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## Quarterly Report – For the period ending 31 December 2011

31 January 2012

### HIGHLIGHTS FOR 4th QUARTER

- Total estimated oil and gas revenue for the 3 month period was US\$7.17 million.
- Unaudited Field EBITDDA of US\$4.67 million was achieved (3Q: US\$4.67 million), or US\$17.2 million for the 12 months.
- Gross production
  - Oil: 71,032 bbls (3Q: 68,727) +3.4%.
  - Gas: 687,178 Mcf (3Q: 690,731 ) -0.5%.
- Operating EBITDA of US\$3.97 million.
- Cash on hand US\$5 million.
- On December 12, 2011, The Commissioner of New York State's Department of Environmental Conservation ("DEC") stated that the DEC will finish its review of hydrofracking by spring 2012. The DEC's current position is that the drilling and fracking techniques can be done safely, with strict regulations and that permits for fracking would quickly follow.
- 13,333,334 options at \$0.12 and \$0.135 were exercised by Macquarie Bank Limited, increasing their shareholding to ~13%.
- In the Kansas Uplift Region, the 9<sup>th</sup> well of a 10 well oil drilling program was drilled and plugged. The 10th well in the program was spudded in January 2012 and a decision has been made not to complete.
- The first 2 oil production wells at the Company's joint venture in the 17,000 acre Williston Basin, North Dakota project have been drilled. Completion of these wells was initially delayed due to being unable to secure a completion rig however completion of the second well is currently being undertaken.
- Exploration & Project Development (Drilling) Costs for the quarter were US\$724,281.

- A further ~2,500 acres of potential Marcellus and Utica shale was added to the Company's existing 220,000 acres of Marcellus and 190,000 acres of Utica shales.
- Archeological programs and Landowner negotiations are continuing for the Company's shale licenses in the Northern Territory, Australia.
- On 2 November 2011 the Company listed on the OTCQX Market.
- The Company has moved its US operations to Canonsburg, PA, approximately 20 miles from Pittsburgh, PA.

## **EMPIRE ENERGY USA LLC (95.4%)**

For the following sections relating to production and income, 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 (in this case the September 2011 quarter) as final production statements are received by Empire. In addition, the drilling and field services operations, which have a negligible effect on results, have also been consolidated into revenue and earnings.

The following table summarizes oil and gas production and revenues for the Company's operations in the Central Kansas Uplift Region, Kansas and in the Appalachian Basin with operations based at Mayville, NY and Hawthorne, PA.

### **Operations**

The following tables provide estimates of production, revenue and costs by quarter. For the latest quarter estimates are made for sales production, revenues and some costs due to up to a 90 day cycle for natural gas revenues.

### **Estimated Production (US\$)**

<b>Qtr</b>	<b>Net Production Mcf</b>	<b>Average Price \$/mmBtu</b>	<b>Net Production Bbl</b>	<b>Average Price \$/bbl</b>	<b>Net Production Boe</b>	<b>Net Production Boe/d</b>
Mar 31/11	467,953	\$6.20	44,093	\$86.75	122,087	1,357
Jun 30/11	485,077	\$5.93	43,956	\$87.52	124,753	1,386
Sept 30/11	524,042	\$5.99	44,266	\$85.87	131,793	1,464
Dec 31/11	519,284	\$6.25	45,756	\$84.65	132,303	1,454
<b>YTD</b>	<b>1,996,356</b>	<b>\$6.09</b>	<b>178,071</b>	<b>\$86.19</b>	<b>510,936</b>	<b>1,415</b>

## **Estimated Field Operating Revenues (US\$)**

Qtr	Net Revenue \$'000	Lease Op. Expenses \$'000	Prod. Taxes \$'000	Field EBITDA \$'000	Leases & Prospects \$'000	N/recurr. Expenses \$'000	F&A Costs \$'000
Mar 31/11	\$6,646	\$1,796	\$304	\$4,547	\$42	\$359	\$154
Jun 30/11 (2)	\$6,787	\$2,055	\$360	\$4,372	\$23	\$461	\$136
Sept 30/11	\$7,052	\$2,045	\$333	\$4,674	\$31	\$237	\$175
Dec 31/11	\$7,295	\$1,807	\$525	\$4,963	\$36	\$253	\$166
YTD	\$27,780	\$7,703	\$1,522	\$18,556	\$132	\$1,310	\$631

- Other revenues/expenses for the quarter, not included in the above :
  - Non oil & gas revenues where US\$123,402
  - Field G&A costs were US\$105,432.

## **Estimated Key Operating Ratios:**

Qtr	Av Price \$/Bbl	Lifting Cost \$/Bbl (1)	Non-recurr \$/Bbl	Av Price \$/Mcf	Lifting Cost \$/Mcf	Non-recurr \$/Mcf
Mar 31/11	\$86.14	\$20.75	\$7.80	\$6.20	\$2.40	\$0.03
Jun 30/11	\$88.09	\$20.87	\$10.21	\$5.93	\$2.56	\$0.03
Sept 30/11	\$83.91	\$26.43	\$4.47	\$5.99	\$2.26	\$0.38
Dec 31/11	\$85.57	\$27.89	\$3.37	\$6.22	\$1.86	\$0.08
AV YTD	\$85.57	\$24.02	\$7.16	\$6.05	\$2.11	\$0.11

Note: (1) Lifting costs include production and ad valorem taxes.

Oil lifting costs in the September and December quarters were higher than normal due to maintenance and salt water disposal costs. Lifting costs, before taxes, averaged \$18.52/Bbl and \$1.84/Mcf for the 2011 period.

## **Corporate Operations (USA):**

Corporate Costs for the quarter were US\$586,368 (previous quarter \$403,000). Included in the current quarters costs are

- audit and reserve engineering costs of \$111,000 (previous quarter \$83,000)
- \$100,000 in costs relating to potential acquisitions (previous quarter \$0)
- Lease management costs in New York State \$34,000 (previous quarter \$0). This expense is expected to continue over the first quarter of 2012.

## **Project Development**

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

1. Continued Kansas drilling and rework programs.
2. Williston Basin completion program of one of the two wells drilled .

3. Continuing geological and engineering work of the Company's 303,000 acre land holding in the Western New York State.
4. Progress on land holder negotiations for the potential large scale shale resources in the MacArthur Basin, Northern Territory.

### **Credit Facilities**

Interest expenses over the quarter were \$811,458 (previous quarter \$805,000). Debt repaid over the quarter was US\$4.21 million or US\$14.93 million for the year.

At the end of the quarter the Company had ~US\$58.1 million drawn at an average cost of LIBOR + 4.4%. Empire Energy retains Credit Facility availability of ~US\$91.9 million, subject to normal energy borrowing base requirements, for future acquisitions and development drilling.

Component	Drawdown US\$'000	Interest LIBOR + %pa
Term	\$55,100	4.5%
Revolver	\$3,000	2.5%
<b>TOTAL 30 Sept 2011</b>	<b>\$58,100</b>	<b>4.4%</b>

### **Hedging**

A conservative hedging policy has been implemented by the Company. The underlying objective is to ensure the borrowing base of the Credit Facility is covered by defined future cash flow. 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.

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	2,150,000	1,484,351	69.1%	\$6.10	160,441	120,800	75.3%	\$90.00
2013	2,000,000	1,407,720	70.3%	\$5.97	149,298	113,160	75.8%	\$90.00
2014	1,850,000	1,408,488	76.1%	\$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	41.6%	\$4.485				
<b>Total</b>	<b>9,090,000</b>	<b>6,066,559</b>	<b>66.9%</b>	<b>\$5.58</b>	<b>584,077</b>	<b>437,240</b>	<b>74.8%</b>	<b>\$90.00</b>

## **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 6 exploration licence applications covering around 90% of the McArthur Basin in The Northern Territory, Australia. In summary:

- 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- and Meso-Proterozoic age.
- The shales are proven to be gas-prone (a 1979 mineral corehole ignited and sustained a 6m gas flare for several months).
- Oil bleeds and bitumen staining are commonly observed in mineral cores.
- Traditional Land Owner negotiation meetings are underway.
- To date 5 such meetings have taken place in Imperial's EP(A) 180 & 181 permits and EP(A) 184, 187 & 188 where there is an existing pipeline supplying gas to the McArthur Mine.

## **CORPORATE**

### **Exercise of Options**

On December 22, 2011 Macquarie Bank Limited exercised two tranches of 6,666,667 options at exercise prices of A\$0.12 and A\$0.135 raising A\$1.7 million in new funds.

Funds raised through the exercise of options was utilised to reduce existing debt.

### **Increase of holding in Empire Energy USA LLC**

During the quarter under review the Company contributed US\$1,711,611 to Empire Energy USA LLC as equity funds. In consideration the Company will receive additional B-2 Units which will participate in profit distributions.

At the date of this report the Company held a 95.4% equity interest in Empire Energy USA LLC.

### **Listing on OTCQX Exchange**

On 2 November 2011 the Company commenced listing on the OTCQX Market.

OTCQX is one of three OTC Market Group Platforms which in total trade over 10,000 securities with an aggregate market capitalisation exceeding US\$10 trillion. Based on the total volume of securities traded the OTC Market Platform is the third most attractive market in the USA after the NYSE and NASDAQ.

## ABOUT EMPIRE ENERGY GROUP LIMITED

In early 2007, the Company established Empire Energy USA, LLC and currently holds around 95% of its issued capital. 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\$100 million credit facility with Macquarie Bank Limited in early 2008 for the sole purpose of acquiring and developing oil and gas assets in the USA. This facility has been increased to US\$150 million.

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

## Glossary

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