

Activity Report for the Quarter ended September 2018

ASX RELEASE

EMPIRE ENERGY GROUP LIMITED

31 October 2018

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, 2018.

HIGHLIGHTS

- Former Chief Executive Officer and Executive Chairman retired
- New Chief Executive Officer and Managing Director appointed
- Interim Chairman appointed
- A\$15 million equity capital raising successfully carried out
- Macquarie Bank Limited committed to new debt facility (financial close post-quarter end)
- Debt reduced from US\$37.95 million to US\$30.06 million at quarter end (further reduced to US\$26.06 million post-quarter end)
- US production and cash flows steady
- Planning commenced for US workover and recompletion program
- Planning and approval process commenced for Northern Territory exploration program
- The Company ended the quarter with US\$3.3 million cash at bank

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MANAGEMENT CHANGES

On 30 August 2018, the Company announced the retirement of longstanding former Chief Executive Officer and Executive Chairman, Mr Bruce McLeod. Mr McLeod passed away two weeks later due to an illness. The Company is grateful for the many messages of support which have been received from his former colleagues and friends around the world.

On 30 August 2018, the Company announced that Mr Alex Underwood was appointed as Chief Executive Officer and Managing Director. Mr Underwood has worked with the Company since February 2018 and was previously employed by Commonwealth Bank of Australia for 2 years in its Natural Resources team in Singapore and prior to that for 9 years at Macquarie Bank Limited in its Energy Markets Division in Sydney and Singapore.

On 30 August 2018, the Company announced that Mr David Sutton had been appointed as Interim Chairman. Mr Sutton is a long-standing Director of the Company.

Empire Energy USA, LLC, a 100% owned subsidiary of the Company, is the owner and beneficiary of a US\$2 million life insurance policy ("the Policy") in the name of the former CEO and Executive Chairman. The Policy was entered into in 2014 as an underwriting condition of a planned US capital raising which did not complete. During the quarter, the Company made a claim against the Policy. If the Policy is paid out in full as expected, the Company will receive the proceeds of the policy which may be income tax-free under US tax legislation. Part of the proceeds of the policy (approximately A\$0.6 million) would be paid to the estate of the former CEO and Executive Chairman, to fund previously incurred but unpaid fees and termination payments under his consulting services agreement with the Company. The remaining funds (~A\$2 million depending on prevailing FX rates at the time), would be available to the Company for general corporate purposes.

RECAPITALISATION PROGRAM

In August 2018, the Company carried out a A\$15 million equity capital raising at 2c per share (with 1 attaching option exercisable at 3c per share for every 2 shares subscribed).

Existing shareholders were supportive and a number of new sophisticated and institutional shareholders joined the register.

Proceeds of the capital raising were applied to a US\$7.5 million cash prepayment of the Macquarie Bank Limited ("Macquarie") debt facility and for the Northern Territory exploration program and working capital.

DEBT REDUCTION

The balance of the Macquarie debt facility at the beginning of the quarter was US\$37.925m.

During the quarter, the Company agreed terms with Macquarie for a new 3-year senior secured debt facility supported by the cash flow positive US production assets. The decision to accept terms from Macquarie was made after a competitive tender process with a range of potential financiers.

The key terms of the new debt facility are contained in the Company's ASX announcements released on 6th August 2018.

During the quarter, the Company made a cash prepayment of the Macquarie debt facility of US\$7.5 million from the proceeds of the equity capital raising.

The Company also made repayments to Macquarie from US free cash flow of US\$0.365 million.

After the end of the quarter, the Company reached financial close on the new debt facility. As a condition precedent to financial close of the new debt facility, Macquarie converted US\$4 million to equity at 2c per share.

The opening balance of the new debt facility (on 26 October 2018) was US\$26.06 million.

The Company expects to pay significantly less interest on the new debt facility due to the > 30% reduction in total facility balance.

The additional free cash that is expected to be generated will be utilized to make higher principal repayments and to fund US\$0.44 million – US\$1 million (depending on performance and further bank Credit approvals) Kansas workover and recompletion development program.

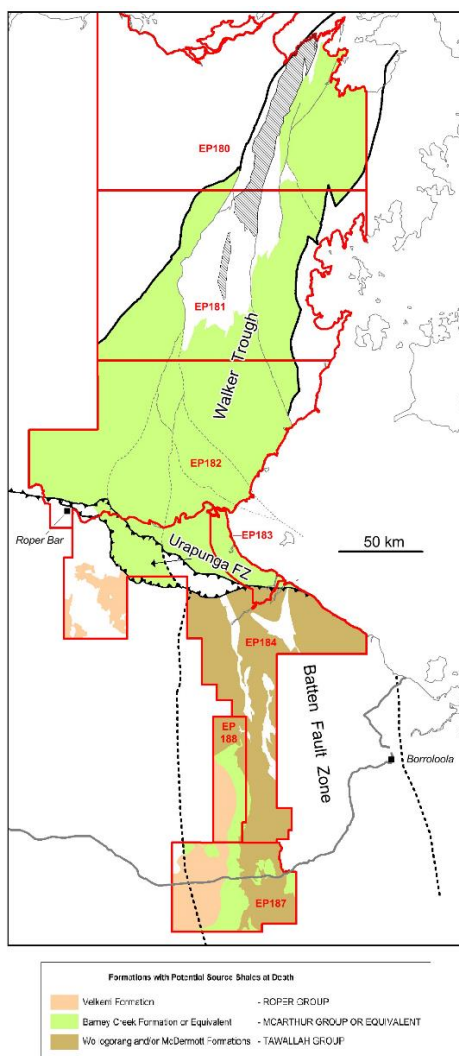
Upon completion of the workover and recompletion development program, the reduction in interest expense is expected to accelerate principal repayments under the new debt facility.

OPERATING OVERVIEW - IMPERIAL OIL & GAS PTY LIMITED

Imperial Oil & Gas Pty Limited is a 100% owned subsidiary of the Company which holds over 14.5 million acres of onshore tenements in the Northern Territory, Australia, which the Company believes are highly prospective for the petroleum shale systems of the McArthur Basin and Beetaloo sub-Basin.

EP187 2D Seismic Program Planning

Imperial's initial 2018 / 2019 exploration target is located in EP187, targeting the Velkerri Shale formation. EP187 is Imperial's southernmost tenement as shown in Map A below. The areas which are most prospective for the Velkerri Shale are noted in pink in Map A.



Map A: Location of EP187 can be seen in southernmost portion of Imperial's acreage. The pink areas are those areas most prospective for the Velkerri Shale

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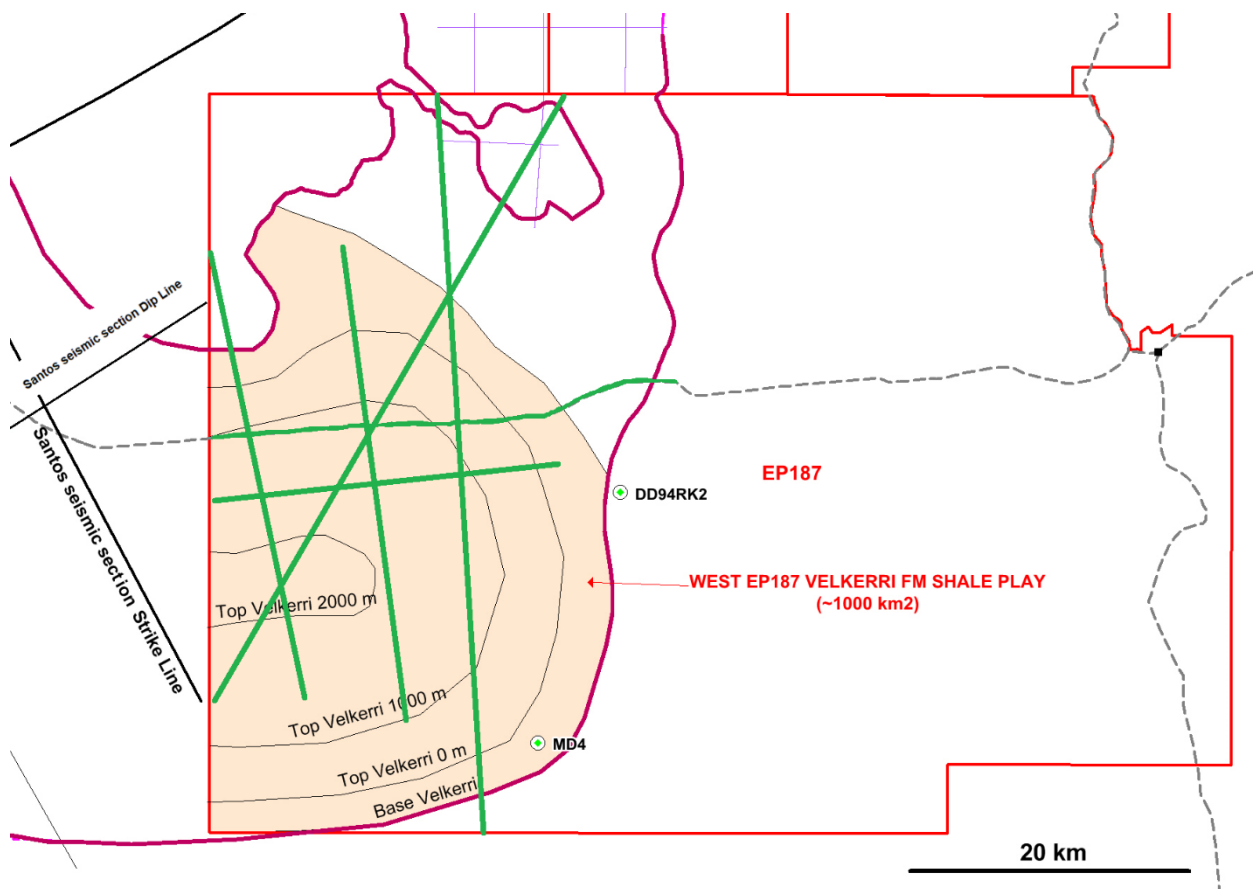
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EP187 is located immediately west of and adjacent to EP161 which is operated by Santos. Santos is currently planning an appraisal drilling program in EP161 which will consist of fracture stimulation and testing of an existing vertical well (Tanumbirini-1) and 2 fracked horizontal appraisal wells to test the productivity of the Velkerri Shale in EP161 (*Santos Media Release 9 November 2017 "Santos 2017 Investor Day"*).

During the quarter, Imperial submitted applications for regulatory approvals to carry out a 2D seismic acquisition survey in EP187. The program consists of 6 seismic lines covering an aerial extent of 231.1 line km which are detailed in Map B below (seismic lines in green).

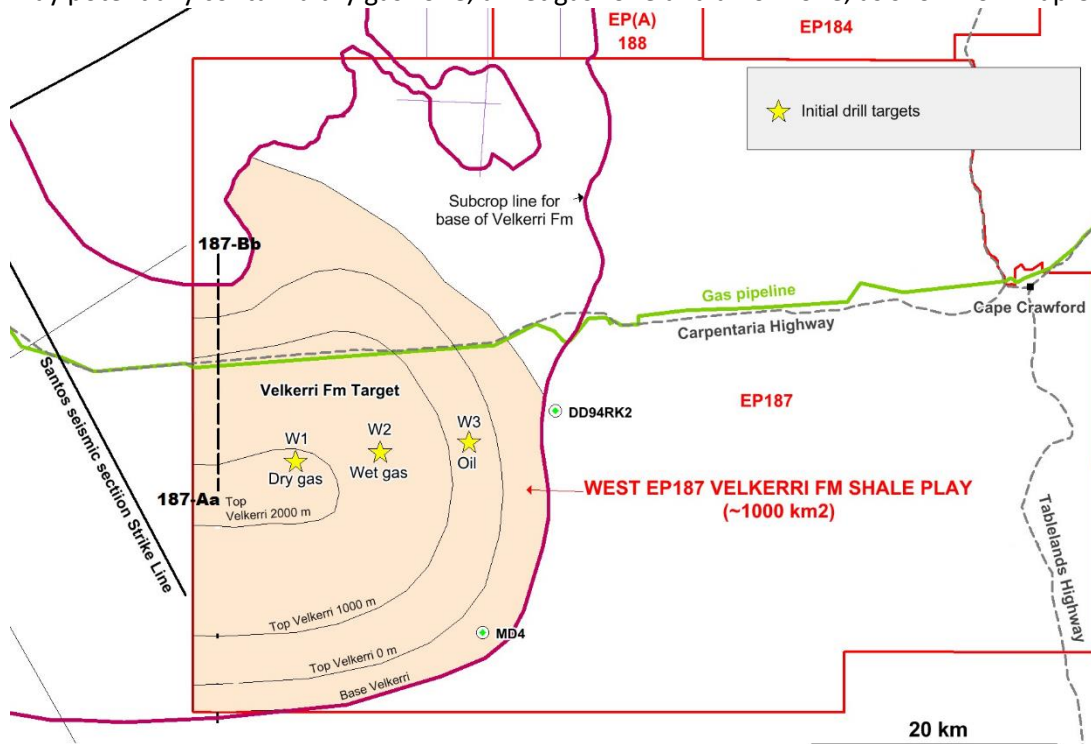


Map B: EP 187 planned seismic lines detailed in green. Postulated depth of the Top of the Velkerri Formation is an estimate only

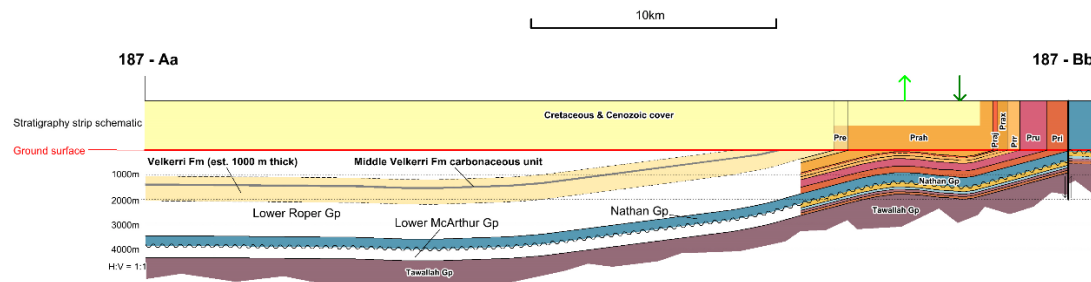
The Company has analyzed seismic lines previously acquired by Santos which are now on open file which abut the Eastern boundary of EP161 and the Western boundary of EP187 (shown on the map above as "Santos seismic section Strike Line" and "Santos seismic section Dip Line"). The Company's analysis to date indicates that the Velkerri Shale is located at ideal depths for petroleum development on the tenement boundary.

The Company's planned seismic program is detailed on Map B above (seismic lines in green). The references to the depth of the Top of the Velkerri are estimates only and will be confirmed by the seismic data to be acquired.

The seismic program will inform the Company's next stage of exploration which will be drilling core holes to test the Velkerri formation in EP187. It is the Company's belief that the Velkerri formation in EP187 may potentially contain a dry gas zone, a wet gas zone and an oil zone, as shown on Map C below.



Map C: EP 187 potential drilling targets (subject to further review following seismic analysis)



Map D: EP187 postulated stratigraphic cross-section (tied to locations 187-Aa to 187-Bb in map C)

The planned 2D seismic program will provide an image of the depth and thickness of the target formations in EP187 including, but not limited to, the Velkerri Shale. The Company's pre-drill, pre-seismic estimate of Velkerri Shale stratigraphy is detailed in Map D above. Confirmation of Velkerri Shale stratigraphy will form the basis for future core drilling which will confirm the thickness, hydrocarbon composition, and other key factors that affect future development drilling planning.

The Company has logged core samples from a previous mineral core hole, MD4, which is located within EP187. The Velkerri Shale is present with an unconstrained depth at that location and oil sheens are clearly visible on the core samples (see image below). This increases the Company's confidence that there is likely to be a working petroleum system with liquids potential located in EP187.



Oil sheens clearly visible in core sample from MD4 historical mineral hole (located in EP187)

The Company carried out a successful on-country work program meeting in Borroloola to provide Traditional Owners with consultation for the activities that it intends to carry out.

The Company is working closely with the Northern Territory regulatory bodies to process its application so that it can carry out the seismic acquisition program either immediately before or after the Wet Season (which runs from early January to late March).

The seismic acquisition program is expected to cost approximately A\$1.8 million and will be funded from cash at bank.

OPERATING OVERVIEW - EMPIRE ENERGY USA, LLC

Empire Energy USA, LLC is a 100% owned subsidiary of Empire Energy Group Limited.

The Company's US operations had a good quarter, with EBITDA of ~US\$1 million (a decrease of ~4.9% compared to the previous quarter).

Appalachia (Western New York and Pennsylvania)

Appalachian net oil and gas production was 469 MMCFe (99% gas), an increase of ~1.4% compared to the previous quarter.

The Company is seeing the benefits of its new gas marketing contract, which provides for an increase in margin of 20c / MMBTU, flowing through to operating margins.

The cost of the Company's recent Masoodi acquisition was recouped in only 60 days. The Company recommenced production from Medina oil wells which generated production rates which were twice the Company's expectation.

The Company took advantage of warm Summer conditions to update brine and oil tanks and inserted pipelines in both New York and Pennsylvania.

Mid-Continent (Kansas and Oklahoma)

Mid-Continent net oil and gas production was 30,869 BOE, broadly in line with the previous quarter.

The production result was negatively impacted by higher than normal rainfall and extended wait times to secure well servicing rigs and delayed well maintenance negatively impacting production.

Preparations for the upcoming workover and recompletion project were carried out, with 5 recompletion and polymer jobs approved with work expected to begin imminently.

In addition, several more candidates will be added into the line-up creating a strong 5-month production enhancement program.

Initial production results from the production enhancement program are expected in early December.

Activity remains high across the region with numerous drilling permits issued and acquisitions closed by 3rd parties.

Production

Description	3 months to	3 months to	Year-to-Date	Year-to-Date
Net Revenue:	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Gross Production:				
Oil (Bbls)	47,137	50,196	140,080	143,648
Natural Gas (Bbls)	599,121	599,127	1,720,122	1,742,433
Appalachia	707	788	2,000	2,522
Mid-Con	30,528	32,376	91,954	91,757
Total Oil	31,235	33,164	93,954	94,279
Weighted Avg Sales Price (\$/Bbl)				
Before Hedge	64.88	43.19	61.98	44.21
After Hedge	64.88	60.17	61.98	61.21
Natural gas (Mcf)				
Appalachia	464,409	476,494	1,357,885	1,389,959
Mid-Con	2,047	2,748	7,286	6,319
Total Natural Gas	466,456	479,242	1,365,171	1,396,278
Weighted Avg Sales Price (\$/Mcf)				
Before Hedge	2.43	2.22	2.49	2.46
After Hedge	3.08	2.86	3.15	2.98
Oil Equivalent (Boe):				
Appalachia	78,109	80,204	228,315	234,182
Mid-Con	30,869	32,834	93,168	92,811
Total	108,978	113,038	321,483	326,993
Boe/d	1,185	1,229	1,178	1,198
Weighted Avg Sales Price (\$/Boe)				
Before Hedge	29	22.1	28.67	23.24
After Hedge	31.78	29.76	31.51	30.36
Lifting Costs (incl. taxes):				
Oil – Midcon (/Bbl)	23.74	19.89	22.21	20.37
Natural gas – Appalachian (/Mcf)	1.13	1.23	1.15	1.20
Oil Equivalent (/BOE)	11.64	11.07	11.39	11.01
Net Back (\$/Boe)	20.14	18.69	20.12	19.35

Financials

Description	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
Net Revenue:				
Oil Sales	2,026,452	1,995,462	5,822,918	5,770,607
Natural Gas Sales	1,437,152	1,368,616	4,247,712	4,155,857
Working Interest	91	93	58,673	2,416
Net Admin Income	77,549	87,781	241,638	260,049
Other Income	34,261	25,847	155,059	91,319
Total Revenue	3,575,505	3,477,799	10,526,000	10,280,248
Production costs:				
Lease operating expenses – Oil	676,103	638,960	2,005,559	1,846,672
Lease operating expenses – Gas	501,116	529,423	1,501,020	1,499,378
Taxes – Oil	65,389	22,940	81,025	73,762
Taxes – Natural Gas	24,404	63,121	73,403	183,328
Total	1,267,012	1,254,444	3,661,007	3,603,140
Field EBITDAX	2,308,493	2,223,355	6,864,993	6,677,108
Less:				
Inventory adjustment	26,294	14,131	(48,883)	43,083
Reserve Enhancements	1,349	930	14,803	2,216
Nonrecurring expenses	258,756	248,675	621,412	554,010
G & G Costs	296	-	12,777	270
Field Overhead	501,000	501,000	1,503,000	1,503,000
Total	787,695	764,736	2,103,109	2,102,579
Operating EBITDAX	1,520,798	1,458,619	4,761,884	4,574,529
Less:				
Field G & A	182,219	143,385	425,512	446,545
Corporate G & A	340,502	350,160	1,146,262	1,142,835
Delay rental payments	5,134	13,957	87,124	93,507
Land Overhead & Non-leasing costs	-	3,396	55	3,696
Total	527,855	510,898	1,658,953	1,686,583
EBITDAX	992,943	947,721	3,102,931	2,887,946

Revenue estimates have been made for the last 2 production months of the quarter under review due to customer payment/invoice cycles. As such, there may be changes to production, revenues and operating ratios for the previous quarter as final production statements are received.

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Exploration/Acquisition Expenses

Description	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
EBITDAX	992,943	947,721	3,102,931	2,887,946
Less:				
Geological Services	-	-	1,265	-
Acquisition related expenses	-	4,843	7,198	62,072
Capital raise expenses	-	-	-	58,432
Dry hole expenses	-	-	-	-
Total	-	4,843	8,463	120,504
EBITDA	992,943	942,878	3,094,468	2,767,442

Net Earnings

Unaudited earnings for the period are shown below:

Description	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
EBITDA	992,943	942,878	3,094,468	2,767,442
Less:				
Depn, Depl, Amort & ARO	533,255	602,900	1,549,274	1,748,160
Interest	819,906	747,463	2,404,174	2,198,319
(Gain) loss on sale of assets	-	(12,097)	(67,914)	(51,492)
P&A vs. ARO	-	-	-	-
Bad debts	830	613	(55,465)	383,357
Non-Cash & Interest Expenses	1,353,992	1,338,879	3,830,069	4,278,344
Earnings before Tax	(361,049)	(396,001)	(735,601)	(1,510,902)
EBITDA/Interest (times)	1.21	1.26	1.29	1.26

Capital Expenditure/Asset Sales

Description	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
Capital Expenditures				
Acquisition Capital	394	-	47,663	(50)
New Wells - IDC	29	69,183	307,453	275,032
New Wells - Capital	(2,549)	109,789	55,815	161,835
Undeveloped Leases	-	2,400	111	2,456
Capital Expenditures	(2,126)	181,372	411,042	439,273

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.

Description	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
Revenues:	3,575,505	3,477,799	10,526,000	10,280,248
Costs & Expenses:				
Production costs & taxes	2,054,708	2,019,180	5,764,117	5,705,720
Depn, Depletion, Amort & ARO	533,255	602,900	1,549,274	1,748,160
General & Administration	527,855	515,741	1,667,415	1,807,087
Income from Operations	459,687	339,978	1,545,194	1,019,281
Interest	819,906	747,463	2,404,174	2,198,319
(Gain)/Loss on sale of assets	-	(12,097)	(67,914)	(51,492)
P&A vs. ARO	-	-	-	-
Bad debts	830	613	(55,465)	383,356
Net Income/(Loss)	(361,049)	(396,001)	(735,601)	(1,510,902)

A. 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.

Description – US\$	3 months to 30/09/2018	3 months to 30/09/2017	Year-to-Date 30/09/2018	Year-to-Date 30/09/2017
Revenue	39,416	41,764	117,644	112,087
Less Expenses:				
Consultants	77,290	69,072	251,822	201,083
Directors/Employment Costs	41,128	86,282	196,168	217,387
Listing Expenses	13,781	11,424	38,224	32,031
G&A	190,625	126,210	528,719	397,803
EBITDAX – Head office (EEG)	(283,408)	(251,224)	(897,289)	(736,217)
EBITDAX – (EEUS)	992,943	992,943	3,102,931	3,863,193
EBITDAX – GROUP	709,535	698,897	2,205,642	3,126,976



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ABOUT EMPIRE ENERGY GROUP LIMITED

Empire Energy is a conventional oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the Mid Continent region (Kansas and Oklahoma) in the United States of America.

The Company has over 14.5 million acres in the McArthur & Beetaloo Basins, Northern Territory, both of which are considered highly prospective for large shale oil and gas resources. Work undertaken by the Company over the past 5 years demonstrates that the Central Trough of the McArthur Basin, of which the Company holds around 80%, is highly prospective, with key similarities to those extending through Oman, Siberia and Southern China and which contain resources of billions of barrels of oil equivalent.

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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	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		