Activity Report for the Quarter ended June 2019

ASX RELEASE

EMPIRE ENERGY GROUP LIMITED

31 July 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 June 2019.

HIGHLIGHTS

- Announced agreement to sell Kansas assets for US$19.1 million
- Northern Territory Government EP187 2019 2D seismic approvals well advanced
- Northern Territory onshore shale petroleum activity ramping up
- Continued focus on balance sheet management and cost reduction
- Solid operational performance from US operations
- US$4.8 million cash at bank at quarter end

US ASSET SALES PROCESS

During the Quarter, Empire announced that it had entered into a Purchase and Sale Agreement with Mai Oil Operations, Inc ("Mai Oil") for the sale of its Kansas assets for US$19.1 million.

Mai Oil has paid a US$2 million cash deposit which is non-refundable except in limited circumstances.

The sale transaction is progressing well with Empire and Mai Oil working together to reach financial close by the end of Q3 2019.

The sale proceeds will principally be used to retire debt to a maximum remaining gross debt balance of US$8 million, with Empire expected to retain a proportion from the sale proceeds for working capital and continued investment in Empire's core Northern Territory shale assets.

The sale will enable 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 considered several indicative, non-binding proposals from oil and gas companies interested in acquiring part or all of the US assets.

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.

EMPIRE 2019 NORTHERN TERRITORY WORK PROGRAM UPDATE

Shortly after the end of the Quarter, the Northern Territory Department of Environment and Natural Resources advised Empire that it had accepted Empire's EP187 2D seismic program Environment Management Plan for final assessment.

Empire is working proactively with the Northern Territory Government to finalise the approval and is in discussions with seismic contractors to carry out the seismic acquisition late in Q3 2019 (subject to final Government approvals and seismic crew availability).

The primary goal of Empire's EP187 2D seismic program is to gain a better understanding of the depth, thickness, lateral extent and geological complexity of the petroleum systems in EP187, especially 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.

NORTHERN TERRITORY ONSHORE SHALE PETROLEUM INDUSTRY RAMPING UP

The Northern Territory Department of Environment and Natural Resources recently announced that it has approved the Environment Management Plan for Santos' 2019 EP161 McArthur Basin Drilling Program. This paves the way for a recommencement of appraisal drilling in 2019. The Santos EMP details the drilling and fracture stimulation of up to two horizontal wells targeting the Velkerri Shale formation.

Technical analysis by Empire and its advisors demonstrates that the Velkerri Shale extends from EP161 into Empire's EP187 tenement at depths and thicknesses ideal for petroleum development. Appraisal success by Empire's neighbours in the basin will inform Empire regarding the execution of its future exploration and development programs and is likely to attract further capital from oil and gas companies seeking to invest in the Northern Territory onshore shale sector.

Early in the Quarter, the Federal Government announced in its 2019-2020 Budget that A$8.4 million would be allocated to feasibility studies to accelerate the supply of gas to the East Coast from the Beetaloo Basin. The Federal Government recognizes that the Beetaloo and McArthur Basins have the potential to become a major source of cost-effective gas supply for the critically supply constrained East Coast gas market in the coming years.

Implementation of Northern Territory regulations to allow a resumption of onshore shale industry activities continued during the Quarter. All regulations required for the drilling and fracture stimulation of exploration and appraisal wells by industry operators are now in place (as evidenced by the NT Government approval for Santos' 2019 drilling program).

Early in the Quarter, the Northern Territory Government released draft Codes of Practice for the onshore oil and gas industry. The Codes of Practice were finalised and released late in the Quarter.

In late May (as detailed in the Company announcement "Northern Territory Operations Update" dated 27 May 2019), the Northern Territory Government released a Reserved Blocks Consultation Paper. The Consultation Paper detailed areas which the Northern Territory Government considers inconsistent with oil and gas exploration and development in accordance with Recommendation 14.4 of the Fracking Inquiry Final Report. Empire (and a number of other oil and gas companies active in the Northern Territory) made formal submissions to the Government regarding proposed Reserved Blocks, which may impact parts of Empire's EP184, EP(A) 180, EP(A) 181, EP(A) 182 and EP(A) 183 tenements.

EP187 and EP(A)188, Empire's key near-term exploration and development target areas prospective for the Velkerri Shale, are unaffected by the policy and as such Empire is continuing to progress its exploration programs in those areas according to schedule.

After the end of the Quarter, the Northern Territory Government released its 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.

Empire is pleased that the Northern Territory Government has stated that it will respect the rights of Traditional Owners to determine the economic development of their land (as has always been the case in negotiations between Empire and Traditional Owners on Aboriginal Land). The key affected areas on Aboriginal Land are located in EP(A) 180, EP(A) 181 and EP(A) 182. Empire will continue negotiations for the grant of exploration permits with Traditional Owners through the Northern Land Council in accordance with the well-established existing practice.

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.

BALANCE SHEET AND COST MANAGEMENT

During the Quarter, Empire made principal repayments from US free cash flow totaling US$0.4 million which reduced the debt balance to US$25.4 million.

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

Empire's cash balance increased from US$3.3 million to US$4.8 million during the Quarter. This was primarily due to receipt of a US$2 million deposit from Mai Oil for the Kansas sale transaction, offset partly by debt facility principal repayments, corporate overheads and costs associated with the Northern Territory 2019 exploration program. The deposit received from Mai Oil is refundable in limited circumstances.

Empire does not expect the cash balance at the end of Q2 2018 to be sustained throughout Q3 2018. The likely cash balance at the end of Q3 2018 will depend on the timing of the completion of the Kansas sale and the timing of the EP187 2D seismic program.

The Company's present intention is to utilize part of the US$2 million deposit received from Mai Oil towards further debt reduction and closing costs, while retaining the remainder of the deposit for working capital and to progress its Northern Territory exploration programs.

If the EP187 2D seismic program is carried out in Q3 2019, this would reduce the Company's cash balance by approximately US$1 million.

Upon completion of the sale of the Kansas assets expected in late Q3 2019, the total debt balance is expected to reduce to US$8 million or less.

A continued focus on cost reduction is yielding results characterized by lower Australian Corporate costs and US Corporate costs compared to the prior corresponding period in 2018.

US OPERATIONS UPDATE

Empire's US operations had a solid Quarter characterized by a small reduction in EBITDAX from US$1.0 million in Q1 2019 to US$0.9 million in the Quarter.

Total production was broadly in line with Q1 2019, averaging 1,154 barrels of oil equivalent per day.

Capital expenditure on the Kansas operations was reduced to minimal levels during the Quarter due to the announced sale of the Kansas assets to Mai Oil.

Market oil prices recovered significantly during the Quarter compared to Q1 2019, although the impact on cash flows was minimal due to the Company's oil hedges which cover approximately 90% of current oil production at a WTI benchmark oil price of US$66.50 / barrel (less quality and transportation differentials).

Market gas prices experienced significant weakness during the Quarter, as is common during the North American summer period, although the impact was mitigated by hedging (~$0.11 / mcf reduction in realized gas prices compared to Q1 2019).

Oil production in Kansas continued to be impacted by ongoing heavy rainfall during the Quarter, with tank batteries shut in for periods of time which delayed some oil sales.

The Kansas team's primary focus during the Quarter was on the Kansas sale process, including the collation and provision of due diligence materials to prospective purchasers and ultimately Mai Oil following execution of the Purchase and Sale Agreement.

Following completion of the Kansas sale slated for late Q3 2019, the Company intends to wind up its Kansas operations and shut the Wichita office which will result in a one-off cost of ~US$500,000 in late Q3 2019 or early Q4 2019.

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.

BOARD CHANGES

On 30 May 2019, the company announced the retirement of Mr David Sutton as Non-Executive Director of Empire. Mr Sutton was a Director of the Company for 22 years. The Company thanks him for his long period of loyal service.

The Board and management wish Mr Sutton all the best for his future endeavors.

EMPIRE energy

OPERATING OVERVIEW - EMPIRE ENERGY USA, LLC

Production

All figures are in USD

Description	3 months to 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Gross Production:				
Oil (Bbls)	47,689	46,566	97,121	92,943
Natural Gas (Mcf)	553,527	589,027	1,079,613	1,120,800
Oil (Bbls)				
Appalachia	1,043	880	1,223	1,293
Mid-Con	31,469	30,564	64,480	61,389
Total Oil	32,512	31,444	65,703	62,682
Weighted Avg Oil Sales Price ($/Bbl)				
Before Hedge	56.00	63.16	52.84	60.53
After Hedge	61.55	63.16	60.35	60.53
Natural gas (Mcf)				
Appalachia	433,854	467,232	863,214	893,120
Mid-Con	1,216	2,203	3,168	5,239
Total Natural Gas	435,070	469,435	866,382	898,359
Weighted Avg Sales Price ($/Mcf)				
Before Hedge	2.57	2.39	2.67	2.51
After Hedge	2.88	3.10	2.90	3.19
Oil Equivalent (Boe):				
Appalachia	73,352	78,752	145,092	150,147
Mid-Con	31,672	30,931	65,008	62,262
Total	105,024	109,683	210,100	212,409
Boe/d	**1,154**	**1,205**	**1,161**	**1,174**
Weighted Avg Sales Price ($/Boe)				
Before Hedge	27.96	28.35	27.53	28.50
After Hedge	30.97	31.36	30.84	31.37
Lifting Costs (incl. taxes):				
Oil – Midcon ($/Bbl)	22.92	23.29	22.32	21.46
Natural gas – Appalachia ($/Mcf)	1.20	1.05	1.20	1.17
Oil Equivalent ($/BOE)	12.06	11.19	11.95	11.26

Financials

All figures are in USD

Description	3 months to 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Net Revenue:				
Oil Sales	2,001,125	1,986,117	3,965,162	3,794,186
Natural Gas Sales	1,251,334	1,453,761	2,514,532	2,809,896
Working Interest	30	-	135	58,582
Net Admin Income	76,247	80,549	153,256	164,089
Other Income	(10,509)	66,068	(5,616)	120,798
Total Revenue	3,318,226	3,586,495	6,627,469	6,947,551
Production costs:				
Lease operating expenses – Oil	703,321	665,015	1,381,994	1,333,156
Lease operating expenses – Gas	488,539	469,627	978,033	996,203
Taxes – Oil	41,858	67,194	84,632	15,632
Taxes – Natural Gas	33,309	24,462	63,860	49,000
Total	1,267,027	1,226,298	2,508,519	2,393,991
Field EBITDAX	2,051,200	2,360,197	4,118,950	4,553,560
Less:				
Inventory adjustment	(13,584)	(44,610)	(19,047)	(75,177)
Reserve Enhancements	-	3,218	65,783	13,454
Nonrecurring expenses	122,640	180,842	275,104	362,656
G & G Costs	95	12,480	95	12,480
Field Overhead	501,000	501,000	1,002,000	1,002,000
Total	610,151	652,930	1,323,935	1,315,413
Operating EBITDAX	1,441,049	1,707,267	2,795,015	3,238,147
Less:				
Field G & A	134,335	108,965	239,180	249,682
Corporate G & A	313,282	426,920	571,597	799,447
Delay rental payments	56,174	70,377	57,465	81,725
Land Overhead & Non-leasing costs	-	-	-	55
Total	503,791	606,262	868,242	1,130,909
EBITDAX	937,258	1,101,005	1,926,773	2,107,238

Exploration/Acquisition Expenses

All figures are in USD

Description	3 months to 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
EBITDAX	937,258	1,101,005	1,926,773	2,107,238
Less:				
Geological Services	-	-	1,875	215
Acquisition related expenses	-	7,197	9,526	7,197
Capital raise expenses	-	-	-	-
Dry hole expenses	-	-	-	-
Total	-	7,197	11,401	7,412
EBITDA	937,258	1,093,808	1,915,372	2,099,826

Net Earnings

(Unaudited)

All figures are in USD

Description	3 months to 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
EBITDA	937,258	1,093,808	1,915,372	2,099,826
Less:				
Depn, Depl, Amort & ARO	1,794,875	498,496	2,216,546	1,016,019
Interest	579,721	816,245	1,151,417	1,584,268
(Gain) loss on sale of assets	(5,624)	(67,914)	(5,623)	(67,914)
P&A vs. ARO	-	-	-	-
Bad debts	-	(59,770)	1,298	(49,982)
Non-Cash & Interest Expenses	2,368,972	1,187,057	3,363,638	2,482,391
Earnings before Tax	(1,431,714)	(93,249)	(1,448,266)	(382,565)

Capital Expenditure/Asset Sales

All figures are in USD

Description	3 months to 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Capital Expenditures				
Acquisition Capital	-	46,636	-	47,269
New Wells - IDC	2,285	299,316	2,285	307,424
New Wells - Capital	(11,243)	(1,983)	(20,196)	58,364
Undeveloped Leases	1,600	56	1,600	111
Capital Expenditures	(7,358)	344,025	(16,311)	413,168

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 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Revenues:	3,318,226	3,586,495	6,627,469	6,947,551
Costs & Expenses:				
Production costs & taxes	1,877,177	1,879,228	3,832,455	3,709,404
Depn, Depletion, Amort & ARO	1,794,875	498,496	2,216,546	1,016,019
General & Administration	503,791	613,459	879,644	1,138,321
Income from Operations	(857,617)	595,312	(301,174)	1,083,807
Interest	579,721	816,245	1,151,417	1,584,268
(Gain)/Loss on sale of assets	(5,624)	(67,914)	(5,623)	(67,914)
P&A vs. ARO	-	(59,770)	1,298	(49,982)
Bad debts	-	-	-	-
Net Income/(Loss)	(1,431,714)	(93,249)	(1,448,266)	(382,565)

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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 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Exploration Expenses – NT	128,346	127,458	232,760	244,303

Northern Territory exploration program costs remained relative the same as prior quarter as Imperial's regulatory approvals for the 2019 exploration program continue.

Northern Territory exploration program costs are expected to increase materially in the next Quarter (subject to regulatory approvals and seismic crew availability) 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 30/06/2019	3 months to 30/06/2018	Year-to-Date 30/06/2019	Year-to-Date 30/06/2018
Revenue	39,093	39,338	79,316	78,656
Less Expenses:				
Consultants	56,805	106,715	111,067	199,076
Directors/Employments Costs	87,380	51,427	148,159	129,427
Listing Expenses	29,471	15,026	60,946	24,591
G&A	135,584	191,587	338,453	276,589
EBITDAX – Head office (EEG)	(270,147)	(325,417)	(579,309)	(551,027)
EBITDAX – (EEUS)	937,258	1,101,005	1,926,773	2,107,238
EBITDAX – GROUP	**667,111**	**775,588**	**1,347,464**	**1,556,211**

Financial Terminology

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

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

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

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

Glossary

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

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