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Quarterly Report – For the period ending 30 June 2012

31 July 2012

HIGHLIGHTS FOR 2nd QUARTER

- Total estimated oil and gas revenue for the 3 month period was lower 13.6% lower at US$6.8 million (1Q2012: US$7.4 million).

- Unaudited Field EBITDAX of US$4.3 million was achieved (1Q2012: US$5.3 million).

- Gross production
  - Oil: 68,210 bbls (1Q2012: 74,918) -8.9%.
  - Gas: 647,032 Mcf (1Q2012: 682,449) -5.2%.

- Group operating EBITDAX of US$2.3 million (1Q2012: US$3.9 million). This included an increase of approximately US$600,000 in both land management costs (~US$200,000 higher) and non-recurring operating expenses (~US$370,000 higher). See commentary below.

- Cash on hand US$3.956 million.

- In New York State, the Department of Environmental Conservation's current position on hydrofracking is that the drilling and fracking techniques can be done safely, subject to appropriate operating guidelines. However, the timing on the release of guidelines and issue of permits is still not known.

- In the Kansas Uplift Region, the 3rd well of the 2012 oil drilling program has been bought on-line.

- Current field work is focusing on 5 wells drilled through 2011. Each well was producing, at varying rates, from the Arbuckle formation. A rework program is being planned to target extensive pay-zones in up-hole formations that have not yet been produced.

- The Company undertook its initial polymerization treatment and rework of an existing producing well. This increased non-recurring expenses for the period by around $163,500, but has increased oil production from around 3Bbl/d to 26Bbl/d. Payback on this well is expected to be less than 6 months.

- Exploration & Project Development (Drilling) expenditure for the quarter was US$2.265 million for both the USA and Australian operations.

- Continued building of an experienced geological team to commence preliminary and targeted field exploration on the Company's Northern Territory, McArthur Basin Exploration Licences once issued. Several of the Company's ELA's are moving towards negotiation completion.

EMPIRE ENERGY USA, LLC (95%)

The Company's operations are in the Central Kansas Uplift Region (oil), Kansas and in the Appalachian Basin (gas), in New York and Pennsylvania.

Operations

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

Estimated Production

Qtr	Net Production Bbl	Av Price $/bbl	Net Production Mcf	Av Price $/mmBtu	Net Production Boe	Net Production Boe/d
Sep-11	44,266	$85.87	524,042	$5.99	131,606	1,462
Dec-11	45,756	$84.65	527,672	$6.22	133,701	1,486
Mar-12	48,697	$88.21	539,135	$5.97	138,553	1,539
Jun-12	44,214	$80.73	492,800	$5.67	126,347	1,404
Year	182,933	$84.95	2,083,649	$5.97	530,207	1,453

Both oil and gas production where lower over the period due to:

- Kansas - oil
  - Build up in inventory over average levels. Total inventory held was 10,350 Bbl.
  - Wells on three leases were taken offline due to casing leak repairs.
  - Due to the extreme temperatures and grass fires in areas of operation some gathering networks have been temporarily affected. All units are now operating.
  - As part of an ongoing inspection program of pumping units, over the period of lower oil prices, some of the more productive wells were taken offline for inspection and/or repair

- Appalachia - gas
    - High line pressure on third party distribution lines due to maintenance restricted production on four of large sales meters.
    - Line loss on a third party distribution line. Empire is currently negotiating to acquire this particular line to upgrade and prevent these losses.

Estimated Field Operating Revenues

Qtr	Net Revenue US$M	Lease Op. Expenses US$M	Prod. Taxes US$M	Field EBITDAX US$M	Leases & Prospects US$M	N/recurr. Expenses US$M	F&A Costs US$M	Field G&A US$M
Sep-11	$7,052	$2,045	$333	$4,674	$31	$237	$175	$175
Dec-11	$7,295	$1,807	$525	$4,963	$36	$253	$166	$105
Mar-12	$7,404	$1,743	$333	$5,328	$57	$290	$106	$156
Jun-12	$6,300	$1,920	$309	$4,329	$258	$694	$156	$117
Year	$28,051	$7,515	$1,500	$19,294	$382	$1,474	$603	$553

Revenues and Netbacks over the past quarter were lower due to:

- Kansas -oil
    - Netback reduced to $41.30/Bbl (1Q2012 $59.32/Bbl). This decline was mainly due to:
        - a reduction in net price after hedging of $7.50/bbl to $82.23/bbl; and
        - an increase in non-recurring expenses over the quarter of $8.92/Bbl to $13.71/Bbl (1Q2012 $4.79/Bbl).
    - Non-recurring work over/polymer expenses were $600,000 (1Q2012 $225,000).

- Appalachia – gas
    - Netback reduced to $3.10/Mcf (1Q2012 $3.73/Mcf). This decline was due to:
        - a reduction in price to $5.61/Mcf (1Q2012 $5.90/Mcf); and
        - a increase in other expenses mainly relating to lease renewals and lease management $0.38/Mcf (1Q2012 $0.10/Mcf).
    - Land related expenses (implementation of new lease management system, third party contractors recording of all leases into new data base, plus lease renewals/rollovers) $258,000 (1Q2012 $57,000).

- For summary of netback refer to the table below.

Estimated Key Operating Ratios - Netbacks:

Qtr	Av Price $/Bbl	LOE $/Bbl	Non-recurr $/Bbl	Taxes $/Bbl	Net Other $/Bbl	Av Price $/Mcf	LOE $/Mcf	Non-recur $/Mcf	Taxes (1) $/Mcf	Net Other $/Mcf
Sep-11	$85.87	$22.25	$4.47	$4.18		$5.99	$1.96	$0.38	$0.30	
Dec-11	$84.65	$23.69	$3.37	$4.20		$6.22	$1.55	$0.08	$0.31	
Mar-12	$88.21	$21.12	$4.79	$4.16	$1.17	$5.97	$1.59	$0.17	$0.30	-$0.16
Jun-12	$80.73	$23.34	$13.71	$4.08	$1.69	$5.67	$1.60	$0.22	$0.30	-$0.45
Av Year	$84.95	$22.60	$6.59	$4.16	$1.43	$5.97	$1.68	$0.21	$0.30	-$0.31

(1) Taxes include severance, ad valorum and production taxes

CAPEX

Capital expenditure for the period was:

- Kansas: $1.75 million relating to 3 new wells, previously announced.
- Appalachia: $230,000 relating to acquisition of pipeline and additional wells.
- Australia: $285,600 in costs associated with the McArthur Basin program.

The parent company continues to fund capital expenditure programs, while surplus cash flow is utilized to pay down debt (and in this quarter reimburse tax payments).

Corporate Operations:

Other Costs for the period were as follows:

- Corporate Costs – USA: US$402,000 (1Q2012: $432,000).
- Corporate Costs – Aust: US$309,124 (1Q2012: $324,866), including Imperial Oil & Gas.
- Costs relating to potential acquisitions US$61,000 (1Q2012: $113,000).
- Leasing & property costs US$258,000 (1Q2012: $57,000).

Credit Facilities

Interest expenses over the quarter were $662,000 (1Q2012: $644,000). Debt repaid over the quarter was US$2.0 million (1Q2012: $3.4 million).

At the end of the quarter the Company had US$52.7 million drawn at an average cost of LIBOR + 4.4%. Empire Energy retains Credit Facility availability of ~US$97.3 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr US$M	Interest Rate LIBOR+	Interest Qtr US$M	Interest YTD US$M
Term	$49,254	4.50%		
Revolver	$3,500	2.50%		
	$52,754	4.37%	$662	$1,306

Hedging

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

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

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2012	1,050,000	730,570	69.6%	$6.07	124,081	92,150	74.3%	$90.00
2013	2,000,000	1,407,720	70.4%	$5.97	149,298	113,160	75.8%	$90.00
2014	1,850,000	1,335,488	72.2%	$5.91	141,058	105,120	74.5%	$90.00
2015	1,650,000	1,166,000	70.7%	$5.45	133,280	98,160	73.6%	$90.00
2016	1,440,000	600,000	41.7%	$4.49				
Total	7,990,000	5,239,778	65.6%	$5.68	547,717	408,590	74.6%	$90.00

IMPERIAL OIL & GAS PTY LTD (100%):

The Company's wholly owned subsidiary, Imperial Oil & Gas P/L continues to work through landowner negotiations and archaeological requirements for the 7 exploration licence applications covering around 75% of the prospective central trough of the onshore McArthur Basin in the Northern Territory, Australia. In summary:

- An agreement has been entered into with University of Adelaide Research & Innovation Ltd ('ARI'), a multi-discipline Shale Research Group headed by Prof Martin Kennedy, who has extensive experience working in the shale industry having spent 14 years with the ExxonMobil Shale Research Laboratory.
- Dr Telm Bover Arnal, a Swiss national and field geologist with applicable shale experience has recently been granted a visa and will commence full time research in September 2012. The aim of his work is to constrain the geological controls on black

shale deposition in the McArthur Basin and determine prospective areas in which Imperial will target its shale oil and gas drilling.

- Geological field studies will commence in Imperial's License Application Areas in the McArthur Basin as soon as Exploration Licenses are granted.
- The McArthur Basin provides:
    - High risk/high return frontier unconventional petroleum plays at very low historic exploration maturity.
    - The exploration targets are organic-rich black gas and oil shales of Palaeo-Proterozoic age.
    - The shales are proven to be gas-prone (a 1979 mineral core hole ignited and sustained a 6m gas flare for several months).
    - In May 2012 the Cow Lagoon-1 well drilled just 30km east of Imperial's Application Area EP(A) 184 encountered and flared gas from a shallow 198m thick interval within the McArthur Basin.
    - Oil bleeds and bitumen staining are commonly observed in mineral core.

- A large sacred site archaeological survey, initiated immediately prior to the wet season in November 2011, recommenced on 14th July 2012 over Imperial's EP(A) 184, 186 & 187. The survey will be completed before finalising negotiations on the terms of Exploration Agreements for those areas during 2012. Once the agreements are finalised then these first three areas will proceed to permit award and commencement of on-country exploration programmes.
- US$285,600 was spent on the project over the past quarter (1Q2012 US$31,700).

CORPORATE

Grant of Options

During the quarter 7 million options (2.3% of diluted capital) were granted pursuant to the Company's Employee Share Option Plan to key management personnel and Directors of the Company. Options granted to Directors pursuant to shareholder approval obtained at the Annual General Meeting of the Company held on 31 May 2012. The options were granted as an incentive to the employees and Directors of the Company in recognition of their contribution to the performance and success of the Company.

Each option entitles the holder to subscribe for one fully paid ordinary share in the issued capital of the Company at an exercise price of $0.35 prior to their expiry date of 31 December 2014 subject to minimum term of employment conditions.

Exercise of Options

Macquarie Bank Limited exercised 6,666,666 options at $0.15 to raise a total of A$1 million. Funds raised were used to pay down debt. Upon exercise of these options Macquarie Bank's shareholding in the Company increased to 15.76%.

SUBSEQUENT EVENTS

Kansas Acquisition

On 17 July 2012 Empire Energy E&P, LLC announced that it had acquired a 97.9% working interest in producing petroleum properties located in Gove County in the Central Kansas Uplift, Kansas (the "Acquired Assets") for a purchase price of US$1.7 million, subject to closing adjustments.

The Acquired Assets consist of 3,360 gross (2,648 net) acres on land with total preliminary estimated proved and probable recoverable reserves of 470,000 barrels of oil. As at July 1, 2012 the working interest production from the Acquired Assets was approximately 20 Bbl/d, which Empire Energy expects to increase through targeting 2 behind pipe Mississippian and Pennsylvanian carbonate opportunities identified by 3D seismic, plus an initial 11 seismic identified drilling locations to be targeted over 2012/13.

Highlights of the Acquisition
The Acquired Assets have a long reserve life and are expected to generate attractive cash flow as development drilling is undertaken. Most development wells will target the usual Central Kansas Uplift formations, including Arbuckle, Lansing-Kansas City and in some cases Mississippian and Pennsylvanian carbonates. All 3,360 acres has been covered by 3D seismic which was acquired as part of the transaction.

The Acquired Assets have the following attributes:

- Acreage acquired with an allocated value of $187/ac.
- Producing assets (PDP) acquired at $26.40/Bbl net reserves.
- Net production was acquired at $64,062/Bbl/d (per net flowing Bbl).
- Net proved reserves were acquired at US$10.41/Bbl, or US$2.03/Bbl per net proved plus probable reserves, with 100% oil.
- For 2012, the estimated field netback for the Acquired Assets is ~$69.00/Bbl.
- All Acquired Assets will be operated by Empire Energy.

Project Development

The Company will make future announcements on the following projects as new information becomes available. This includes:

1. Acquisitions or other negotiations to increase reserves and / or production.
2. Continued Kansas drilling and rework programs.
3. Development of the Company's land holding in the Western New York State.
4. Progress on the lifting of the fracking moratorium in New York State.
5. Progress on land holder negotiations for the potential large scale shale resource in the McArthur Basin, Northern Territory.

ABOUT EMPIRE ENERGY GROUP LIMITED

Empire Energy USA is an oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Central Kansas Uplift (Kansas). Total combined 2P reserves for the group are estimated at 14.8 million Boe. Empire Energy implemented a US$150 million credit facility with Macquarie Bank Limited for the sole purpose of acquiring and developing oil and gas assets in the USA.

For more information:

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Financial Terminology

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

Note regarding Barrel of Oil Equivalent

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

Note Regarding Forward- Looking Statements

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

The information in this announcement which relates to reserves and resources is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas, and LaRoche Petroleum Consultants Inc, Dallas, Texas, who are both certified professional reservoir engineers.

Glossary

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