



# EMPIRE ENERGY GROUP LIMITED

and its controlled entities  
ABN 29 002 148 361

**DECEMBER 2017 ANNUAL REPORT**

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## **CORPORATE DIRECTORY**

### **Directors**

B W McLeod (Executive Chairman)  
D H Sutton  
L Tang

### **Registered Offices**

#### **Australian Office**

Level 7  
151 Macquarie Street  
Sydney NSW 2000

#### **US Office**

380 Southpointe Boulevard  
Suite 130  
Canonsburg PA 15317

### **Auditors**

Nexia Australia  
Level 16, 1 Market Street  
Sydney NSW 2000

### **US Auditors**

Schneider Downs & Co. Inc  
One PPG Place, Suite 1700  
Pittsburgh PA 15222

### **Share Registry**

Computershare Investor Services Pty Limited  
Level 3  
60 Carrington Street  
Sydney NSW 2000  
Telephone: 1300 85 05 05

### **Bankers**

Macquarie Bank Limited  
50 Martin Place  
Sydney NSW 2000

Australia & New Zealand Banking Group Limited  
242 Pitt Street  
Sydney NSW 2000

PNC Bank  
249 Fifth Avenue  
One PNC Plaza  
Pittsburgh PA 15222

### **Company Secretary**

R V Ryan

### **Australian Solicitors**

Clifford Chance  
Level 16  
1 O'Connell Street  
Sydney NSW 2000

### **US Solicitors**

K&L Gates LLP  
K&L Gates Center  
210 Sixth Avenue  
Pittsburgh PA 15222-2613

Barry Conge Harris LLP  
700 Milam St, Suite 1100  
Houston, TX 77002

### **Stock Exchange Listings**

#### **Australia**

Australian Securities Exchange  
(Home Exchange Sydney, New South Wales)

ASX Code: EEG - Ordinary Shares

#### **United States of America**

New York OTC Market:  
Code: EEGNY  
OTC#: 452869103  
Sponsor: Bank of New York  
1 ADR for 20 Ordinary shares

[www.empireenergygroup.net](http://www.empireenergygroup.net)

## Executive Chairman's Review of Operations

### A. 2017 OVERVIEW & HIGHLIGHTS

#### GROUP

- Over one of the greatest periods of upheavals in the upstream energy industry, the Company has posted positive cashflow each year of operation, during this period.
- Group Revenue \$13.8 million (2016: \$13.9 million).
- US EBITDAX \$3.9 million (2016: \$3.8 million).
- Group EBITDA \$2.5 million (2016: \$2.3 million).
- Net production 1,191 Boe/d (2016: 1,203 Boe/d).
- 1P Reserves 8.3 MMBoe, (2016: 7.9 MMBoe) with 1P PV10 of \$45.3 million (2016: \$56.5 million).
- Net tangible Assets US\$20.2 million or ~A\$0.03 cents per share.
- Underwritten rights issue for \$4.6 million (A\$6.1 million) completed.
- Repayment of \$2.2 million of credit facility.

#### USA – APPALACHIA & MIDCON

- USA operations traded within a difficult environment throughout the first half of 2017 with oil and gas prices remaining stuck at low levels. However, the second half of the year saw continued improvements in oil prices, but with gas prices after differential remaining well below \$3.00/Mcf.
- The Company's conservative hedging program provided another year of steady earnings. Oil hedging ran off at the end of 2017. Gas hedging remains in place for gas (~62% over 2018 at an average price of around \$4.11/Mcf).
- The Company monitors individual oil wells daily, enabling wells to be produced profitably at prevailing oil prices. The management team was able to maintain production at a stable level year on year. This was an exceptional result in a region where production declines are normally +10%pa.
- Two wells were drilled and completed in the Central Kansas Uplift during the second quarter with initial production rates of 40 BOPD and 55 BOPD respectively. The infill wells were selected from 3D seismic and were completed in the targeted Arbuckle formation. The zone is known for its proven, sustainability of long life production. With water driven reservoirs the wells were put on small choke to prevent water coning and are now at constant production rates of ~14Bbl/d.
- The Company maintains a significant inventory of well locations in Kansas and Oklahoma. Drilling has been curtailed due to fluctuating oil prices over 2017 along with capital constraints. In addition, the Company is revaluing all development acreage as it negotiates to add additional inventory at considerably cheaper bonus costs than current options, as well as acquiring recent 3D seismic at significantly reduced costs.
- During the year approximately 7,500 acres of mineral leases either expired or were sold. In all cases the same leases can now be acquired at significantly lower costs.
- In Appalachia the Company continues to redirect natural gas produced to lower cost outlets, as well as seeking opportunities to increase operating efficiencies through replacement of compressors, pipelines and acquisition of strategic access points to third party pipelines.
- Gross oil production 192,000 Bbls (Net 126,000 Bbls) (2016: Gross 194,000 Bbls).
- Gross natural gas production 2.31 Bcf (Net 1.85 Bcf) (2016: Gross 2.36 Bcf).
- The reduction in 1P PV10 was related to 2017 sale revenue, a negative variance in gas prices and a steepening in the backwardation of both oil and gas prices.
- The Company's US\$200 million credit facility matures February 2019.

## **Executive Chairman's Review of Operation (Continued)**

### **INDEPENDENT REVIEW OF OIL & GAS RESERVES**

Although the Company reports its US reserves based on a discount rate of 10%, for Australian reporting purposes the Company had utilised a discount rate of 8%. With the recent increase in the cost of capital and to align its Australian accounts (IFRS reporting) with its US accounts (GAAP reporting) a 10% discount rate for all reserve cashflow reporting is now utilised. For 2017 this generated an increase in the impairment (non-cash) write down.

### **AUSTRALIA – NORTHERN TERRITORY**

- A Prospective Resource P (50) (“**PRP (50)**”) of ~2.1 billion Boe or ~12.0Tcfe was announced in February 2016 for the Company's NT Assets. The PRP (50) covers approximately 5.5 million acres of the total 14.5 million acres held by the Company and with an average shale thickness of 330 feet. In most of the area reviewed, the shale thickness can be considerably thicker than that used for the PRP (50) estimate. (Refer to page 11 for definition of Prospective Resource)
- No exploration work was undertaken while the Northern Territory Government completes its fracking review. It is expected a decision will be made in the short term. Work continued with finalising agreements with Traditional Owners.
- Negotiations and discussions continue with potential partners for funding of the Company's project. The outcome of these discussions will be based on the final outcome of the Northern Territory inquiry into fracking.

### **B. OPERATIONS**

The Company maintains a small head office in Australia and manages oil & gas production operations through its 100% owned USA subsidiary Empire Energy E&P, LLC (“**Empire E&P**”). The exploration program in the McArthur Basin, Northern Territory, is operated through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd.

## Executive Chairman's Review of Operation (Continued)

## C. OPERATIONS REVIEW – USA

TABLE A

Operating Statistics	Notes	Dec 31, 2017	Dec 31, 2016	% change
<u>Gross Production:</u>				
Oil (MBbls)		192	194	-1%
Natural gas (MMcf)		2,313	2,362	-2%
<u>Net Production:</u>				
Oil (MBbls)		126	123	2%
Natural gas (MMcf)		1,852	1,895	-2%
<b>Net production (MBoe):</b>	1.0	<b>435</b>	<b>439</b>	<b>-1%</b>
<b>Net Daily Production (Boe/d):</b>				
		<b>1,191</b>	<b>1,203</b>	<b>-1%</b>
<u>Average sales price per unit (after hedging):</u>				
Oil (\$/Bbl)		\$61.62	\$62.21	-1%
Natural gas (\$/Mcf)		\$ 2.99	\$ 3.04	-2%
Oil Equivalents (\$/Boe)		\$30.61	\$30.59	1%
<u>Average sales price per unit (before hedging):</u>				
Oil (\$/Bbl)		\$45.83	\$38.52	19%
Natural gas (\$/Mcf)		\$ 2.42	\$ 1.76	38%
Oil Equivalents (\$/Boe)		\$23.61	\$18.40	28%
<u>Lifting Costs (incl taxes):</u>				
	1.1			
Oil (\$/Bbl)		\$21.36	\$21.54	-1%
Natural gas (\$/Mcf) <sup>(a)</sup>		\$ 1.17	\$ 1.61	-27%
Oil Equivalents (\$/Boe)		\$11.17	\$13.01	-14%
<b>2P Reserves (MMBoe):</b>		<b>11.6</b>	<b>15.0</b>	<b>-23%</b>

<sup>(a)</sup> For the 2017 fiscal year lifting costs for Appalachia were adjusted to bring in line with both calculation of MidCon lifting costs and industry standards. This meant insurance expenses and non-operating vehicle costs were reallocated to Field Overhead expense.

Notes to Table A

**1.0** **BOE** - 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.

## Executive Chairman's Review of Operation (Continued)

## D. NET PRODUCTION BY REGION - USA

TABLE B

Operating Statistics	Notes	Dec 31, 2017	Dec 31, 2016	% change
<b>Oil (MBbls)</b>				
Appalachia		3	3	24%
Mid-Con		123	120	2%
<b>Total (MBbls)</b>		<b>126</b>	<b>123</b>	<b>2%</b>
<b>Natural gas (MMcf)</b>				
Appalachia		1,843	1,880	-2%
Mid-Con		10	15	34%
<b>Total (MMcf)</b>		<b>1,853</b>	<b>1,895</b>	<b>-2%</b>

## E. REVIEW OF OPERATING RESULTS

**USA OPERATIONS**

In addition to the information presented in this financial report, to assist stakeholders in gaining a more comprehensive understanding of the operations 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.

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

In summary, we believe that:

- EBITDAX provides stakeholders with a much simpler and clear measure of operating performance.
- EBITDAX is an important supplemental measure of operating performance because it eliminates items that have little bearing on operating performance and so highlights trends in the 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 credit agreements.
- Securities analysts and investors generally use EBITDAX (cash flow modelling) in the comparative evaluation of companies.
- Management and external users of financial statements, rely on the use of EBITDAX to assess:
  - the financial performance of assets without regard to financing methods, capital structure or historical cost basis;

## Executive Chairman's Review of Operation (Continued)

- the ability of assets to generate cash sufficient to pay interest costs and support indebtedness;
- operating performance and return on capital as compared to those of other companies in the 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:

### RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS

For the EBITDAX report actual numbers for production, income and expenses have been utilised. This method generates differences between what is shown in the EBITDAX accounts and that represented in the statutory accounts.

The table below provides a reconciliation EBITDAX to the financial statements.

Net Earning – Effective Date (In \$ thousands)	Dec 31, 2017	Dec 31, 2016
<b>EBITDAX- production date</b>	<b>\$3,863</b>	<b>\$3,794</b>
<b>Net Earnings- effective date</b>	<b>\$(4,779)</b>	<b>\$(4,161)</b>
Intergroup management fee	\$150	\$150
<b>Revenue and expenses (remaining Empire Group)</b>		
Other Income	\$12	\$10
Unrealised derivative movements*	\$(1,701)	\$(7,590)
General and administration – head office	\$(11)	\$(10)
General and administration – other*	\$(73)	\$(46)
(Impairment)/Write-back of asset *	\$(13,578)	\$28,144
<b>Net (loss)/profit before income tax expense</b>	<b>\$(19,980)</b>	<b>\$16,497</b>
* Indicates non-cash items		

EBITDAX in Table C relates to Empire Energy E&P and Net Earnings in Table D reports operational activities of Empire Energy Group.



## Executive Chairman's Review of Operation (Continued)

TABLE C

US Operations only (In \$ thousands)	Notes	Dec 31, 2017	Dec 31, 2016	% change
<u>Net Revenue:</u>				
Oil Sales	1.0	7,762	7,666	1%
Natural Gas Sales	1.0	5,541	5,757	-4%
Working Interest		4	8	-50%
Net Admin Income	1.1	340	369	-8%
Other Income		120	119	1%
<b>Total Revenue</b>		<b>13,767</b>	<b>13,919</b>	<b>-1%</b>
<u>Production costs:</u>				
Lease operating expenses – Oil		2,482	2,529	-2%
Lease operating expenses – Gas <sup>(a)</sup>		2,045	2,903	-30%
Taxes - Oil	1.2	214	126	70%
Taxes - Natural Gas	1.2	117	153	-24%
<b>Total</b>		<b>4,858</b>	<b>5,711</b>	<b>-15%</b>
<b>Field EBITDAX</b>		<b>8,909</b>	<b>8,208</b>	<b>9%</b>
<u>Less:</u>				
Inventory adjustment	1.3	30	(3)	100%
Reserve Enhancements	1.4	4	22	-82%
Nonrecurring expenses	1.5	810	756	7%
G & G Costs		4	26	-85%
Field Overhead <sup>(b)</sup>	1.6	2,004	1,250	60%
<b>Total</b>		<b>2,852</b>	<b>2,051</b>	<b>39%</b>
<b>Operating EBITDAX</b>		<b>6,057</b>	<b>6,157</b>	<b>-2%</b>
<b>Operating Margin</b>		<b>44.0%</b>	<b>44.2%</b>	
<u>Less:</u>				
Field G & A	1.7	608	658	-8%
Corporate G & A	1.8	1,487	1,555	-4%
Delay rental payments		95	142	-33%
Land Overhead & Non-leasing costs		4	6	-33%
Dry hole expenses		-	-	-
<b>Total</b>		<b>2,194</b>	<b>2,361</b>	<b>-7%</b>
<b>EBITDAX</b>		<b>3,863</b>	<b>3,796</b>	<b>2%</b>
<b>Net Margin</b>		<b>28.1%</b>	<b>27.3%</b>	

<sup>(a), (b)</sup> For the 2017 fiscal year lifting costs for Appalachia were adjusted to bring in line with both calculation of MidCon lifting costs and industry standards. This meant insurance expenses and non-operating vehicle costs were reallocated to Field Overhead expense.

## Executive Chairman's Review of Operation (Continued)

### Notes to Table C:

- 1.0 Oil and Natural Gas Sales** – includes realised net hedges of \$3.0 million for natural gas and oil.
- 1.1 Net Admin Income** – as operator for approximately most of the Company's assets, the Company charges Working Interest Owners a fee to cover expenses such as administration, general insurance and supervision etc., or COPAS expenses. As part of this cost there is a net margin which accrues to the Company.
- 1.2 Taxes** – includes production, severance and ad valorem taxes.
- 1.3 Inventory Adjustment** – adjustment for oil in tanks as of December 31, 2017.
- 1.4 Reserve Enhancements** – capital costs relating to the development of behind pipe reserves, plus polymer treatment program for wells.
- 1.5 Nonrecurring expenses** – Costs relating to ongoing upgrade of well bores, wellhead equipment well and tank battery sites etc.
- 1.6 Field Overhead** – field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease administration and land management, general property insurances, environmental and reserve reporting etc. Around 50% of this is covered by Net Admin Income (refer Note 1.1 above).
- 1.7 Field G&A** - Empire Energy has field offices in each region it operates. Operations are expansive with over 2,200 operating wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 40 employees and 15 contract pumpers operating in two regional areas, Appalachia and the Mid-Con. Field G&A expenses include expenses such as utilities, IT, postage, office rental, third party reservoir engineering reviews etc.
- 1.8 Corporate G&A** – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA., where a staff of 4 full time and 1 part-time hold responsibility for financial management, control and reporting and HR Services. Major expenses for the period were - salaries and wages \$271,795; audit/tax and accounting \$324,842; travel and accommodation \$53,862; rent and associated, IT and office costs \$118,490; Professional Services \$38,276 and Management and Director Fees \$369,018 (of which \$150,000 was paid to Empire Energy Group Limited).

## Executive Chairman's Review of Operation (Continued)

## F. NET EARNINGS

TABLE D

Net Earnings ( <i>In \$ thousands</i> )	Notes	Dec 31, 2017	Dec 31, 2016	% change
<b>EBITDAX</b>		<b>3,863</b>	<b>3,796</b>	<b>2%</b>
Geological Services		-	17	n/a
Acquisition related expenses	1.9	(76)	55	n/a
Capital Raising Expenses		159	21	657%
Australian Head Office	1.10	1,127	1,140	-1%
Northern Territory exploration expenses		149	289	-48%
<b>Total</b>		<b>1,359</b>	<b>1,522</b>	<b>-10%</b>
<b>EBITDA</b>		<b>2,504</b>	<b>2,274</b>	<b>10%</b>
<b>Less:</b>				
Expiration costs		143	299	-52%
ARO		503	478	5%
Depn, Depletion, Amortisation		1,479	1,621	-9%
<b>Total</b>		<b>2,125</b>	<b>2,398</b>	<b>-11%</b>
<b>EBIT</b>		<b>379</b>	<b>(124)</b>	<b>n/a</b>
<b>Less:</b>				
Interest		2,948	2,416	22%
Interest (non-cash)	1.11	171	369	-54%
(Gain) loss on sale of assets (non-cash)		74	42	76%
P&A vs. ARO (non-cash)		89	150	-41%
Bad debts (non-cash)		402	(26)	n/a
<b>Net Earnings before Tax</b>		<b>(3,305)</b>	<b>(3,075)</b>	<b>8%</b>

## Notes to Table D:

**1.9 Acquisition related expenses** – Directly associated with acquisitions and include legal, engineering, tax and accounting advice, transition fees, recruitment and relocation costs.

**1.10 Australian Head Office** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants \$365,505; salaries \$222,502; audit & accounting \$100,635; listing related expenses \$57,799; rent, communications, IT hardware and support services \$165,190 Australian expenses currency translation at AUD/USA 0.7555.

**1.11 Interest (non-cash)** – decreased due to warrant amortisation from previous years taken up in 2016.

## G. CAPITAL EXPENDITURE

Capex ( <i>In \$ thousands</i> )	Notes	Dec 31, 2017	Dec 31, 2016	% change
Capital Expenditures				
Acquisition Capital		82	49	67%
New Wells - IDC		242	580	-58%
New Wells - Capital		162	23	604%
Undeveloped Leases		2	32	-94%
Northern Territory, Australia		871	499	75%
<b>Total</b>		<b>1,359</b>	<b>1,183</b>	<b>15%</b>

## Executive Chairman's Review of Operation (Continued)

### H. CREDIT FACILITY

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2017 was \$37.9 million (cf \$40.1 million at Dec 2016) at an average rate of LIBOR+6.5%. Principal repayments made in 2017 and 2016 were ~\$2.2 million and ~\$465,000 respectively. Interest expense is estimated to average \$247,000/mth over 2017. The Credit Facility expires on 17 April 2019.

### I. HEDGING

Due to the risk/growth model implemented by Empire, a comprehensive hedging strategy has been adopted to ensure a reduction in commodity risk over the period that a major portion of debt financing is repaid. The portion of production hedged will naturally reduce as drill bit production comes on line or on the other hand increase as non-economic wells are shut-in.

Year	Est. Net	Hedged	Average		Est. Net	Hedged	Average	
	mmBtu	mmBtu	%	\$/mmBtu	Bbl	Bbl	%	\$/Bbl
2018	1,620,000	1,008,000	62.2%	\$4.11	-	-	-	-
2019	1,550,000	498,000	32.1%	\$3.45	-	-	-	-
<b>Total</b>	<b>3,170,000</b>	<b>1,506,000</b>	<b>47.5%</b>	<b>\$3.89</b>	-	-	-	-

The fair value (marked to market) of combined oil and gas hedges in place as at December 31, 2017 was \$1.6 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2017.

### J. RESERVES – USA

The Company's reserves are reviewed annually by independent third-party reservoir engineers. The scope of the reviews is to prepare an estimate of the proved, probable and possible reserves attributable to Empire's ownership position in the subject properties.

#### Reserves as at December 31, 2017 – USA (NYMEX Strip Dec 31, 2017)

Reserves - As of Dec 31, 2017	Gross Wells	Oil (Mbbbls)	Gas (MMcft)	MBoe	Capex US\$M	PV0 US\$M	PV10 US\$M
Reserves (Reserves)							
Proved Developed Producing	2,211	1,606	26,787	6,070	\$0	\$62,547	\$31,800
Proved Developed Non-producing	19	476	-	476	\$907	\$10,085	\$5,094
Proved Behind Pipe	6	132	39	139	\$484	\$4,488	\$1,257
Proved Undeveloped	79	1,015	3,396	1,581	\$14,627	\$27,305	\$7,134
<b>Total 1P</b>	<b>2,315</b>	<b>3,229</b>	<b>30,222</b>	<b>8,266</b>	<b>\$16,018</b>	<b>\$104,425</b>	<b>\$45,285</b>
Probable	84	1,259	12,654	3,368	\$19,981	\$47,201	\$13,687
<b>Total 2P</b>	<b>2,399</b>	<b>4,488</b>	<b>42,876</b>	<b>11,634</b>	<b>\$35,999</b>	<b>\$151,626</b>	<b>\$58,972</b>
Possible	208	1,749	3,772	2,378	\$24,589	\$54,848	\$11,225
Possible - NY Shale		90,740	12,460	92,816			
<b>Total 3P</b>	<b>2,607</b>	<b>96,977</b>	<b>59,108</b>	<b>106,828</b>	<b>\$60,588</b>	<b>\$206,474</b>	<b>\$70,197</b>
Prospective Resource P(50) Shale (NY)		203,500	1,221,000	407,000			
Prospective Resource P(50) - Aust (NT)		222,000	11,076,000	2,068,000			
<b>Total Reserves &amp; Resources</b>		<b>522,477</b>	<b>12,356,108</b>	<b>2,581,828</b>			

USA Reserves by: Graves & Co Consulting & Pinnacle Energy Services, LLC

Northern Territory Resources by: Muir & Associates P/L and Fluid Energy Consultants

#### Notes to Reserves

- "Prospective Resources" is the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
- The scope of the Reserve Studies reviewed basic information to prepare estimates of the reserves and contingent resources.

## Executive Chairman's Review of Operation (Continued)

- 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.
- Oil prices are based on NYMEX West Texas Intermediate (WTI).
- Gas prices are based on NYMEX Henry Hub (HH).
- Prices were adjusted for any pricing differential from field prices due to adjustments for location, quality and gravity, against the NYMEX price. This pricing differential was held constant to the economic limit of the properties.
- All costs are held constant throughout the lives of the properties.
- 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.
- "PV0" Net revenue is calculated net of royalties, production taxes, lease operating expenses and capital expenditures but before Federal Income Taxes.
- "PV10" is defined as the discounted Net Revenues of the company's reserves using a 10% discount factor.
- "1P Reserves" or "Proved Reserves" are defined as Reserves which have a 90% probability that the actual quantities recovered will equal or exceed the estimate.
- "Probable Reserves" are defined as Reserves that should have at least a 50% probability that the actual quantities recovered will equal or exceed the estimate.
- "Possible Reserves" are defined as Reserves that should have at least a 10% probability that the actual quantities recovered will equal or exceed the estimate.
- "Bbl" is defined as a barrel of oil.
- "Boe" is defined as a barrel of oil equivalent, using the ratio of 6 Mcf of Natural Gas to 1 Bbl of Crude Oil. This is based on energy conversion and does not reflect the current economic difference between the value of 1 Mcf of Natural Gas and 1 Bbl of Crude Oil.
- "M" is defined as a thousand.
- "MMBoe" is defined as a million barrels of oil equivalent.
- "Mcf" is defined as a thousand cubic feet of gas.
- All volumes presented are net volumes and have had subtracted associated royalty burdens.
- 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 in Western NY and NW Pennsylvania. Estimates for GIP have 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.
- Reserve estimates have been prepared by the following independent reserve engineers:
  - New York & Pennsylvania (Appalachia) and Kansas (Mid-Con) – Graves & Co Consulting.
  - Oklahoma (Mid-Con) - Pinnacle Energy Services, LLC.
  - Northern Territory - Muir & Associates P/L and Fluid Energy Consultants.
- The following NYMEX prices, as at December 31, 2017, was used to calculate reserves and cash flow:

Year	\$/Bbl	\$/Mcf
2018	59.06	2.80
2019	55.92	2.80
2020	53.78	2.81
2021	52.56	2.84
2022	52.13	2.88
2023	51.86	2.92
2024	51.90	2.89
2025	52.20	2.82
2026+	52.57	2.84

**Executive Chairman’s Review of Operation (Continued)**

**Reconciliation of Reserves – USA (NYMEX Strip Dec 31, 2017)**

Reserves/Resources - MBoe	1P	2P	3P	Prospective (P50)
<b>As at January 1, 2017</b>				
Appalachia (2)	4,699	6,004	101,022	407,000
Mid-Con	3,240	9,008	9,097	0
Northern Territory (3)				2,068,000
<b>TOTAL</b>	<b>7,939</b>	<b>15,012</b>	<b>110,119</b>	<b>2,475,000</b>
<b>Production 2017</b>				
Appalachia	-316			
Mid-Con	-123			
<b>Changes (1)</b>				
Appalachia(2)	834	464	278	0
Mid-Con	-68	-3,841	-3,568	
Northern Territory (3)				0
<b>As at January 1, 2018</b>				
Appalachia (2)	5,217	6,468	101,300	407,000
Mid-Con	3,049	5,166	5,528	0
Northern Territory (3)				2,068,000
<b>TOTAL</b>	<b>8,266</b>	<b>11,634</b>	<b>106,828</b>	<b>2,475,000</b>
Change	4%	-22%	-3%	

(1) Includes acquisitions, divestments, discoveries, extensions and revisions.

(2) 3P includes shale reserves but subject to current fracking ban in NY State.

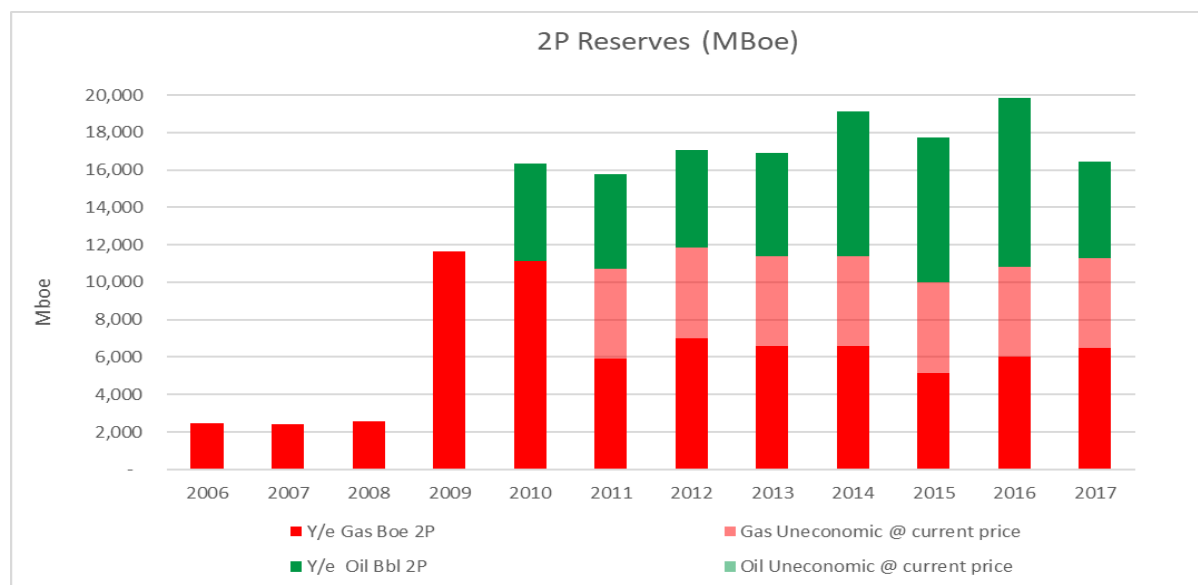
(3) Prospective (P50) Resource Estimate calculated on probabilistic basis

(4) 1P, 2P & 3P are calculated on a deterministic basis with applicable volumes are measured at the wellhead.

US Reserves by: Graves & Co Consulting & Pinnacle Energy Services, LLC.

Northern Territory Resources by Muir & Associates P/L and Fluid Energy Consultants

**Net 2P Reserves:** An updated Reserve Estimate was carried out as of December 31, 2017 at the NYMEX strip as at December 31, 2017, with summary of 2P Reserves shown above. Total 2P reserves are 11.6 MMBoe. Approximately 4.5 MMBoe of 2P reserves are uneconomic at current gas prices. Uneconomic reserves are mostly in New York State and held by production and will be written back at higher gas prices.



## Executive Chairman's Review of Operation (Continued)

## Reconciliation of Economic Summary Projections – USA (NYMEX Strip Dec 31, 2017)

PV10 (\$M)	1P	2P	3P
<b>As at January 1, 2017</b>			
Appalachia (2)	\$17,621	\$21,287	\$28,969
Mid-Con	\$38,852	\$70,170	\$71,354
<b>TOTAL</b>	<b>\$56,473</b>	<b>\$91,457</b>	<b>\$100,323</b>
<b>Sales 2017</b>			
Appalachia	-\$4,729		
Mid-Con	-\$5,806		
<b>Changes (1)</b>			
Appalachia	\$960	-\$5,531	-\$8,669
Mid-Con	-\$1,614	-\$26,954	-\$21,457
<b>As at January 1, 2018</b>			
Appalachia (2)	\$13,852	\$15,756	\$20,300
Mid-Con	\$31,432	\$43,216	\$49,897
<b>TOTAL</b>	<b>\$45,284</b>	<b>\$58,972</b>	<b>\$70,197</b>
<b>Change</b>	<b>-20%</b>	<b>-36%</b>	<b>-30%</b>

(1) Includes changes in strip prices, acquisitions, divestments, discoveries, extensions and revisions.

(2) Excludes any value attributable to NY shale reserves.

US Reserves by: Graves & Co Consulting & Pinnacle Energy Services, LLC.

**Land Position**

The following table summarises the Company's land holdings in Appalachia and the Mid-Continental regions, United States and the Northern Territory, Australia, as at December 31, 2017.

State	Total (Gross Acres)	HBP	Marcellus	Utica	Miss.	CKU	2018	2019	2020+
NY	258,258	246,119	258,258	131,899	-	-	1,418	2,715	7,990
PA	15,198	15,198	8,293	6,975	-	-	-	-	-
OK	1,440	-	-	-	1,440		1,440		
KS	14,624	14,384	-	-	5,062	13,904			240
NT	14,500,000								
<b>TOTAL</b>	<b>14,789,520</b>	<b>275,701</b>	<b>266,551</b>	<b>138,874</b>	<b>6,502</b>	<b>13,904</b>	<b>2,858</b>	<b>2,715</b>	<b>8,230</b>

Marcellus/Utica = Shales, Appalachia

Miss. = Mississippi Lime

CKU = Central Kansas Uplift = Arbuckle, Simpson, Viola, Lansing/Kansas City

**K. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY**

Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd ("Imperial"), holds a 100% interest in 59,000 square km (14.5 million acres) of prospective shale oil and gas exploration acreage, in the central depositional trough of the Proterozoic McArthur Basin. The McArthur Basin is an underexplored petroleum frontier basin.

- Of significant importance in 2017 was the flowing of gas from a fracked well in the Beetaloo sub-basin, within the McArthur Basin. The Amungee-1 horizontal well, is now referred to as the Beetaloo Basin 'discovery well', which is proof of concept that the McArthur Basin shale can be fractured to flow natural gas. The Company holds around 635,000 acres in the Beetaloo Basin with a Prospective Resource P(50) of ~2Tcfe.
- Imperial confirmed from historical core hole data, the shale source petroleum rock prospectivity in the Wollgorang and McDermott Formations of the Tawallah Group. Live oil was reported within the McDermott Formation. The oil came from a 230-foot interval between 1,800 and 2,030-foot drill depth. This data was

## Executive Chairman's Review of Operation (Continued)

- supported by Imperial well drilled in 2014 that intersected 66ft of thick black organic rich shale intervals of the formation in a near surface position in the southern McArthur Basin, adjacent to EP187. The presence of this deeper hydrocarbon generation from these formations demonstrates the increased potential for hydrocarbons below the Barney Creek Shale in EP187 and previously considered barren regions of EP184.
- A Prospective Resource P(50) ("PRP(50)") has not been calculated for the McDermott formation, but total areas mapped are approximately 2,000,000 acres, with an expected net average thickness of around 400 feet and with projected TOC's between 6% to 7% in EP187, EP184 and EP(A)183 and EP(A)188.
  - Further correlation work shows that the same Tawallah Group of shales (and/or equivalents) extend northwards, underlying the Barney Creek shale equivalents in EPA's 180, 181 and 182, adding a further estimated 10,000,000 acres to the potential resource base. This has the possibility of adding very significant additional resources to the current PRP(50). Utilising a geological discount factor of just 10% (discounted by 90%) a PRP(50) = 221 MMBoe (3.7Tcfe) was calculated for the known Wollgorang Shales within the Company's tenements.
  - In 2016 the Northern Territory Labor Party announced a review of fracking practices and procedures. While this review is being undertaken there will be no seismic or drilling done by Imperial.

The Company completed at its request, an independent Prospective Resource as set out below:

INDEPENDENTLY CERTIFIED ESTIMATED PROSPECTIVE RESOURCE (Unrisked)					
IDENTIFIED		AREA M ac	P90	P50	P10
Barney Creek Formation	Bcf	2,982	3,304	8,699	20,172
	MMBO		66	174	403
Velkerri Formation	Bcf	635	383	1,192	3,086
	MMBO		8	24	62
Wollgorang Formation	Bcf	1,384	524	1,185	2,371
	MMBO		10	24	47
<b>TOTAL</b>	<b>MMBOE</b>		<b>786</b>	<b>2,068</b>	<b>4,783</b>

Conversion Factor oil:gas is 1:6. Refer to page 12 for definition of Prospective Resource

### L. COMPONENT PERSONS STATEMENT

The information in this report which relates to the Company's reserves is based on, and fairly represents, information and supporting documentation prepared by or under the supervision of the following qualified petroleum reserves and resources evaluators, all of whom are licensed professional petroleum engineer's, geologists or other geoscientists with over five years' experience and are qualified in accordance with the requirements of Listing Rule 5.42:

<u>Name</u>	<u>Organisation</u>	<u>Qualifications</u>	<u>Professional Organisation</u>
Mel Hainey	Graves & Co. Consulting LLC	BSc	SPE
John P Dick	Pinnacle Energy Services, LLC	BPE	SPE
Wal Muir	Muir and Associate P/L	BSc, MBA	PESA

\* SPE: Society of Petroleum Engineers

\*PESA: Petroleum Exploration Society of Australia

None of the above evaluators or their employers have any interest in Empire Energy E&P, LLC or the properties reported herein. The evaluators mentioned above consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

#### 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.



## **DIRECTORS' REPORT**

### **For the financial year ended 31 December 2017**

In respect of the financial year ended 31 December 2017, 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**

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The following persons held office as Directors of Empire Energy Group Limited at any time 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 – resigned 2 June 2017
L Tang	Non-Executive Director – appointed 2 June 2017

All the Directors have been in office since the start of the financial year unless otherwise stated.

#### **PRINCIPAL ACTIVITIES**

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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.

The Company holds two exploration licences and five licence applications over 14.6 million acres in the McArthur Basin, in the Northern Territory. Work undertaken to date has shown this region to be highly prospective for oil and gas shale.

#### **CONSOLIDATED RESULTS**

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The consolidated net loss of the Empire Group for the financial year ended 31 December 2017 after providing for income tax was US\$20,107,246 compared to a consolidated net profit for the previous corresponding reporting period of US\$16,448,929.

#### **REVIEW OF OPERATIONS**

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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 16 of this annual report.

#### **DIVIDENDS**

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

#### **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

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There were no significant changes in the state of affairs of the consolidated entity during the financial period under review.

#### **LIKELY DEVELOPMENTS**

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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.

## Directors' Report for the year ended 31 December 2017

### MATTERS SUBSEQUENT TO BALANCE DATE

- 1) On the 12 February 2018 the Company announced the placement of 150 million fully paid ordinary shares to sophisticated and institutional investors at an average issue price of \$0.0125 per share, raising A\$1,875,000 (before costs).

The Placement shares were to be issued with the issue of 75,000,000 Placement shares under ASX Listing Rule 7.1 and 75,000,000 Placement shares to be issued under Listing Rule 7.1A.

The Company determined to proceed with the capital raising of \$1,875,000 by way of two tranches with both tranches being issued at \$0.0125 under Listing Rule 7.1:

- Tranche 1 of 75,000,000 shares to be issued at \$0.0125 and allotted under the Company's existing capacity under Listing Rule 7.1.

73,000,000 Tranche 1 shares were issued on 16 February 2018. Due to a delay with cleared funds the remaining 2,000,000 Tranche 1 were issued on 22 February 2018 under Listing Rule 7.1.

- Tranche 2, being 75,000,000 shares at an issue price of \$0.0125 to be issued under Listing Rule 7.1 subject to approval by shareholders at a Extraordinary General Meeting of the Company to be held 6 April 2018.

Tranche 2 shares if approved will be issued to a number of parties at an issue price of \$0.0125 being the same price as the previously allotted Tranche 1 shares. It is noted that the same parties who participated in the placement of Tranche 1 shares will take up Tranche 2 shares

- 2) On 16 February 2018 the Company issued 5,000,000 unlisted options exercisable at \$0.03 expiring 31 January 2020 to Baillieu Holst Ltd (or nominee/s) for services rendered to the company for assistance in capital raising.
- 3) On 8 March 2018 the Company announced the appointment of Mr Alex Underwood as an Executive of Empire and a Director and Chief Executive Officer of the Company's wholly owned subsidiary, Imperial Oil & Gas Pty Limited. The addition of Mr Underwood to the Company's executive management team will support the Executive Chairman and the Imperial operations team with the strategic development of the Company's McArthur Basin assets located in the Northern Territory, Australia, as well as assisting the Company to achieve its underlying objective of restructuring its USA balance sheet and the acquisition of additional producing assets. Subject to the Corporations Act 2001 (Cth) and ASX Listing Rules, as a component of Mr Underwood's appointment to partially offset value forgone in his previous employer share plan, the Company will issue Mr Underwood (or nominee) 4,500,000 fully paid ordinary shares (vesting in three equal tranches at 12 month periods) and 6,000,000 options (vesting in two equal tranches of 12 month periods, exercisable at \$0.03 on or before 30 December 2021).
- 4) On 27 March 2018 the Final Report of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory was released. The overall finding of the Inquiry was that, if all its recommendations are implemented in full, the risks associated with fracture stimulation of unconventional reservoirs can be adequately managed, and in some cases eliminated. The Report does not make any recommendations as to whether fracture stimulation of unconventional reservoirs should be allowed, as that decision lies with the Northern Territory Government. However, the Report makes 135 recommendations for the regulation of the onshore shale gas industry, should it be allowed to develop by the Government.
- 5) There were no other matters or circumstances that have arisen since 31 December 2017 that has significantly affected or may significantly affect:
- the operations, in financial years subsequent to 31 December 2017, of the Empire Group; or
  - the results of those operations; or
  - the state of affairs in financial years subsequent to 31 December 2017 of the Empire Group.

### INFORMATION ON DIRECTORS

**Bruce William McLeod**, B.Sc (Maths), M.Com (Econ) Age 65  
Executive Chairman

#### Experience and Expertise

Mr McLeod has had extensive experience in the Australian capital markets. Over the past 25 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.

## **Directors' Report for the year ended 31 December 2017**

### **Special Responsibilities**

Chairman of the Board – Chief Executive Officer and Member of Audit Committee

### **Other Current Directorships**

Chairman of Anson Resources Limited.

### **Former Directorships in Last 3 Years**

None.

**David Henty Sutton**, B.Com ACIS                      Age 74

### **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 is the Executive Chairman and Director of APC securities Pty Ltd. a boutique financial services company focussing on the global resource sector.

Prior to his current roles 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 and Member of Audit Committee

### **Other Current Directorships**

Sinovus Mining Limited, and Avalon Pacific Capital Pty Ltd (formerly Dayton Way Financial)

### **Former Directorships in Last 3 Years**

Silver Mines Limited, EHG Corporation Ltd, Chairman Precious Metals Limited

**Kevin Anthony Torpey**, B.E., MIE Aus., CP Eng, FAusIMM, (CP)                      Age 78 (resigned 2 June 2017)

### **Non-Executive Director**

### **Experience and Expertise**

Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 42 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.

Mr Torpey resigned as a Director on 2 June 2017.

### **Special Responsibilities**

Member of Remuneration Committee and Member of Audit Committee

### **Other Current Directorships**

Non-Executive Director of Latrobe Magnesium Limited

### **Former Directorships in Last 3 Years**

None

**Lin Tang**, MBA (Acct), B.Tech (Acct)                      Age 36

### **Non-Executive Director**

### **Experience and Expertise**

Ms Tang has over 12 years of experience within the finance and energy sectors. Previously she spent 7 years in the Energy Finance SBU at China Minsheng Banking Corporation, Beijing, China. Prior to that she was the Financial Manager for Global Oil Corporation Limited which has among other operating assets, three Production Sharing

## **Directors' Report** **for the year ended 31 December 2017**

Contracts with PetroChina in Jilin province, China. Ms Tang has an MBA in Accounting (Monmouth University, NJ, USA) and a Bachelor of Technology.

Appointed a Director of the Company on 2 June 2017.

### **Special Responsibilities**

Member of Remuneration Committee and Member of Audit Committee

### **Other Current Directorships**

Nil

### **Former Directorships in Last 3 Years**

None

## **COMPANY SECRETARY**

### **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 and assumed the role of Company Secretary on 31 July 2013. Ms Ryan also serves in the role of General Manager Operations.

## **EXECUTIVES**

### **Kylie Arizabaleta B.Bus (Acct) (Fin)**

#### **Financial Controller**

Ms Arizabaleta was appointed to the position of Financial Controller in March 2012. Before joining Empire Energy Group Limited she worked in the private practice as an external auditor and holds over 9 years' experience.

### **Alex Underwood (LLB, BCom (Hons))**

#### **Director, Imperial Oil & Gas Pty Ltd**

Mr Underwood was appointed as an Executive of Empire and a Director and Chief Executive Officer of the Company's wholly owned subsidiary, Imperial Oil & Gas Pty Limited on the 6 March 2018. The addition of Mr Underwood to the Company's executive management team will support the Executive Chairman and the Imperial operations team with the strategic development of the Company's McArthur Basin assets located in the Northern Territory, Australia, as well as assisting the Company to achieve its underlying objective of restructuring its USA balance sheet by the acquisition of additional producing assets.

Mr Underwood has nearly 15 years of specialist upstream oil and gas investing and financing experience. Mr Underwood's former experience includes working for the Commonwealth Bank of Australia in Singapore (Director, Natural Resources 2015 – 2017) and Macquarie Bank, in Sydney and Singapore (Associate Director, Energy Markets Division 2006 – 2015). Prior to this he worked for BHP Billiton Petroleum in Perth and Melbourne. Over this period, he has successfully invested debt and equity capital in a number of listed and unlisted oil and gas companies with assets in the United States, Australia and Asia. His focus has been on the identification of value creation opportunities for upstream oil and gas development and production assets.

### **Professor John Warburton (PhD, FGS, MAICD)**

#### **Director, Imperial Oil & Gas Pty Ltd**

Prof Warburton was appointed as an advisor to the Empire Energy Group in February 2010. From March 2011 to March 2014 he served as CEO of the Company's wholly owned subsidiary Imperial Oil & Gas Pty Ltd where he continues as Non-Executive Director. A Geoscientist by profession, Prof Warburton has 35 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. Prof Warburton is currently Chief of Geoscience & Exploration Excellence at Oil Search Limited and is an Independent Non-Executive Director of Senex Energy Limited where he also serves on the People & Remuneration and Nominations Committees.

John's petroleum industry expertise covers the Middle East, Central and East Asia, Africa, Pakistan, Europe, Australia, New Zealand and PNG. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published over 30 internationally recognised technical articles with particular focus on petroleum systems and complex fold and thrust belts.

Prof 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. John is a visiting Professor of the School of Earth & Environment at the University

## Directors' Report for the year ended 31 December 2017

of Leeds, UK where he also serves on the External Advisory Board at the Centre for Integrated Petroleum Engineering & Geoscience.

**Geoff Hokin** MSc(Hons) Geology; MSc Geology; Dip Coal Geology; Dip Arts Anthropology & Cross-Cultural Psychology, Dip Training & Assessment, Cert IV Bus Mgmt.

### Explorations & Operations, Imperial Oil & Gas Pty Ltd

Mr Hokin has 15 years' experience as an exploration geologist in the unconventional gas and coal sectors with various senior geology roles with a number of companies including Armour Energy Limited, Metgasco Limited, Arrow Energy Limited, and Xstrata Coal Australia. Mr Hokin has extensive geological and executive management experience to Executive Director level in other operations. He has authored and co-authored a number of publications including 'An emerging shale gas play in the Northern Territory' (2012) and 'Peasant resistance and Disadvantage' (2017). Mr Hokin also has significant qualifications and experience in safety and risk management, team leadership, conflict resolution, and project management.

### 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:

Director	Directors' Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office	Attended	Held Whilst in Office
Mr B W McLeod	14	14	-	-	6	6
Mr D H Sutton	14	14	2	2	6	6
Mr K A Torpey	8	8	2	2	3	3
Ms L Tang	6	6	-	-	3	3

The audit committee comprises the full Board of Directors. Mr B W McLeod, Mr D H Sutton, Mr K A Torpey and Ms L Tang were members of the remuneration committee during the financial year.

### Retirement, Election and Continuation in Office of Directors

Mr D 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.

Ms L Tang was appointed a Director 2 June 2017, as a new addition to the Board Ms Tang will stand for re-election at the Company's next Annual General Meeting.

## Remuneration Report – Audited

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

### 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 – resigned 2 June 2017  
L Tang - Independent Non-Executive – appointed 2 June 2017

The Committee meets as often as required but not less than once per year. The Committee met twice during the period and Committee member's attendance record is disclosed in the table of Directors Meetings shown above.

## Directors' Report for the year ended 31 December 2017

### 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.

### 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 performance goals set. Details of the nature and amount of each element of the remuneration of each Director and each specified executive of the Empire Group receiving the highest remuneration are set out in the following tables.

December 2017	Short term benefits			Post-employment benefits	Long-term benefits		Total US\$
	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave	Share/option based payments*	
<b>Directors</b>							
B W McLeod	365,489 <sup>(1)</sup>	31,063 <sup>(2)</sup>	25,791	-	-	1,206	423,549
K A Torpey	7,555	-	-	718	-	-	8,273
D H Sutton	-	-	-	15,110	-	-	15,110
L Tang	7,555	-	-	-	-	-	7,555
J Warburton	16,999	-	-	-	-	-	16,999
<b>Executives</b>							
A Boyer	219,018	-	63,513	-	-	241	282,772

<sup>(1)</sup> Includes accrued \$145,135 but not paid. \* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The non-cash cost of the above options issued under the ESOP over the year was \$19,058 the non-cash loss on options relating to the above directors that expired over the year was \$32,462. The net non-cash cost of options issued to the above directors and executives for the year was \$(13,404).

<sup>(2)</sup> In relation to a bonus issued in December 2014.

## Directors' Report for the year ended 31 December 2017

December 2016	Short term benefits			Post-employment benefits	Long-term benefits		Total US\$
	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave	Share/option based payments*	
<b>Directors</b>							
B W McLeod	342,925 <sup>(1)</sup>	-	26,414	-	-	15,288	384,627
K A Torpey	14,886	-	-	2,010	-	-	16,896
D H Sutton	-	-	-	14,886	-	-	14,886
J Warburton	26,795	-	-	-	-	-	26,795
<b>Executives</b>							
A Boyer	253,000 <sup>(2)</sup>	-	62,559	-	-	3,893	319,452

<sup>(1)</sup> Includes accrued \$216,732 but not paid. \* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The non-cash cost of the above options issued under the ESOP over the year was \$18,185 the non-cash loss on options relating to the above directors that expired over the year was \$30,976. The net non-cash cost of options issued to the above directors and executives for the year was \$(12,790).

<sup>(2)</sup> Includes \$78,000 of previous payments from 2013 to 2016 not paid.

### Service Agreements

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:

- Agreed management consultant fees of A\$483,771 in 2017 to be reviewed 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
- Long term incentives occurring up on the monetisation of an asset, this long-term incentive continues beyond term of the agreement
- Other benefits include provision of fully maintained motor vehicle and participation in the Company's Director/Employee Share Option Plan

The terms of the agreement have been approved 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 there were 13,000,000 executive options to acquire ordinary shares granted to Directors and specified executives of the Company.

At the date of this report there were 13,000,000 unissued shares held under option to Directors and specified executives.

### 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:

Director	Direct Interest		Indirect Interest	
	Shares	Options	Shares	Options
B W McLeod	-	-	24,229,999	5,000,000
D H Sutton	1,683,079	-	384,333	-
L Tang	-	-	-	-

## End of Audited Remuneration Report

## Directors' Report for the year ended 31 December 2017

### SHARE OPTIONS

#### Movements

#### Grant of Options

The following options were granted during the financial year:

Number		Exercise Price A\$	Expiry Date
1,000,000	Unlisted options	\$0.028*	25 August 2019
13,000,000	Unlisted options	\$0.03	31 December 2021

\* Following a Pro-Rata Rights Issue announced in December 2016 the original exercise price of these options (\$0.03) was adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22.

On 16 February 2018 the Company issued 5,000,000 unlisted options exercisable at \$0.03 expiring 31 January 2020 to Baillieu Holst Ltd (or nominee/s) for services rendered to the company for assistance in capital raising.

At the date of this report there were 19,000,000 unlisted options granted.

#### Exercise of Options

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

#### Expiry of Options

No options have expired since the end of the financial year and up to the date of this report.

At the date of this report the total number of unissued shares held under option was 19,000,000. These options are exercisable on the following terms.

Number		Exercise Price pre Rights Issue A\$	Expiry Date
1,000,000	Unlisted options	\$0.028	25 August 2019
13,000,000	Unlisted options	\$0.03	31 December 2021
5,000,000	Unlisted options	\$0.03	31 January 2020

### PERFORMANCE RIGHTS

During the 2013 financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buyback of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

Fair Market Value of Consideration Received by the Company	Performance rights exercisable
Less than \$25.0 million	0.0%
At least \$25.0 million but less than \$45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by \$45.0 million.
\$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.



## Directors' Report for the year ended 31 December 2017

### 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 Secretary, 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 Group Executive Officer and Chief Financial Controller

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Controller 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 2017 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 32 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 26 and forms part of the Director's Report for the financial year ended 31 December 2017.

#### Auditor

Nexia Australia 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 29 March 2018

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

29 March 2018

To the Board of Directors of Empire Energy Group Limited

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

As lead audit partner for the audit of the financial statements of Empire Energy Group Limited for the financial year ended 31 December 2017, 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 Sydney Partnership**



**Lester Wills**  
Partner

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	Year ended December 2017 US\$	Year ended December 2016 US\$
Sales Revenue	5a	13,942,325	14,538,956
Cost of Sales	6	(8,357,296)	(8,604,524)
<b>Gross Profit</b>		<b>5,585,029</b>	<b>5,934,432</b>
Other income	5b	126,409	229,770
General and administration expenses		(2,978,837)	(3,301,879)
Exploration expenses		(148,873)	(318,869)
Other non-cash expenses	8a	(19,597,489)	16,373,999
<b>Operating (Loss)/Profit before interest costs</b>		<b>(17,013,761)</b>	<b>18,917,453</b>
Net interest (expense)/income	7	(2,966,623)	(2,420,361)
<b>(Loss)/Profit before income tax expense</b>		<b>(19,980,384)</b>	<b>16,497,092</b>
Income tax expense	9a	(126,862)	(48,163)
<b>(Loss)/Profit after income tax benefit/(expense) from continuing operations</b>		<b>(20,107,246)</b>	<b>16,448,929</b>
<b>Other comprehensive (loss)/ income</b>			
Exchange differences on translation of foreign operations		(28,993)	26,890
Other comprehensive (loss)/income for the year, net of tax		(28,993)	26,890
<b>Total comprehensive (loss)/income for the year</b>		<b>(20,136,239)</b>	<b>16,475,819</b>
		Cents per share	Cents per share
Basic earnings per share	28	(2.13)	4.76
Diluted earnings per share	28	(2.13)	4.76

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	As at December 2017 US\$	As at December 2016 US\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		908,318	641,493
Trade and other receivables	10	2,397,842	2,175,522
Prepayments	11	237,237	437,535
Inventories	12	540,706	544,772
Financial assets, including derivatives	13	1,265,784	2,022,174
<b>TOTAL CURRENT ASSETS</b>		<b>5,349,887</b>	<b>5,821,496</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets, including derivatives	13	316,935	1,334,091
Oil and gas properties	14	69,614,396	83,943,173
Property, plant and equipment	14	493,663	487,872
Intangible assets	15	68,217	68,217
<b>TOTAL NON-CURRENT ASSETS</b>		<b>70,493,211</b>	<b>85,833,353</b>
<b>TOTAL ASSETS</b>		<b>75,843,098</b>	<b>91,654,849</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	3,405,031	3,871,331
Interest-bearing liabilities	17	36,976,225	38,656,987
Provisions	18	12,289	6,986
<b>TOTAL CURRENT LIABILITIES</b>		<b>40,393,545</b>	<b>42,535,304</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	18	15,186,576	12,902,647
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>15,186,576</b>	<b>12,902,647</b>
<b>TOTAL LIABILITIES</b>		<b>55,580,121</b>	<b>55,437,951</b>
<b>NET ASSETS</b>		<b>20,262,977</b>	<b>36,216,898</b>
<b>EQUITY</b>			
Contributed equity	19	78,415,335	74,239,177
Reserves		5,152,638	5,175,471
Accumulated losses		(63,304,996)	(43,197,750)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>20,262,977</b>	<b>36,216,898</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2017

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Total Equity
Balance at 31 December 2016	<b>74,239,177</b>	<b>127,396</b>	<b>(69,343)</b>	<b>5,117,418</b>	<b>(43,197,750)</b>	<b>36,216,898</b>	<b>36,216,898</b>
<b>Total Comprehensive income for year</b>							
Profit after income tax from continuing operations	-	-	-	-	(20,107,246)	(20,107,246)	(20,107,246)
Exchange differences on translation of foreign operations	-	-	(28,990)	-	-	(28,990)	(28,990)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(28,990)</b>	<b>-</b>	<b>(20,107,246)</b>	<b>(20,136,236)</b>	<b>(20,136,236)</b>
<b>Transactions with owners, recorded directly in equity</b>							
Issue of ordinary shares	4,635,835	-	-	-	-	4,635,835	4,635,835
Less: share issue transaction costs	(459,677)	-	-	-	-	(459,677)	(459,677)
Options issued during the year – share-based payments	-	-	-	6,157	-	6,157	6,157
<b>Total transactions with owners</b>	<b>4,176,158</b>	<b>-</b>	<b>-</b>	<b>6,157</b>	<b>-</b>	<b>4,182,315</b>	<b>4,182,315</b>
<b>Balance at 31 December 2017</b>	<b>78,415,335</b>	<b>127,396</b>	<b>(98,333)</b>	<b>5,123,575</b>	<b>(63,304,996)</b>	<b>20,262,977</b>	<b>20,262,977</b>

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 2017

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Total Equity
Balance at 31 December 2015	74,240,545	127,396	(96,233)	4,405,702	(59,991,158)	18,686,252	18,686,252
<b>Total Comprehensive income for year</b>							
Profit after income tax from continuing operations	-	-	-	-	16,448,929	16,448,929	16,448,929
Exchange differences on translation of foreign operations	-	-	26,890	-	-	26,890	26,890
<b>Total comprehensive income for the year</b>	-	-	26,890	-	16,448,929	16,475,819	16,475,819
<b>Transactions with owners, recorded directly in equity</b>							
Issue of ordinary shares	30,304	-	-	-	-	30,304	30,304
Less: share issue transaction costs	(31,672)	-	-	-	-	(31,672)	(31,672)
Options lapsed in period, transferred to retained earnings	-	-	-	(344,479)	344,479	-	-
Options issued during the year – share-based payments	-	-	-	36,613	-	36,613	36,613
Warrants issued during the year	-	-	-	1,019,582	-	1,019,582	1,019,582
<b>Total transactions with owners</b>	<b>(1,368)</b>	-	-	<b>711,716</b>	<b>344,479</b>	<b>1,054,827</b>	<b>1,054,827</b>
<b>Balance at 31 December 2016</b>	<b>74,239,177</b>	<b>127,396</b>	<b>(69,343)</b>	<b>5,117,418</b>	<b>(43,197,750)</b>	<b>36,216,898</b>	<b>36,216,898</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	Year ended 31 December 2017 US\$	Year ended 31 December 2016 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		13,839,036	14,417,766
Payments to suppliers and employees		(11,777,677)	(11,993,762)
Interest received		1,976	298
Interest paid		(2,966,623)	(2,267,051)
Income taxes paid		(126,862)	(48,163)
Net cash flows from operating activities	27(b)	(1,030,150)	109,088
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of oil and gas assets		120,226	49,419
Proceeds from sale of investments in equity		-	-
Payments for oil and gas assets		(588,714)	(119,038)
Payments for property, plant and equipment		(143,988)	(69,281)
Net cash flows from investing activities		(612,476)	(138,900)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from issuing of shares		4,176,158	(1,368)
Repayment of interest bearing liabilities		(2,178,743)	(464,881)
Finance lease payments		(27,539)	(13,298)
Net cash flows from financing activities		1,969,876	(479,547)
Net increase/(decrease) in cash and cash equivalents		327,250	(509,359)
Cash and cash equivalents at beginning of financial year		641,493	1,126,543
Effect of exchange rate changes on cash and cash equivalents		(60,425)	24,309
<b>CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR</b>	27(a)	<b>908,318</b>	<b>641,493</b>

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 2016

### 1. SIGNIFICANT ACCOUNTING POLICIES *Corporate information*

The financial report covers Empire Energy Group Limited and its controlled entities ("Empire Group"). Empire Group 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").

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 2017 was authorised for issue in accordance with a resolution of Directors on 28 March 2018.

#### ***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, 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***

Presented Empire Group's cash flows and economic returns are in US dollars ("US\$").

#### ***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 2017 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 2017.

#### ***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.

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.



**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

***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.

***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 as well as fair value gains on oil and gas derivatives the group is party to. Interest income is recognised as it accrues, using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****1. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****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 are recognised in the statement of profit and loss.

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.

***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:

Plant and equipment: 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **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 or cash generating unit.

#### **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. For unlisted investments, where information regarding the fair value is unreliable, the investment is held at cost under AASB139. 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. Goodwill is tested for impairment annually under AASB 136.

#### **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.

#### **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 a discount rate that reflects market conditions as at reporting date. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs,

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognised 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*

Empire Energy Group and its wholly-owned Australian resident entities form a tax-consolidated Empire Group. As a consequence, all members of the tax-consolidated Empire Group have been taxed as a single entity since 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****1. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****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 flows 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.

***Earnings per share***

Earnings per share is calculated by dividing the profit attributable to the owners of Empire Energy Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

There are no preference shares issued in Empire Energy Group Limited, thereby resulting in no dilutive effect being noted in any calculation of diluted earnings per share.

***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 and Revised Standards that are effective for Annual Periods beginning on or after 1 January 2017******AASB 2016-2 Disclosure Initiative: Amendments to AASB 107***

This Standard amends ASB 107 *Statement of Cash Flows* to include additional disclosures and reconciliation relating to changes in liabilities arising from financing activities, including both changes arising from cashflows and non-cash changes.

***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 2017. 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. New and Revised Standards that are not effective for Annual Periods beginning on or after 1 January 2018.

***New and Revised Standards that are effective for Annual Periods beginning on or after 1 January 2018******AASB 9 Financial Instruments***

AASB 9 includes requirements for the classification and measurement of financial assets and incorporates amendments to the accounting for financial liabilities and hedge accounting rules to remove the quantitative hedge effectiveness tests and have been replaced with a business model test.

AASB 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139 as follows:

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instrument that are not held for trading in other comprehensive income.
- (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
  - i. Where the fair value option is used for financial liabilities the change in fair value, the change attributable to changes in credit risk are present in other comprehensive income (OCI) and the remaining change is presented in profit or loss.

AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were made to other standards as a result of AASB 9 by AASB 2014-7 and AASB 2014-8. The mandatory application date of AASB 9 has been deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2014-1.

#### *AASB 15 Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and four interpretations issued by the AASB and amends the principles for recognising revenue from contracts with customers. The Standard requires an entity to recognise revenue on a basis that depicts the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, an entity shall apply all of the following steps:

- (a) identify the contract with a customer;
- (b) identify the separate performance obligations in the contract;
- (c) determine the transaction price;
- (d) allocate the transaction price to the separate performance obligations in the contract; and
- (e) recognise revenue when (or as) the entity satisfies a performance obligation.

Consequential amendments to other Standards are made by AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*. Adoption of this Standard would also incorporate amendments arising from AASB 2016-3 *Clarifications to AASB 15*

#### *AASB 16 Leases (effective for accounting periods beginning on or after 1 January 2019)*

AASB 16 replaces AASB 117 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measure right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 *Statement of Cash Flows*.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.

Early application is permitted provided the entity also applies AASB 15 *Revenue from Contracts with Customers* at or before the same date. The Group is currently assessing the impact of these Standards.

#### **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:

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

- Note 8 – Impairment expense
- Note 9 – Income tax
- Note 14 – Oil and gas properties
- Note 18 – Provisions for liabilities and charges
- Note 24 – Share based payments

#### *Judgments*

In the process of applying the Empire Group's accounting policies, the Directors have made the following judgments 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.

#### *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).

#### *Recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value-in-use, using an asset's estimated future cash flows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

#### *Significant judgement – Impairment of oil and gas assets*

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future oil price and discount rates.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

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

The estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

The discount rates applied to the future forecast cash flows are based on the Group's weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the country in which the asset operates.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in impairment losses or the reversal of previous impairment losses.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments or reversals of impairments under the different sets of assumptions in subsequent reporting periods.

#### *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 normal course of business.

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of \$35.04m. This is primarily due to the Board determining the debt facilities be classified as current liabilities although the current credit facility does not expire until 17 February 2019. Net assets are \$20.27m.

At December 31, 2017 the Group had breached the interest cover financial covenant on its borrowings with Macquarie Bank. The interest cover ratio of 1.3 respectively was below the required 1.8. Refer to Note 17. This has not been rectified at the date of this report and no formal waiver has been obtained from Macquarie Bank.

The directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will secure the additional funds to meet both working capital and capital expenditure requirements, as and when required. However, if the Group is not successful in securing sufficient additional funds or through other arrangements when required, then to meet its expenditure targets there may be uncertainty about whether the Group is able to realise assets and/or extinguish liabilities in the normal course of business at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 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 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.

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. For the year ended 31 December 2017 the Empire Group hedged approximately 98% of its oil (2016: 98%) and 63% of its total gas production (2016: 63%).

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

For 2018 the Empire Group has approximately 63% of current estimated gas production hedged at \$4.11/Mcf. Oil hedging ran off at the end of 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 2017 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 2017.

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

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
<b>31 December 2017</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	0.83	908,318	-	-	-	908,318
Trade and other receivables		-	-	-	2,397,842	2,397,842
Financial assets		-	-	-	1,582,719	1,582,719
		908,318	-	-	3,980,561	4,888,879
<b>Financial Liabilities</b>						
Trade & other payables		-	-	-	3,405,031	3,405,031
Interest-bearing liabilities	8.06	-	36,976,225	-	-	36,976,225
		-	36,976,225	-	3,405,031	40,381,256

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Over 1 to 5 Years	Non-Interest Bearing	Total
<b>31 December 2016</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	1.65	641,493	-	-	-	641,493
Trade and other receivables		-	-	-	2,175,522	2,175,522
Financial assets		-	-	-	3,356,265	3,356,265
		641,493	-	-	5,531,787	6,173,280
<b>Financial Liabilities</b>						
Trade & other payables		-	-	-	3,871,331	3,871,331
Interest-bearing liabilities	7.27	-	38,656,987	-	-	38,656,987
		-	38,656,987	-	3,871,331	42,528,318

#### (iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2017, had the NYMEX WTI 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 2018. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US\$370,000.

#### (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 or gas companies. Trade and other receivable balances are monitored on an ongoing basis with the Empire Group's exposure to bad debts minimal.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	2017 US\$	2016 US\$
Trade, other receivables, and derivatives	3,784,127	5,438,127

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

	2017 US\$	2016 US\$
Australia	-	-
United States of America	3,784,127	5,438,127

#### (C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforeseen, 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\$
<b>31 December 2017</b>					
<i>Non Derivatives</i>					
<b>Current</b>					
Trade and other payables	3,405,031	3,405,031	3,405,031	3,405,031	-
Interest bearing liabilities	37,946,361	37,976,225	37,946,561	37,946,561	-
<i>Derivatives</i>					
Financial asset	(1,582,719)	(1,582,719)	(1,582,719)	(1,265,784)	(316,935)
Financial liability	-	-	-	-	-
<b>31 December 2016</b>					
<i>Non Derivatives</i>					
<b>Current</b>					
Trade and other payables	3,871,331	3,871,331	3,871,331	3,871,331	-
Interest bearing liabilities	40,156,562	37,636,987	40,156,562	40,156,562	-
<i>Derivatives</i>					
Financial asset	(3,283,904)	(3,283,904)	(3,283,904)	(2,022,174)	(1,261,730)
Financial liability	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****(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.

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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

<b>Consolidated 31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Unlisted available-for-sale equities	-	-	78,000	78,000
Fair value of derivatives	-	1,582,719	-	1,582,719
<b>Total assets</b>	<b>-</b>	<b>1,582,719</b>	<b>78,000</b>	<b>1,660,719</b>
<b>Liabilities</b>				
Fair value of derivatives	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Consolidated 31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Unlisted available-for-sale equities	-	-	72,360	72,360
Fair value of derivatives	-	3,283,904	-	3,283,904
<b>Total assets</b>	<b>-</b>	<b>3,283,904</b>	<b>72,360</b>	<b>3,356,264</b>
<b>Liabilities</b>				
Fair value of derivatives	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 operation 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.

#### 5. REVENUE

##### a. Sales revenue

Revenue from oil and gas sales  
Revenue from well operations

<b>2017 US\$</b>	<b>2016 US\$</b>
13,205,070	13,626,195
737,255	912,761
<b>13,942,325</b>	<b>14,538,956</b>

##### b. Other income

Interest income  
Rental income  
Other income

1,976	298
11,554	9,500
112,879	219,972
<b>126,409</b>	<b>229,770</b>

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

	2017 US\$	2016 US\$
<b>6. COST OF SALES</b>		
Oil and gas production	(8,357,296)	(8,604,524)
	(8,357,296)	(8,604,524)
<b>7. INTEREST EXPENSE</b>		
Interest paid/payable on financial liabilities	2,966,623	(2,420,361)
	2,966,623	(2,420,361)
<b>8. EXPENSES</b>		
<b>a. Other non-cash expenses</b>		
Leasing expiration expenses (note 8c)	142,500	298,600
Impairment of assets (note 8c)	13,654,019	(27,762,128)
Depreciation, depletion and amortisation	2,943,375	2,213,627
Finance costs (note 8b)	1,032,139	1,131,819
Unrealised derivative movement	1,701,185	7,589,547
Other expenses	124,271	154,536
Total other expenses	19,597,489	(16,373,999)
<b>b. Finance expenses (non-cash)</b>		
Accretion of asset retirement obligation (note 18)	502,900	477,568
Unwind of discount of debt	529,239	654,251
Total finance costs (non-cash)	1,032,139	1,131,819
<b>c. (Loss)/Profit before income tax includes the following specific expenses:</b>		
<i>Depreciation, depletion and amortisation</i>		
Oil & Gas properties and plant & equipment (note 14)	2,943,375	2,213,627
	2,943,375	2,213,627
<i>Employee benefits expense</i>		
Defined contribution superannuation expense	17,911	17,665
Other employee expenses	4,072,760	3,940,621
Total employee benefits expense	4,090,671	3,958,285
<i>Impairment expense<sup>(a)</sup></i>		
Impairment of additional asset retirement obligation	1,832,503	400,000
Impairment of available for sale financial assets and receivables	75,553	482,336
Impairment of property plant & equipment	11,745,963	296,274
Reversal of impairment of property plant & equipment	-	(28,940,738)
Total (write back)/impairment expense	13,654,019	(27,762,128)
Loss on disposal of property, plant & equipment	76,675	-
Leasing expiration expense <sup>(b)</sup>	142,500	298,600

#### (a) Impairment expense

For the period 31 December 2017, the Company impaired oil and gas properties by \$11,745,963 due to the decline in gas prices and an increase in the discount rate used resulting in a reduction of the recoverable amount of those assets at prices at the end of the period. Furthermore, an increase in the asset retirement obligation of \$1,832,503, resulting from the accounting differences between US GAAP and IFRS, was recognised as an impairment charge.

For the period 31 December 2016, the Company wrote back the oil and gas properties by \$28,940,738 due to the increase in oil prices resulting in an increase of the recoverable amount of those assets<sup>(1)</sup>. Furthermore, an increase in the asset retirement obligation of \$400,000, resulting from the accounting differences between US GAAP and IFRS, was recognised as an impairment charge.

<sup>(1)</sup> An impairment of oil and gas properties was also recognised during the year of \$296,274.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 8. EXPENSES (Continued)

##### (b) Leasing expiration expense

A charge of \$142,500 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.

#### 9. INCOME TAX

	2017 US\$	2016 US\$
<b>a. Income tax expense</b>		
Current tax	126,862	48,163
Deferred tax	-	-
Income tax benefit attributable to continuing operations	126,862	48,163
Deferred income tax expense included in income tax expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 9(e))	-	-
	-	-
<b>b. Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax	(19,980,385)	16,497,092
Tax at the Australian tax rate of 27.5% (2016: 30%)	(5,494,606)	4,949,128
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Non-deductible expenses		13,477
Withholding tax paid	51,737	34,788
Deferred tax asset in relation to tax losses and temporary differences (utilised)/not recognised	5,104,314	(5,257,551)
Effect of difference in overseas tax rates	465,417	308,321
<b>Income tax benefit</b>	126,862	48,163
<b>c. Deferred tax assets not recognised relate to the following:</b>		
Tax losses	5,055,843	4,202,418
Capital losses	141,410	141,410
Other	455,174	291,842
	5,652,427	4,635,670



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 9. 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.

#### d. Dividend Franking Account

There are no franking account credits available as at 31 December 2017.

#### e. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2017 US\$	2016 US\$
Forward commodity contracts	397,317	1,238,534
Oil & Gas and Property, Plant & Equipment	5,531,403	574,412
Other	65,069	95,261
	5,993,789	1,908,207
Set-off of deferred tax liabilities pursuant to set-off provisions (note f)	(5,993,789)	(1,908,207)
Net deferred tax liabilities	-	-

#### f. Deferred tax assets

The balance comprises temporary differences attributable to:

Accrued asset retirement obligation	1,195,977	1,429,237
Oil & Gas and Property, Plant & Equipment	3,689,006	-
Other	1,108,806	478,970
	5,993,789	1,908,207
Set-off of deferred tax assets pursuant to set-off provisions (note e)	(5,993,789)	(1,908,207)
Net deferred tax assets	-	-

#### 10. TRADE AND OTHER RECEIVABLES

##### Current

Trade receivables	2,367,081	2,119,597
Other	30,761	55,925
	2,397,842	2,175,522

#### 11. PREPAYMENTS

Prepayments	237,237	437,535
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#### 12. INVENTORIES

Crude oil and production supplies	540,706	544,772
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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 13. FINANCIAL ASSETS, INCLUDING DERIVATIVES

	2017 US\$	2016 US\$
<b>Current</b>		
Oil and gas price forward contracts	1,265,784	2,022,174
<b>Non-current</b>		
Oil and gas price forward contracts	316,935	1,261,731
Shares – other corporations:		
• Unlisted available-for-sale equities (at cost)	-	628,401
Less: accumulated impairment on unlisted equities	-	(556,041)
<b>Total Non-current</b>	316,935	1,334,091

Commodity hedge contracts outstanding are outlined below.

2017 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2016 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	Swap Price	Premium	Product		Period	Swap Price	Premium	Product	
Jan 18 - Dec 18	4.75	\$Nil	54,000	mmbtu	Jan 17 - Dec 17	4.57	\$Nil	66,000	mmbtu
Jan 18 - Dec 18	4.75	\$Nil	456,000	mmbtu	Jan 17 - Dec 17	4.57	\$Nil	504,000	mmbtu
Jan 18 - Dec 18	3.45	\$Nil	420,000	mmbtu	Jan 17 - Dec 17	3.45	\$Nil	420,000	mmbtu
Jan 18 - Dec 18	3.45	\$Nil	78,000	mmbtu	Jan 17 - Dec 17	3.45	\$Nil	78,000	mmbtu
Jan 19 - Dec 19	3.45	\$Nil	420,000	mmbtu	Jan 18 - Dec 18	4.75	\$Nil	54,000	mmbtu
Jan 19 - Dec 19	3.45	\$Nil	78,000	mmbtu	Jan 18 - Dec 18	4.75	\$Nil	456,000	mmbtu
-	-	-	-	-	Jan 18 - Dec 18	3.45	\$Nil	420,000	mmbtu
-	-	-	-	-	Jan 18 - Dec 18	3.45	\$Nil	78,000	mmbtu
-	-	-	-	-	Jan 19 - Dec 19	3.45	\$Nil	420,000	mmbtu
-	-	-	-	-	Jan 19 - Dec 19	3.45	\$Nil	78,000	mmbtu
<b>2017 OIL - WTI - NYMEX</b>					<b>2016 OIL - WTI - NYMEX</b>				
-	-	-	-	-	Jan 17 - Dec 17	85.23	\$Nil	39,600	BO
-	-	-	-	-	Jan 17 - Dec 17	63.10	\$Nil	52,800	BO
-	-	-	-	-	Jan 17 - Dec 17	45.30 – 54.30	\$Nil	21,600	BO

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
<b>Cost in US\$</b>							
At 1 January 2017	117,053,631	6,584,445	30,591	328,948	755,900	669,608	125,423,123
Additions	679,398	2,432	-	-	140,520	3,468	825,818
New asset retirement obligation	1,832,503	-	-	-	-	-	1,832,503
Write-off of asset retirement obligation	(58,941)	-	-	-	-	-	(58,941)
Reclassifications	-	-	-	-	-	-	-
Sale of wells	-	-	-	-	-	-	-
Disposals	(478,226)	(648)	-	-	-	(64,700)	(543,574)
Expiration costs	-	(142,500)	-	-	-	-	(142,500)
Write-off of exploration expense	-	-	-	-	-	-	-
At 31 December 2017	119,028,365	6,443,729	30,591	328,948	896,420	608,376	127,336,429
<b>Accumulated Depreciation in US\$</b>							
At 1 January 2017	(39,430,683)	-	-	(75,357)	(643,496)	(552,291)	(40,701,827)
Depreciation and depletion	(2,828,980)	-	-	(10,687)	(74,353)	(29,355)	(2,943,375)
Write-off sale of wells	222,075	-	-	-	-	-	222,075
Write-off plugged wells	-	-	-	-	-	-	-
Write-back	-	-	-	-	-	38,950	38,950
Impairment	(13,578,466)	-	-	-	-	-	(13,578,466)
Write-back of impaired assets	-	-	-	-	-	-	-
At 31 December 2017	(55,616,054)	-	-	(86,044)	(717,849)	(542,696)	(56,962,643)
<b>Opening written down value</b>	<b>77,622,948</b>	<b>6,320,225</b>	<b>30,591</b>	<b>253,591</b>	<b>108,086</b>	<b>95,604</b>	<b>84,431,045</b>
<b>Impact of foreign currency adjustments</b>	<b>-</b>	<b>(241,644)</b>	<b>-</b>	<b>-</b>	<b>(3,867)</b>	<b>(20,216)</b>	<b>(265,727)</b>
<b>Closing written down value</b>	<b>63,412,311</b>	<b>6,202,085</b>	<b>30,591</b>	<b>242,904</b>	<b>174,704</b>	<b>45,464</b>	<b>70,108,059</b>

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
<b>Cost in US\$</b>							
At 1 January 2016	116,883,304	7,243,258	30,591	328,948	716,286	639,941	125,842,328
Additions	115,719	74,849	-	-	39,614	29,667	259,849
New asset retirement obligation	1,022,525	-	-	-	-	-	1,022,525
Write-off of asset retirement obligation	(45,249)	-	-	-	-	-	(45,249)
Reclassifications	-	-	-	-	-	-	-
Sale of wells	(96,670)	-	-	-	-	-	(96,670)
Disposals	(791,938)	(435,062)	-	-	-	-	(1,227,000)
Expiration costs	-	(298,600)	-	-	-	-	(298,600)
Write-off of exploration expense	(34,060)	-	-	-	-	-	(34,060)
At 31 December 2016	117,053,631	6,584,445	30,591	328,948	755,900	669,608	125,423,123
<b>Accumulated Depreciation in US\$</b>							
At 1 January 2016	(65,603,144)	-	-	(62,803)	(593,570)	(501,221)	(66,760,738)
Depreciation and depletion	(2,100,077)	-	-	(12,554)	(49,926)	(51,070)	(2,213,627)
Write-off sale of wells	8,825	-	-	-	-	-	8,825
Write-off plugged wells	19,249	-	-	-	-	-	19,249
Impairment	(696,274)	-	-	-	-	-	(696,274)
Write-back of impaired assets	28,940,738	-	-	-	-	-	28,940,738
At 31 December 2016	(39,430,683)	-	-	(75,357)	(643,496)	(552,291)	(40,701,827)
<b>Opening written down value</b>	<b>51,280,160</b>	<b>6,994,863</b>	<b>30,591</b>	<b>266,145</b>	<b>118,401</b>	<b>117,149</b>	<b>58,807,309</b>
<b>Impact of foreign currency adjustments</b>	<b>-</b>	<b>(264,220)</b>	<b>-</b>	<b>-</b>	<b>(4,318)</b>	<b>(21,713)</b>	<b>(290,251)</b>
<b>Closing written down value</b>	<b>77,622,948</b>	<b>6,320,225</b>	<b>30,591</b>	<b>253,591</b>	<b>108,086</b>	<b>95,604</b>	<b>84,431,045</b>

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

At 31 December 2017, the group reassessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy.

Estimates of recoverable amounts are based on an asset's value in use or fair value less costs to sell, using a discounted cash flow method, and are most sensitive to the key assumptions described in note 2.

Recoverable amounts for the year ended 31 December 2017 are:

Oil and gas assets	Subsurface assets US\$	Recoverable amount US\$
Kansas	42,586,295	31,433,180
Appalachia	33,960,831	13,853,590
Total	76,547,126	45,286,770

The pre tax discount rate that has been applied to the above oil and gas assets is 10% (2016: 8%). Although the Company reports its US reserves based on a discount rate of 10%, for Australian reporting purposes the Company had utilised a discount rate of 8% in 2016. With the recent increase in the cost of capital and to align its Australian accounts (IFRS reporting) with its US accounts (GAAP reporting) a 10% discount rate for all reserve cashflow reporting is now utilised. For 2017 this has generated an increase in the impairment (non-cash) write down.

	2017 US\$	2016 US\$
<b>15. INTANGIBLE ASSETS</b>		
Goodwill	68,217	68,217
	68,217	68,217

#### 16. TRADE AND OTHER PAYABLES

##### Current

Trade creditors	3,366,359	3,843,827
Other creditors	38,672	27,504
	3,405,031	3,871,331

#### 17. INTEREST-BEARING LIABILITIES

##### Current

Finance lease liability	-	31,257
Bank loan -secured	36,976,225	38,625,730
	36,976,225	38,656,987

##### Non-current

Finance lease liability	-	-
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#### Classification of Borrowings

These accounts are presented on the basis that all borrowings have 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 Group to classify liabilities as current if the 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 February 2016 the Company extended the Facility for a further 3 years through to 26 February 2019. However this did not alter the classification of borrowings on the Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 17. INTEREST-BEARING LIABILITIES (Continued)

##### Credit Facility Summary

Empire Energy USA, LLC maintains a long-term credit facility with Macquarie Bank Limited (Macquarie), which matures on 17 February 2019, consisting of the following:

Revolver facility (revolving line-of-credit):	\$50,000,000
Term Loan facility:	\$150,000,000

##### Uses of credit facility:

Revolver:	To refinance existing debt and to undertake acquisitions. The Revolver is subject to a borrowing base consistent with normal and customary oil and gas lending practices of the bank.
Term Loan:	As an acquisition and development term credit facility to 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 segregated in tranches.

##### Credit facility structure

Revolver:	Borrowing base limit	\$3,000,000
	Interest rate	LIBOR+6.5%
	Availability <sup>(1)</sup>	Nil
	Maturity	Feb 2019
	Repayment	Feb 2019
		<sup>(1)</sup> the borrowing base limit changes with operations and opportunities with approval of the lender.
Term Loan:	Borrowing base limit	\$35,083,291
	Current portion payable	\$1,500,000
	Interest rate	LIBOR+6.5%
	Availability <sup>(1)</sup>	Nil
	Maturity	Feb 2019
	Repayment <sup>(2)</sup>	Amortization
	<sup>(1)</sup> draw down is based on predefined benchmarks, with approval of the lender.	
	<sup>(2)</sup> repayment is monthly from net cash flow and capital transaction proceeds of USA operations, with remaining payable at maturity.	

##### Other features of the credit facility:

- Outstanding borrowings under the facilities are secured by a majority of the assets of the Company. The Revolver and Term Facility are guaranteed by the Company.
- Reserve Assessment of 1P reserves are based on third party reserve engineering consultants.
- Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. These include certain operational and financial covenants for which the Company is required to maintain, the most restrictive of which is the adjusted proved developed producing (PDP) present value (PV).

Key financial covenants:	1.5x 1P PV10 coverage to net loan (after adjustment for cash & hedges).
	1.0x PDP PV10 coverage to net loan (after adjustment for cash & hedges).
	1.0x Current Ratio.
	1.8x EBITDA/Interest Ratio.
Fees:	1.0% on draw down amount.

The Group breached the EBITDA/Interest ratio at 31 December 2017. No formal waiver letter was obtained from Macquarie Bank. Please refer to Note 3 for further details.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 17. INTEREST-BEARING LIABILITIES (Continued)

##### Amendments to Credit Facility:

On January 19, 2017, the Company entered into a Second Amendment to the Credit Facility rollover of April 2016. This required a payment of \$1,500,000 which was made in February 2017 in accordance with the Second Amendment. Following an increase in interest rate margin from 4.7% to 6.5%, a further change to the loan covenants was an adjustment to the Interest Coverage Ratio to at least 1.8 to 1.00. This applied to the four most recent fiscal quarters beginning with the fiscal quarter ending December 31, 2016. The current Interest Coverage Ratio is 1.51 to 1.

Under the terms of the Loan Facility ("Facility"), Empire Energy allocates 90% of monthly free cash flow to repay principal outstanding. Principal payments made in 2017 and 2016 were approximately \$2,178,743 and \$464,880, respectively.

The expected loan repayments over the next 12 months comprise payment of 90% of any monthly free cash flow.

A summary of period end debt is as follows:

	2017 US\$	2016 US\$
Term		
Tranche A	6,181,553	6,181,553
Tranche B	10,583,403	10,583,403
Tranche C	9,681,605	10,360,349
Tranche D	8,500,000	10,000,000
Revolver	3,000,000	3,000,000
Sub-Total	37,946,561	40,125,305
Less discount on debt	-	-
Less deferred financing costs, net	(970,336)	(1,499,575)
	36,976,225	38,625,730
Acquisition Commitment <sup>(1)</sup>	-	-
Finance Lease Liability	-	31,257
Total Current Debt	36,976,225	38,656,987
Current portion due 31 December 2017	-	1,500,000
Residual current balance	36,976,225	37,156,987
Current debt per balance sheet	36,976,225	38,656,987

<sup>(1)</sup> In February 2016 the Company elected not to complete a purchase of assets and as such the debt liability was not drawn. Refer to Note 33 (3).

#### 18. PROVISIONS

##### **Current**

Employee entitlements

12,289

6,986

##### **Non-current**

Asset retirement obligations

15,186,576

12,902,647

##### **Movement in Asset Retirement Obligation**

Balance at beginning of the period

12,902,647

11,496,833

Additions for the period

7,467

622,802

Write-off accrued plugging costs

(58,941)

(94,556)

Accretion expense for the period, included in finance costs

502,900

477,568

Change in estimate<sup>(a)</sup>

1,832,503

400,000

Balance end of the period

15,186,576

12,902,647

<sup>(a)</sup> Due to the write down of oil and gas properties to their recoverable amount \$1,832,503 (2016: \$400,000) has been written off as impaired from the carrying value of the oil and gas properties, refer to Note 8c.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 18. PROVISIONS (continued)

##### 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.

#### 19. CONTRIBUTED EQUITY

##### a) Shares

##### Issued Capital

Balance at beginning of period

##### Movement in ordinary share capital

- Issue of 2,000,000 fully paid ordinary shares in July 2016 @ A\$0.01 in lieu of cash payment for fees for services rendered

- Issue of 1,000,000 fully paid ordinary shares in August 2016 @ A\$0.02 in lieu of cash payment for fees for services rendered

- Issue of 236,538,079 fully paid ordinary shares in January 2017 @ \$0.008 pursuant to a Pro-Rata Rights Issue

- Issue of 196,175,000 fully paid ordinary shares in February 2017 being shortfall shares to the Pro-Rata Rights Issue

- Issue of 17,693,153 fully paid ordinary shares in February 2017 in lieu of cash payment for fees and services rendered

- Issue of 37,750,000 fully paid ordinary shares in February 2017 as a private placement to raise funds

- Issue of 74,222,500 fully paid ordinary shares in May 2017 as a private placement to raise funds

- Issue of 187,500,000 fully paid ordinary shares in June 2017 as a private placement to raise funds

- Issue of 13,544,567 fully paid ordinary shares in June 2017 in lieu of cash payment for fees and services rendered

Less costs associated with the share issues detailed above

Balance as at 31 December 2017

	2017 US\$	2016 US\$
	74,239,177	74,240,545
	-	15,042
	-	15,262
	1,445,342	-
	1,209,850	-
	108,806	-
	232,148	-
	448,838	-
	1,108,500	-
	82,351	-
	(459,677)	(31,672)
	78,415,335	74,239,177



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 19. CONTRIBUTED EQUITY (continued)

b) Shares	2017 No. of shares	2016 No. of shares
<b>Issued shares</b>		
Balance at beginning of period	347,313,877	344,313,877
<b>Movement in ordinary share capital</b>		
- Issue of 2,000,000 fully paid ordinary shares in July 2016 @ A\$0.01 in lieu of cash payment for fees for services rendered	-	2,000,000
- Issue of 1,000,000 fully paid ordinary shares in August 2016 @ A\$0.02 in lieu of cash payment for fees for services rendered	-	1,000,000
- Issue of 236,538,079 fully paid ordinary shares in January 2017 @ \$0.008 pursuant to a Pro-Rata Rights Issue	236,538,079	-
- Issue of 196,175,000 fully paid ordinary shares in February 2017 being shortfall shares to the Pro-Rata Rights Issue	196,175,000	-
- Issue of 17,693,153 fully paid ordinary shares in February 2017 in lieu of cash payment for fees and services rendered	17,693,153	-
- Issue of 37,750,000 fully paid ordinary shares in February 2017 as a private placement to raise funds	37,750,000	-
- Issue of 74,222,500 fully paid ordinary shares in May 2017 as a private placement to raise funds	74,222,500	-
- Issue of 187,500,000 fully paid ordinary shares in June 2017 as a private placement to raise funds	187,500,000	-
- Issue of 13,544,567 fully paid ordinary shares in June 2017 in lieu of cash payment for fees and services rendered	13,544,567	-
	1,110,737,176	347,313,877
Balance as at 31 December 2017		

#### Share Options

##### Movements

##### Granted

13,000,000 options were granted during the financial period. The options were granted pursuant to the Company's Employee Share Option plan. The exercise price of the granted options is \$0.03 expiring 30 December 2021.

Since the end of the financial period and the date of this report the Company issued 5,000,000 unlisted options exercisable at \$0.03 expiring 31 January 2020.

##### Exercise of Options

No options were exercised during the financial year or in the end of the financial year and up to the date of this report.

##### Expiry/Lapse of Options

No options have expired/lapsed since the end of the financial year.

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

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 19. CONTRIBUTED EQUITY (continued)

##### Shares

- 1,110,737,176 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 14,000,000 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price A\$	Expiry Date
1,000,000	Unlisted options	\$0.028*	25 August 2019
13,000,000	Unlisted options	\$0.03	30 December 2021
14,000,000			

\* Following a Pro-Rata Rights Issue announced in December 2016 the original exercise price of these options (\$0.03) was adjusted pursuant to the terms and conditions of the options and ASX Listing Rule 6.22.

##### Performance Rights

During the 2013 financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buyback of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

Fair Market Value of Consideration Received by the Company	Performance rights exercisable
Less than \$25.0 million	0.0%
At least \$25.0 million but less than \$45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by \$45.0 million.
\$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

#### 20. 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.

##### 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 2017

### 21. 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 2017, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

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

### 22. CONTINGENT ASSETS

The Company has a claim outstanding against the JV Partner for a 75% interest in the Carrolltown Prospect Gas Wells. The Company expects to receive ~US\$40,000 in compensation.

### 23. 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 commitment exists at 31 December 2017.

#### i) Equipment and Operating Leases

Commitments in relation to equipment/motor vehicle leases contracted for at and subsequent to the reporting date but not recognised as liabilities:

	2017 US\$	2016 US\$
Not later than one year	257,536	291,469
Later than one year not later than two years	232,536	225,469
Later than two years not later than five years	261,536	328,937
More than five years	-	-
	751,608	845,875

The Company leased its US corporate headquarters under a non-cancellable operating lease of monthly payments ranging from \$3,665 to \$3,966 through February 2022. Net rental expense approximated \$55,000 and \$97,000, net of reimbursements, for the years ended 31 December 2017 and 31 December 2016. The Kansas headquarters four-year lease agreement is of monthly payments of approximately \$2,853 to \$2,945 through April 2021. The net rental expense approximated \$34,000 for the years ended December 31, 2017 and 2016.

The Company leases trucks under an operating agreement. The term of the agreement begins upon the delivery of each truck and lasts for a period of up to 48 months. Lease payments in 2017 and 2016 were approximately \$239,000 and \$320,000 respectively. The Empire Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 23. COMMITMENTS FOR EXPENDITURE (continued)

#### 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.

### 24. SHARE BASED PAYMENTS

#### Year Ending – 31 December 2017

During the 2017 financial period the following share based payments occurred:

The Company granted 17,693,153 ordinary fully paid shares to a company in February 2017 in lieu of cash payment of A\$141,545 for services rendered, at a deemed issued price of \$0.008 per share.

The Company granted 13,544,567 ordinary fully paid shares to a company in June 2017 in lieu of cash payment of A\$108,357 for services rendered, at a deemed issued price of \$0.008 per share.

During the financial year the following options were granted pursuant to the Employee Share Option Plan.

No. of Options	Grant Date	Vesting Date	Exercise Date A\$	Expiry Date
13,000,000	10 July 2017	10 July 2019	\$0.03	31 December 2021

#### Year Ending – 31 December 2016

During the 2016 financial year the following share based payments occurred:

The Company granted 2,000,000 ordinary fully paid shares to a company in July 2016 in lieu of cash payment of A\$20,000 for services rendered, at a deemed issued price of \$0.01 per share.

The Company granted 1,000,000 ordinary fully paid shares to a company in August 2016 in lieu of cash payment of A\$20,000 for services rendered, at a deemed issued price of \$0.02 per share along with 1,000,000 unlisted options exercisable at \$0.03 prior to 25 August 2019. Options were issued for nil cash consideration.

During the 2016 financial year no options were granted pursuant to the Employee Share Option Plan.

#### a) Options

The options outstanding at 31 December 2017 are detailed below.

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during year	Expired during year	Exercised during year	Balance at end of year
25 August 2016 <sup>(1)</sup>	25 August 2019	3 cents	1,000,000	-	-	-	1,000,000
10 July 2017 <sup>(2)</sup>	31 December 2021	3 cents	-	13,000,000	-	-	13,000,000
			1,000,000	13,000,000	-	-	14,000,000

(1) Options granted in lieu of cash payment for fees for services rendered to the Company

(2) Options granted pursuant to Employee Share Plan approved 31 May 2017. The plan provides for vesting restrictions on minimum period of employment

#### b) Expenses arising from share based payment transactions

##### Year ending - 31 December 2017

The share based payments transactions costs during the financial year relate to previously granted options based on a pro-rata portion of the vesting period was A\$8,150.

##### Year ending - 31 December 2016

The share based payments transactions costs during the financial year relate to previously granted options based on a pro-rata portion of the vesting period was A\$49,195.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 25. 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.

<i>in USD</i>	Oil & Gas		Investments		Other		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue (external)	13,942,325	14,538,955	-	-	-	-	-	-	13,942,325	14,538,955
Other income (excluding Finance income)	171,409	219,972	-	-	(75,555)	(140,312)	-	-	95,854	79,660
Reportable segment (loss)/profit before tax	(14,784,209)	21,185,415	-	-	(1,203,455)	(1,137,179)	-	-	(15,988,296)	20,048,236
Finance income	1,976	298	523,715	358,972	4,697	738	(523,715)	(358,972)	6,673	1,036
Finance costs	(4,517,774)	(3,901,079)	-	-	(4,703)	(10,073)	523,715	358,972	(3,998,762)	(3,552,180)
<i>Profit/(loss) for the period before tax</i>									<b>(19,980,384)</b>	<b>16,497,092</b>
Reportable segment assets	75,415,798	92,267,669	3,932,327	72,361	349,300	203,888	(3,854,327)	(889,069)	75,843,098	91,654,849
Reportable segment liabilities	55,580,121	55,437,951	-	889,069	-	-	-	(889,069)	55,580,121	55,437,951
<i>Other material non-cash items:</i>										
Gain on disposal of acreage										
- Depreciation and amortisation	(2,931,443)	(2,200,961)	-	-	(11,726)	(12,666)	-	-	(2,943,169)	(2,213,627)
- Impairment expense	(13,654,019)	(1,178,610)	-	-	-	-	-	-	(13,654,019)	(1,178,610)
- Reversal of impairment	-	28,940,738	-	-	-	-	-	-	-	28,940,738
- Gain on disposal	-	-	-	-	-	-	-	-	-	-
- Lease expiration costs	(142,500)	(298,600)	-	-	-	-	-	-	(142,500)	(298,600)
<i>Non-cash items included in Finance costs:</i>										
- Asset retirement obligation accretion	(502,900)	(477,845)	-	-	-	-	-	-	(502,900)	(477,845)
- Discount on debt & overriding royalty interest	(529,239)	(654,251)	-	-	-	-	-	-	(529,239)	(654,251)
- Fair value gain/(loss) on forward commodity contracts	-	-	-	-	-	-	-	-	-	-
Capital expenditure	(2,514,333)	(1,213,093)	-	-	(143,988)	(69,281)	-	-	(2,658,321)	(1,282,374)

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 25. 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. Information reported to the Chief Operating decision maker (CODM) allows resource to be allocated and subsequent performance to be analysed. This is reviewed on a monthly basis.

The Empire Group's reportable segments under AASB 8 and reviewed by the CODM 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 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 customers

Revenues from two major customers of the Empire Group's Oil & Gas segment represents approximately \$8,229,774 (2016: two major customers \$7,531,662) of the Empire Group's total revenues.

#### 26. 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
  - L Tang
  - K A Torpey
- ii. **Directors' Shareholdings**

##### Number of shares held by the Company Directors

Director	Balance at 1 January 2017	Acquired during period through Pro Rata Rights Issue	Other changes during period	Balance at 31 December 2017
B W McLeod	8,924,997	15,305,002	-	24,229,999
D H Sutton	734,295	-	-	734,295
L Tang	-	-	-	-

##### 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 2017	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2017	Vested exercisable at 31 December 2017
B W McLeod	-	5,000,000	-	-	5,000,000	-
D H Sutton	-	-	-	-	-	-
L Tang	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 26. RELATED PARTY DISCLOSURES (Continued)

The options held by Directors' were issued under an Employee Share Option Plan and were 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	5,000,000	\$0.03	31 December 2021

#### iii. Transactions with Key Management Personnel

	2017 US\$	2016 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*	365,489	342,925
- Bonus payment	31,063	-
* of this amount \$220,354 was paid during the financial period (2016: \$126,193)		
2) Aggregate amounts payable to Directors and their related Companies at balance date:		
- Eastern & Pacific Capital		
- Management consultant fees accrued during the year	145,135	216,732
- Bonus payments accrued from previous years	-	29,750
- Reimbursements	-	33,761
3) 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	-	2,137
- Director fees	17,550	26,795

#### 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. These balances, along with associated charges, are eliminated on consolidation.

#### c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			December 2017 %	December 2016 %
<b>Controlling Empire Group</b>				
Empire Energy Group Limited	Australia			
<b>Controlled Companies</b>				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	100
Empire Energy Holdings, LLC	USA	Units	100	100
Empire Energy USA, LLC	USA	Units	100	100
Empire Energy (MidCon), LLC	USA	Units	100	100
Empire Energy E&P, LLC	USA	Units	100	100

All entities are audited by Nexia Australia with the exception of Empire Energy Holdings, LLC, Empire Energy USA LLC, Empire Energy (MidCon), LLC and Empire Energy E&P, LLC which are companies incorporated in the USA and are audited by Schneider Downs.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 27. NOTES TO THE STATEMENT OF CASH FLOWS

	December 2017 US\$	December 2016 US\$
<b>(a) Reconciliation of Cash</b>		
Cash at the end of the financial year is shown in Statement of Financial Position as follows:		
Cash at bank and in hand	908,318	641,493
<b>(b) Reconciliation of profit after income tax expense to net cash flows from operating activities</b>		
(Loss)/Profit for the period after income tax expense	(20,107,246)	16,448,929
<b>Adjustments for non-cash items:</b>		
Depreciation & amortisation expense	2,943,375	2,213,627
Impairment of property, plant & equipment	13,578,466	696,274
Impairment of available for sale assets and related receivables	75,553	482,366
Loss/(gain) on disposal of property, plant & equipment	76,675	-
(Write-back) of property, plant & equipment	-	(28,940,738)
Expiration of leases	142,500	332,660
Profit/Loss on disposal of available for sale financial assets	-	-
Discount on debt	529,236	654,251
Asset retirement obligation accretion	502,900	428,538
Share-based payment expense	6,157	36,613
Unrealised loss/(gain) on forward commodity contracts	1,701,187	7,589,547
<b>Operating profit before changes in working capital and provisions</b>	<b>(551,197)</b>	<b>(57,933)</b>
Change in Trade and other receivables	(222,320)	(383,384)
Change in Prepayments and other current assets	200,298	234,508
Change in Inventories	4,066	8,412
Change in Current tax asset	-	-
Change in Trade and other payables	(466,300)	312,876
Change in Provisions	5,303	(5,394)
Change in Deferred Tax Liability	-	-
	<b>(478,953)</b>	<b>167,021</b>
<b>Net cash flows from operating activities</b>	<b>(1,030,150)</b>	<b>109,088</b>

#### (c) Non-Cash Financing and Investing Activities

During the current financial the following non cash financing and investing activities occurred:

The Company granted 17,693,153 ordinary fully paid shares to a company in February 2017 in lieu of cash payment of A\$141,545 for services rendered, at a deemed issued price of \$0.008 per share.

The Company granted 13,544,567 ordinary fully paid shares to a company in June 2017 in lieu of cash payment of A\$108,357 for services rendered, at a deemed issued price of \$0.008 per share.

A proportional value of options already issued based on a pro-rata portion of the vesting period was expensed during the financial year as follows:

- 1,000,000 options exercisable @ A\$0.028 expiring 25/08/2019	A\$4,000
- 13,000,000 options exercisable @ A\$0.03 expiring 31/12/2021	A\$4,150
	<u>A\$8,150</u>

During the previous financial year the following non cash financing and investing activities occurred:



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 27. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

The Company granted 2,000,000 ordinary fully paid shares to a company in July 2016 in lieu of cash payment of \$20,000 for services rendered, at a deemed issued price of \$0.01 per share.

The Company granted 1,000,000 ordinary fully paid shares to a company in August 2016 in lieu of cash payment of \$20,000 for services rendered, at a deemed issued price of \$0.02 per share along with 1,000,000 unlisted options exercisable at \$0.03 prior to 25 August 2019. Options were issued for nil cash consideration.

#### (d) Reconciliation of Liabilities arising from Financing Activities

	Balance at 1 January 2017	Financing Cashflows	Warrant Expense	Amortisation of warrants	Other changes	Balance at 31 December 2017
Interest bearing borrowings	38,656,987	(2,206,282)	171,171	358,068	(3,719)	36,976,225

#### 28. EARNINGS PER SHARE

	2017	2016
Basic earnings per share (cents per share)	(2.13)	4.76
Diluted earnings per share (cents per share)	(2.13)	4.76
Profit/loss used in the calculation of basic and diluted earnings per share	(20,107,246)	16,448,929
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	944,413,550	345,634,425
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	944,413,550	345,634,425

#### 29. 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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 30. PARENT ENTITY INFORMATION

	2017 US\$	2016 US\$
<b>Information relating to Empire Energy Group Limited:</b>		
Current Assets	298,297	146,433
Total Assets	42,797,593	35,921,121
Current Liabilities	1,392,274	(1,531,433)
Total Liabilities	1,392,274	(1,531,433)
Shareholder's Equity:		
Issued Capital	(78,415,334)	(74,239,177)
Reserves		
- Fair value reserve	(575,677)	(575,677)
- Foreign currency translation reserve	5,877,345	8,000,137
- Options reserve	(1,346,396)	(1,510,540)
- Share based payment reserve	(166,540)	(167,567)
- General Reserve	(228,254)	(241,272)
Accumulated Losses	34,030,457	34,344,408
Total Shareholder's Equity	(40,824,399)	(34,389,688)
Profit/(loss) for the period	892,357	461,128
Total Comprehensive income	1,686,676	456,907

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 31. 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.

##### 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:

December 2017	Short term benefits			Post-employment benefits	Long-term benefits	Share/option based payments*	Total US\$
	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave		
<b>Directors</b>							
B W McLeod	365,489 <sup>(1)</sup>	31,063 <sup>(2)</sup>	25,791	-	-	1,206	423,549
K A Torpey	7,555	-	-	718	-	-	8,273
D H Sutton	-	-	-	15,110	-	-	15,110
L Tang	7,555	-	-	-	-	-	7,555
J Warburton	16,999	-	-	-	-	-	16,999
<b>Executives</b>							
A Boyer	219,018	-	63,513	-	-	3141	282,772

<sup>(1)</sup> Includes accrued \$145,135 but not paid. \* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The non-cash cost of the above options issued under the ESOP over the year was \$19,058 the non-cash loss on options relating to the above directors that expired over the year was \$32,462. The net non-cash cost of options issued to the above directors and executives for the year was \$(13,404).

<sup>(2)</sup> In relation to a bonus issued in December 2014.

December 2016	Short term benefits			Post-employment benefits	Long-term benefits	Share/option based payments*	Total US\$
	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave		
<b>Directors</b>							
B W McLeod	342,925 <sup>(1)</sup>	-	26,414	-	-	15,288	384,627
K A Torpey	14,886	-	-	2,010	-	-	16,896
D H Sutton	-	-	-	14,886	-	-	14,886
J Warburton	26,795	-	-	-	-	-	26,795
<b>Executives</b>							
A Boyer	253,000 <sup>(2)</sup>	-	62,559	-	-	3,893	319,452

<sup>(1)</sup> Includes accrued \$216,732 but not paid. \* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The non-cash cost of the above options issued under the ESOP over the year was \$18,185 the non-cash loss on options relating to the above directors that expired over the year was \$30,976. The net non-cash cost of options issued to the above directors and executives for the year was \$(12,790).

<sup>(2)</sup> Includes \$78,000 of previous payments from 2013 to 2016 not paid.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2017

#### 32. AUDITORS' REMUNERATION

	2017 US\$	2016 US\$
<b>Audit Services</b>		
Auditors of the Company – Nexia Australia:		
Audit and review of financial reports	88,922	89,536
Other auditors:		
Audit and review of financial reports	177,000	89,588
	265,922	179,124
<b>Other services</b>		
Auditors of the Company – Nexia Australia:		
Taxation services	11,713	12,682
Other auditors:		
Taxation services	20,106	1,303
	31,819	13,985

#### 33. MATTERS SUBSEQUENT TO BALANCE DATE

- 1) On the 12 February 2018 the Company announced the placement of 150 million fully paid ordinary shares to sophisticated and institutional investors at an average issue price of \$0.0125 per share, raising A\$1,875,000 (before costs).

The Placement shares were to be issued with the issue of 75,000,000 Placement shares under ASX Listing Rule 7.1 and 75,000,000 Placement shares to be issued under Listing Rule 7.1A.

The Company determined to proceed with the capital raising of \$1,875,000 by way of two tranches with both tranches being issued at \$0.0125 under Listing Rule 7.1:

- Tranche 1 of 75,000,000 shares to be issued at \$0.0125 and allotted under the Company's existing capacity under Listing Rule 7.1.

73,000,000 Tranche 1 shares were issued on 16 February 2018. Due to a delay with cleared funds the remaining 2,000,000 Tranche 1 were issued on 22 February 2018 under Listing Rule 7.1.

- Tranche 2, being 75,000,000 shares at an issue price of \$0.0125 to be issued under Listing Rule 7.1 subject to approval by shareholders at a Extraordinary General Meeting of the Company to be held 6 April 2018.

Tranche 2 shares if approved will be issued to a number of parties at an issue price of \$0.0125 being the same price as the previously allotted Tranche 1 shares. It is noted that the same parties who participated in the placement of Tranche 1 shares will take up Tranche 2 shares

- 2) On 16 February 2018 the Company issued 5,000,000 unlisted options exercisable at \$0.03 expiring 31 January 2020 to Baillieu Holst Ltd (or nominee/s) for services rendered to the company for assistance in capital raising.
- 3) On 8 March 2018 the Company announced the appointment of Mr Alex Underwood as an Executive of Empire and a Director and Chief Executive Officer of the Company's wholly owned subsidiary, Imperial Oil & Gas Pty Limited. The addition of Mr Underwood to the Company's executive management team will support the Executive Chairman and the Imperial operations team with the strategic development of the Company's McArthur Basin assets located in the Northern Territory, Australia, as well as assisting the Company to achieve its underlying objective of restructuring its USA balance sheet and the acquisition of additional producing assets. Subject to the Corporations Act 2001 (Cth) and ASX Listing Rules, as a component of Mr Underwood's appointment to partially offset value forgone in his previous employer share plan, the Company will issue Mr Underwood (or nominee) 4,500,000 fully

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017****33. MATTERS SUBSEQUENT TO BALANCE DATE (continued)**

paid ordinary shares (vesting in three equal tranches at 12 month periods) and 6,000,000 options (vesting in two equal tranches of 12 month periods, exercisable at \$0.03 on or before 30 December 2021).

- 4) On 27 March 2018 the Final Report of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory was released. The overall finding of the Inquiry was that, if all its recommendations are implemented in full, the risks associated with fracture stimulation of unconventional reservoirs can be adequately managed, and in some cases eliminated. The Report does not make any recommendations as to whether fracture stimulation of unconventional reservoirs should be allowed, as that decision lies with the Northern Territory Government. However, the Report makes 135 recommendations for the regulation of the onshore shale gas industry, should it be allowed to develop by the Government.
- 5) There were no other matters or circumstances that have arisen since 31 December 2017 that has significantly affected or may significantly affect:
  - the operations, in financial years subsequent to 31 December 2017, of the Empire Group; or
  - the results of those operations; or
  - the state of affairs in financial years subsequent to 31 December 2017 of the Empire Group.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017**

**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 17 to 25, 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 2017 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 Controller for the year ended 31 December 2017.

Signed in accordance with a resolution of the directors.



**B W McLEOD**  
**Director**

**Dated:** 29 March 2018

## Independent Auditor's Report to the Members of Empire Energy Group Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Empire Energy Group Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Material uncertainty related to going concern

We draw your attention to Note 3 'Going concern' of the financial report, which indicates the Group has an excess of current liabilities over current assets of \$35.04m as at 31 December 2017. This is primarily due to the Board determining the debt facilities be classified as current liabilities although the current credit facility does not expire until 17 February 2019. In addition, the Group is also in breach of its loan covenants.

In Note 3, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, if the Group is not successful in securing sufficient additional funds when required, there exists a material uncertainty that may cast significant doubt as to whether the Group will be able to continue as a going concern. Our opinion is not modified in respect of this matter.

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

### How our audit addressed the key audit matter

#### Impairment of oil and gas properties

*Refer to note 14 (Oil and Gas properties and property, plant and equipment)*

At 31 December 2017, the Group has capitalised proved oil and gas assets of \$63.4m. AASB 136 *Impairment of Assets* requires that the recoverable amount of an asset, or cash generating unit to which it belongs, be determined whenever an indicator of impairment exists.

The Group's assessment of the recoverable amount of its producing oil and gas properties was a key audit matter because the carrying value of the assets are material to the financial statements and management's assessment of recoverable amounts incorporate significant internal and external judgements and assumptions including commodity prices, available reserves, residual values and discount rates.

Our procedures included, amongst others:

- Assessing whether the external expert engaged by management to provide independent valuations were appropriately experienced and qualified;
- We evaluated management's key assumptions and estimates used to determine the recoverable amount of its assets, including those related to forecast commodity prices and revenue, costs, discount rates and estimated residual values;
- We checked the mathematical accuracy of the cash flow models, testing inputs from valuation reports produced, as well as external inputs, including spot and forward prices for crude oil (WTI) and gas at the reporting date;
- We assessed the accuracy of management's forecasting by assessing the reliability of historical forecasts and reviewing whether current market conditions would impact those forecasts; and
- Assessing whether appropriate disclosure regarding significant areas of uncertainty has been made in the financial report.

#### Asset retirement obligations

*Refer to note 18 (Provisions)*

The measurement of the provision for Asset Retirement Obligations incorporates significant judgement and uncertainty, with cost estimates varying in response to many factors including changes in technology, legal requirements, discount rates, past experience at other production sites, and estimates of future restoration

Our procedures included, amongst others:

- Evaluating management's process of estimating and measuring the provision for asset retirement obligations;
- Evaluating whether the discount rate applied by management to the forecast cash outflows is appropriate and consistent with the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- We considered the Group's estimates of plugging costs per well, including assessment of whether there have been changes in technology or costs that would materially impact those estimates. We compared the estimates for plugging costs against actual costs incurred in 2017;



Key audit matter	How our audit addressed the key audit matter
<p>costs.</p> <p>The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation.</p> <p>This was a key area of audit focus due to the size and nature of these estimates and their consequential effects on assessing the recoverable amount of producing assets.</p>	<ul style="list-style-type: none"> <li>▪ We considered whether the key assumptions and judgements used in management’s estimates were consistently applied in measuring the asset retirement provision and in assessing the recoverable amount of the related assets; and</li> <li>▪ We performed sensitivity analysis on management’s estimates used in calculating the obligation.</li> </ul>

### Revenue estimates

*Refer to note 5 (Revenue) and note 10 (Trade and Other Receivables)*

Due to timing differences between the delivery of oil and gas and the receipt of the delivery statement from the customers, the Group has recognised accrued revenues of \$1.4m at balance date. These revenues are accrued based on volumetric data from the Group's records and estimated sales prices for the relevant months.

These considerations combined create an area of significant estimation which we have determined to be a key audit matter.

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 31 December 2017, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

### **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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibility for the audit of the financial report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 21 to 23 of the directors' Report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company 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.



**Nexia Sydney Partnership**



**Lester Wills**

*Partner*

Dated: 29 March 2018, Sydney

## SHAREHOLDER INFORMATION

### ORDINARY SHARES

#### a Substantial Shareholders as at 28 February 2018

Name	Number of Shares	% Holding
Global Energy and Resources Development Limited	187,500,000	15.81

#### b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	307	119,314	0.01
1,001 – 5,000	708	1,991,494	0.17
5,001 – 10,000	404	3,029,525	0.26
10,001 – 100,000	808	31,388,145	2.65
100,001 and over	528	1,149,208,698	96.92

<b>Total number of holders</b>	<b>2,755</b>	<b>1,185,737,176</b>	<b>100.00</b>
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i Number of holders of less than a marketable parcel 1,772

ii Percentage held by 20 largest holders 45.81

#### c Twenty Largest Shareholders grouped as at 22 March 2018 (ungrouped)

Name	Number of Shares	% Holding
1 Global Energy and Resources Development Limited	187,500,000	15.81
2 Macquarie Bank Limited <Metals Mining and AG A/C>	53,666,666	4.53
3 Mr Kooi Onn Chye	38,683,625	3.26
4 HSBC Custody Nominees (Australia) Limited	32,060,936	2.70
5 Fanchel Pty Ltd	30,000,000	2.53
6 John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	20,770,002	1.75
7 Rhodes Capital Pty Ltd <McLeod Super Fund A/C>	19,949,999	1.68
8 Mrs Ching Ling Yong	17,250,000	1.45
9 Colowell Pty Ltd <David Dagg Family A/C>	15,717,396	1.33
10 Mr Frank Douglas Magnus	14,279,672	1.20
11 Mr EE Chye Chuan	12,500,000	1.05
12 Low Peng Koon	12,500,000	1.05
13 Ms Geraldine Tan Choon Shan	12,500,000	1.05
14 Soh Chei-Yong + Susie See	12,500,000	1.05
15 Grosvenor Equities Pty Ltd <No 2 A/C>	11,374,505	0.96
16 Citicorp Nominees Pty Limited	11,239,036	0.95
17 Mr Robert Alvarez	10,750,000	0.91
18 Cheoy Lee Yachts Australia Pty Ltd	10,000,000	0.84
19 Elphinstone Holdings Pty Ltd	10,000,000	0.84
20 Mr Liang Kwang Lim + Mrs Jennifer Lynne Lim <Lims Super Fund A/C>	10,000,000	0.84
	<b>543,241,837</b>	<b>45.81</b>

#### 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 INFORMATION (Continued)****UNQUOTED SECURITIES AS AT 23 MARCH 2018**

<b>Class of unquoted securities</b>	<b>No. of securities</b>	<b>No. of holders</b>
- Unlisted options exercisable at \$0.28 expiring 25 August 2019	1,000,000	1
- Unlisted options exercisable at \$0.03 expiring 30 December 2021	13,000,000	9
- options exercisable at \$0.03 expiring 31 January 2020	5,000,000	3
Unlisted Performance Rights subject to certain preconditions being met	2,500,000	1

**Voting Rights**

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

**LIST OF MINERAL LEASES – USA AND AUSTRALIA**

A full list of the mineral (oil & gas) leases and rights of way held by the Company was announced on the Australian Securities Exchange on 29 March 2018. Given the extensive list (66 pages) it was not practical to include this listing in the Annual Report of the Company.

**CORPORATE GOVERNANCE STATEMENT**

The Company's corporate governance statement can be found on the Company's website at the following location:  
<http://empireenergygroup.net/company-overview/corporate-governance>