



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

Quarterly Report – For the period ending March 2018

31 March 2018

1st QUARTER OVERVIEW

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

- Estimated revenues US\$3.2 million (4Q2017: US\$3.5 million).
- Gross production
 - Oil: 46,638 Bbl (4Q2017: 46,576) 0.1%
 - Gas: 540,712 Mcf (4Q2017: 595,249) -9.2%
- Unaudited Operating EBITDAX US\$1.4 million (4Q2017: US\$1.4 million).
- Continuing focus is being directed to the acquisition and bolt-on opportunities.
- Estimated Group EBITDAX for the period was US\$575,144 (4Q2017: US\$730,492).
- Northern Territory program payments of ~US\$181,000 (4Q2017: ~US\$292,000).
- The appointment of Mr Alex Underwood on the 6 March 2018 as an Executive of Empire and a Director and Chief Executive Officer of the Company's wholly owned subsidiary, Imperial Oil & Gas Pty Limited.

SIGNIFICANT SUBSEQUENT EVENT

- On the 17 April 2018 the Northern Territory Government announced that the moratorium on fracture stimulation of unconventional onshore shale gas reservoirs was to be lifted.
- Empire's 100% owned subsidiary, Imperial Oil & Gas Pty Limited has over 14.5 million acres in the McArthur and Beetaloo Basins, Northern Territory, both of which are considered highly prospective for large shale oil and gas resources. The Company has been operating in the Northern Territory since 2010.
- Empire welcomes the Northern Territory Government's decision which, following implementation of regulations, will facilitate the responsible development of the Company's highly prospective shale acreage position.
- The Company continues to carry out advanced discussions with potential joint venture partners which would fund the exploration and appraisal activities required to unlock the substantial resource potential of the Company's Northern Territory acreage.

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)

Following one of the worst snow seasons for several years, the Appalachia region produced ~421,997 Mcfe (net) for the quarter which was -5.8% lower over the same period of 2017. However, even with a very high snowfall, work has been completed on upgrading pipelines allowing larger volumes of gas to be sold to more desirable (higher price) sales points.

With above average volumes of gas being withdrawn from storage this winter, refilling the storage fields should begin in May and prices are anticipated to increase at that time.

Mid-Continent (Kansas and Oklahoma):

First quarter production for the Mid-Continent Region was 30,881 BOE (net) and 2.9% higher over same period 2017.

Inclement weather played a negative role in production volumes but was offset, partially due to longer overall up-time, well maximization and successful, experimental well stimulations.

Low cost stimulations brought about using modern technology are proving to be lucrative and additional well candidates are currently being identified and scheduled. Due to rising oil prices during the quarter, production has been restored on shut in wells meeting qualifying, economic thresholds.

Six wells have been selected as candidates to be drilled this year. The wells were selected from seismic shoots previously acquired. In addition, several well recompletion candidates have been identified and scheduled throughout the year. The Company continues to seek bolt on acquisition opportunities in the region.

Production:

Description	3 months to	3 months to	Year-to-Date	Year-to-Date
Net Revenue:	31/03/2018	31/03/2017	31/03/2018	31/03/2017
Gross Production:				
Oil (Bbls)	46,638	46,461	46,638	46,461
Natural Gas (Bbls)	540,712	560,809	540,712	560,809
Appalachia	394	660	394	660
Mid-Con	30,446	29,611	30,446	29,611
Total Oil	30,840	30,271	30,840	30,271
Weighted Avg Sales Price (\$/Bbl)				
Before Hedge	57.53	47.07	57.53	47.07
After Hedge	57.53	62.84	57.53	62.84
Natural gas (Mcf)				
Appalachia	421,997	448,277	421,997	448,277
Mid-Con	2,614	2,454	2,614	2,454
Total Natural Gas	424,611	450,731	424,611	450,731
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.40	2.55	2.40	2.55
After Hedge	3.06	2.98	3.06	2.98
Oil Equivalent (Boe):				
Appalachia	70,727	75,373	70,727	75,373
Mid-Con	30,881	30,020	30,881	30,020
Total	101,608	105,393	101,608	105,393
Boe/d	1,104	1,146	1,104	1,146
Weighted Avg Sales Price (\$/Boe)				
Before Hedge	27.49	24.41	27.49	24.41
After Hedge	30.23	30.80	30.23	30.80
Lifting Costs (incl. taxes):				
Oil - Midcon (/Bbl)	19.78	21.38	19.78	21.38
Natural gas - Appalachian (/Mcf)	1.29	1.23	1.29	1.23
Oil Equivalent (/BOE)	11.39	11.41	11.39	11.41
Net Back (\$/Boe)	18.84	19.39	18.84	19.39

Financials:

Description	3 months to 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
Net Revenue:				
Oil Sales	1,774,186	1,902,206	1,774,186	1,902,206
Natural Gas Sales	1,295,914	1,343,314	1,295,914	1,343,314
Working Interest	1,577	130	1,577	130
Net Admin Income	83,540	85,880	83,540	85,880
Other Income	55,588	16,561	55,558	16,561
Total Revenue	3,210,805	3,348,091	3,210,805	3,348,091
Production costs:				
Lease operating expenses - Oil	664,123	620,105	664,123	620,105
Lease operating expenses - Gas	521,759	496,778	521,759	496,778
Taxes - Oil	(54,013)	26,949	(54,013)	26,949
Taxes - Natural Gas	24,445	57,076	24,445	57,076
Total	1,156,314	1,200,908	1,156,314	1,200,908
Field EBITDAX	2,054,491	2,147,183	2,154,491	2,147,183
Less:				
Inventory adjustment	(30,568)	59,900	(30,568)	59,900
Reserve Enhancements	10,236	171,700	10,236	171,700
Nonrecurring expenses	181,815	270	181,815	270
G & G Costs	-	-	-	-
Field Overhead	501,000	501,000	501,000	501,000
Total	662,483	732,870	662,483	732,870
Operating EBITDAX	1,392,008	1,414,313	1,392,008	1,414,313
Less:				
Field G & A	131,574	157,848	131,574	157,848
Corporate G & A	381,380	377,708	381,380	377,708
Delay rental payments	11,348	18,648	11,348	18,648
Land Overhead & Non-leasing costs	55	300	55	300
Total	524,357	554,504	524,357	554,504
EBITDAX	867,651	859,809	867,651	859,809

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 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
EBITDAX	867,651	859,809	867,651	859,809
Less:				
Geological Services	215	-	215	-
Acquisition related expenses	25,000	17,928	25,000	17,928
Capital raise expenses	-	24,376	-	24,376
Dry hole expenses	-	-	-	-
Total	25,215	42,304	25,215	42,304
EBITDA	842,436	817,505	842,436	817,505

Net Earnings:

Unaudited earnings for the period are shown below:

Description	3 months to 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
EBITDA	842,436	817,505	842,436	817,505
Less:				
Depn, Depl, Amort & ARO	517,522	552,946	517,522	552,946
Interest	768,024	723,042	768,024	723,042
(Gain) loss on sale of assets	-	(38,895)	-	(38,895)
P&A vs. ARO	-	-	-	-
Bad debts	875	-	875	-
Non-Cash & Interest Expenses	1,286,421	1,237,093	1,286,421	1,237,093
Earnings before Tax	(443,985)	(419,588)	(443,985)	(419,588)
EBITDA/Interest (times)	1.10	1.13	1.10	1.13

Capital Expenditure/Asset Sales:

Description	3 months to 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
Capital Expenditures				
Acquisition Capital	633	(50)	633	(50)
New Wells - IDC	8,108	-	8,108	-
New Wells - Capital	60,347	(811)	60,347	(811)
Undeveloped Leases	55	56	55	56
Capital Expenditures	69,143	(805)	69,143	(805)

Credit Facilities:

At the end of the quarter the Company had US\$37.9 million drawn at an average cost of LIBOR + 6.5%. Empire Energy retains Credit Facility availability of US\$162.05 million, which can be utilized for acquisitions and development drilling subject to normal energy borrowing base requirements.

	Drawdown End of Qtr	Interest Rate
	US\$M	LIBOR +
Term	\$34,947	6.50%
Revolver	\$3,000	6.50%
	<u>\$37,947</u>	<u>6.50%</u>

Hedging:

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

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

Year	Est. Net mmBtu	Hedged mmBtu	%	Average \$/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average \$/Bbl
2018	1,215,000	756,000	62.2%	\$4.11	-	-	-	-
2019	1,550,000	498,000	32.1%	\$3.45	-	-	-	-
	<u>2,765,000</u>	<u>1,254,000</u>	<u>45.4%</u>	<u>\$3.85</u>	-	-	-	-

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 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.

Description	3 months to 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
Revenues:	3,210,805	3,348,091	3,210,805	3,348,091
Costs & Expenses:				
Production costs & taxes	1,818,797	1,933,779	1,818,797	1,933,779
Depn, Depletion, Amort & ARO	517,522	552,946	517,522	552,946
General & Administration	549,572	596,807	549,572	596,807
Income from Operations	<u>324,914</u>	<u>264,559</u>	<u>324,914</u>	<u>265,559</u>
Interest	768,024	723,042	768,024	723,042
(Gain)/Loss on sale of assets	-	(38,895)	-	(38,895)
P&A vs. ARO	-	-	-	-
Bad debts	875	-	875	-
Net Income/(Loss)	<u>(443,985)</u>	<u>(419,588)</u>	<u>(443,985)</u>	<u>(419,588)</u>

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 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
Exploration Expenses - NT	116,845	13,120	116,845	13,120

The Company is planning to complete necessary On-Country meetings and Exploration Deeds with Traditional Owners for EPA 180, 181 & 182 now the fracking moratorium has been lifted.

C. EMPIRE ENERGY GROUP LIMITED

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

Description – US\$	3 months to 31/03/2018	3 months to 31/03/2017	Year-to-Date 31/03/2018	Year-to-Date 31/03/2017
Revenue	38,890	29,402	38,890	29,402
Less Expenses:				
Consultants	92,408	66,351	92,408	66,351
Directors/Employment Costs	96,045	67,213	96,045	67,213
Listing Expenses	9,417	8,516	9,417	8,516
G&A	133,527	175,005	125,155	175,005
EBITDAX – Head office (EEG)	(292,507)	(287,683)	(292,507)	(287,683)
EBITDAX – (EEUS)	867,651	859,809	867,651	859,809
EBITDAX – GROUP	575,144	572,126	575,144	572,126

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 refer 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 “2016 Year End Reserves Review” released to the ASX on 20 February 2017. The Company confirms that it is not aware of any new information or data that materially affects the information contained in the announcement 20 February 2017 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 2017. 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 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

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