



HALF YEAR
FINANCIAL REPORT
JUNE 2020



Empire Energy Group Limited
ABN 29 002 148 361

CONTENTS

CORPORATE DIRECTORY	4
LETTER TO SHAREHOLDERS FROM THE CHAIRMAN AND THE MANAGING DIRECTOR	5
OPERATIONS REVIEW	8
DIRECTORS' REPORT	14
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE <i>CORPORATIONS ACT 2001</i>	17
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	18
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	19
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	20
CONSOLIDATED STATEMENT OF CASH FLOWS	22
NOTES TO THE FINANCIAL STATEMENTS	23
DIRECTORS' DECLARATION	37
INDEPENDENT AUDITOR'S REPORT	38

CORPORATE DIRECTORY

Directors	Paul Espie AO (Chairman) Alexander Underwood (Managing Director) John Gerahty John Warburton Peter Cleary (appointed 25 May 2020)
Executives	David Evans (Chief Operating Officer) Ben Johnston (Vice President – Business Development) Alex Bruce (Chief Geoscientist)
Financial Controller	Kylie Arizabaleta
Company Secretary	Julian Rockett
Registered Office	Level 19, 20 Bond Street Sydney NSW 2000
Australian Auditors	Nexia Level 16,1 Market Street, Sydney NSW 2000
US Auditors	Schneider Downs & Co. Inc One PPG Place, Suite 1700, Pittsburgh PA 15222
Australian Solicitors	Baker McKenzie Level 46, Tower One, International Towers Sydney 100 Barangaroo Avenue, Barangaroo NSW 2000
US Solicitors	Depew Rathbun & Gillen McInteer, LC 8301 East 21st Street North, Suite 450, Wichita, KS 67206-2936
Bankers	Macquarie Bank Limited 50 Martin Place, Sydney NSW 2000 Australia & New Zealand Banking Group Limited 1 Chifley Plaza, Sydney NSW 200 PNC Bank 249 Fifth Avenue, One PNC Plaza, Pittsburgh PA 15222
Share Registry	Computershare Investors Services Pty Limited Level 3, 60 Carrington Street, Sydney NSW 2000 Telephone: 1300 85 05 05
Stock Exchange Listings	Empire Energy Group Limited shares are listed on the: - Australian Securities Exchange (ASX code: EEG) - New York OTC Market (Code: EEGNY) OTC#: 452869103 Sponsor: Bank of New York 1 ADR for 20 Ordinary Shares
Website	www.empireenergygroup.net

CHAIRMAN AND MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

Dear Shareholders,

We are pleased to present to you the financial half-year results for the period ending June 30, 2020.

The company has made significant progress over the last six months and some of our key achievements include:

1. Processing was completed of the 231km line 2D seismic data acquired by Empire in 2019. The interpretation of this data acquired over Empire's 100%-owned EP187 confirmed that Empire holds a portion of the Beetaloo Basin that is equivalent to the strata drill tested by the major company operators to our west. The program identified thick continuous sequences of Velkerri Shale and Kyalla Shale, undisturbed by faulting. These shales are interpreted to exist at shallower depths than the blocks of the adjoining operators but with equivalent thickness meaning future development costs may be expected to be less than those of our neighbours;
2. Empire received Northern Territory Government approvals for the drilling of the Carpentaria-1 well in EP187. Empire will be the first 'non-major' petroleum operator in the Northern Territory to receive drilling approvals under the new regulatory framework;
3. Since the half year-end, Schlumberger Land Rigs 183 rig has been contracted to drill the Carpentaria-1 well in EP187 and civil works have started. We expect to spud the well in September 2020. The well has potential for uplift in the value of the properties and we look forward to updating shareholders and the market as drilling progresses;
4. Empire announced a very substantial prospective resource estimate for its Northern Territory properties that was prepared by leading independent United States petroleum reservoir consultants, Netherland, Sewell & Associates, Inc. The best estimate prospective resource of ~13.5Tcf is globally significant and of a scale that has the potential to underwrite future LNG export developments or meet east coast Australian domestic gas demand for decades to come;
5. Empire Energy's board and management have been strengthened by the addition of Peter Cleary as a Non-Executive Director, and the appointment of Dr Alex Bruce, ex Bridgeport Energy Ltd, to lead our geoscience efforts. Peter Cleary is a leading oil and gas executive with a record in senior executive roles with Santos and BP. He continues in present roles with Diamond Gas International and Skinka Management. Mr Cleary's experience will be highly valuable as we progress our development.
6. The Company negotiated a waiver with substantial shareholder Macquarie Bank Limited of all financial covenants under its credit facility up to and including 31 December 2020. In consideration Empire has made a principal debt repayment of \$825,000 giving the company confidence to manage through the COVID 19 period. Revenues for Empire's US production were detrimentally impacted, as reflected by a lower 'Henry Hub' spot price, however hedging arrangements mitigate weak spot prices.
7. A A\$10 million placement was announced on 26 August 2020 and quickly filled. The exercise of A\$0.30 per share options with a 26 September 2020 expiry has further capitalised the company

and ensures that we are in a strong financial position moving into drilling. This is ongoing and we thank new investors and existing shareholders for their support shown in the prospects for the company and the strategy we are executing with your support.

8. The Company managed its way proactively and swiftly through the COVID pandemic with no cases of COVID-19 in the entire Company in both Australia and the US.

Northern Territory Update

The Empire team has been intensively focused on the drilling of the Carpentaria-1 well scheduled to spud in September 2020. Civil works to prepare the well pad, an access track to it and water bore drilling are well advanced in preparation for the commencement of drilling. The objectives of the well are as follows:

- To assess and prove the depth and thickness of the productive target shales (Kyalla and Velkerri) in Empire's EP187 permit;
- To understand rock properties, hydrocarbon content, formation permeability and reservoir pressure as they relate to the ability of the shales to produce;
- To gather data used for hydraulic stimulation planning and execution;
- To identify 'high grade' sections of these target shale formations, for vertical hydraulic stimulation and production testing after the wet season in 2021. Also to assist in the design of horizontal wells for extended production testing; and
- To refine the seismic interpretation and further determine prospective hydrocarbon resource estimates.

Our neighbours Origin Energy Limited and Santos Limited remain active in the onshore Northern Territory and have made material progress during the half-year considering the impact of COVID 19. We await their future exploration results with interest. Key events from our neighbours have included:

1. During April 2020, Origin announced it had agreed with joint venture partner Falcon Oil & Gas ("Falcon") to increase its interest in the Beetaloo Basin joint venture by 7.5% in exchange for increasing its share of Falcon's share of costs by A\$25 million over the coming years. The transaction implies a valuation of A\$333 million for the Origin / Falcon joint venture. The joint venture has also agreed to increase its gross cost-cap to A\$263.8 million, and a vote of confidence in the Beetaloo Basin.
2. Operationally, Origin has indicated that its exploration and appraisal activities in the Beetaloo are progressing well and results from its Kyalla 117 well have demonstrated productive reservoir characteristics, and continuous gas shows. Following a COVID-19 pause, Origin will recommence field operations in Q3/Q4 2020 with the hydraulic fracturing and production flow test of the Kyalla-117 horizontal well.
3. Santos has confirmed a successful gas discovery at the Tanumbirini-1 well in EP161 in the adjoining permit to Empire's EP187. Gas flow rates of over 1.2mmscf/d were recorded from the vertical well. . Following production flow testing, Santos booked a maiden contingent resource in the McArthur Basin of 176PJ (gross).

In the north of the Territory, Santos has completed its acquisition of ConocoPhillips' northern Australia and Timor-Leste assets for US\$1.265 billion plus a contingent payment of US\$200 million. Both Darwin LNG (Santos Operated) and Ichthys LNG (INPEX Operated) have environmental approval for expansion trains and the Beetaloo Sub-basin is well positioned to supply gas into these facilities and potentially others.

Looking Ahead

Empire will provide regular updates as the Carpentaria-1 drilling program progresses. Our primary goal for the well is to further de-risk our resources, enhancing the value of our properties. After the pending Northern Australian wet season, and subject to the anticipated findings from the well, Empire intends to re-enter Carpentaria-1 and to fracture stimulate a selected vertical section of the well and carry out production flow testing. This will further calibrate the productivity of the target formations and build experience in maximising production from them.

Sentiment in the energy sector is rebounding having passed what we hope is the worst impact of COVID 19. The key LNG forward price curve, the Japan / Korea Marker (Platts), is trading near US\$6 / mmbtu for the coming northern hemisphere winter, following LNG spot prices falling below US\$2 / mmbtu in June 2020 (Platts).

Members of the Board have made early commitments to exercise their 26 September 2020 options for a raising of A\$1.9 million in new funds for the company.

We believe that news flow over the coming half-year will be exciting and thank you for being on the journey with us.

Yours sincerely,



Paul Espie AO
Chairman
Empire Energy Group Limited



Alex Underwood
Managing Director
Empire Energy Group Limited



OPERATIONS REVIEW

A. 2020 OVERVIEW & HIGHLIGHTS

Empire Group's functional currency is United States Dollars. All references to dollars are United States Dollars unless otherwise stated.

GROUP FINANCIAL HIGHLIGHTS

- Group Revenue \$2.3 million (2019: \$6.7 million)
- Net production 4,617Mcf per day (2019: 7,037Mcf per day)
- Outstanding debt \$7.2 million (2019: \$7.5 million)
- Cash at bank \$6.9 million (2019: \$4.8 million)

AUSTRALIA – NORTHERN TERRITORY

- Empire holds a 100% working interest in over 14.5 million acres of tenements across the McArthur and Beetaloo Basins, Northern Territory, Australia
- In January 2020, the Company announced the completion of processing and interpretation of the acquired 2D seismic data set in its EP187 permit. The seismic data demonstrated that the target shale sequences, Kyalla Shale and Velkerri Shale are present in Empire's EP187 tenement.
- In March 2020, Empire received Northern Territory approvals for the drilling of the Carpentaria-1 well in EP187. Empire is one of the first companies active in the McArthur and Beetaloo Basins to be granted Northern Territory approvals for drilling under the new regulatory framework.
- During May 2020, Empire announced a prospective resource estimate for its 100% owned Northern Territory properties which was prepared by Netherland, Sewell & Associates, Inc, a worldwide leader of petroleum property analysis to industry, financial organisations, and government agencies. A summary of the prospective resource can be found on page 11 below.
- In August 2020, the Company executed a Rig Services Contract with Schlumberger for the drilling of the Carpentaria-1 well in EP187. The Schlumberger Land Rigs 183 rig has been contracted to drill Carpentaria-1 following a rigorous tender process. The Company also commenced initial field work for Carpentaria-1 including preparatory civil works and water bore drilling. As a Northern Territory focused company, Empire has solely contracted Northern Territory businesses and personnel to complete all civil works. Carpentaria-1 is expected to spud in mid-September 2020.
- The Company also intends to recommence the process of securing landholder, Traditional Owner and Government approvals to progress its Exploration Permit Applications (EP(A) 180,181,182,183 and 188) to granted Exploration Permit status. Though there has been some delay in the financial half-year given COVID-19 travel restrictions, recommencement of these activities reflects increasing confidence given that the Northern Territory Government's decision to support the onshore shale petroleum industry has provided greater investment certainty.

EP 187 Carpentaria-1 Drilling Program underway



RIG UP WATER BORE DRILLING RIG



DRILLING IMPACT MONITORING BORE



CARPENTARIA-1 WELL PAD PREPARATION



CASING WATER BORE



CONDITIONING/SHAPING BUNDS AROUND THE
CARPENTARIA-1 WELL SITE



CARPENTARIA-1 WELL CELLAR BOX EXCAVATION

USA – APPALACHIA

- Empire's Appalachia operations had a strong operational performance throughout the financial half-year with minimal production declines across the asset base despite minimal capital investment. Empire operations have been continuing to operate as normal during the COVID-19 period as an essential service business in New York State. To date, there has not been a single case of COVID-19 amongst Empire's Appalachia workforce.
- Empire's Appalachia operations suffered from multi-decade low Henry Hub gas prices during the financial half-year. Empire has in place a prudent hedging policy which ensured that the business was protected against the worst of the depressed market environment. A mild winter and COVID-19 mitigation efforts have impacted gas demand in the United States. The Henry Hub spot price is trading ~US\$2.50mmbtu, a material improvement on recent lows and the forward curve suggests that gas prices may continue to improve over the Northern Hemisphere winter months.
- Net gas production of 837,814Mcf (2019: Net 881,535) reflecting some natural field decline compared to the prior year and selective shut-ins of some wells when spot gas prices reached their lows.
- Net oil production of 420 Bbls (2019: Net 65,347 Bbls) reflecting the divestment of the Kansas assets to Mai Oil Operations, Inc in September 2019.
- The Company's credit facility was refinanced in September 2019 with a new 5-year \$7.5 million facility which matures in September 2024. The balance reduced from US\$7.5m to US\$6.675m over the course of the half-year.
- During the financial half-year, Empire received a forgivable loan of \$552,600 under the Paycheck Protection Program ("PPP") which forms part of the US *Coronavirus Aid, Relief, and Economic Security Act* (the "CARES Act"). PPP loans can be applied to business expenses including payroll, interest, rent and utilities with the quantum of loan forgiveness totalling the amount spent by the borrower on these items ending the earlier of: (a) 31 December 2020; or (b) 24 weeks following loan disbursement date. However, at least 60% of the forgiven amount must have been used for payroll. Empire is only using the loan for forgivable purposes so that it does not have to repay the loan.

NORTHERN TERRITORY RESOURCE UPDATE

Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd ("Imperial"), holds a 100% interest in 59,000 square km (14.5 million acres) of prospective shale oil and gas exploration acreage, in the central depositional trough of the Proterozoic McArthur Basin. The McArthur Basin is an underexplored petroleum frontier basin with a number of identified shale targets and abundant indications for the presence of gas and oil.

During the financial half-year, Empire engaged Netherland, Sewell and Associates, Inc. ("NSAI"), to generate an independent resource report for the Company's Northern Territory acreage. NSAI assessed that Empire holds a total best estimate prospective resource of 13.46Tcf, including over 2.3Tcf in the Velkerri Shale and 14 million barrels of oil equivalent in the liquids rich Kyalla Shale.

A summary of the results of the NSAI report are summarised in the table below:

Reservoir	Undiscovered Original Gas-in-Place (BCF)			Unrisked Gross (100%) Prospective Gas Resources (BCF)			Unrisked Gross (100%) Prospective Oil Equivalent Volumes (MMBOE)		
	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)	Low Estimate (1U)	Best Estimate (2U)	High Estimate (3U)
Lower Kyalla	496	724	1,073	24	72	161	5	14	34
Middle Velkerri*	9,303	12,516	16,597	1,283	2,339	4,751	215	397	825
Barney Creek*	17,667	59,652	155,058	1,633	11,053	45,380	274	1,886	8,011
Total*	27,466	72,892	172,728	2,940	13,464	50,292	494	2,297	8,870

*Note: Empire has aggregated the OGIP and prospective resources estimated by NSAI by arithmetic summation
NSAI did not evaluate the Wollgorang Formation, which has been previously externally evaluated.

Shareholders should refer to the Empire Energy Group Limited ASX announcement dated 18 May 2020 for the full Prospective Resource estimate.

B. CREDIT FACILITY

The Company has a Credit Facility with Macquarie Bank Limited. The facility has the following key terms:

Principal Amount	US\$7.5 million
Term	5 years
Interest Rate	LIBOR + 650 bps
Repayment Terms	100% of Appalachia Net Operating Cashflow subject to minimum amortisation of US\$550,000 per annum
Hedging	Empire shall maintain a rolling hedging program whereby 55% of forecast Proved Developed Producing Reserves shall be hedged for 3 years
Key Covenants	Net Debt > 1.3x Proved Developed Producing Reserves PV10 Net Debt > 1.5x Adjusted Proved Reserves PV10 Interest Coverage ratio > 1.3x Current Ratio 1.0x

The draw down on the Macquarie Bank Limited Credit Facility as at June 30, 2020 was \$6.675 million (cf \$25.4 million at June 2019). On 27 March 2020, Macquarie Bank Limited waived all past and existing defaults and any potential defaults up to and including 31 December 2020 in consideration for Empire making repayments of \$825,000. Those repayments were made on 27 March 2020 and reduced the debt balance to \$6.675 million as at 31 March 2020.

Empire also has a forgivable loan with a balance of \$552,600 as at June 20, 2020 (2019: \$nil) under the PPP which can be used for allowable expenses such as payroll over a 24-week period following loan disbursement. The loan has been originated through PNC Bank, carries a fixed interest rate of 1% per annum and matures in June 2022. The PPP loan is unsecured and subordinated to the Credit Facility with Macquarie Bank Limited.

C. HEDGING

Due to the risk model implemented by Empire, a comprehensive hedging strategy has been adopted to mitigate commodity price risk associated with its producing assets.

The fair value (marked to market) of combined oil and gas hedges in place as at June 30, 2020 was \$1.1 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub forward curves at market close on June 30, 2020.

D. BUSINESS RISK

COVID-19 Risk – As at the date of this report, border, movement and business operating restrictions are in place as established by the Australian Federal Government, the Northern Territory Government, the United States Government and the New York Government to mitigate the risk of transmission of the COVID-19 virus. The Northern Territory border is open however those arriving from declared COVID 19 hotspots such as Victoria and Greater Sydney must undertake 14 days mandatory supervised quarantine. These restrictions could impact Empire's ability to operate in New York State, Pennsylvania and the Northern Territory.

Exploration Risk - Empire and its subsidiaries have interests in assets at various stages of exploration, appraisal and development. Many leases have had very low levels of exploration undertaken to date and may not yield commercial quantities of hydrocarbons. Oil and gas exploration is inherently subject to numerous risks, including the risk that drilling will not result in commercially viable oil and gas production.

Application Risk – Several Empire's Northern Territory assets are in application stage requiring native title and / or regulatory approvals to be granted as Leases capable of being explored on. Such approvals may or may not be granted which could adversely impact the value of the Company.

Regulatory Risk – Empire has operations spanning New York and Pennsylvania in the USA and the Northern Territory, Australia. Regulatory approvals are required to explore, appraise, develop and produce from the assets. Where such regulatory approvals are already in place, there is a risk that they could be revoked. Where such regulatory approvals are not in place, there is a risk that they may not be granted.

Debt Facility Risk – Empire, through its US subsidiaries, has debt facilities in place with Macquarie Bank Limited. Whilst Empire has financial flexibility and expects to generate sufficient cash to repay the debts in full, there is a risk in the future that financial and other covenants under the debt facilities, could be breached, which could result in Macquarie exercising its security rights under the facilities.

Commodity Price Risk – Empire, through its US subsidiaries, sells oil and gas at market prices to customers who price the products off US benchmark oil and gas markets. Empire is exposed to the risk of material declines in the prices of those commodities. Empire, through its Australian subsidiary, explores for oil and gas in Australia and maybe subject to domestic Australian gas price risk, LNG price risk and oil price risk.

Reliance on Key Personnel – Empire's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the business, financial condition, results of operation and prospects.

Economic Risk – General economic conditions, movements in interest rates, inflation rates and foreign exchange rates, investor sentiment, demand for, and supply of capital and other general economic conditions may have a negative impact on Empire and its subsidiaries ability to carry out its exploration, appraisal, development and production plans.

Environmental Risk – The upstream oil and gas industry is exposed to environmental risks, including the risk of oil and chemical spills, the risk of uncontrolled gas venting, and other material environmental risks. If an environmental incident was to occur, it may result in Empire's subsidiaries' licenses being revoked, its rights to carry on its activities suspended or cancelled, or significant legal consequences.

Title Risk – Interests in tenements in Australia are governed by the respective Territory legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the Company could lose title to or its interest in the Tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments. The Northern Territory Government has declared Reserved Blocks over parts of Empire's tenements which are likely to impact the Company's ability to carry out petroleum exploration and development activities on those areas.

Native Title and Aboriginal Land - The Tenements extend over areas in which legitimate common law native title rights of indigenous Australians exist. The ability of the Company to gain access to its Tenements and to conduct exploration, development and production operations remains subject to native title rights and aboriginal land rights and the terms of registration of such title agreements.

Reserves Risk – Reserves assessment is a subjective process that provides an estimate of the volume of recoverable reserves. Oil and gas estimates are not precise and are based on knowledge, experience, interpretation and industry practices. There is a risk that the Company's reserves do not generate the actual revenues and cashflows that are currently being budgeted which could adversely impact the Company.

Services Risk – Empire engages the services of third-party service providers to carry out exploration, appraisal, development and operating activities. The cost of such services is subject to very high price volatility, particularly in remote areas. There is a risk that such services may not be able to be provided at a reasonable price, thereby preventing exploration, appraisal, development and operations activities from occurring.

Production Risk – Empire has producing oil and gas assets in the USA. If these assets do not produce the level of production currently budgeted by Empire, then the cashflow they deliver may be impacted. The carrying values of these assets could also be adversely impacted. Production risk has the potential to adversely impact the Company.

Insurance Risk – The Company insures its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company. Insurance against all risks associated with petroleum exploration and production is not always available and where available the costs can be prohibitive.

Acquisitions – The Company may decide to pursue potential acquisitions in the future. This may give rise to various operational and financial risks, including, but not limited to, poor integration resulting in higher than expected integration costs, and financial underperformance of the acquired assets. There is also additional risk associated with the Company's inability to identify suitable acquisitions in the future that meet the Company's criteria. This may potentially have an adverse impact on the financial performance of the Company.

Funding Risk – The Company may need future capital in the future to progress the development of its acreage. There can be no guarantee that future capital, whether it be debt, equity or joint ventures, will be available or will be available on attractive terms. The inability to secure future capital, or in the ability to secure future capital on attractive terms, could adversely impact the value of the Company.

DIRECTORS' REPORT**For the half-year ended 30 June 2020**

In respect of the financial half-year ended 30 June 2020, the Directors of Empire Energy Group Limited ("Company") present their report together with the Financial Report of the Company and of the consolidated entity ("Empire Group"), being the Company and its controlled entities, and the Auditor's Review Report thereon.

DIRECTORS

The following persons held office as Directors of Empire Energy Group Limited at any time during or since the end of the financial period:

P Espie AO	Non-Executive Chairman
A Underwood	Managing Director
J Gerahty	Non-Executive Director
J Warburton	Non-Executive Director
P Cleary	Non-Executive Director (appointed 25 May 2020)

All the Directors have been in office since the start of the period unless otherwise stated.

PRINCIPAL ACTIVITIES

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

The progression of exploration and appraisal work programs in Empire's wholly owned and operated EP187 permit located in the highly petroleum prospective Northern Territory McArthur Basin (Beetaloo Sub-Basin). Key activities completed during the year included the successful processing and interpretation of the 231km of 2D seismic acquired in 2019, Northern Territory Government Ministerial consent to conduct drilling operations and technical studies.

The acquisition, development, production, exploration and sale of oil and natural gas in the United States of America. The Empire Group sells its oil and gas products primarily to owners of domestic pipelines, utilities and refiners located in Pennsylvania and New York.

CONSOLIDATED RESULTS

The consolidated net loss of the Empire Group for the half-year ended 30 June 2020 after providing for income tax was \$4,134,667 compared to a consolidated net loss for the previous corresponding reporting period of \$7,436,878.

This result was impacted by a \$1.879m impairment largely as a result in the decline in the discount rate attached to the Asset Retirement Obligation.

REVIEW OF OPERATIONS

For information on the Company's operations refer to the Operations Review contained on pages 8 to 13 of this report.

Directors' Report for the half-year ended 30 June 2020

DIVIDENDS

The Directors have not recommended the payment of an interim dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

LIKELY DEVELOPMENTS

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

MATTERS SUBSEQUENT TO BALANCE DATE

- a) On July 14, 2020, the Company held its 2020 Annual General Meeting. All resolutions, except for the spill motion were carried by way of a Poll.
- b) On August 7, 2020, the company announced it had issued various Restricted Rights, Performance Rights and Service Rights to Executives, Employees and Non-Executive Directors that was approved at the 2020 Annual General Meeting.
- c) On August 11, 2020, the Company announced it had executed a Rig Services Contract with Schlumberger Land Rigs for the drilling of the Carpentaria-1 well.
- d) On August 22, 2020 the Northern Territory held its local elections. The Gunner-Labour government was re-elected with a majority ensuring political stability and support of the on-shore gas development.
- e) On September 2, 2020, the Company announced that gross proceeds of A\$10million at A\$0.30 per share had been raised through an unconditional single-tranche placement to institutional and sophisticated investors. The funds raised under the Placement will be applied to Empire's Northern Territory exploration and appraisal programs including the upcoming drilling of the Carpentaria-1 well.
- f) On September 4, 2020, the Company issued 33,333,334 fully paid ordinary shares to sophisticated and institutional investors at A\$0.30 per share before costs in relation to the A\$10million placement.
- g) On September 4, 2020, the Company issued 3,575,000 fully paid ordinary shares due to conversion of options.
- h) On September 4, 2020 the Company through its 100% owned subsidiary Imperial Oil and Gas Pty Limited entered into a cash-backed bank guarantee facility with ANZ for A\$300,774 as required by the Northern Territory Government as an environmental security bond for the 2020 Drilling Program NT EP187.
- i) On September 10, 2020 the Company announced that Schlumberger Land Rigs 183 had commenced mobilisation to the Carpentaria-1 well site in NT permit EP187.

**Directors' Report
for the half-year ended 30 June 2020**

AUDITOR'S INDEPENDENCE DECLARATION

Under section 307 of *The Corporations Act 2001*.

A copy of the Auditors' Independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 17 and forms part of the Director's Report for the six-month period ended 30 June 2020.

AUDITOR

Nexia Sydney Partnership continues in office in accordance with Section 327 of the *Corporations Act 2001*. No officers of the Empire Group were previously partners of the audit firm.

This report is made in accordance with a resolution of the Directors.



A Underwood

Managing Director

Sydney 11 September 2020

The Board of Directors
Empire Energy Group Limited
Level 19, 20 Bond Street
SYDNEY NSW 2000

11 September 2020

To the Board of Directors of Empire Energy Group Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit partner for the review of the financial statements of Empire Energy Group Limited for the six-month period ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely



Nexia Sydney Partnership



Lester Wills
Partner

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
for the half-year ended 30 June 2020

	Note	Half-year ended 30 June 2020 US\$	Half-year ended 30 June 2019 US\$
Sales Revenue		2,327,907	2,674,836
Cost of Sales		(1,809,591)	(1,953,180)
Gross Profit		518,316	721,656
Other income		101,163	108,479
General and administration expenses		(1,692,951)	(1,360,193)
Exploration expenses		(30,904)	(97,924)
Other non-cash expenses	4	(2,371,056)	(3,345,164)
Operating Loss before interest costs		(3,475,432)	(3,973,146)
Net interest expense		(285,502)	(418,112)
Loss before income tax from continuing operations		(3,760,934)	(4,391,258)
Income tax expense	3	(24,502)	(54,694)
Loss after income tax from continuing operations		(3,785,436)	(4,445,952)
Loss after income tax from discontinued operations		-	(2,894,654)
Loss after income tax expense for the year		(3,785,436)	(7,340,606)
Other comprehensive loss			
Items that will subsequently be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(349,231)	(96,272)
Other comprehensive loss for the year, net of tax		(349,231)	(96,272)
Total comprehensive loss for the year		(4,134,667)	(7,436,878)
Earnings per share for loss attributable to the owners of Empire Energy Group Limited		Cents per share	Cents per share
Basic loss per share	12	(1.44)	(3.17)
Diluted loss per share	12	(1.44)	(3.17)

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2020

	Note	30 June 2020 US\$	31 December 2019 US\$
CURRENT ASSETS			
Cash and cash equivalents		6,874,613	9,882,386
Trade and other receivables		1,308,432	1,814,422
Prepayments		452,663	135,622
Inventories		34,126	33,603
Financial assets, including derivatives		492,819	426,751
Assets of discontinued operations		-	252,272
TOTAL CURRENT ASSETS		9,162,653	12,545,056
NON-CURRENT ASSETS			
Financial assets, including derivatives		634,625	262,286
Oil and gas properties	6	26,984,199	26,276,337
Property, plant and equipment	6	441,115	356,947
Right-of-use assets	8	784,007	141,197
Intangible assets		68,217	68,217
TOTAL NON-CURRENT ASSETS		28,912,163	27,104,984
TOTAL ASSETS		38,074,816	39,650,040
CURRENT LIABILITIES			
Trade and other payables		2,708,076	3,355,857
Interest-bearing liabilities	7	6,456,264	6,480,970
Lease liabilities of right-of-use assets	8	157,034	99,922
Provisions	9	85,770	49,947
Liabilities of discontinued operations		-	100,079
TOTAL CURRENT LIABILITIES		9,407,144	10,086,775
NON-CURRENT LIABILITIES			
Lease liabilities of right-of-use assets	8	715,379	126,475
Provisions	9	18,274,289	15,771,500
TOTAL NON-CURRENT LIABILITIES		19,989,668	15,897,975
TOTAL LIABILITIES		28,396,812	25,984,750
NET ASSETS		9,678,004	13,665,290
EQUITY			
Contributed equity	10	101,572,480	101,523,681
Reserves		4,595,620	4,846,269
Accumulated losses		(96,490,096)	(92,704,660)
TOTAL SHAREHOLDERS' EQUITY		9,678,004	13,665,290

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 30 June 2020

Consolidated	US\$ Issued Capital	US\$ Fair Value Reserve	US\$ Foreign Currency Translation Reserve	US\$ Options Reserve	US\$ Accumulated Losses	US\$ Total Equity
Balance at 31 December 2019	101,523,681	127,396	(150,661)	4,869,533	(92,704,660)	13,665,289
Total Comprehensive income for year						
Loss after income tax	-	-	-	-	(3,785,436)	(3,785,436)
Exchange differences on translation of foreign operations	-	-	(349,231)	-	-	(349,231)
Total comprehensive loss for the year	-	127,396	(349,231)	-	(3,385,436)	(4,134,667)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	52,610	-	-	-	-	52,610
Less: share issue transaction costs	(3,811)	-	-	-	-	(3,811)
Options issued during the period – share-based payments	-	-	-	98,583	-	98,583
Total transactions with owners	48,799	-	-	98,589	-	147,382
Balance at 30 June 2020	101,572,480	127,396	(499,892)	4,968,116	(96,490,096)	9,678,004

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 30 June 2020

Consolidated	US\$	US\$	US\$	US\$	US\$	US\$
	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Total Equity
Balance at 31 December 2018	94,071,529	127,396	(199,373)	6,542,470	(79,172,050)	21,369,972
Total Comprehensive income for year						
Loss after income tax	-	-	-	-	(7,340,606)	(7,340,606)
Exchange differences on translation of foreign operations	-	-	(96,234)	-	-	(96,234)
Total comprehensive income/(loss) for the year	-	-	(96,234)	-	(7,340,606)	(7,436,840)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	-	-	-	-	-	-
Less: share issue transaction costs	-	-	-	-	-	-
Options lapsed during the period – share-based payments	-	-	-	(170,465)	170,465	-
Options issued during the period – share-based payments	-	-	-	7,208	-	7,208
Total transactions with owners	-	-	-	(163,257)	170,465	7,208
Balance at 30 June 2019	94,071,529	127,396	(295,607)	6,379,213	(86,342,191)	13,940,340

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 30 June 2020

	Half-year ended June 2020 US\$	Half-year ended June 2019 US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	3,185,310	6,994,993
Payments to suppliers and employees	(4,373,684)	(6,206,983)
Interest received	2,022	271
Interest paid	(285,502)	(1,197,138)
Income taxes paid	(24,502)	(54,696)
Net cash flows used in operating activities	(1,496,356)	(463,553)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of oil and gas assets	-	5,000
Proceeds from sale of discontinued operations	-	2,000,000
Payments for oil and gas assets	(666,281)	(19,394)
Payments for property, plant and equipment	(132,729)	(62,667)
Payment for right-of-use assets	-	-
Net cash flows (used in)/from in investing activities	(799,010)	1,922,939
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuing of shares	48,798	-
Repayment of interest-bearing liabilities	(825,000)	(639,163)
Proceeds from borrowings	552,600	-
Lease payments	(131,858)	(143,316)
Net cash flows used in financing activities	(355,460)	(782,479)
Net (decrease)/increase in cash and cash equivalents	(2,650,826)	676,906
Cash and cash equivalents at beginning of financial year	9,882,386	4,157,175
Effect of exchange rate changes on cash and cash equivalents	(356,947)	(9,030)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	6,874,613	4,825,051

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

Empire Energy Group Limited (“Company”) is a Company domiciled in Australia. The condensed consolidated interim financial report of the Company for the half-year ended 30 June 2020 comprises the Company and its controlled entities (“Consolidated Entity” or “the Group”).

These general purpose financial statements for the interim half-year reporting period ended 30 June 2020 have been prepared in accordance with complied Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Empire Group’s financial statements are presented in US dollars (“US\$”) which is also the functional currency of the majority of the Group’s business operations."

GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

The Group incurred net losses of \$3.8 million for the half-year ended 30 June 2020, experienced net cash outflows from operating activities of ~\$1.5 million and had net assets of \$9.7 million.

Subsequent to year-end the Group has raised A\$10 million through an unconditional single-tranche placement to institutional and sophisticated investors.

Given the above and cash reserves at 30 June 2020 of \$6.9 million, the directors believe there are sufficient resources available to settle outstanding debts as and when they become due.

DISCONTINUED OPERATIONS

On 19 June 2019, the Group entered into a purchase and sale agreement to sell certain oil and gas leases, wells, and related properties and interests located in various counties in Kansas for cash consideration of US\$19.25 million.

The sale proceeds were principally used to retire debt to a remaining gross debt balance of \$7.5 million, while retaining a proportion from the sale proceeds for working capital and continued investment in Empire’s core Northern Territory shale assets.

The Group determined, in accordance with Australian Accounting Standards, the operations of the Kansas properties should be reported as discontinued operations for all periods presented.

As a result, the operations and financial position of these net assets are presented as discontinued operations for all periods presented in the Group’s consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2020

All information provided in the Group's notes to the consolidated financial statements primarily include only items that are part of the continuing operations.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTE 2 – LEASE EXPIRATION EXPENSES

No charge been taken against the book value of undeveloped leases which have expired, or are to expire. The Group has an ongoing program to renew expiring leases, to take up options on expiring leases or acquire new leases if and when possible. The charge is a non-cash entry which has no effect on cash-flows.

NOTE 3 – INCOME TAX EXPENSE

Included in the income tax expense for the six-month period is an expense of \$24,502 which relates to revising the estimated tax to reflect changes made on lodgement of the Income Tax Return for Empire Energy Holdings LLC.

NOTE 4 – OTHER NON-CASH EXPENSE

	June 2020 US\$	June 2019 US\$
Depreciation, depletion & amortisation – property, plant & equipment	320,823	501,161
Depreciation, depletion & amortisation – right-of-use assets	118,903	126,695
Lease expiration	-	1,399,469
Non-cash interest	565,190	640,180
Change in fair value of hedges	(438,408)	2,194,158
Impairment expense	1,879,051	2,322,687
Other	(74,503)	124,131
	2,371,056	7,308,481
Portion attributable to discontinued operations	-	(3,963,317)
	2,371,056	3,345,164

EMPIRE ENERGY GROUP LIMITED

and its controlled entities

NOTES TO THE FINANCIAL STATEMENTS

for the half-year ended 30 June 2020

NOTE 5 - OPERATING SEGMENTS

The Empire Group has three reportable segments as described below. Information reported to the Empire Group's Managing Director for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

	US\$ US Operations		US\$ Northern Territory		US\$ Corporate		US\$ Eliminations		US\$ Discontinued Operations		US\$ Total	
<i>in USD</i>	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue (external)	2,327,907	2,674,836								3,985,896	2,327,907	6,660,732
Revenue (internal)	-	-	-	-	885,189	116,696	(885,189)	(116,696)	-	-	-	-
Other income (excluding interest income)	60,054	106,479	-	-	41,109	2,000	-	-	-	26,277	101,163	134,756
Reportable segment result before tax	(40,648)	350,257	(933,096)	(335,152)	(55,840)	(640,869)	-	-	-	1,803,005	(1,029,584)	1,177,241
Adjustments:												
Effect of interest income and expense:												
- Interest income (internal)	-	-	-	-	1,118,109	925,741	(1,118,110)	(925,741)	-	-	-	-
- Interest income (external)	-	-	290	223	2,643	2,063	-	-	-	-	2,933	2,286
- Interest expense (internal)	(722,071)	(682,824)	(396,039)	(246,649)	-	-	1,118,110	925,740	-	-	-	(3,733)
- Interest expense (external)	(273,515)	(416,751)	-	-	(14,920)	(1,361)	-	-	(734,372)	(734,372)	(288,435)	(1,152,484)
	(995,586)	(1,099,575)	(395,749)	(246,426)	1,105,832	926,443	-	-	-	(734,372)	(285,503)	(1,153,930)
Material non-cash expenses not included in segment result												
- Depreciation and amortisation	(354,420)	(304,028)	(3,613)	(3,374)	(81,693)	(8,946)	-	-	-	(311,508)	(439,726)	(627,856)
- Share-based payment expense	-	-	-	-	(74,791)	(742)	-	-	-	-	(74,791)	(742)
- Impairment of assets	(1,879,051)	(2,322,687)	-	-	-	-	-	-	-	-	(1,879,051)	(2,322,687)
- Impairment / write-back of ARO	-	-	-	-	-	-	-	-	-	-	-	-
- Lease expiration costs	-	-	-	-	-	-	-	-	-	(1,399,469)	-	(1,399,469)
- Unrealised gain/loss on derivatives	438,408	58,152	-	-	-	-	-	-	-	(2,252,310)	438,408	(2,194,158)
- Finance cost - ARO accretion	(272,842)	(280,018)	-	-	-	-	-	-	-	-	(272,842)	(280,018)
- Finance cost - Discount on debt	(292,348)	(360,162)	-	-	-	-	-	-	-	-	(292,348)	(360,162)
- Other non-cash expenses	74,503	(124,131)	-	-	-	-	-	-	-	-	74,503	124,131
Loss before income tax	(3,321,984)	(4,082,192)	(1,332,458)	(584,952)	893,508	275,886	-	-	-	(2,894,654)	(3,760,934)	(7,285,912)
Reportable segment assets	23,534,613	27,583,085	4,104,996	4,214,199	66,461,045	65,382,395	(56,025,838)	(57,529,639)	-	-	38,074,816	39,650,040
Reportable segment liabilities	(40,064,817)	(40,245,411)	(14,033,794)	(12,930,604)	(1,146,505)	(338,374)	26,848,304	27,529,639	-	-	(28,396,812)	(25,984,750)

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2020
NOTE 6 - OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	US\$ Oil & Gas – Proved	US\$ Oil & Gas – Unproved	US\$ Land	US\$ Buildings	US\$ Equipment	US\$ Motor Vehicles	US\$ Total
Cost in US\$							
At 1 January 2020	60,391,255	5,746,673	5,000	236,521	770,873	744,701	67,895,023
Additions	-	666,281	-	-	118,988	13,742	799,011
Additional ARO ^(a)	2,229,947	-	-	-	-	-	2,229,947
Disposals	(25,100)	-	-	-	(1,973)	-	(27,073)
At 30 June 2020	62,596,102	6,412,954	5,000	236,521	887,888	758,443	70,896,908
Accumulated Depreciation in US\$							
At 1 January 2020	(39,500,531)	-	-	(80,432)	(688,555)	(602,345)	(40,871,863)
Depreciation and depletion	(272,239)	-	-	(2,648)	(29,693)	(16,243)	(320,823)
Disposals	-	-	-	-	1,852	-	1,852
Impairment	(1,879,051)	-	-	-	-	-	(1,879,051)
At 30 June 2020	(41,651,821)	-	-	(83,080)	(716,391)	(618,588)	(43,069,883)
Opening written down value	20,890,724	5,746,673	5,000	156,089	82,318	142,356	27,023,160
Impact of foreign currency adjustments	-	(373,036)	-	-	(2,456)	(26,212)	(401,711)
Closing written down value	20,944,281	6,039,918	5,000	153,441	169,041	113,633	27,425,314

At 30 June 2020, the Group reassessed the carrying amounts of its non-current oil & gas and property, plant and equipment assets for indicators of impairment in accordance with the Group's accounting policy. An impairment charge of \$1,879,051 has been recognised to reflect the falling gas prices and additional costs from the increase in the asset retirement obligation.

(a) Refer to Note 9 for reconciliation of ARO adjustment.

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 30 June 2020
NOTE 6 - OIL AND GAS PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (continued)

	Oil & Gas – Proved	Oil & Gas – Unproved	Land	Buildings	Equipment	Motor Vehicles	Total
Cost in \$							
At 1 January 2019	117,776,505	6,338,732	30,591	331,798	919,220	692,584	126,089,430
Additions	-	1,778,456	-	-	12,224	56,870	1,847,550
New asset retirement obligation	2,630,800	-	-	-	-	-	2,630,800
Write-back of asset retirement obligation	(9,321)	-	-	-	-	-	(9,321)
Sale of wells	(60,006,729)	(2,370,398)	(25,591)	(95,277)	(132,765)	(4,753)	(62,635,513)
Disposals	-	-	-	-	(15,036)	-	(15,036)
Reclassifications	-	2,383	-	-	(12,770)	-	(10,387)
Expiration costs	-	(2,500)	-	-	-	-	(2,500)
At 31 December 2019	60,391,255	5,746,673	5,000	236,521	770,873	744,701	67,895,023
Accumulated Depreciation in \$							
At 1 January 2019	(72,120,156)	-	-	(94,290)	(787,882)	(573,582)	(73,575,910)
Depreciation and depletion	(1,307,387)	-	-	-	(51,145)	(33,518)	(1,392,050)
Write-off sale of wells	40,444,424	-	-	13,858	135,195	4,755	40,598,232
Disposals	-	-	-	-	15,277	-	15,277
Change in ARO	(5,516)	-	-	-	-	-	(5,516)
Impairment	(6,511,896)	-	-	-	-	-	(6,511,896)
At 31 December 2019	(39,500,531)	-	-	(80,432)	(688,555)	(602,345)	(40,871,863)
Opening written down value	45,656,347	6,338,733	30,591	237,508	131,340	119,002	52,513,521
Impact of foreign currency adjustments	-	(361,060)	-	-	(4,370)	(24,446)	(389,877)
Closing written down value	20,890,724	5,385,613	5,000	156,089	77,948	117,910	26,633,284

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 7 - INTEREST BEARING LIABILITIES

Empire Energy USA, LLC maintains a long-term credit facility with Macquarie Bank Limited (Macquarie), which matures in September 2024, consisting of a single tranche term loan facility with an opening availability of \$7,500,000.

The credit facility balance on 30 June 2020 was \$6,675,000.

Uses of credit facility:

Term Loan: To refinance the existing secured loan facilities with Macquarie.

Credit facility structure

Term Loan:	Availability	\$7,500,000
	Interest rate	LIBOR+6.5%
	Drawn balance as at 30 June 2020	\$6,675,000
	Term	Matures in September 2024
	Repayment	100% of Appalachia Net Operating Cashflow subject to minimum amortisation of US\$550,000 per annum.

Other features of the credit facility:

- Outstanding borrowings under the facility are secured by the US assets of the Company and a pledge of the Company's shareholding in Imperial Oil & Gas Pty Limited. The facility is guaranteed by the Company.
- Reserve Assessment of reserves are based on third party reserve engineering consultants.
- Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. These include certain operational and financial covenants for which the Company is required to maintain, the most restrictive of which is the adjusted proved developed producing (PDP) present value (PV).

Key financial covenants:

- 1.5x 1P PV10 coverage to net loan (after adjustment for cash, trade payables and trade receivables)
- 1.3x PDP PV10 coverage to net loan (after adjustment for cash, trade payables and trade receivables)
- 1.0x Current Ratio
- 1.3x EBITDA / Interest Ratio

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 7 - INTEREST BEARING LIABILITIES (Continued)

A summary of period end debt is as follows:

	June 2020 US\$	December 2019 US\$
Facility	6,675,000	7,500,000
PPP term note (a)	552,600	-
Sub-Total	7,227,600	7,500,000
Less deferred financing costs, net	(771,336)	(1,019,030)
Total Debt	6,456,264	6,480,970

(a) On May 8, 2020, the Company received a Paycheck Protection Program (PPP) Term Note for \$552,600. This loan bears a fixed interest rate of 1%. Principal and interest payments are deferred for six months. All or a portion of the loan may be forgiven based on the program requirements. Given uncertainty regarding the amount that will be forgiven, the Company included the entire loan in the short-term debt. The portion of the loan that is not forgiven, if any, will be paid back over two years after the initial six-months.

NOTE 8 - RIGHTS OF USE ASSETS AND LEASE LIABILITIES

	June 2020 US\$	December 2019 US\$
Non-current		
Right-of-use assets - cost	1,040,820	275,917
Right-of-use assets – accumulated depreciation	(256,813)	(134,720)
	784,007	141,197
Current Liabilities		
Lease liabilities of right-of-use-assets	157,034	99,922
	157,034	99,922
Non-current Liabilities		
Lease of liabilities of right-of-use-assets	715,379	126,475
	715,379	126,475

The Company leases its US corporate headquarters under a non-cancellable right-of-use asset lease of monthly payments ranging from \$3,665 to \$3,966 through February 2022. Net rental expense approximated \$27,000 and \$29,000, for the six-months ended June 30, 2020 and 2019, respectively. The US corporate headquarters moved in 2019 to Mayville, New York into a building owned by the Company.

The Company leases its Australian headquarter under a non-cancellable right-of-use asset lease. It entered into a 5 year lease agreement in February 2020 which resulted in an increase in the Right-of-use assets and liabilities from December 2019 to June 2020.

The Company leases trucks under a right-of-use asset agreement. The term of the agreement begins upon the delivery of each truck and last for a period of up to 48 months. Lease payments approximated \$74,000 and \$96,000 for the six-months ended June 30, 2020 and 2019, respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 9 - PROVISIONS

	June 2020 US\$	December 2019 US\$
Current		
Employee entitlements	85,770	49,947
Non-current		
Asset retirement obligations	18,274,289	15,771,500
<i>Movement in Asset Retirement Obligation</i>		
Balance at beginning of period	15,771,500	14,346,023
Disposed – discontinued operations	-	(1,737,207)
Write-off accrued plugging costs	-	(25,432)
Accretion expense for the period, included in finance costs	272,842	557,316
Change in estimate ^(a)	2,229,947	2,630,800
Balance at end of period	18,274,289	15,771,500

^(a) \$2,229,947 is due to a decrease in the discount rate (2019: \$2,630,800 is due to a decrease in the discount rate). The discount rate reduced in the half-year period to 2.34% from 3.04% at December 2019. As required under IFRS, the discount rate is to be reviewed and amended at each period.

Asset Retirement Obligation

The Group makes full provision for the future costs of decommissioning oil and gas production facilities and pipelines on a discounted basis on the installation or acquisition of those facilities.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2050. The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements.

Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works. Furthermore, the timing of decommissioning is likely to depend on when the assets cease to produce at economically viable rates. This in turn will depend upon the future oil and gas prices, which are inherently uncertain.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 10 - CONTRIBUTED EQUITY

a) Shares

Issued Capital

Balance at beginning of period

Issue of 200,000 fully paid shares in January 2020 (funds received in December 2019) due to conversion of options

Issue of 150,000 fully paid shares in January 2020 due to conversion of options

Issue of 93,750 fully paid shares in February 2020 due to conversion of options

Issue of 6,250 fully paid shares in February 2020 due to conversion of options

Less costs associated with the share issues detailed above

Balance at 30 June 2020

CONSOLIDATED	
6 months to 30 June 2020	
No. of shares	US\$
262,838,649	101,523,681
200,000	-
150,000	31,253
93,750	20,097
6,250	1,260
-	(3,811)
263,288,649	101,572,480

As at the date of this report the following shares were issued after balance date:

- On 4 September 2020: 33,333,334 fully paid ordinary shares were issued to sophisticated and institutional investors at A\$0.30 per share before costs.
- On 4 September 2020: 3,575,000 fully paid ordinary shares were issued due to conversion of options.

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

At the Balance Date, the Company had 263,288,649 fully paid ordinary shares on issue. ASX: EEG.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 10 - CONTRIBUTED EQUITY (Continued)

(b) Share Options

Total number of unissued shares under option at 1 January 2020 56,575,004

Movements

Granted

No options have been issued during or since the end of the financial period and the date of this report. -

Exercised

The following options were exercised during the half-year financial report:

- 200,000 unlisted options exercisable @A\$0.30 expiring 30 December 2020	200,000
- 150,000 unlisted options exercisable @A\$0.30 expiring 30 December 2020	150,000
- 93,750 unlisted options exercisable @A\$0.32 expiring 31 July 2020	93,750
- 6,250 unlisted options exercisable @A\$0.30 expiring 26 September 2020	6,250

Expired

No options have expired during or since the end of the half-year financial period. -

Balance as at 30 June 2020	56,125,004
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As at the balance date, the Company had 56,125,004 unissued shares held under option.

At the date of this report, the Company had 51,643,754 unissued shares held under option.

Since the end of the half-year financial period the following were expired or exercised:

- 906,205 unlisted options expired on 31 July 2020;
- 3,575,000 unlisted options were exercised on 3 September 2020

(c) Performance Rights

Total number of unissued shares subject to Performance Rights at 1 January 2020 4,362,811

Movements

Granted

No Performance Rights have been issued during the financial period -

Balance as at 30 June 2020	4,362,811
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Since the end of the financial period and at the date of this report a total of 3,913,960 Performance Rights were issued to Managing Director/Key Management Personnel/Employees on 7 August 2020.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 10 - CONTRIBUTED EQUITY (Continued)

(d) Service Rights

Total number of unissued shares subject to Service Rights at 1 January 2020	1,000,000
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Movements

No Service Rights have been issued during the financial period	-
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Balance as at 30 June 2020	1,000,000
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Since the end of the financial period and at the date of this report a total of 838,558 Service Rights were issued to Non-Executive Director/Employees.

(e) Restricted Rights

Total number of unissued shares subject to Service Rights at 1 January 2020	-
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Movements

No Restricted Rights have been issued during the financial period	-
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Balance as at 30 June 2020	-
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Since the end of the financial period and at the date of this report a total of 1,019,753 Restricted Rights were issued to Managing Director/Non-Executive Chairman on 7 August 2020.

At the Balance Date, the Company had 4,362,811 Performance Rights, Service Rights and Restricted Rights on issue.

At the date of this report, the Company had 11,135,082 Performance Rights, Service Rights and Restricted Rights on issue.

All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during the half-year, or since half-year end.

The Performance Rights, Service Rights and Restricted Rights are subject to certain preconditions being met.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 10 - CONTRIBUTED EQUITY (Continued)

Options

At the balance date the Company had 56,125,004 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price A\$	Expiry Date
906,250	Unlisted options	\$0.32	31 July 2020
36,218,754	Unlisted options	\$0.30	26 September 2020
600,000	Unlisted options	\$0.30	26 October 2020
1,300,000	Unlisted options	\$0.30	30 December 2021
300,000	Unlisted options	\$0.30	30 December 2021
300,000	Unlisted options	\$0.30	30 December 2021
12,000,000	Unlisted options	\$0.32	31 December 2021
1,700,000	Unlisted options	\$0.30	30 December 2022
2,800,000	Unlisted options	\$0.60	30 December 2022
56,125,004			

NOTE 11 - DIVIDENDS

No dividends have been declared or paid during the period.

NOTE 12 - EARNINGS PER SHARE

	June 2020 US\$	June 2019 US\$
Basic loss per share (cents per share)	(1.44)	(3.17)
Diluted loss per share (cents per share)	(1.44)	(3.17)
Loss used in the calculation of basic and diluted loss per share	(3,785,442)	(7,340,606)
Weighted average number of ordinary shares on issue used in the calculation of basic loss per share	263,045,093	231,309,301
Weighted average number of potential ordinary shares used in the calculation of diluted loss per share	263,045,093	231,309,301

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

Empire Group Limited has executed a Deed of Guarantee and indemnity in favour of Macquarie Bank Limited guaranteeing the obligations of each of Empire Energy USA LLC and its subsidiary Empire Energy E&P LLC pursuant to the Macquarie Bank Limited credit facility.

The Empire Group is involved in legal proceedings arising out of the normal conduct of its US business. In the opinion of management, the ultimate resolution of such matters will not have a material effect on the consolidated financial position or results of operations of the Empire Group.

The Empire Group is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Empire Group has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or clean-up is probable, and the costs can be reasonably estimated. The Empire Group maintains insurance that may cover in whole or in part certain environmental expenditures. At 30 June 2020, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

The Company has the following contingent liabilities:

- A\$60,087 held as a bank guarantee to Northern Territory Government as a bonding facility for the EP187 2019 Seismic Program. If the Company is unable to fulfil their environmental obligations to restore the seismic area at the end of the project, then the amount will be payable.
- A\$81,840 held as a bank guarantee to Hudson Resources Pty Ltd as a bonding facility as part of the rental agreement. If the Company defaults on rental payment or damages property, then that amount will be payable.

NOTE 14 – EVENTS OCCURRING AFTER THE REPORTING DATE

- a) On July 14, 2020, the Company held its 2020 Annual General Meeting. All resolutions, except for the spill motion were carried by way of a Poll.
- b) On August 7, 2020, the company announced it had issued various Restricted Rights, Performance Rights and Service Rights to Executives, Employees and Non-Executive Directors that was approved at the 2020 Annual General Meeting.
- c) On August 11, 2020, the Company announced it had executed a Rig Services Contract with Schlumberger Land Rigs for the drilling of the Carpentaria-1 well.
- d) On August 22, 2020 the Northern Territory held its local elections. The Gunner-Labour government was re-elected with a majority ensuring political stability and support of the on-shore gas development.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

NOTE 14 – EVENTS OCCURING AFTER THE REPORTING DATE (Continued)

- e) On September 2, 2020, the Company announced that gross proceeds of A\$10million at A\$0.30 per share had been raised through an unconditional single-tranche placement to institutional and sophisticated investors. The funds raised under the Placement will be applied to Empire's Northern Territory exploration and appraisal programs including the upcoming drilling of the Carpentaria-1 well.
- f) On September 4, 2020, the Company issued 33,333,334 fully paid ordinary shares to sophisticated and institutional investors at A\$0.30 per share before costs in relation to the A\$10million placement.
- g) On September 4, 2020, the Company issued 3,575,000 fully paid ordinary shares due to conversion of options.
- h) On September 4, 2020 the Company through its 100% owned subsidiary Imperial Oil and Gas Pty Limited entered into a cash-backed bank guarantee facility with ANZ for A\$300,774 as required by the Northern Territory Government as an environmental security bond for the 2020 Drilling Program NT EP187.
- i) On September 10, 2020 the Company announced that Schlumberger Land Rigs 183 had commenced mobilisation to the Carpentaria-1 well site in NT permit EP187.



Empire's Non-Executive Director Professor John Warburton during a visit to the McArthur River Mine. John's pioneering work led to the staking of Empire's acreage in 2010.

NOTES TO THE FINANCIAL STATEMENTS **for the year ended 30 June 2020**

DIRECTORS' DECLARATION

In the opinion of the directors of Empire Energy Group Limited (the "Company"):

- a** The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - i** Giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
 - ii** Complying with Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional requirements; and
- b** There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



A Underwood
Managing Director

Dated: 11 September 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF EMPIRE ENERGY GROUP LIMITED

We have reviewed the accompanying half-year financial report of Empire Energy Group Limited, which comprises the consolidated statement of financial position as at 30 June 2020, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Interim Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Empire Energy Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Empire Energy Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Empire Energy Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
- b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Nexia Sydney Partnership



Lester Wills
Partner

Sydney
11 September 2020