

Activity Report for the Quarter ended December 2019

ASX RELEASE

EMPIRE ENERGY GROUP LIMITED

31 January 2020

Empire Energy Group Limited (ASX:EEG) (“Empire” or “the Company”) is pleased to provide shareholders with its Quarterly Activity Report for the period ending 31 December 2019.

HIGHLIGHTS

- Empire’s newly acquired, processed, and interpreted 2D seismic confirms a material Beetaloo Basin acreage position wholly owned by Empire
- Empire EP187 2020 exploration drilling approvals well advanced
- Solid US operational performance negatively impacted by low prevailing US gas prices
- US cost reduction measures implemented following Kansas asset sale, resulting in one-off restructuring costs
- Empire in a net cash position for the first time since 2010 following successful completion of A\$12 million placement
- Directors of the Company increased their shareholdings during the Quarter
- Research coverage initiated on Empire
- Santos vertical Tanumbirini-1 well production testing results above expectations
- Origin horizontal Kyalla 117 N2 1H well drilling advanced

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EMPIRE 2020 NORTHERN TERRITORY WORK PROGRAM UPDATE

Empire recently announced the results of its 2D seismic data set in Northern Territory (NT) EP187 permit. The seismic program has materially validated an easterly extension of the Beetaloo Sub-Basin containing equivalent thickness of Velkerri and Kyalla shales, our primary and secondary exploration well appraisal targets in EP187, to those in neighboring permits, including two large areas of thick, contiguous and unfaulted Kyalla and Velkerri shales, one of which will be targeted in our 2020 drilling campaign.

Figure 1: Empire’s EP187 and Adjoining Permits 2020 Drilling Activity

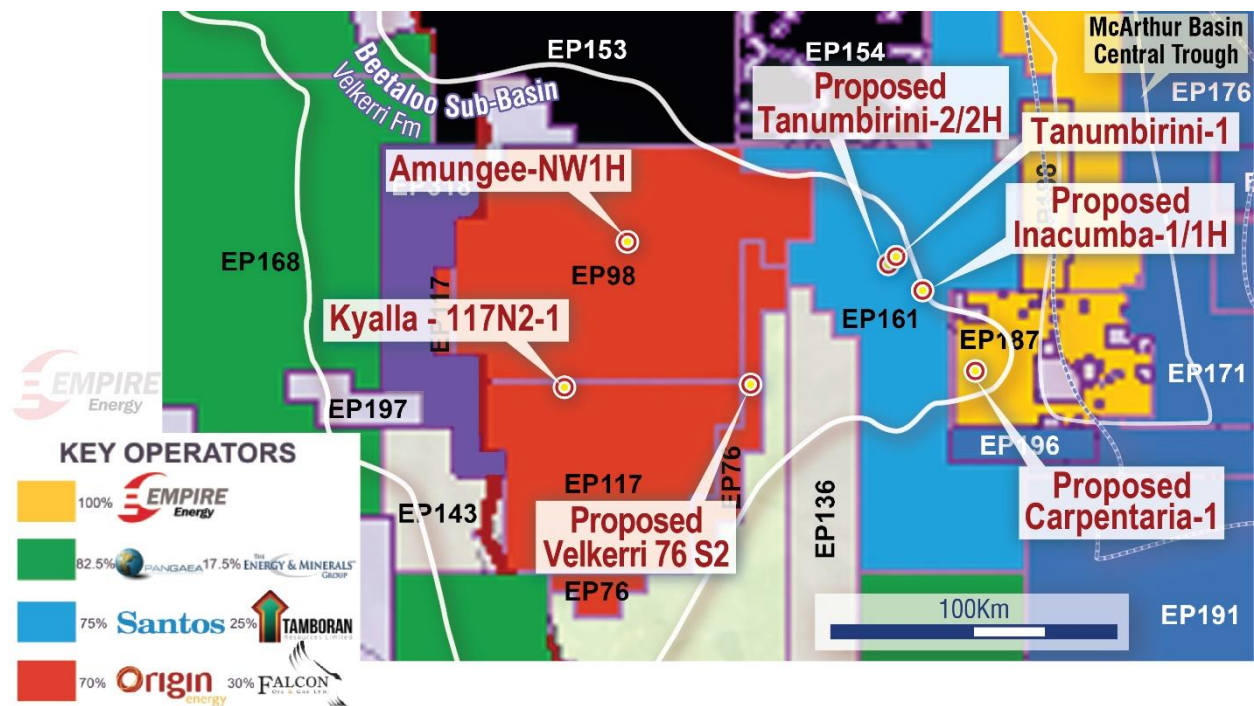
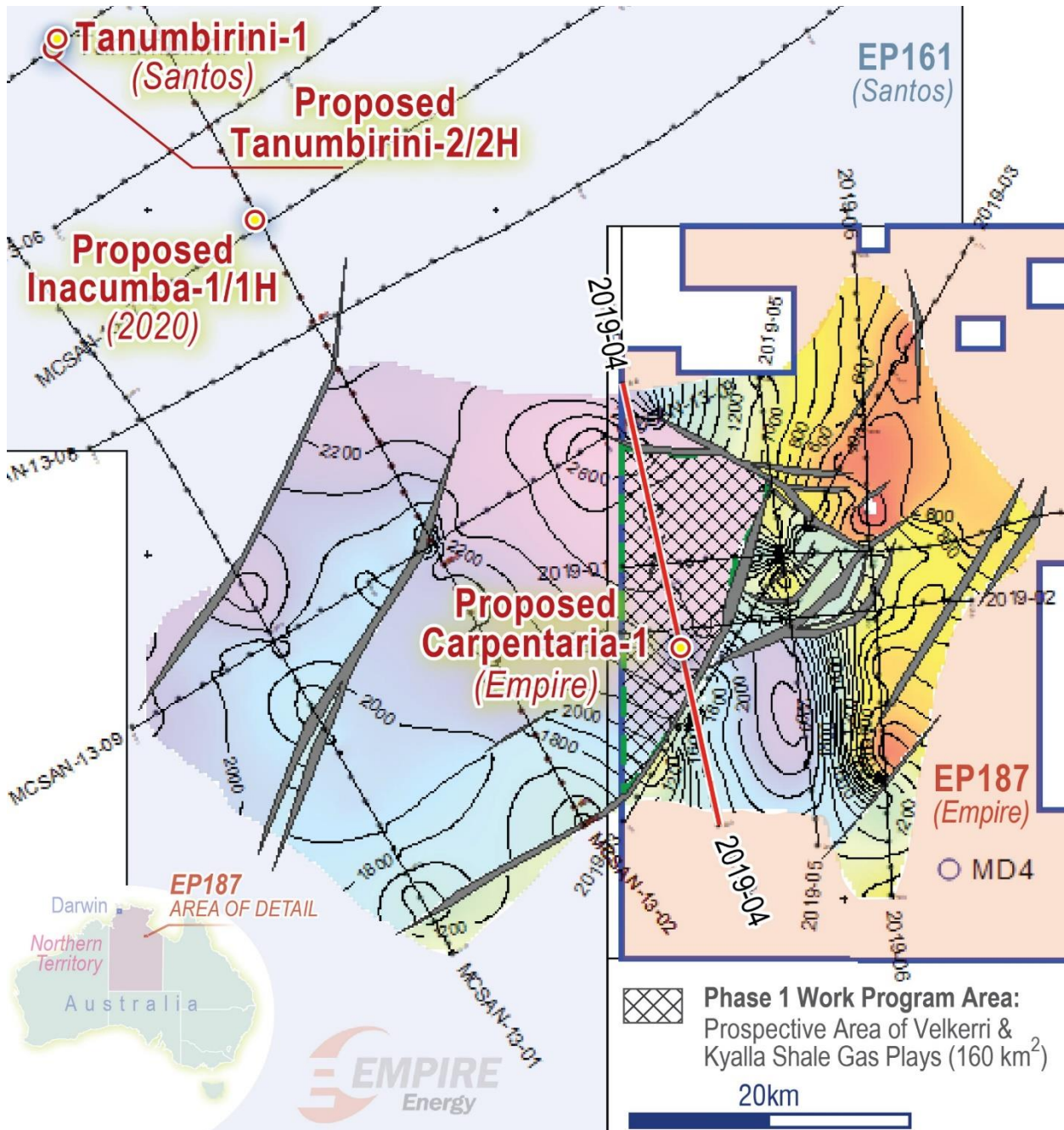


Figure 2: Location of Proposed Well and Core Work Program Area



Empire’s drilling approvals for its planned 2020 EP187 exploration well are near completion. The final mapping results of the new 2D seismic data have determined well site locations for the exploration drilling which is scheduled to commence in the 2020 dry season (subject to receipt of regulatory approvals and rig availability). Empire’s proposed exploration well location has equivalent thickness’ of Velkerri and Kyalla shales at depths ~1,000m shallower than the Tanumbirini-1 well in EP161, ~76km to the north-

west, and is expected to reach a total depth at ~2,500m – 2,800m. Having a shallower target interval to appraise will result in lower drilling costs, and, in a success case, field development costs. Being less deeply buried, Empire also anticipates that these target shales may contain hydrocarbon liquids in addition to gas.

The decision package for drilling approvals has been approved by the Northern Territory Onshore Gas Committee and Northern Territory Environmental Protection Authority. Following receipt of the Aboriginal Areas Protection Authority (“AAPA”) certificate, which is expected imminently, the decision package will be submitted to the Northern Territory Minister for Primary Industry and Resources (“DPIR”) for final decisioning. Empire will notify shareholders when final approvals are granted.

NORTHERN TERRITORY ONSHORE SHALE PETROLEUM INDUSTRY ACTIVITY

During the Quarter, Santos (75%) and its JV partner Tamboran Resources (25%) completed a Diagnostic Fracture Injection Test (“DFIT”) and 4 stage stimulation of their vertical Tanumbirini-1 well in EP161 which adjoins Empire’s EP187 permit which confirmed a gas discovery in the Middle Velkerri shale gas play. Kevin Gallagher, the Managing Director and CEO of Santos, commented on production testing of the well which proved above expectations: “better than expected gas flow rates from the ongoing Tanumbirini-1 vertical well test are very encouraging and an important step in Santos’ appraisal of the significant resource potential of the McArthur Basin”. In addition to the recorded gas flow rates of over 1.2mmscf/d, the presence of liquids and implied very low CO₂ contents were encouraging to note.

David Banks, Santos Executive VP, Onshore Oil & Gas indicated during Santos’ 2019 investor day held 3 December 2019 that Santos’ McArthur Basin shales are world class and the most prospective in Australia. Santos has further announced it will drill, stimulate and flow test two horizontal McArthur wells in 2020 for which it has all necessary regulatory approvals. Empire understands the two Santos EP161 wells will be Tanumbirini 1/2H and Inacumba 1/1H, 43 and 35 kilometers respectively northwest of EP187 which will likely become drilling hubs for future developments. Both wells are planned to be completed as 2,000m horizontal fracture stimulated wells in the organic rich Velkerri B Shale.

Origin Energy (70%) and its JV partner Falcon Oil & Gas (TSX: FO, AIM: FOG) (30%) successfully drilled the vertical section of the Kyalla 117 N2-1H well which is on trend with Empire’s EP187 permit. Drilling of the horizontal production hole section with a target length of 1km to 2km commenced in December. However, after experiencing some operational challenges with the initial horizontal production hole section it will be plugged in line with regulatory requirements. Drilling of a new sidetrack horizontal section is expected to commence shortly.

Following completion of the sidetrack, the well will be fracture stimulated and placed on an extended production test. The objective of the Kyalla 117 N2-1H well is to assess hydrocarbon maturity, saturation and reservoir quality data, including the ability to flow liquids rich gas in the Kyalla formation. Kyalla 117

N2 1H is the first well in Origin's two well program. Falcon Oil & Gas indicated to the market on 13 January 2020 that results from Kyalla 117 N2 1H operations to date in the target shale formation demonstrate good reservoir continuity, conductive natural fractures, and continuous gas shows and that the JV remains positive about the potential of the Lower Kyalla Formation, resulting in the decision to continue with drilling operations.

The second well expected to be drilled by Origin after the Northern Territory wet season will be the Velkerri 76 S2 located in EP76 targeting the Velkerri shale and located on trend with Empire's EP187.

Appraisal drilling results by Empire's neighbours in the basin will enhance and streamline Empire's execution of its future exploration and development programs, and successful appraisal has the potential to attract further capital from oil and gas companies seeking to invest in the Northern Territory's onshore unconventional petroleum sector.

BALANCE SHEET STRENGTH

During the Quarter, the Company carried out a share placement to institutional and sophisticated investors, raising A\$12 million (before costs) at A\$0.40 per share. The placement was well supported by existing and new shareholders of the Company.

Following the successful completion of the capital raising, Empire is now in a net cash position for the first time since 2010.

Funds raised from the placement will be used to progress exploration activities in the company's 100% owned EP187 permit in the Beetaloo Basin including the drilling of Empire's first exploration well in EP187 targeting the Kyalla and Velkerri Shales and for working capital purposes.

As at 31 December 2019, total debt remaining was US\$7.5 million, secured against the Company's Appalachia gas production assets.

Under new management, Empire has reduced total outstanding debt by more than 80% over the last 2 years.

Empire's quarter end cash balance was US\$9.9 million (31 September 2019: US\$3.9 million).

US OPERATIONS UPDATE

EBITDA for Q4 2020 was US\$(307)k (Q3: US\$697k).

As flagged to shareholders in the September 2019 Quarterly Activities Report, the Company incurred a number of one-off restructuring costs related to the sale of its Kansas assets and corporate overhead

reductions. These one-off expenses included redundancies (US\$90k), office closure and relocation costs (US\$111k), legal costs and IT costs (US\$67k), new Macquarie loan establishment fee (US\$76k) and the cost of buying out a residual Kansas royalty interest to effect the completion of the Kansas sale (US\$120k).

The deficit in EBITDA reflects restructuring costs incurred with the closure of Empire's Southpointe Pennsylvania corporate office and completion of the Kansas divestment (noted to shareholders within the Company's September Quarter Report). Other factors that impacted cash flow included: (i) lower production levels following the Kansas divestment; and (ii) low market gas prices due a warm winter in North America and oversupplied gas markets in the US (weighted average sales price after hedging of US\$2.60 / mcf vs. US\$2.71 / mcf for Q3 2019).

Total production for the quarter was 4,836mcf/d, representing a decrease of 1,353mcf/d vs. Q3 2019, noting that Q3 2019 included production contribution from Kansas for the two months of July and August. The total daily production achieved for Q4 reflects Appalachian production only.

Following the completion of the sale of the Kansas assets, accounts payable were reduced to reflect only the remaining Appalachia business. Accounts payable for the US Operations were US\$1,112k as at 30 September 2019 and fell to US\$353k as at 31 December 2019.

North America has experienced an unexpectedly warm winter which has resulted in reduced demand for natural gas for heating. The North American market is also very well supplied due to large volumes of gas being produced from shale gas basins. Consequently, gas prices are materially lower than at the same time in 2018 / 2019.

The key US natural gas benchmark, Henry Hub, fell to below US\$2.00 / mcf in January 2020. The last time Henry Hub prices fell below US\$2.00 / mcf in the month of January, typically a time of year of higher seasonal demand and therefore higher prices, was January 1999. Low gas prices are expected to persist throughout 2020 as high volumes of gas in storage are worked through. At these levels, drilling activity by third party operators is likely to reduce, which may return the market to equilibrium over time.

Empire has in place a commodity hedging policy comprising fixed price gas offtakes and put options over 120,000mmbtu per month of production for CY2020 at a strike price of US\$2.50 / mmbtu which is offsetting much of the impact of low market gas prices.

Empire's US management team is carrying out projects to improve operating margins from its existing production base while incurring minimal capital expenditure. During the Quarter, construction commenced on a new gas connection that will allow Empire to supply gas directly to a local utility rather than paying tariff costs associated with using local pipeline infrastructure. This initiative is expected to increase sustaining revenues by ~US\$160,000 per annum and was carried out with minimal capital expenditures (~US\$20,000). Additional opportunities to improve operating margins by delivering gas volumes more directly to customers are being assessed.

The closure of the Company's Southpointe Pennsylvania office during the quarter will also result in reduced corporate overheads although there were one-off costs incurred in closing that office including redundancies, new hire costs in Mayville NY (two new accounting staff), IT costs and office moving costs.

COMPLETION OF US KANSAS ASSET SALES PROCESS

After Quarter end, Empire received a closing reimbursement adjustment of ~US\$0.21 million from Mai Oil Operations, Inc ("Mai Oil"). The monies received reflect expenses incurred by Empire from 1 September 2019 (effective date) to 30 September 2019 (closing date), which under the terms of the PSA have been reimbursed to Empire. Under the terms of the final closing reimbursement, some costs that otherwise would have been borne by Empire have been offset (e.g. Kansas Ad Valorem taxes for 2019).

EMPIRE RESEARCH COVERAGE

During the Quarter, Blue Ocean Equities and Research as a Service ("RaaS") initiated research coverage of Empire.

Both research reports are available on the Empire website.

FURTHER EMPIRE DIRECTOR SHARE BUYING

During the Quarter, Empire directors Paul Espie AO, John Warburton and Alex Underwood collectively acquired 2,640,000 Empire shares at approximately A\$0.40 per share. As a result, directors of the Company now own over 19 million shares (excluding options and Share Rights) acquired for more than A\$4.25 million in cash over the last two years.

EXERCISE OF OUTSTANDING OPTIONS

During the Quarter, Empire option holders exercised 1,425,000 options at A\$0.30 per share which raised A\$427,500. A further 350,000 options were exercised after the Quarter end which raised an additional A\$105,000.

MANAGEMENT TEAM APPOINTMENTS

Over the last two years during the Company's process of balance sheet repair, the Company has been focused on minimizing costs to maximize debt reduction. With that process now successfully completed, the Company is focused on building the value of its Northern Territory assets.

During the quarter, the Company appointed a Chief Operating Officer and a Vice President Business Development. These appointments will assist Empire to prudently execute its Northern Territory growth strategy while carefully deploying shareholder funds.

Empire believes that alignment of interests between management and shareholders is desirable. As such, members of Empire's management team are eligible to participate in the Empire Energy Group Limited Rights Plan.

During the Quarter, Empire issued 962,811 Performance Rights to new and existing members of the management team under the Rights Plan. These Performance Rights have challenging performance hurdles aligned to total shareholder return over the next three years.

Directors of the Company (including the Managing Director) did not receive any performance rights as part of this issuance.

OPERATING OVERVIEW - EMPIRE ENERGY USA, LLC

Production

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Gross Production:				
Oil (Bbls)	877.09	50,560.33	130,998.70	189,837.35
Natural Gas (Mcf)	565,168.61	570,501.47	2,227,819.26	2,289,572.23
Oil (Bbls)				
Appalachia	672.73	1,138.94	2,774.93	3,466.65
Mid-Con	-	32,942.19	85,732.20	124,426.06
Total Oil	672.73	34,081.13	88,507.13	127,892.71
Weighted Avg Oil Sales Price (\$/Bbl)				
Before Hedge	55.03	53.36	52.08	59.70
After Hedge	55.03	53.36	59.75	59.70
Natural gas (Mcf)				
Appalachia	440,850.75	451,869.08	1,771,132.77	1,820,094.22
Mid-Con	-	1,716.23	2,835.27	9,245.06
Total Natural Gas	440,850.75	453,585.31	1,773,968.04	1,829,339.28
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.37	3.23	2.45	2.69
After Hedge	2.60	3.50	2.72	3.26
Gas Equivalent (Mcf):				
Appalachia	444,887.13	458,702.72	1,787,782.53	1,840,894.14
Mid-Con	-	199,369.37	517,228.47	755,801.40
Total	444,887.13	658,072.09	2,305,011.00	2,596,695.54
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.43	4.99	3.88	4.84
After Hedge	2.66	5.18	4.39	5.24
Lifting Costs (incl. taxes):				
Oil – Midcon (\$/Bbl)	8.32	25.75	23.63	23.19
Natural gas – Appalachia (\$/Mcf)	1.55	1.30	1.29	1.18
Gas Equivalent (\$/Mcf)	1.55	2.23	1.90	1.98

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Financials

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Net Revenue:				
Oil Sales	37,018	1,818,452	5,288,609	7,635,770
Natural Gas Sales	1,146,382	1,588,934	4,830,721	5,897,277
Working Interest	235	-	1,578	58,673
Net Admin Income	17,498	77,534	227,327	319,172
Other Income	(28,755)	36,907	(65,648)	191,636
Total Revenue	1,172,378	3,521,827	10,282,587	14,102,528
Production costs:				
Lease operating expenses – Oil	5,598	823,119	1,983,505	2,827,366
Lease operating expenses – Gas	643,488	563,559	2,157,955	2,065,411
Taxes – Oil	-	54,407	108,041	138,068
Taxes – Natural Gas	40,583	24,502	121,908	97,996
Total	689,669	1,465,587	4,371,409	5,128,841
Field EBITDAX	482,709	2,056,240	5,911,178	8,973,687
Less:				
Inventory adjustment	12,446	27,954	86,062	(20,929)
Reserve Enhancements	-	235,541	65,783	250,344
Nonrecurring expenses	11,330	298,480	585,116	1,040,095
G & G Costs	-	1,463	95	14,240
Field Overhead	357,000	501,000	1,812,000	2,004,000
Total	380,776	1,064,438	2,549,056	3,287,750
Operating EBITDAX	101,933	991,802	3,362,122	5,685,937
Less:				
Field G & A	92,023	121,557	504,603	559,128
Corporate G & A	316,256	513,070	1,188,150	1,654,074
Delay rental payments	503	593	58,468	87,452
Land Overhead & Non-leasing costs	-	-	-	55
Total	408,782	635,220	1,751,221	2,300,709
EBITDAX	(306,849)	356,582	1,610,901	3,385,228

Exploration/Acquisition Expenses

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
EBITDAX	(306,849)	356,582	1,610,901	3,385,228
Less:				
Geological Services	-	2,724	2,647	3,989
Acquisition related expenses	-	-	10,366	7,197
Total	-	2,724	13,013	11,186
EBITDA	(306,849)	353,858	1,597,888	3,374,042

Net Earnings

(Unaudited)

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
EBITDA	(306,849)	353,858	1,597,888	3,374,042
Less:				
Depn, Depl, Amort & ARO	252,396	11,283,359	1,420,034	12,832,632
Interest	159,915	625,510	1,873,097	3,029,684
(Gain) loss on sale of assets	(14,188)	34,680	(181,978)	(33,234)
Bad debts	3,494	1,695	8,202	(47,457)
Non-Cash & Interest Expenses	401,617	11,945,244	3,119,355	15,781,625
Earnings before Tax	(708,466)	(11,591,386)	(1,521,467)	(12,407,583)

Capital Expenditure

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Capital Expenditures				
Acquisition Capital	-	-	-	47,663
New Wells - IDC	35,859	-	42,194	343,312
New Wells - Capital	15,282	-	4,039	71,097
Undeveloped Leases	-	-	1,600	126
Capital Expenditures	51,141	-	47,833	462,198

NET INCOME SUMMARY - USA OPERATIONS

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

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Revenues:	1,172,378	3,521,827	10,282,587	14,102,527
Costs & Expenses:				
Production costs & taxes	1,070,445	2,530,026	6,920,465	8,416,591
Depn, Depletion, Amort & ARO	252,396	11,283,359	1,420,034	12,832,632
General & Administration	408,7822	637,943	1,764,234	2,311,895
Income from Operations	(559,245)	(10,929,501)	177,856	(9,458,591)
Interest	159,915	625,510	1,873,097	3,029,684
(Gain)/Loss on sale of assets	(14,188)	34,680	(181,978)	(33,234)
Bad debts	3,494	1,695	8,202	(47,457)
Net Income/(Loss)	(708,466)	(11,591,386)	(1,521,467)	(12,407,584)

IMPERIAL OIL & GAS PTY LTD

Empire holds its Northern Territory assets through its 100% owned subsidiary Imperial Oil & Gas Pty Limited.

Operations

Current quarter actual and accrued expenses and capitalized costs. (Company policy is to expense all exploration costs except when in direct relation to seismic or drilling programs):

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Exploration Expenses – NT	1,772,347	158,480	2,462,715	590,682

EMPIRE ENERGY GROUP LIMITED

Empire Energy Group Limited's head office is in Sydney, Australia.

All figures are in USD

Description	3 months to 31/12/2019	3 months to 31/12/2018	Year-to-Date 31/12/2019	Year-to-Date 31/12/2018
Revenue	40,003	40,702	159,514	158,774
Less Expenses:				
Consultants	-	249,905	111,067	526,271
Directors/Employments Costs	238,481	66,391	530,905	236,946
Listing Expenses	13,260	12,876	85,695	51,248
G&A	204,697	142,282	689,638	609,496
EBITDAX – Head office (EEG)	(416,435)	(430,752)	(1,257,791)	(1,265,187)

Financial Terminology

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

Note Regarding Barrel of Oil Equivalent

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

Note Regarding Forward- Looking Statements

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

Glossary

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