Level 7
151 Macquarie Street
Sydney NSW 2000
Ph: 9251 1846
Fax: 9251 0244
(ASX: EEG)
(OTCQX: EEGNY)
www.empireenergygroup.net

Quarterly Report – For the period ending 30 September 2012

31 October 2012

HIGHLIGHTS FOR 3rd QUARTER

- Total estimated oil and gas net revenue for the period was 6% higher at US$6.67 million (2Q2012: US$6.3 million).

- Unaudited Field EBITDAX of US$4.6 million (2Q2012: US$4.0 million) +15%.

- Gross production
  - Oil: 70,978 Bbls (2Q2012: 68,388) +3.8%.
  - Gas: 594,832 Mcf (2Q2012: 610,291) -2.5%.

- Group EBITDAX of US$3.65 million (2Q2012: US$2.3 million) + 58%.

- Cash on hand US$4.12 million.

- On 17 July the Company announced a US$1.7 million acquisition of oil producing assets in Gove County Kansas. Highlights of the acquisition are:
  - 100% working interest in 3,200 acres and a 55% working interest in 160 acres.
  - Working interest in 4 producing wells, 2 behind pipe Mississippian wells, 1 non-producing shut-in well and 1 salt water disposal well.
  - Gove County lies in the Mississippian extension zone.
  - Acreage acquired at $187/ac.

- 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 Mid-Con region, the fourth well in the drilling program was brought online and the drilling program was then put on hold while management reviewed additional acquisition opportunities.

- An additional 4,420 net acres of Mississippian Arbuckle/LKC acreage leased in Central Kansas.

- The sacred site archaeological survey was completed over Imperial's EP(A) 184, 186 & 187. The results of that survey will be considered during continuing negotiations on the terms of Exploration Agreements for those areas.

- In his media release of 11th September 2012 Mr Terry Mills, Chief Minister of the Northern Territory, confirmed the establishment of a 'strategic action group' charged with identifying gas sources that can be used in the East Arnhem Land region for power generation. The Company initiated and progressed discussions with stakeholders in the strategic action group with a view to accelerating the licensing process and where possible to fast track the forward exploration program.

- Sampling of relevant existing cores from the prospective McArthur Basin black shale formations commenced. These samples will be used for geochemical analysis to better constrain the nature and distribution of hydrocarbons in the shales within the license areas and for the location of any petroleum 'sweet spots' for shale oil and gas drilling.

- The Company's wholly owned subsidiary Imperial Oil and Gas appointed Mr Geoff Hokin as Principal Advisor of Exploration and Operations. Mr Hokin has had extensive experience working in the oil and gas exploration sector, including experience in the McArthur Basin. Mr Hokin's appointment further strengthens the exploration and petroleum engineering team to which the Company has access.

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 production, revenues and operating ratios for the previous quarter as final production statements are received by Empire.

Estimated Production

Qtr	Net Bbl	Av Price $/bbl	Net Mcf	Av Price $/Mcf	Net Boe	Net Boe/d
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	44,205	$80.75	455,513	$6.13	120,124	1,335
Sep-12	46,047	$82.96	456,175	$5.60	122,076	1,356
Year	184,705	$84.23	1,978,495	$5.99	514,454	1,409

- Appalachia – gas production remained below forecast over the quarter due to:
  - High line pressure on third party distribution lines due to maintenance restricted production on four of large sales meters.
  - Repairs to compressor stations.
  - Line loss on a third party gathering pipeline. Empire is currently negotiating to acquire this particular pipeline to upgrade and prevent these losses.

Estimated Field Operating Revenues

Qtr	Net Revenue US$M	LOE US$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	G&A US$M	Other US$M	EBITDAX US$M
Dec-11	$7,295	$1,807	$525	$4,963	$36	$253	$166	$105	$432	$113	$3,858
Mar-12	$7,404	$1,743	$333	$5,328	$57	$290	$106	$156	$432	$113	$4,174
Jun-12	$6,300	$1,920	$309	$4,071	$258	$694	$156	$117	$402	$61	$2,383
Sep-12	$6,671	$1,821	$223	$4,627	$176	$362	$180	$134	$344	$145	$3,286
Year	$27,670	$7,291	$1,390	$18,989	$527	$1,599	$608	$512	$1,610	$432	$13,701

Revenues and Netbacks over the past quarter:

- Kansas -oil
  - Netback increased to $52.84/Bbl (2Q2012 $42.80/Bbl).
    - Improvement due to lower nonrecurring expenses.

- Appalachia – gas
  - Netback reduced to $3.17/Mcf (2Q2012 $3.56/Mcf). This decline was due to:
    - Lower volumes due to high line pressures in pipelines over summer while repairs are undertaken.
    - Compressors repairs and maintenance where undertaken over the period.
    - Land related expenses (implementation of new lease management system, third party contractors recording of all leases into new data base, plus lease renewals/rollovers) $142,000 (2Q2012 $258,000).

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
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	$80.75	$21.85	$13.71	$4.08	$1.69	$6.13	$1.60	$0.22	$0.30	-$0.45
Sep-12	$82.96	$22.48	$6.17	$2.41	$0.95	$5.60	$1.72	$0.17	$0.25	-$0.29
Av Year	$84.23	$22.28	$7.01	$3.71	$1.27	$5.98	$1.62	$0.16	$0.29	-$0.30

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

CAPEX

Capital expenditure for the period was:

- Kansas: $83,000 completion of 3 new wells, previously announced.
- Appalachia: $45,000 relating to acquisition of pipeline and additional wells.

The parent company continues to fund capital expenditure programs, while surplus cash flow is utilized to pay down debt.

Corporate Operations:

Other Costs for the period were as follows:

- Corporate Costs – USA: US$346,000 (2Q2012: $402,000)
- Corporate Costs – Aust: US$366,670(2Q2012: $309,124)
- Costs relating to potential acquisitions US$139,000 (2Q2012: $61,000)
- Leasing & property costs US$140,000 (2Q2012: $258,000)

Credit Facilities

Interest expenses over the quarter were $665,000 (2Q2012: $662,000). Debt repaid over the quarter was US$2.2 million (2Q2012: $2.0 million). The Company drew down US$1.7 million for an acquisition of producing wells and development acreage in the CKU.

At the end of the quarter the Company had US$52.2 million drawn at an average cost of LIBOR + 4.4%. Empire Energy retains Credit Facility availability of ~US$97.8 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	$48,725	4.50%		
Revolver	$3,500	2.50%		
	$52,225	4.37%	$665	$1,971

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	1,200,000	83.33%	$4.43	126,616	42,000	33.17%	$85.67
2017	1,300,000	570,000	43.85%	$4.57	120,285	39,600	32.92%	$85.23
2018	1,200,000	510,000	42.50%	$4.75				
Total	10,490,000	6,919,778	66.0%	$5.41	794,618	490,190	61.7%	$89.24

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. The McArthur Basin provides:

- Current quarter: $126,170 in costs relating to exploration and development associated with the McArthur Basin program.
-
- High risk/high return frontier unconventional petroleum plays at low historic exploration maturity.
- The exploration targets of the Barney Creek Formation are organic-rich black gas and oil shales of Palaeo- Proterozoic age.
- Oil bleeds and bitumen staining are commonly observed in mineral core.
- The shales were first proven to be gas-bearing by a 1979 mineral core hole that ignited and sustained a 6m gas flare for several months.
- Recent drilling adjacent to Imperial's acreage has demonstrated a working petroleum system in the Barney Creek Formation black shales. In May 2012 the Cow Lagoon-1 well was drilled just 30km east of Imperial's EP(A) 184 and encountered and flared gas from a shallow 198m thick interval within the McArthur Basin.

- Subsequently in August 2012 the Glyde-1 drilled 60km east of Imperial's EP(A) 188 flowed gas to surface at rates of approximately 3.5-4.5 million standard cubic feet per day equivalent (based on open flow conditions at the flare line) and without any induced fracture stimulation of the wellbore.

- Samples & detailed geological description of relevant existing cores from the prospective McArthur Basin black shale formations were undertaken over the period. These samples will be used for geochemical analysis to better constrain the nature and distribution of hydrocarbons in the shales within Imperial's license areas and the location of any petroleum 'sweet spots' for shale oil and gas drilling in Imperial's EP(A)'s.

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:
Bruce McLeod
Executive Chairman
Empire Energy Group Limited
+61 2 9251 1846

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