

Activity Report for the Quarter ended September 2019

ASX RELEASE

EMPIRE ENERGY GROUP LIMITED

30 October 2019

Empire Energy Group Limited (ASX:EEG) (“Empire” or “the Company”) is pleased to provide shareholders with its Quarterly Activity Report for the period ending 30 September 2019.

HIGHLIGHTS

- Empire completed sale of Kansas assets for a final sale price of US\$19.25 million
- Empire reduced total debt from US\$25.4 million to US\$7.5 million during the quarter
- Empire received Northern Territory Government approval for EP187 2019 2D seismic work program
- Empire EP187 2D seismic program commenced shortly after quarter end
- Origin Energy and its JV partner Falcon Oil & Gas commenced drilling the first well in the Beetaloo Basin since the lifting of the moratorium in 2018
- Santos announced major investments in the Northern Territory oil and gas sector after quarter end
- Empire completed unmarketable parcel share sale facility
- Empire Director on-market share buying increased Director ownership to ~7.2% of the Company
- Empire US operations had another solid quarter
- Empire ended the quarter with US\$3.9 million cash at bank

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SUCCESSFUL COMPLETION OF US ASSET SALE PROCESS

During the Quarter, Empire announced it completed the sale of its Kansas assets to Mai Oil Operations, Inc (“Mai Oil”) for a final sale price of US\$19.25 million.

The sale proceeds have been principally applied to debt reduction with approximately US\$1.5 million cash retained for Empire’s growth projects and working capital. Following completion of the transaction, gross debt has been reduced to US\$7.5 million.

The Effective Date of the transaction was 1 September 2019, and the Closing Date was 30 September 2019. Empire no longer received any oil revenues from the Kansas assets after the Effective Date.

Empire continued to fund Kansas operating expenses from the Effective Date of the sale to the Closing Date of the sale. Under the terms of the purchase and sale agreement with Mai Oil, those expenses, totaling ~US\$0.5 million, will be reimbursed by Mai Oil during Q4 2019.

The sale enables Empire to retain cash flow positive production from its New York State and Pennsylvania (“Appalachia”) gas production assets and the substantial upside potential of the Marcellus Shale and Utica Shale rights in New York State.

Empire will continue to consider strategic alternatives for the Appalachia assets over the coming months to maintain its strategic focus on debt reduction and adding value to the Northern Territory assets.

DEBT REDUCTION, BALANCE SHEET AND COST MANAGEMENT

Empire’s successful debt reduction process carried out over the last 12 months has reduced net debt by approximately 90% to US\$3.6 million as at quarter end. As at 30 September 2019, total debt was US\$7.5 million (30 June 2018: US\$38 million).

In conjunction with completion of the Kansas asset sale, Empire entered into a new US\$7.5 million five-year debt facility with Macquarie Bank Limited on improved terms.

Empire’s cash flow positive Appalachia gas production will service the remaining debt.

As at 30 September, 2019, there was a one-off breach of the Interest Coverage Ratio due to timing differences and costs associated with the Kansas asset sale, most notably the fact that Kansas oil revenues ceased being received by Empire on 1 September 2019, and closing costs associated with the sale. Macquarie Bank Limited agreed to waive the one-off breach in writing in conjunction with the documentation of the new credit facility.

Empire was in compliance with all other debt facility covenants at the end of the Quarter.

Empire’s quarter end cash balance was US\$3.9 million (30 June 2019: US\$4.8 million).

EMPIRE 2019 NORTHERN TERRITORY WORK PROGRAM UPDATE

Empire has been one of the most active companies in the Beetaloo and McArthur Basins since the lifting of the moratorium in April 2018 and subsequent implementation of regulations to allow a recommencement of industry activities.

During the quarter, Empire received all necessary Northern Territory Government approvals for its EP187 2D seismic program.

Since quarter end, Empire has commenced the acquisition of 231 kilometers of 2D seismic data in EP187. The primary goal of Empire's EP187 2D seismic program is to gain a better understanding of the depth, thickness and lateral extent of the petroleum systems in EP187 and image any local geological complexities, especially in the Velkerri Shale, in order to better inform future drilling programs and attract further capital support including from industry joint venture partners.

The seismic program is fully funded from existing cash reserves.

During the quarter, the Northern Territory Government advised Empire that it had accepted for final assessment an Environment Management Plan ("EMP") for the drilling of up to 2 exploration wells in EP187. The approval process is progressing well, and Empire expects to receive all necessary approvals for the drilling program before the commencement of the 2020 dry season.

NORTHERN TERRITORY ONSHORE SHALE PETROLEUM INDUSTRY RAMPING UP

On 9 October 2019, Falcon Oil & Gas (TSX: FO, AIM: FOG) announced the spudding of the Kyalla 117 N2-1 appraisal well in the Beetaloo Basin. The well, which is operated by Origin Energy, is located in EP117 on trend with Empire's EP187 permit. The objective of the Kyalla 117 N2-1 well is to assess hydrocarbon maturity, saturation and reservoir quality and collect data for subsequent horizontal drilling, completion, stimulation and production testing.

During the quarter, the Northern Territory Department of Environment and Natural Resources approved the Santos EP161 McArthur Basin Drilling Program for the drilling and fracture stimulation of up to two horizontal wells targeting the Velkerri Shale formation. Santos' drilling program is located in EP161 which is immediately adjacent to Empire's EP187 tenement.

Santos is expected to commence drilling and fracture stimulation of these wells early in the 2020 dry season.

Technical analysis by Empire and its advisors indicates that the Velkerri Shale extends from Santos' EP161 tenement into Empire's EP187 tenement at depths and thicknesses ideal for petroleum development. Appraisal success by Empire's neighbors in the basin will inform Empire regarding the

execution of its future exploration and development programs and is likely to attract further interest from oil and gas companies seeking to invest in the Northern Territory onshore shale sector.

After the end of the quarter, Santos announced that it would acquire all of ConocoPhillips' Northern Territory operations, including a majority interest in the Darwin LNG project, for over A\$2bn.

Santos has stated that northern Australia has the potential to become a major LNG hub over the long term, supported by Santos' world class regional onshore (comprising McArthur Basin acreage adjoining Empire) and offshore gas resources and proximity to Asia.

Darwin LNG holds necessary approvals for production capacity of up to 10 mtpa of LNG (three trains) vs. the present one train 3.7mtpa facility supported by the offshore Bayu Undan field. The development of Beetaloo and McArthur Basin resources are well placed to supply any Darwin LNG expansion beyond the proposed Barossa gas field backfill project.

After the end of the quarter, Santos also announced a A\$95 million farm-in (cash and carried expenditure) to South Nicholson Basin acreage owned by Armour Energy Limited (ASX:AJQ) to acquire a 70% operated interest.

During the Quarter, the Northern Territory Government released a Reserved Blocks policy. The impact of the policy is still being determined by Empire and is subject to further discussions with the Northern Territory Government. The Scientific Inquiry into Hydraulic Fracturing conducted by the Northern Territory Government determined that certain areas including towns, national parks and areas of high ecological and tourism value in the Northern Territory should be Reserved Blocks and therefore not available for petroleum exploration.

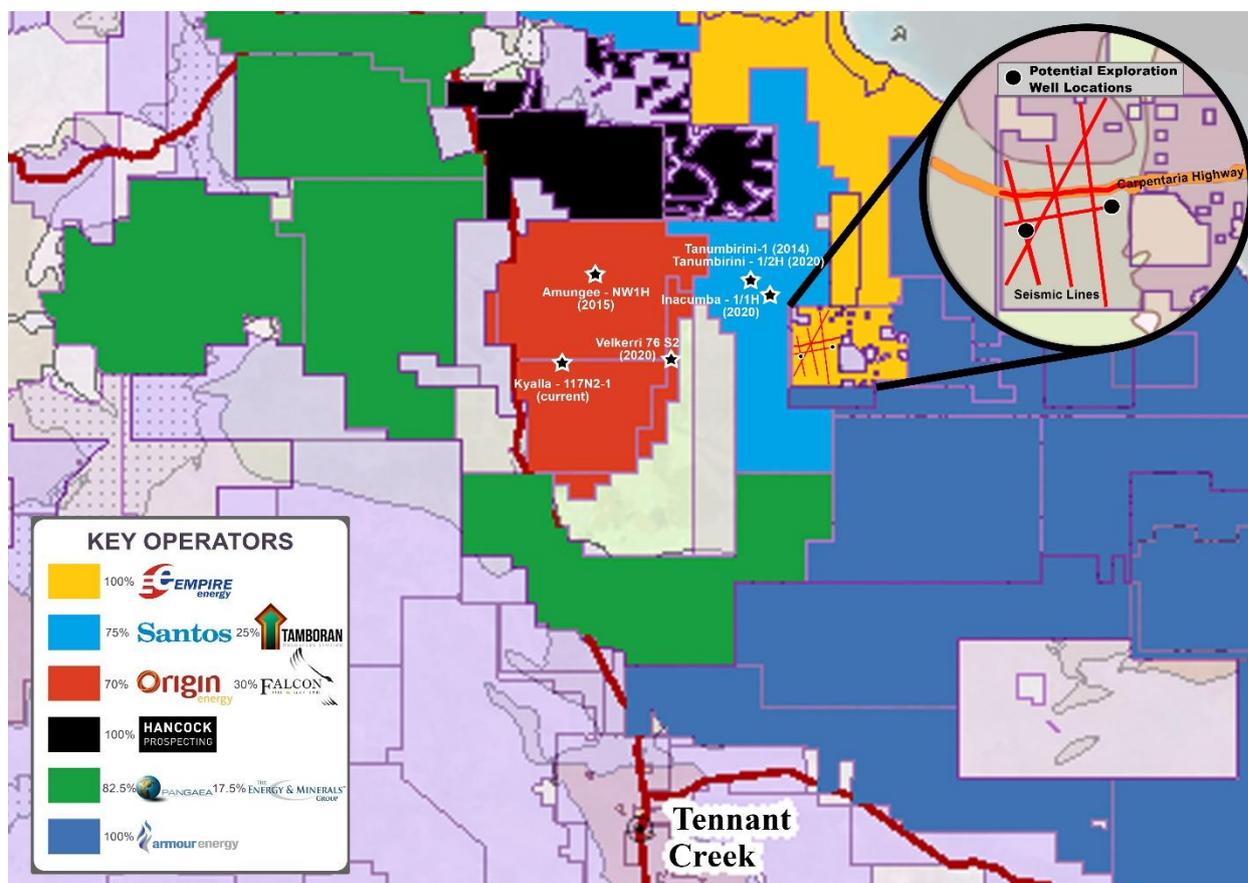
The Reserved Blocks policy provides for negotiations with petroleum companies including Empire with respect to potential relinquishment of granted exploration permits which cover National Parks. The key affected areas for Empire are the Limmen National Park and St Vidgeon Management Area, both of which are in parts of EP184. The Company expects negotiations with the Government to take several months and will keep shareholders updated as negotiations progress. Empire's core EP187 work area is not affected by the Reserved Blocks policy.

The map below details current and upcoming activity in the Beetaloo and McArthur Basins. Directly to the west of EP187 Origin has commenced operations on its Kyalla 117 N2-1 vertical well, the objective of which is to drill to the base of the Kyalla sequence at ~1,900 meters depth. The well will then be deviated with an extended reach horizontal well section drilled through the Lower Kyalla objective for ~2,000 meters, with subsequent fracture simulation and testing of this target horizon.

In 2020 Origin intends to move further east and drill and test the second well in its campaign, and the first well on its EP 76 permit Velkerri 76 S2-1/1H, 70km from the boundary of Empire's EP187 permit.

This second Origin well will test with a fracture stimulated horizontal well the Velkerri B Shale, a prognosed evaluation target of Empire’s 2020 drilling program.

In EP161 immediately adjacent to Empire’s EP187, Santos plans to commence a two well drilling campaign in the first half of 2020 with the Tanumbirini 2H and Inacumba 1/1H wells, 43 and 35 kilometers respectively northwest of EP187. Both wells are planned to be completed as 2,000m horizontal fracture stimulated wells in the organic rich Velkerri B Shale.



US OPERATIONS UPDATE

The reduced Empire US operations EBITDAX for the Quarter was influenced by lower average commodity prices (Q2: US\$30.97boe vs Q3: US\$26.45boe) and lower sale volumes.

EBITDA for Q3 decreased US\$369k (38% q/q) from the prior quarter ended June 2019. The fall can be attributed to lower production volumes (8,649 barrels of oil equivalent decrease) reflecting the sale of the Kansas assets at the effective date of 1 September 2019 resulting in only two months of Kansas production being attributable to Empire, and lower commodity prices (US\$5.37 / boe decrease).

Total production was 1,032boe/d representing a decrease of 171boe/d vs. Q2 2019 reflecting the loss of production associated with the Kansas assets for the month of September. Following the divestment, Empire expects its US operations to produce ~800boe/d of gas production.

Gas prices typically improve in the final quarter of the year as the US moves into its winter and gas demand rises for heating purposes. If this occurs in 2019, it will likely have a positive impact on Empire's operating margins in Q4 2019.

Empire recently closed its Kansas operations and is in the process of closing its field office located in Southpointe, Pennsylvania. In future, all US operations will be based in the Mayville, New York office which currently services the New York and Pennsylvania gas operations. Empire expects to book a one-off restructuring expense of ~US\$500,000 during the current quarter associated with the Kansas operations and Southpointe, Pennsylvania office closures. However, operating margins are expected to improve (all other factors being equal) in future periods due to reduced US general and administrative overheads.

Appalachia gas production remained consistent over the third quarter with no distribution pipeline or production interruptions. The Appalachia operating team achieved another good quarter of maintaining cost control and production rates. Empire is receiving gas prices significantly higher than current spot prices due to fixed price offtake agreements entered into at higher prices earlier in the year and hedging contracts.

FURTHER EMPIRE DIRECTOR SHARE BUYING

During the Quarter, Empire Directors Paul Espie AO, John Warburton and Alex Underwood acquired 1,754,000 Empire shares on market. Currently, Directors of Empire hold approximately 16.6 million ordinary shares in the Company, representing 7.2% of the issued share capital.

COMPLETION OF UNMARKETABLE PARCEL SHARE FACILITY

During the Quarter, Empire completed a share sale facility for holders of fully paid Empire ordinary shares valued at less than A\$500 (a marketable share parcel). Shortly after the end of the quarter, Empire shareholders holding a total 884,075 EEG shares received A\$0.20 per share for their unmarketable parcels without having to pay brokerage or other costs.

OPERATING OVERVIEW - EMPIRE ENERGY USA, LLC

Production

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Gross Production:				
Oil (Bbls)	33,055	46,334	130,095	139,277
Natural Gas (Mcf)	556,000	598,271	1,649,547	1,719,071
Oil (Bbls)				
Appalachia	861	1,034	2,095	2,328
Mid-Con	21,619	30,095	85,732	91,484
Total Oil	22,480	31,129	87,827	93,812
Weighted Avg Oil Sales Price (\$/Bbl)				
Before Hedge	51.06	64.99	52.06	62.01
After Hedge	59.31	64.99	59.80	62.01
Natural gas (Mcf)				
Appalachia	434,525	474,765	1,309,547	1,367,885
Mid-Con	4	2,290	2,835	7,529
Total Natural Gas	434,529	477,055	1,312,382	1,375,414
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.25	2.50	2.49	2.51
After Hedge	2.71	3.14	2.80	3.17
Oil Equivalent (Boe):				
Appalachia	73,281	80,162	220,353	230,308
Mid-Con	21,620	30,476	86,205	92,739
Total	94,901	110,638	306,558	323,047
Boe/d	1,032	1,203	1,123	1,179
Weighted Avg Sales Price (\$/Boe)				
Before Hedge	22.39	29.08	25.59	28.70
After Hedge	26.45	31.82	29.12	31.52
Lifting Costs (incl. taxes):				
Oil – Midcon (\$/Bbl)	28.73	23.86	24.01	22.26
Natural gas – Appalachia (\$/Mcf)	1.38	1.11	1.25	1.14
Oil Equivalent (\$/BOE)	13.14	11.48	12.23	11.34

Financials

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Net Revenue:				
Oil Sales	1,333,261	2,023,132	5,251,713	5,817,318
Natural Gas Sales	1,175,718	1,497,523	3,673,610	4,307,419
Working Interest	1,208	91	1,343	58,673
Net Admin Income	56,573	77,549	209,829	241,638
Other Income	(34,184)	33,931	(40,028)	154,730
Total Revenue	2,532,576	3,632,226	9,096,467	10,579,778
Production costs:				
Lease operating expenses – Oil	618,772	674,791	2,000,766	2,004,247
Lease operating expenses – Gas	579,646	501,905	1,557,159	1,501,859
Taxes – Oil	27,122	68,029	108,041	83,661
Taxes – Natural Gas	20,305	24,494	81,324	73,493
Total	1,245,845	1,269,219	3,747,290	3,663,260
Field EBITDAX	1,286,731	2,363,007	5,349,177	6,916,518
Less:				
Inventory adjustment	92,662	26,294	73,615	(48,883)
Reserve Enhancements	-	1,349	65,783	14,803
Nonrecurring expenses	193,184	323,077	580,135	741,615
G & G Costs	-	296	95	12,777
Field Overhead	453,000	501,000	1,455,000	1,503,000
Total	738,846	852,016	2,174,628	2,223,312
Operating EBITDAX	547,885	1,510,991	3,174,549	4,693,206
Less:				
Field G & A	139,156	188,403	381,230	438,085
Corporate G & A	296,630	340,503	872,727	1,139,949
Delay rental payments	500	5,134	57,965	86,859
Land Overhead & Non-leasing costs	-	-	-	55
Expenses incurred on behalf of purchaser of Kansas assets ¹	(497,000)	-	(497,000)	-
Total	(60,714)	534,040	814,922	1,664,948
EBITDAX	608,599	976,951	2,359,627	3,028,258

¹ Estimated expenses incurred by Empire on behalf of Mai Oil Operations, Inc from 1 September (effective date) to 30 September (closing date), which are to be reimbursed to Empire during the current quarter.

Exploration/Acquisition Expenses

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
EBITDAX	608,599	976,951	2,359,627	3,028,258
Less:				
Geological Services	773	1,050	2,648	1,265
Acquisition related expenses	840	-	10,366	7,198
Total	1,613	1,050	13,014	8,463
EBITDA	606,986	975,901	2,346,613	3,019,795

Net Earnings

(Unaudited)

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
EBITDA	606,986	975,901	2,346,613	3,019,795
Less:				
Depn, Depl, Amort & ARO	348,052	533,255	2,564,599	1,549,274
Interest	561,766	819,906	1,713,182	2,404,174
(Gain) loss on sale of assets	211,256	-	205,633	(67,914)
Bad debts	-	830	1,298	(49,152)
Non-Cash & Interest Expenses	1,121,074	1,353,991	4,484,712	3,836,382
Earnings before Tax	(514,088)	378,090	(2,138,099)	(816,587)

Capital Expenditure/Asset Sales

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Capital Expenditures				
Acquisition Capital	-	394	-	47,663
New Wells - IDC	4,050	29	6,335	307,453
New Wells - Capital	-	(2,549)	(11,243)	55,815
Undeveloped Leases	-	15	1,600	126
Capital Expenditures	4,050	(2,111)	(3,308)	411,057

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 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Revenues:	2,532,576	3,632,227	9,096,467	10,579,778
Costs & Expenses:				
Production costs & taxes	1,984,691	2,121,236	5,921,918	5,886,572
Depn, Depletion, Amort & ARO	348,052	533,255	2,564,599	1,673,411
General & Administration	(59,101)	535,090	827,936	1,549,274
Income from Operations	258,934	442,646	(217,986)	1,470,521
Interest	561,766	819,906	1,713,182	2,404,174
(Gain)/Loss on sale of assets	211,256	-	205,633	(67,914)
Bad debts	-	830	1,298	(49,152)
Net Income/(Loss)	(514,088)	(378,090)	(2,138,099)	(816,587)

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):

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Exploration Expenses – NT	457,608	187,899	690,368	432,202

Northern Territory exploration program costs are expected to increase materially in the next Quarter as the Company invests in the 2D seismic program.

EMPIRE ENERGY GROUP LIMITED

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

All figures are in USD

Description	3 months to 30/09/2019	3 months to 30/09/2018	Year-to-Date 30/09/2019	Year-to-Date 30/09/2018
Revenue	40,195	39,416	119,511	118,072
Less Expenses:				
Consultants	-	77,290	111,067	276,366
Directors/Employments Costs	144,265	41,128	292,424	170,555
Listing Expenses	11,489	13,781	72,435	38,372
G&A	146,488	190,625	484,941	467,214
EBITDAX – Heads office (EEG)	(262,047)	(283,408)	(841,356)	(834,435)
EBITDAX – (EEUS)	608,599	976,951	2,359,627	3,028,258
EBITDAX – GROUP	346,552	693,543	1,518,271	2,193,823

Financial Terminology

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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		