

Activity Report for the Quarter ended December 2018

ASX RELEASE

EMPIRE ENERGY GROUP LIMITED

31 January 2019

Empire Energy Group Limited (ASX:EEG) (“Empire” or “the Company”) is pleased to provide shareholders with its Quarterly Activity Report for the period ending 31 December, 2018.

HIGHLIGHTS

- 2018 recapitalisation successfully completed during the quarter
- New 3 year debt facility finalised with over 30% reduction in principal from US\$38m to US\$26m
- US EBITDAX was down 55% since last quarter due to investment in the Kansas Production Enhancement Project, volatility in commodity prices and costs associated with the new debt facility
- Strong US operational performance with 24.5% increase in Kansas daily oil production rates from the beginning to the end of the quarter
- US asset optimization process to further reduce debt well advanced
- Northern Territory 2019 exploration program planning well advanced
- Two new Directors appointed

COMPLETION OF RECAPITALISATION

Empire successfully completed the 2018 recapitalisation program during the quarter.

The new 3-year debt facility with Macquarie Bank Limited is now in place with debt reduced by over 30% from US\$38m to US\$26m during the quarter.

At quarter end, Empire had US\$4.2m cash at bank.

Empire’s balance sheet is now in the strongest position it has been in for several years.

Macquarie is now Empire’s largest shareholder with approximately 14.7% of shares on issue.

STRONG US OPERATIONAL PERFORMANCE

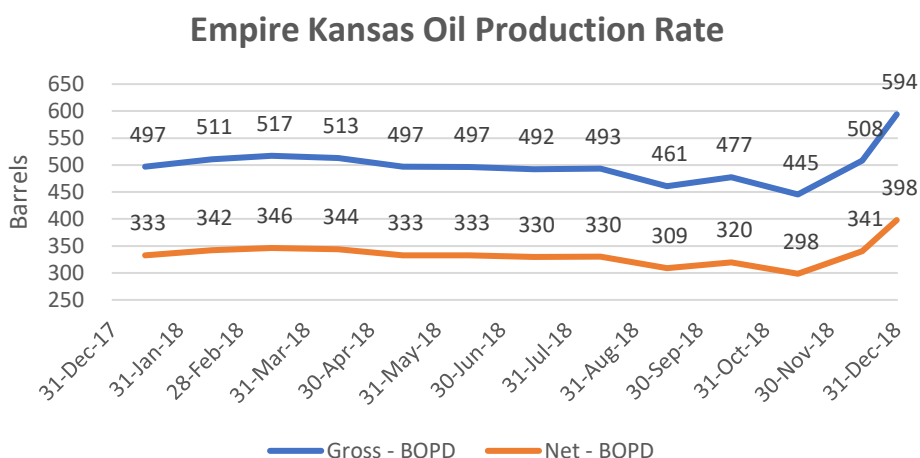
During the quarter, Empire commenced a Production Enhancement Project in Kansas designed to increase oil production rates through measured investment in workovers and recompletions of existing wells.

The results of the Kansas team’s performance in executing the project to date has been outstanding, with the daily oil production rate increasing by 24.5% from the beginning to the end of the quarter. The increase in production over the quarter was achieved despite difficult weather conditions which hampered normal operations.

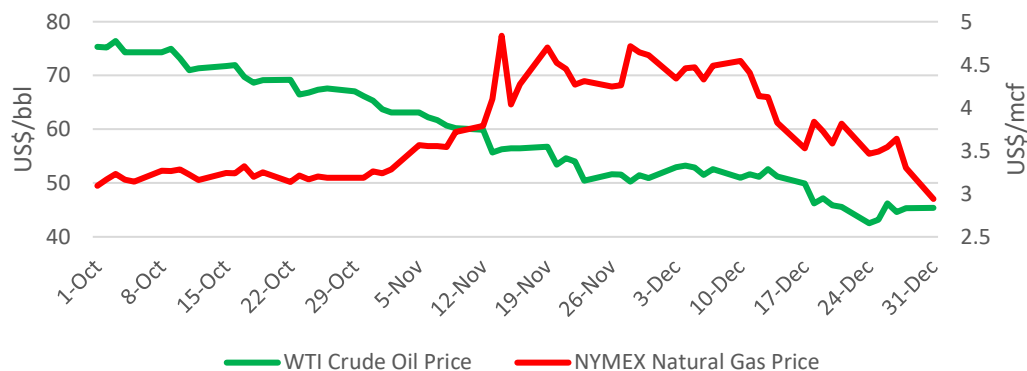
9 wells have been brought online with 3 additional wells to be completed and brought online soon.

These results have been achieved with approximately US\$250,000 invested in the Kansas Production Enhancement Project to date.

The company makes no representation as to the sustainability of the production uplift. The results of the Kansas Production Enhancement Project are expected to reinforce the value of these assets to potential acquirers.



Oil and Gas Prices December 2018 Quarter



The strong operational performance of the US business was heavily impacted by commodity price volatility during the quarter.

Oil revenues fell by ~US\$255,000 due to a 40% fall in oil prices during the quarter. There is a lag of approximately two months between oil production and receipt of revenue, so the positive cash flow impact of the Production Enhancement Program is expected to flow through in Q1 2019.

US natural gas spot prices spiked to the highest levels since 2014 during the quarter reaching a high of US\$4.71 / mmbtu before falling back to below US\$3.00 by the end of the quarter. The December production month has benefited from high gas prices although the impact on revenue won't flow through to the cash flows until Q1 2019.

The hedging program under the new Macquarie debt facility commences in January 2019. Throughout 2019, 9,500 barrels of oil are hedged per month at a fixed WTI price of US\$66.50 per barrel (less quality and transportation differentials). Throughout 2019, 41,500 mmbtu per month of gas is hedged at a fixed NYMEX Henry Hub price of US\$3.45 / mmbtu (less transportation differentials) and 85,000 mmbtu per month hedged with a floor price of US\$2.50 / mmbtu (less transportation differentials) but no cap on price.

US ASSET OPTIMISATION AND FURTHER DEBT REDUCTION PROCESS

A key component of the new Board's strategy is the further reduction of debt through the optimization of the Company's US asset portfolio.

The Kansas Production Enhancement Project is designed to facilitate this.

During the quarter, Empire entered into a number of non-disclosure agreements with parties interested in acquiring part or all of the US assets.

Empire will provide the market with further updates on the US asset sale process in the near future.

NORTHERN TERRITORY UPDATE

During the quarter, Empire's Northern Territory team made material progress on planning for the EP187 2D seismic program. Almost all regulatory approvals have now been received and the seismic program is fully funded. The Company is currently on track to commence seismic acquisition in April / May at the beginning of the Dry Season.

Major operators in the Basin also remain on track for their 2019 fracked horizontal appraisal drilling programs with pre-drill preparations well advanced and drilling rigs being contracted.

2019 is shaping up to be an exciting year for Empire shareholders as we execute on our exploration work programs and major operators release appraisal drilling flow rates.

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

On 8th November 2018, the company announced the appointment of Mr Paul Espie AO and Mr John Gerahty to the Board of Directors.

Mr Paul Espie AO was the founding principal of Pacific Road Capital, a manager of private equity funds investing in the resources sector internationally, in 2006. He was Chairman of Oxiana Limited during the development of the Sepon copper/gold project in Laos (2000 to 2003) and prior to that Chairman of Cobar Mines Pty Ltd after a management buy-out in 1993. Mr Espie was previously responsible for Bank of America operations in Australia, New Zealand and Papua New Guinea and Chairman of the Australian Infrastructure Fund. He has been a Director of several public companies including Aurelia Metals Limited, a Fellow of the Australian Institute of Company Directors, Trustee of the Australian Institute of Mining & Metallurgy, Educational Endowment Fund, and a Director of the Menzies Research Centre.

Mr John Gerahty is a former investment banker and company director with wide experience in business and commerce. He was a Founding Director of Macquarie Bank and has served as a director of a considerable number of publicly listed companies, including roles as Chairman of AFP Group PLC and MPI Mines Ltd. He is currently Chairman of Hardie Grant Pty Ltd publishing group, its major shareholder Associated Media Investments Pty Ltd, and an associated company AMI Advertising Media Pty Ltd. He is also a Director of Kaplan Partners Pty Ltd and Kaplan Funds Management Pty Ltd, as well as his family owned Liangrove group companies. He was formerly a Director (and Chairman) of the Sydney Swans, a Director of Cricket NSW, and a Trustee of the SCG Trust.

REQUISITION OF GENERAL MEETING

On 10th December 2018 Empire received notice under section 249D of the Corporations Act 2001 (Cth), from Global Energy & Resources Development Limited (“GERD”), requesting the directors of Empire call and arrange to hold a meeting of the Company for the purpose of considering resolutions to remove all of the current directors and replace them with GERD’s nominees.

The Extraordinary General Meeting called by GERD is an unwelcome distraction which has required Empire to incur substantial costs which might otherwise have been allocated to Empire’s growth projects.

GERD recently sent a letter to most shareholders which contains a number of inaccurate and misleading representations.

Empire strongly recommends to Shareholders that they read the Notice of Meeting and Proxy Form released to the ASX on 20th December 2018 and sent to all shareholders and the Strategy Update and Letter to Shareholders released to the ASX on 23rd January 2019. Those documents contain important information regarding Empire’s strategy and about the individuals behind GERD and its intention to take control of the Board.

Those Shareholders who have not yet entered proxies are encouraged to do so.

If any shareholders have not received valid proxy forms from the Company, they are encouraged to contact the company on (02) 9251 1846 and a replacement proxy form can be provided.

Shareholders should also be aware of misleading pre-completed proxy forms sent to a number of shareholders designed to mislead through the unauthorized use of Empire letterhead. They contain no reference to GERD but were accompanied by a reply-paid envelope entitled “EEG Proxy, Grosvenor Equities Pty Limited” and a Claremont WA PO Box. If shareholders have received and completed such proxy forms, they are entitled to recast their vote. Replacement proxy forms can be provided by Empire on request.

OPERATING OVERVIEW - EMPIRE ENERGY USA, LLC

Empire Energy USA, LLC is a 100% owned subsidiary of Empire Energy Group Limited.

The Company's US operations generated EBITDA of ~US\$441,000 (a decrease of ~55.5% compared to the previous quarter. EBITDA was negatively impacted by investment in the Kansas Production Enhancement Project, low oil prices and timing differences associated with the lag between increases in gas prices and receipt of revenue expected in Q1 2019, and costs associated with entering into the new debt facility.

During the quarter, Empire Energy USA, LLC received US\$2 million in proceeds of a life insurance policy related to the former CEO's employment. Approximately US\$500,000 of that amount will be paid to the former CEO's estate in Q1 2019 to settle outstanding consulting fees and a termination payment in accordance with the terms of the contract services agreement that had been in place between the former CEO's consulting services company and Empire. The remaining funds will be available for Empire's working capital requirements.

Appalachia (Western New York and Pennsylvania)

The Company's Appalachian operations acquired 26 wells at no cost during the quarter, with these wells producing 2100MCF and 95 base barrels of oil.

Gas prices rose to their highest level in December since May 2014 and are continuing a strong future outlook.

Efforts have been focused on maintaining production and expenses in line with budget projections.

Mid-Continent (Kansas and Oklahoma)

A robust Production Enhancement Project was undertaken beginning mid-November with initial production commencing the first part of December. Several candidates were analyzed for re-completion, acid stimulation and polymer treatment potential. A total of 9 wells were selected in phase one and two of the project with 3 remaining wells to be completed and brought on line. All wells are located in the prolific Central Kansas Uplift.

The Mid-Continent Region produced an average of 478 barrels of oil equivalent per day during the quarter. For the third straight quarter, adverse weather conditions had a negative effect on field operations, hampering maintenance efforts on wells.

The results of the project have been strong with gross daily production increasing from 462 BOPD in October and November to 509 BOPD in December or 15,786 barrels for the month. Gross oil sold in December was 17,099 barrels. December 31st production was at 594 BOPD. Project payout is running as projected despite the recent lower oil prices, with two major activities having paid out.

Production

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Net Revenue:				
Gross Production:				
Oil (Bbls)	49,638	47,989	188,915	191,637
Natural Gas (Mcf)	591,579	571,273	2,306,802	2,313,706
Appalachia	1,437	602	3,765	3,124
Mid-Con	31,479	31,078	122,963	122,785
Total Oil	32,916	31,680	126,728	125,909
Weighted Avg Sales Price (\$/Bbl)				
Before Hedge	59.86	50.66	59.86	45.83
After Hedge	59.86	62.84	59.86	61.63
Natural gas (Mcf)				
Appalachia	459,935	453,090	1,824,556	1,843,050
Mid-Con	2,304	3,373	9,833	9,692
Total Natural Gas	462,239	456,463	1,834,389	1,852,742
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.68	2.32	2.68	2.42
After Hedge	3.24	3.04	3.24	2.99
Oil Equivalent (Boe):				
Appalachia	78,093	76,117	307,858	310,299
Mid-Con	31,863	31,640	124,602	124,400
Total	109,956	107,757	432,460	434,699
Boe/d	1,195	1,171	1,584	1,592
Weighted Avg Sales Price (\$/Boe)				
Before Hedge	28.91	24.70	28.91	23.6
After Hedge	31.29	31.34	31.29	30.61
Lifting Costs (incl. taxes):				
Oil – Midcon (/Bbl)	23.38	24.33	23.38	21.37
Natural gas – Appalachian (/Mcf)	1.18	1.06	1.18	1.17
Oil Equivalent (/BOE)	11.84	11.65	11.84	11.17
Net Back (\$/Boe)	19.45	19.69	19.45	19.44

Financials

All figures are in USD

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Net Revenue:				
A. Oil Sales	1,768,499	1,990,904	7,585,817	7,759,240
B. Natural Gas Sales	1,588,604	1,385,515	5,888,949	5,541,372
Working Interest	-	1,150	58,673	3,566
Net Admin Income	77,534	80,357	319,172	340,406
Other Income	41,189	29,090	195,918	12,409
Total Revenue	3,475,826	3,487,016	14,048,529	13,764,993
Production costs:				
Lease operating expenses – Oil	822,763	630,823	2,827,010	2,477,494
Lease operating expenses – Gas	557,761	550,726	2,059,570	2,050,103
Taxes – Oil	51,895	139,890	135,556	213,647
Taxes – Natural Gas	24,403	(66,581)	97,896	116,748
Total	1,456,822	1,254,858	5,120,032	4,857,992
Field EBITDAX	2,019,004	2,232,158	8,928,497	8,907,001
Less:				
Inventory adjustment	27,954	(13,186)	(20,929)	29,897
C. Reserve Enhancements	235,541	1,420	250,344	3,636
Nonrecurring expenses	223,949	256,351	850,834	810,361
G & G Costs	1,463	3,588	14,240	3,859
Field Overhead	501,000	501,000	2,004,000	2,004,000
Total	989,907	749,173	3,098,489	2,851,753
Operating EBITDAX	1,029,097	1,482,985	5,830,008	6,055,248
Less:				
Field G & A	112,023	161,482	543,795	608,027
D. Corporate G & A	472,347	345,292	1,618,609	1,488,127
Delay rental payments	593	1,367	87,717	94,875
Land Overhead & Non-leasing costs	-	-	55	3,696
Total	584,963	508,142	2,250,176	2,194,725
EBITDAX	444,134	974,843	3,579,832	3,860,523

- A.** Oil revenue was \$255,000 lower than prior quarter due to falling oil prices
- B.** Gas revenue increased by \$90,000 over prior quarter due to rising gas prices
- C.** Production costs increased primarily due to investment in the Kansas Production Enhancement Project during the quarter
- D.** US Corporate G&A was higher due to an additional pay run in the quarter and legal fees associated with the refinancing of the debt facility

Exploration/Acquisition Expenses

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
EBITDAX	444,134	974,843	3,579,832	3,860,523
Less:				
Geological Services	2,723	-	3,989	-
Acquisition related expenses	-	(137,929)	7,196	(75,858)
Capital raise expenses	-	-	-	58,432
Dry hole expenses	-	-	-	-
Total	2,723	(137,929)	11,185	(17,426)
EBITDA	441,411	1,112,772	3,568,647	3,877,949

Net Earnings (Unaudited)

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
EBITDA	441,411	1,112,772	3,568,647	3,877,949
Less:				
Depn, Depl, Amort & ARO	617,640	364,578	2,166,914	2,112,737
Interest	625,510	748,062	3,029,684	2,946,382
(Gain) loss on sale of assets	34,680	125,082	(33,234)	73,591
P&A vs. ARO	(29,008)	89,002	(29,008)	89,002
Bad debts	590	18,393	(54,876)	401,750
Non-Cash & Interest Expenses	1,249,412	1,345,118	5,079,480	5,623,462
Earnings before Tax	(808,001)	(232,346)	(1,510,833)	(1,745,513)
EBITDA/Interest (times)	0.71	1.49	1.18	1.32

Note: US EBITDA does not include receipt of US\$2m proceeds of insurance policy.

Capital Expenditure/Asset Sales

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Capital Expenditures				
Acquisition Capital	-	81,861	47,663	81,811
New Wells - IDC	35,859	(32,589)	343,312	242,444
New Wells - Capital	15,282	-	71,097	161,835
Undeveloped Leases	-	32	126	2,488
Capital Expenditures	51,141	49,304	462,198	488,578

NET INCOME SUMMARY - USA OPERATIONS

The accompanying table is for comparative purposes and consists of unaudited, condensed, consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements, although the Company believes that the disclosures made below are adequate to make the information not misleading.

Description	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Revenues:	3,475,826	3,487,016	14,048,529	13,764,993
Costs & Expenses:				
Production costs & taxes	2,446,728	2,004,031	8,218,520	7,709,745
Depn, Depletion, Amort & ARO	617,640	364,578	2,166,913	2,112,738
General & Administration	587,687	370,214	2,261,363	2,177,298
Income from Operations	(176,229)	748,193	1,401,733	1,765,212
Interest	625,510	748,062	3,029,684	2,946,382
(Gain)/Loss on sale of assets	34,680	125,082	(33,234)	73,591
P&A vs. ARO	(29,008)	89,002	(29,008)	89,002
Bad debts	590	18,393	(54,876)	401,750
Net Income/(Loss)	(808,001)	(232,346)	(1,510,833)	(1,745,513)

IMPERIAL OIL & GAS PTY LTD (100%):

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

Operations

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

Description – US\$	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Exploration Expenses – NT	158,480	65,507	590,682	122,227

Northern Territory exploration program costs increased during the quarter as Imperial progressed regulatory approvals for the 2019 exploration program.

EMPIRE ENERGY GROUP LIMITED

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

Description – US\$	3 months to 31/12/2018	3 months to 31/12/2017	Year-to-Date 31/12/2018	Year-to-Date 31/12/2017
Revenue	40,702	39,440	158,775	112,087
Less Expenses:				
A. Consultants	249,905	67,235	526,271	201,083
Directors/Employment Costs	66,391	49,242	236,946	217,387
Listing Expenses	12,877	11,325	51,249	32,031
B. G&A	142,282	119,022	609,496	397,803
EBITDAX – Head office (EEG)	(430,753)	(207,384)	(1,265,187)	(736,217)
EBITDAX – (EEUS)	444,135	974,843	3,579,833	3,860,523
EBITDAX – GROUP	13,382	767,459	2,314,646	3,124,306

A. Includes \$240,000 to account for termination payment to EPC (Bruce McLeod) to be paid in Q1 2019

B. Includes \$46,425 in relation to the s249D General Meeting called by Global Energy and Resources Development, offset partly by material reduction in corporate overheads including office rent.

Financial Terminology

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

Note Regarding Barrel of Oil Equivalent

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

Note Regarding Reserves

Reserve references in this report have been extracted from the Company’s announcement “2016 Year End Reserves Review” released to the ASX on 20 February 2017. The Company confirms that it is not aware of any new information or data that materially affects the information contained in the announcement 20 February 2017 and that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. Reserves were reported as at 1 January 2017. All volumes presented are net volumes and have had subtracted associated royalty burdens. The probabilistic method was used to calculate P50 reserves. The deterministic method was used to calculate 1P, 2P & 3P reserves. The reference point used for measuring and assessing the estimated petroleum reserves is the wellhead.

Note Regarding Forward- Looking Statements

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

Glossary

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