EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

DECEMBER 2012 ANNUAL REPORT

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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

Executive Chairman's Review of Operations

A. HIGHLIGHTS - 2012

- **Revenue and EBITDAX steady compared to previous period.**
- **Production steady at 1,413 Boe/d.**
- **Drilling program continuing with 4 wells completed.**
- **Acquisition of oil producing assets in Gove County, KS**
- **Debt pay down of US$10.5 million.**
- **Commencement of geological and preliminary reconnaissance studies in the McArthur Basin.**
- **Significant progress in negotiations for agreement with the Traditional Owners in both Native Title and Aboriginal Land leases.**

B. OPERATIONS OVERVIEW

US operations over the year under review continued as expected. Production declines from existing wells were at negligible rates over the previous year, with additional oil production from new and re-worked oil wells. Although gas production was lower than the previous year this was mainly due the inability to get pipe capacity in mid-2012 when main transportation pipelines where packed or new higher volume compressors were being installed.

While a small "bolt on" acquisition was completed in Gove County, KS, the most disappointing aspect of the past 12 months was the considerable time and resources spent on bidding for four additional acquisitions, with the Company missing two opportunities, one to a higher bidder and one at the same price, with the remaining two opportunities were withdrawn from the market. The Company is still in discussion on these assets and is reviewing other similar opportunities, all primarily oil producing assets within the Mid-Con region. The major strategy of the Company is to continue to grow its production base through the selective acquisition of producing assets with significant development opportunities attached.

Operations over 2012 can be summarised as follows:

- Empire Energy operates approximately 1,800 gas wells and 256 oil wells. Current production is ~1,400 Boe/d (36% oil).

- Wells drilled over 2011 and 2012 are now being reworked targeting additional up-hole formations. Considerable success has been experienced for very little capital outlay. An example is the Seifkes #13 well initially completed in the first 1 foot of pay in the Arbuckle which came on stream at a flow rate on around 6.5Bbl/d. In February 2013 moving up 9 feet to the second 1 foot pay zone in the Arbuckle the new zone came on stream at 90Bb/d and had an initial 30 day average rate of 45Bbl/d. For the same well there remains a further 6 oil bearing horizons up hole in both the Arbuckle and the Lansing Group for an additional 24 feet of pay. All wells drilled by the Company are being developed on a similar basis.

- The Company has received approval in principle to acquire around 101 miles of pipeline in Western New York. This pipeline transports natural gas production from gathering networks into major pipelines, is in poor condition and is often shut-in for repair. The Company is expected to repair this pipeline for minimal cost over a 6 month period and increase net production to the Company by around 5% over the first 12 months of operation.

Executive Chairman's Review of Operation (Continued)

- The Company continues to identify additional behind pipe Bass Island oil formations in New York State and has recently bought on stream a second oil well.

- In expectation of the lifting of the fracking moratorium in New York State, resources are being allocated to ensuring the Company's extensive New York land holdings (more than 3,500 leases) have been reviewed and are in good standing.

- Landowner negotiations continue for the 14.5 million acres of shale formations secured onshore, in the McArthur Basin, Northern Territory, Australia. The Company is expecting that at least 3 licences will be finalised by mid-2013. With the knowledge that the Basin is hydrocarbon bearing, in 2012 geological studies commenced on licence areas with the underlying objective to identify prospective areas for initial seismic and exploration drilling. Analysis of existing core from the region also commenced in 2012.

C. OPERATIONS REVIEW

The Company maintains a small Head office in Australia and manages the exploration program in the McArthur Basin, Northern Territory, through its 100% owned subsidiary Imperial Oil & Gas Ltd. The Group's producing operations are carried out through its 95% owned USA subsidiary Empire Energy Group USA, LLC and its 100% owned subsidiary Empire Energy E&P, LLC ('Empire E&P').

TABLE A

Operating Statistics				
(In $ thousands, except units)	Notes	Dec 31, 2012	Dec 31, 2011	% change
Gross Production:				
Oil (MBbls)		285.1	277.6	3%
Natural gas (MMcf)		2,574.6	2,702.3	-5%
Net Production:				
Oil (MBbls)		182.9	178.1	3%
Natural gas (MMcf)		1,970.0	2,026.6	-3%
Net production (Mboe):	1.0	511.2	515.9	-1%
Net Daily Production (Boe/d):		1,401	1,413	-1%
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$85.20	$85.92	-1%
Natural gas ($/Mcf)		$5.54	$5.89	-6%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$88.45	$89.88	-2%
Natural gas ($/Mcf)		$3.05	$4.24	-28%
Lifting Costs (incl taxes):	1.1			
Oil ($/Bbl)		$24.30	$24.00	1%
Natural gas ($/Mcf)		$2.18	$2.10	4%
2P Reserves (MMBoe)	1.2	11,390	15,900	-28%

Executive Chairman's Review of Operation (Continued)

- Notes to Table A:

  1.0 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.

  1.2 **2P Reserves –** reserves where updated as of December 1, 2012 by Ralph E Davis Associates, Inc., Houston, TX (Appalachian assets) and LaRoche Petroleum Consultants Ltd, Dallas, TX (Kansas assets). At balance date, due to prevailing gas prices it was determined that the booked natural gas Puds were uneconomic and as such the Pud reserves were not included in 2P Reserve calculations. Refer to Section 1.3 for more detail.

- US operations are producing approximately 7,100 Mcf/d and 781 Bbl/d or 1,400 Boe/day (net). Conversion of natural gas (1,000mmbtu) to a barrel of oil equivalent is based on a 6:1 ratio. Although this conversion ratio may be useful in terms of energy equivalents, it is not relevant in terms of value equivalent, with NYMEX Henry Hub currently at $3.87/Mcf and WTI at $95/Bbl.

- In Appalachia, focus has been based on lower declining natural gas prices and implementing processes to reduce operating costs, while at the same time improving production from existing operating wells. This process has incurred minimal short term capex, which will continue through 2013. Opportunities to acquire production, pipelines, meters, taps into mainline gas transportation networks and acreage will continue. Total acquisitions of $280,000 where completed in early 2012.

D. REVIEW OF OPERATING RESULTS

<u>USA OPERATIONS</u>

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

The presentation of "EBITDAX" accounting, which is a non-IFRS or statutory financial measure, may therefore not be comparable to similar measures presented by other companies. Management have attempted to ensure that EBITDAX accounting presented is consistent with reporting by other similar E&P companies so a useful production and financial comparison can be made.

The EBITDAX accounts, based on the production date, are not meant to reconcile to the statutory accounts as the latter have been prepared on an accrual basis (effective date). However, if the EBITDAX accounts are prepared on an effective date basis they can then be reconciled to the statutory accounts, see Section F.

EBITDAX represents net income (loss) before interest expense, taxes, and depreciation, amortization, development and exploration expenses. Nonrecurring expenses have also 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.

Executive Chairman's Review of Operation (Continued)

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.

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:

Executive Chairman's Review of Operation (Continued)

TABLE B

Operations (In $ thousands)	Notes	Dec 31, 2012	Dec 31, 2011	% change
Net Revenue:				
Oil Sales		$15,586	$15,304	2%
Natural gas Sales		$10,906	$11,945	-9%
WI Income		$9	$34	-74%
Net Admin Income		$399	$231	73%
Other Income		$255	$144	77%
Net Revenue		$27,155	$27,658	-2%
Production costs:				
Lease operating expenses - Oil		$3,623	$3,335	9%
Lease operating expenses - Gas		$3,050	$3,628	-16%
Taxes - Oil		$691	$974	-29%
Taxes - Natural gas	1.5	$642	$614	5%
Total		$8,006	$8,550	-6%
Field EBITDAX		**$19,149**	**$19,108**	0%
Gross Margin		*70.5%*	*69.1%*	
Less:				
Inventory Adjustment	1.6	$(54)	$184	-129%
Nonrecurring expenses	1.7	$1,964	$1,633	20%
Non Field F&A	1.8	$705	$632	12%
Delayed Rental Payments		$266	$205	30%
		$2,881	$2,654	9%
Operating EBITDAX		**$16,268**	**$16,454**	-1%
Operating Margin		*59.9%*	*59.5%*	
Less:				
Field G&A	1.9	$591	$331	79%
Corporate G&A	1.10	$1,283	$1,305	-2%
Acquisition related expenses	1.11	$184	$342	-46%
Indirect Acquisition expenses	1.12	$359	$566	-37%
Land & Leasing Costs	1.13	$209	$153	37%
Gain on sale of oil and natural gas properties		$0	-$1,090	-100%
Head Office Net G&A	1.14	$856	$1,383	-38%
		$3,482	$2,990	16%
EBITDAX		**$12,786**	**$13,464**	-5%
Net Margin		*47.1%*	*48.7%*	

Executive Chairman's Review of Operation (Continued)

Notes to Table B:

1.3 **Oil and Natural gas Sales** –include realised hedges, being $4.9 million and ($611,000) for natural gas and oil respectively.

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

1.5 **Taxes –** relate to production and includes production, severance and ad valorem taxes.

1.6 **Inventory Adjustment –** adjustment for oil in tanks as of December 31, 2012.

1.7 **Nonrecurring expenses –**Kansas assets acquired in 2010 have been bought up to an expected standard of operation along with increased production of the wells under rework programs. This has, for the second year, included significant non-recurring expenditure focused on the upgrade of poorly maintained roadways, tank battery infrastructure and wellhead equipment as well as on ongoing program of repairing wells with split casing. These expenses are budgeted to be lower over 2013. In addition the Company has commenced a polymer treatment program for wells were the oil cut is decreasing due to an increasing flow of water. A polymer treatment program costs around $125,000/well. These costs will be expensed. Two wells were treated in 2012.

1.8 **Non Field F&A** –field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease and land management, general property insurances, environmental and reserve reporting etc. Over the period the Company employed new Landman in both Appalachia and Mid-Con. An additional $150,000 relates to the review and digitisation of all 3,500+ leases in New York State.

1.9 **Field G&A** – Empire Energy has field offices in each region it operates. In logistical terms Appalachia operations are personnel intensive including over 1,800 wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 35 employees and 2 contract pumpers operating across a large area of western New York and western Pennsylvania. Kansas operations are less personnel intensive including around 200 oil and gas wells, 65 injection wells, 85 HBP leases, 5 employees and 13 contract pumpers operating across a large area (12 counties) of central Kansas. Field G&A expenses include expenses such as utilities, IT, postage, office rental (where applicable) etc.

1.10 **Corporate G&A** – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA were a staff of 6 hold responsibility for financial management, control and reporting and HR Services. Significant expenses for the period were - salaries and wages $407,769; audit/tax and accounting $286,712; travel and accommodation $74,485; rent and accommodation costs $95,889; Professional Services $127,089 and Management and Director fees $332,667 (of which $150,000 was paid to Empire Energy Group Limited).

1.11 **Acquisition related expenses** – Directly associated with acquisitions and include legal, tax and accounting advice, transition fees, recruitment and relocation costs and engineering expenses. These are driven by the acquisitions successfully concluded or in progress.

1.12 **Indirect acquisition related expenses** – Contracted services required to implement a successful acquisition may include data review and integration, ongoing legal review of assets (especially leases and joint venture arrangements), accounting support, environmental and spill plan strategies, computer hardware and software, HR and IT services for systems integration etc.

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

1.14 **Head Office Net G&A** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants $362,495; salaries $283,132; audit & accounting $161,295; listing related expenses $172,774; rent, communications and IT $173,291.

Executive Chairman's Review of Operation (Continued)

E. NET EARNINGS

TABLE C

Net Earnings				
(In $ thousands)	Notes	Dec 31, 2012	Dec 31, 2011	% change
EBITDAX		**$12,786**	**$13,464**	**-5%**
Geological Services		$23	$75	-69%
Dry Hole Expenses		$109	$476	-77%
Exploration - Australia		$883	$477	85%
		$1,015	$1,028	-1%
EBITDA		$11,771	$12,436	-5%
Less:				
ARO, accretion expenses	1.15	$1,728	$503	243%
Depn, depletion and amortisation		$7,379	$6,810	8%
		$9,107	$7,313	25%
EBIT		**$2,664**	**$5,123**	-40%
Interest	1.16	$2,728	$3,580	-24%
State Taxes		$22	$106	-79%
Income Taxes		$(1,821)	$1,621	
Net Earnings		**$929**	**$2,465**	-62%

Notes to Table C:

1.15 Accretion Expenses includes one-off lease expiration write downs of $1,026,978 in New York and Kansas.

1.16 **Credit Facility** The draw down on the Macquarie Bank Limited Credit Facility as at 31 December 2012 was $49.4 million (cf $58.1 million at Dec 2011) at an average rate of LIBOR+4.0%. Over 2012, Empire Energy has drawn down $1.7 million and repaid $10.5 million ($14.7 million in 2011) of existing loan facilities. Interest expense is estimated to average $170,000/mth over 2013.

F. RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS

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

The EBITDAX in Table B and the net earning in Table C report operational activities of Empire Energy Group. The note below provides a reconciliation to the financial statements.

Executive Chairman's Review of Operation (Continued)

Net Earning - Effective Date	
(In $ thousands)	**Dec 31, 2012**
Net Earnings- production date	**$929**
Net Earnings- effective date	**$1,628**
Net Earnings - effective date (Empire E&P)	$1,628
Intergroup management fee	$150
Revenue and expenses (remaining Empire Group)	
Other Income	$623
Oil and gas production*	$(129)
Exploration assets written off	$(833)
Impairment of assets*	$(172)
Depreciation, depletion and amortisation*	$(18)
General and administration – head office	$(1,944)
General and administration – other*	$(75)
Finance costs – interest expense	$(192)
Finance costs – other*	$(1,002)
Other expenses	$(62)
Net loss before income tax expense	$(2,025)
* ***Indicates non-cash items***	

G. COMMENTS ON OPERATIONS

1.1 Hedging

Due to the leverage growth model implemented by Empire Energy, an aggressive hedging strategy is adopted to ensure commodity risk is eliminated over the period that a major portion of debt financing is repaid. The Empire Energy acquisition model metric is to target a 5 year debt repayment from project cash flows. The portion of production hedged will be naturally reduced as drill bit production comes on line.

Year	Est. Net mmBtu	Hedged mmBtu	%	Average $/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average $/Bbl
2013	1,950,000	1,407,720	72.2%	$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	1,790,000	1,166,000	65.1%	$5.45	133,280	98,160	73.6%	$90.00
2016	1,730,000	1,200,000	69.4%	$4.43	126,616	42,000	33.2%	$85.67
2017	1,675,000	570,000	34.0%	$4.57	120,285	39,600	32.9%	$85.23
2018	1,620,000	510,000	31.5%	$4.75				
Total	10,615,000	6,189,208	58.3%	$5.33	670,537	398,040	59.4%	$89.07

The fair value gain (marked to market) gain of combined oil and gas hedges in place for the Period was $1.4 million (net of tax). Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2012.

Executive Chairman's Review of Operation (Continued)

1.2 Exploration & Development

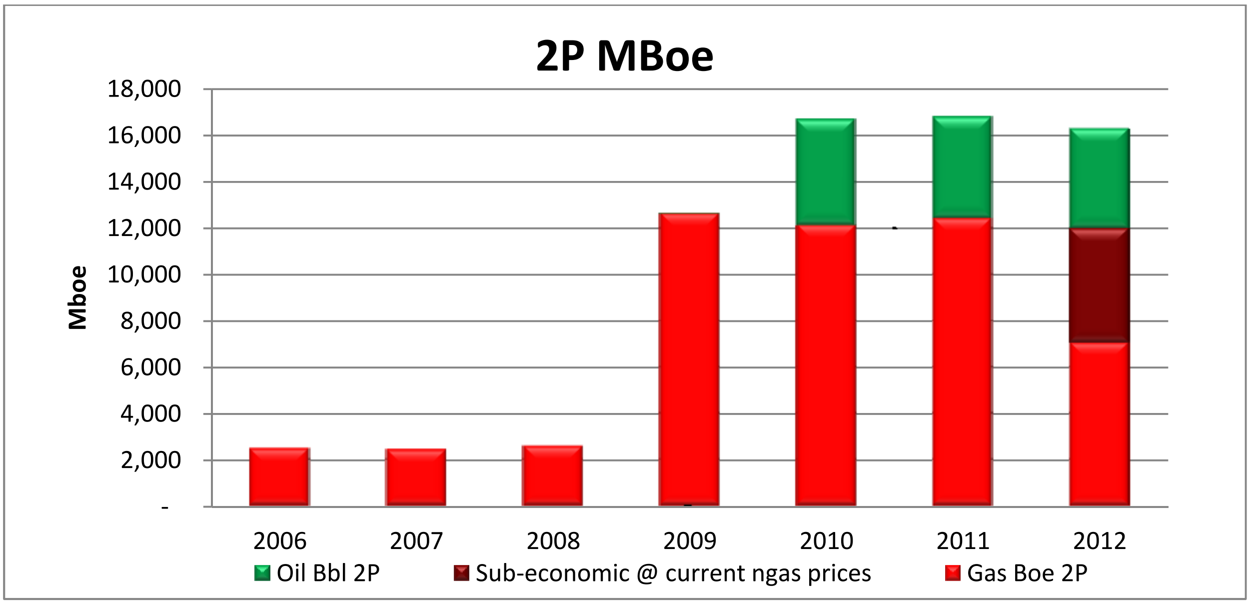
Capex			
(In $ thousands)	Dec 31, 2012	Dec 31, 2011	% change
Acquisitions	$2,596	$130	1895%
New wells - IDC	$1,705	$2,047	-17%
New wells - well head equipment	$465	$580	-20%
	$4,766	$2,757	73%

Expenditure: Total drilling expenditure in Kansas over 2012 was $1.6 million. A total of 4 wells were drilled in Kansas of which 4 have been bought on line and are currently producing. In addition, a small producing operation with 12 to 14 drilling locations was purchased in Kansas in mid year and additional pipeline, wells and acreage were acquired in New York State.

Low gas prices are causing a rationalisation of assets in the industry, and within the region of the Empire Group's existing assets, additional opportunities exist to add bolt-on production assets and infrastructure at attractive costs.

1.3 Reserves

Net 2P Reserves: An updated Reserve Estimate was carried out as of December 1, 2012. An updated summary of 2P Reserves is shown below. Total 2P reserves are 11.3 million Boe. At reserve update, due to the extended payback of conventional gas wells drilled and completed in Company properties in the Appalachia region, directors decided to exclude Pud Reserves. This resulted in a right down of approximately 5MMboe. These reserves are mainly held by production and will be written back at higher gas prices.



Empire E&P has adopted the SEC 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.

Executive Chairman’s Review of Operation (Continued)

Possible Reserves and Resources: In addition to the 2P reserves, the Empire Group is undertaking a detailed review of its 300,000+ acres held in western New York and north western Pennsylvania. This acreage (see below) covers a number of oil and gas bearing horizons and is currently producing from the Medina and Queenston formations. Recent independent reports have indicated +70MMBbls and 200 Bcf in the Marcellus Shale and Resources of at least 4.6 Tcf in Utica Shale.

1.4 Land Position

The following tables summarise the Company’s land holdings in both Appalachia and Mid-Continental region.

1.4.1 Appalachia

						Expiry			
State	County	Total Acreage	HBP Ac.	Marcellus Ac.	Utica Ac.	2013	2014	2015	2016+
NY	Cattaraugus	37,467	17,813	37,467	31,073	0	0	7,259	4,299
NY	Cayuga	22,366	368	0	22,366	1,583	588	2,866	5,383
NY	Chautauqua	175,336	164,160	175,184	60,101	0	0	0	0
NY	Erie	8,969	8,451	8,969	705	0	0	0	294
NY	Niagra	1,259	0	1,259	1,259	0	0	0	951
NY	Onondaga	1,550	0	0	1,550	0	0	814	22
NY	Ontario	16,916	0	0	16,916	0	194	648	4,938
NY	Seneca	24,631	3,276	0	24,631	4,511	559	425	4,033
NY	Wayne	34,137	3,946	0	33,895	2,502	0	1,216	4,330
NY	Wyoming	338	338	0	0	0	0	0	0
PA	Erie	7,670	7,496	1,317	6,353	0	0	0	0
PA	Clarion	3,920	3,753	50	50	0	87	31	50
PA	Jefferson	1,654	1,598	0	0	0	6	56	0
PA	Armstrong	718	718	0	0	0	0	0	0
	Total	**336,931**	**211,917**	**224,246**	**198,899**	**8,596**	**1,434**	**13,314**	**24,300**
	Held by Production			197,970	100,696				

Executive Chairman's Review of Operation (Continued)

1.4.2 Mid-Continental

State	County	Total Gross Ac	Miss.	A/LKC	HBP Ac	Expiry 2013	2014	2015	2016
KS	Barton	2,387		2,387	2,232	155			
KS	Clark	716	716	716	716				
KS	Comanche	1,080	1,080	920	1,080				
KS	Ellis	2,946		2,946	2,386	560			
KS	Gove	5,600	5,600	5,600	2,560	960	1,120	960	
KS	Graham	400		400	320		80		
KS	Harvey	920	920					920	
KS	Kiowa	80	80		80				
KS	Meade	966	966	326	633	493			
KS	Ness	160	160		160				
KS	Pawnee	160		160	160				
KS	Pratt	160	160	160	160				
KS	Reno	80	80	80	80				
KS	Rice	73	73	73				73	
KS	Rooks	640		640	640				
KS	Rush	320		320	160		160		
KS	Russell	2,790		2,790	2,790				
KS	Stafford	2,299		2,299	2,139			160	
ND	Mountrail	1,679	1,679			1,679			
Total		**23,456**	**11,514**	**19,817**	**16,296**	**3,847**	**1,360**	**2,113**	**0**

Miss. = Mississippi Lime

A/LKC = Arbuckle/Lansing-Kansas City

H. APPALACHIA - UNCONVENTIONAL

- Empire E&P continues geological and engineering review of its significant land holding in western New York and northern Pennsylvania. Both the potential Marcellus and Utica shale regions are shown in the maps below. (On the following two maps, Empire E&P leases are highlighted in yellow).
- The scope of the study reviewed basic information to prepare estimates of the reserves and contingent resources. Possible Reserves and Resource estimates were prepared by Ralph E Davis Associates, using acceptable evaluation principals and were based, in large part, on the basic information as supplied.
- 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. All volumes presented are gross volume (8/8ths), and have not subtracted associated royalty burdens.

Executive Chairman’s Review of Operation (Continued)

1.1 Shale – Possible Reserves/Potential Resources – Total Marcellus Acreage ~224,000ac

Formation	Acreage	Type	Category	
Marcellus (1)	~100,000 (2)	Oil (1)	Possible (3P)	70,295 MBbl
Marcellus	~100,000 (2)	Gas (4)	Possible (3P)	199 Bcf

1.2 Shale - Potential Resources – Total Utica Acreage ~198,000ac

Formation	Acreage	Type	Category	GIP
Utica (3)	40,000 (2)	Gas	Resource (3C)	4,638 Bcf

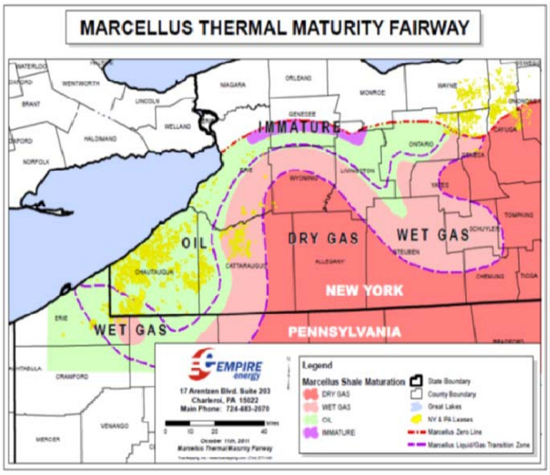
Notes:

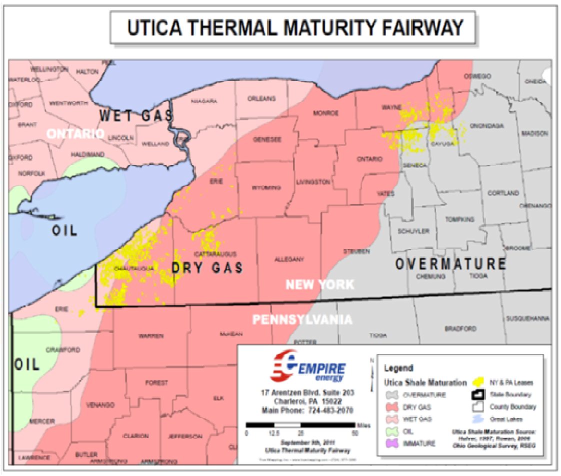
(1) Wells within the defined Marcellus oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. The most likely outcome was utilized with a 3% RF (recovery factor).

(2) Resource based on portion of total estimated Marcellus and Utica acreage.

(3) 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 and estimates for GIP have only 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.

(4) Under current capital and gas prices, it is estimated that the Marcellus shale gas wells would be marginally economic.





1.3 The New York Fracking Moratorium

There was a further delay in the final issuance of New York State’s Supplemental Generic Environmental Impact Statement (“SGEIS”). Value extraction from the Company’s Marcellus and Utica shale play is dependent on final SGEIS issuance that would allow high volume hydraulic fracturing (“Fracking’) of horizontal wells. There was some anticipation that the SGEIS would be issued in February 2013. However:

- On February 12, 2013, the New York State Department of Environmental Conservation (“DEC”) was advised by the New York State Department of Health (“DOH”) that they would need “a few more weeks” to complete their health review of the proposed SGEIS.
- Issuance of the final SGEIS is contingent upon a determination that the SGEIS has adequately addressed health concerns. Nevertheless, the DEC’s commissioner has

Executive Chairman's Review of Operation (Continued)

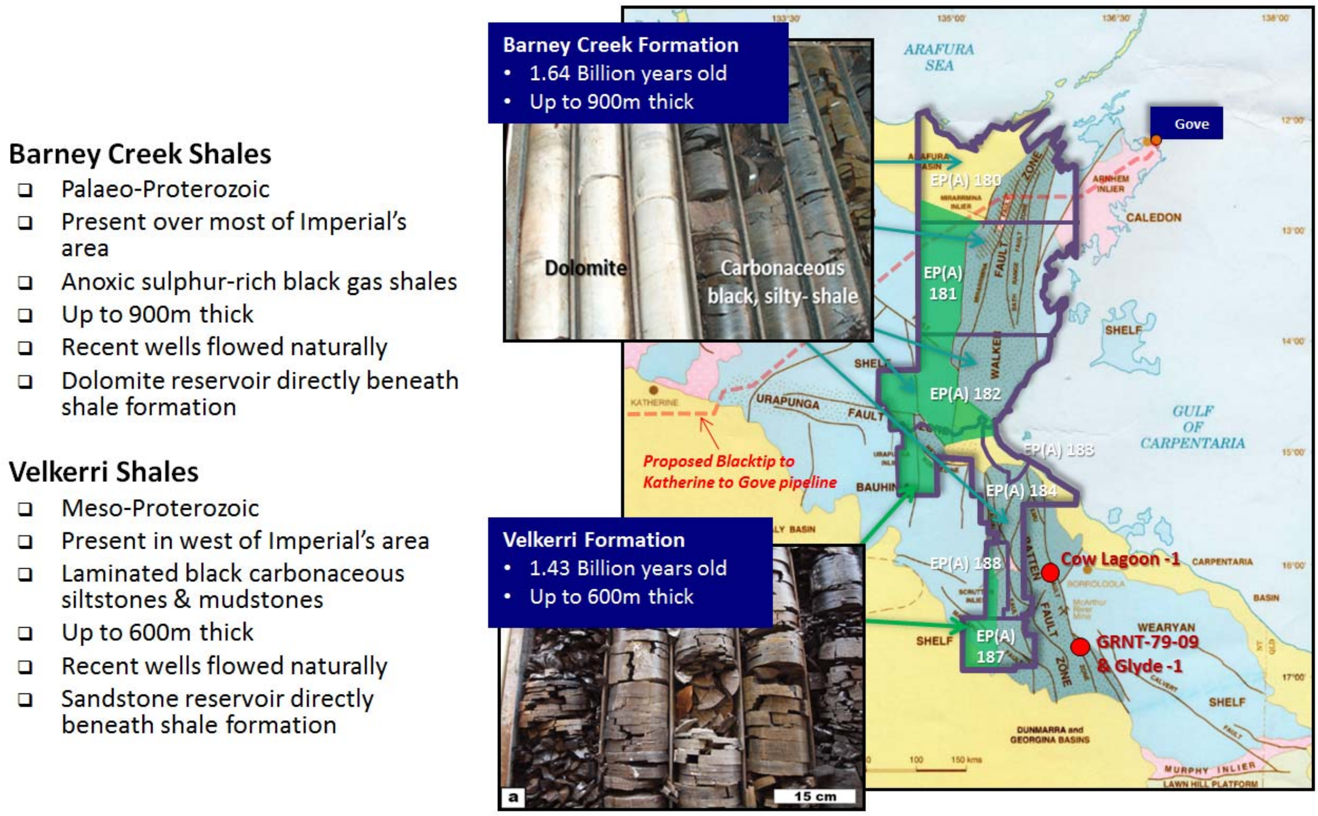
gone on record as saying that, "this does not mean that the issuance of Fracking would be delayed;

- The DEC can accept and process Fracking permit applications 10 days after issuance of the SGEIS".
- Fracking technology has continued to advance, resulting in increased EURs and reduced well costs in the shale industry. Fracking has proven to be very successful in major shale plays in the in the Marcellus and Utica in nearby States of Pennsylvania, West Virginia and Ohio.
- Projects of the scale that the Company holds, approximately 400,000 acres of shale development will require significant capital investment. Consequently, the Company would seek to work with partners on the development of these assets, following the initial de-risking phase.

I. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY

In 2010 Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas ("Imperial"), completed a regional opportunity screening and proactively secured 100% interest in 59,000 square km (14.6million acres) of prospective shale gas exploration acreage, approximating to 75% of the entire central trough of the Proterozoic McArthur Basin (*Exploration Permit Applications EP(A) 180 – 188*). The McArthur Basin is an underexplored petroleum frontier basin with direct indications of oil & gas. Indeed there has been no petroleum exploration of the Walker Trough in the northern McArthur Basin. Exploration wells drilled in the nearby south McArthur Basin in 2012 discovered gas in the same thick carbon-rich black petroliferous shales that are widespread in Imperial's acreage.

1.1 Proven Petroleum Systems



Executive Chairman's Review of Operation (Continued)

Analogue shale gas basins suggest Imperials extensive acreage contains multi-Tcf of potential recoverable shale & conventional gas resources as well as associated liquids.

The grant of the Permits and commencement of exploration operations will occur once agreements have been negotiated with Traditional Land Owners. Imperial has developed excellent relations with Traditional Owners and progress is well advanced. Accordingly Imperial anticipates grant of the first of its permits in mid-2013 with seismic acquisition to commence soon thereafter and exploration drilling during 2013-14.

There is an existing gas pipeline across Imperial's EP(A)187 and one planned through EP(A) 180 & 181.

1.2 Initial Targets

1.2.1 Unconventional - Shale Formations

Executive Chairman's Review of Operation (Continued)

The initial target petroleum resource is in 1.64 billion year old Palaeo- Proterozoic organic-rich black shales of the Barney Creek Formation and equivalents. These were first proven gas-prone in the southern McArthur Basin. The 1979 mineral core hole GRNT-79-09 ignited and sustained a 6m high yellow smoky gas flare for approximately 6 months producing an estimated 0.5 Bcf at 6mmscfd. Gas analysis revealed C1-C7 and minimal CO_2. Also, oil bleeds are common in cores hence shale oil offers secondary potential. Drilling of Cow Lagoon-1 and Glyde-1 in 2012 produced free flowing gas confirming the McArthur Basin formations to be hydrocarbon bearing.

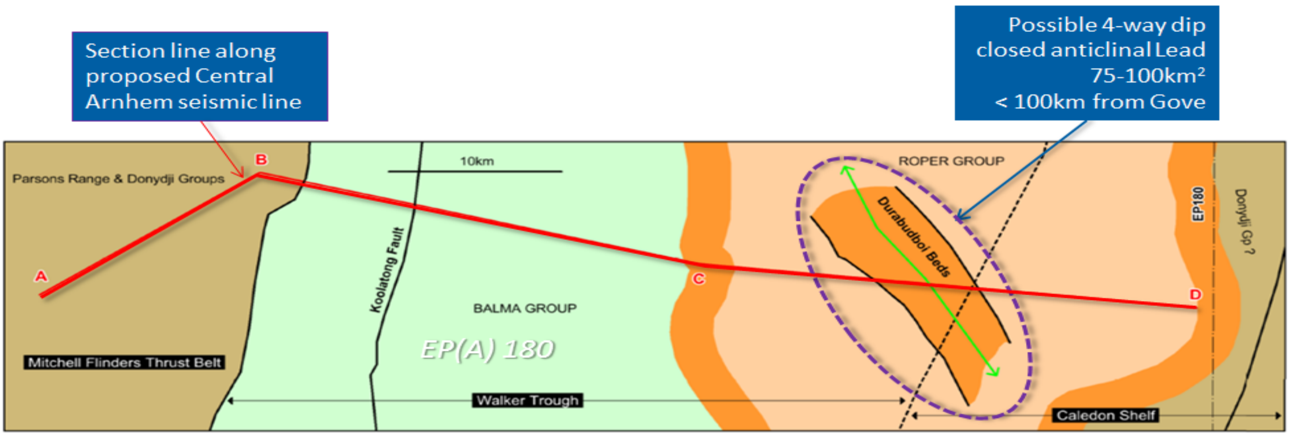
The shallower 1.43 billion year old Meso-Proterozoic Velkerri Formation also contains carbon-rich black shales & siltstones providing a second shale oil & gas exploration target in Imperial's southern EP(A)s 187 & 188 and the western regions of EP(A) 181, 182 & 184. The Velkerri Formation is the focus of shale gas exploration in the adjacent Beetaloo Basin to the south.

1.2.2 Conventional Petroleum Reservoirs

While unconventional shales provide the primary oil & gas target there are associated carbonate and clastic formations that offer incremental conventional resource potential. Imperial's primary objective for the initial seismic and drilling campaign is to constrain the potential for commercially viable shale petroleum resources.

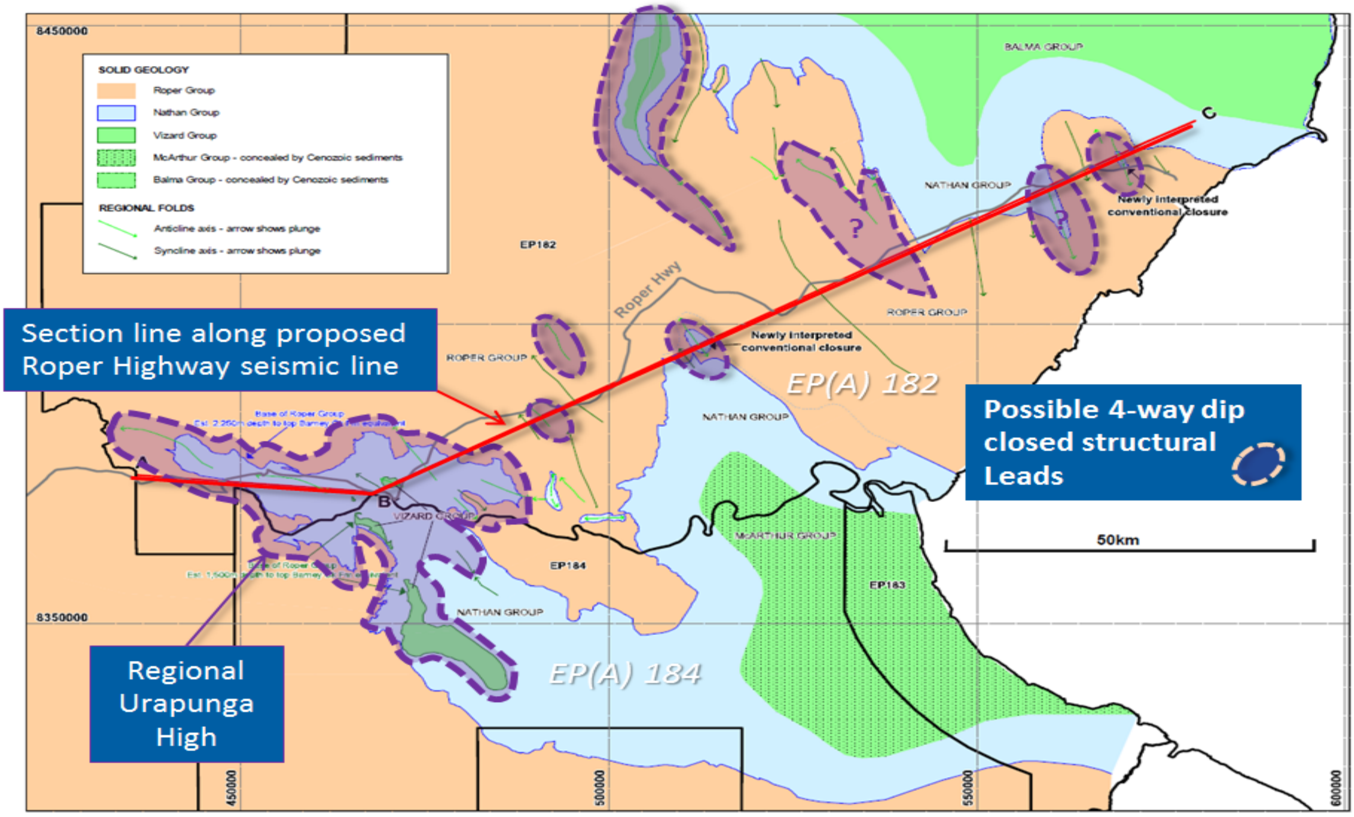
In addition, the structural modelling work has identified a number of potentially large four-way dip-closed traps in the areas targeted for initial exploration. These targets will be evaluated for potential conventional reservoirs in such structures while maintaining a direct focus on shale targets. The two maps below show both the proposed seismic lines to be undertaken in 2013 (when agreements with Traditional Owners are completed). The potential conventional traps will be targeted as initial exploration well locations, with the shale horizons being targeted beneath the four-way dip-closed traps.

1.2.2.1 EPA 180



Executive Chairman's Review of Operation (Continued)

1.2.2.2 EPA 182



1.2.3 Analytical Program

Being a frontier basin the regional extent, quality, and thermal maturity of the gas shales must be carefully constrained. Potential gas & oil-prone sweet spots are presently being delineated. The *Australian Shale Research Group* is currently analysing 650 Proterozoic shale samples from 10 cores. These will characterize the nature and distribution of hydrocarbons in the Southern portion of Imperial's license areas and provide for prediction in the northern areas where there are no existing petroleum geochemical data.

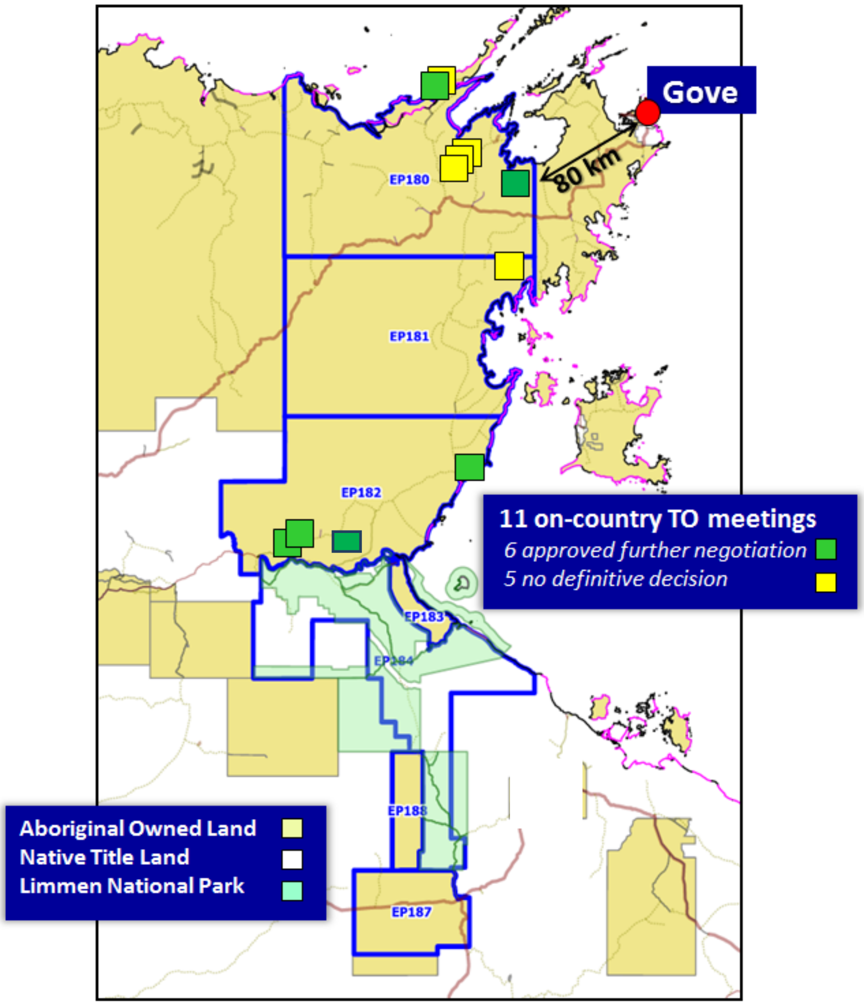
The analytical work involves mineralogical, organic geochemistry, diagenesis and porosity analyses. The emerging geochemical results are currently being interpreted and assimilated into a sequence stratigraphic framework along with the results from a basin structural geological modelling study that commenced in 2012.

1.2.4 Permitting

Land access and permit grant in six of the seven permit application areas requires approval of the Traditional Aboriginal Landowners given they are in Aboriginal Freehold Land. Since late 2010 Imperial has held 11 'on-country' meetings with Traditional Owners who express strong support to negotiate the terms of Exploration Agreements for each area. On some occasions at such meetings there may be sparse attendance, or lack of representation, by key senior Traditional Owner decision-makers, or there may be funeral ceremonies. In such

Executive Chairman's Review of Operation (Continued)

circumstances no definitive decision may be achieved. The negotiation of exploration agreements are currently at an advanced stage.



1.2.5 Gas to Gove

Imperial's McArthur Basin acreage is strategically located just 80 km from the Gove Refinery. In the event of gas discovery, depending on the scale of resource, Imperial can potentially supply gas locally into the proposed new gas pipeline or to support directly mining operations in the area, to replace diverted gas quotas for use in Darwin, or for inter-state or overseas export.

In 4Q 2012 Imperial presented its proposed exploration plans for 2013 onwards to the Northern Territory Chief Minister's 'Strategic Gas Action Group'. The Group strongly endorsed Imperial's achievements in accelerating the licensing process and expediting its forward exploration programs in the region.

Executive Chairman's Review of Operation (Continued)

J. FUTURE

The Company's prime strategy remains to:

- Identify new upstream producing oil assets to acquire and integrate into existing operations; and
- Build a position of 'significance' in the oil and gas industry. The target would be to reach an initial production milestone of over 2,500 Boe/day by 2013, and then a next target of 5,000 Boe/d; and
- Focus on existing well re-works to maintain steady state production and reduce both oil and gas lifting costs; and
- Monetise the Company's potential large scale unconventional sources of shale oil, gas liquids and dry gas in the Marcellus, Utica, Appalachia and the McArthur Basin, Northern Territory, Australia; and
- Ensure the value of the Company's achievements are reflected in its market capitalization.
- Since the last quarter of 2012 the Company has participated in a number of presentations to investors, analysts and brokers along with participating in industry events. This is part of an ongoing initiative to further promote the Company and will continue into 2013.

I would also like to acknowledge the many employees, shareholders and stakeholders who have provided support and assistance in continuing the development of the Company. Although 2012 was disappointing in not being able to secure the acquisition of additional producing assets, significant progress has been made in all areas of operation.

Operations developed in the Mid-Con region can expand production several fold with little additional G&A expense. Appalachia expansion is a little constrained by current natural gas prices, but increasing efficiencies will see increasing attractive returns as natural gas prices creep back to the $4.00/Mcf range. Significant progress has been made in the Northern Territory with both an expansion of the Company's operational team and the ongoing development of strong relations with the Northern Land Council and other supportive Governmental bodies in the Northern Territory.

Subject to the successful outcome of several events expected over 2013, the nature and scale of the Company has the potential to change significantly.

Bruce McLeod
Chairman & CEO

The information in this report which relates to reserves is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas, and LaRoche Petroleum Consultants Ltd., Dallas, Texas, both certified professional petroleum engineers with over five years experience and are qualified in accordance with the requirements of Listing Rule 5.11.

Neither Ralph E Davis Associates Inc, nor LaRoche Petroleum Consultants Ltd., nor any of their employees have any interest in Empire Energy E&P, LLC or the properties reported herein.

Directors' Report
for the financial year ended 31 December 2012

In respect of the financial year ended 31 December 2012, 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 anytime 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.

Current initiatives are centred on the McArthur Basin in the Northern Territory.

Consolidated Results

The consolidated net loss of the Empire Group for the financial year ended 31 December 2012 after providing for income tax was US$203,577 compared to a consolidated net loss for the previous corresponding reporting period of US$1,436,800.

Review of Operations

For information on a review of the Empire Group's operations refer to the Executive Chairman's Review of Operations Report contained on pages 4 to 21 of this annual report.

Dividends

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

Significant Changes in State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial period were as follows:

(i) Capital Structure

Contributed equity of the Company increased by US$2,129,681 (from US$71,195,874 to US$73,325,555) during the financial period as a result of:

		US$
-	Issue of 6,666,666 shares in June 2012 pursuant to the exercise of 6,666,666 options @ A$0.15 expiring 22 June 2012	990,380
-	Issue of 6,666,666 shares in December 2012 pursuant to the exercise of 6,666,666 options at $0.165 expiring 22 December 2012	1,148,950
	Less transaction costs associated with the above mentioned share issues	(9,649)
		2,129,681

Funds raised from the issues were utilised towards repayment of group borrowings.

(ii) Acquisition of oil producing assets

In July 2012 the Company announced that its 95% owned subsidiary Empire Energy E&P, LLC had acquired a 97.9% working interest in producing petroleum properties located in Gove County in the Central Kansas Uplift, Kansas for a purchase price of US$1.7million. The acquired assets consist of 3,360 gross (2,648 net) acres of land with preliminary estimated proven and probable recoverable reserves of 470,000 barrels of oil.

Directors' Report
for the year ended 31 December 2012

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) Rollover Macquarie Bank Facility
On 15 January 2013 the Company announced that the Macquarie Bank US$150 million credit facility had been extended for a further 3 years through to 28 February 2016.

The extension of the credit facility will enable the company to continue to target the acquisition of assets that offer attractive aggregation and growth potential and demonstrates Macquarie Bank's support of the Company's operations.

2) The New York Department of Environmental Conservation ('DEC')
Defacto moratorium on hydraulic fracking in New York State ended on 1 July 2011, the DEC implemented public comment periods commencing August 2011 and extending to 11 January 2013. The DEC has previously released its recommendations on mitigating the environmental impacts of high-volume hydraulic fracking.

The timing of the release of guidelines and the issue of permits is still unknown. In early 2013 the DEC filed a notice of continuation for 90 days in order to allow the NY State Commissioner of Health, time to complete his review of the draft Supplemental Generic Environmental Impact Statement. On 6 March 2013 the New York State Assembly passed a bill to further suspend the issuance of high volume hydraulic fracturing until May 15, 2015, this bill was not ratified by the Senate which favours controlled hydraulic fracturing. The Governor is currently awaiting additional recommendations from the NY Department of Health at which time the DEC will determine a decision deadline.

There were no other matters or circumstances that have arisen since 31 December 2012 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2012, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2012 of the Empire Group.

Information on Directors

Bruce William McLeod, B.Sc (Maths), M.Com (Econ) Age 60
Executive Chairman

Experience and Expertise
Mr McLeod has had extensive experience in the Australian capital markets. Over the past 20 years he has been involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent 6 years with a major international bank, where he was Executive Director, responsible for the financial and capital markets operations.

Appointed a Director of the Company on 21 May 1996.

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

Other Current Directorships
Chairman of Mayan Iron Corporation Ltd.

Former Directorships in Last 3 Years
Earth Heat Resources Ltd from 6 February 2008 to 22 January 2010.
Carnegie Wave Energy Limited from 1 November 1996 to 6 May 2011.

Directors' Report
for the year ended 31 December 2012

David Henty Sutton, B.Com ACIS Age 69
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 currently owns and manages Dayton Way Financial Pty Ltd, a boutique financial services company focussing on the global resource sector.

Prior to his current role 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
Member of Audit Committee

Other Current Directorships

Chairman of Silver Mines Limited, AAT Corporation Limited, Precious Metals Investments and Chairman of Sinovus Mining Limited.

Former Directorships in Last 3 Years

Director of Earth Heat Resources Ltd from 14 October 2007 to 11 May 2011.

Kevin Anthony Torpey**,** B.E., MIE Aus., CP Eng, FAusIMM, (CP) Age 74
Non-Executive Director

Experience and Expertise
Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia.

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

Appointed a Director of the Company on 26 November 1992.

Special Responsibilities
Member of Remuneration Committee
Member of Audit Committee

Other Current Directorships
Non-Executive Director of Latrobe Magnesium Limited

Former Directorships in Last 3 Years
None

Joint Company Secretaries

David Hughes
Mr Hughes was appointed to the position of Company Secretary on 11 November 1992. Before joining Empire Energy Group Limited he has held similar positions with other listed companies for over 20 years. He is currently acting as Company Secretary/Joint Company Secretary of the following other listed public companies:

Latrobe Magnesium Limited and Joint Company Secretary of Hudson Investment Group Limited , Tiaro Coal Limited, Hudson Resources Limited, Australian Bauxite Limited, Sovereign Gold Company Limited and Raffles Capital Limited.

Directors' Report
for the year ended 31 December 2012

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. She resigned on 3 February 2012 and re-joined the Empire Group on 5 March 2012 and now serves the Company as Joint Company Secretary and General Manager Operations.

Executives

Kylie Arizabaleta B.Bus (Acct) (Fin)
Ms Arizabaleta was appointed to the position of Financial Controller on 5 March 2012. Before joining Empire Energy Group Limited she worked in the public practice as an external auditor and holds over 8 years' experience.

Dr John Warburton (FGS, MAICD)
Director & CEO, Imperial Oil & Gas Pty Ltd
Dr Warburton was appointed as an advisor to the Empire Group in February 2010 and as a director and Chief Executive Officer to the Company's wholly owned subsidiary Imperial Oil and Gas Pty Ltd on 18 March 2011. A Geoscientist by profession, Dr Warburton has 28 years of technical and leadership experience in International Petroleum E&P including 11 years with BP and 4 years as General Manager Exploration & New Business for LASMO-Eni in Pakistan. Dr Warburton is the Director of Sydney-based Petroleum Exploration Business Consultancy Insight Exploration and he maintains a strong global executive network.

Dr Warburton's extensive operated & non-operated petroleum expertise covers the Middle East, Kazakhstan, Azerbaijan, North & West Africa, Pakistan, Europe, Australia, New Zealand, PNG, SE Asia, China, Korea and Japan. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 28 internationally recognised technical articles with particular focus on petroleum exploration in complex fold and thrust belts.

Dr Warburton has a First Class B.Sc. Honours Degree in Geological Sciences and a Ph.D. in Structural Geology. He is a Member of the Australian Institute of Company Directors, an Alumni of Cranfield Business School UK and a Fellow of the Geological Society of London. Insight Exploration is a Sustaining Member of the Petroleum Exploration Society of Great Britain.

Geoff Hokin
Explorations & Operations, Imperial Oil & Gas Pty Ltd
Mr Hokin has 9 years' experience as a field geologist in the unconventional gas and coal sectors, with various senior geologist roles with a number of companies including Armour Energy Limited, Metgasco Limited and Arrow Energy Limited. Mr Hokin has extensive geological and business experience in other operations.

Meetings of Directors

The number of Directors' meetings and committee meetings held and the attendance by each of the Directors of the Company at those meetings during the financial year were:

	Directors' Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
Mr B W McLeod	8	8	-	-	2	2
Mr D H Sutton	8	8	1	1	2	2
Mr K A Torpey	8	8	1	1	2	2

The audit committee comprises the full Board of Directors. Mr D H Sutton and Mr K A Torpey were members of the remuneration committee during the financial year.

Retirement, Election and Continuation in Office of Directors

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

Remuneration Report – Audited

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

Directors' Report
for the year ended 31 December 2012

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.

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, before KPIs are set for the following year.

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 goals set at the start of the year. Details of the nature and amount of each element of the remuneration of each Director of Empire Energy Group Limited 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 2012	**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	362,495	113,927	28,540	-	-	302,923*	807,885
K A Torpey	20,714	-	-	1,864	-	16,395*	38,973
D H Sutton	-	-	-	20,714	-	16,395*	37,109
J Warburton	221,114	-	-	-	-	-	221,114
Empire Energy Executives							
A Boyer	156,000	-	39,481	-	-	7,571*	203,052

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan. The 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.

Directors' Report
for the year ended 31 December 2012

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2011	**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	361,165	206,380	49,603	-	-	195,451*	812,599
K A Torpey	20,638	-	-	1,857	-	-	22,495
D H Sutton	-	-	-	20,638	-	-	20,638
Specified Executive of the Empire Group							
D L Hughes	80,488	-	14,180	7,244	1,294	27,567*	130,773
R Ryan	105,426	-	1,255	9,488	10,772	27,567*	154,508
Empire Energy Executives							
A Boyer	164,165	-	48,732	-	-	-	212,897

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan. The 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.

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$350,000 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
- Other benefits include provision of fully maintained motor vehicle, participation in the Company's executive option plan and membership of Empire Energy USA, LLC management incentive scheme.

These terms are currently under review 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 7,000,000 executive options to acquire ordinary shares were granted to Directors and specified executives of the Company. 3,500,000 executive options were granted to Directors following the approval of shareholders at an annual general meeting of members of the Company held on 31 May 2012. In addition 3,500,000 executive options were granted to specified executives of the Company.

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

Directors' Report
for the year ended 31 December 2012

At the date of this report there were 13,800,000 unissued shares held under option to Directors and specified executives. These options are exercisable of the following basis:

Number –	Executive Options	Exercise Price A$	Expiry Date
3,500,000	executive options	$0.15	1 July 2013
1,650,000	executive options	$0.17	1 July 2013
1,650,000	executive options	$0.18	31 December 2013
7,000,000	executive options	$0.35	31 December 2014
13,800,000			

Directors' Interests and Benefits

The relevant interest of each director and specified executive in the share capital of the Company as at the date of this report is:

Particulars of Interests in the Issued Capital of the Company

	Direct Interest		Indirect Interest	
Director	Shares	Options	Shares	Options
B W McLeod	255,429	-	6,684,331	7,300,000
D H Sutton	438,301	-	194,999	750,000
K A Torpey	118,055	-	2,073,394	750,000

End of Audited Remuneration Report

Share Options

Movements

Grant of Options

During the financial year 7,000,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions. The options were granted on the following terms:

No. of Options	Executive Options	Exercise Price A$	Expiry Date
7,000,000	executive options	$0.35	31 December 2014

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

Exercise of Options

13,333,332 unlisted options were exercised by Macquarie Bank Limited during the financial year. These options were exercised on the following terms:

- 6,666,666 unlisted options exercisable at A$0.15 expiring 22 June 2012
- 6,666,666 unlisted options exercisable at A$0.165 expiring 22 December 2012

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

Expiry of Options
6,666,666 unlisted options exercisable at A$0.18 were not exercised by their expiry date of 22 December 2012 and as a consequence have lapsed.

Since the end of the financial year a further 66,666 options exercisable at A$0.1575 were not exercised by their expiry date of 5 March 2013 and as a consequence have lapsed.
At the date of this report the total number of unissued shares held under option was 13,800,000. These options are exercisable on the following terms.

Number		Exercise Price A$	Expiry Date
3,500,000	Executive options	$0.15	1 July 2013
1,650,000	Executive options	$0.17	1 July 2013
1,650,000	Executive options	$0.18	31 December 2013
7,000,000	Executive options	$0.35	31 December 2014
13,800,000			

Directors' Report
for the year ended 31 December 2012

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 secretaries, executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

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

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Environmental Regulations

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

Declaration by the Chief Executive Officer and Chief Financial Officer

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Officer in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the financial year ended 31 December 2012 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 35 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 30 and forms part of the Director's Report for the financial year ended 31 December 2012.

Auditor

Nexia Court & Co 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 28 March 2013

nexia
australia

the next solution

AUDITOR'S INDEPENDENCE DECLARATION

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

28 March 2013

Dear Board Members

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Empire Energy Group Limited.

As lead audit partner for the audit of the financial statements of Empire Energy Group Limited for the financial period ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia Court & Co

Nexia Court & Co.
Chartered Accountants

Andrew Hoffmann
Partner

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info@nexiacourt.com.au, www.nexia.com.au

Corporate Governance Statement

OVERVIEW

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

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

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

Compliance with ASX Corporate Governance Council best practice recommendations

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

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

Board Responsibilities

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

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

The responsibilities of the board include:

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

Directors' Education

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

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

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

Role of Chairman and Chief Executive Officer (CEO)

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

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

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the board of directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the responsibility of the board.

Performance is assessed against pre-determined objectives on a regular basis.

Corporate Governance Statement

The Chairman's other responsibilities include:

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

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

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

Composition of the Board

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

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

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

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

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

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

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

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

Details of the members of the board, their experience, expertise and qualifications are set out in the Director's Report on pages 23 to 24.

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

Name of Director	Position/Status	Term in Office
Bruce McLeod	Executive Chairman – Non-Independent	17 years 4 months
David Sutton	Non-Executive – Independent	16 years 8 months
Kevin Torpey	Non-Executive – Independent	20 years 10 months

The Board currently holds up to 12 scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 8 times during the year and Directors attendance is disclosed on page 25 of the Directors' Report.

Access to independent professional advice

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

Nomination committee

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

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

Corporate Governance Statement

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

Board performance evaluation

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

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

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision making.

Code of conduct

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

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

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

Approach to diversity

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

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

The Company's diversity policy includes a requirement that:

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

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

	Actual at 31 December 2012		Empire Group Objective		Progress towards meeting objective	
	Number	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
Whole organisation	10	14%	12	20%	-	-
Senior Executive positions	3	25%	4	33%	-	-
Board	-	-	1	25%	-	-

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

Corporate Governance Statement

Policy on dealing in Company securities

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

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

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

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

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

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

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

Audit Committee

The audit committee comprises of the full Board of Directors.

The committee met twice during the year under review.

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

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

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

The Empire Group's financial statements for the financial year ended 31 December 2012 present a true and fair view in all material respects of the Empire Group's financial position and operational results and are in accordance with relevant accounting standards.

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

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

Corporate Governance Statement

External auditors

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

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

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

PRINCIPLE 5 – MAKING TIMELY AND BALANCED DISCLOSURE

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

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

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

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

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

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

Communication with shareholders

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

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

The Company achieves this through the following avenues:

Regular mailings

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

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

General meetings

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

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

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

Corporate Governance Statement

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

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

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

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

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

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

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

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

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

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

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

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

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

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

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

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

Mr D Sutton is the Chairman of the remuneration committee.

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

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

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

The committee met once during the year and the Committee Members attendance record is disclosed in the table of Director's Meetings included in the Directors' Report at page 25.

Corporate Governance Statement

Executive Directors and Executive remuneration

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

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

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

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

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

Non-executive directors

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Note	Year ended December 2012 US$	Year ended December 2011 US$
Revenue from continuing operations	5	26,643,095	27,994,122
Gain on sale of acreage	7	-	1,092,250
Other income	6	1,047,433	446,459
		27,690,528	29,532,831
Expenses			
Oil and gas production		(10,761,387)	(11,423,460)
Exploration assets written off		(1,029,897)	(640,880)
Leasing expiration expenses	9	(1,026,978)	-
Impairment of assets	9	(171,728)	(275,959)
Depreciation, depletion and amortisation	9	(4,750,416)	(5,044,732)
General and administration		(4,479,136)	(4,870,263)
Finance costs	8	(7,270,176)	(7,093,222)
Other Expenses		(226,210)	-
(Loss)/profit before income tax expense from continuing operations		(2,025,400)	184,315
Income tax benefit/(expense)	10	1,821,823	(1,621,115)
(Loss)/profit after income tax (expense)/benefit from continuing operations		(203,577)	(1,436,800)
Other comprehensive income			
Gain on the revaluation of available-for-sale assets		48,490	108,031
Exchange differences on translation of foreign operations		61,312	(184,555)
Net change in the fair value of cash flow hedges, net of tax		(1,424,955)	2,561,887
Other comprehensive income for the year, net of tax		(1,315,153)	2,485,363
Total comprehensive income for the year		(1,518,730)	1,048,563
(Loss)/profit for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(220,723)	(1,561,718)
Non-controlling interests		17,146	124,918
		(203,577)	(1,436,800)
Total comprehensive income for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(1,472,169)	642,099
Non-controlling interests		(46,561)	406,464
		(1,518,730)	1,048,563
		Cents per share	Cents per share
Basic earnings per share	30	(0.08)	(0.66)
Diluted earnings per share	30	(0.08)	(0.66)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at 31 December 2012

	Note	As at December 2012 US$	**As at December 2011 US$**
CURRENT ASSETS			
Cash and cash equivalents	29	6,189,192	4,448,495
Trade and other receivables	11	5,097,864	5,577,262
Prepayments	12	171,973	417,677
Inventories	13	805,646	585,822
Financial assets, including derivatives	14	3,267,501	4,243,779
Current income tax receivable		853,875	552,000
TOTAL CURRENT ASSETS		16,386,051	15,825,035
NON-CURRENT ASSETS			
Financial assets, including derivatives	14	5,024,544	6,942,218
Oil and gas properties	15	98,018,856	96,460,487
Property, plant and equipment	15	939,758	3,842,386
Intangible assets	16	70,367	83,308
TOTAL NON-CURRENT ASSETS		104,053,525	107,328,399
TOTAL ASSETS		120,439,576	123,153,434
CURRENT LIABILITIES			
Trade and other payables	17	6,415,637	4,161,263
Financial liabilities, including derivatives	18	248,575	1,229,486
Interest-bearing liabilities	19	48,924,343	53,896,869
Provisions	20	85,567	93,464
Current income tax liability		-	-
TOTAL CURRENT LIABILITIES		55,674,122	59,381,082
NON-CURRENT LIABILITIES			
Financial liabilities, including derivatives	18	525,953	1,136,390
Interest-bearing liabilities	19	40,191	54,806
Provisions	20	6,015,635	4,944,295
Deferred income tax liability	10(f)	7,070,000	7,610,331
TOTAL NON-CURRENT LIABILITIES		13,651,779	13,745,822
TOTAL LIABILITIES		69,325,901	73,126,904
NET ASSETS		51,113,675	50,026,530
EQUITY			
Contributed equity	21	73,325,555	71,195,874
Reserves	22	6,710,795	8,421,566
Accumulated losses		(30,576,059)	(31,327,674)
Equity is attributable to:			
Equity holders of Empire Energy Group Limited		49,460,291	48,289,766
Non-controlling interests		1,653,384	1,736,764
TOTAL SHAREHOLDERS' EQUITY		51,113,675	50,026,530

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2012

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2011	71,195,874	5,249,754	150,387	3,021,425	(31,327,674)	48,289,766	1,736,764	50,026,530
Total Comprehensive income for year								
Profit after income tax from continuing operations	-	-	-	-	(220,723)	(220,723)	17,146	(203,577)
Exchange differences on translation of foreign operations	-	-	61,312	-	-	61,312	-	61,312
Gain on the revaluation available-for-sale investments, net of tax	-	48,490	-	-	-	48,490	-	48,490
Net change in the fair value of cash flow hedges, net of tax	-	(1,361,248)	-	-	-	(1,361,248)	(63,707)	(1,424,955)
Total comprehensive income for the year	**-**	**(1,312,758)**	**61,312**	**-**	**(220,723)**	**(1,472,169)**	**(46,561)**	**(1,518,730)**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	2,139,330	-	-	-	-	2,139,330	-	2,139,330
Less: share issue transaction costs	(9,649)	-	-	-	-	(9,649)	-	(9,649)
Options lapsed in period, transferred to retained earnings	-	-	-	(972,338)	972,338	-	-	-
Options issued during the year	-	-	-	513,013	-	513,013	-	513,013
Warrants issued during the year	-	-	-	-	-	-	-	-
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	(36,819)	(36,819)
Total transactions with owners	**2,129,681**	**-**	**-**	**(459,325)**	**972,338**	**2,642,694**	**(36,819)**	**2,605,875**
Balance at 31 December 2012	**73,325,555**	**3,936,996**	**211,699**	**2,562,100**	**(30,576,059)**	**49,460,291**	**1,653,384**	**51,113,675**

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 2012

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2010	55,486,551	2,021,792	334,942	2,057,718	(26,847,184)	33,053,819	2,343,821	35,397,640
Effect of prior period adjustment	-	789,850	-	-	(4,270,000)	(3,480,150)	-	(3,480,150)
Revised 31 December 2010	55,486,551	2,811,642	334,942	2,057,718	(31,117,184)	29,573,669	2,343,821	31,917,490
Total Comprehensive income for year								
Profit after income tax from continuing operations	-	-	-	-	(1,561,718)	(1,561,718)	124,918	(1,436,800)
Exchange differences on translation of foreign operations	-	-	(184,555)	-	-	(184,555)	-	(184,555)
Gain on the revaluation available-for-sale investments, net of tax	-	108,031	-	-	-	108,031	-	108,031
Net change in the fair value of cash flow hedges, net of tax	-	2,280,341	-	-	-	2,280,341	281,546	2,561,887
Total comprehensive income for the year	**-**	**2,388,372**	**(184,555)**	**-**	**(1,561,718)**	**642,099**	**406,464**	**1,048,563**
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	16,516,519	-	-	-	-	16,516,519	-	16,516,519
Less: share issue transaction costs	(807,196)	-	-	-	-	(807,196)	-	(807,196)
Options lapsed in period, transferred to retained earnings	-	-	-	(590,708)	590,708	-	-	-
Options issued during the year	-	-	-	246,627	-	246,627	-	246,627
Warrants issued during the year	-	-	-	1,292,742	-	1,292,742	62,618	1,355,360
Dilution of non-controlling interest	-	49,740	-	15,046	760,520	825,306	(825,307)	-
Distribution to non-controlling interests	-	-	-	-	-	-	(250,832)	(250,832)
Total transactions with owners	**15,709,323**	**49,740**	**-**	**963,707**	**1,351,228**	**18,073,998**	**(1,013,521)**	**17,060,477**
Balance at 31 December 2011	**71,195,874**	**5,249,754**	**150,387**	**3,021,425**	**(31,327,674)**	**48,289,766**	**1,736,764**	**50,026,530**

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

CONSOLIDATED STATEMENTS OF CASH FLOW
for the year ended 31 December 2012

	Note	Year ended 31 December 2012 US$	Year ended 31 December 2011 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		27,427,882	26,124,877
Payments to suppliers and employees		(13,766,793)	(15,846,711)
Interest received		24,328	77,416
Interest paid		(2,774,130)	(3,571,734)
Income taxes received/(paid)		1,193,352	(2,305,694)
Net cash flows from operating activities	29	12,104,639	4,478,154
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of acreage	7	-	-
Proceeds from sale of oil and gas assets		105,000	-
Proceeds from sale of investments in equities		810,068	38,696
Payments for oil and gas assets		(3,588,626)	(2,755,268)
Payments for property, plant and equipment		(616,688)	(478,088)
Payments for investments in equities		(400,000)	(27,500)
Net cash flows from investing activities		(3,690,246)	(3,222,160)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuing of shares		2,129,681	15,709,323
Proceeds from interest bearing liabilities		1,725,500	280,207
Repayment of proceeds from issuing shares		-	-
Repayment of interest bearing liabilities		(10,523,054)	(15,011,747)
Finance lease payments		(13,151)	(13,559)
Distribution to non-controlling interests		(36,819)	(250,832)
Net cash flows from financing activities		(6,717,843)	713,392
Net increase in cash and cash equivalents		1,696,550	1,969,386
Cash and cash equivalents at beginning of financial year		4,448,495	2,665,474
Effect of exchange rate changes on cash and cash equivalents		44,147	(186,365)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	29	6,189,192	4,448,495

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 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The financial report covers Empire Energy Group Limited and its controlled entities ("Empire Group"). Empire Energy Group Limited 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 Energy Group Limited as an individual entity are no longer presented as the consequence of a change to the *Corporations Act 2001;* limited financial information for Empire Energy Group Limited, as an individual entity, is included in Note 31.

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 2012 was authorised for issue in accordance with a resolution of Directors on 28 March 2013.

Basis of preparation

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, and the requirements of the *Corporations Act 2001,* as appropriate for for-profit orientated entities. The consolidated financial statements have been prepared on a cost basis, modified, where applicable, by the measurement at fair value of available-for-sale financial assets and derivative financial instruments.

Statement of compliance

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

Presentation currency

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

New, revised or amending Accounting Standards and Interpretations adopted

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 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 2012.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of Empire Energy Group Limited and its controlled entities.

Controlled entities are all those entities over which the Empire Group has the power to govern the financial and operating policies. Controlled entities are consolidated from the date on which control is transferred to the Empire Group and cease to be consolidated from the date on which control is transferred out of the Empire Group.

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Business combinations

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

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

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

Foreign Currency Translations

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

Foreign currency transactions

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

Foreign operations

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

Revenue recognition

Natural gas revenue

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Oil revenue

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

Well operations

Well operations and pipeline income are recognised when persuasive evidence of an arrangement exists, services have been rendered, collection of revenues is reasonably assured and the sales price is fixed or determinable. The Empire Group is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly operating and accounting costs, insurance and other recurring costs. The Empire Group might also receive additional compensation for special nonrecurring activities, such as reworks and recompletions.

Finance income

Finance income comprises interest income on funds invested. 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 that are designated and meet the required criteria for a cash flow hedge are reported in consolidated comprehensive income.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting for gas producing activities. Costs to acquire mineral interests in gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells and related asset retirement costs are capitalised. Depletion is based on cost less estimated salvage value using the unit-of-production method. The process of estimating and evaluating gas reserves is complex, requiring significant decisions in the evaluation of geological, geophysical, engineering and economic data. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Empire Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The capitalised value of a finance lease is also included within property, plant and equipment. Plant and equipment are depreciated over their estimated useful lives using the straight line method as follows:

	December 2012	December 2011
Plant and equipment	10-20%	10-20%

Assets are depreciated from the date of acquisition. Profits and losses on sales of property, plant and equipment are taken into account in determining the results for the year.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Recoverable amount of assets

At each reporting date, the Empire Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Empire Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or Empire Groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Investments

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

Certain investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. 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 and software assets. Software assets are being amortised on a straight-line basis over 5 years.

Interest-bearing liabilities

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions – Employee Benefits

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

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

Asset Retirement Obligations

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

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. The liability is discounted using the US subsidiaries weighted average cost of capital as an approximate for a market-based discount rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, remaining lives of the wells, if regulations enact new plugging and abandonment requirements, or there is a change in the market-based discount rate. Changes in the estimated timing of decommissioning or decommissions cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas properties. The unwinding of the discount of the asset retirement obligation is included as a finance cost.

Income tax

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

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

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

Tax consolidation

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

The head entity in conjunction with other members of the tax-consolidated Empire Group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the statement of cash lows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Share based payment transactions

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

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 2012. 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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity.
A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's return (e.g. Operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 January 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the assets and obligations for accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 January 2013 will increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Management and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 January 2013 should be minimal, although there will be increased disclosures where fair value is used

AASB 127 Separate Financial Statements (Revised)
AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 January 2013 will not have a material impact on the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

AASB 119 Employee Benefits (September 2011)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The adoption of the revised standard from 1 January 2013 will require increased disclosures by the consolidated entity.

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

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 January 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 17 and AASB 128. The adoption of these amendments from 1 January 2013 will not have a material impact on the consolidated entity.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually by 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 January 2013 will impact the consolidated entity's presentation of its statement of comprehensive income.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 July 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 January 2013 will increase the disclosures by the consolidated entity.

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

The amendments are applicable to annual reporting periods beginning on or after 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation", by clarifying the meaning of "currently has a legally enforceable right of set-off and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 January 2014 will not have a material impact on the consolidated entity.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements';

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distribution to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 January 2013 will not have a material impact on the consolidated entity.

2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

- Note 9 – Impairment expense
- Note 10 – Income tax
- Note 15 – Oil and gas properties
- Note 20 – Provisions for liabilities and charges
- Note 26 – 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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

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

Impairment indicators

The fair value of oil and gas properties is determined with reference to estimates of recoverable quantities of reserves (as outlined above) to determine the estimated future cash flows. An impairment loss is recognised for the amount by which the asset or Empire Group of assets carrying value exceeds the present value of its future cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Asset retirement obligations

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

Share-based payments

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

3. GOING CONCERN

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

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of $39,288,071. This is primarily due to the Board determining that debt facilities be classified as current liabilities as described in Note 19.

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

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Empire Group's principal financial instruments, other than derivatives comprise bank loans, available for sale financial assets, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Empire Group's operations. The Empire Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations. The Empire Group also enters derivative transactions, principally interest rate swaps and commodity hedges.

The board has overall responsibility for the determination of the Empire Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Empire Group's finance function. The board receives monthly reports through which it reviews the effectiveness of the processes put in place and appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Empire Group's competitiveness and flexibility.

The Empire Group is exposed to risks that arise from its use of financial instruments. The main risks arising from the Empire Group's financial instruments are interest rate risk commodity price risk, liquidity risk, equity risk, and credit risk. This note describes the Empire Group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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 2012 the Empire Group hedged approximately 72% of its oil (2011:74%) and 83% of its total gas production (2011: 85%).

The Empire Group has approximately 120,000 thousand cubic feet (mcf) of monthly natural gas production and 12,000 barrels of oil production hedged at amounts ranging from $4.37 to $6.30/mcf for natural gas expiring in January 2013 through December 2018 and $85.23 to $90 per barrel for oil expiring in January 2013 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 2012 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 2012.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	%	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 2012						
Financial Assets						
Cash and cash equivalents	2.37%	6,189,192	-	-	-	6,189,192
Trade and other receivables		-	-	-	5,097,864	5,097,864
Financial assets		-	-	-	8,292,045	8,292,045
		6,189,192	-	-	13,389,909	19,579,101
Financial Liabilities						
Trade & other payables		-	-	-	6,415,637	6,415,637
Financial liabilities, including derivatives		-	-	-	774,528	774,528
Interest-bearing liabilities	4.26%	-	48,924,343	40,191	-	48,964,534
		-	48,924,343	40,191	7,190,165	56,154,699

	%	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 2011						
Financial Assets						
Cash and cash equivalents	2.93%	4,448,495	-	-	-	4,448,495
Trade and other receivables		-	-	-	5,577,262	5, 577,262
Financial assets		-	-	-	11,185,997	11,185,997
		4,448,495	-	-	16,763,259	21,211,754
Financial Liabilities						
Trade & other payables		-	-	-	4,161,263	4,161,263
Financial liabilities, including derivatives		-	-	-	2,365,876	2,365,876
Interest-bearing liabilities	5.43%	-	53,896,869	54,806	-	53,951,675
		-	53,896,869	54,806	6,527,139	60,478,814

(iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2012 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 2013. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US$490,000.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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:

	2012 US$	2011 US$
Trade, other receivables, and derivatives	12,262,264	15,844,543

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

	2012 US$	2011 US$
Australia	132,608	228,004
United States of America	12,129,656	15,616,539

(C) LIQUIDITY RISK

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

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

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

Maturity Analysis	Fair Value US$	Carrying Amount US$	Contractual Cash flows US$	1 year US$	1-5 years US$
31 December 2012					
Non Derivatives					
Current					
Trade and other payables	6,415,637	6,415,637	6,415,637	6,415,637	-
Interest bearing liabilities	49,557,474	48,924,343	49,557,474	49,557,474	-
Non-current					
Interest bearing liabilities	40,191	40,191	40,191	**-**	40,191
Derivatives					
Cashflow hedge asset	(7,189,553)	(7,189,553)	(7,189,553)	(3,267,501)	-
Cashflow hedge liability	774,528	774,528	774,528	248,575	525,953
Interest rate swap liability	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maturity Analysis	Fair Value US$	Carrying Amount US$	Contractual Cash flows US$	1 year US$	1-5 years US$
31 December 2011					
Non Derivatives					
Current					
Trade and other payables	4,161,263	4,161,263	4,161,263	4,161,263	-
Interest bearing liabilities	58,313,578	53,896,869	58,313,578	58,313,578	-
Non-current					
Interest bearing liabilities	54,806	54,806	54,806	-	54,806
Derivatives					
Cashflow hedge asset	(10,267,281)	(10,267,281)	(10,267,281)	(4,243,779)	(6,023,502)
Cashflow hedge liability	2,231,825	2,231,825	2,231,825	1,095,435	1,136,390
Interest rate swap liability	134,051	134,501	134,051	134,051	-

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2012 Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale – equity securities	595,038	-	-	595,038
Cash flow hedge	-	7,297,007	-	7,297,007
Total assets	595,038	7,297,007	-	7,892,045
Liabilities				
Cash flow hedge and interest rate swap	-	774,528	-	774,528
Total liabilities	-	774,528	-	774,528

Consolidated 31 December 2011 Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale – equity securities	918,716	-	-	918,716
Cash flow hedge	-	10,267,281	-	10,267,281
Total assets	918,716	10,267,281	-	11,185,997
Liabilities				
Cash flow hedge and interest rate swap	-	2,365,876	-	2,365,876
Total liabilities	-	2,365,876	-	2,365,876

There were no transfers between levels during the financial year.

Capital Risk Management
The Company considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt the Company considers not only its short-term position but also its long-term operational and strategic objectives.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

5 REVENUE

	2012 US$	2011 US$
Revenue from oil and gas sales	26,271,695	27,163,406
Revenue from drilling operations	-	66,597
Revenue from well operations	371,400	764,119
	26,643,095	27,994,122

6 OTHER INCOME

	2012 US$	2011 US$
Gain on sale of investment	594,483	31,473
Interest income	25,523	77,416
Rental income	5,440	12,382
Other income	421,987	325,188
	1,047,433	446,459

7 GAIN FROM SALE OF ACREAGE

	2012 US$	2011 US$
Gain on sale of investment	-	1,092,250

On 30 June 2010, the Empire Group sold its interest in oil and gas leaseholds in 5,897 acres for $25,708,374, located in the Marcellus Shale formations. A gain of $23,512,829 was recognised for the 5,897 acres for the year-ended 30 June 2010. On 1 July 2010, the Empire Group received $24,616,124 in connection with the sale. The difference of $1,092,250 represents payment for an additional 257 acres for which the Empire Group delivered clear title in 2011. The gain from the sale of the 257 acres, which amounted to $1,092,250 has been recognised in the year ended 31 December 2011.

8 FINANCE COSTS

	2012 US$	2011 US$
Interest paid/payable on financial liabilities	2,768,186	3,568,690
Interest paid/payable to related parties	7,580	12,031
Accretion of asset retirement obligation (note 20)	701,093	503,388
Unwind of discount on debt	1,993,380	2,355,234
Unwind of overriding royalty interest	1,799,937	653,879
Total finance costs	7,270,176	7,093,222

9 EXPENSES

Profit/(loss) before income tax includes the following specific expenses:

	2012 US$	2011 US$
Depreciation, depletion and amortisation		
Oil & Gas properties and plant & equipment (note 15)	4,737,475	5,008,877
Intangible assets (note 16)	12,941	35,855
	4,750,416	5,044,732
Employee benefits expense		
Defined contribution superannuation expense	53,180	45,932
Other employee expenses	4,060,413	3,859,224
Total employee benefits expense	4,113,593	3,905,156
Impairment expense		
Impairment of available-for-sale financial assets	171,728	142,612
Impairment of property, plant & equipment[a]	-	133,347
Total impairment expense	171,728	275,959
Loss on disposal of property, plant & equipment	197,337	66,673
Leasing expiration expenses [b]	1,026,978	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

9 EXPENSES (Continued)

(a) Impairment expense
For the period ending December 2011 the Empire Group impaired the gas drilling rig by $133,347 down to the estimated fair value less costs to sell. The fair value was based on advertised prices of similar equipment. The asset is included in the Oil & Gas segment as per Note 27.

(b) Leasing expiration expense
A charge of $1,026,978 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 2012

10 INCOME TAX

	Note	2012 US$	2011 US$
a. Income tax expense			
Current tax		191,051	468,598
Deferred tax		(586,360)	598,646
Adjustments for current tax of prior periods		(1,426,514)	553,871
Income tax (benefit)/expense attributable to continuing operations		(1,821,823)	1,621,115
Deferred income tax expense included in income tax expense comprises:			
Decrease/(increase) in deferred tax assets (note 10(g))		-	-
(Decrease)/increase in deferred tax liabilities (note 10(f))		(586,360)	598,646
		(586,360)	598,646
b. Numerical reconciliation of income tax expense to prima facie tax payable			
(Loss)/profit before income tax		(2,025,400)	184,315
Tax at the Australian tax rate of 30% (2011: 30%)		(607,620)	55,295
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
- Income tax not assessable		-	(21,403)
- Non-deductible expenses		-	658,565
- Other deductible expenses		-	66,960
Difference in overseas tax rates		-	75,994
Tax (over)/underprovided in prior year		(1,426,514)	553,871
State taxes paid or payable		48,615	(63,049)
Withholding tax paid		142,436	317,243
Deferred tax asset in relation to tax losses and temporary differences not recognised		21,260	(22,361)
Income tax (benefit)/expense		(1,821,823)	1,621,115
c. Tax expense (income) relating to items of other comprehensive income			
Cash flow hedges	**10(h)**	2,788,360	2,742,331
d. Deferred tax assets not recognised relate to the following:			
Tax losses		2,340,627	2,618,079
Capital losses		146,840	164,638
		2,487,467	2,782,717

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

10 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.

e. Dividend Franking Account

There are no franking account credits available as at 31 December 2012.

f. Deferred tax liabilities

The balance comprises temporary differences attributable to:		
Cash flow hedges	2,788,360	2,742,331
Oil & Gas and Property, Plant & Equipment	5,719,942	5,495,770
	8,508,302	8,238,101
Set-off of deferred tax liabilities pursuant to set-off provisions (note g)	(1,438,302)	(627,770)
Net deferred tax liabilities	7,070,000	7,610,331

g. Deferred tax assets

The balance comprises temporary differences attributable to:		
Tax losses carried forward	619,341	-
Accrued interest	92,271	80,747
Accrued asset retirement obligation	721,322	446,267
State taxes offset	-	98,012
Other	5,368	2,744
	1,438,302	627,770
Set-off of deferred tax assets pursuant to set-off provisions (note f)	(1,438,302)	(627,770)
Net deferred tax assets	-	-

h. Movements in temporary differences in the period:

The movements in the above temporary differences are all recognised in the Profit or Loss with the exception of the movement in the cash flow hedges. The movement is reconciled as follows:

Opening balance	2,742,331	(789,850)
Charged/(credited):		
- to profit or loss	-	-
- to other comprehensive income	46,029	3,532,181
Closing balance	2,788,360	2,742,331

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

11 TRADE AND OTHER RECEIVABLES

	2012 US$	2011 US$
Current		
Trade receivables	4,965,257	5,349,258
Other	132,607	228,004
	5,097,864	5,577,262

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	2012 US$	2011 US$
Prepayments	171,973	417,677

13 INVENTORIES

	2012 US$	2011 US$
Crude oil and production supplies	805,646	585,822

14 FINANCIAL ASSETS, INCLUDING DERIVATIVES

	2012 US$	2011 US$
Current		
Oil and gas price forward contracts	3,267,501	4,243,779
Non-current		
Oil and gas price forward contracts	4,029,506	6,023,502
Shares – other corporations:		
• Listed available-for-sale equities (at fair value)	595,038	918,716
• Unlisted available-for-sale equities (at cost)	556,041	156,041
Less: accumulated impairment on unlisted equities	(156,041)	(156,041)
Total Non-current	5,024,544	6,942,218

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

Commodity hedge contracts outstanding are outlined below.

2012 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2011 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	Swap Price	Premium	Product		Period	Swap Price	Premium	Product	
-	-	-	-		Jan 12 - Dec 12	8	$Nil	72,000	mmbtu
-	-	-	-		Jan 12 - Dec 12	6	$Nil	30,000	mmbtu
Jan 13 - Dec 13	6.15	$Nil	255,179	mmbtu	Jan 12 - Dec 12	6.15	$Nil	275,089	mmbtu
Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.15	$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu
Jan 13 - Dec 13	6.21	$Nil	255,179	mmbtu	Jan 12 - Dec 12	6.21	$Nil	275,089	mmbtu
Jan 14 - Dec 14	6.21	$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.21	$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.21	$Nil	238,372	mmbtu
Jan 13 - Dec 13	6.15	$Nil	255,179	mmbtu	Jan 12 - Dec 12	6.15	$Nil	275,089	mmbtu
Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.15	$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.15	$Nil	238,372	mmbtu
Jan 13 - Dec 13	6.26	$Nil	255,179	mmbtu	Jan 12 - Dec 12	6.26	$Nil	275,089	mmbtu
Jan 14 - Dec 14	6.26	$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.26	$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.26	$Nil	238,372	mmbtu
Jan 13 - Dec 13	6.30	$Nil	76,000	mmbtu	Jan 12 - Dec 12	6.3	$Nil	84,000	mmbtu
Jan 14 - Dec 14	6.30	$Nil	5,000	mmbtu	Jan 13 - Dec 13	6.3	$Nil	76,000	mmbtu
Jan 13 - Dec 13	5.08	$Nil	247,000	mmbtu	Jan 12 - Dec 12	4.77	$Nil	198,000	mmbtu
Jan 14 - Dec 14	5.27	$Nil	217,000	mmbtu	Jan 13 - Dec 13	5.08	$Nil	247,000	mmbtu
Jan 15 - Dec 15	5.45	$Nil	1,116,000	mmbtu	Jan 14 - Dec 14	5.27	$Nil	217,000	mmbtu
					Jan 15 - Dec 15	5.45	$Nil	1,116,000	mmbtu
Jan 13 - Dec 13	5.08	$Nil	55,000	mmbtu	Jan 13 - Dec 13	5.08	$Nil	55,000	mmbtu
Jan 14 - Dec 14	5.27	$Nil	159,000	mmbtu	Jan 14 - Dec 14	5.27	$Nil	159,000	mmbtu
Jan 15 - Dec 15	5.45	$Nil	156,000	mmbtu	-	-	-	-	-
Jan 16 - Dec 16	4.49	$Nil	72,000	mmbtu	-	-	-	-	-
Jan 16 - Dec 16	4.49	$Nil	528,000	mmbtu	-	-	-	-	-
Jan 16 - Dec 16	4.37	$Nil	528,000	mmbtu	-	-	-	-	-
Jan 17 - Dec 17	4.57	$Nil	504,000	mmbtu	-	-	-	-	-
Jan 18 - Dec 18	4.75	$Nil	456,000	mmbtu	-	-	-	-	-
2012 OIL - WTI - NYMEX					**2011 OIL - WTI - NYMEX**				
Jan 13 - Dec 13	90	$Nil	113,160	BO	Jan 12 - Dec 12	90	$Nil	120,800	BO
Jan 14 - Dec 14	90	$Nil	105,120	BO	Jan 13 - Dec 13	90	$Nil	113,160	BO
Jan 15 - Dec 15	90	$Nil	98,160	BO	Jan 14 - Dec 14	90	$Nil	105,120	BO
					Jan 15 - Dec 15	90	$Nil	98,160	BO
Jan 16 - Dec 16	85.67	$Nil	42,000	BO	-	-	-	-	-
Jan 17 - Dec 17	85.23	$Nil	39,600	BO	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

15 OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$								
At 1 January 2012		104,840,268	3,612,210	2,056,355	304,209	1,374,810	721,391	112,909,243
Additions		2,580,916	1,523,833	-	-	130,048	764	4,235,561
New asset retirement obligation		427,936	-	-	-	-	-	427,936
Write-off of asset retirement obligation		(57,689)	-	-	-	-	-	(57,689)
Reclassifications		1,063,550	1,675,609	(2,025,764)	-	(713,395)	-	-
Disposals		(3,079,055)	-	-	-	(141,055)	-	(3,220,110)
Expiration costs		-	(1,026,978)	-	-	-	-	(1,026,978)
Write-off of exploration expense		-	(197,139)	-	-	-	-	(197,139)
Write-off to prepayments/inventory		350,155	-	-	-	(38,022)	-	312,133
At 31 December 2012		106,126,081	5,587,535	30,591	304,209	612,386	722,155	113,382,957
Accumulated Depreciation in US$								
At 1 January 2012		(11,991,992)	-	-	(16,181)	(372,450)	(225,943)	(12,606,566)
Depreciation and depletion		(4,479,995)	-	-	(7,704)	(111,625)	(138,150)	(4,737,475)
Disposals		2,777,227	-	-	-	140,944	-	2,918,171
Impairment		-	-	-	-	-	-	-
At 31 December 2012		(13,694,760)	-	-	(23,885)	(343,131)	(364,093)	(14,425,869)
Opening written down value		**92,848,276**	**3,612,210**	**2,056,355**	**288,028**	**1,002,361**	**495,448**	**100,302,677**
Impact of foreign currency adjustments		**-**	**-**	**-**	**-**	**302**	**1,224**	**1,526**
Closing written down value		**92,431,321**	**5,587,535**	**30,591**	**280,324**	**269,557**	**359,286**	**98,958,614**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

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

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in US$								
At 1 January 2011		103,673,808	3,264,763	2,019,925	244,644	985,976	1,434,004	111,623,120
Additions		2,403,056	352,210	36,430	-	418,415	33,078	3,233,354
Write-off of asset retirement obligation		(50,717)	-	-	-	-	-	(50,717)
Disposals		-	-	-	-	(304,285)	(775,546)	(1,079,831)
Write-off of exploration expense		(471,265)	-	-	-	(5,101)	-	(476,367)
Transfers		(364,463)	(4,763)	-	59,565	279,806	29,855	-
Transfers to inventory		(350,151)	-	-	-	-	-	(350,150)
At 31 December 2011		104,840,268	3,612,210	2,056,355	304,209	1,374,810	721,391	112,899,409
Accumulated Depreciation in US$								
At 1 January 2011		(7,360,152)	-	-	(8,660)	(546,482)	(552,373)	(8,467,667)
Depreciation and depletion		(4,638,740)	-	-	(7,521)	(136,955)	(232,525)	(5,015,741)
Disposals		6,900	-	-	-	310,987	692,302	1,010,189
Impairment		-	-	-	-	-	(133,347)	(133,347)
At 31 December 2011		(11,991,992)	-	-	(16,181)	(372,450)	(225,943)	(12,606,566)
Opening written down value		**96,313,656**	**3,264,763**	**2,019,925**	**235,984**	**439,494**	**881,631**	**103,155,453**
Impact of foreign currency adjustments		**-**		**-**	**-**	**1**	**-1**	**-**
Closing written down value		**92,848,276**	**3,612,210**	**2,056,355**	**288,028**	**1,002,361**	**495,447**	**100,302,677**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

	2012 US$	2011 US$
16 INTANGIBLE ASSETS		
Goodwill	68,217	68,217
Other intangible asset	2,150	15,091
	70,367	83,308
Movement in Other Intangible assets		
Carrying value at beginning of financial year	15,091	82,466
Transfer to debt	-	(31,520)
Amortisation	(12,941)	(35,855)
Carrying value end of financial year	2,150	15,091
17 TRADE AND OTHER PAYABLES		
Current		
Trade creditors	6,076,018	3,848,843
Other creditors	339,619	312,420
	6,415,637	4,161,263
18 FINANCIAL LIABILITIES, INCLUDING DERIVATIVE		
Current		
Interest rate swaps	-	134,051
Oil and gas forward price contracts	248,575	1,095,435
	248,575	1,229,486
Non-current		
Oil and gas forward price contracts	525,953	1,136,390
19 INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	99,447	109,896
Bank loan -secured	48,783,724	53,692,913
Other loans	-	38,583
Other loans – related party	41,172	55,477
	48,924,343	53,896,869
Non-current		
Finance lease liability	40,191	54,806

In February 2008, the Empire Group entered into a facility maturing February 2013, this facility has been extended for a further three years maturing February 2016 and consists of the following:

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 redetermined from time to time in accordance with the Revolver. Interest accrues on the outstanding borrowings at rate options selected by the Empire Group and based on the prime lending rate (3.25% at 31 December 2012 and 2011) or the London InterBank Offered Rate (LIBOR) (0.2535% at 31 December 2012 and 0.4271% at 31 December 2011) rate plus 2.5%. At 31 December 2012 and 2011, the Empire Group's rate option was LIBOR. The borrowing base availability changes with operations and opportunities.

A $100,000,000 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 and drawn down under specific tranches.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

19 INTEREST-BEARING LIABILITIES (Continued)

The Tranche 1 drawdown of $4,700,000 (as amended) has been committed to a defined development drilling program that commenced in April 2008, which is subject to independently generated reserve reports showing standard asset-loan coverage customary for commercial loan facilities; this amount under the Term Facility may be converted to the Revolver. Tranche 2, of $6,046,000 was used to pay additional capital costs associated with the development of properties. Tranche 3, of $35,900,000 was used for the acquisition of additional properties and the further development of properties. Tranche 4 originated with the 2010 acquisition with a total borrowing of approximately $35,300,000. Interest accrues on the outstanding borrowings at rate options selected by the Empire Group and based on the prime lending rate or the LIBOR rate plus 4.0%. At December 31, 2011, the Empire Group's rate option was LIBOR.

Total availability under all the tranches of the Term Facility at December 31, 2012 was approximately $102,000,000; however, the borrowing base limit changes with operations and opportunities.

Loans under the facilities are secured by the assets of the Empire Group. Under terms of the facilities, the Empire Group is required to maintain financial ratios customary for the oil and gas industry. Beginning in March 2008, the Empire Group started to repay the facilities monthly to the extent of an applicable percentage of net operating cash flow, and capital transactions. Principal payments made in 2012 and 2011 were $10,418,000 and $15,012,000, respectively. The Revolver and Term loans are guaranteed by Empire Energy Group Limited. The Empire Group has exceeded the minimum cumulative principal payment obligation through the maturity date of the credit facilities.

In connection with the establishment of the Revolver and Term Facility in 2008, the bank was entitled to receive non-diluting warrants equivalent to 10% of the issued capital of the Empire Energy Group USA LLC.

As a component of the financing of two acquisitions the Company utilised a short term mezzanine facility on which the lender received a 3% overriding royalty interest based on the Company's percentage working interest in properties acquired. The values assigned to the debt overriding royalty interest and the warrants were allocated based on their relative fair values. The relative fair value of the warrants, which were determined using the management's discounted cash flow pricing model, were recorded as additional paid-in capital and reduced the carrying value of the debt. The discount on the debt is being amortised to interest expense over the term of the debt facility and end in February 2013 on expiry of the original debt facility.

In conjunction with the debt financing by the bank in 2008, 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.

The Empire Group entered into an interest rate swap agreement to reduce the impact of interest rate changes on the Empire Group's variable rate term loan effective July 2009. The notional amount of $7,940,000 expired in July 2012.

A summary of period end debt is as follows:

	2012 US$	2011 US$
Term		
Tranche 1	6,181,553	6,181,553
Tranche 3	19,748,692	19,748,692
Tranche 4	20,486,610	29,179,377
Revolver	3,000,000	3,000,000
Sub-Total	49,416,855	58,109,622
Less – Discount on debt:	(633,131)	(4,416,709)
Total debt	48,783,724	53,692,913

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

19 INTEREST-BEARING LIABILITIES (Continued)

CLASSIFICATION OF BORROWINGS

These accounts are presented on the basis that all debt has been classified as current liabilities. This treatment is as a result of a strict application of the relevant provisions of AASB *101 Presentation of financial statements ("AASB 101").* This accounting standard requires the Empire Group to classify liabilities as current if the Empire Group does not have an unconditional right to defer payment for twelve months at period end. However, the expected repayment of the borrowings is not for complete repayment within the twelve month period. In January 2013 the Company extended the Facility for a further 3 years through to 28 February 2016.

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

The expected loan repayments over the next 12 months comprise:

- Repayment of 90% of any monthly free cashflows

As at 31 December 2012 and during the year the loan covenants were in compliance.

20 PROVISIONS

	2012 US$	2011 US$
Current		
Employee entitlements	85,567	93,464
Non-current		
Asset retirement obligations	6,015,635	4,944,295
Movement in Asset Retirement Obligation		
Balance at beginning of the period	4,944,295	4,491,624
Additions for the period	427,936	-
Write-off accrued plugging costs	(57,689)	(50,717)
Accretion expense for the period, included in finance costs	701,093	503,388
Balance end of the period	6,015,635	4,944,295

Asset Retirement Obligation

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

21 CONTRIBUTED EQUITY	2012 US$	2011 US$
a) Shares		
Issued Capital		
Balance at beginning of period	71,195,874	55,486,551
Movement in ordinary share capital		
- Issue of 6,666,666 fully paid ordinary share in June 2012 pursuant to the exercise of options at A$0.15 expiring 22 June 2012	990,380	-
- Issue of 6,666,666 fully paid ordinary shares in December 2012 pursuant to the exercise of options at A$0.165 expiring 22 December 2012	1,148,950	-
- Issue of 22,000,000 fully paid ordinary shares in April 2011 @ A$0.12 pursuant to Tranche 1 of a private placement to sophisticated and professional investors	-	2,843,016
- Issue of 88,833,333 fully paid ordinary shares in May 2011 @ A$0.12 pursuant to Tranche 2 of a private placement to sophisticated and professional investors	-	11,343,306
- Issue of 4,740,429 fully paid ordinary shares in June 2011 @ A$0.12 pursuant to the Empire Group's share purchase plan	-	606,737
- Issue of 13,333,334 fully paid ordinary shares in December 2011 pursuant to the exercise of the following options:		
- 6,666,667 options @ A$0.12 expiring 22 December 2011	-	811,040
- 6,666,667 options @ A$0.135 expiring 22 December 2011	-	912,420
Less costs associated with the share issues detailed above	(9,649)	(807,196)
Balance as at 31 December 2012	73,325,555	71,195,874

b) Shares	**No. of shares**	**No. of shares**
Movements in ordinary issued shares		
Balance at beginning of period	291,530,350	162,623,254
Movement in ordinary share capital		
- Issue of fully paid ordinary shares in June 2012 pursuant to the exercise of options @ A$0.15 expiring 22 June 2012	6,666,666	-
- Issue of fully paid ordinary shares in December 2012 pursuant to the exercise of options @ A$0.165 expiring 22 December 2012	6,666,666	-
- Issue of fully paid ordinary shares in April 2011 @ A$0.12 pursuant to Tranche 1 of a private placement to sophisticated and professional investors	-	22,000,000
- Issue of fully paid ordinary shares in May 2011 @ A$0.12 pursuant to Tranche 2 of a private placement to sophisticated and professional investors	-	88,833,333
- Issue of fully paid ordinary shares in June 2011 @ A$0.12 pursuant to the Company's share purchase plan	-	4,740,429
- Issue of fully paid ordinary shares in December 2011 pursuant to the exercise of the following options:		
-unlisted options exercisable @ A$0.12 expiring 22 December 2011	-	6,666,667
-unlisted options exercisable @ A$0.135 expiring 22 December 2011	-	6,666,667
Balance as at 31 December 2012	304,863,682	291,530,350

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

21 CONTRIBUTED EQUITY (Continued)

Share Options

Movements

Granted
During the financial year 7,000,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions.

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

Exercise of Options
13,333,332 unlisted options were exercised during the financial year. These options were exercised on the following basis:

- 6,666,666 unlisted options exercisable at A$0.15 expiring 22 June 2012
- 6,666,666 unlisted options exercisable at A$0.165 expiring 22 December 2012

No options have been exercised in the period since the end of the financial year and up to the date of this report.

Expiry of Options
6,666,666 unlisted options exercisable at A$0.18 were not exercised by their expiry date of 22 December 2012 and as a consequence have lapsed.

Since the end of the financial year a further 66,666 unlisted options exercisable at A$0.1575 were not exercised by their expiry date of 5 March 2013 and as a consequence have lapsed.

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

Shares
- 304,863,682 listed fully paid ordinary shares – ASX Code: EEG

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

Options
At balance date the Company had 13,866,664 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price (A$)	Expiry Date
66,666	Executive options	$0.1575	5 March 2013
3,500,000	Executive options	$0.15	1 July 2013
1,650,000	Executive options	$0.17	1 July 2013
1,650,000	Executive options	$0.18	31 December 2013
7,000,000	Executive options	$0.35	31 December 2014
13,866,666			

22 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 and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

23 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 2012, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

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

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

24 CONTINGENT ASSETS

The Company has a claim outstanding against the JV Partner for a 75% interest in the Carrolltown Prospect Gas Wells. Based on negotiations to date, the directors believe that it is probable that their claim will be met in full and that compensation of $0.55million will be recovered.

25 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 commitments exist at 31 December 2012.

i) Equipment Leases	**2012 US$**	**2011 US$**
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	19,082	19,082
Later than one year not later than two years	19,082	19,082
Later than two years not later than five years	21,954	41,036
More than five years	-	-
	60,118	79,200

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

26 SHARE BASED PAYMENTS

a) Employee Share Option Plan 2010

A new executive share option plan was approved by shareholders at the annual general meeting of members held on 30 November 2010. This plan replaces the previous executive option plan approved by shareholders on 18 May 2000. 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.

Consolidated – 31 December 2012
During the financial year the following options were granted pursuant to the Employee Share Option Plan 2010.

No. of Options	Grant Date	Vesting Date	Exercise Date A$	Expiry Date
1,250,000	20 April 2012	20 April 2014	$0.35	31 December 2014
3,500,000	31 May 2012	31 May 2012	$0.35	31 December 2014
2,250,000	30 June 2012	30 June 2014	$0.35	31 December 2014
7,000,000				

Consolidated – 31 December 2011
During the previous financial year the following options were granted pursuant to the Employee Share Option Plan 2010.

No. of Options	Grant Date	Vesting Date	Exercise Price A$	Expiry Date
3,500,000	23 March 2011	23 March 2013	$0.15	1 July 2013
1,650,000	23 March 2011	23 March 2013	$0.17	1 July 2013
1,650,000	23 March 2011	23 March 2013	$0.18	31 December 2013
6,800,000				

The options outstanding at 31 December 2012 are detailed below.

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
5 March 2008 (1)	5 March 2013	15.75 cents	66,666	-	-	66,666
23 March 2011 (2)	1 July 2013	15 cents	3,500,000	-	-	3,500,000
23 March 2011 (2)	1 July 2013	17 cents	1,650,000	-	-	1,650,000
23 March 2011 (2)	31 December 2013	18 cents	1,650,000	-	-	1,650,000
20 April 2012 (2)	31 December 2014	35 cents	-	1,250,000	-	1,250,000
31 May 2012 (2)	31 December 2014	35 cents	-	3,500,000	-	3,500,000
30 June 2012 (2)	31 December 2014	35 cents	-	2,250,000	-	2,250,000
			6,866,666	7,000,000	-	13,866,666

1) Options granted pursuant to Employee Share Option Plan approved 18 May 2000. The original exercise price and the number of options granted has been amended to reflect the capital consolidation effected on 4 June 2010 (amended for 15:1 consolidation). Share options are fully vested at balance date.

2) Options granted pursuant to Employee Share Option Plan approved 30 November 2010. This plan provides for vesting restrictions based on minimum period of employment conditions.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

26 SHARE BASED PAYMENTS (Continued)

b) Expenses arising from share based payment transactions

Period ending -31 December 2012
7,000,000 future options were granted pursuant to the Empire Groups Employee Share Options Plan. The share based payments transactions costs during the financial year for these options and previously granted options based on a pro-rata portion of the vesting period was $513,013.

Period ending – 31 December 2011
6,800,000 future options were granted pursuant to the Empire Groups Employee Share Options Plan. The share based payment transactions costs during the financial year based on a pro-rata portion of the vesting period was $246,627.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

27 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	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue (external)	26,643,095	27,994,122	-	-	-	-	-	-	26,643,095	27,994,122
Other income (excluding Finance income)	421,986	1,219,204	594,484	31,476	5,440	213,159	-	-	1,021,910	1,463,839
Reportable segment profit/(loss) before tax	6,672,640	9,503,066	422,756	(111,136)	(1,874,507)	(2,199,907)	-	-	5,220,889	7,192,023
Finance income	6,060	10,644	1,989,137	517,338	17,827	74,870	(1,989,137)	(517,338)	23,887	85,514
Finance costs	(9,249,634)	(7,587,131)	-	-	(9,679)	(23,429)	1,989,137	517,338	(7,270,176)	(7,093,222)
Profit/(loss) for the period before tax									**(2,025,400)**	**184,315**
Reportable segment assets	117,716,515	118,901,533	37,356,711	33,000,610	2,128,023	3,333,185	(36,761,673)	(32,081,894)	120,439,576	123,153,434
Reportable segment liabilities	(104,681,417)	(104,043,720)	-	-	(1,406,157)	(1,165,078)	36,761,673	32,081,894	(69,325,901)	(73,126,904)
Other material non-cash items:										
- Gain on disposal of acreage	-	1,092,250	-	-	-	-	-	-	-	1,092,250
- Depreciation and amortisation	(4,732,015)	(5,026,918)	-	-	(18,401)	(17,814)		-	(4,750,416)	(5,044,732)
- Impairment expense	-	(133,347)	(171,728)	(142,612)	-	-	-	-	(171,728)	(275,959)
- Gain on disposal	-	-	594,484	31,476	-	-	-	-	594,484	31,476
- Lease expiration costs	(1,026,978)	-	-	-	-	-	-	-	(1,026,978)	-
Non-cash items included in Finance costs:										
- Asset retirement obligation accretion	(701,090)	(503,388)	-	-	-	-	-	-	(701,090)	(503,388)
- Discount on debt & overriding royalty interest	(3,793,317)	(3,009,113)	-	-	-	-	-	-	(3,793,317)	(3,009,113)
Capital expenditure	(4,635,561)	(3,233,356)	-	-	-	-		-	(4,635,561)	(3,233,356)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

27 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 customer

Revenues from one major customer of the Empire Group's Oil & Gas segment represents approximately $11,190,100 (2011: $14,451,172) of the Empire Group's total revenues.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

28 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 2011	Acquired during period through Share Purchase Plan	Other changes during period	Balance at 31 December 2012
B W McLeod	6,939,760	-	-	6,939,760
D H Sutton	983,300	-	(320,000)	663,300
K A Torpey	2,191,449	-	-	2,191,449

Option holdings

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

Director	Balance at 1 January 2012	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2012	Vested exercisable at 31 December 2012
B W McLeod	5,300,000	2,000,000	-	-	7,300,000	-
D H Sutton	-	750,000	-	-	750,000	-
K A Torpey	-	750,000	-	-	750,000	-

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	2,000,000	$0.15	1 July 2013
	1,650,000	$0.17	1 July 2013
	1,650,000	$0.18	31 December 2013
	2,000,000	$0.35	31 December 2014
D H Sutton	750,000	$0.35	31 December 2014
K A Torpey	750,000	$0.35	31 December 2014

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

28 RELATED PARTY DISCLOSURES (Continued)

iii. Transactions with Key Management Personnel

	2012 US$	2011 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	362,495	361,165
- Bonus payment	113,927	206,380
2) W McLeod lent funds to the Empire Group. Interest has been accrued on this loan.		
- Interest accrued on loan facility	5,204	5,302
3) D H Sutton was a director of a related party Earth Heat Resources Ltd, he resigned on 11 May 2011.		
Investment Earth Heat Resources Ltd	-	76,374
4) Aggregate amounts payable to Directors and their related Companies at balance date:		
- B W McLeod		
- Loan	21,750	21,328
- Interest	19,422	34,150
- Eastern & Pacific Capital		
- Bonus and consulting fees	206,296	502,067
5) 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	221,114	9,997

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

28 RELATED PARTY DISCLOSURES (Continued)

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. The accounting and administrative services were provided free of charge, and the loans are interest bearing for trading subsidiaries and unsecured.

c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			December 2012 %	December 2011 %
Controlling Empire Group				
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
* Vodex Pty Limited	Australia	Ordinary	Nil	100
* Imperial Mining Investments Pty Limited	Australia	Ordinary	Nil	100
* Jasinv Pty Limited	Australia	Ordinary	Nil	100
* Jasrad Pty Limited	Australia	Ordinary	Nil	100
Imperial Management Services Pty Limited	Australia	Ordinary	Nil	100
Mega First Mining NL	Vanuatu	Ordinary	100	100
Imperial Technologies Pty Limited	Australia	Ordinary	100	100
OzNetwork Pty Limited	Australia	Ordinary	81	81
Imperial Resources LLC	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	95	95

All entities are audited by Nexia Court & Co with the exception of Mega First Mining NL, a Company incorporated in Vanuatu and Empire Energy USA LLC incorporated in the USA which is audited by Schneider Downs.

* During the financial year the Company made application for the voluntary deregistration of the following non-operating subsidiaries under subsection 601AA(2) of the Corporations Act 2001

Name of Subsidiary	Deregistration Date
Vodex Pty Ltd	22 August 2012
Imperial Mining Investments Pty Ltd	22 August 2012
Jasinv Pty Ltd	22 August 2012
Jasrad Pty Ltd	22 August 2012
Imperial Management Services Pty Limited	13 October 2012

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

29 NOTES TO THE STATEMENTS OF CASH FLOWS

	December 2012 US$	December 2011 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	6,189,192	4,448,495
(b) Reconciliation of profit after income tax expense to net cash flows from operating activities		
(Loss)/profit for the period after income tax expense	(203,577)	(1,436,800)
Adjustments for non-cash items:		
Depreciation & amortisation expense	4,750,416	5,008,878
Impairment of property, plant & equipment	-	133,347
Loss on disposal of Property, plant & equipment	197,337	66,673
Gain on disposal of acreage	-	(1,092,250)
Write-off of exploration expenditure	197,139	476,366
Expiration of leases	1,026,978	-
Impairment of available for sale financial assets	171,728	142,612
Profit/Loss on disposal of available for sale financial assets	(594,484)	(31,473)
Amortisation of overriding royalty interest	1,799,938	653,879
Discount on debt	1,993,380	2,355,234
Asset retirement obligation accretion	701,093	503,387
Share-based payment expense	513,013	246,627
Operating profit before changes in working capital and provisions	10,552,961	7,026,480
Change in Trade and other receivables	479,398	(2,447,096)
Change in Prepayments and other current assets	(66,429)	(348,271)
Change in Inventories	(219,824)	413,658
Change in Current tax asset	(301,875)	(552,000)
Change in Trade and other payables	2,254,665	805,665
Change in Debt	-	8,988
Change in Provisions	(7,897)	15,730
Change in Income tax liabilities	-	(1,043,000)
Change in Deferred Tax Liability	(586,360)	598,000
	1,551,678	(2,548,326)
Net cash flows from operating activities	12,104,639	4,478,154

(c) Non-Cash Financing and Investing Activities

During the current financial year the following transactions occurred:

- The Company granted 7,000,000 executive options to acquire ordinary shares in the capital of the Company to Directors and specified executives of the Company. The Options are exercisable at A$0.35 and expire on 31 December 2014. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in July 2012 at A$576,250.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

29 NOTES TO THE STATEMENTS OF CASH FLOWS (Continued)

- 7,000,000 options exercisable @ A$0.35 expiring 31/12/14	A$174,446.92
- 1,650,000 options exercisable @ A$0.18 expiring 31/12/13	A$80,960.60
- 1,650,000 options exercisable @ A$0.17 expiring 1/7/13	A$75,177.70
- 3,500,000 options exercisable @ A$0.15 expiring 1/7/13	A$164,725.04
	A$495,310.26

During the previous financial year the following transactions occurred:

- The Company granted 6,800,000 executive options to acquire ordinary shares in the capital of the Company at various exercise prices and expiry dates. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides for vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in June 2011 at US$650,847. A proportional value of these options $250,585 based on a pro-rata portion of the vesting period was expensed during the financial year.

30 EARNINGS PER SHARE

	2012	2011
Basic earnings per share (cents per share)	(0.08)	(0.66)
Diluted earnings per share (cents per share)	(0.08)	(0.66)
(Loss)/profit used in the calculation of basic and diluted earnings per share	(220,723)	(1,561,718)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	290,864,302	235,969,091
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	290,864,302	235,969,091

31 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.

32 BUSINESS COMBINATIONS

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 in cash, subject to closing adjustments. The effective date of this transaction was 1 June 2012 and has been reflected in this financial report.

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 acquisition date 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. The Company is the operator of the new assets.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

33 PARENT ENTITY INFORMATION

	2012 US$	2011 US$
Information relating to Empire Energy Group Limited:		
Current Assets	2,069,627	3,255,146
Total Assets	40,365,045	36,310,641
Current Liabilities	(1,365,966)	(1,096,831)
Total Liabilities	(1,406,157)	(1,151,637)
Shareholder's Equity:		
Issued Capital	(73,325,555)	(71,195,874)
Reserves		
- Fair value reserve	(952,693)	(904,203)
- Foreign currency translation reserve	(1,328,286)	(757,593)
- Options reserve	(883,583)	(1,342,907)
Accumulated Losses	37,531,229	39,041,572
Total Shareholder's Equity	(38,958,888)	(35,159,005)
Profit /(Loss) for the period	538,005	(803,691)
Total Comprehensive income	16,396	(760,046)

34 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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

34 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (Continued)

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

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2012	**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	362,495	113,927	28,540	-	-	302,923*	807,885
K A Torpey	20,714	-	-	1,864	-	16,395*	38,973
D H Sutton	-	-	-	20,714	-	16,395*	37,109
J Warburton	221,114	-	-	-	-	-	221,114
Empire Energy Executives							
A Boyer	156,000	-	39,481	-	-	7,571*	203,052

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan. The 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.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2011	**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	361,165	206,380	49,603	-	-	195,451*	812,599
K A Torpey	20,638	-	-	1,857	-	-	22,495
D H Sutton	-	-	-	20,638	-	-	20,638
Specified Executive of the Empire Group							
D L Hughes	80,488	-	14,180	7,244	1,294	27,567*	130,773
R Ryan	105,426	-	1,255	9,488	10,772	27,567*	154,508
Empire Energy Executives							
A Boyer	164,165	-	48,732	-	-	-	212,897

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan. The 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.
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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

35 AUDITORS' REMUNERATION

	2012 US$	2011 US$
Audit Services		
Auditors of the Company – Nexia Court & Co.:		
Audit and review of financial reports	103,625	124,138
Other auditors:		
Audit and review of financial reports	138,686	247,233
	242,311	371,371
Other services		
Auditors of the Company – Nexia Court & Co.:		
Taxation services	19,612	37,978
Other auditors:		
Taxation services	127,745	54,593
	147,357	92,571

36 MATTERS SUBSEQUENT TO BALANCE DATE

1) Rollover Macquarie Bank Facility
On 15 January 2013 the Company announced that the Macquarie Bank US$150 million credit facility had been extended for a further 3 years through to 28 February 2016.

The extension of the credit facility will enable the company to continue to target the acquisition of assets that offer attractive aggregation and growth potential and demonstrates Macquarie Bank's support of the Company's operations.

2) The New York Department of Environmental Conservation ('DEC')
The defacto moratorium on hydraulic fracking in New York State ended on 1 July 2011, the DEC implemented public comment periods commencing August 2011 and extending to 11 January 2013. The DEC has previously released its recommendations on mitigating the environmental impacts of high-volume hydraulic fracking.

The timing of the release of guidelines and the issue of permits is yet unknown. In early 2013 the DEC filed a notice of continuation for 90 days in order to allow the NY State Commissioner of Health, time to complete his review of the draft Supplemental Generic Environmental Impact Statement. On 6 March 2013 the New York State Assembly passed a bill to further suspend the issuance of high volume hydraulic fracturing until May 15, 2015, this bill was not ratified by the Senate which favours controlled hydraulic fracturing. The Governor is currently awaiting additional recommendations from the NY Department of Health at which time the DEC will determine a decision deadline.

There were no other matters or circumstances that have arisen since 31 December 2012 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2012, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2012 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 25 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 2012 and of their performance, for the year ended on that date; and

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

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

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

The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Office and the Chief Financial Officer for the year ended 31 December 2012.

Signed in accordance with a resolution of the directors.

B W McLEOD
Director

Dated: 28 March 2013

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INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
EMPIRE ENERGY EMPIRE 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 2012, and the statement of comprehensive income, statement of changes in equity and 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 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 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 and fair presentation of the financial report 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.

Our procedures include reading the other information in the annual report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

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INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
EMPIRE ENERGY EMPIRE GROUP LIMITED
(CONTINUED)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditors' Opinion
In our opinion:

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

    i. giving a true and fair view of consolidated entity's financial position as at 31 December 2012 and of its performance for the period ended on that date; and

    ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 28 of the directors' report for the period ended 31 December 2012. The directors of the Empire Group 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Empire Energy Group Limited for the period ended 31 December 2012 complies with section 300A of the *Corporations Act 2001.*

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Andrew Hoffmann
Partner

Sydney
Dated: *28 March 2013*

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 28 February 2013

Name	Number of Shares	% Holding
Macquarie Bank Limited (Metals & Energy CAP DIV A/C)	53,666,666	17.60

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	333	136,240	0.04
1,001 – 5,000	936	2,678,620	0.88
5,001 – 10,000	549	4,170,815	1.37
10,001 – 100,000	1,083	42,171,953	13.83
100,001 and over	367	255,706,054	83.88
Total number of holders	3,268	304,863,682	100.00

i Number of holders of less than a marketable parcel 1,101

ii Percentage held by 20 largest holders 43.31

c Twenty Largest Shareholders as at 28 February 2013

	Name	Number of Shares	% Holding
1	Macquarie Bank Limited (Metals & Energy CAP DIV A/C)y	53,666,666	17.60
2	WYT Nominees Pty Ltd (C&E Wong Super Fund A/C)	12,850,451	4.22
3	Imperial Investments Pty Ltd	9,321,217	3.06
4	HSBC Custody Nominees (Australia) Limited - A/C 2	6,706,202	2.20
5	Armco Barriers Pty Ltd	5,455,000	1.79
6	Rhodes Capital Pty Ltd (B W McLeod Super Fun A/C)	5,122,300	1.68
7	John Wardman & Associates Pty Ltd (The Wardman Super Fund A/C)	5,000,000	1.64
8	ACT2 Pty Ltd	4,450,000	1.46
9	Ms Michelle Wong	3,781,575	1.24
10	Mr Terry McInery & Ms Judy McInery (DRYCA Employee RET A/C)	3,000,000	0.98
11	Classic Roofing Pty Limited (Superannuation Fund Account)	2,950,000	0.97
12	Redmond Holdings Pty Limited (The Defina A/C)	2,841,800	0.93
13	McGee Constructions Pty Ltd (McGorman Super Fund A/C)	2,475,000	0.81
14	JP Morgan Nominees Australia Limited	2,458,886	0.81
15	Mr Kenneth Murray & Mrs Ruth Murray (Murray Super Fund A/C)	2,400,000	0.79
16	CK Corporate Pty Ltd (CK A/C)	2,050,000	0.67
17	Mr Clive Thomas	2,013,023	0.66
18	Mr Iain Richard Campbell McKean	1,850,000	0.63
19	Mr Nathan Nissen (Nissen Super Fund A/C)	1,819,140	0.60
20	Accord Investment Corporation Pty Ltd (Accord Unit A/C)	1,800,000	0.59
		132,011,260	43.31

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 29 FEBRUARY 2012

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 A$0.1575 expiring 5 March 2013	66,666	1
- Executive options exercisable at A$0.15 expiring 1 July 2013	3,500,000	3
- Executive options exercisable at A$0.17 expiring 1 July 2013	1,650,000	1
- Executive options exercisable at A$0.18 expiring 31 December 2013	1,650,000	1
- Executive options exercisable at $0.35 expiring 31 December 2014	7,000,000	11

Voting Rights

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

LIST OF EXPLORATION LICENCE APPLICATIONS - 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(A) 184*	NT	Under application	100%
EP(A) 187	NT	Under application	100%
EP(A) 188	NT	Under application	100%

**Pastoral Lease subject to Native Title*