

EMPIRE OIL & GAS NL

Quarterly Report March 2016



Empire achieves record production in March Quarter

Perth Basin domestic gas producer Empire Oil and Gas NL (“Empire”, ASX: EGO) is pleased to provide its quarterly activities report for the quarter ending 31 March 2016.

Highlights

Production

- Record quarterly Red Gully Processing Facility (“RGPF”) export gas volume of 816.5 TJ;
- Average gas production up 3.5% on last quarter with average daily export gas rate of 9.0 TJ/day. This was due to additional short term gas sales to Alcoa;
- Empire maintains strong operational cost control with a 6% reduction in RGPF operations and maintenance costs from the December 2015 quarter. The quarterly operating costs have been reduced by 43% since changing the operating contract arrangements.

Exploration

- Completion and testing programme at Empire’s 100% owned Red Gully North-1 (“RGN-1”) discovery was initiated during the quarter. Initial test results confirm moveable gas and condensate from the C and Upper D sands;
- The RGN-1 test results to date indicate that approximately 7.5PJ of 2P contingent gas resources could be commercialised subject to a successful well remediation to isolate formation water. Early indications are that the C and Upper D zones contain a higher condensate/gas ratio than Red Gully, providing further upside.

Finance and Corporate

- Revenue for the quarter of A\$4.9m;
- Approximately 88% of total revenue was gas derived.

About Empire Oil & Gas NL

ASX Code: EGO

Cash on hand (quarter end): A\$3.1m

Market capitalisation (quarter end): A\$42m

Share price range in quarter: A\$0.31 to A\$0.495

Empire Oil & Gas is an Australian energy company focussed on exploration and production opportunities in the onshore Perth Basin.

Empire owns and operates the Red Gully field which has been in production since mid-2013.

Empire holds around half of the highly prospective onshore Perth Basin. The Perth Basin has excellent infrastructure and a strong gas market.

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PRODUCTION

Quarterly Sales	March Quarter 2016	December Quarter 2015	FY15/16 YTD
Red Gully Facility (100%)			
Gas sales (TJ)			
Gas sales for the quarter	816.5	788.8	2,302.9
Cumulative RGPF gas sales ¹	7,083		
Condensate sales (bbl)			
Condensate sales for the quarter	27,883	28,077	83,081
Cumulative RGPF condensate sales ¹	296,121		
Plant performance			
Average plant run time (% of total hours)	96.8	97.6	94.2
Average daily gas sales (TJ/day)	9.0	8.6	8.4
Average daily condensate sales (bbl/day)	306.4	305.2	302.0

Note:

- 1 Cumulative RGPF sales represent total volumes delivered from the commencement of RGPF operations in 2013 to the end of the March 2016 quarter

Overall Production and Safety Performance

No medical treatment or lost time injuries were recorded during the quarter.

One safety incident occurred at the RGPF during the March quarter. This involved a lightning strike of the RGPF cold vent stack on 30 January 2016, which resulted in a small fire on the vent stack tip. RGPF operations personnel initiated an emergency shutdown of the RGPF in response to the incident. The RGPF was shut down for 47.6 hours while the incident was investigated and the RGPF deemed safe to resume production. A detailed incident investigation report was prepared and submitted to the regulator for subsequent approval. Recommendations from the incident investigation have been initiated.

Total gas delivered to Alcoa during the March quarter was a record 816.5TJ, 3.5% higher than the December quarter. The increase in total delivered gas was related to Alcoa's agreement to take additional uncontracted gas from Empire throughout the March quarter.

A peak production rate of 9.4TJ/d was achieved with an average RGPF daily gas sales of 9.0TJ/day for the March quarter. This has somewhat compensated for the reduction in condensate revenue caused by the decrease in realised condensate prices. Gas production for the quarter was impacted by the 47.6 hour RGPF shutdown in response to the 30 January 2016 plant cold vent lightning strike.

Export gas volumes of approximately 8 TJ/day are anticipated for the June quarter.

The Condensate volume delivered to BP over the March quarter was 27,883bbl, 0.7% lower than the December quarter. The slight decrease in condensate production was due to the Red Gully-1 (“RG-1”) B sand condensate to gas ratio reducing in line with the expected behaviour of retrograde gas/condensate reservoir production. Average daily condensate sales were 306.4bbl/day for the March quarter.

In late March the RG-1 well started to produce small amounts of water in addition to the normal condensation water volumes. Laboratory analysis confirmed this to be formation water. A wireline production logging tool has been run to determine zonal flow contributions and the data is currently being analysed to determine any required action.

RGPF uptime

The facility uptime for the March quarter was 96.8% compared with the financial year average to date of 94.2%. The amount of unplanned downtime for the March quarter was 14.2 hours (excluding weather related downtime), 68.6% less than the December quarter.

Operating cost reduction activities

Empire is continuously reviewing the costs required to operate the RGPF without compromising its outstanding safety performance. The following RGPF operating cost reductions were achieved during the March quarter:

- 29.2% reduction in bulk methanol costs fixed for the next 6 months;
- Using the expanded RGPF permanent accommodation facilities to house RGN-1 production well testing personnel.

Empire has maintained RGPF operations and maintenance (“O&M”) cost control discipline post award of the RGPF 2015 O&M Contract to Upstream Production Services on 23 September 2015. RGPF O&M costs have reduced by 6% from the December 2015 quarter to the March 2016 quarter. The quarterly operating costs have reduced by 43% since changing the operating contract arrangements in Q3 2015. Empire is on track to deliver an expected A\$800,000 in cost savings in the current financial year resulting from the new RGPF 2015 O&M contract.

Other activities

The following RGPF modifications commenced during the March quarter in response to the RGPF vent stack lightning strike incident investigation report:

- Design of a vent stack snuffing system. This will allow remote extinguishing of any future vent stack lightning strike fires.
- Upgrading of fire and gas system software and hardware.

Detailed engineering work on an intelligent pigging inspection of the RGPF export gas pipeline continued during the March quarter. The planned implementation date for this inspection is Q2/Q3 2016.

EXPLORATION

Red Gully North-1 (RGN-1, Empire 100%) Completion and Testing

In December 2015 the RGN-1 well intersected 53m of net gas pay in the primary Cattamarra C and D sand objectives based on drilling data and log evaluation. Drilling of RGN-1 satisfies the EP 389 year 4 drilling commitment.

A perforating and completion programme was carried out by Enerdrill Rig 1 from 23 March to 13 April. This was followed by a well test programme, which commenced on 17 April and was completed on 25 April 2016, to assess fluid composition, deliverability and reserves of the C sand and the Upper and Lower D sands;

The C and Upper D sands produced movable hydrocarbons to surface, however, the tests were compromised due to formation water production (from a high porosity zone above the C sands) caused by a poor 7" casing cement bond. Further remedial work will be required before a conclusive test on the C and Upper D sands can be carried out.

The Lower D sand zone test did not flow hydrocarbons to surface and the Lower D sand is considered to be a low permeability reservoir.

In February, RISC completed an Independent Resource Assessment of hydrocarbon volumes discovered by RGN-1 and assigned Contingent Resources of 6.2PJ (1C), 10.7PJ (2C) and 16.7PJ (3C) to the Cattamarra C and Upper and Lower D intervals.

The RGN-1 test results to date indicate that approximately 7.5PJ of 2P contingent gas resources could be commercialised subject to successful well remediation to isolate formation water. Early indications are that the C and upper D sands contain a higher condensate/gas ratio than Red Gully providing further upside. RGN-1's close proximity to the Red Gully Processing Facility will allow a fast tie-back and commercialisation of the well, subject to a successful flow test.

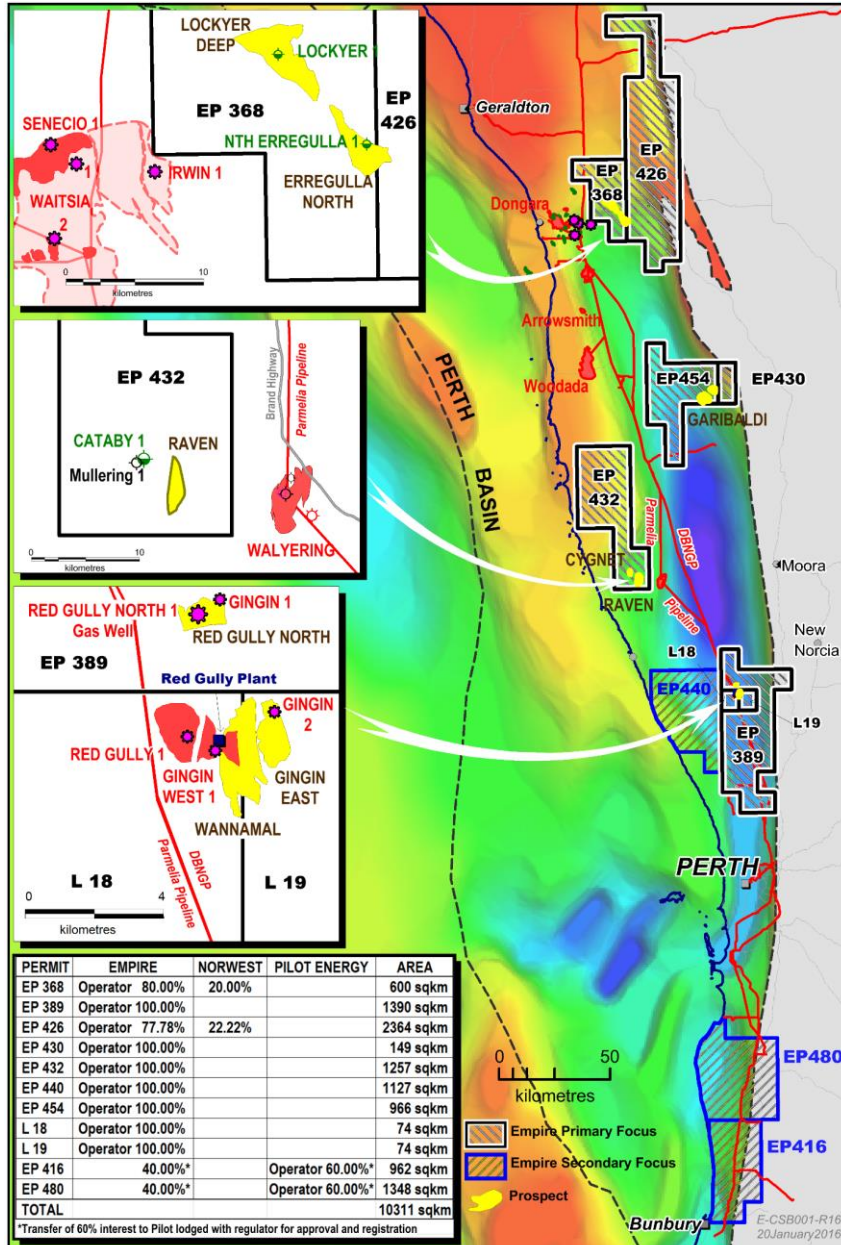
Figure 1 – Enerdrill Rig 1 during RGN-1 Completion



Acreage Evaluation

Processing and interpretation of the **Black Swan Airborne Geophysical Survey** was completed. Interpretation of the survey data has identified a number of areas with large structural leads and trends in EP 389, EP 432 and EP 454 to underpin future exploration activities on, including infill 2D seismic acquisition.

Figure 2 – Overview of Empire’s Perth Basin petroleum interests

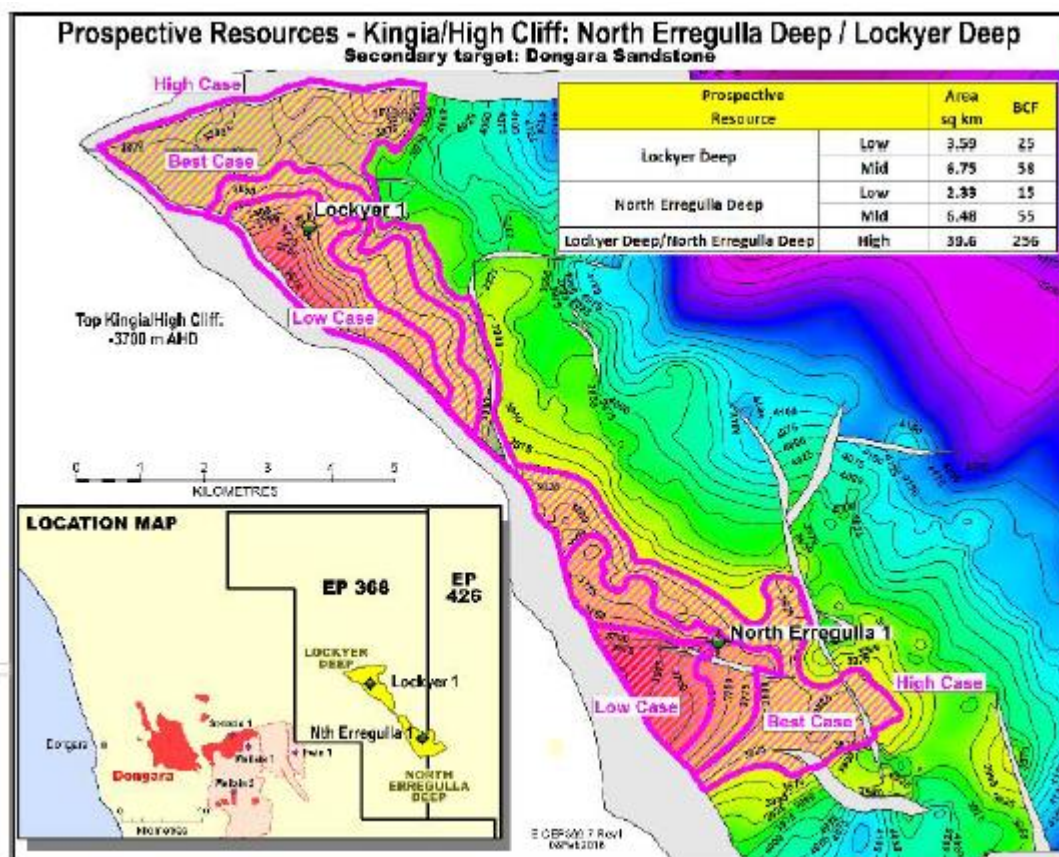


Upside potential interpreted for Lockyer Deep/North Erregulla Deep Prospect (Fig 2).

Following reprocessing of existing 2D seismic data, significant upside potential has been interpreted (in EP 368 and EP 426) with a combined high case closure of 39.6km². At the level of the untested Kingia/High Cliff sandstone, Lockyer Deep has prospect resources estimated at 25bcf (low), 58bcf (best) and 256 bcf (high).

Empire is anticipating the Lockyer Deep prospect will be drilled in the second half of 2016, subject to finalising funding alternatives including potential farm-in partner(s). This was approved as the commitment well by the EP 368 joint venture. (Reference ASX release of 16 February 2016).

Figure 3 – Lockyer Deep - North Erregulla Deep Prospect



Farmouts and new ventures

Farmout discussions continued with a number of potential parties.

Completion of the farmout of EP 416 and EP 480 in the South Perth Basin to Pilot Energy Ltd is currently awaiting various regulatory approvals.

FINANCE & CORPORATE

Cashflow

Empire had A\$3.1m cash at bank as at 31 March 2016. The major expenditure items for the March quarter were A\$6.9m for exploration and evaluation. This included RGN-1 well drilling and completion costs, seismic processing and interpretation, and other exploration costs. A further A\$1.0m was spent on production costs over the quarter. This was lower than the previous quarter due to timing of receipt and payment of the O&M contractor invoices, process efficiencies and deferred maintenance activities, without compromising the outstanding safety performance of the RGPF. Cash outflow for corporate costs was A\$0.6m for the March quarter.

Expected cash outflows for the June 2016 quarter will include costs related to the completion and testing of the RGN-1 well. Cash inflows from gas and condensate sales are expected to offset production and the RGN-1 completion and well test costs with surplus funds at the end of the June quarter.

Red Gully revenue

Revenue for the March quarter totalled A\$4.9m, with condensate revenue decreasing as a result of declining oil price and marginally lower condensate volumes. Gas revenue remains unaffected by the current decline in the oil price due to the secure CPI-linked contracts in place. Approximately 88% of total revenue for the quarter was gas derived.

Gas sales revenue for the March quarter was A\$4.3m and remains in line with the December quarter 2015 results of A\$4.2m. Condensate sales revenue decreased from A\$1.0m (December quarter) to A\$0.6m (March quarter) as a result of the continued decline in oil price.

Debt refinancing process

Empire is progressing multiple refinancing options for the A\$15m debt to ERM Power Ltd ("**ERM**"). Empire recognises the financial benefits of the interest free terms of the ERM loan, which is not repayable until maturity on 31 August 2016. The A\$15m debt to ERM was established as a result of the purchase of ERM's interest in the RGPF and exploration tenements of which Empire now owns 100%.

Community Relations

The Gingin Football Club started preparations for sowing the next fund raising crop on Empire's Cattamarra Farm property. Empire has increased the amount of cropping land available to the Gingin Football Club to help maximise the cash return from their fundraising venture.

In the last quarter of 2015, Empire commenced an annual sponsorship of the Gingin Aquatic Centre.

Issued Capital as at 31 March 2016

Ordinary shares	102,404,989
Listed options	7,853,059
Unlisted options	1,720,000



Ken Aitken
CEO
Empire Oil & Gas NL

Petroleum Tenements – Interests

Permit	Joint Venture Parties	Interests at beginning of Quarter	Change during Quarter	Interests at end of Quarter	Notes on Interest Changes & Farm-outs
Perth Basin					
L-18 Production Licence	Empire	100%	No change	100%	
L-19 Production Licence	Empire	100%	No change	100%	
PL-96 Pipeline Licence	Empire	100%	No change	100%	
EP 389	Empire	100%	No change	100%	
EP 426	*Empire Westranch	77.78% 22.22%	No change	77.78% 22.22%	
EP 368	*Empire Westranch	80% 20%	No change	80% 20%	
EP 432	Empire	100%	No change	100%	
EP 454	Empire	100%	No change	100%	
EP 430	Empire	100%	No change	100%	
EP 416	Empire *Pilot Energy	40% 60%	# Pilot Transfer of Interest approved by DMP	40% 60%	Transfers & F/out Agreement pending DMP approval
EP 440	Empire	100%	No change	100%	
EP 480	Empire *Pilot Energy	40% 60%	# Pilot Transfer of Interest approved by DMP	40% 60%	Transfers & F/out Agreement pending DMP approval

* Denotes Operator of Joint Venture Permit