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## Quarterly Report – For the period ending 31 December 2016

27 January 2017

### 4<sup>th</sup> QUARTER OVERVIEW

The Directors wish to provide the following update on the Company's operations:

- Estimated revenues US\$3.6 million (3Q2016: US\$3.5 million).
- Gross production
  - Oil: 47,142 Bbl (3Q2016: 48,530) -2.9%
  - Gas: 596,941 Mcf (3Q2016: 587,421) +1.6%
- Unaudited Operating EBITDAX US\$1.7 million (3Q2016: US\$1.7 million).
- Estimated Group EBITDAX for the period was US\$1.1 million (3Q2016: US\$0.88 million).
- On the 14 December the Company announced a fully underwritten Renounceable Rights Issue on the basis of 11 New Shares for every 5 shares at an issue price of \$0.008 to raise approximately \$6.1 million before costs. The offer closing date is 27 January 2017.

### OPERATING REVIEW

#### A. EMPIRE ENERGY USA, LLC (100%)

The Company's USA operations are in the Mid-Con (oil) and the Appalachian Basin (oil & gas). The Company remains focused on reducing operating costs and overheads.

##### 1. Appalachia (Western New York and Pennsylvania)

During the last quarter of the year pipeline networks were analysed for the frequency of repairs and new sections of line inserted that have shown continuing problems. This will lead to reduction in time spent repairing leaks as well as reducing line loss. New Right Of Ways are being acquired to redirect pipelines, so wells selling into less desirable markets can be moved to better sales points.

Discussions are underway with a number of smaller producers interested in selling wells and acreage in New York State. The upside for Empire will be increased production, plus the additional pipelines will give more flexibility in moving gas to better markets. In conjunction the company is working with several larger producers to investigate the possibilities of combining resources to develop new pipelines that will also allow moving gas to better markets.

##### 2. Mid-Continent (Kansas and Oklahoma):

Fourth quarter 2016 production was 541 barrels of oil equivalent per day (BOED) compared to 554 BOED for the same period 2015. Despite the fact that drilling and recompletion programs were on hold, production remained relatively flat for the year. Natural decline and extreme

weather events should also be considered in the sustained production levels. Several wells continued to be shut in due to economics while a number of active wells were evaluated for both operating and production efficiencies.

An optimistic view of 2017 is being taken and a number of new drills and recompletions are being planned. Several potential acquisitions are being evaluated in both Kansas and Oklahoma.

### **Production:**

| Description                                    | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|--|---------------------------|---------------------------|----------------------------|----------------------------|
| <b>Gross Production:</b>                       |                           |                           |                            |                            |
| Oil (Bbls)                                     | 47,142                    | 51,324                    | 193,997                    | 218,366                    |
| Natural gas (Mcf)                              | 596,941                   | 594,945                   | 2,374,241                  | 2,286,804                  |
| <b>Net Production by Region:</b>               |                           |                           |                            |                            |
| Oil (Bbls)                                     |                           |                           |                            |                            |
| Appalachia                                     | 402                       | 1,188                     | 2,528                      | 4,354                      |
| Mid-Con  | 30,108                    | 31,886                    | 120,684                    | 136,531                    |
| Total Oil                                      | 30,510                    | 33,074                    | 123,212                    | 140,885                    |
| <b>Weighted Avg Sales Price (\$/Bbl)</b>       |                           |                           |                            |                            |
| Before Hedge                                   | 43.05                     | 36.58                     | 38.19                      | 43.46                      |
| After Hedge                                    | 62.09                     | 72.06                     | 61.89                      | 72.17                      |
| <b>Natural gas (Mcf)</b>                       |                           |                           |                            |                            |
| Appalachia                                     | 465,418                   | 477,165                   | 1,885,543                  | 1,811,777                  |
| Mid-Con  | 3,735                     | 1,046                     | 14,693                     | 9,037                      |
| Total Natural Gas                              | 469,153                   | 478,211                   | 1,900,236                  | 1,820,814                  |
| <b>Weighted Avg Sales Price (\$/Mcf)</b>       |                           |                           |                            |                            |
| Before Hedge                                   | 2.47                      | 1.52                      | 1.79                       | 1.83                       |
| After Hedge                                    | 3.44                      | 3.63                      | 3.06                       | 3.78                       |
| <b>Oil Equivalent (Boe):</b>                   |                           |                           |                            |                            |
| Appalachia                                     | 77,972                    | 80,716                    | 316,785                    | 306,317                    |
| Mid-Con  | 30,730                    | 32,060                    | 123,133                    | 138,037                    |
| Total  | 108,702                   | 112,776                   | 439,918                    | 444,354                    |
| <b>Boe/d</b>                                   | <b>1,195</b>              | <b>1,239</b>              | <b>1,205</b>               | <b>1,217</b>               |
| <b>Weighted Avg Sales Price (\$/Boe)</b>       |                           |                           |                            |                            |
| Before Hedge                                   | 22.74                     | 17.16                     | 18.41                      | 21.28                      |
| After Hedge                                    | 32.26                     | 36.54                     | 30.57                      | 38.36                      |
| <b>Lease Operating Expenses (incl. taxes):</b> |                           |                           |                            |                            |
| Oil - Midcon (/Bbl)                            | 22.69                     | 24.03                     | 21.85                      | 24.41                      |
| Natural gas - Appalachian (/Mcf)               | 1.76                      | 1.79                      | 1.61                       | 1.89                       |
| Oil Equivalent (/BOE)                          | 13.98                     | 14.65                     | 13.08                      | 15.49                      |
| <b>Net Back (\$/Boe)</b>                       | <b>18.28</b>              | <b>21.89</b>              | <b>17.49</b>               | <b>22.87</b>               |

**Financials:**

| Description                       | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|-----------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| <b>Net Revenue:</b>               |                           |                           |                            |                            |
| Oil Sales                         | 1,894,358                 | 2,397,264                 | 7,624,953                  | 10,181,111                 |
| Natural Gas Sales                 | 1,609,723                 | 1,734,116                 | 5,815,354                  | 6,865,717                  |
| Working Interest                  | 2,337                     | 2,888                     | 7,615                      | 11,844                     |
| Net Admin Income                  | 85,160                    | 259,292                   | 368,998                    | 522,093                    |
| Other Income                      | 30,372                    | 126,654                   | 118,842                    | 166,133                    |
| <b>Total Revenue</b>              | <b>3,621,950</b>          | <b>4,520,214</b>          | <b>13,935,762</b>          | <b>17,746,898</b>          |
| <b>Production costs:</b>          |                           |                           |                            |                            |
| Lease operating expenses - Oil    | 661,608                   | 795,334                   | 2,513,749                  | 3,291,840                  |
| Lease operating expenses - Gas    | 767,836                   | 856,633                   | 2,881,467                  | 3,246,696                  |
| Taxes - Oil                       | 30,631                    | 9,396                     | 150,229                    | 189,433                    |
| Taxes - Natural Gas               | 59,442                    | 966                       | 179,221                    | 197,269                    |
| <b>Total</b>                      | <b>1,519,517</b>          | <b>1,662,329</b>          | <b>5,724,666</b>           | <b>6,925,238</b>           |
| <b>Field EBITDAX</b>              | <b>2,102,433</b>          | <b>2,857,885</b>          | <b>8,211,096</b>           | <b>10,821,660</b>          |
| <b>Less:</b>                      |                           |                           |                            |                            |
| Inventory adjustment              | (48,134)                  | 35,018                    | (3,002)                    | 160,008                    |
| Reserve Enhancements              | 500                       | 48,022                    | 22,106                     | 62,862                     |
| Nonrecurring expenses             | 131,523                   | 182,731                   | 754,600                    | 820,513                    |
| G & G Costs                       | 6,435                     | 9,941                     | 26,231                     | 51,336                     |
| Field Overhead                    | 309,000                   | 204,000                   | 1,250,000                  | 788,000                    |
| <b>Total</b>                      | <b>399,324</b>            | <b>479,712</b>            | <b>2,049,935</b>           | <b>1,882,719</b>           |
| <b>Operating EBITDAX</b>          | <b>1,703,109</b>          | <b>2,378,173</b>          | <b>6,161,161</b>           | <b>8,938,941</b>           |
| <b>Less:</b>                      |                           |                           |                            |                            |
| Field G & A                       | 90,558                    | 394,351                   | 650,492                    | 1,028,902                  |
| Corporate G & A                   | 284,107                   | 306,338                   | 1,538,347                  | 1,503,225                  |
| Delay rental payments             | 12,237                    | 9,906                     | 142,462                    | 72,582                     |
| Land Overhead & Non-leasing costs | 1,610                     | 2,314                     | 6,379                      | 10,726                     |
| <b>Total</b>                      | <b>388,512</b>            | <b>712,909</b>            | <b>2,337,680</b>           | <b>2,615,435</b>           |
| <b>EBITDAX</b>                    | <b>1,314,597</b>          | <b>1,665,264</b>          | <b>3,823,481</b>           | <b>6,323,506</b>           |

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

**Exploration/Acquisition Expenses:**

| Description                  | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| <b>EBITDAX</b>               | 1,314,597                 | 1,665,264                 | 3,823,481                  | 6,323,506                  |
| <b>Less:</b>                 |                           |                           |                            |                            |
| Geological Services          | -                         | (8,870)                   | 16,610                     | 28,924                     |
| Acquisition related expenses | -                         | 105,190                   | 54,960                     | 261,265                    |
| Capital raise expenses       | 192                       | -                         | 192                        | 17,115                     |
| Dry hole expenses            | -                         | 9,393                     | 30,215                     | 9,393                      |
| Total                        | 192                       | 105,713                   | 101,977                    | 316,697                    |
| <b>EBITDA</b>                | 1,314,405                 | 1,559,551                 | 3,721,504                  | 6,006,809                  |

**Net Earnings:**

Unaudited earnings for the period are shown below:

| Description                    | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|--------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| <b>EBITDA</b>                  | 1,314,405                 | 1,559,551                 | 3,721,504                  | 6,006,809                  |
| <b>Less:</b>                   |                           |                           |                            |                            |
| Depn, Depl, Amort & ARO        | 749,546                   | 47,472,240                | 2,920,543                  | 51,976,333                 |
| Interest                       | 724,926                   | 545,706                   | 2,406,844                  | 2,055,133                  |
| (Gain) loss on sale of assets  | 37,794                    | (3,000)                   | 37,794                     | 614,491                    |
| P&A vs. ARO                    | 150,111                   | 213,287                   | 150,111                    | 356,565                    |
| Bad debts                      | (26,218)                  | 93,898                    | (26,218)                   | 105,536                    |
| Non-Cash & Interest Expenses   | 1,636,159                 | 48,322,131                | 5,489,074                  | 55,108,058                 |
| <b>Earnings before Tax</b>     | (321,754)                 | (46,762,580)              | (1,767,570)                | (49,101,249)               |
| <b>EBITDA/Interest (times)</b> | <b>1.81</b>               | <b>2.86</b>               | <b>1.55</b>                | <b>2.92</b>                |

**Capital Expenditure/Asset Sales:**

| Description          | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|----------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| Capital Expenditures |                           |                           |                            |                            |
| Acquisition Capital  | -                         | 70,016                    | 49,034                     | 120,269                    |
| New Wells - IDC      | (42,275)                  | 785,419                   | 550,148                    | 878,276                    |
| New Wells - Capital  | 6,000                     | 4,161                     | 22,555                     | 26,240                     |
| Undeveloped Leases   | 1,075                     | 17,532                    | 32,738                     | 463,243                    |
| Capital Expenditures | (35,200)                  | 877,128                   | 654,475                    | 1,488,028                  |

**Credit Facilities:**

At the end of the quarter the Company had US\$40.1 million drawn at an average cost of LIBOR + 6.5%. The Company repaid US\$377,500 of the Credit Facility and US\$410,000 in intercompany loan over the quarter. Empire Energy retains Credit Facility availability of US\$159.9 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

|          | Drawdown End of Qtr<br>US\$M | Interest Rate<br>LIBOR + |
|----------|------------------------------|--------------------------|
| Term     | \$37,125                     | 6.50%                    |
| Revolver | \$3,000                      | 6.50%                    |
|          | \$40,125                     | 6.50%                    |

### **Hedging:**

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

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

| Year | Est. Net mmBtu | Hedged mmBtu | %     | Average<br>\$/mmBtu | Est. Net<br>Bbl | Hedged<br>Bbl        | %     | Average<br>\$/Bbl |
|------|----------------|--------------|-------|---------------------|-----------------|----------------------|-------|-------------------|
| 2017 | 1,700,000      | 1,068,000    | 62.8% | \$ 4.05             | 119,500         | 114,000 <sup>a</sup> | 95.4% | \$ 66.95          |
| 2018 | 1,620,000      | 1,008,000    | 62.2% | \$ 4.11             |                 |                      |       |                   |
| 2019 | 1,550,000      | 491,500      | 31.7% | \$ 3.45             |                 |                      |       |                   |
|      | 4,870,000      | 2,567,500    | 52.7% | \$ 3.96             | 119,500         | 114,000              | 95.4% | \$ 66.95          |

<sup>a</sup>Includes a collar implemented for additional 1,800Bbl/mth over 2017 at \$45.30/\$54.30

### **NET INCOME SUMMARY - USA OPERATIONS**

The accompanying table is for comparative purposes and consists of unaudited, condensed, consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements, although the Company believes that the disclosures made below are adequate to make the information not misleading. A positive reversal of the diminution of asset values recorded in 2015 will be reversed in 2016. The amount has not yet been finalised.

| Description                       | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|-----------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| Revenues:                         | 3,621,950                 | 4,520,214                 | 13,935,762                 | 17,746,898                 |
| <b>Less Costs &amp; Expenses:</b> |                           |                           |                            |                            |
| Production costs & taxes          | 1,918,842                 | 2,142,040                 | 7,774,601                  | 8,807,957                  |
| Depn, Depletion, Amort & ARO      | 749,546                   | 47,472,239                | 2,920,543                  | 51,976,333                 |
| General & Administration          | 388,703                   | 818,623                   | 2,439,656                  | 2,932,133                  |
| <b>Income from Operations</b>     | 564,859                   | (45,912,688)              | 800,962                    | (45,969,525)               |
| <b>Less:</b>                      |                           |                           |                            |                            |
| Interest                          | 724,926                   | 545,706                   | 2,406,845                  | 2,055,133                  |
| (Gain)/Loss on sale of assets     | 37,795                    | (3,000)                   | 37,795                     | 614,491                    |
| P&A vs. ARO                       | 150,111                   | 213,288                   | 150,111                    | 356,564                    |
| Bad debts                         | (26,219)                  | 93,898                    | (26,219)                   | 105,536                    |
| Net Income/(Loss) before tax      | (321,754)                 | (46,762,580)              | (1,767,570)                | (49,101,249)               |

**B. IMPERIAL OIL & GAS PTY LTD (100%):**

The Company's operations are in the Northern Territory, Australia.

**Operations:**

Current quarter actual and accrued expenses and capitalized costs. (Company policy is to expense all exploration costs):

| Description – US\$        | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|---------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| Exploration Expenses – NT | 12,547                    | 292,912                   | 621,797                    | 986,856                    |

The Northern Territory Labor Party ('NTLP') recently announced a review of fracking practices and procedures. While the review is being undertaken and with the likelihood of the Farmout Agreement being terminated the proposed seismic and drilling program has been deferred.

**C. EMPIRE ENERGY GROUP LIMITED**

Empire Energy Group Limited's head office is located in Sydney, Australia. Operating costs cover all Group overhead, including the costs of listing on both the Australian Securities Exchange and the OTCQX Exchange, New York, USA.

| Description – US\$                 | 3 months to<br>31/12/2016 | 3 months to<br>31/12/2015 | Year-to-Date<br>31/12/2016 | Year-to-Date<br>31/12/2015 |
|------------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| Revenue                            | 41,940                    | 39,281                    | 192,171                    | 157,249                    |
| Less Expenses:                     |                           |                           |                            |                            |
| Consultants                        | 86,480                    | 63,927                    | 320,287                    | 293,369                    |
| Directors/Employment Costs         | 82,001                    | 69,818                    | 277,569                    | 262,127                    |
| Listing Expenses                   | 7,800                     | 27,953                    | 74,574                     | 106,542                    |
| G&A                                | 111,852                   | 76,042                    | 466,872                    | 395,819                    |
| <b>EBITDAX – Head office (EEG)</b> | <b>-246,193</b>           | <b>-198,459</b>           | <b>-947,131</b>            | <b>-900,608</b>            |
| <b>EBITDAX – (EEUS)</b>            | <b>1,314,597</b>          | <b>1,665,264</b>          | <b>3,823,481</b>           | <b>6,323,506</b>           |
| <b>EBITDAX – GROUP</b>             | <b>1,068,404</b>          | <b>1,466,805</b>          | <b>2,876,350</b>           | <b>5,422,898</b>           |

On the 14 December the Company announced a fully underwritten Renounceable Rights Issue on the basis of 11 New Shares for every 5 shares currently held at an issue price of \$0.008 to raise approximately \$6.1 million before costs. The offer closing date is 27 January 2017.

**ABOUT EMPIRE ENERGY GROUP LIMITED**

Empire Energy is a conventional oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Mid-Con (Kansas and Oklahoma). In 2010 the Company secured approximately 14.6 million acres in the McArthur Basin, Northern Territory, which is considered highly prospective for large shale oil and gas conventional and unconventional resources. Work undertaken by the Company over the past 5 years demonstrates that the Central Trough of the McArthur Basin, of which the Company holds around 80%, is a major Proterozoic depo-centre that forms one segment of a series of extensive prolific hydrocarbon basins extending through Oman, Siberia and southern China, and which contain resources of many billions of barrels of oil equivalent.

## Financial Terminology

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

### Note Regarding Barrel of Oil Equivalent

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

### Note Regarding Reserves

Reserve references in this report have been extracted from the Company’s announcement “2015 Year End Reserves Review” released to the ASX on 15 March 2016. The Company confirms that it is not aware of any new information or data that materially affects the information contained in the announcement 15 March 2016 and that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. Reserves were reported as at 1 January 2016. All volumes presented are net volumes and have had subtracted associated royalty burdens. The probabilistic method was used to calculate P50 reserves. The deterministic method was used to calculate 1P, 2P & 3P reserves. The reference point used for the purpose of measuring and assessing the estimated petroleum reserves is the wellhead.

### Note Regarding Forward- Looking Statements

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

## Glossary

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