional and unconventional resources. Work undertaken by the Company over the past 5 years demonstrates that the Central Trough of the McArthur Basin, (of which the Company holds around 80%), is a major Proterozoic depo-centre that forms one segment of a series of extensive prolific hydrocarbon basins similar to those extending through Oman, Siberia and Southern China and which contain billions of barrels of oil equivalent resources. From the commencement of negotiations in March 2015 the Farmout and Joint Operating Agreement was finally signed on December 22, 2015. Details of the Farmout have been previously reported and are included on page 18 of this Report.

The development of the Northern Territory’s potentially significant petroleum assets will benefit all stakeholders by producing thousands of direct and indirect jobs and generating millions of dollars in royalties for both the NT Government and the Traditional Owners. However, with an election set in the NT for August of this year, the NT Australian Labor Party recently announced that it would seek to implement a fracking moratorium or a review on all petroleum activities in the NT if it were elected. This political uncertainty may negatively affect the agreements the Company has entered into over the past 3 years with the NT Government, the Traditional Owners and AEP. A review of the Company’s position in relation to any changes in the legality of the proposed changes and their effect to the agreements is currently being undertaken.

In the USA, E&P operations have been very challenging in the current oil price environment. The Company’s hedging program provided a significant cash offset for both oil and gas in the current environment. Hedging is in place through to the end of 2017 for oil at ~$72/Bbl and to the end of 2019 for gas at $4.06/Mcf each for approximately 70% of current production.

Current oil market conditions do not allow for any major new economic development onshore in many of the USA regions of operation. A change in these conditions is not expected while OPEC continues to remain fragmented in its approach to excess production. However, the reduction in global capital expenditure towards reserves replacement has seen, for example, the top seven largest western energy companies replace only 75% of their reserve targets last year, as the impact of 18 months of depressed oil prices continues to bite. Apply this across the global E&P sector, unless investing starts soon, a supply crunch could be over the horizon. As oil in storage is slowly used, the oil price is likely to reset itself to the ‘buy side’ and increases in oil prices to the $50 to $60/Bbl range should be expected by mid-2017. Recent price rises appear to have been caused by a combination of wishful thinking that OPEC would agree on production reductions along with significant short covering by oil speculators. Short term may see prices ease back to the low $30/Bbl.

The Company continues to implement operations efficiency programs which include an individual oil well ‘production matrix’ allowing wells to be put on, or taken off production based on the prevailing WTI spot price. By managing oil wells individually, operating costs have been reduced by around 15%.

The Company has maintained its cost effective G&A overhead and operations remain cash flow profitable. Margins, including hedging, are positive for both gas production in Appalachia and oil production in the MidCon. The Company operates around 2,400 oil and gas wells, but management systems developed by the Company will allow at least 3 times the number of wells to be operated. As such, the Company has recently taken over as operator and administrator of operations for two companies and is in negotiation with two additional companies to take over their operations as designated operator, but without an ownership interest.

At the end of the financial year, like most E&P companies, the US oil and gas operations recorded a non-cash impairment loss of $19.7 million ($12.2 million after tax). The oil and gas assets are value adjusted at the end of each financial year based on a net present value basis. The write down is a non-cash item and will be written back with any increase in the oil/gas price strip. With the difference in accounting policies between Australia and USA, means that the $19 million tax asset accrued on the USA balance sheet is not accounted for in the balance sheet of the parent Australian Company. If this tax affect treatment has been included in the Australian accounts as per the USA accounts, Net Income for the year would have increased by $16.8 million and the net assets of the Company also increased by $16.8 million. The write down in asset value relates to both producing and development assets, the latter which at current prices remain marginally economic, even though in some cases well drilling and service costs have been reduced by 30% to 50%.

There remains significant underlying value in the Company’s E&P assets which is not currently reflected in the balance sheet values if it is considered oil and gas prices will increase from current levels. Northern Territory Assets are recorded in the balance sheet at a net value of ~$1.0 million. As with many other listed E&P companies, the Company breached the NPV/loan covenant at the end the financial year which is a part of the Macquarie Bank

Limited Credit Facility. The breaches have been waived and the Credit Agreement is being extended for a further 3 years, with sign off expected early April 2016. The Company has committed to an accelerated pay down of an agreed amount of the current outstanding debt from a portion of the proceeds received from the AEP Farmout Agreement.

Seeking opportunities to create value for Company shareholders is being strongly pursued. Two small acquisitions which added around 2Bcf in reserves were completed in Appalachia over 2015. Unfortunately the company was unable to close an attractive Butler County oil field asset in Kansas in early 2016. Although significant 3D seismic interpretation had been undertaken by the Company, the equity required for this opportunity was not available and the Credit Facility was not available for non-producing assets. However, the Company is the operator for these assets and has the opportunity to buy back into the project at a later date.

The Company has weathered the worst of the events that the energy industry will incur and it is expected a return to more normalized levels will occur within the next 12 to 24 months. The Empire team is enthusiastically seeking opportunities to enhance shareholder value at all levels and looks forward to an improved 2016/17.

Bruce McLeod
Executive Chairman

Executive Chairman's Review of Operations

A. 2015 OVERVIEW & HIGHLIGHTS

USA – APPALACHIA & MIDCON

- **Revenue $17.5 million (2014: $23.6 million).**
- **EBITDAX $6.0 million (2014: $8.9 million).**
- Gross oil production 216,000 Bbls (Net 140,000 Bbls) (2014: Gross 250,000 Bbls).
- Gross natural gas production 2.2 Bcf (Net 1.7 Bcf) (2014: Gross 2.4 Bcf).
- Average 2015 net production 1,192 Boe/d (2014: 1,311 Boe/d).
- 2P Reserves are 12.7 MMBoe, (2014:14.3 MMBoe) and an NPV10 of $44.5 million or NPV8 of $55.7 million. Utilsing the same NYMEX WTI strip as used for the NPV10 calculations, but increasing 2018 WTI from $49/Bbl to $55/Bbl and 2019+ WTI from ~$54/Bbl to $70/Bbl, the NPV10 increases to $77 million as shut-in wells and Puds become economic.
- Approximately 2Bcf of producing reserves, two compressor stations and two mainline gas taps were acquired in New York State for $120,000. This also included 35,000 held by production Marcellus/Utica shale acres.
- The US oil and gas assets recognised a non-cash impairment charge on the historic book value of $19.7 million, or ~$12.2 million after tax.
- Net tangible Assets ('NTA') at balance date where US$18.7 million or US$0.055 cents per share. If the Australian accounting rules treated impairment the same way it is treated in the USA, NTA would be US$35.5 million or US$0.103 cents per share.
- Outstanding hedges as at December 31, 2015 were valued at $10.9 million.

AUSTRALIA – NORTHERN TERRITORY

- **The Company entered into a US$75,000,000 Farm-out agreement for the development of its NT Assets with America Energy Partners, LP ("AEP"), an Oklahoma, USA based, global leading unconventional independent oil & gas producer. The agreement also includes Imperial's 20% share of the Second Phase US$500,000,000 of project funding. Refer to page 18 for details.**
- A recent announcement by the NT Labor Party to implement a fracking ban or review if they are elected to office in August 2016 has generated significant political uncertainty in terms of the AEP Farmout Agreement. Legal advice is being sort as to the Company's alternatives.
- Subject to the clarification of a proposed NT fracking moratorium, a 470 km seismic program and 2 +8,000 foot well drilling program was initiated to be undertaken over 2016. This is now under review due to political uncertainty.
- A Prospective Resource P(50) (**"PRP(50)"**) of ~1.9 billion Boe or ~11.0Tcfe was announced in March 2015 for the Company's NT Assets. The PRP(50) covers approximately 3.6 million acres of the total 14.6 million acres held by the Company and with an average shale thickness of 330 feet. In most of the area reviewed, the shale thickness can be up to 5 times the thickness used for the PRP(50) estimate. (Refer to page 14 for definition of Prospective Resource)
- Over 2015, the Tawallah Group of shales were shown to extend within EP 184, EPA 183 and EP 187 in the McArthur Basin tenements. No PRP(50) has been calculated, but total areas mapped are approximately 2,000,000 acres, with an expected average thickness of around 400 feet and with projected TOC's between 6% to 7%. The Tawallah Group of shales (and/or equivalents) have now been shown to extend northwards, underlying the Barney Creek shales in EPA's 180, 181 and 182, adding a further estimated 10,000,000 acres to the potential resource base. This has the possibility of adding very significant additional resources to the current PRP(50).
- Negotiations with Traditional Owners continue for the Company's tenements in the McArthur Basin, Northern Territory Australia.

Executive Chairman’s Review of Operation (Continued)

B. OPERATIONS

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

C. OPERATIONS REVIEW – USA

TABLE A

Operating Statistics	Notes	Dec 31, 2015	Dec 31, 2014	% change
Gross Production:				
Oil (MBbls)		216	250	-14%
Natural gas (MMcf)		2,222	2,439	-9%
Net Production:				
Oil (MBbls)		140	160	-12%
Natural gas (MMcf)		1,769	1,909	-7%
Net production (MBoe):	1.0	435	478	-9%
Net Daily Production (Boe/d):		1,192	1,311	-9%
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$72.31	$84.94	-15%
Natural gas ($/Mcf)		$ 3.84	$ 5.00	-23%
Oil Equivalents (Boe)		$38.93	$48.38	-20%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$43.46	$87.37	-50%
Natural gas ($/Mcf)		$ 1.84	$ 3.93	-53%
Oil Equivalents (Boe)		$21.49	$44.96	-52%
Lifting Costs (incl taxes):	1.1			
Oil ($/Bbl)		$24.53	$27.60	-11%
Natural gas ($/Mcf)		$ 2.23	$ 2.35	-5%
Oil Equivalents (Boe)		$16.97	$18.61	-9%
2P Reserves (MMBoe):		12.7	14.3	23%

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	Notes	Dec 31, 2015	Dec 31, 2014	% change
Oil (MBbls)				
Appalachia		4	4	13%
Mid-Con		136	156	-13%
Total (MBbls)		140	160	-12%
Natural gas (MMcf)				
Appalachia		1,761	1,892	-7%
Mid-Con		8	17	-55%
Total (MMcf)		1,769	1,909	-7%

E. REVIEW OF OPERATING RESULTS

USA OPERATIONS

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

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

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

In summary, we believe that:

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

Executive Chairman's Review of Operation (Continued)

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

RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS

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

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

Net Earning – Effective Date ***(In $ thousands)***	**Dec 31, 2015**	**Dec 31, 2014**
EBITDAX – production date	**6,020**	**8,911**
EBITDAX – effective date	6,606	8,805
Net earning – effective date	(6,588)	(2,337)
Intergroup Management Fee	150	150
Revenue & Expenses		
Rental Income	6	18
Other Income*	162	6,616
Impairment of Assets* (refer to note 8 (c))	(22,203)	(13,995)
General & Admin. - HQ	(6)	(18)
General & Admin. – other*	(456)	(367)
Other Expenses	(306)	-
Statutory –Earnings before Tax	**(29,241)**	**(9,933)**
***Indicates non-cash item**		

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

Executive Chairman's Review of Operation (Continued)

TABLE C

Operations *(In $ thousands)*	Notes	Dec 31, 2015	Dec 31, 2014	% change
Net Revenue:				
Oil Sales	1.0	10,153	13,611	-25%
Natural Gas Sales	1.0	6,790	9,516	-29%
Working Interest		12	23	-48%
Net Admin Income	1.1	356	461	-23%
Other Income		166	4	>100%
Total Revenue		17,477	23,615	-26%
Production costs:				
Lease operating expenses - Oil		3,292	3,756	-12%
Lease operating expenses - Gas		3,247	3,431	-5%
Taxes - Oil	1.2	190	648	-71%
Taxes - Natural Gas	1.2	197	617	-68%
Total		6,926	8,452	-18%
Field EBITDAX		**10,551**	**15,163**	**-30%**
Less:				
Inventory adjustment	1.3	160	163	-2%
Reserve Enhancements	1.4	63	347	-82%
Nonrecurring expenses	1.5	821	1,646	-50%
G & G Costs		51	118	-57%
Field Overhead	1.6	788	720	9%
Total		1,883	2,994	-37%
Operating EBITDAX		**8,668**	**12,169**	**-29%**
Operating Margin		49.6%	51.5%	
Operating Margin				
Less:				
Field G & A	1.7	989	688	44%
Corporate G & A	1.8	1,565	1,859	-16%
Delay rental payments		74	260	-72%
Land Overhead & Non-leasing costs		11	8	38%
Dry hole expenses		9	443	-98%
Total		2,648	3,258	-19%
EBITDAX		**6,020**	**8,911**	**-32%**
Net Margin		34.4%	37.7%	

Executive Chairman's Review of Operation (Continued)

Notes to Table C:

1.0 Oil and Natural gas Sales –includes realised net hedges of $7.6 million for natural gas and oil.

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

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

1.3 Inventory Adjustment – adjustment for oil in tanks as of December 31, 2015.

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

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

1.6 Field Overheads – field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease administration and land management, general property insurances, environmental and reserve reporting etc. Around 50% of this is covered by Net Admin Income (refer Note 1.1 above).

1.7 Field G&A - Empire Energy has field offices in each region it operates. Operations are expansive with over 2,200 operating wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 40 employees and 15 contract pumpers operating in two regional areas, Appalachia and the Mid-Con. Field G&A expenses include expenses such as utilities, IT, postage, office rental, third party reservoir engineering reviews etc.

1.8 Corporate G&A – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA were a staff of 4 full time and 2 part time hold responsibility for financial management, control and reporting, plus HR Services. Major expenses for the period were - salaries and wages $301,772; audit/tax and accounting $349,495; travel and accommodation $170,789; rent and associated costs $156,441; Professional Services $89,092 and Management and Director Fees $328,000 (of which $150,000 was paid to Empire Energy Group Limited).

Executive Chairman's Review of Operation (Continued)

F. NET EARNINGS

TABLE D

Net Earnings *(In $ thousands)*	Notes	Dec 31, 2015	Dec 31, 2014	% change
EBITDAX		**6,020**	**8,911**	**-32%**
Geological Services		29	35	-18%
Acquisition related expenses	1.9	262	670	-61%
Capital Raising Expenses		17	598	-97%
Australia HQ	1.10	1,203	1,387	-13%
Northern Territory exploration expenses		946	461	-105%
Total		2,457	3,151	-22%
EBITDA		**3,563**	**5,760**	**-38%**
Less:				
Expiration costs		426	189	126%
ARO		422	378	12%
Depn., Depletion, Amortisation.		6,227	6,009	4%
Total		7,075	6,576	8%
EBIT		**(3,512)**	**(816)**	**331%**
Less:				
Interest		2,060	2,022	2%
Interest (non-cash)	1.11	510	165	209%
(Gain) loss on sale of assets		614	(736)	-183%
P&A vs. ARO		357	-	100%
Net Earnings before Tax		**(7,053)**	**(2,267)**	**211%**

Notes to Table D:

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

1.10 **Australian HQ** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants $330,144; salaries $235,392; audit & accounting $108,611; listing related expenses $98,340; rent, communications, IT hardware and support services $164,502. Australian expenses currency translation at AUD/USA 0.7524.

1.11 **Interest (non-cash)** – increased due to warrant amortisation from prior and current year taken up in 2015.

G. CAPITAL EXPENDITURE

Capex *(In $ thousands)*	Notes	Dec 31, 2015	Dec 31, 2014	% change
Capital Expenditures				
Acquisition Capital		884	14	>100%
New Wells - IDC		878	2,392	-63%
New Wells - Capital		26	1,066	-98%
Undeveloped Leases		899	1,211	-26%
Northern Territory, Australia		1,465	1,491	-2%
Total		**4,152**	**6,174**	**-33%**

Executive Chairman's Review of Operation (Continued)

H. CREDIT FACILITY

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2015 was $39.4 million (cf $42.5 million at Dec 2014) at an average rate of LIBOR+4.35%. Principal repayments made in 2015 and 2014 were ~$3.7 million and ~$3.7 million respectively. Interest expense is estimated to average $143,000/mth over 2016.

The Credit Facility expires on 7 April 2016 and is being extended for a further 3 years, with sign off expected early April 2016. The Company has committed to an accelerated pay down of an agreed amount of current outstanding debt from a portion of the proceeds received from the AEP Farmout Agreement.

I. HEDGING

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

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2016	1,730,000	1,305,000	75.4%	$4.35	126,000	99,600	79.0%	$72.04
2017	1,675,000	1,068,000	63.8%	$4.05	119,500	97,200	81.3%	$72.01
2018	1,620,000	1,008,000	62.2%	$4.11				
2019	1,550,000	498,000	31.7%	$3.45				
Total	6,575,000	3,879,000	58.9%	$4.09	245,500	196,800	80.2%	$72.03

The fair value (marked to market) of combined oil and gas hedges in place as at December 31, 2015 was $10.9 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2015.

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.

Executive Chairman's Review of Operation (Continued)

Reserves as at December 31, 2015 – USA (NYMEX Strip Dec 31, 2015)

Reserves - 1, As of Jan 2016	Oil (Mbbls)	Gas (MMcf)	MBoe	Gross Wells	Capex US$M	PV0 US$M	PV10 US$M
Reserves & Region							
Proved Developed Producing	1,253	23,422	5,157	2,233	$0	$53,152	$22,875
Proved Developed Non-producing	0	0	0	0	$0	$0	$0
Proved Behind Pipe	0	38	6	0	$30	$47	$8
Proved Undeveloped	771	98	787	36	$7,741	$17,017	$5,652
Total 1P	**2,024**	**23,558**	**5,950**	**2,269**	**$7,771**	**$70,216**	**$28,535**
Probable	2,774	23,851	6,749	131	$60,960	$101,999	$15,963
Total 2P	**4,798**	**47,409**	**12,699**	**2,400**	**$68,731**	**$172,215**	**$44,498**
Possible	180	3,820	817	16	$4,922	$11,069	$2,397
Possible - NY Shale	90,740	12,460	92,817				
Total 3P	**95,718**	**63,689**	**106,333**	**2,416**	**$73,653**	**$183,284**	**$46,895**
Prospective Resource P(50) – Shale (NY)	203,500	1,221,000	407,000				
Prospective Resource P(50) - Aus (NT)	198,000	9,891,000	1,846,500				
Total Reserves & Resources	**497,218**	**11,175,689**	**2,359,833**		**$73,653**	**$183,284**	**$46,895**

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.
- "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.

Executive Chairman's Review of Operation (Continued)

- "MMBoe" is defined as a million barrels of oil equivalent.
- "Mcf" is defined as a thousand cubic feet of gas.
- All volumes presented are net volumes and have had subtracted associated royalty burdens.
- Utica shale gas potential resources have only been calculated for the region where drill data is available.
- Very few wells have been drilled into the Utica in Western NY and NW Pennsylvania. Estimates for GIP have been made were the few existing wells have been drilled. Empire holds additional acreage outside the current potential resource region. It is expected that as with shale characteristics, the shale formations will continue within the remaining acreage. The potential GIP should increase if more data was available.
- Reserve estimates have been prepared by the following independent reserve engineers:
- New York & Pennsylvania (Appalachia) and Kansas (Mid-Con) - Ralph E. Davis Associates, Inc.
- Oklahoma (Mid-Con) - Pinnacle Energy Services, LLC.
- Northern Territory - Muir & Associates P/L and Fluid Energy Consultants.
- The following NYMEX price strip, as at December 31, 2015, was used to calculate reserves and cash flow:

Year	$/Bbl	$/Mcf
2016	40.97	2.49
2017	46.06	2.79
2018	49.36	2.91
2019	51.96	3.03
2020	53.64	3.18
2021	54.66	3.31
2022	55.43	3.46
2023	55.82	3.61
2024	56.16	3.74
2025	56.16	3.88
2026+	56.16	4.01

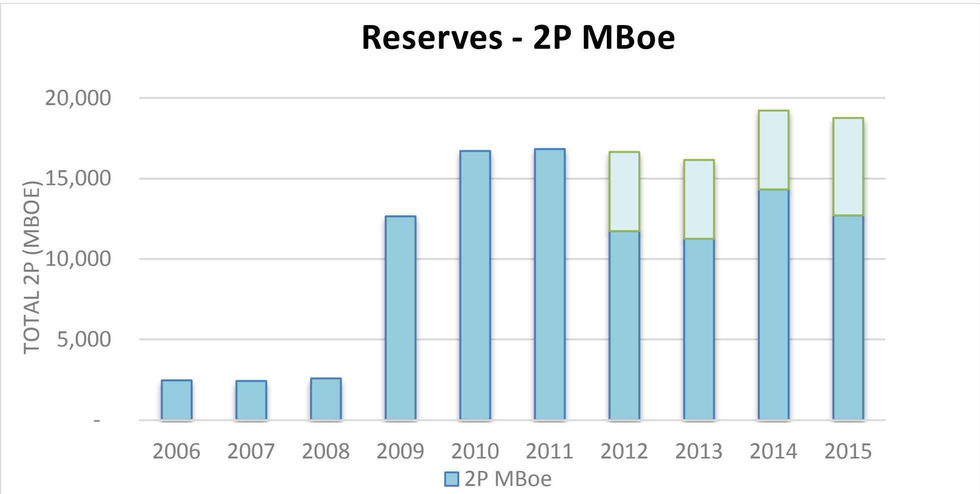
Executive Chairman's Review of Operation (Continued)

Reconciliation of Reserves – USA (NYMEX Strip Dec 31, 2015)

Reserves/Resources *(Mboe)*	1P	2P	3P	Prospective (P50)[5]
As at January 1, 2016				
Appalachia [2]	5,144	6,570	101,350	203,467
Mid-Con	2,180	7,708	7,840	
TOTAL	**7,324**	**14,278**	**109,190**	**203,467**
Production 2015				
Appalachia	-319			
Mid-Con	-159			
Changes [1]				
Appalachia[2]	-839	-1,428	-2,727	
Mid-Con	-57	-151	-130	
As at January 1, 2016				
Appalachia [2]	3,986	5,142	98,623	203,467
Mid-Con	1,964	7,557	7,710	-
Northern Territory [3]	-	-	-	1,846,500
TOTAL	**5,950**	**12,699**	**106,333**	**2,049,967**

(1) Includes acquisitions, divestments, discoveries, extensions and revisions.
(2) Includes shale reserves 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/Utica oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. A 3% recovery factor was utilised.
(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. Prospective resources are as yet undiscovered and as such carry significant exploration risk. The degree of uncertainty is 'most likely'.
(4) 1P, 2P & 3P are calculated on a deterministic basis with applicable volumes are measured at the wellhead.
(5) Unrisked - this estimate of prospective petroleum resources must be read in conjunction with the cautionary statement on page 14.

Net 2P Reserves: An updated Reserve Estimate was carried out as of December 31, 2015 at the NYMEX strip as at December 31, 2015. An updated summary of 2P Reserves is shown below. Total 2P reserves are 12.7 MMBoe. These reserves are mainly held by production and will be written back at higher gas prices.



Executive Chairman's Review of Operation (Continued)

Reconciliation of Economic Summary Projections – USA (NYMEX Strip Dec 31, 2015)

Reserves - PV10 *(In $ thousands)*	1P	2P	3P
As at January 1, 2015			
Appalachia (2)	$24,122	$29,829	$37,285
Mid-Con	$29,134	$56,831	$57,318
TOTAL	**$53,256**	**$86,660**	**$94,603**
Sales 2015			
Appalachia	-$7,617		
Mid-Con	-$13,151		
Changes [1]			
Appalachia	-$3,778	-$15,335	-$21,539
Mid-Con	-$175	-$26,827	-$26,169
As at January 1, 2016			
Appalachia [2]	$12,727	$14,494	$15,746
Mid-Con	$15,808	$30,004	$31,149
TOTAL	**$28,535**	**$44,498**	**$46,895**
Change	-46%	-49%	-50%

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

Land Position

The following table summarises the Company's land holdings in Appalachia and the Mid-Continental regions in the United States and the Northern Territory, Australia, as at December 31, 2015.

State *(Gross Acres)*	Total	HBP	Marcell.	Utica	Miss.	CKU	2016	2017	2018+
NY	249,519	229,467	249,519	123,948	-	-	-	296	261
PA	15,198	15,198	8,293	6,975	-	-	-	-	-
OK	4,937	-	-	-	4,937		-	3,657	1,280
KS	17,634	15,954	-	-	6,912	16,761	1,200	480	
NT	~14,600,000								
TOTAL	14,887,288	260,619	257,812	130,923	11,849	16,761	1,200	4,433	1,541

Marcell. = Marcellus Shale
Miss. = Mississippi Lime
CKU = Central Kansas Uplift:
Arbuckle, Simspon, Viola, Lansing/Kansas City

Executive Chairman's Review of Operation (Continued)

K. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY

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

The McArthur Basin is an underexplored petroleum frontier basin. The Company has had completed at its request an independent Prospective Resource P(50) estimate that concludes 1,847 MMBoe, unrisked prospective resource remains to be discovered.

INDEPENDENTLY CERTIFIED ESTIMATED PROSPECTIVE RESOURCE (Unrisked)					
IDENTIFIED		AREA	P90	P50	P10
Barney Creek Formation	Bcf	2,982	3,304	8,699	20,172
	MMBO		66	174	403
Velkerri Formation	Bcf	635	383	1,192	3,086
	MMBO		8	24	62
TOTAL	**MMBOE**	**3,618**	**689**	**1,847**	**4,341**

Prospective Resource - Refer to page 12 for definition of Prospective Resource

<u>FARM-OUT WITH AMERICAN ENERGY PARTNERS, LP</u>

In December 2015 Imperial entered into Definitive Agreements with AEGP Australia Pty Ltd ("AEGP"), an affiliate of American Energy Partners, LP ("AEP") for the farm-out and development of the Company's Northern Territory oil and gas tenements. The Definitive Agreements provide US$60 million in Phase One funding and further provides access of up to US$500 million of funding for Phase Two development. Two additional payments of US$7.5 million each are payable in cash to Imperial, with the first payment payable on closing. The closing of the Definitive Agreements is subject to usual conditions for a transaction of this nature and size. The cut-off date for closing is within 120 days of the date of the Definitive Documents being April 20, 2016.

The keys terms of the Agreements as previously announced include:

- The Farmout covers 100% of Imperial's petroleum tenements, namely 14.6 million net acres of the McArthur Basin ("Tenements").
- Imperial is to receive an upfront cash payment of US$7.5million to offset expenditure undertaken to date.
- AEGP will carry 100% of Imperial's working interest of expenditure during the first phase work program of US$60 million over a 3 year period ("Phase One").
- On completion of Phase One, AEGP will earn an 80% working interest in the Tenements and the parties will enter into an already agreed industry Joint Operating Agreement.
- Imperial will receive a further US$7.5 million in cash payments subject to a series of benchmarks being achieved.
- AEGP may assume operatorship upon closing, or over the initial stages of development assign operatorship to Imperial. Imperial has the option to assume operatorship if AEGP does not earn at least a 50% working interest in the Tenements over Phase One.
- Over the Phase One period AEGP will maintain the Tenements in good standing with an estimated expenditure requirement of up to US$15 million over the first 2 years.
- At the end of Phase One, Imperial has the option to either fund its 20% working interest in the project or request AEGP to arrange the financing of Imperial's share for the next US$500 million in project funding.
- At closing of the Definitive Agreements, on or before April 20, 2016, Empire will issue to AEGP options equivalent to 7.5% of the total current number of Empire outstanding shares. The Empire options will be exercisable at $0.125 per share, expiring 5 years after the date of issue.

<u>Potential Fracking Moratorium in the Northern Territory</u>

In February 2016 Michael Gunner, MLA leader of the Northern Territory ("NT") Labour Party and the current opposition leader in NT announced that should the Labour Party win the election in August 2016 a moratorium on fracking in the Northern Territory <u>may</u> be implemented.

To ensure the Company protects the expenditure it has incurred on the granting of the tenements and to protect the significant value of the Farm-out Agreement entered into by the Company with AEP, legal advice is being sought on the alternatives should such a moratorium be considered.

Executive Chairman's Review of Operation (Continued)

OVERVIEW OF 2015 WORK PROGRAM

A. Barney Creek and Velkerri Formations

- The successful 2014 Imperial Oil & Gas exploration drilling program confirmed the presence of high organic content black shales within the EP184 and EP187 tenements. A reinterpretation was undertaken combining these data with all available seismic, geomagnetic, electromagnetic, digital elevation and well bore data across the exploration permit areas.

- The resulting interpretation was combined with, and refined the previous geological model for the basin and to further populate the company's Prospects and Leads inventory.

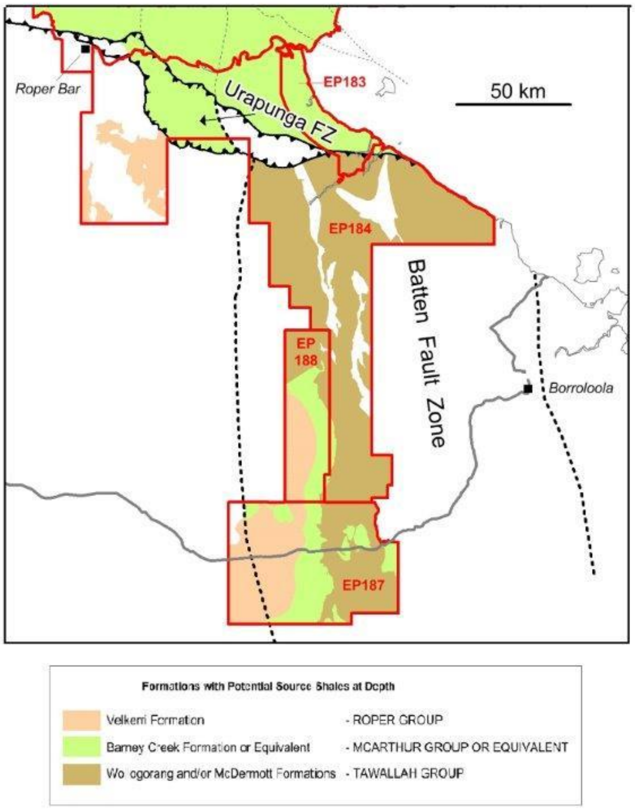
- Further research into the Velkerri Formation successfully identified the formation as highly prospective for hydrocarbons. The presence of live hydrocarbon indications in several historical drill holes within the Tenements clearly indicates that these hydrocarbons can exist in volatile, recoverable form.

- Rock Evaluation pyrolysis results demonstrate that a number of shale core samples analysed were formerly buried into the oil generation window of thermal maturity and those with significant TOC content (Total Organic Carbon) are of Type III composition and gas prone.

B. Tawallah Group Formations (Including Wollogorang and McDermott Formations)

- Encouraging research by Imperial has established that source rock lithologies in the Wollogorang Formation contain up to 7% TOC.

- As shown by the map below, the Tawallah Group Formations (in brown) provide an additional shale target layer, approaching ~2 million acres of potential resource play to the Company's extensive resource inventory in the Barney Creek and Velkerri Formation black shales to the west and north.



- In support of the proposed 2016 exploration program, and consistent with the company's environmental values, an extensive hydrogeological study of the exploration tenements was undertaken. The study objectives included identification of the key ecological characteristics of the exploration areas. The aim was to document the ecological habitats, flora and fauna including introduced species, as well as the locations of faunal breeding sites and the potential for threatened species to occur generally over the tenements.

Executive Chairman's Review of Operation (Continued)

C. Ongoing Exploration program

Subject to further consideration of possible future NT ALP policies and based on the work undertaken through 2015, AEGP and Imperial have developed the following exploration program for the Northern Territory acreage:

- The acquisition of 230 km of 2D seismic lines within EP187 to identify the basin architecture within the tenement and to better define the candidate drilling targets prior to finalising and undertaking a future drilling campaign in the 3rd and 4th quarter of 2016.
- The acquisition of 214 km of 2D seismic within EP184 across the St Vidgeon region to refine the proposed 2017 drilling targets within the northern portion of the tenement.
- The drilling of 1 or 2 stratigraphic wells in EP187 to confirm target depths and collect fresh un-weathered shale samples.
- Further research into the petroleum generation potential of the Tawallah Group (Wollogorang and McDermott Formations). This will include continued field mapping and shale sampling along key outcrop intervals within EP187, EPA 183 and EP184. In particular in areas previously considered barren and now identified as containing extensive areas (~2,000,000 acres) of high TOC potential Tawallah Group Formations within EP184 and EPA 183 and underlying the eastern part of EP187.
- Research and mapping of the northwards extension of the Tawallah Group Formations into the Company's EPA's 180,181 and 182 where this formation represents a new potentially volumetrically important petroleum play covering up to 10,000,000 acres.
- Ongoing baseline ecology studies of surface water and ongoing hydrology studies.
- Continue to populate and refine the Tenement Lead & Prospect Inventory including identifying drilling targets in areas proximal to previously observed live oil and gas shows.
- Continue discussions to upgrade the McArthur Mine gas pipeline which runs W-E through the centre of EP187 subject to a successful drilling program in 2016/17.

L. COMPONENT PERSONS STATEMENT

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

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

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

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

DIRECTORS' REPORT
for the financial year ended 31 December 2015

In respect of the financial year ended 31 December 2015, 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. In December 2015 the Company entered into Definitive Agreements with AEGP Australia Pty Ltd to enter into a farm-in to further undertake the exploration and development of the McArthur Basin Project.

CONSOLIDATED RESULTS

The consolidated net loss of the Empire Group for the financial year ended 31 December 2015 after providing for income tax was US$26,998,997 compared to a consolidated net loss for the previous corresponding reporting period of US$4,753,285.

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 6 to 20 of this annual report.

DIVIDENDS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

LIKELY DEVELOPMENTS

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

MATTERS SUBSEQUENT TO BALANCE DATE

1) Macquarie Bank Credit Facility Rollover
   The Credit Facility matures on the 7 April 2016. Documentation for the rollover of the Facility is being finalised for a further 3 years, with sign off expected early April 2016. The Company has committed to an accelerated pay

Directors' Report
for the year ended 31 December 2015

down of an agreed amount of current outstanding debt from a portion of the proceeds received from the AEP Farmout Agreement.

2) In February 2016 Michael Gunner, MLA leader of the Northern Territory ("NT") Labor Party and the current opposition leader in NT announced that should the Labor Party win the election in August 2016 a moratorium on fracking in the Northern Territory may be implemented. The Company is reviewing its legal position in relation to its existing contractual arrangements with the NT Government, the Traditional Owners and AEGP.

3) On February 16, 2016, the Company elected not to complete the purchase of the Butler County Kansas properties and subsequently wrote down the value of those assets at December 31, 2015 and then wrote off the remaining value of the assets against the loan value at February 16, 2016. The loan facility to acquire the assets was not drawn.

There were no other matters or circumstances that have arisen since 31 December 2015 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2015, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2015 of the Empire Group.

INFORMATION ON DIRECTORS

Bruce William McLeod, B.Sc (Maths), M.Com (Econ) Age 63
Executive Chairman

Experience and Expertise
Mr McLeod has had extensive experience in the Australian capital markets. Over the past 21 years he has been involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent 6 years with a major international bank, where he was Executive Director, responsible for the financial and capital markets operations.

Appointed a Director of the Company on 21 May 1996.

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

Other Current Directorships
Chairman of Anson Resources Limited (formerly Mayan Iron Corporation Ltd).

Former Directorships in Last 3 Years
None.

David Henty Sutton, B.Com ACIS Age 72
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 Precious Metals, Sinovus Mining Limited, and Dayton Way Financial.

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

Directors' Report
for the year ended 31 December 2015

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

Experience and Expertise
Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 41 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia.

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

Appointed a Director of the Company on 26 November 1992.

Special Responsibilities
Member of Remuneration Committee and Member of Audit Committee

Other Current Directorships
Non-Executive Director of Latrobe Magnesium Limited

Former Directorships in Last 3 Years
None

COMPANY SECRETARY

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

EXECUTIVES

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

Dr John Warburton (FGS, MAICD)
Director, Imperial Oil & Gas Pty Ltd
Dr Warburton was appointed as an advisor to the Empire Energy Group in February 2010 and from March 2011 to March 2014 served as CEO of the Company's wholly owned subsidiary Imperial Oil & Gas Pty Ltd. He continues as Non-Executive Director of Imperial Oil & Gas. A Geoscientist by profession, Dr Warburton has 33 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 operated & non-operated petroleum expertise covers the Middle East, Central and East Asia, Africa, Pakistan, Europe, Australia, New Zealand and PNG. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 28 internationally recognised technical articles with particular focus on petroleum systems in complex fold and thrust belts.

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

Geoff Hokin MSc(Hons) geology; MSc geology; Dip 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 13 years' experience as an exploration geologist in the unconventional gas and coal sectors with

Directors' Report
for the year ended 31 December 2015

various senior geology roles with a number of companies including Armour Energy Limited, Metgasco Limited and Arrow Energy Limited. Mr Hokin has extensive geological and executive management experience, to Company Director level in other operations. He also holds post graduate qualifications in Cross Cultural Psychology and Anthropology with a particular focus on the Australian Aboriginals of Arnhem Land and the Southern Gulf region of the Northern Territory.

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	13	13	-	-	5	5
Mr D H Sutton	13	13	1	1	5	5
Mr K A Torpey	13	13	1	1	5	5

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

Remuneration Report – Audited

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

REMUNERATION COMMITTEE

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

The members of the Remuneration Committee during the period were:

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

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

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.

Directors' Report
for the year ended 31 December 2015

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

Non-Executive Directors' Remuneration

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

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

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

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the 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 $55,268 the non-cash loss on options relating to the above directors that expired over the year was $25,649. The net non-cash cost of options issued to the above directors and executives for the year was $29,618.

	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.

Directors' Report
for the year ended 31 December 2015

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:

Terms of the agreement:
- Base salary of A$438,795 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 there were no executive options to acquire ordinary shares granted to Directors and specified executives of the Company.

At the date of this report there were 6,500,000 unissued shares held under option to Directors and specified executives.

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

These options are exercisable of the following basis:

Number		Exercise Price Pre Rights Issue A$	Exercise Price post Rights Issue A$*	Expiry Date
3,500,000	Executive options	$0.15	$0.149	31 December 2016
1,500,000	Executive options	$0.17	$0.169	31 December 2016
1,500,000	Executive options	$0.18	$0.179	31 December 2016
6,500,000				

* Following a Pro-Rata Rights Issue announced in August 2015 the exercise price of outstanding options were adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22.

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	-	-	8,924,997	3,000,000
D H Sutton	525,962	-	208,333	-
K A Torpey	118,055	-	2,073,394	-

End of Audited Remuneration Report

Directors' Report
for the year ended 31 December 2015

SHARE OPTIONS

Movements

Grant of Options

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

Exercise of Options

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

Expiry of Options

1,500,000 unlisted options exercisable at $0.179 were not exercised by their expiry date of 31 December 2015 and as a consequence have lapsed. 4,500,000 unlisted options exercisable at $0.169 were not exercised by their expiry date of 31 December 2015 and as a consequence have lapsed. 4,250,000 unlisted options were not exercised by their expiry date being 26 February 2016 and lapsed.

At the date of this report the total number of unissued shares held under option was 6,500,000. These options are exercisable on the following terms.

Number		Exercise Price A$	Expiry Date
3,500,000	Executive options	$0.149	31 December 2016
1,500,000	Executive options	$0.169	31 December 2016
1,500,000	Executive options	$0.179	31 December 2016
6,500,000			

Adjustment of Option exercise prices

Following the completion of a Pro-Rata Rights Issue announced in August 2015 the exercise prices of 16,750,000 outstanding options were adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22 as follows:

Number		Exercise Price Pre Rights Issue A$	Exercise Price post Rights Issue A$	Expiry Date
1,500,000	Unlisted options	$0.18	$0.179	31 December 2015
4,500,000	Unlisted options	$0.17	$0.169	31 December 2015
4,250,000	Unlisted options	$0.12	$0.119	26 February 2016
3,500,000	Unlisted options	$0.15	$0.149	31 December 2016
1,500,000	Unlisted options	$0.17	$0.169	31 December 2016
1,500,000	Unlisted options	$0.18	$0.179	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%

Directors' Report
for the year ended 31 December 2015

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

DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE

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

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

Proceedings on Behalf of the Company

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

Environmental Regulations

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

Declaration by the Group Executive Officer and Chief Financial Controller

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Controller in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the financial year ended 31 December 2015 present a true and fair view in all material aspects of the financial position and performance and are in accordance with relevant accounting standards.

Non-Audit Services

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

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

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

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 29 and forms part of the Director's Report for the financial year ended 31 December 2015.

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 24 March 2016

nexia australia

the next solution

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

31 March 2016

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 2015, 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

Robert Mayberry
Partner

Nexia Court & Co

Nexia Court & Co.
Chartered Accountants

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2015

	Note	Year ended December 2015 US$	Year ended December 2014 US$
Sales Revenue	5a	18,236,209	23,570,157
Cost of Sales	6	(9,701,346)	(12,130,866)
Gross Profit		8,534,863	11,439,291
Other income	5b	493,278	898,141
General and administration expenses		(4,746,575)	(5,305,912)
Exploration expenses		(955,295)	(780,082)
Other non-cash expenses	8a	(30,507,331)	(14,162,698)
Operating (Loss) before interest costs		(27,181,060)	(7,911,260)
Net interest (expense)/income	7	(2,059,868)	(2,021,849)
(Loss) before income tax expense		(29,240,928)	(9,933,109)
Income tax benefit	9a	2,241,931	5,179,824
(Loss) after income tax benefit from continuing operations		(26,998,997)	(4,753,285)
Other comprehensive income			
(Loss) on the revaluation of available-for-sale assets		(5,145)	(151,750)
Exchange differences on translation of foreign operations		(175,883)	(29,160)
Other comprehensive income for the year, net of tax		(181,028)	(180,910)
Total comprehensive income for the year		(27,180,025)	(4,934,195)
		Cents per share	Cents per share
Basic earnings per share	28	(7.84)	(1.54)
Diluted earnings per share	28	(7.84)	(1.54)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

	Note	As at December 2015 US$	As at December 2014 US$
CURRENT ASSETS			
Cash and cash equivalents		1,126,543	3,092,991
Trade and other receivables	10	1,874,474	4,471,855
Prepayments	11	672,044	242,184
Inventories	12	553,184	611,002
Financial assets, including derivatives	13	5,579,991	6,558,148
TOTAL CURRENT ASSETS		9,806,236	14,976,180
NON-CURRENT ASSETS			
Financial assets, including derivatives	13	5,766,521	5,157,977
Oil and gas properties	14	58,275,023	81,876,604
Property, plant and equipment	14	532,286	672,778
Intangible assets	15	68,217	68,217
TOTAL NON-CURRENT ASSETS		64,642,047	87,775,576
TOTAL ASSETS		74,448,283	102,751,756
CURRENT LIABILITIES			
Trade and other payables	16	3,760,766	5,771,978
Interest-bearing liabilities	17	40,460,495	41,776,843
Provisions	18	12,377	12,245
TOTAL CURRENT LIABILITIES		44,233,638	47,561,066
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	17	31,560	42,434
Provisions	18	11,496,833	7,953,969
Deferred income tax liability	9(e)	-	2,062,080
TOTAL NON-CURRENT LIABILITIES		11,528,393	10,058,483
TOTAL LIABILITIES		55,762,031	57,619,549
NET ASSETS		18,686,252	45,132,207
EQUITY			
Contributed equity	19	74,240,545	73,683,238
Reserves		4,436,865	4,441,130
Accumulated losses		(59,991,158)	(32,992,161)
TOTAL SHAREHOLDERS' EQUITY		18,686,252	45,132,207

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 2015

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

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

CONSOLIDATED STATEMENT OF 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	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 CASH FLOWS
for the year ended 31 December 2015

	Note	Year ended 31 December 2015 US$	Year ended 31 December 2014 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		21,191,292	23,919,521
Payments to suppliers and employees		(17,640,200)	(16,938,010)
Interest received		4,416	3,916
Interest paid		(2,074,475)	(2,021,849)
Income taxes paid		179,851	127,436
Net cash flows from operating activities	27(b)	1,660,884	5,091,014
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of oil and gas assets		201,815	1,769,209
Proceeds from sale of investments in equity		207,030	-
Payments for oil and gas assets		(1,468,461)	(6,700,803)
Payments for property, plant and equipment		(21,371)	(95,233)
Net cash flows from investing activities		(1,080,987)	(5,026,827)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest bearing liabilities		-	4,500,603
Net proceeds from issuing of shares		557,307	-
Repayment of interest bearing liabilities		(3,180,449)	(3,736,186)
Finance lease payments		(10,874)	(20,173)
Net cash flows from financing activities		(2,634,016)	744,244
Net (decrease)/increase in cash and cash equivalents		(2,054,119)	808,431
Cash and cash equivalents at beginning of financial year		3,092,991	2,322,720
Effect of exchange rate changes on cash and cash equivalents		87,671	(38,160)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	27(a)	1,126,543	3,092,991

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 2015

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 30.

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 2015 was authorised for issue in accordance with a resolution of Directors on 24 March 2016.

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.

Comparative Information

Presentation of the Statement of Profit or Loss and Other Comprehensive Income has been adjusted in the year to enable users of the financial statements to better understand the operating performance of the Group. Comparative information has been aggregated on the Statement of Profit or Loss and Other Comprehensive Income to enable comparison against the current year. There has been no reclassification or restatement of balances to enable this adjustment in presentation. Revenue and expense balances previously disclosed on the face of the primary statements can be found in Note 5 to Note 8.

Statement of compliance

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

Presentation currency

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

New, revised or amending Accounting Standards and Interpretations adopted

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2015 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 2015.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Foreign Currency Translations

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

Foreign currency transactions

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

Foreign operations

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

Revenue recognition

Natural gas revenue

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

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

Oil revenue

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

Well operations

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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%

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or cash generating unit.

Investments

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

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

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

Intangible Assets

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

Interest-bearing liabilities

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

Provisions – Employee Benefits

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

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

Asset Retirement Obligations

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognised as a finance cost.

Income tax

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

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

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

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Earnings per share

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

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

Share based payment transactions

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

New Accounting Standards and Interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2015. 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 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

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 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;

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Estimates and assumptions

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

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Reserves base

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

Carrying value of oil and gas assets

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

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).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

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

Recoverable amount

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

Significant judgement – Impairment of oil and gas assets

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

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

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

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

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

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

Asset retirement obligations

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

Share-based payments

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

3. GOING CONCERN

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

The debt facility with Macquarie Bank matures on 7 April 2016. Documentation with Macquarie Bank regarding extension of the facility is being finalised with expected execution in early April 2016. The terms are not expected to be materially different from those disclosed in Note 17, however this may be subject to change on legal review. The expiration does not impact the classification of the loan facility on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

3. GOING CONCERN (Continued)

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of $34,427,402. This is primarily due to the Board determining that debt facilities be classified as current liabilities as described in Note 17 under classification of borrowings.

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

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 2015

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 2015 the Empire Group hedged approximately 78% of its oil (2014: 47%) and 59% of its total gas production (2014: 60%).

The Empire Group has approximately 3,873 thousand cubic feet (mcf) of monthly natural gas production and 192,000 barrels of oil production hedged at amounts ranging from $3.45 to $4.35/mcf for natural gas expiring in January 2016 through December 2019 and $72.01 to $72.04 per barrel for oil expiring in January 2016 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 2015 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 2015.

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 2015						
Financial Assets						
Cash and cash equivalents	1.13	1,126,543	-	-	-	1,126,543
Trade and other receivables		-	-	-	1,874,474	1,874,474
Financial assets		-	-	-	11,346,512	11,346,512
		1,126,543	-	-	13,220,986	14,347,529
Financial Liabilities						
Trade & other payables		-	-	-	3,760,766	3,760,766
Financial liabilities, including derivatives		-	-	-	-	-
Interest-bearing liabilities	4.00	-	40,460,495	31,560	-	40,492,055
		-	40,460,495	31,560	3,760,766	44,252,821

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

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 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

(iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2015, 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 2016. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US$405,000.

(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:

	2015 US$	2014 US$
Trade, other receivables, and derivatives	12,618,358	15,497,982

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

	2015 US$	2014 US$
Australia	-	-
United States of America	12,618,358	15,497,982

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(C) LIQUIDITY RISK

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

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

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

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

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	-	-	-	-	-

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2015 Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale – equity securities	-	-	-	-
Unlisted available-for-sale equities	-	-	473,060	473,060
Fair value of derivatives	-	10,873,451	-	10,873,451
Total assets	-	10,873,451	473,060	11,346,511
Liabilities				
Fair value of derivatives	-	-	-	-
Total liabilities	-	-	-	-

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	-	-	-	-

There were no transfers between levels during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	2015 US$	2014 US$
a. Sales revenue		
Revenue from oil and gas sales	17,581,328	22,678,332
Revenue from drilling operations	-	-
Revenue from well operations	654,881	891,825
	18,236,209	23,570,157
b. Other income		
Gain on sale of investment	161,782	-
Gain on sale of asset	-	739,208
Interest income	4,416	3,916
Rental income	6,334	18,196
Other income	320,746	136,821
	493,278	898,141

6. COST OF SALES

Oil and gas production	(9,701,346)	(12,130,866)
	(9,701,346)	(12,130,866)

7. INTEREST EXPENSE

Interest paid/payable on financial liabilities	2,059,868	2,021,849
	2,059,868	2,021,849

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

8. EXPENSES	**2015 US$**	**2014 US$**
a. Other non-cash expenses		
Leasing expiration expenses (note 8c)	426,200	188,518
Impairment of assets (note 8c)	22,202,568	13,995,331
Depreciation, depletion and amortisation	5,770,977	5,842,203
Finance costs (note 8b)	1,098,565	709,755
Unrealised derivative movement	305,548	(6,615,916)
Other expenses	703,473	42,807
Total other expenses	30,507,331	14,192,698
b. Finance expenses		
Accretion of asset retirement obligation (note 18)	422,431	378,334
Unwind of discount of debt	676,134	331,421
Total finance costs	1,098,565	709,755

c. Profit/(loss) before income tax includes the following specific expenses:		
Depreciation, depletion and amortisation		
Oil & Gas properties and plant & equipment (note 14)	5,770,977	5,842,203
	5,770,977	5,842,203
Employee benefits expense		
Defined contribution superannuation expense	32,747	47,617
Other employee expenses	4,293,081	4,610,362
Total employee benefits expense	4,325,828	4,657,979
Impairment expense[(a)]		
Impairment of additional asset retirement obligation	2,455,568	-
Impairment of property plant & equipment [(a)]	19,747,000	-
Total impairment expense	22,202,568	-
Loss on disposal of property, plant & equipment	-	-
Leasing expiration expenses [(b)]	426,200	188,518

(a) Impairment expense
For the period 31 December 2015, the Company impaired the oil and gas properties by $19,747,000 due to the decline in oil prices resulting in a reduction of the recoverable amount of those assets. Furthermore, an increase in the asset retirement obligation of $2,455,568, resulting from the accounting differences between US GAAP and IFRS, was recognised as a further impairment charge to ensure that oil and gas properties were appropriately written down to their recoverable amount as at 31 December 2015.

(b) Leasing expiration expense
A charge of $426,200 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 2015

9. INCOME TAX

	2015 US$	2014 US$
a. Income tax expense		
Current tax	(179,851)	74,096
Deferred tax	(2,062,080)	(5,253,920)
Income tax benefit attributable to continuing operations	(2,241,931)	(5,179,824)
Deferred income tax expense included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 9(e))	(2,062,080)	(5,253,920)
	(2,062,080)	(5,253,920)
b. Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss)/profit before income tax	(29,240,928)	(9,933,109)
Tax at the Australian tax rate of 30% (2014: 30%)	(8,772,278)	(2,979,933)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Non-deductible expenses	8,528,894	(2,834,729)
Tax (over)/underprovided in prior year	(2,017,439)	441,150
Withholding tax paid	18,892	41,848
Deferred tax asset in relation to tax losses and temporary differences not recognised	-	148,839
Income tax benefit	(2,241,931)	(5,179,824)
c. Deferred tax assets not recognised relate to the following:		
Tax losses	4,071,782	2,698,822
Capital losses	141,410	141,410
Temporary differences relating to Oil & Gas assets	9,486,489	-
	13,699,681	2,839,632

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

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 2015.

	2015 US$	2014 US$
e. Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Forward commodity contracts	-	3,699,298
Oil & Gas and Property, Plant & Equipment	8,378,469	8,270,981
Other	81,904	60,267
	8,460,373	12,030,546
Set-off of deferred tax liabilities pursuant to set-off provisions (note f)	(8,460,373)	(9,968,466)
Net deferred tax liabilities	-	2,062,080
f. Deferred tax assets		
The balance comprises temporary differences attributable to:		
Tax losses carried forward	-	1,380,617
Accrued asset retirement obligation	1,245,839	1,083,512
Oil & Gas and Property, Plant & Equipment	7,214,534	7,348,127
Other	-	156,210
	8,460,373	(9,968,466)
Set-off of deferred tax assets pursuant to set-off provisions (note e)		
Net deferred tax assets	-	-

10. TRADE AND OTHER RECEIVABLES

	2015 US$	2014 US$
Current		
Trade receivables	1,821,890	4,413,218
Other	52,584	58,637
	1,874,474	4,471,855

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	2015 US$	2014 US$
Prepayments	672,044	242,184

12. INVENTORIES

	2015 US$	2014 US$
Crude oil and production supplies	553,184	611,002

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

13. FINANCIAL ASSETS, INCLUDING DERIVATIVES

	2015 US$	2014 US$
Current		
Oil and gas price forward contracts	5,579,991	6,558,148
Non-current		
Oil and gas price forward contracts	5,293,460	4,620,851
Shares – other corporations:		
• Listed available-for-sale equities (at fair value)	-	55,106
• Unlisted available-for-sale equities (at cost)	629,102	638,061
Less: accumulated impairment on unlisted equities	(156,041)	(156,041)
Total Non-current	5,766,521	5,157,977

Commodity hedge contracts outstanding are outlined below.

2015 NATURAL GAS - HENRY HUB - NYMEX - Swaps					**2014 NATURAL GAS - HENRY HUB - NYMEX - Swaps**				
Period	**Swap Price**	**Premium**	**Product**		**Period**	**Swap Price**	**Premium**	**Product**	
					Jan 15 - Dec 15	5.45	$Nil	1,116,000	mmbtu
					Jan 15 - Dec 15	5.45	$Nil	156,000	mmbtu
Jan 16 - Dec 16	4.43	$Nil	500,000	mmbtu	Jan 16 - Dec 16	4.43	$Nil	500,000	mmbtu
Jan 16 - Dec 16	4.30	$Nil	805,000	mmbtu	Jan 16 - Dec 16	4.30	$Nil	805,000	mmbtu
Jan 17 - Dec 17	4.05	$Nil	1,068,000	mmbtu	Jan 17 - Dec 17	4.05	$Nil	1,068,000	mmbtu
Jan 18 - Dec 18	4.11	$Nil	1,008,000	mmbtu	Jan 18 - Dec 18	4.11	$Nil	1,008,000	mmbtu
Jan 19 – Dec 19	3.45	$Nil	491,500	mmbtu	Jan 19 – Dec 19	3.45	$Nil	491,500	mmbtu
2015 OIL - WTI - NYMEX					**2014 OIL - WTI - NYMEX**				
					Jan 15 - Dec 15	90	$Nil	98,160	BO
Jan 16 - Dec 16	72.04	$Nil	99,600	BO	Jan 16 - Dec 16	72.04	$Nil	99,600	BO
Jan 17 - Dec 17	72.01	$Nil	92,400	BO	Jan 17 - Dec 17	72.01	$Nil	92,400	BO

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

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

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$							
At 1 January 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 2015

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

At 31 December 2015, 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 2015 are:

Oil and gas assets	**Subsurface assets US$**	**Recoverable amount US$**
Kansas	29,471,946	18,142,780
Appalachia	23,109,124	14,691,290
Total	52,581,070	32,834,070

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 and gas price environment.

	2015 US$	**2014 US$**
15. INTANGIBLE ASSETS		
Goodwill	68,217	68,217
	68,217	68,217
16. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	3,746,225	5,696,470
Other creditors	14,541	75,508
	3,760,766	5,771,978
17. INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	12,996	18,928
Bank loan -secured	40,447,499	41,757,915
	40,460,495	41,776,843
Non-current		
Finance lease liability	31,560	42,434

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 accrues on the outstanding borrowings at rate options selected by the Company and based on the prime lending rate (3.25% at December 31, 2015) or the London Inter-Bank Offered Rate (60-Day NOTE LIBOR) (0.5149% at December 31, 2015) plus 2.5%. At December 31, 2015, the Company's rate option was London Inter-Bank Offered Rate (LIBOR). There was no availability under the Revolver at December 31, 2015 and 2014.

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.

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. As at 31 December 2015 the Company was in breach of two loan covenants, it was agreed by the Lender to waive the Relevant Defaults, on a one-time only basis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

17. INTEREST-BEARING LIABILITIES (Continued)

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 2015 and 2014 were approximately $3,665,000 and $3,703,000, 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 $73,000 and $583,000 at 31 December 2015 and 2014, respectively. Additional interest expense of $510,000 and $164,000 for the years ended December 31, 2015 and 2014 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:

	2015 US$	2014 US$
Term		
Tranche	-	1,720,233
Tranche 1	6,181,553	6,181,553
Tranche 3	19,585,871	19,585,871
Tranche 4	10,583,403	12,027,354
Revolver	3,000,000	3,000,000
Sub-Total	39,350,827	42,515,011
Less – Discount on debt:	(97,234)	(757,096)
	39,253,593	41,757,915
Acquisition Commitment (1)	1,193,896	-
Finance Lease Liability	13,006	18,928
Total Current Debt	40,460,495	41,776,843

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

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.

The Credit Facility matures on 7 April 2016. Documentation for the rollover of the Facility is being finalised for a further 3 years, with sign off expected early April 2016. The Company has committed to an accelerated pay down of an agreed amount of current outstanding debt from a portion of the proceeds received from the AEP Farmout Agreement. Refer to note 3 and note 33.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

18. PROVISIONS	2015 US$	2014 US$
Current		
Employee entitlements	12,377	12,245
Non-current		
Asset retirement obligations	11,496,833	7,953,969
Movement in Asset Retirement Obligation		
Balance at beginning of the period	7,953,969	7,788,880
Additions for the period	353,413	53,359
Write-off accrued plugging costs	(113,922)	(266,604)
Accretion expense for the period, included in finance costs	422,431	378,334
Change in estimate[(a)]	2,880,942	-
Balance end of the period	11,496,833	7,953,969

(a) Due to the write down of oil and gas properties to their recoverable amount, $2,455,568 has been written off as impaired from the carrying value of the oil and gas properties, refer to Note 8c.

Asset Retirement Obligation

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

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

19. CONTRIBUTED EQUITY	2015 US$	2014 US$
a) Shares		
Issued Capital		
Balance at beginning of period	73,683,238	73,683,238
Movement in ordinary share capital		
- Issue of 35,450,195 fully paid ordinary shares in September 2015 @ A$0.023 pursuant to a Pro-Rata Rights Issue	571,563	-
Less costs associated with the share issues detailed above	(14,256)	-
Balance as at 31 December 2015	74,240,545	73,683,238
b) Shares	**No. of shares**	**No. of shares**
Movements in ordinary issued shares		
Balance at beginning of period	308,863,682	308,863,682
Movement in ordinary share capital		
- Issue of fully paid ordinary shares in September 2015 @ A$0.023 pursuant to a Pro-Rata Rights Issue	35,450,195	-
- Balance as at 31 December 2015	344,313,877	308,863,682

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

19. CONTRIBUTED EQUITY (Continued)

Share Options

Movements

Granted
No options were granted during the financial year or in the end of the financial year and up to the date of this report.

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

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

- 1,500,000 unlisted options at A$0.179 expiring 31 December 2015
- 4,500,000 unlisted options at A$0.169 expiring 31 December 2015

Since the end of the financial year an additional 4,250,000 unlisted options exercisable at A$0.119 expired unexercised on 26 February 2016.

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

Shares

- 344,313,877 listed fully paid ordinary shares – ASX Code: EEG

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

Options

Adjustment of Option exercise prices

Following the completion of a Pro-Rata Rights Issue announced in August 2015 the exercise prices of 16,750,000 outstanding options were adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22. At balance date the Company had 16,750,000 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price Pre Rights Issue A$	Exercise Price post Rights Issue A$	Expiry Date
1,500,000	Unlisted options	$0.18	$0.179	31 December 2015
4,500,000	Unlisted options	$0.17	$0.169	31 December 2015
4,250,000	Unlisted options	$0.12	$0.119	26 February 2016
3,500,000	Unlisted options	$0.15	$0.149	31 December 2016
1,500,000	Unlisted options	$0.17	$0.169	31 December 2016
1,500,000	Unlisted options	$0.18	$0.179	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 2015

19. 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.

20. RESERVES

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

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

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

21. CONTINGENT LIABILITIES

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

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

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

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or clean-up is probable, and the costs can be reasonably estimated. The Empire Group maintains insurance that may cover in whole or in part certain environmental expenditures. At 31 December 2015, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

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

22. CONTINGENT ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

23. COMMITMENTS FOR EXPENDITURE

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

i) Equipment and Operating Leases	**2015 US$**	**2014 US$**
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	311,842	307,311
Later than one year not later than two years	158,794	215,381
Later than two years not later than five years	82,000	214,152
More than five years	-	-
	552,636	736,844

The Company leased its US corporate headquarters under a non-cancellable operating lease of monthly payments of approximately $7,400 through February 2017. Net rental expense approximated $87,000 and $87,000, net of reimbursements, for the year ended 31 December 2015 and 31 December 2014.

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 2015 and 2014 were approximately $249,000 and $235,000 respectively. The Empire Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

ii) Property Licence

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

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

24. SHARE BASED PAYMENTS

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 2015
During the 2015 financial year no options were granted pursuant to the Employee Share Option Plan 2014.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

24. SHARE BASED PAYMENTS (Continued)

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				

b) Options

During the 2015 financial year no options were granted.

The options outstanding at 31 December 2015 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
28 June 2013(1)	31 December 2015	17.9 cents	1,500,000	-	1,500,000	-	-
28 June 2013(1)	31 December 2015	16.9 cents	4,500,000	-	4,500,000	-	-
26 February 2014	26 February 2016	11.9 cents	4,250,000	-	-	-	4,250,000
15 July 2014(2)	31 December 2016	14.9 cents	3,500,000	-	-	-	3,500,000
15 July 2014(2)	31 December 2016	16.9 cents	1,500,000	-	-	-	1,500,000
15 July 2014(2)	31 December 2016	17.9 cents	1,500,000	-	-	-	1,500,000
			16,750,000	-	(6,000,000)	-	10,750,000

(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 2015

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

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 A$351,370.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

25. SEGMENT INFORMATION

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

	Oil & Gas		Investments		Other		Eliminations		Total	
in USD	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue (external)	18,236,209	23,570,157	-	-	-	-	-	-	18,236,209	23,570,157
Other income (excluding Finance income)	320,745	136,821	161,782	739,208	(345,898)	18,196	-	-	136,629	894,225
Reportable segment profit/(loss) before tax	(24,572,359)	(6,217,981)	(2,293,786)	739,208	(1,285,838)	(1,731,561)	-	-	(28,151,983)	(7,210,334)
Finance income	4,416	6,619,832	347,882	408,561	5,205	4,913	(347,882)	(408,561)	9,621	6,624,745
Finance costs	(1,440,646)	(3,130,637)	-	-	(5,802)	(9,528)	347,882	408,561	(1,098,566)	(2,731,604)
Profit/(loss) for the period before tax									**(29,240,928)**	**(9,933,109)**
Reportable segment assets	74,031,605	102,071,512	(530,090)	1,588,259	243,617	443,326	703,151	(1,351,341)	74,448,283	102,751,716
Reportable segment liabilities	56,465,182	56,268,208	-	-	-	-	(703,151)	1,351,341	55,762,031	57,619,549
Other material non-cash items:										
Gain on disposal of acreage										
- Depreciation and amortisation	(5,758,201)	(5,817,881)	-	-	(12,802)	(23,809)	-	-	(5,771,003)	(5,841,690)
- Impairment expense	(19,747,000)	(13,995,331)	(2,455,568)	-	-	-	-	-	(22,202,568)	(13,995,331)
- Gain on disposal	-	-	161,782	739,208	-	-	-	-	161,782	739,208
- Lease expiration costs	(426,200)	(188,518)	-	-	-	-	-	-	(426,200)	(188,518)
Non-cash items included in Finance costs:										
- Asset retirement obligation accretion	(422,431)	(378,334)	-	-	-	-	-	-	(422,431)	(378,334)
- Discount on debt & overriding royalty interest	(676,135)	(331,421)	-	-	-	-	-	-	(676,135)	(331,421)
- Fair value gain/(loss) on forward commodity contracts	-	6,615,916	-	-	-	-	-	-	-	6,615,916
Capital expenditure	(4,743,805)	(6,764,678)	-	-	(24,185)	(95,233)	-	-	(4,767,900)	(6,859,911)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

25. SEGMENT INFORMATION (Continued)

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

The Empire Group's reportable segments under AASB 8 are as follows:

- Oil and gas operations - includes all oil and gas operations located in the USA. Revenue is derived from the sale of oil and gas and operation of wells.
- Investments - includes all investments in listed and unlisted entities, including the investment in Empire Energy Group USA (eliminated on consolidation). Revenue is derived from the sale of the investments.
- Other - includes all centralised administration costs and other minor other income.

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

Geographical information

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

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

Major customers

Revenues from two major customers of the Empire Group's Oil & Gas segment represents approximately $12,400,622 (2014: two major customer $16,263,408) of the Empire Group's total revenues.

26. RELATED PARTY DISCLOSURES

a. Disclosures Relating to Directors

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

ii. Directors' Shareholdings

Number of shares held by the Company Directors

Director	Balance at 31 December 2014	Acquired during period through Pro Rata Rights Issue	Other changes during period	Balance at 31 December 2015
B W McLeod	7,238,365	1,686,632	-	8,924,997
D H Sutton	633,300	100,995	-	734,295
K A Torpey	2,191,449	-	-	2,191,449

Option holdings

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

Director	Balance at 1 January 2015	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2015	Vested exercisable at 31 December 2015
B W McLeod	6,000,000	-	-	3,000,000	3,000,000	-
D H Sutton	-	-	-	-	-	-
K A Torpey	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

26. 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

	2015 US$	2014 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	330,149	377,322
- Bonus payment	-	72,148
2) Aggregate amounts payable to Directors and their related Companies at balance date:		
- Eastern & Pacific Capital		
- Bonus and consulting fees	30,260	82,104
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	56,104	69,178
- Director fees	27,086	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.

c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			December 2015 %	December 2014 %
Controlling Empire Group				
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Empire Energy Holdings, LLC[1]	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 Empire Energy USA LLC and Imperial Resources, LLC the latter two companies incorporated in the USA and are audited by Schneider Downs.

[1] Imperial Resources, LLC was renamed Empire Energy Holdings, LLC on 28 January 2015.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

27. NOTES TO THE STATEMENT OF CASH FLOWS

	December 2015 US$	December 2014 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	1,126,543	3,092,991
(b) Reconciliation of profit after income tax expense to net cash flows from operating activities		
Loss for the period after income tax expense	(26,998,997)	(4,753,285)
Adjustments for non-cash items:		
Depreciation & amortisation expense	5,770,977	5,842,203
Impairment of property, plant & equipment	22,202,568	13,995,331
Loss/(gain) on disposal of property, plant & equipment	703,473	(693,211)
Write-off of exploration expenditure	-	186,348
Expiration of leases	426,200	188,518
Profit/Loss on disposal of available for sale financial assets	(161,782)	-
Discount on debt	676,135	331,421
Asset retirement obligation accretion	407,823	378,334
Share-based payment expense	176,761	317,239
Unrealised loss/(gain) on forward commodity contracts	305,548	(6,615,916)
Operating profit before changes in working capital and provisions	3,508,706	9,176,182
Change in Trade and other receivables	2,597,380	204,456
Change in Prepayments and other current assets	(429,860)	345,257
Change in Inventories	57,818	384,608
Change in Current tax asset	-	201,533
Change in Trade and other payables	(2,011,212)	25,204
Change in Provisions	132	6,894
Change in Deferred Tax Liability	(2,062,080)	(5,253,920)
	(1,847,822)	(4,085,968)
Net cash flows from operating activities	1,660,884	5,091,014

(c) Non-Cash Financing and Investing Activities
During the current financial year there were no non cash financing and investing activities.

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

- 5,000,000 options exercisable @ A$0.169 expiring 31/12/2015	A$48,183
- 4,250,000 options exercisable @ A$0.119 expiring 26/02/2015	A$97,750
- 3,500,000 options exercisable @ A$0.149 expiring 31/12/2016	A$50,750
- 1,500,000 options exercisable @ A$0.169 expiring 31/12/2016	A$19,500
- 1,500,000 options exercisable @ A$0.179 expiring 31/12/2016	A$18,750
	A$234,933

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

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

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. 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. EARNINGS PER SHARE

	2015	2014
Basic earnings per share (cents per share)	(7.84)	(1.54)
Diluted earnings per share (cents per share)	(7.84)	(1.54)
Loss/profit used in the calculation of basic and diluted earnings per share	(26,998,997)	(4,753,285)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	344,313,877	308,863,682
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	344,313,877	308,863,682

29. SUPERANNUATION COMMITMENTS

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

30. PARENT ENTITY INFORMATION

	2015 US$	2014 US$
Information relating to Empire Energy Group Limited:		
Current Assets	143,675	244,220
Total Assets	34,361,251	35,829,253
Current Liabilities	(209,243)	(253,629)
Total Liabilities	(240,802)	(296,063)
Shareholder's Equity:		
Issued Capital	(74,240,544)	(73,683,238)
Reserves		
- Fair value reserve	(575,677)	(574,163)
- Foreign currency translation reserve	7,995,916	5,119,685
- Options reserve	(1,646,201)	(1,465,232)
- Share based payment reserve	(168,442)	(172,650)
- General Reserve	(241,144)	(235,107)
Accumulated Losses	34,821,211	35,486,924
Total Shareholder's Equity	(34,054,881)	(35,523,781)
Profit/(loss) for the period	664,713	(478,554)
Total Comprehensive income	(1,403,332)	(1,697,168)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

31. DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION

Determination of Remuneration of Directors

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

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

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

Determination of Remuneration of Other Key Management Personnel

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

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

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

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the 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 $55,268. The loss on options relating to the above directors that expired over the year was $25,649. The net cost of options issued to the above directors and executives for the year was $29,618.

	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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

31. DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (Continued)

* 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.

32. AUDITORS' REMUNERATION

	2015 US$	2014 US$
Audit Services		
Auditors of the Company – Nexia Australia:		
Audit and review of financial reports	99,400	100,156
Other auditors:		
Audit and review of financial reports	188,016	206,262
	287,416	306,418
Other services		
Auditors of the Company – Nexia Australia:		
Taxation services	9,211	23,860
Other auditors:		
Taxation services	1,029	55,262
	10,240	79,122

33. MATTERS SUBSEQUENT TO BALANCE DATE

1) Macquarie Bank Credit Facility Rollover
The Credit Facility matures on 7 April 2016. Documentation for the rollover of the Facility is being finalised for a further 3 years, with sign off expected early April 2016. The Company has committed to an accelerated pay down of an agreed amount of current outstanding debt from a portion of the proceeds received from the AEP Farmout Agreement.

2) In February 2016 Michael Gunner, MLA leader of the Northern Territory ("NT") Labor Party and the current opposition leader in NT announced that should the Labor Party win the election in August 2016 a moratorium on fracking in the Northern Territory may be implemented.

3) On February 16, 2016, the Company elected not to complete the purchase of the Butler county Kansas properties and subsequently wrote down the value of those assets at December 31, 2015 and then wrote off the remaining value of the assets against the loan value at February 16, 2016. The loan facility to acquire the assets was not drawn. Refer to Note 17.

There were no other matters or circumstances that have arisen since 31 December 2015 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2015, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2015 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 21 to 28, 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 2015 and of their performance, for the year ended on that date; and

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

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

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

The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Office and the Chief Financial Controller for the year ended 31 December 2015.

Signed in accordance with a resolution of the directors.

B W McLEOD
Director

Dated: 24 March 2016

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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 2015, 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.

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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 2015 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.

Emphasis of Matter

Without qualification to our opinion, we draw attention to Note 3 "Going Concern" in the financial report. The financial report has been prepared on the basis that the consolidated entity is a going concern. The Group is currently in the process of extending their loan facility maturity date to February 2019, with no executed formal agreement available as at the date of this audit report. This matter, and the other matters set forth in Note 3, indicates the existence of a material uncertainty should the Group be unable to extend the loan facility and may cast doubt about the entity's ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 26 of the directors' report for the year ended 31 December 2015. 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 2015, 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 2016

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 17 March 2016

Name	Number of Shares	% Holding
Macquarie Bank Limited (Metals & Energy CAP DIV A/C)	53,666,666	15.59

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	321	127,409	0.04
1,001 – 5,000	797	2,233,731	0.65
5,001 – 10,000	452	3,430,901	1.00
10,001 – 100,000	843	31,722,497	9.21
100,001 and over	334	306,799,339	89.10
Total number of holders	2,747	344,313,877	100.00

i	Number of holders of less than a marketable parcel	1,953
ii	Percentage held by 20 largest holders	46.83

c Twenty Largest Shareholders grouped as at 17 March 2016

	Name	Number of Shares	% Holding
1	Macquarie Bank Limited <Metals & Energy Cap Div A/C>	53,666,666	15.59
2	Chifley Portfolios Pty Ltd <David Hannon A/C>	12,463,983	3.62
3	WYT Nominees Pty Ltd <C & E Wong Super Fund A/C>	8,700,451	2.53
4	Foxview Pty Limited	8,157,141	2.37
5	Rhodes Capital Pty Ltd <McLeod Super Fund A/C>	7,649,999	2.22
6	Armco Barriers Pty Ltd	6,800,000	1.97
7	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	6,000,000	1.74
8	HSBC Custody Nominees (Australia) Limited - A/C 2	5,896,450	1.71
9	Ms Michelle Wong	5,431,098	1.58
10	J P Morgan Nominees Australia Limited	5,041,259	1.46
11	Fanchel Pty Ltd	5,000,000	1.45
12	Serlett Pty Ltd <Diligent Inv Superfund A/C>	4,439,038	1.29
13	Colowell Pty Ltd <David Dagg Family A/C>	4,286,686	1.24
14	Transition Metals Pty Ltd	4,024,067	1.17
15	Commonwealth Energy Assets LLC	4,000,000	1.16
16	Ms Karen Aviva Schumer + Mr Gary Leon Lewis <Lewis Super Fund A/C>	4,000,000	1.16
17	Mr Gerard Toscan <Kate James Hannah A/C>	4,000,000	1.16
18	Remond Holdings Pty Limited <The Defina A/C>	3,951,401	1.15
19	Mr Christopher John Wilson + Ms Wei Mun Judienna Chang <Third A/C>	3,930,000	1.14
20	Mr Kenneth Murray & Mrs Ruth Murray <Murray Super Fund A/C>	3,800,000	1.10
		161,238,238	46.81

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 2016

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 $0.15 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 ending 21/11/18	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 2016. Given the extensive list (74 pages) it was not practical to include this listing in the Annual Report of the Company.

CORPORATE GOVERNANCE STATEMENT

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