ANNUAL REPORT

2018

Empire Energy Group Limited
and its controlled entities
ABN 29 002 148 361

CONTENTS

CORPORATE DIRECTORY

Directors
Paul Espie AO (Chairman)
Alexander Underwood (Chief Executive Officer and Managing Director)
John Gerahty
David Sutton
Prof John Warburton (appointed 6 February 2019)
Bruce McLeod (resigned 30 August 2018)
Linda Tang (until 6 February 2019)

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Sydney NSW 2000

US Office
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Australian Auditors
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Sydney NSW 2000

US Auditors
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Pittsburgh PA 15222

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Sydney NSW 2000
Telephone: 1300 85 05 05

Bankers
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Sydney NSW 2000

Australia & New Zealand Banking Group Limited
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Sydney NSW 2000

PNC Bank
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One PNC Plaza
Pittsburgh PA 15222

Financial Controller
Kylie Arizabaleta

Company Secretary
Julian Rockett

Australian Solicitors
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Sydney NSW 2000

US Solicitors
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Houston, TX 77002

Stock Exchange Listings
Australia
Australian Securities Exchange
(Home Exchange Sydney, New South Wales)

ASX Code: EEG

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

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

Our Company is going through a significant period of change as we shift our focus from mature US production assets to the substantial potential of our world class assets in Australia's Northern Territory.

Since the new board took office during the year, we have formalised our strategy for value creation for shareholders. This is to:

1. Further reduce debt through the optimisation of our US assets to focus on our world-class Northern Territory McArthur and Beetaloo Basin position;
2. Build further our Northern Territory asset base focused on upstream oil and gas through strategic investment in the exploration, appraisal and development of our McArthur and Beetaloo Basin assets and potentially others consistent with the capital capacity and potential of Empire Energy and its partners; and
3. Build a Board of Directors and management team with the experience and capability to guide Empire through what we believe will be a significant and sustained period of growth.

We recognise that, as a smaller company with limited cash resources, the preservation of funds to the greatest extent possible is an important element of the execution of our corporate strategy. We invest in our assets in a measured and careful way to maximise the value of the assets while minimising expenditure and preserving cash.

The new team has made substantial progress executing this new strategy as our CEO has elaborated on below.

Australia's East Coast gas market continues to remain very tight and is expected to remain so for several years. Domestic gas prices on Australia's East Coast are approximately double those in the United States of America presently. This is driven by a range of factors, particularly demand from new LNG liquefaction plants in Gladstone, coal seam gas field underdevelopment through environmental policies inter alia restricting the opening of new gas supplies in New South Wales and onshore Victoria.

Meanwhile, demand for LNG from Asia has soared in recent years and we expect this to continue as Asia's major economies continue to grow while seeking cleaner sources of reliable energy.

The emerging onshore shale gas fields of the Northern Territory stand to benefit materially from these market forces. In January 2019, following the commissioning of the Northern Gas Pipeline which connects Tennant Creek in the Northern Territory to Mount Isa in Queensland, gas supplies from the Northern Territory were connected to the supply-constrained East Coast gas markets for the first time. Darwin is already a major LNG liquefaction base with both the LNG plant operated by ConocoPhillips and the Ichthys plant operated by Inpex exporting LNG to Asia.

The Northern Territory Government understands the substantial economic benefits that are derived from responsible petroleum development and is implementing regulations which allow for the recommencement of onshore shale gas development and promotes the development of downstream industries such as LNG liquefaction and petrochemicals in Darwin and elsewhere.

With neighbours adjoining our 14.5 million acres of tenements in the Beetaloo and McArthur Basins, Origin and Santos, expected to drill fracture stimulated horizontal appraisal wells later this year, Empire is uniquely positioned as a smaller ASX listed Company to benefit from the substantial petroleum industry growth expected in the Northern Territory, and market fundamentals in Australia's East Coast and Asia.

Yours sincerely,

Paul Espie AO
Chairman
Empire Energy Group Limited

CHIEF EXECUTIVE OFFICER'S LETTER TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present you with Empire's 2018 Annual Financial Report.

2018 was a year of great change for our Company. Much of this has been well documented in recent correspondence with Shareholders, however I would like to share some of our significant milestones and provide some further insight into our exciting future.

In April 2018, shortly after my appointment, the Northern Territory Government announced that it would be lifting the moratorium on fracture stimulation of onshore shale gas reservoirs.

This increased interest in our Company and its potential. Our Northern Territory assets remain a key focus of our strategy.

During 2018 we were able to reduce outstanding debt by more than 30% from $38 million[1] to $26 million.

This was achieved following a competitive tendering process and was supported by an equity capital raising carried out in August 2018 which was critical to effect the refinancing of the maturing debt facility, and ultimately the longevity of the Company.

After a period of several years during which no principal repayments could be made through cash flows, the Company is now making regular principal repayments from US production cash flows.

Our cash balance at the end of 2018 stood at slightly more than $4 million[2], compared to less than $1 million at the beginning of the year.

In August 2018, our long running CEO and Executive Chairman, Bruce McLeod, resigned from his roles due to an illness which ultimately took his life. The Directors and I would like to recognise Bruce's commitment and contribution to the Company.

<u>Building the right Board of Directors</u>

When I was appointed to this role, we commenced a process to rebuild the Board of Directors and review corporate structure and strategies.

The Board's composition was endorsed by a majority of shareholders who voted at the recent general meeting.

We now have a strong and effective Board of Directors in place which is enabling us to execute our strategy.

<u>Debt Reduction through optimisation of US assets</u>

The operational performance of our US business over the course of 2018 has been positive. Prior to the successful refinancing of our debt facility and recapitalisation, the US management team was severely restricted in its access to capital yet was able to maintain production rates at relatively steady levels. Following the recapitalisation, a limited amount of capital from cash flow was allocated to the Kansas assets to increase production rates. The Kansas team carried out workovers and recompletions on 10 wells from late November 2018 to early January 2019. The results of that program have been strong although partially offset by recent oil price weakness and poor weather conditions which have hampered access to wells and tank batteries.

The primary motivation for carrying out the Kansas program was to validate the value of the Kansas assets to potential acquirers of the Kansas assets. It is my view that the program achieved this goal.

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[1] Empire Group's functional currency is in United States Dollars. All references to dollars are United States Dollars unless otherwise stated.

[2] Shortly after the end of the year, the Company paid approximately $500,000 to the estate of the former CEO and Executive Chairman to discharge termination payment obligations and accrued but unpaid consulting fees.

Over recent months we have commenced our strategy to reduce debt through the sale of US assets to focus on our Northern Territory assets in Australia.

To that end, we have held discussions with several Australian and US based oil and gas companies that are interested in acquiring our US assets. We have received several indicative, non-binding proposals from interested parties. The Board is considering those proposals and will advise shareholders at the appropriate time if we enter into a sale agreement.

The Board has implemented a new methodology for the valuation of the US assets which broadly reflects its view of typical valuations in the US oil and gas sector. This resulted in a non-cash write-down in the carrying value of the US assets of $14.9 million.

A focus on the Northern Territory

As we reach the end of an extended period of industry inactivity in the Northern Territory caused by the fracking moratorium, which was lifted in April 2018, and subsequent regulatory implementation, the immediate future for our Company is exciting.

The shale development revolution that has occurred in the United States over the last decade has created hundreds of billions of dollars of value. The Marcellus Shale located in the Appalachia region of the USA now produces 25% of the USA's natural gas and has strong geological similarities to the Velkerri Shale in the Beetaloo sub-Basin, a significant portion of which extends into our Northern Territory tenements.

The Northern Territory Government is supportive of our industry and is working hard to implement the regulations required for a recommencement of industry investment. It has indicated that the necessary regulations will be in place in the coming weeks to allow regulatory approval requests to drill and complete fracture stimulated horizontal appraisal wells to be submitted.

Recent public statements by Santos, Origin and the Northern Territory Government and associated press coverage indicate that the industry is on track to recommence substantial appraisal activities in the second half of 2019.

Empire Energy is well placed to directly benefit from appraisal drilling programs by Origin and Santos in the Beetaloo sub-Basin. The Middle Velkerri Shale, one of the most prospective shales of the Beetaloo sub-Basin, contains more than 500 TCF of gas in place according to the Northern Territory Geological Survey. Our 100% owned EP187, EP184 and EP(A)188 tenements, which are directly adjacent to the tenement on which Santos will be drilling, contain an independently certified Velkerri Shale prospective resource of up to 3 TCF of recoverable gas equivalent, a substantial resource for a company of our size. Our tenements are highly prospective for not only gas but also petroleum liquids. The presence of liquids in the Velkerri Shale in our tenements is likely to enhance economics.

In addition to the areas referred to above, our Northern Territory assets are also highly prospective for the Barney Creek Shale and Wollongorang Formation in the McArthur Basin Central Trough. These prospective areas, while early in their exploration, appraisal and development, have multibillion barrel of oil equivalent prospective resource potential. We are continuing to progress planning for the exploration of these areas.

Major global oil and gas companies are watching the upcoming Beetaloo Basin work programs with great interest. It is my view that, with appraisal drilling success by our neighbours in the Northern Territory, we will attract substantial capital support from industry players, given the world class scale of our assets and likely continued ramp up in industry activity.

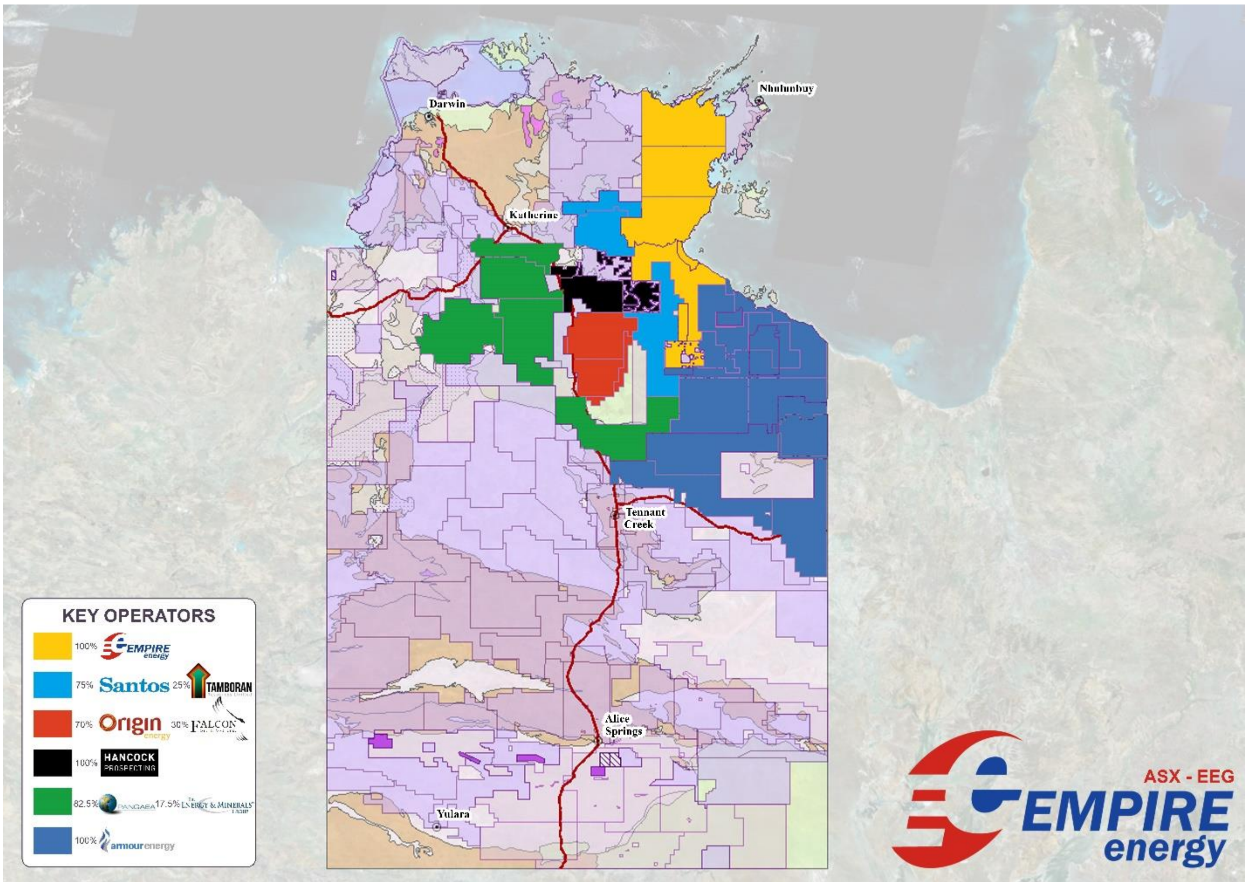
The ingredients for success are coming together and as the only ASX listed company with a material Beetaloo sub-Basin and McArthur Basin footprint, Empire Energy and its shareholders are very well placed to benefit.

I would like to publicly recognise the dedication, hard work and professionalism of our employees, contractors and consultants in Australia and the United States. Their efforts have set a platform for a bright future for our Company.

I thank you for your support and assure you that the Empire team will continue to work tirelessly to unlock the value of our Company's assets and generate strong returns for our Shareholders.

Yours sincerely,

Alex Underwood
Chief Executive Officer
Empire Energy Group Limited



Map detailing major operators in Beetaloo and McArthur Basins

OPERATIONS REVIEW

A. 2018 OVERVIEW & HIGHLIGHTS

Empire Group's functional currency is in United States Dollars. All references to dollars are United States Dollars unless otherwise stated.

GROUP FINANCIAL HIGHLIGHTS

- Group Revenue $14.3 million (2017: $13.9 million)
- Net production 1,185 boe per day (2017: 1,191 boe per day)
- Outstanding debt $26.0 million (2017: $38.0 million)
- Cash at bank $4.1 million (2017: $0.9 million)

AUSTRALIA – NORTHERN TERRITORY

- A Prospective Resource P (50) (**"PRP (50)"**) of ~2.1 billion Boe or ~12.4Tcfe was announced in February 2016 for the Company's Northern Territory 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 12 for definition of Prospective Resource)
- In April 2018, the Northern Territory Government announced that it would lift the moratorium on fracture stimulation of onshore shale gas reservoirs and implement regulations in accordance with the recommendations of the Independent Inquiry into Fracture Stimulation of Onshore Unconventional Reservoirs in the Northern Territory.
- The Company is preparing for a recommencement of industry activity and intends to secure final regulatory approvals to acquire 231 line km 2D seismic in EP187 in the 2019 Dry Season (April – December).
- The Company also intends to recommence the process of securing landholder, Traditional Owner and Government approvals to progress its Exploration Permit Applications (EP(A) 180,181,182,183 and 188) to granted Exploration Permit status. Recommencement of these activities reflects increasing confidence given that the Northern Territory Government's decision to support the onshore shale petroleum industry has provided greater investment certainty.

USA – APPALACHIA & MIDCON

- USA operations continued to trade in challenging market conditions throughout the 2018 characterised by gas prices remaining below $3/mcf for most of the year and oil prices experiencing significant volatility throughout the year.
- The Company's conservative hedging program provided another year of relatively steady earnings. Oil was unhedged throughout the year and approximately 60% of gas production was hedged 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 normal.
- Following the successful refinancing of the maturing debt facility and recapitalisation, the Company carried out a Production Enhancement Program in late 2018 designed to increase production rates in Kansas. The total capital budget of the program of $440,000 was fully funded from free cash flow and has not been fully invested. The program was very successful as demonstrated by the increase in production rates and payback period of approximately two months. The program has been paused while the Company considers proposals to acquire part or all of the Company's US assets to reduce debt.
- Overall field volumes in Kansas have been negatively impacted by very poor weather conditions in late 2018 which are continuing. The primary impact has been from damage to roads which has impacted

OPERATIONS REVIEW (Continued)

access to well sites to export oil and workover some wells. This impact is expected to be reversed once weather conditions improve and has been mitigated by the successful Production Enhancement Program.

- The Company did not carry out any development activities in the Appalachia region as new development drilling is uneconomic at current gas prices. Despite this, the Company maintained production rates on existing wells and acquired a small number of new wells for minimal cost.

- Regional tightness in local gas markets has allowed the Company to enter into new gas marketing agreements with better differentials to NYMEX Henry Hub which are expected to have a positive impact on operating margins.

- Gross oil production 190,000 Bbls (Net 128,000 Bbls) (2017: Gross 192,000 Bbls).

- Gross natural gas production 2.30 Bcf (Net 1.83 Bcf) (2017: Gross 2.31 Bcf).

- Gas reserves increased materially due to improved gas contracts which have extended the expected economic limits the Company's long-life gas producing assets.

- The Company's credit facility was refinanced during the year with a new $26.06 million facility which closed in October 2018 and matures in February 2022. The balance reduced to slightly less than $26 million by the end of the year due to principal repayments made from free cash flow.

INDEPENDENT REVIEW OF OIL & GAS RESERVES

Although the Company assesses its US reserves based on a discount rate of 10%, for Australian reporting purposes the Company has utilised a discount rate of 12%. Reflecting the recent increase in the cost of capital and to align its Australian accounts (IFRS reporting) with its US accounts (GAAP reporting), a 12% discount rate for all reserve cashflow reporting is now utilised.

It is the opinion of the Company's new Board that the appropriate valuation benchmark for its US assets should be the discounted present value of its Proved Developed Producing reserves (whereas previously the Total Proved reserves were used as the valuation basis). This reflects typical trading metrics for mature producing upstream oil and gas assets in the current US M&A market.

This change in valuation methodology has led to an impairment (non-cash) write down of these assets of $14.9 million.

B. OPERATIONS

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

OPERATIONS REVIEW (Continued)

C. OPERATIONS REVIEW – USA

US Operations Key Operating Metrics

Operating Statistics	Notes	Dec 31, 2018	Dec 31, 2017	% change
Gross Production:				
Oil (MBbls)		190	192	-1%
Natural gas (MMcf)		2,299	2,313	-1%
Net Production:				
Oil (MBbls)		128	126	2%
Natural gas (MMcf)		1,828	1,852	-1%
Net production (MBoe):	1.1	**433**	**435**	**-1%**
Net Daily Production (Boe/d):		**1,185**	**1,191**	**-1%**
Average sales price per unit (after hedging):				
Oil ($/Bbl)		$59.71	$61.62	-3%
Natural gas ($/Mcf)		$3.25	$2.99	33%
Oil Equivalents ($/Boe)		$31.40	$30.61	3%
Average sales price per unit (before hedging):				
Oil ($/Bbl)		$59.71	$45.83	30%
Natural gas ($/Mcf)		$2.69	$2.42	11%
Oil Equivalents ($/Boe)		$29.02	$23.61	23%
Lifting Costs (incl taxes):	1.2			
Oil ($/Bbl)		$23.19	$21.36	5%
Natural gas ($/Mcf)		$1.18	$1.17	1%
Oil Equivalents ($/Boe)		$11.85	$11.17	9%
2P Reserves (MMBoe):		**13.8**	**11.6**	**19%**

1.1 **BOE** - based on SEC guidelines of an oil:gas ratio of 1:6.
1.2 **Lifting Costs** - includes lease operating expenses, production and ad valorem taxes but excludes nonrecurring expenses, G&A and field overhead.

D. OPERATIONS REVIEW – USA

Net Production by Region

Operating Statistics	Dec 31, 2018	Dec 31, 2017	% change
Oil (MBbls)			
Appalachia	3	3	-
Mid-Con	124	123	1%
Total (MBbls)	**127**	**126**	**1%**
Natural gas (MMcf)			
Appalachia	1,819	1,843	(1%)
Mid-Con	9	10	(10%)
Total (MMcf)	**1,828**	**1,853**	**(1%)**

OPERATIONS REVIEW (Continued)

E. US CAPITAL EXPENDITURE

Capex *(In $ thousands)*	Dec 31, 2018	Dec 31, 2017
Capital Expenditures		
Acquisition Capital	48	82
New Wells – Drilling and Completion	343	242
New Wells - Capital	71	162
Undeveloped Leases	-	2
Total	**462**	**488**

F. CREDIT FACILITY

The Company reached financial close on a new 3 year Credit Facility with Macquarie Bank Limited on 26 October 2018.

The new facility has the following key terms:

- $26.06 million initial availability
- LIBOR + 650 bps (unchanged)
- 2% upfront fee on total initial availability
- 120 million unlisted options exercisable at A$0.032 per share on or before 31 December 2021
- Maturity Date 28 February 2022
- Repayment through sweep of 100% of US Net Operating Cash Flow (i.e. after payment of operating expenses with an allowance for general and administrative expenses and after interest expenses) subject to a minimum cumulative annual repayment of $2.5m, payable quarterly commencing in May 2019.

Prior to financial close of the new Credit Facility, the Company's loan balance stood at $37.95 million. The reduction in principal amount was effected by a cash repayment of $7.5 million funded from an equity capital raising, and a $4 million conversion of debt to equity by Macquarie Bank Limited.

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2018 was $26.0 million (cf $37.9 million at Dec 2017). Principal repayments made in 2018 and 2017 were ~$11.9 million[1] and ~$2.2 million respectively.

At 31 December 2018, the Company was in breach of the interest coverage covenant under the Credit Facility, which required a ratio of 1.8. This was due to several temporary factors including the fact that the Company's oil production was unhedged in Q4 2018 and therefore impacted by low oil prices (whereas over 90% is hedged at $66.50 / bbl in 2019), poor weather conditions in Kansas which negatively impacted production rates and sales (offset by strong results of the Production Enhancement Program) and a higher loan balance early in the quarter which resulted in higher interest expense than is now incurred on the reduced loan balance. Macquarie Bank Limited formally waived this breach on 26 March 2019.

G. 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.

A summary of the hedging contracts can be found at Note 13 of the Financial Statements.

The fair value (marked to market) of combined oil and gas hedges in place as at December 31, 2018 was $4.3 million[2]. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2018.

[1] Which includes $4.0 million conversion of debt to equity.

[2] Due to increasing commodity prices since 31 December 2018, as at the date of this report, the fair value (marked to market) of combined oil and gas hedges in place has reduced to approximately $1.7 million.

OPERATIONS REVIEW (Continued)

H. 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.

In previous years, the company attributed 3P Possible Reserves volumes and P(50) Prospective Resource volumes to its New York State shale properties. Given that there is a ban on fracture stimulation in New York State which prevents the Company from developing these areas, the Company has elected to reduce these volumes to zero.

Reserves as at December 31, 2018 – USA (NYMEX Strip Dec 28, 2018 including hedges)

Reserves - As of Dec 31, 2018	Oil (Mbbls)	Gas (MMcf)	MBoe	Capex $M	PV0 $M	PV10 $M
Reserves (Reserves)						
Proved Developed Producing	1,700	48,183	6,070	$29	$97,645	$34,337
Proved Developed Non-producing	579	-	476	$1,403	$14,145	$7,340
Proved Behind Pipe	361	-	139	$583	$5,054	$5,054
Proved Undeveloped	1,021	3,597	1,581	$14,807	$31,603	$8,172
Total 1P	**3,660**	**51,781**	**8,266**	**$16,821**	**$157,018**	**$54,904**
Probable	319	6,986	3,368	$8,968	$23,930	$3,986
Total 2P	**3,979**	**52,479**	**11,634**	**$25,798**	**$180,948**	$58,890
Possible	1,752	3,936	2,378	$24,590	$63,185	$11,967
Total 3P	**5,731**	56,415	**106,828**	**$50,388**	**$244,133**	**$70,856**
Prospective Resource P(50) - Aust (NT)	222,000	11,076,000	2,068,000			

USA Reserves by: Graves & Co Consulting
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.
- 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 and 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.

OPERATIONS REVIEW (Continued)

- "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, 2018, were used to calculate reserves and cash flow:

Year	$/Bbl	$/Mcf
2019	46.62	2.96
2020	48.25	2.69
2021	49.30	2.60
2022	50.31	2.64
2023	51.25	2.70
2024	51.84	2.79
2025	52.08	2.89
2026	52.11	3.01
2027	52.03	3.10

I. 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 with abundant indications for the presence of gas and oil

The Independent Prospective Resource estimates attributable to the Company's Northern Territory tenements are set out below:

INDEPENDENTLY CERTIFIED ESTIMATED PROSPECTIVE RESOURCE (Unrisked)					
IDENTIFIED		AREA MM acres	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
Wollogorang Formation	Bcf	1,384	524	1,185	2,371
	MMBO		10	24	47
TOTAL	**MMBOE**		**786**	**2,068**	**4,783**

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

OPERATIONS REVIEW (Continued)

J. BUSINESS RISK

Exploration Risk - Empire and its subsidiaries have interests in assets at various stages of exploration, appraisal and development. Many leases have had very low levels of exploration undertaken to date and may not yield commercial quantities of hydrocarbons. Oil and gas exploration is inherently subject to numerous risks, including the risk that drilling will not result in commercially viable oil and gas production.

Application Risk – A number of Empire's Northern Territory assets are in application stage requiring native title and / or regulatory approvals to be granted as Leases capable of being explored on. Such approvals may or may not be granted which could adversely impact the value of the Company.

Regulatory Risk – Empire has operations spanning several States in the USA and the Northern Territory, Australia. Regulatory approvals are required to explore, appraise, develop and produce from the assets. Where such regulatory approvals are already in place, there is a risk that they could be revoked. Where such regulatory approvals are not in place, there is a risk that they may not be granted.

Debt Facility Risk – Empire, through its US subsidiaries, has debt facilities in place with Macquarie Bank Limited. Whilst Empire has financial flexibility and expects to generate sufficient cash flow to repay the debts in full, there is a risk in the future that financial and other covenants under the debt facilities, could be breached, which could result in Macquarie exercising its security rights under the facilities.

Commodity Price Risk – Empire, through its US subsidiaries, sells oil and gas at market prices to customers who price the products off US benchmark oil and gas markets. Empire is exposed to the risk of material declines in the prices of those commodities. Empire, through its Australian subsidiary, explores for oil and gas in Australia and maybe subject to domestic Australian gas price risk, LNG price risk and oil price risk.

Reliance on Key Personnel – Empire's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the business, financial condition, results of operation and prospects.

Economic Risk – General economic conditions, movements in interest rates, inflation rates and foreign exchange rates, investor sentiment, demand for, and supply of capital and other general economic conditions may have a negative impact on Empire and its subsidiaries ability to carry out its exploration, appraisal, development and production plans.

Environmental Risk – The upstream oil and gas industry is exposed to environmental risks, including the risk of oil and chemical spills, the risk of uncontrolled gas venting, and other material environmental risks. If an environmental incident was to occur, it may result in Empire's subsidiaries' licenses being revoked, its rights to carry on its activities suspended or cancelled, or significant legal consequences.

Title Risk – Interests in tenements in Australia are governed by the respective Territory legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the Company could lose title to or its interest in the Tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Native Title and Aboriginal Land - The Tenements extend over areas in which legitimate common law native title rights of indigenous Australians exist. The ability of the Company to gain access to its Tenements and to conduct exploration, development and production operations remains subject to native title rights and aboriginal land rights and the terms of registration of such title agreements.

Reserves Risk – Reserves assessment is a subjective process that provides an estimate of the volume of recoverable reserves. Oil and gas estimates are not precise and are based on knowledge, experience, interpretation and industry practices. There is a risk that the Company's reserves do not generate the actual revenues and cashflows that are currently being budgeted which could adversely impact the Company.

Services Risk – Empire engages the services of third party service providers to carry out exploration, appraisal, development and operating activities. The cost of such services is subject to very high price volatility, particularly in remote areas. There is a risk that such services may not be able to be provided at a reasonable price, thereby preventing exploration, appraisal, development and operations activities from occurring.

Production Risk – Empire has producing oil and gas assets in the USA. If these assets do not produce the level of production currently budgeted by Empire, then the cashflow they deliver will not materialise. The carrying values of these assets could also be adversely impacted. Production risk has the potential to adversely impact the Company.

OPERATIONS REVIEW (Continued)

Insurance Risk – The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company. Insurance against all risks associated with mining exploration and production is not always available and where available the costs can be prohibitive.

Acquisitions – The Company may decide to pursue potential acquisitions in the future. This may give rise to various operational and financial risks, including, but not limited to, poor integration resulting in higher than expected integration costs, and financial underperformance of the acquired assets. There is also additional risk associated with the Company's inability to identify suitable acquisitions in the future that meet the Company's criteria. This may potentially have an adverse impact on the financial performance of the Company.

Funding Risk – The Company may need future capital in the future to progress the development of its acreage. There can be no guarantee that future capital, whether it be debt or equity, will be available or will be available on attractive terms. The inability to secure future capital, or in the ability to secure future capital on attractive terms, could adversely impact the value of the Company.

K. 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:

Name	*Organisation*	*Qualifications*	*Professional Organisation*
Mel Hainey	*Graves & Co. Consulting LLC*	*BSc*	*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 2018

In respect of the financial year ended 31 December 2018, the Directors of Empire Energy Group Limited ("Company") present their report together with the Financial Report of the Company and of the consolidated entity ("Empire Group"), being the Company and its controlled entities, and the Auditor's Report thereon.

DIRECTORS

The following persons held office as Directors of Empire Energy Group Limited at any time during or since the end of the financial year:

Paul Espie AO	Appointed Non-Executive Chairman 5 February 2019 Appointed Non-Executive Director 8 November 2018
Alexander Underwood	Appointed Managing Director and Chief Executive Officer 30 August 2018 Alternate Director from 23 July 2018 to 30 August 2018
John Gerahty	Appointed Non-Executive Director 8 November 2018
David Sutton	Non-Executive Director Interim Chairman from 30 August 2018 to 5 February 2019
Bruce McLeod	Chief Executive Officer and Executive Chairman Resigned 30 August 2018
Linda Tang	Non-Executive Director Until 6 February 2019
Prof John Warburton	Appointed Non-Executive Director 6 February 2019

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

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of:

The acquisition, development, production, exploration and sale of oil and natural gas. The Empire Group sells its oil and gas products primarily to owners of domestic pipelines and refiners located in Pennsylvania, New York and Kansas.

Reviewing new exploration, development and business opportunities in the oil and gas sector to enhance shareholder value.

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

In November 2018, the Company announced a new strategy focused on the reduction of debt through US asset sales in order to focus on the value creation potential of its Northern Territory assets.

CONSOLIDATED RESULTS

The consolidated net loss of the Empire Group for the financial year ended 31 December 2018 after providing for income tax was $15,867,054 compared to a consolidated net loss for the previous corresponding reporting period of $20,107,246.

The 31 December 2018 net loss after tax reflects a non-cash write-down in the carrying value of the US assets of $14,944,148 in accordance with accounting standards.

REVIEW OF OPERATIONS

For information on a review of the Empire Group's operations refer to the Operations Report contained on pages 8 to 15 of this annual report.

Directors' Report
for the year ended 31 December 2018

DIVIDENDS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

MATTERS SUBSEQUENT TO BALANCE DATE

1) On 12 December 2018, the Company announced that on 10 December 2018 it received notice under section 249D of the Corporations Act 2001 (Cth), from Global Energy & Resources Development Limited ("GERD"), a shareholder owning greater than 5% of the Company's issued capital, requesting the directors of the Company to call and arrange to hold a general meeting of the members of the Company. The purpose was to consider the following resolutions: 1) that each and every one of the present directors be removed from his or her office of director of the Company; 2) that each of Edward Jacobson, Joseph Graham, James Hulme and Bruce Garlick be appointed as a director of the Company.

   On 6 February 2019 an Extraordinary General Meeting was conducted to consider the GERD resolutions.

   Shareholders voted against all resolutions other than the removal of Linda Tang, which shareholders voted in favour of.

2) On 6 February 2019, the Company appointed Professor John Warburton as Non-Executive Director of the Board.

3) On 5 February 2019, the Company appointed Mr Paul Espie AO as Non-Executive Chairman and Mr David Sutton resigned as Interim Chairman and returned to the role of Non-Executive Director.

4) On 6 March 2019, the Company announced that pursuant to its strategy to reduce debt through the sale of US assets, that it had received a number of proposals which the Directors were considering. That process is ongoing and shareholders will be provided further updates at the appropriate time.

5) At 31 December 2018, the Company was in breach of the interest cover covenant under the Credit Facility, which required a ratio of 1.8. This was due to several temporary factors including the fact that the Company's oil production was unhedged in Q4 2018 and therefore impacted by low oil prices (over 90% is hedged at $66.50 / bbl in 2019), poor weather conditions in Kansas which negatively impacted production rates and sales (offset by strong results of workover and recompletion program) and a higher loan balance early in the quarter which resulted in higher interest expense than is now incurred on the reduced loan balance. Macquarie Bank Limited formally waived this breach on 26 March 2019.

INFORMATION ON DIRECTORS

Paul Espie AO, BSc, MBA	Age 74

Non-Executive Chairman
Appointed Non-Executive Director 8 November 2018
Appointed Non-Executive Chairman 5 February 2019

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 is a Director of Aurelia Metals Limited, a Fellow of

Directors' Report
for the year ended 31 December 2018

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.

Special Responsibilities:
Member of Remuneration Committee

Other Current Listed Public Company Directorships:
Aurelia Metals Limited

Former Listed Public Company Directorships in Last 3 Years:
Nil

Alexander Underwood, LLB, BCom (Hons) Age 36
Managing Director and Chief Executive Officer
Appointed Managing Director and Chief Executive Officer on 30 August 2018
Appointed Alternate Director on 23 July 2018 (resigned as Alternate Director on 30 August 2018)

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 Ltd on 6 March 2018.

Mr Underwood has nearly fifteen years of specialist upstream oil and gas investing and financing experience. Previously he spent two years with the Commonwealth Bank of Australia, Singapore as Director of Natural Resources and spent nine years with Macquarie Bank in Sydney and Singapore as Associated Director of Energy Markets Division. He commenced his career at BHP Billiton Petroleum.

Special Responsibilities:
Chief Executive Officer of Imperial Oil & Gas Pty Limited
Managing Member of the Company's 100% wholly owned US subsidiaries

Other Current Listed Public Company Directorships:
Nil

Former Listed Public Company Directorships in Last 3 Years:
Nil

John Gerahty, BCom, MBA Age 76
Non-Executive Director
Appointed on 8 November 2018

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.

Special Responsibilities:
Member of the Audit Committee

Other Current Listed Public Company Directorships:
Nil

Former Listed Public Company Directorships in Last 3 Years:
Nil

Directors' Report
for the year ended 31 December 2018

David Sutton, B.Com ACIS Age 75
Non-Executive Director
Appointed Non-Executive Director 17 January 1997

Mr Sutton has many years' experience as a director of companies involved in share broking and investment banking in Australia and Hong Kong.

He is executive chairman of APC Securities Pty Ltd, a boutique financial services company focusing on the global resource sector.

Prior to his current role he was a partner and director of several ASX participant firms and a member of the Stock Exchange of Melbourne and subsequently Australian Securities Exchange Limited.

Apart from Empire Energy he has been a director of several ASX listed resource companies including Silver Mines Limited. He has also been a director of a number of private mineral exploration companies.

Special Responsibilities:
Member of Audit Committee

Other Current Listed Public Company Directorships:
Nil

Former Listed Public Company Directorships in Last 3 Years
Silver Mines Limited
Precious Metals Investments Limited

Professor John Warburton, PhD, FGS, FPESA, MAICD Age 61
Non-Executive Director
Appointed Non-Executive Director 6 February 2018

John Warburton has 35 years of professional oil and gas experience in operated and non-operated conventional and unconventional petroleum discovery, development and in new business delivery. John has worked in Western Europe, West Africa, Central Asia, Middle East, Pakistan, Papua New Guinea and throughout the Asia Pacific Region including Australia and New Zealand. He has resided as an expatriate in a number of these regions and has a keen focus on people, safety, cultural heritage and environment.

Prof Warburton's career includes 14 years of senior technical and leadership roles at BP. He was Executive General Manager for Exploration & New Business at Eni in Pakistan, and until March 2018 John was Chief of Geoscience & Exploration Excellence at Oil Search Ltd.

Prof Warburton has been a Director of Empire's wholly owned Northern Territory subsidiary, Imperial Oil & Gas Pty Limited ("Imperial"), since 2011 and was its Chief Executive Officer from 2011 to 2014. He continues to serve as a Non-Executive Director of Imperial. In addition, John is Visiting Professor in the School of Earth & Environment at Leeds University UK where he has served eight years on the External Advisory Board of 'Petroleum Leeds', the centre for excellence in Petroleum Engineering & Geoscience.

Special Responsibilities
Non-Executive Director of Imperial Oil & Gas Pty Limited
Member of the Remuneration Committee

Other Current Listed Public Company Directorships:
Senex Energy Limited

Former Listed Public Company Directorships in Last 3 Years:
Nil

Bruce McLeod, B.Sc (Maths), M.Com (Econ) Age 65
Former Executive Chairman
Appointed Executive Chairman 21 May 1996
Resigned 30 August 2018

Mr McLeod had extensive experience in the Australian capital markets. Over the past 25 years he was involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and

Directors' Report
for the year ended 31 December 2018

rationalisation of listed and unlisted companies. Prior to that he spent six years with a major international bank, where he was Executive Director, responsible for the financial and capital markets operations.

Special Responsibilities
Executive Chairman and Chief Executive Officer until 30 August 2018
Member of Audit Committee until 30 August 2018

Other Current Listed Public Company Directorships:
Nil

Former Listed Public Company Directorships in Last 3 Years:
Anson Resources Limited

Linda Tang, MBA (Acct), B.Tech (Acct) Age 37
Non-Executive Director
Appointed Non-Executive Director 2 June 2017
Removed 6 February 2019

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

Special Responsibilities
Member of Remuneration Committee until 6 February 2019
Member of Audit Committee until 6 February 2019

Other Current Listed Public Company Directorships:
Nil

Former Listed Public Company Directorships in Last 3 Years:
Nil

COMPANY SECRETARY

Julian Rockett
Mr Rockett was appointed Joint Company Secretary on 28 March 2019. Mr Rockett is employed by Boardroom Pty Limited in their Corporate Secretarial Services Division. Mr Rockett is a qualified corporate lawyer and an experienced Company Secretary for ASX Listed companies.

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 Chartered Accounting firms specialising in Audit and Assurance Services and holds over 8 years' experience.

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.

Directors' Report
for the year ended 31 December 2018

MEETINGS OF DIRECTORS

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

	Directors' Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
Director	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**	**Attended**	**Held Whilst in Office**
Mr A Underwood	5	5	-	-	-	-
Mr B W McLeod	14	14	-	-	3	3
Mr D H Sutton	14	14	2	2	6	6
Ms L Tang	14	14	2	2	6	6
Mr P Espie	1	1	-	-	-	-
Mr J Gerahty	1	1	-	-	-	-

During the Financial Year, the audit committee comprised Mr McLeod, Mr Sutton and Ms Tang. Mr Sutton and Ms Tang were members of the remuneration committee during the financial year.

Retirement, Election and Continuation in Office of Directors

Mr McLeod resigned as Chief Executive Officer and Executive Chairman on 30 August 2018.

Mr Underwood was appointed Alternate Director on 23 July 2018 until 30 August 2018, then appointed Chief Executive Officer and Managing Director on 30 August 2018. As a new addition to the Board, Mr Underwood will stand for re-election at the Company's next Annual General Meeting.

Mr Sutton was appointed Interim Chairman 30 August 2018 until 6 February 2018, then returned to the role of Non-Executive Director.

Mr Espie AO was appointed Non-Executive Director on 8 November 2018. As a new addition to the Board, Mr Espie will stand for re-election at the Company's next Annual General Meeting.

Mr Gerahty was appointed a Non-Executive Director on 8 November 2018. As a new addition to the Board, Mr Gerahty will stand for re-election at the Company's next Annual General Meeting.

Prof Warburton was appointed a Non-Executive Director on 6 February 2019. As a new addition to the Board, Prof Warburton will stand for re-election at the Company's next Annual General Meeting.

Ms Tang was removed from the Board by a resolution of shareholders at the Extraordinary General Meeting conducted on 6 February 2019.

Remuneration Report – Audited

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

REMUNERATION COMMITTEE

During the Financial Year, the Remuneration Committee reviewed and approved 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
L Tang	Independent Non-Executive Director

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.

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

Directors' Report
for the year ended 31 December 2018

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.

The Chief Executive Officer and Managing Director, Mr Underwood, was appointed to the role on 30 August 2018.

The Remuneration Committee comprising Mr Sutton and Ms Tang considered a remuneration package for Mr Underwood in September 2018 but it was unable to resolve to recommend a remuneration package to the Board.

Consequently, the Chief Executive Officer and Managing Director continued to be remunerated under the terms of a consulting services agreement between his services company and the Company and its subsidiary, Imperial Oil & Gas Pty Limited, from the date of his appointment to the roles of Chief Executive Officer and Managing Director of the Company.

The Board has sought the advice of a leading Australian remuneration consultant regarding the composition of the Chief Executive Officer's remuneration package.

Once a remuneration agreement has been executed, shareholders will be notified. It is likely that the remuneration package will comprise a combination of a cash base salary and performance-based remuneration which may comprise a combination of cash and equity-linked awards.

Performance Based Remuneration

As part of the executives' remuneration packages 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 are assessed annually, with bonuses 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.

The Company is considering implementing a new Share Rights scheme to provide for performance based remuneration to executives of the Company. Any such scheme would be implemented subject to shareholder approval.

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.

The annual limit on remuneration that can be paid to each non-executive director has not increased for many years and is currently under review by reference to market compensation for the non-executive directors of comparable ASX listed companies. If the company resolves to increase this limit, shareholder approval will be sought.

Directors' Report
for the year ended 31 December 2018

	Short term benefits			Post-employment benefits	Long-term benefits			
December 2018	**Cash salary and fees**	**Bonus payments**	**Non-monetary**	**Super contributions**	**Termination Payment**	**Long service leave**	**Share/ option based payments****	**Total $**
Directors								
B W McLeod	253,269	-	15,599	-	362,100*	-	49,328	680,296
A Underwood	210,010	-	-	-		-	57,218	267,228
D H Sutton	-	-	-	14,958	-	-	10,428	25,386
L Tang	14,958	-	-	-	-	-	10,428	25,386
P Espie	2,172	-	-	-	-	-	-	2,172
J Gerahty	2,172	-	-	-	-	-	-	2,172
J Warburton	23,391	-	-	-	-	-	-	23,391
Executives								
A Boyer	219,520	-	72,362	-	-	-	11,957	303,839

* Mr McLeod's services company had a services agreement in place with the Company which provided for termination payments to be made in the event of the termination of Mr McLeod's consulting services agreement. The termination payment made to Mr McLeod's services company was made in accordance with the consulting services agreement, subject to statutory limitations on the quantum of termination payments allowable under the Corporations Act 2001 (Cth).

** 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 using the Black Scholes methodology. 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 $108,884 and the non-cash loss on options relating to the above directors that expired over the year was $53,276. The net non-cash cost of options issued to the above directors and executives for the year was $55,608.

	Short term benefits			Long-term benefits			
December 2017	**Cash salary and fees**	**Bonus payments**	**Non-monetary**	**Super contributions**	**Long service leave**	**Share/option based payments***	**Total $**
Directors							
B W McLeod	365,489(1)	31,063(2)	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
Executives							
A Boyer	219,018	-	63,513	-	-	241	282,772

(1) Includes accrued $145,135 but not paid.

(2) In relation to a bonus issued in December 2014.

* 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 using the Black Scholes methodology. 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).

Directors' Report
for the year ended 31 December 2018

Service Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Bruce McLeod
Former Executive Chairman

Terms of the agreement:

- Agreed management consultant fees of A$507,960 per annum of which A$338,640 was paid up to the date of his resignation (30 August 2018).
- Payment of termination benefits applied and were paid in accordance with the terms of the consulting services agreement. The termination payment made was subject to a cap under the Corporations Act 2001 (Cth) which the Company applied.
- Performance based incentive bonus based on annual performance set against key performance indicators. None were paid in the 2018 Financial Year or are payable in the future.
- Long term incentives occurring up on the monetisation of an asset, this long-term incentive continues beyond term of the agreement. None were paid in the 2018 Financial Year or are payable in the future. Under the terms of the termination payment, Mr McLeod's services company waived its rights to any long-term incentives beyond the date of termination of the consulting services agreement.
- Other benefits include provision of fully maintained motor vehicle and participation in the Company's Director/Employee Share Option Plan. These benefits ceased to be provided to Mr McLeod following his resignation.

The terms of the agreement were approved by the remuneration committee.

Alexander Underwood
Managing Director

Terms of the agreement:

- Agreed management consulting fees of A$27,000 per month.
- Consulting services are provided in respect of Mr Underwood's roles as Chief Executive Officer of Imperial Oil & Gas Pty Limited and as an executive of the Company.
- As at the date of this report, the terms of Mr Underwood's employment agreement for his role as Chief Executive Officer and Managing Director of the Company have not been formalised.
- Award of 4,500,000 sign on shares (of which 1,500,000 are subject to a minimum 12 month service condition and 1,500,000 are subject to a 24 month service condition) issued under Listing Rule 7.1.
- Award of 6,000,000 options under the Employee Share Option Plan (of which 3,000,000 are exercisable at A$0.03 per share on or before 30 December 2021 subject to a 12 month service condition and 3,000,000 are exercisable at A$0.03 per share on or before 30 December 2021 subject to a 24 month minimum service condition).
- Payment of termination benefits apply other than for gross misconduct.
- Potential to earn performance based incentive payments.
- Other benefits include participation in the Company's Director/Employee Share Option Plan.

Since his appointment as Chief Executive Officer and Managing Director, Mr Underwood and the Board of Directors of the Company have been finalising the terms of an employment contract which will replace the existing consulting services agreements in place between the Company, Imperial Oil & Gas Pty Limited and Mr Underwood's consulting services company. Shareholders will be informed of the key terms of Mr Underwood's CEO employment agreement and shareholder approval will be sought for the award of equity-linked incentives to Mr Underwood if required.

John Warburton
Non-Executive Director

There is a consulting services agreement in place between Imperial Oil & Gas Pty Limited and Prof John Warburton's consulting services company for the purpose of Prof Warburton providing technical consulting services to Imperial Oil & Gas Pty Limited and the Company. The consulting services agreement provides for a day rate only. During the 2018 Financial Year it provided for a minimum retainer fee to compensate Prof Warburton for his role as a Non-Executive Director of Imperial Oil & Gas Pty Limited. That retainer has been reduced to zero as Prof Warburton will be remunerated instead in his capacity as a Non-Executive Director of the Company.

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.

Directors' Report
for the year ended 31 December 2018

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 the following options were issued:

17,000,000 options were granted pursuant to the Company's Employee Share Option plan to several employees of the Company. The exercise price of the options is A$0.03 and they are exercisable on or before 30 December 2022.

6,000,000 options were granted pursuant to the service agreement between Alexander Underwood and the Company. As part of his service agreement Mr Underwood was issued:

- 3,000,000 options exercisable at A$0.03 expiring 30 December 2021 and vesting 12 months from grant date
- 3,000,000 options exercisable at A$0.03 expiring 30 December 2021 and vesting 24 months from grant date

At the date of this report there were 37,000,000 unissued shares held under option to Directors and specified executives.

Directors' Interests and Benefits

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

Particulars of Interests in the Issued Capital of the Company

	Direct Interest		Indirect Interest	
Director	**Shares**	**Options**	**Shares**	**Options**
A Underwood	8,000,000	-	9,500,000	8,500,000
D Sutton	1,683,079	2,000,000	-	-
L Tang	-	2,000,000	-	-
P Espie AO	-	-	8,500,000	3,750,000
J Gerahty	-	-	122,450,000	55,625,000
Prof J Warburton	-	-	-	-

End of Audited Remuneration Report

SHARE OPTIONS

Movements

Grant of Options

The following options were granted during the financial year:

Number		Exercise Price A$	Expiry Date
5,000,000	Unlisted options	$0.03	31 January 2020
3,000,000	Unlisted options	$0.03	30 December 2021
3,000,000	Unlisted options	$0.03	30 December 2021
17,000,000	Unlisted options	$0.03	30 December 2022
375,000,000	Unlisted options	$0.03	26 September 2020
10,000,000	Unlisted options	$0.032	31 July 2020
120,000,000	Unlisted options	$0.032	31 December 2021
6,000,000	Unlisted options	$0.03	26 October 2020
539,000,000			

No options were granted during the period since the end of the financial year and upto the date of this report.

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.

Directors' Report
for the year ended 31 December 2018

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 553,000,000. These options are exercisable on the following terms.

Number		Exercise Price A$	Expiry Date
1,000,000	Unlisted option	$0.028*	25 August 2019
13,000,000	Unlisted options	$0.03	30 December 2021
5,000,000	Unlisted options	$0.03	31 January 2020
3,000,000	Unlisted options	$0.03	30 December 2021
3,000,000	Unlisted options	$0.03	30 December 2021
17,000,000	Unlisted options	$0.03	30 December 2022
375,000,000	Unlisted options	$0.03	26 September 2020
10,000,000	Unlisted options	$0.032	31 July 2020
120,000,000	Unlisted options	$0.032	31 December 2021
6,000,000	Unlisted options	$0.03	26 October 2020
553,000,000			

* 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.
- The holder of the Performance Rights is an associated entity of a senior executive of the Company's US subsidiaries, Mr Allen Boyer.

Directors' Report
for the year ended 31 December 2018

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 material 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 2018 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 28 and forms part of the Director's Report for the financial year ended 31 December 2018.

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.

Alexander Underwood
Chief Executive Officer and Managing Director

Sydney 29 March 2019

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

29 March 2019

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 2018, 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

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 2018

	Note	Year ended December 2018 US$	Year ended December 2017 US$
Sales Revenue	5a	14,252,216	13,942,325
Cost of Sales	6	(9,253,241)	(8,357,296)
Gross Profit		4,998,975	5,585,029
Other income	5b	2,303,829	126,409
General and administration expenses		(3,495,862)	(2,978,837)
Exploration expenses		(441,297)	(148,873)
Other non-cash expenses	8a	(16,141,511)	(19,597,489)
Operating Loss before interest costs		(12,775,866)	(17,013,761)
Net interest expense	7	(2,975,717)	(2,966,623)
Loss before income tax expense		(15,751,583)	(19,980,384)
Income tax expense	9a	(115,471)	(126,862)
Loss after income tax expense		(15,867,054)	(20,107,246)
Other comprehensive loss			
Exchange differences on translation of foreign operations		(101,039)	(28,993)
Other comprehensive loss for the year, net of tax		(101,039)	(28,993)
Total comprehensive loss for the year		(15,968,093)	(20,136,239)
		Cents per share	Cents per share
Basic earnings per share	28	(1.05)	(2.13)
Diluted earnings per share	28	(1.05)	(2.13)

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 2018

	Note	As at December 2018 US$	As at December 2017 US$
CURRENT ASSETS			
Cash and cash equivalents		4,157,175	908,318
Trade and other receivables	10	2,613,129	2,397,842
Prepayments	11	402,915	237,237
Inventories	12	626,779	540,706
Financial assets, including derivatives	13	2,311,597	1,265,784
TOTAL CURRENT ASSETS		10,111,595	5,349,887
NON-CURRENT ASSETS			
Financial assets, including derivatives	13	1,662,885	316,935
Oil and gas properties	14	51,738,073	69,614,396
Property, plant and equipment	14	490,344	493,663
Intangible assets	15	68,217	68,217
TOTAL NON-CURRENT ASSETS		53,959,519	70,493,211
TOTAL ASSETS		64,071,114	75,843,098
CURRENT LIABILITIES			
Trade and other payables	16	3,897,813	3,405,031
Interest-bearing liabilities	17	24,378,654	36,976,225
Provisions	18	17,805	12,289
TOTAL CURRENT LIABILITIES		28,294,272	40,393,545
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	17	60,847	-
Provisions	18	14,346,023	15,186,576
TOTAL NON-CURRENT LIABILITIES		14,406,871	15,186,576
TOTAL LIABILITIES		42,406,871	55,580,121
NET ASSETS		21,369,972	20,262,977
EQUITY			
Contributed equity	19	94,071,529	78,415,335
Reserves		6,470,493	5,152,638
Accumulated losses		(79,172,050)	(63,304,996)
TOTAL SHAREHOLDERS' EQUITY		21,369,972	20,262,977

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 2018

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 2017	**78,415,335**	**127,396**	**(98,333)**	**5,123,575**	**(63,304,996)**	**20,262,977**	**20,262,977**
Total Comprehensive income for year							
Profit after income tax	-	-	-	-	(15,867,054)	(15,867,054)	(15,867,054)
Exchange differences on translation of foreign operations	-	-	(101,040)	-	-	(101,040)	(101,040)
Total comprehensive income for the year	**-**	**-**	**(101,040)**	**-**	**(15,867,054)**	**(15,968,094)**	**(15,968,094)**
Transactions with owners, recorded directly in equity							
Issue of ordinary shares	16,628,221	-	-	-	-	16,628,221	16,628,221
Plus: share issue transaction costs	(972,027)	-	-	-	-	(972,027)	(972,027)
Options issued during the year – share-based payments	-	-	-	1,418,895	-	1,418,895	1,418,895
Total transactions with owners	**15,656,194**	**-**	**-**	**1,418,895**	**-**	**17,075,089**	**17,075,089**
Balance at 31 December 2018	**94,071,529**	**127,396**	**(199,373)**	**6,542,470**	**(79,172,050)**	**21,369,972**	**21,369,972**

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 2016	**74,239,177**	**127,396**	**(69,343)**	**5,117,418**	**(43,197,750)**	**36,216,898**	**36,216,898**
Total Comprehensive income for year							
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)
Total comprehensive income for the year	**-**	**-**	**(28,990)**	**-**	**(20,107,246)**	**(20,136,236)**	**(20,136,236)**
Transactions with owners, recorded directly in equity							
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
Total transactions with owners	**4,176,158**	**-**	**-**	**6,157**	**-**	**4,182,315**	**4,182,315**
Balance at 31 December 2017	**78,415,335**	**127,396**	**(98,333)**	**5,123,575**	**(63,304,996)**	**20,262,977**	**20,262,977**

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 2018

	Note	Year ended 31 December 2018 US$	Year ended 31 December 2017 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		16,414,087	13,839,036
Payments to suppliers and employees		(13,585,895)	(11,777,677)
Interest received		1,785	1,976
Interest paid		(2,975,717)	(2,966,623)
Income taxes paid		(115,468)	(126,862)
Net cash flows used in operating activities	27(b)	(261,208)	(1,030,150)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of oil and gas assets		97,560	120,226
Payments for oil and gas assets		(168,071)	(588,714)
Payments for property, plant and equipment		(49,011)	(143,988)
Net cash flows used in investing activities		(119,522)	(612,476)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuing of shares		11,677,098	4,176,158
Repayment of interest bearing liabilities		(7,878,290)	(2,178,743)
Finance lease payments		(14,113)	(27,539)
Net cash flows from financing activities		3,784,695	1,969,876
Net increase/(decrease) in cash and cash equivalents		3,403,965	327,250
Cash and cash equivalents at beginning of financial year		908,318	641,493
Effect of exchange rate changes on cash and cash equivalents		(155,108)	(60,425)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	27(a)	4,157,175	908,318

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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 2018 was authorised for issue in accordance with a resolution of Directors on 29 March 2019.

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 2018 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 2018.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of Empire 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 2018

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 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, contracts exist with customers, control of the assets passes 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 and Gas revenue

Revenue from the sale of oil and gas is recognised when control of the asset has 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.

There are no elements at variable consideration in contracts with customers and prices are determined based on prevailing market sales price data.

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 2018

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Please refer to the page 40 for further commentary on the adoption of AASB 15 Revenue from Contracts with Customers.

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 expected credit loss.

An estimate of expected credit is loss is made based on historic data on collectability and consideration of the credit worthiness of customers. 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Recoverable amount of assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Goods and Services Tax

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

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

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

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

Earnings per share

Earnings per share is calculated by dividing the profit attributable to the owners of Empire 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 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 2018

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

<u>AASB 9 Financial Instruments</u>
AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets. The Group adopted this standard on 1 January 2018.

The Group have evaluated the impacts of the standard and have determined the following:

- The recognition and measurement of derivatives has not changed under AASB 9, being that they are still measured at fair value through profit or loss.
- AASB 9 contemplates an expected credit loss model to reflect the probability and amount of impairment that may be recognised on trade receivables based on anticipated future events. This replaces the 'incurred loss' model under AASB 139, whereby historical events were used to determine the extent of impairment of trade receivables. The transition to an expected credit loss model does not result in a material impact on the Group's provision for trade receivables reflected in the statement of financial position as at 31 December 2018.

Consequently, the adoption of AASB 9 Financial Instruments has not resulted in a material impact on the Group's financial report for the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

AASB 15 Revenue from Contracts with Customers
AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. AASB 15 uses a five-step model to be applied to all contracts with customers.

Under AASB 15, revenue is recognised at an amount that reflects the consideration an entity expects to be entitled to in exchange for providing services or transferring goods to a customer. The Group adopted this standard on 1 January 2018.

Revenue is recognised when the Group transfers the control of goods (being oil and gas) to a customer, at the amount to which the Group expects to be entitled. Revenue from the sale of oil and gas is recognised at a point in time when control of the asset is transferred to the customer, being on delivery of the goods to the customer.

This policy does not result in a material impact arising from the adoption of AASB 15. Accordingly, this does not result in any transitional adjustments to comparative figures.

AASB 15 also requires disclosure to disaggregate revenue to depict the nature, amount, timing and uncertainty of revenue and cash flows and how they are affected by economic factors. As the Group's revenue is recognised at a point in time, earned through the Oil & Gas operating segment, and there are no components of variable consideration, disaggregation disclosure is consistent with that made in the Operating Segments note (Note 25).

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 2018. 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 effective for Annual Periods beginning on or after 1 January 2018

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 this Standard.

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 2018

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 at apart from those involving estimates, which may have the most significant effect on the amounts recognised in the consolidated financial statements:

Reserves base

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production and other capital costs. The current NYMEX forward oil and gas price curves are used for price assumptions. The Empire Group uses suitably qualified persons to prepare annual evaluation of proven hydrocarbon reserves, compliant with US professional standards for petroleum engineers.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped reserves.

The calculation of the UOP rate of depreciation, depletion and amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. Estimates of gas reserve quantities provide the basis for calculation of depletion, depreciation and amortisation and impairment, each of which represents a significant component of the consolidated financial statements.

These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions, and unforeseen operational issues.

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 2018

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 $17.8m. This is primarily due to the Board determining the debt facilities be classified as current liabilities although the current credit facility expires on 28 February 2022. Net assets are $21.7m.

At December 31, 2018 the Group had breached the interest cover financial covenant on its borrowings with Macquarie Bank. The interest coverage ratio was below the required 1.8. Refer to Note 17. This was due to a number of temporary factors including the fact that oil production was unhedged in Q4 2018 during a period of low oil prices (90% of forecast oil production hedged at $66.50 / bbl in 2019), poor weather in Kansas which negatively impacted oil production and sales (partly offset by strong results of production enhancement program) and higher previous loan balance than currently prevails incurring higher interest expense. Macquarie Bank Limited formally waived this breach on 26 March 2019.

On the 6 August 2018 the Company announced that it had successfully refinanced its existing credit facility with Macquarie and executed a two tranche placement to sophisticated and institutional investors, with strong support from existing major shareholders. As part of the credit facility refinancing, Macquarie Bank agreed to convert $4 million of the existing credit facility to equity at the Equity Raising price ("the Debt to Equity Conversion").

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

3. GOING CONCERN (Continued)

In conjunction with the new credit facility and Debt to Equity Conversion, the Company successfully carried out a two tranche A$15 million placement of shares to sophisticated and institutional investors. The Equity Raise received strong support from existing major shareholders, new sophisticated investors and new institutional investors.

Based on the above 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, in that circumstance, the Group is able to reduce its discretionary expenditures so as to meet payment obligations arising over the next 12 months from cash reserves.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Empire Group's principal financial instruments, other than derivatives comprise bank loans, 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 2018 the Empire Group did not hedge any of its oil (2017: 98%) production and 63% of its total gas production (2017: 63%).

During the 2018 Financial Year, the Group hedged approximately 63% of gas production at a fixed price of $4.11/Mcf (referenced to NYMEX Henry Hub).

In accordance with the terms of the debt facility it entered into with Macquarie Bank Limited in August 2018, the company entered into new oil and gas hedges which hedge approximately 90% of forecast oil and gas production in 2019, approximately 80% of forecast oil and gas production in 2020 and approximately 25% of forecast oil and gas production in 2021. Details can be found in Note 13 to the Financial Statements.

(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 2018 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 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 2018.

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 2018

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
31 December 2018						
Financial Assets						
Cash and cash equivalents	1.25	4,157,175	-	-	-	4,157,175
Trade and other receivables		-	-	-	2,613,129	2,613,129
Financial assets		-	-	-	3,974,482	3,974,482
		4,157,175	-	-	6,587,611	10,744,786
Financial Liabilities						
Trade & other payables		-	-	-	3,897,813	3,897,813
Interest-bearing liabilities	9.02	-	24,378,654	60,847	-	24,439,501
		-	24,378,654	60,847	3,897,813	28,337,314

	%	Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
31 December 2017						
Financial Assets						
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
Financial Liabilities						
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

(iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2018, had the NYMEX WTI and Henry Hub prices increased/decreased by 10% and 10% respectively, with all other variables held constant, the Empire Group's post-tax profit for the year would not materially change due to the extent of effective hedging of oil and gas production. Equity would not have materially changed under either scenario.

The directors do not expect any reduction in interest rates during 2019. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately $250,000.

(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 2018

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

	2018 $	2017 $
Trade, other receivables, and derivatives	6,587,611	3,977,561

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

	2018 $	2017 $
Australia	-	-
United States of America	6,587,611	3,977,561

(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. 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 $	Carrying Amount $	Contractual Cash flows $	1 year $	1-5 years $
31 December 2018					
Non Derivatives					
Current					
Trade and other payables	3,893,813	3,893,813	3,893,813	3,893,813	-
Interest bearing liabilities	24,378,654	24,378,654	25,977,421	2,500,000	23,477,421
Non-current					
Interest bearing liabilities	60,847	60,847	60,847	-	60,847
Derivatives					
Financial asset	(3,974,482)	(3,974,482)	(3,974,482)	(2,311,597)	(1,662,885)
Financial liability	25,977,421	24,041,894	-	2,500,000	23,477,421

Maturity Analysis	Fair Value $	Carrying Amount $	Contractual Cash flows $	1 year $	1-5 years $
31 December 2017					
Non Derivatives					
Current					
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	-
Derivatives					
Financial asset	(1,582,719)	(1,582,719)	(1,582,719)	(1,265,784)	(316,935)
Financial liability	37,946,561	36,976,225	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(D) EQUITY RISK

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 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 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 2018

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Consolidated 31 December 2018	Level 1	Level 2	Level 3	Total
Assets				
Fair value of derivatives	-	3,974,482	-	3,974,482
Total assets	-	3,974,482	-	3,974,482
Liabilities				
Fair value of derivatives	-	-	-	-
Total liabilities	-	-	-	-

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

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

	2018 $	2017 $
a. Sales revenue		
Revenue from oil and gas sales	13,547,590	13,205,070
Revenue from well operations	704,626	737,255
	14,252,216	13,942,325
b. Other income		
Interest income	1,785	1,976
Rental income	6,110	11,554
Insurance proceeds	2,004,700	-
Other income	291,234	112,879
	2,303,829	126,409

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

	2018 $	2017 $
6. COST OF SALES		
Oil and gas production	9,253,241	8,357,296
	9,253,241	8,357,296
7. INTEREST EXPENSE		
Interest paid/payable on financial liabilities	2,975,717	2,966,623
	2,975,717	2,966,623

8. EXPENSES

a. Other non-cash expenses		
Leasing expiration expenses (note 8c)	142,500	142,500
Impairment of assets (note 8c)	14,944,148	13,654,019
Depreciation, depletion and amortisation	1,717,522	2,943,375
Finance costs (note 8b)	1,490,520	1,032,139
Unrealised derivative movement	(2,391,765)	1,701,185
Other expenses	238,586	124,271
Total other expenses	16,141,511	19,597,489
b. Finance expenses (non-cash)		
Accretion of asset retirement obligation (note 18)	526,706	502,900
Unwind of discount of debt	963,814	529,239
Total finance costs (non-cash)	1,490,520	1,032,139
c. (Loss)/Profit before income tax includes the following specific expenses:		
Depreciation, depletion and amortisation		
Oil & Gas properties and plant & equipment (note 14)	1,717,522	2,943,375
	1,717,522	2,943,375
Employee benefits expense		
Defined contribution superannuation expense	15,024	17,911
Other employee expenses	4,226,017	4,072,760
Total employee benefits expense	4,241,041	4,090,671
Impairment expense[(a)]		
(Write-back)/Impairment of additional asset retirement obligation	(1,642,361)	1,832,503
Impairment of available for sale financial assets and receivables	-	75,553
Impairment of property plant & equipment	16,586,509	11,745,963
Total impairment expense	14,944,148	13,654,019
(Gain)/Loss on disposal of property, plant & equipment	(33,234)	76,675
Leasing expiration expense [(b)]	142,500	142,500

(a) Impairment expense
For the period 31 December 2018, the Company wrote down the oil and gas properties by $16,586,509 due to evidence of impairment. Furthermore, a decrease in the asset retirement obligation of $1,642,361 resulted from a change in the discount rate reflecting the current commercial bond rate and was recognised as an impairment write back.

(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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

9. INCOME TAX

	2018 $	2017 $
a. Income tax expense		
Current tax	115,471	126,862
Deferred tax	-	-
Income tax benefit attributable to continuing operations	115,471	126,862
b. Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax	(15,414,823)	(19,980,385)
Tax at the Australian tax rate of 27.5% (2017: 27.5%)	(4,239,076)	(5,494,606)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Non-deductible expenses		
Withholding tax paid	101,427	51,737
Deferred tax asset in relation to tax losses and temporary differences (utilised)/not recognised	3,929,067	5,104,314
Effect of difference in overseas tax rates	324,051	465,417
Income tax benefit	115,471	126,862
c. Deferred tax assets not recognised relate to the following:		
Tax losses	918,262	5,055,843
Capital losses	141,410	141,410
Other	5,010,435	455,174
	6,070,107	5,652,427

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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 2018.

	2018 $	2017 $
e. Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Forward commodity contracts	997,731	397,317
Oil & Gas and Property, Plant & Equipment	4,567,585	5,531,403
Other	630,369	65,069
	6,195,685	5,993,789
Set-off of deferred tax liabilities pursuant to set-off provisions (note f)	(6,195,685)	(5,993,789)
Net deferred tax liabilities	-	-
f. Deferred tax assets		
The balance comprises temporary differences attributable to:		
Accrued asset retirement obligation	666,886	1,195,977
Oil & Gas and Property, Plant & Equipment	4,004,892	3,689,006
Other	1,523,907	1,108,806
	6,195,685	5,993,789
Set-off of deferred tax assets pursuant to set-off provisions (note e)	(6,195,685)	(5,993,789)
Net deferred tax assets	-	-

10. TRADE AND OTHER RECEIVABLES

	2018	2017
Current		
Trade receivables	2,530,179	2,367,081
Other	82,950	30,761
	2,613,129	2,397,842

11. PREPAYMENTS

	2018	2017
Prepayments	402,915	237,237

12. INVENTORIES

	2018	2017
Crude oil and production supplies	626,779	540,706

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

13. FINANCIAL ASSETS, INCLUDING DERIVATIVES

	2018 $	2017 $
Current		
Oil and gas price forward contracts	2,311,597	1,265,784
Non-current		
Oil and gas price forward contracts	1,662,885	316,935

Commodity hedge contracts outstanding are outlined below.

2018 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2017 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	**Swap Price**	**Premium**	**Product**		**Period**	**Swap Price**	**Premium**	**Product**	
Jan 19 – Dec 19	3.45	-	420,000	mmbtu	Jan 18 - Dec 18	4.75	-	54,000	mmbtu
Jan 19 – Dec 19	3.45	-	78,000	mmbtu	Jan 18 - Dec 18	4.75	-	456,000	mmbtu
-	-	-	-	-	Jan 18 - Dec 18	3.45	-	420,000	mmbtu
-	-	-	-	-	Jan 18 - Dec 18	3.45	-	78,000	mmbtu
-	-	-	-	-	Jan 19 - Dec 19	3.45	-	420,000	mmbtu
-	-	-	-	-	Jan 19 - Dec 19	3.45	-	78,000	mmbtu
2018 OIL - WTI – NYMEX - Swaps					**2017 OIL - WTI – NYMEX – Swaps**				
Jan 20 – Dec 20	$66.50	-	108,000	bbl	-	-	-	-	-
Jan 21 – Dec 21	$64.00	-	96,000	bbl					
Jan 22 – Dec 22	$60.00		24,000	bbl	-	-	-	-	-

2018 NATURAL GAS - HENRY HUB - NYMEX - Floors				
Period	**Floor Price**	**Premium**	**Product**	
Jan 20 – Dec 20	$2.50	$0.23	1,020,000	mmbtu
Jan 21 – Dec 21	$2.50	$0.23	1,440,000	mmbtu
Jan 22 – Dec 22	$2.50	$0.23	300,000	mmbtu

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

14. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in $							
At 1 January 2018	119,028,365	6,443,729	30,591	328,948	896,420	608,376	127,336,429
Additions	181,308	37,503	-	2,850	22,800	84,208	328,659
New asset retirement obligation	321,539						321,539
Write-back of asset retirement obligation	(1,688,798)	-	-	-	-	-	(1,642,361)
Sale of wells	(65,899)						(25,134)
Expiration costs	-	(142,500)	-	-	-	-	(142,500)
At 31 December 2018	117,776,505	6,338,732	30,591	331,798	919,220	692,584	126,089,430
Accumulated Depreciation in $							
At 1 January 2018	(55,616,054)	-	-	(86,044)	(717,849)	(542,696)	(56,962,643)
Depreciation and depletion	(1,608,357)	-	-	(8,246)	(70,033)	(30,886)	(1,717,522)
Write-off sale of wells	41,748	-	-	-	-	-	41,748
Write-off plugged wells	6,655	-	-	-	-	-	6,655
Impairment	(14,944,148)	-	-	-	-	-	(14,944,148)
At 31 December 2018	(72,120,156)	-	-	(94,290)	(787,882)	(573,582)	(73,575,910)
Opening written down value	**63,412,311**	**6,202,085**	**30,591**	**242,904**	**174,704**	**45,464**	**70,108,059**
Impact of foreign currency adjustments	**-**	**(257,007)**	**-**	**-**	**(4,046)**	**(24,049)**	**(285,101)**
Closing written down value	**45,656,348**	**6,081,725**	**30,591**	**237,508**	**127,292**	**94,953**	**52,228,417**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in $							
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
Accumulated Depreciation in $							
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
Write-back of impaired assets	(13,578,466)	-	-	-	-	-	(13,578,466)
At 31 December 2017	(55,616,054)	-	-	(86,044)	(717,849)	(542,696)	(56,962,643)
Opening written down value	**77,622,948**	**6,320,225**	**30,591**	**253,591**	**108,086**	**95,604**	**84,431,045**
Impact of foreign currency adjustments	**-**	**(241,644)**	**-**	**-**	**(3,867)**	**(20,216)**	**(265,727)**
Closing written down value	**63,412,311**	**6,202,085**	**30,591**	**242,904**	**174,704**	**45,464**	**70,108,059**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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

At 31 December 2018, 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 2018 are:

Oil and gas assets	Subsurface assets $	Recoverable amount $
Kansas	33,765,102	18,182,620
Appalachia	26,393,956	12,686,266
Total	60,159,058	30,868,886

The pre-tax discount rate that has been applied to the above oil and gas assets is 12% (2017: 10%).

	2018 $	2017 $
15. INTANGIBLE ASSETS		
Goodwill	68,217	68,217
	68,217	68,217
16. TRADE AND OTHER PAYABLES		
Current		
Trade creditors	3,869,141	3,366,359
Other creditors	28,672	38,672
	3,897,813	3,405,031
17. INTEREST-BEARING LIABILITIES		
Current		
Finance lease liability	10,002	-
Bank loan - secured	24,368,652	36,976,225
	24,378,654	36,976,225
Non-current		
Finance lease liability	60,847	-
Bank loan – secured	-	-
	60,847	-

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.

On 6 August 2018 the Company announced that it had successfully refinanced its existing credit facility with Macquarie Bank Limited. As part of the credit facility refinancing, Macquarie agreed to convert $4 million of the existing credit facility to equity at the Equity Raising price ("the Debt to Equity Conversion") and provide a new 3 year credit facility through to 28 February 2022.

The new credit facility reached financial close on 26 October 2018.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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 28 February 2022, consisting of a single tranche term loan facility with an opening availability of $26,060,000.

Uses of credit facility:

Term Loan:	To refinance the existing secured loan facilities with Macquarie Bank Limited.

Credit facility structure

Term Loan:	Borrowing base limit	$26,060,000
	Current portion payable	$2,500,000 minimum annual amortisation payable in quarterly instalments
	Interest rate	LIBOR+6.5%
	Availability (1)	$26,060,000
	Maturity	28 February 2022
	Repayment	100% of Net Operating Cash Flow of US operations after operating costs, G&A and interest subject to minimum $$2.5 million per annum

Other features of the credit facility:

- Outstanding borrowings under the facility are secured by the US assets of the Company and a pledge of the Company's shareholding in Imperial Oil & Gas Pty Limited. The facility is guaranteed by the Company.
- Reserve Assessment of 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). 1.3x PDP PV10 coverage to net loan (after adjustment for cash & hedges). 1.0x Current Ratio. 1.8x EBITDA/Interest Ratio.
Upfront Fees:	2.0% on draw down amount. 120m options exercisable at A$0.032 (refer to Note 19) on or before 31 December 2021

The Group breached the EBITDA/Interest ratio at 31 December 2018. Macquarie Bank Limited has waived the breach. Please refer to Note 3 for further details.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

17. INTEREST-BEARING LIABILITIES (Continued)

Amendments to Credit Facility:

On 26 October 2018, the Company entered into a Third Amendment to the Credit Facility. This required a principal payment of $7,500,000 which was made in accordance with the Third Amendment.

Under the terms of the Loan Facility ("Facility"), Empire Energy USA, LLC allocates 100% of monthly free cash flow (after operating costs, overheads and interest) to repay principal outstanding. Principal repayments are subject to cumulative minimum quarterly amortisation of U$625,000 (to achieve minimum repayments of $2.5 million per annum).

A summary of period end debt is as follows:

	2018 $	2017 $
Facility	22,997,421	34,946,561
Revolver	3,000,000	3,000,000
Sub-Total	25,997,421	37,946,561
Less deferred financing costs, net	(1,628,769)	(970,336)
	24,368,352	36,976,225
Finance Lease Liability	70,850	-
Total Debt	24,439,501	36,976,225

18. PROVISIONS	2018 $	2017 $
Current		
Employee entitlements	17,805	12,289
Non-current		
Asset retirement obligations	14,346,023	15,186,576
Movement in Asset Retirement Obligation		
Balance at beginning of the period	15,186,576	12,902,647
Additions for the period	321,539	7,467
Write-off accrued plugging costs	(46,437)	(58,941)
Accretion expense for the period, included in finance costs	526,706	502,900
Change in estimate[a]	(1,642,361)	1,832,503
Balance end of the period	14,346,023	15,186,576

[a] ($1,642,361) is due to an increase in the discount rate (2017: $1,832,503 was is due to a decrease in the discount rate and change in effective life estimate.

Asset Retirement Obligation

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

19. CONTRIBUTED EQUITY	2018 $	2017 $
a) Shares		
Issued Capital		
Balance at beginning of period	78,415,335	74,239,177
Movement in ordinary share capital		
- Issue of 236,538,079 fully paid ordinary shares in January 2017 @$0.008 pursuant to a Pro-Rata Rights Issue	-	1,445,342
- Issue of 196,175,000 fully paid ordinary shares in February 2017 being shortfall shares to the Pro-Rata Rights Issue	-	1,209,850
- Issue of 17,693,153 fully paid ordinary shares in February 2017 in lieu of cash payment for fees and services rendered	-	108,806
- Issue of 37,750,000 fully paid ordinary shares in February 2017 as a private placement to raise funds	-	232,148
- Issue of 74,222,500 fully paid ordinary shares in May 2017 as a private placement to raise funds	-	448,838
- Issue of 187,500,000 fully paid ordinary shares in June 2017 as a private placement to raise funds	-	1,108,500
- Issue of 13,544,567 fully paid ordinary shares in June 2017 in lieu of cash payment for fees and services rendered	-	82,351
- Issue of 73,000,000 fully paid ordinary shares in February 2018 as a private placement to raise funds	726,806	-
- Issue of 2,000,000 fully paid ordinary shares in February 2018 as a private placement to raise funds	19,515	-
- Issue of 75,000,000 fully paid ordinary shares in April 2018 as a private placement to raise funds	726,656	-
- Issue of 4,500,000 fully paid ordinary shares in April 2018 in lieu of services rendered	43,701	-
- Issue of 189,785,575 fully paid ordinary shares in August 2018 as a private placement to raise funds	2,782,636	-
- Issue of 560,214,425 fully paid ordinary shares in September 2018 as a private placement to raise funds	8,328,907	-
- Issue of 297,847,000 fully paid ordinary shares in October 2018 as partial replacement of debt	4,000,000	-
Less costs associated with the share issues detailed above	(972,027)	(459,677)
Balance as at 31 December 2018	94,071,529	78,415,335

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

19. CONTRIBUTED EQUITY (continued)

b) Shares	2018 No. of shares	2017 No. of shares
Issued shares		
Balance at beginning of period	1,110,737,176	347,313,877
Movement in ordinary share capital		
- 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
- Issue of 73,000,000 fully paid ordinary shares in February 2018 as a private placement to raise funds	73,000,000	-
- Issue of 2,000,000 fully paid ordinary shares in February 2018 as a private placement to raise funds	2,000,000	-
- Issue of 75,000,000 fully paid ordinary shares in April 2018 as a private placement to raise funds	75,000,000	-
- Issue of 4,500,000 fully paid ordinary shares in April 2018 in lieu of services rendered	4,500,000	-
- Issue of 189,785,575 fully paid ordinary shares in August 2018 as a private placement to raise funds	189,785,575	-
- Issue of 560,214,425 fully paid ordinary shares in September 2018 as a private placement to raise funds	560,214,425	-
- Issue of 297,847,000 fully paid ordinary shares in October 2018 as partial replacement of debt	297,847,000	-
Balance as at 31 December 2018	2,313,084,176	1,110,737,176

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

19. CONTRIBUTED EQUITY (continued)

Share Options

Movements

Granted
5,000,000 options were granted to each of the Joint Lead Managers of the February 2018 capital raising in partial consideration of the provision of services to the Company. The exercise price of the options is A$0.03 and they are exercisable on or before 31 January 2020.

17,000,000 options were granted pursuant to the Company's Employee Share Option plan to several employees of the Company. The exercise price of the options is A$0.03 and they are exercisable on or before 30 December 2022.

6,000,000 options were granted pursuant to the service agreement between Alexander Underwood and the Company. As part of his service agreement Mr Underwood was issued:
- 3,000,000 options exercisable at A$0.03 expiring 30 December 2021 and vesting 12 months from grant date
- 3,000,000 options exercisable at A$0.03 expiring 30 December 2021 and vesting 24 months from grant date

375,000,000 options granted to certain sophisticated and professional investors pursuant to a capital raising in September 2018. The exercise price of the options is A$0.03 and they are exercisable on or before 26 September 2020.

10,000,000 options granted to the Joint Lead Managers of the August 2018 capital raising in partial consideration of the provision of services to the Company. The exercise price of the options is A$0.032 and they are exercisable on or before 31 July 2020.

120,000,000 options granted to Macquarie Bank Limited in accordance with the terms of the new credit facility. The exercise price of the options is A$0.032 and they are exercisable on or before 31 December 2021.

6,000,000 options were granted to certain sophisticated and professional investors pursuant to a capital raising in October 2018. The exercise price of the granted options was A$0.03 expiring 26 October 2020.

Exercise of Options
No options were exercised during the financial year 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:

Shares
- 2,313,084,176 (2017: 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

19. CONTRIBUTED EQUITY (continued)

Options

At balance date the Company had 552,000,000 (2017: 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 option	$0.028	25 August 2019
13,000,000	Unlisted options	$0.03	30 December 2021
5,000,000	Unlisted options	$0.03	31 January 2020
3,000,000	Unlisted options	$0.03	30 December 2021
3,000,000	Unlisted options	$0.03	30 December 2021
17,000,000	Unlisted options	$0.03	30 December 2022
375,000,000	Unlisted options	$0.03	26 September 2020
10,000,000	Unlisted options	$0.032	31 July 2020
120,000,000	Unlisted options	$0.032	31 December 2021
6,000,000	Unlisted options	$0.03	26 October 2020
553,000,000			

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 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.
- The holder of the Performance Rights is an entity associated with a senior US executive of the Company, Mr Allen Boyer.

20. RESERVES

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of equity investments 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 2018

21. CONTINGENT LIABILITIES

Empire 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 legal proceedings arising out of the normal conduct of its US 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 2018, 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

There are no contingent assets as at the date of this annual report.

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 2018.

i) Equipment and Operating Leases	**2018** **$**	**2017** **$**
Commitments in relation to equipment/motor vehicle leases contracted for at and subsequent to the reporting date but not recognised as liabilities:		
Not later than one year	268,490	257,536
Later than one year not later than two years	193,490	232,536
Later than two years not later than five years	163,000	261,536
More than five years	-	-
	624,980	751,608

The Company leases its 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 $51,000 and $55,000, for the years ended 31 December 31, 2018 and 2017 respectively. The Kansas headquarters four-year lease agreement is of monthly payments ranging from $2,853 to $2,945 through April 2021. The net rental expense approximated $34,000 for the years ended December 31, 2018 and 2017.

The Company leases trucks under an operating agreement. The term of the agreement begins upon the delivery of each truck and last for a period of up to 48 months, Lease payments in 2018 and 2017 were approximately $194,000 and $239,000 respectively. The Empire Energy 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 2018

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.

24. SHARE BASED PAYMENTS

Year Ending – 31 December 2018
During the 2018 financial period the following share based payments occurred:

The Company granted 4,500,000 ordinary fully paid shares to Mr A Underwood under the terms of his service agreement with the Company at a deemed issue price of A$0.018 per share. The following was issued:
- 1,500,000 fully paid ordinary shares issued on signing
- 1,500,000 fully paid ordinary shares issued 12 months after the commencement date
- 1,500,000 fully paid ordinary shares issued 24 months after the commencement date

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

No. of Options	Grant Date	Vesting Date	Exercise Price A$	Expiry Date
5,000,000	16 February 2018	16 February 2018	$0.03	31 January 2020
3,000,000	16 April 2018	16 April 2018	$0.03	30 December 2021
3,000,000	16 April 2018	16 April 2019	$0.03	30 December 2021
17,000,000	18 June 2018	18 June 2020	$0.03	30 December 2022
120,000,000	26 September 2018	26 October 2018	$0.032	31 December 2021

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Granted during year	Grant date	Expiry date	Share price at grant date A$	Exercise price A$	Expected volatility	Dividend yield	Risk-free interest rate
5,000,000	16 February 2018	31 January 2020	$0.023	$0.03	123.95%	-	1.99%
3,000,000	16 April 2018	30 December 2021	$0.023	$0.03	118.99%	-	2.20%
3,000,000	16 April 2018	30 December 2021	$0.018	$0.03	118.99%	-	2.20%
17,000,000	18 June 2018	30 December 2022	$0.036	$0.03	114.90%	-	2.34%
375,000,000	26 September 2018	26 September 2020	$0.022	$0.03	132.50%	-	2.07%
10,000,000	26 September 2018	31 July 2020	$0.022	$0.032	133.25%	-	2.07%
120,000,000	26 September 2018	31 December 2021	$0.019	$0.032	124.04%	-	2.03%
6,000,000	26 September 2018	26 October 2020	$0.019	$0.03	131.28%	-	1.99%

The weighted average share price during the financial year was A$0.028 (2017: A$0.010).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.1 years (2017: 3.8 years)

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 153 Fish Capital Pte Ltd in connection with the capital raising conducted by Sanston Securities in February 2017 in lieu of cash payment of A$141,545 for services rendered, at a deemed issued price of A$0.008 per share.

The Company granted 13,544,567 ordinary fully paid shares to 153 Fish Capital Pte Ltd in connection with the capital raising conducted by Sanston Securities in June 2017 in lieu of cash payment of A$108,357 for services rendered, at a deemed issued price of A$0.008 per share.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

24. SHARE BASED PAYMENTS (Continued)

During the previous 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

a) Options

The options outstanding at 31 December 2018 are detailed below.

Grant Date	Expiry Date	Exercise Price A$	Balance at start of year	Granted during year	Expired during year	Exercised during year	Balance at end of year
25 August 2016(1)	25 August 2019	$0.03	1,000,000	-	-	-	1,000,000
10 July 2017(2)	30 December 2021	$0.03	13,000,000	-	-	-	13,000,000
16 February 2018(1)	31 January 2020	$0.03	-	5,000,000	-	-	5,000,000
16 April 2018(2)	30 December 2021	$0.03	-	3,000,000	-	-	3,000,000
16 April 2018(2)	30 December 2021	$0.03	-	3,000,000	-	-	3,000,000
18 June 2018(2)	30 December 2022	$0.032	-	17,000,000	-	-	17,000,000
26 September 2018(3)	26 September 2020	$0.032	-	375,000,000	-	-	375,000,000
26 September 2018(1)	31 July 2020	$0.03	-	10,000,000	-	-	10,000,000
26 September 2018(4)	31 December 2021	$0.03	-	120,000,000	-	-	120,000,000
26 September 2018(3)	26 October 2020	$0.03	-	6,000,000	-	-	6,000,000
			14,000,000	539,000,000	-	-	553,000,000

(1) Options granted in lieu of cash payment for fees for services rendered to the Company
(2) Options granted pursuant to Employee Share Plan. The plan provides for vesting restrictions on minimum period of employment
(3) The options were granted to certain sophisticated and professional investors by way of a two tranche placement of shares with attaching 1:2 options
(4) Options granted to Macquarie as part of the debt restructure (Note 17)

b) Expenses arising from share based payment transactions

Year ending - 31 December 2018

The share based payments during the year have been recognised as follows:

- Expense relating to issued options based on a pro-rata portion of the vesting period A$203,574
- Recognised directly against issued capital as a cost associated with the share A$195,000
- Recognised directly against debt as a cost of arranging finance A$1,560,000

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

25. SEGMENT INFORMATION

The Empire Group has two reportable segments as described below. Information reported to the Empire Group's chief executive officer for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

	Oil & Gas		Investments		Other		Eliminations		Total	
in USD	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue (external)	14,252,216	13,942,325	-	-	-	-	-	-	14,252,216	13,942,325
Other income (excluding Finance income)	195,993	171,409	-	-	2,107,836	(75,555)	-	-	2,303,829	95,854
Reportable segment (loss)/profit before tax	(9,489,992)	(14,784,209)	-	-	(1,861,358)	(1,203,455)	-	-	(11,351,350)	(15,988,296)
Finance income	1,785	1,976	970,846	523,715	64,218	4,697	(970,846)	(523,715)	66,003	6,673
Finance costs	(5,428,696)	(4,517,774)	-	-	(8,386)	(4,703)	970,846	523,715	(4,466,236)	(3,998,762)
Profit/(loss) for the period before tax									**(15,751,583)**	**(19,980,384)**
Reportable segment assets	60,070,048	75,415,798	15,357,468	3,932,327	3,930,486	349,300	(15,286,888)	(3,854,327)	64,071,114	75,843,098
Reportable segment liabilities	43,364,383	55,580,121	-	-	-	-	-	-	43,364,383	55,580,121
Other material non-cash items:										
Gain on disposal of acreage	-	-	-	-	-	-	-	-	-	-
- Depreciation and amortisation	(1,608,357)	(2,931,443)	-	-	(109,165)	(11,726)	-	-	(1,717,522)	(2,943,169)
- Impairment expense	(16,586,509)	(13,654,019)	-	-	-	-	-	-	(16,586,509)	(13,654,019)
- Write-back of ARO	1,642,361	-	-	-	-	-	-	-	1,642,361	-
- Gain on disposal	-	-	-	-	-	-	-	-	-	-
- Lease expiration costs	(142,500)	(142,500)	-	-	-	-	-	-	(142,500)	(142,500)
Non-cash items included in Finance costs:										
- Asset retirement obligation accretion	(526,706)	(502,900)	-	-	-	-	-	-	(526,706)	(502,900)
- Discount on debt & overriding royalty interest	(627,054)	(529,239)	-	-	-	-	-	-	(627,054)	(529,239)
- Fair value gain/(loss) on forward commodity contracts	-	-	-	-	-	-	-	-	-	-
Capital expenditure	1,102,021	(2,514,333)	-	-	(109,858)	(143,988)	-	-	992,163	(2,658,321)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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 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 generated from the sale of oil and gas to external customers is derived from operations in the USA.

The majority of the Company's producing assets are located in the USA.

The Company has exploration oil and gas tenements in the Northern Territory, Australia.

Major customers

Revenues from two major customers of the Empire Group's Oil & Gas segment represents approximately $9,012,547 (2017: two major customers $8,229,774) 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:

- A Underwood
- B W McLeod (to 30 August 2018)
- D H Sutton
- L Tang
- P Espie
- J Gerahty

ii. Directors' Shareholdings

Number of shares held by the Company Directors

Director	Balance at 1 January 2018	Acquired during period through Capital Raisings	Acquired on Market	Other changes during period	Balance at 31 December 2018
A Underwood	-	13,000,000	-	4,500,000	17,500,000
B W McLeod	24,229,999	-	-	(24,229,999)[1]	-
D H Sutton	734,295	-	-	-	734,295
L Tang	-	-	-	-	-
P Espie	-	7,500,000	1,000,000	-	8,500,000
J Gerahty	-	122,450,000	-	-	122,450,000

[1] Mr B W McLeod resigned from his positions on 30 August 2018.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

26. RELATED PARTY DISCLOSURES (Continued)

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 2018	Granted during year in accordance with Employee Option Plan	Granted during the year in connection with Capital Raising	Exercised during year	Expiring during year	Balance at 31 December 2018	Vested exercisable at 31 December 2018
B W McLeod	5,000,000	6,000,000	-	-	-	11,000,000	-
A Underwood	-	6,000,000	2,500,000	-	-	8,500,000	-
D H Sutton	-	2,000,000	-	-	-	2,000,000	-
L Tang	-	2,000,000	-	-	-	2,000,000	-
P Espie	-	-	3,750,000	-	-	3,750,000	-
J Gerahty	-	-	55,625,000	-	-	55,625,000	-

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	6,000,000	$0.03	31 December 2022
D H Sutton	2,000,000	$0.03	31 December 2022
L Tang	2,000,000	$0.03	31 December 2022
A Underwood	6,000,000	$0.03	31 December 2020

iii. Transactions with Key Management Personnel

	2018 $	2017 $
1) B W McLeod was a director and shareholder of Eastern & Pacific Capital Pty Limited. During the year the Empire Group incurred the following transactions payable under the service agreement:		
- Management consultant fees*	253,269	365,489
- Termination payout**	362,100	-
- Bonus payment	-	31,063
**of this amount $174,510 was paid during the financial period and the remaining balance paid in the first quarter of 2019*		
***of this amount $112,185 was paid during the financial period and the remaining balance paid in the first quarter of 2019*		
2) Aggregate amounts payable to Directors and their related Companies at balance date:		
- Eastern & Pacific Capital		
- Management consultant fees accrued/payable from prior years	287,642	145,135
3) A Underwood is a director and CEO of the Company and wholly-owned subsidiary Imperial Oil & Gas Pty Limited. The Empire Group paid the following transactions to Mr Underwood:		
- Management consulting fees	210,010	-
- Director fees	-	-
4) J Warburton is a director of wholly-owned subsidiary Imperial Oil & Gas Pty Limited. The Empire Group paid the following transaction to Professor Warburton::		
- Advisory fees	9,928	-
- Director fees	13,462	17,550

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

26. RELATED PARTY DISCLOSURES (Continued)

c. Investments in Controlled Companies

	Country of Incorporation	Class of Share	Interest Held	
			December 2018 %	December 2017 %
Controlling Empire Group				
Empire Energy Group Limited	Australia			
Controlled Companies				
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 Sydney Partnership 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.

Cobalt Energy Pty Ltd and Imperial Energy Pty Ltd were wound up after the end of the Financial Year.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

27. NOTES TO THE STATEMENT OF CASH FLOWS

	December 2018 $	December 2017 $
(a) Reconciliation of Cash		
Cash at the end of the financial year is shown in Statement of Financial Position as follows:		
Cash at bank and in hand	4,157,175	908,318
(b) Reconciliation of profit after income tax expense to net cash flows from operating activities		
(Loss) for the period after income tax expense	(15,530,294)	(20,107,246)
Adjustments for non-cash items:		
Depreciation & amortisation expense	1,717,523	2,943,375
Impairment of property, plant & equipment	16,586,509	13,578,466
Write-back of Asset Retirement Obligation	(1,642,361)	-
Impairment of available for sale assets and related receivables	-	75,553
(Gain)/loss on disposal of property, plant & equipment	(33,234)	76,675
Expiration of leases	142,500	142,500
Discount on debt	105,854	529,236
Asset retirement obligation accretion	526,706	502,900
Share-based payment expense	226,092	6,157
Unrealised loss/(gain) on forward commodity contracts	(2,391,765)	1,701,187
Operating loss before changes in working capital and provisions	(292,470)	(551,197)
Change in Trade and other receivables	(215,286)	(222,320)
Change in Prepayments and other current assets	(165,678)	200,298
Change in Inventories	(86,072)	4,066
Change in Trade and other payables	492,782	(466,300)
Change in Provisions	5,516	5,303
	31,262	(478,953)
Net cash flows used in operating activities	(261,208)	(1,030,150)

(c) Non-Cash Financing and Investing Activities
During the current financial the following non cash financing and investing activities occurred:

There were a number of share-based payments during the year. Refer to Note 24.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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

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

The Company granted 17,693,153 ordinary fully paid shares to 153 Fish Capital Pte Ltd in connection with the capital raising conducted by Sanston Securities 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 153 Fish Capital Pte Ltd in connection with the capital raising conducted by Sanston Securities in June 2017 in lieu of cash payment of A$108,357 for services rendered under a capital raising mandate, 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
	A$8,150

(d) Reconciliation of Liabilities arising from Financing Activities

	Balance at 1 January 2018	Financing Cashflows	Options and refinance costs	Amortisation of deferred finance costs	Debt to Equity	Balance at 31 December 2018
Interest bearing borrowings	36,976,225	(7,878,490)	(1,622,048)	963,814	(4,000,000)	24,439,501

28. EARNINGS PER SHARE

	2018	2017
Basic earnings per share (cents per share)	(1.05)	(2.13)
Diluted earnings per share (cents per share)	(1.05)	(2.13)
Profit/loss used in the calculation of basic and diluted earnings per share	(15,867,054)	(20,107,246)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	1,508,836,694	944,413,550
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	1,508,836,694	944,413,550

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 2018

30. PARENT ENTITY INFORMATION

	2018 $	2017 $
Information relating to Empire Energy Group Limited:		
Current Assets	3,588,600	298,297
Total Assets	58,155,325	42,797,593
Current Liabilities	1,473,516	1,392,274
Total Liabilities	1,473,516	1,392,274
Shareholder's Equity:		
Issued Capital	(94,163,284)	(78,415,334)
Reserves		
- Fair value reserve	(575,677)	(575,677)
- Foreign currency translation reserve	7,946,386	5,877,345
- Options reserve	(1,547,184)	(1,346,396)
- Share based payment reserve	(191,846)	(166,540)
- General Reserve	(233,644)	(228,254)
Accumulated Losses	33,138,185	34,030,457
Total Shareholder's Equity	(55,627,064)	(40,824,399)
Profit for the period	2,152,473	892,357
Total Comprehensive Income	581,293	1,686,676

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.

The Company has not increased the maximum amount that can be paid to directors for many years. The appropriate level for payments for Directors is currently under review by reference to market practice for comparable ASX listed companies. If the company seeks to increase the limit on remuneration payable to non-executive directors, shareholder approval will be sought.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

31. DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (Continued)

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:

	Short term benefits			Post-employment benefits	Long-term benefits			
December 2018	**Cash salary and fees**	**Bonus payments**	**Non-monetary**	**Super contributions**	**Termination Payment**	**Long service leave**	**Share/ option based payments***	**Total $**
Directors								
B W Mcleod	253,269	-	15,599	-	362,100	-	49,328	680,296
A Underwood	210,010	-	-	-		-	57,218	267,228
D H Sutton	-	-	-	14,958	-	-	10,428	25,386
L Tang	14,958	-	-	-	-	-	10,428	25,386
P Espie	2,172	-	-	-	-	-	-	2,172
J Gerahty	2,172	-	-	-	-	-	-	2,172
J Warburton	23,391	-	-	-	-	-	-	23,391
Executives								
A Boyer	219,520	-	72,362	-	-	-	11,957	303,839

* 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 $108,884 the non-cash loss on options relating to the above directors that expired over the year was $53,276. The net non-cash cost of options issued to the above directors and executives for the year was $55,608.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2017	**Cash salary and fees**	**Bonus payments**	**Non-monetary**	**Super contributions**	**Long service leave**	**Share/option based payments***	**Total $**
Directors							
B W McLeod	365,489[(1)]	31,063[(2)]	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
Executives							
A Boyer	219,018	-	63,513	-	-	3141	282,772

[(1)] 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).

[(2)] In relation to a bonus issued in December 2014.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

32. AUDITORS' REMUNERATION

	2018 $	2017 $
Audit Services		
Auditors of the Company – Nexia Sydney Partnership:		
Audit and review of financial reports	77,681	88,922
Other auditors:		
Audit and review of financial reports	174,000	177,000
	251,681	265,922
Other services		
Auditors of the Company – Nexia Sydney Partnership:		
Taxation services	7,484	11,713
Other auditors:		
Taxation services	374	20,106
	7,858	31,819

33. MATTERS SUBSEQUENT TO BALANCE DATE

1) On 12 December 2018 the Company announced that on 10 December 2018 it received notice under section 249D of the Corporations Act 2001 (Cth), from Global Energy & Resources Development Limited ("GERD"), a shareholder owning greater than 5% of the Company's issued capital, requesting the directors of the Company to call and arrange to hold a general meeting of the members of the Company. The purpose was to consider the following resolutions: 1) that each and every one of the present directors be removed from his or her office of director of the Company; 2) that each of Edward Jacobson, Joseph Graham, James Hulme and Bruce Garlick be appointed as a director of the Company.

   On 6 February 2019 an Extraordinary General Meeting was conducted to consider the GERD resolutions.

   Shareholders voted against all resolutions other than the removal of Linda Tang, which shareholders voted in favour of.

2) On 6 February 2019 the Company appointed Professor John Warburton as Non-Executive Director of the Board.

3) On 5 February 2019 the Company appointed Mr Paul Espie AO as Non-Executive Chairman and Mr David Sutton resigned as Interim Chairman and returned to the role of Non-Executive Director.

4) On 6 March 2019 the Company announced that pursuant to its strategy to reduce debt through the sale of US assets, that it had received a number of proposals which the Directors were considering. That process is ongoing and shareholders will be provided further updates at the appropriate time.

5) At 31 December 2018, the Company was in breach of the interest coverage covenant under the Credit Facility, which required a ratio of 1.8. This was due to several temporary factors including the fact that the Company's oil production was unhedged in Q4 2018 and therefore impacted by low oil prices (over 90% is hedged at $66.50 / bbl in 2019), poor weather conditions in Kansas which negatively impacted production rates and sales (offset by strong results of workover and recompletion program) and a higher loan balance early in the quarter which resulted in higher interest expense than is now incurred on the reduced loan balance. Macquarie Bank Limited formally waived this breach on 26 March 2019.

6) There were no other matters or circumstances that have arisen since 31 December 2018 that has significantly affected or may significantly affect:
   - the operations, in financial years subsequent to 31 December 2018, of the Empire Group; or
   - the results of those operations; or
   - the state of affairs in financial years subsequent to 31 December 2018 of the Empire Group.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

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 21 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 2018 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 Officer and the Chief Financial Controller for the year ended 31 December 2018.

Signed in accordance with a resolution of the directors.

Alexander Underwood
Managing Director

Date: 29 March 2019

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 2018, 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 2018 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.

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 2018, the Group has capitalised proved oil and gas assets of \$45.7m. 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	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.

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Key audit matter	How our audit addressed the key audit matter
incorporate significant internal and external judgements and assumptions including commodity prices, available reserves, residual values and discount rates.	
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 costs. The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation. 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.	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 2018; ▪ 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 ▪ We performed sensitivity analysis on management's estimates used in calculating the obligation.
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 $1.8m 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.	Our procedures included, amongst others: We evaluated management's process for estimating delivered but un-invoiced oil and gas sales by: ▪ assessing the historical accuracy of management's estimates by comparing previous estimates to the actual delivery for that period; ▪ comparing estimates of line loss to historical data, as part of the calculation for November (gas) and December (oil and gas) revenues; ▪ testing a sample of leases by comparing revenue by well to revenue as per leases, as well as agreeing production to relevant purchaser statements; and ▪ to the extent possible, compared the amounts accrued for oil and gas deliveries to subsequent receipts and/or delivery statements.

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 2018, 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. 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 25 of the directors' Report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2018, 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

Nexia Sydney Partnership

Lester Wills
Partner

Dated: 29 March 2019, Sydney

SHAREHOLDER INFORMATION

ORDINARY SHARES

a Substantial Shareholders as at 22 March 2019 (grouped)

Name	Number of Shares	% Holding
Macquarie Bank Limited	339,513,666	14.68
Global Energy and Resources Development Limited	247,660,000	10.71
Liangrove Media Pty Limited	122,450,000	5.29

b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	309	118,245	0.01
1,001 – 5,000	689	1,930,691	0.08
5,001 – 10,000	391	2,934,910	0.13
10,001 – 100,000	887	35,291,461	1.53
100,001 and over	736	2,272,808,869	98.26
Total number of holders	3,012	2,313,084,176	100.00

i Number of holders of less than a marketable parcel 1,756

ii Percentage held by 20 largest holders 45.81

c Twenty Largest Shareholders grouped as at 22 March 2019 (ungrouped)

	Name	Number of Shares	% Holding
1	Macquarie Bank Limited <Upstream Energy Markets A/C>	285,847,000	12.36
2	Global Energy and Resources Development Limited	247,660,000	10.71
3	Liangrove Media Pty Limited	122,450,000	5.29
4	HSBC Custody Nominees (Australia) Limited	68,068,552	2.94
5	Macquarie Bank Limited <Metals Mining and Ag A/C>	53,666,666	2.32
6	Elphinstone Holdings Pty Ltd	50,000,000	2.16
7	Mr Kooi Onn Chye	46,433,625	2.01
8	Cha Qian	42,000,000	1.82
9	Citicorp Nominees Pty Limited	28,986,953	1.25
10	Cheoy Lee Yachts Australia Pty Ltd	25,000,000	1.08
11	Mr Teik Tatt Oh	25,000,000	1.08
12	Grosvenor Equities Pty Ltd <No 2 A/C>	23,599,558	1.02
13	Oracle Financial Planning Pty Ltd	21,000,000	0.91
14	Merrill Lynch (Australia) Nominees Pty Limited	20,357,480	0.88
15	Rhodes Capital Pty Ltd <Mcleod Super Fund A/C>	20,149,998	0.87
16	Elphinstone Holdings Pty Ltd	20,000,000	0.86
17	Colowell Pty Ltd <David Dagg Family A/C>	19,500,000	0.84
18	Mrs Ching Ling Yong	19,200,000	0.83
19	John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	18,964,861	0.82
20	RHB Securities Singapore Pte Ltd <Clients A/C>	18,713,308	0.81
		1,176,598,001	45.81

d Voting Rights

On a show of hands every member present in person or by proxy shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for every share except if the issue price has not been paid in full, then the holder is only entitled to a fraction of a vote on that share, being, the quotient of the amount paid up divided by the issue price of that share.

SHAREHOLDER INFORMATON (Continued)

UNQUOTED SECURITIES AS AT 22 MARCH 2019

Class of unquoted securities	No. of securities	No. of holders
- 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
- Unlisted options exercisable at $0.03 expiring 31 January 2020	5,000,000	3
- Unlisted options exercisable at $0.03 expiring 30 December 2021	3,000,000	1
- Unlisted options exercisable at $0.03 expiring 30 December 2021	3,000,000	1
- Unlisted options exercisable at $0.03 expiring 30 December 2022	17,000,000	11
- Unlisted options exercisable at $0.03 expiring 26 September 2020	375,000,000	137
- Unlisted options exercisable at $0.032 expiring 31 July 2020	10,000,000	4
- Unlisted options exercisable at $0.032 expiring 31 December 2021	120,000,000	1
- Unlisted options exercisable at $0.03 expiring 26 October 2020	6,000,000	1
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 2019. Given the extensive list 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