

# ANNUAL REPORT

# 2020

Empire Energy Group Limited
and its controlled entities
ABN 29 002 148 361

# CONTENTS

# CORPORATE DIRECTORY

| | |
|---|---|
| **Directors** | Paul Espie AO (Chairman)<br>Alexander Underwood (Managing Director)<br>John Gerahty (retired 11 March 2021)<br>Prof John Warburton<br>Peter Cleary (appointed 25 May 2020)<br>Louis Rozman (appointed 11 March 2021) |
| **Executives** | Ben Johnston (Vice President – Business Development)<br>Dr Alex Bruce (Chief Geoscientist) |
| **Financial Controller** | Kylie Arizabaleta |
| **Company Secretary** | Andrew Phillips |
| **Registered Office** | Level 19, 20 Bond Street Sydney NSW 2000 |
| **Australian Auditors** | Nexia Sydney Audit Pty Ltd<br>Level 16,1 Market Street, Sydney NSW 2000 |
| **US Auditors** | Schneider Downs & Co. Inc<br>One PPG Place, Suite 1700, Pittsburgh PA 15222 |
| **Australian Solicitors** | Baker McKenzie<br>Level 46, Tower One, International Towers Sydney<br>100 Barangaroo Avenue, Barangaroo NSW 2000 |
| **US Solicitors** | Depew Rathbun & Gillen McInteer, LLC<br>8301 East 21at Street North, Suite 450, Wichita, KS 67206-2936 |
| **Bankers** | Macquarie Bank Limited<br>50 Martin Place, Sydney NSW 2000<br><br>Australia & New Zealand Banking Group Limited<br>1 Chifley Plaza, Sydney NSW 200<br><br>PNC Bank<br>249 Fifth Avenue, One PNC Plaza, Pittsburgh PA 15222 |
| **Share Registry** | Computershare Investor Services Pty Limited<br>Level 3, 60 Carrington Street, Sydney NSW 2000<br>Telephone: 1300 85 05 05 |
| **Stock Exchange Listings** | Empire Energy Group Limited shares are listed on:<br>- Australian Securities Exchange (ASX code: EEG)<br>- New York OTC Market (Code: EEGNY) OTC#: 452869103<br>Sponsor: Bank of New York 1 ADR for 20 Ordinary Shares |
| **Website** | www.empireenergygroup.net |

## CHAIRMAN AND MANAGING DIRECTOR LETTER TO SHAREHOLDERS

Dear Shareholders,

We are pleased to present you Empire's 2020 Annual Report.

The Beetaloo Sub-basin continued to gain prominence in Australia's energy industry over 2020, characterised by increasing field activity and support measures designed to accelerate commercial production from the basin, as part of the Federal Government's *Gas Fired Recovery Strategy*. Australia will require new sources of affordable gas to support industrial activity and household energy needs for decades to come.

The *Australian Energy Market Operator* is forecasting gas supply shortfalls in the years ahead as existing sources decline, particularly the offshore fields in the Bass Strait, the onshore Cooper Basin and the coal seam methane fields of Queensland.

The Beetaloo Sub-basin is likely to play an important role in addressing these shortfalls given its globally significant resource volumes and proximity to domestic and international markets. Comparisons to the major US shale basins such as the Marcellus are compelling. Fracture stimulated natural gas from shale formations now comprises over 70% of US gas production, which has been the key driver for material reductions in aggregate US CO2 emissions as coal fired power is displaced. This has brought a proliferation of manufacturing and employment, particularly in regional areas.

Our overall objective is to progress our Northern Territory projects focused on the prime parts of the Company's extensive land holdings through proving up phases, exploration into development, to generate cash flow, taking advantage of access to existing and planned infrastructure and markets domestic and international.

In 2020 Empire saw success in the ongoing execution of this objective. We interpreted seismic data acquired in late 2019 which demonstrated that the shales of the Beetaloo Sub-basin extend into EP187. This was followed by the drilling of Carpentaria-1, which identified the thickest sequence of Velkerri gas-bearing shales of any well drilled in the basin to date, with the highest ratio of liquids-rich gas in that formation. This has been reflected in material growth in the Company's market capitalisation over the last 12 months.

We will soon be carrying out a vertical fracture stimulation of the most prospective Velkerri shale zones in Carpentaria-1. The primary objective of this program will be to flow gas to surface, while assessing the production and gas / liquids composition of each zone. These results will allow the Company to prioritise horizontal drilling targets.

The pending vertical fracture stimulation of Carpentaria-1 has been approved, and the regulatory process for additional seismic acquisition and up to 6 fracture stimulated horizontal wells across EP187 is underway. Once approved, these consents will remain in place for 5 years.

The increasing activity by our neighbours is advantageous to Empire as the interpretation of regional geology is enhanced. Santos carried out a vertical fracture stimulation of its Tanumbirini-1 well in 2020 focused on the Velkerri shale which achieved strong flow rates and has announced plans to drill two fracture stimulated wells at the same location this year. Origin has flowed liquids-rich gas to surface from its Kyalla-117 well and plans to drill the Velkerri-76 well in 2021 focused on the liquids-rich gas window of the Velkerri shale formation. Tamboran Resources announced their plan to drill a well and have executed an MOU with pipeline operator Jemena.

Empire's plans for commercialisation are progressing. The proximity of our drilling sites to existing infrastructure is strategic, as is our approach to regulatory approvals. Federal Government support for the industry through the *Beetaloo Strategic Basin Plan* incentivises operators to expand and accelerate work programs. Empire has commenced the process to apply for drilling grants under the Government's *Beetaloo Cooperative Drilling Program*.

Empire's plans for commercialisation are progressing. The proximity of our drilling sites to existing infrastructure is strategic, as is our approach to regulatory approvals. Federal Government support for the industry through the *Beetaloo Strategic Basin Plan* incentivises operators to expand and accelerate work programs. Empire has commenced the process to apply for drilling grants under the Government's *Beetaloo Cooperative Drilling Program*.

There are ready local markets for our gas which, in the success case, will allow Empire to commercialise our properties prior to the construction of major pipeline infrastructure connecting the Beetaloo to the East Coast and Darwin.

Empire's low-cost operating model and commercial approach provide strategic advantages as we seek to be the first operator to commence gas sales, initially focused on these local markets, then later export gas to the East Coast and Asia via Darwin or Gladstone.

As the Company progresses its work programs it is conscious of the climate change issues in the countries in which it operates. The global transition towards energy sources with lower carbon intensity gathered pace during 2020 and we are exploring opportunities that flow from that. The Board has implemented a Foundation Review of Social and Environmental Factors and will complete an Environmental, Social and Governance Policy in 2021.

In NY State, a jurisdiction which is prioritising renewable energy generation, we are in advanced discussions over the installation of third party solar and wind farms on our acreage. If these transactions complete, we will receive lease payments for providing this access, while capital expenditures are borne by the third-party operators.

The contribution of renewables for electricity generation in Australia continues to rise, reaching 24% of total electricity generation in 2019. However, this has brought challenges including increased grid instability and acceleration of the planned retirement of coal-fired power stations which presently provide most baseload power. Gas will play a critical role in the transition. Gas generates approximately half of the life cycle emissions of coal and one tenth of the particulate pollutants. Gas fired peaking plants can be switched on and off rapidly to address the intermittency of renewable-based fuel sources.

The importance of gas extends to Asia. Asian LNG imports are forecast to increase in the decades ahead when Asian energy markets reduce their reliance on coal. Established LNG export infrastructure in Darwin will help to meet this demand, and Beetaloo gas is likely to be a feedstock.

While Empire's Beetaloo gas has low in situ $CO_2$ compared to other major Australian gas basins, the company is exploring further mitigants to its future carbon footprint. Future opportunities for carbon mitigation may include reforestation initiatives, geo-sequestration and soil carbon sequestration.

Our commitment to ESG principles extends beyond climate change. Empire has spent over a decade building relationships with the landowners, particularly traditional owners, regulators and stakeholders in the areas in which we operate. This reflects the respect we have for traditional owners, the importance we attach to protecting local environments and the contribution we can make to these interests and society generally.

The Board has recognised the contribution that our recently retired Non-Executive Director, John Gerahty, has played in the rebuilding of our company over the last three years as we deleveraged and shifted our strategic focus to the Northern Territory's shale basins and wishes him well. While his business acumen and corporate experience will be missed, the recent appointments of Peter Cleary and Louis Rozman to the Board, both of whom have specialist oil and gas industry experience, will be of value as we execute our growth strategies.

We have continued to build our management team with the appointment of Dr Alex Bruce, Chief Geoscientist and Charles Dack, Environmental and Compliance Reporting Officer, and our operations team at inGauge Energy has provided outstanding project management leadership. We thanked David Evans for his contribution on his departure from Empire in January 2021.

We are grateful to our people in Australia and the United States for their hard work and dedication over the last 12 months and to all shareholders for your support.

Yours sincerely,

Paul Espie AO
Chairman
Empire Energy Group Limited

Alex Underwood
Managing Director
Empire Energy Group Limited

**Australian Energy Market Operator, 2021 Gas Statement of Opportunities**

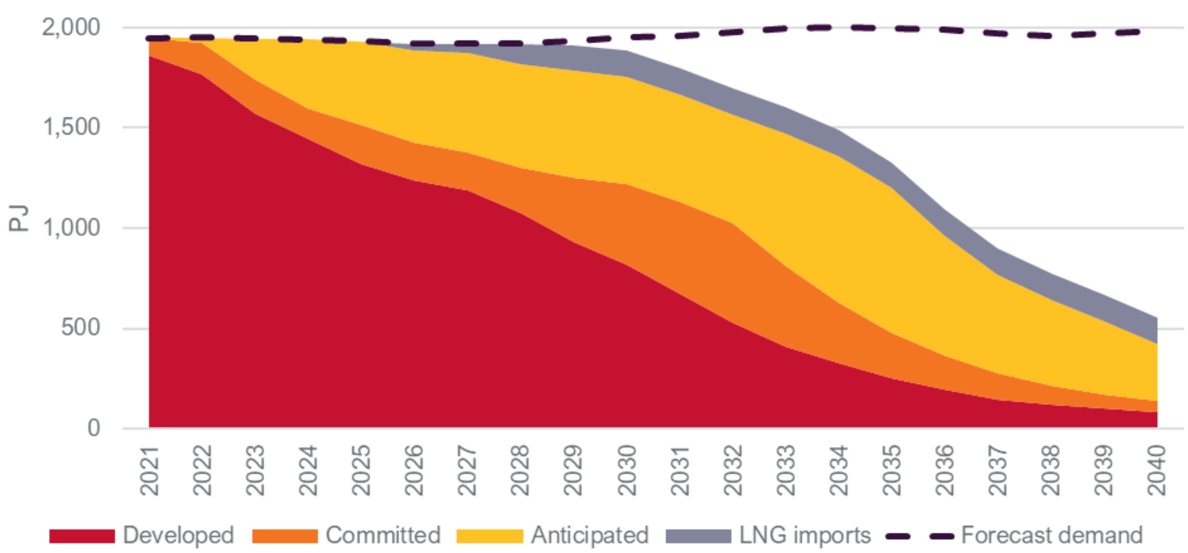


Figure1: Projected eastern and south-eastern Australia gas production (including export LNG), Central scenario, existing, committed, and anticipated developments, 2021-40 (PJ)

# OPERATIONS REVIEW

## A. 2020 OVERVIEW & HIGHLIGHTS

Empire Energy Group Limited ("Empire") has changed its functional currency from United States Dollars to Australian Dollars reflecting the increased focus on its Australian operations. All references to dollars are Australian Dollars unless otherwise stated.

### GROUP FINANCIAL HIGHLIGHTS

- Group Revenue $6.5 million (2019: $7.8 million)
- Net production 4,697 Mcfe per day (2019: 6,352 Mcfe per day)
- Outstanding debt US$6.5 million (2019: US$7.5 million)
- Cash at bank $14.1 million (2019: $14.1 million)

### AUSTRALIA – NORTHERN TERRITORY

- Empire holds a 100% working interest in over 14.5 million acres of tenements across the McArthur Basin and Beetaloo Sub-basin, Northern Territory, Australia.
- In January 2020, Empire announced that new EP187 2D seismic processing and interpretation confirmed Empire holds a significant Beetaloo Sub-basin position. A large prospective area was identified containing thick continuous Velkerri Shales, undisturbed by faulting.
- In May 2020, Empire announced an independent assessment of its Northern Territory petroleum resources by Netherland Sewell & Associates Inc, with a total best estimate prospective resource of 13.5 TCF gas. Of this, 2.3 TCF was assessed in the Velkerri Shale in EP187.
- In October 2020, Empire's Carpentaria-1 well in EP187 located on the eastern side of the Beetaloo Sub-basin intersected an extensive interval of liquids-rich gas in the Velkerri formation based on mud gas readings. The proportion of liquids-rich gas intersected in the Velkerri exceeded that of analogue wells previously drilled across the Beetaloo Sub-basin, exceeding Empire's pre-drill expectations.
- In December 2020, Empire submitted an Environment Management Plan ("EMP") to the Northern Territory Government for hydraulic stimulation of the vertical Carpentaria-1 well and the drilling and hydraulic stimulation of a horizontal section from the Carpentaria-1 wellbore. On 16 February 2021, Empire received approval for the EMP.

L to R: Chairman Paul Espie, Managing Director Alex Underwood, NT Opposition Leader Lia Finochiarro, Federal Minister for Energy and Emissions Reduction Hon. Angus Taylor MP and Senator Sam McMahon at Carpentaria-1

Carpentaria-1 drilling with casing

Wellsite geologist examining drill cuttings at Carpentatria-1

Core taken from Carpentatria-1 well

## USA – APPALACHIA

- Empire's Appalachia operations had a strong operational performance throughout 2020 with minimal production declines across the asset base despite minimal capital investment. Low gas prices throughout 2020 reduced revenues. The US operations continued throughout the COVID-19 lock-down periods as an essential service business given gas produced by Empire's operations is used for electricity generation and heating.

- Gross natural gas production for 2020 was 2.11 Bcf (Net 1.70 Bcf) (2019: Gross 2.22 Bcf). Gas production in 2020 experienced natural field decline compared to the prior year and some production was temporarily shut in due to the low market gas prices.

- Empire was granted a US$552,600 forgivable loan under the US Paycheck Protection Program ("PPP") which formed part of the US Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP was legislated by the US Federal Government to incentivise small and medium sized business to keep employees during the COVID-19 pandemic. Throughout the year Empire applied these funds to eligible expenses including payroll, interest, rent and utilities and as such US$542,600 of the loan was forgiven during the year. The remaining US$10,000 was forgiven after year-end.

## B. RESERVES

## US RESOURCE UPDATE

The Company's USA reserves are reviewed annually by certified independent third-party reservoir engineers. The scope of the reviews is to prepare an estimate of the proved, probable and possible reserves attributable to Empire's ownership position in the subject properties.

**Reserves as at December 31, 2020 – USA (NYMEX Strip Dec 31, 2020 including hedges)**

| Reserves - As of Dec 31, 2020 | Oil (Mbbls) | Gas (MMcf) | MBoe | Capex $M | PV0 $M | PV10 $M |
|---|---|---|---|---|---|---|
| Reserves (Reserves) | | | | | | |
| Proved Developed Producing | 32 | 25,729 | 4,320 | - | $14,139 | $8,630 |
| Proved Developed Non-producing | | | | | $(62) | $(28) |
| Proved Behind Pipe | | - | | | | |
| Shut-in | - | - | - | - | $(563) | $(255) |
| Proved Undeveloped | | | | | | |
| **Total 1P** | **32** | **25,729** | **4,320** | **-** | **$13,514** | **$8,347** |
| Probable | - | 10,087 | 1,680 | $7,809 | $16,545 | $1,992 |
| **Total 2P** | **32** | **35,816** | **6,000** | **$7,809** | **$30,059** | **$10,339** |
| Possible | 158 | 3,880 | 805 | $5,102 | $11,085 | $1,780 |
| **Total 3P** | **190** | **39,696** | **6,805** | **$12,911** | **$41,144** | **$12,119** |

*USA Reserves by: Graves & Co Consulting*

**Notes to Reserves**

- The quantities presented are estimated reserves and resources of oil and natural gas that geologic and engineering data demonstrate are "In-Place" and can be recovered from known reservoirs.
- Oil prices are based on NYMEX West Texas Intermediate (WTI).
- Gas prices are based on NYMEX Henry Hub (HH).
- Prices were adjusted for any pricing differential from field prices due to adjustments for location, quality and gravity, against the NYMEX price. This pricing differential was held constant to the economic limit of the properties.
- All costs are held constant throughout the lives of the properties.
- The deterministic method was used to calculate 1P, 2P and 3P reserves.
- The reference point used for measuring and assessing the estimated petroleum reserves is the wellhead.
- "PV0" Net revenue is calculated net of royalties, production taxes, lease operating expenses and capital expenditures but before Federal Income Taxes.
- "PV10" is defined as the discounted Net Revenues of the company's reserves using a 10% discount factor.
- "1P Reserves" or "Proved Reserves" are defined as Reserves which have a 90% probability that the actual quantities recovered will equal or exceed the estimate.
- "Probable Reserves" are defined as Reserves that should have at least a 50% probability that the actual quantities recovered will equal or exceed the estimate.
- "Possible Reserves" are defined as Reserves that should have at least a 10% probability that the actual quantities recovered will equal or exceed the estimate.
- "Bbl" is defined as a barrel of oil.
- "Boe" is defined as a barrel of oil equivalent, using the ratio of 6 Mcf of Natural Gas to 1 Bbl of Crude Oil. This is based on energy conversion and does not reflect the current economic difference between the value of 1 Mcf of Natural Gas and 1 Bbl of Crude Oil.
- "M" is defined as a thousand.
- "MMBoe" is defined as a million barrels of oil equivalent.
- "Mcf" is defined as a thousand cubic feet of gas.
- All volumes presented are net volumes and have had subtracted associated royalty burdens.
- Reserve estimates have been prepared by the following independent reserve engineers:
    - New York & Pennsylvania (Appalachia)– Graves & Co Consulting.
- The following NYMEX prices, as at December 31, 2020, were used to calculate reserves and cash flow:

| Year | US$/Bbl | US$/Mcf |
|---|---|---|
| **2021** | 48.36 | 2.656 |
| **2022** | 46.76 | 2.583 |
| **2023** | 45.72 | 2.459 |
| **2024** | 45.10 | 2.482 |
| **2025** | 44.84 | 2.524 |
| **2026** | 44.80 | 2.548 |
| **2027** | 44.89 | 2.581 |
| **2028** | 44.99 | 2.614 |

## NORTHERN TERRITORY RESOURCE UPDATE

Empire, 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 several identified shale targets and abundant indications for the presence of gas and oil.

In March 2021, Netherland, Sewell and Associates, Inc. ("NSAI"), updated its independent resource assessment for Empire's Northern Territory acreage. NSAI assessed a total best estimate prospective resource of 14.5 TCF gas, including 3.45 TCF of gas and 27mmbbl of condensate in the Velkerri Shale in EP187. NSAI assessed a maiden best estimate contingent gas resource of 41 BCF gas in the immediate vicinity of the Carpentaria-1 well location.

A summary of the NSAI report is detailed in the table below:

| | Contingent Resources Net Sales Gas (BCF) | | | Unrisked Gross (100%) Prospective Sales Gas Resources (BCF) | | | Unrisked Gross (100%) Prospective Condensate Resources (MMBL) | | |
|---|---|---|---|---|---|---|---|---|---|
| **NT Resources – March 2021** | **Low Estimate (1C)** | **Best Estimate (2C)** | **High Estimate (3C)** | **Low Estimate (1U)** | **Best Estimate (2U)** | **High Estimate (3U)** | **Low Estimate (1U)** | **Best Estimate (2U)** | **High Estimate (3U)** |
| **Velkerri** [1] | - | 41 | 86 | 1,990 | 3,446 | 7,091 | 4 | 27 | 99 |
| **Barney Creek** [1,2] | - | - | - | 1,633 | 11,053 | 45,380 | - | - | - |
| **Total** | **-** | **41** | **86** | **3,623** | **14,499** | **52,471** | **4** | **27** | **99** |

1. Empire derived arthmetic summation of Netherland, Sewell & Associates, Inc. assessed resources
2. Barney Creek formation shale targets across EP180, EP181, EP182, EP183, EP184 and EP188.
   NSAI did not evaluate the Wollogorang Formation, which has been previously externally evaluated.

L to R: Chairman Paul Espie, Schlumberger site manager, Managing Director Alex Underwood and NT Senator Sam McMahon at Carpentaria-1 site

## C. CREDIT FACILITY

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

| | |
|---|---|
| Principal Amount<br>Availability/Drawings | US$7.5 million<br>US$6.5 million |
| Maturity Date | September 2024 |
| 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<br>Net Debt > 1.3x Adjusted Proved Reserves PV10<br>Interest Coverage ratio > 1.3x<br>Current Ratio 1.0x |

The draw down on the Macquarie Bank Limited Credit Facility as at December 31, 2020 was US$6,537,500. On 27 March 2020, Macquarie Bank waived all past and existing defaults and any potential defaults up to and including 31 December 2020 in consideration for Empire making repayments of US$825,000. Empire made a further repayment of US$137,500 during November 2020.

At the balance date, Empire also had a forgivable loan with a balance of US$10,000 under the Paycheck Protection Program which was used for allowable expenses. The loan was originated through PNC Bank, carried a fixed interest rate of 1% per annum and was due to mature in June 2022. The PPP loan was unsecured and subordinated to the Credit Facility with Macquarie Bank Limited. The loan was forgiven in March 2021 in accordance with its terms.

After the balance date, a new Paycheck Protection Loan was approved and drawn down in the amount of US$343,602 with a 1% per annum interest rate and 5 year term. Empire is utilising the funds for forgiveable purposes and intends to apply for loan forgiveness.

## D. 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 December 31, 2020 was US$0.75 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub forward curves at market close on December 31, 2020.

## E. BUSINESS RISK

**COVID-19** – As at the date of this report, Australian international borders are closed. During the year the Northern Territory Government closed its internal borders in response to the virus to mitigate the risk of transmission. 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 two states 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 flow 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 rectification costs, and significant legal consequences.

**Title Risk** – Interests in onshore tenements in Australia are governed by the respective state 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 proposed 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 will not materialise. 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 intends to insure 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 mining 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.

**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, debt or equity, will be available or available on suitable terms. The could adversely impact the value of the Company.

## F. COMPETENT PERSONS STATEMENT

The information in this report which relates to the Company's reserves is based on, and fairly represents, information and supporting documentation prepared by or under the supervision of the following qualified petroleum reserves and resources evaluators, all of whom are licensed professional petroleum engineer's, geologists or other geoscientists with over five years' experience and are qualified in accordance with the requirements of Listing Rule 5.42:

| *Name* | *Organisation* | *Qualifications* | *Professional Organisation* |
|---|---|---|---|
| *Mel Hainey* | *Graves & Co. Consulting LLC* | *BSc* | *SPE* |
| *Mr John G. Hattner* | *Netherland Sewell & Associates Inc* | *MBA, Master of Science in Geological Oceanography, BSc* | *Licenced Professional Geophysicist in the State of Texas, USA* |
| *Mr Joseph M. Wolfe* | *Netherland Sewell & Associates Inc* | *Master of Petroleum Engineering, BSc Mathematics* | *Licenced Professional Engineer in the State of Texas, USA* |

** SPE: Society of Petroleum Engineers*
**PESA: Petroleum Exploration Society of Australia*
*None of the above evaluators or their employers have any interest in Empire Energy E&P, LLC or the properties reported herein. The evaluators mentioned above consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*
***Note Regarding Forward-Looking Statements***
*Certain statements made and information contained in this report 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 historical fact are forward-looking statements.*



Above and below: Managing Director, Alex Underwood with Traditional Owners at the on-country meeting held at Borroloola, NT in November 2020.

# DIRECTORS' REPORT
## For the financial year ended 31 December 2020

In respect of the financial year ended 31 December 2020, the Directors of Empire Energy Group Limited ("Empire" or "the 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 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 year:

| | |
|---|---|
| Mr Paul Espie AO | Non-Executive Chairman |
| Mr Alexander Underwood | Managing Director and Chief Executive Officer |
| Mr John Gerahty | Non-Executive Director (retired 11 March 2021) |
| Prof John Warburton | Non-Executive Director |
| Mr Peter Cleary | Non-Executive Director (appointed 25 May 2020) |
| Mr Louis Rozman | Non-Executive Director (appointed 11 March 2021) |

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

### PRINCIPAL ACTIVITIES

During the financial 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 exploration tenements and applications located in the highly petroleum prospective Northern Territory McArthur Basin (including the Beetaloo Sub-Basin). Key activities completed during the year included the successful drilling of the Carpentaria-1 well in Empire's EP187 permit, intersection of liquids-rich gas at Carpentaria-1, certification of a prospective resources by Netherland, Sewell and Associates Inc and preparation for further exploration and appraisal activities.

The production 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 including asset write-downs of the Empire Group for the financial year ended 31 December 2020 after providing for income tax was $7,684,455 compared to a consolidated net loss for the previous corresponding reporting period of $23,233,902.

### REVIEW OF OPERATIONS

For information on a review of the Empire Group's operations refer to the Operations Review contained on pages 7 to 15 of this report.

# Directors' Report
## for the year ended 31 December 2020

### DIVIDENDS

The Directors have not recommended the payment of a final dividend.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial period under review.

### 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

1) On 4 January 2021, ASIC form 315 Removal of Auditor was lodged due to the Company current auditors Nexia Sydney Partnership, merging with another company and renaming it from Nexia Sydney Partnership to Nexia Sydney Audit Pty Ltd. Aside from a name change, no other changes occurred.

2) As at 31 December 2020, the Company was not compliant with the Interest Coverage Ratio under the Macquarie Credit agreement. Macquarie had previously waived all existing / prior defaults under the credit agreement and waived any potential breaches up to and including 31 December 2020. Empire is in advanced discussions with Macquarie Bank relating to a potential refinancing of the credit facility including amending certain financial covenants.

3) On 16 February 2021, Empire was granted a second loan of US$343,602 under the Paycheck Protection Program (PPP). The second tranche is fully forgivable provided the loan proceeds are used for eligible expenses including payroll, carries a fixed interest rate of 1% per annum and has a maturity of 5 years.

4) At the date of completion of the Financial Report, the Group is continuing to monitor and respond to the effects of COVID-19. Empire has implemented COVID-19 policies designed to minimise the risk of transmission of COVID-19 among its workforce and local communities while minimising the risk of disruption to its ongoing business activities. Any potential financial effect of the virus on Empire's operations is currently unquantifiable.

5) An Environment Management Plan submitted to the Northern Territory Government for the hydraulic stimulation and flow testing of the vertical Carpentaria-1 well was approved on 16 February 2021. The EMP will remain active for five years from the date of approval. Empire intends to commence fracture stimulation and flow testing operations at Carpentaria-1 in Q2 2021.

6) On 22 February 2021, Empire advised shareholders that Netherland, Sewell & Associates Inc had updated its independent resource assessment for Empire's EP187 permit in the Northern Territory. The assessment increased Empire's best estimate prospective gas resource in EP187 by 47% to 3.5 TCF and assessed a maiden best estimate prospective condensate resource of 27mmbbls. In addition, a maiden best estimate contingent resource of 41 BCF in the immediate vicinity of the Carpentaria-1 well location was assessed.

7) On 11 March 2021, Empire announced the appointment of Mr Louis Rozman as a Non-Executive Director of the Company, effective immediately. At the same time, Mr John Gerahty retired from the Board of Directors.

# Directors' Report
## for the year ended 31 December 2020

### INFORMATION ON DIRECTORS

**Paul Espie AO**, BSc, MBA Age 76

**Non-Executive Chairman**

Appointed Non-Executive Chairman 5 February 2019

Mr Paul Espie AO was the founding principal of Pacific Road Capital, a manager of private equity funds investing in the resources sector internationally, in 2006. He was Chairman of Oxiana Limited during the development of the Sepon copper/gold project in Laos (2000 to 2003) and prior to that Chairman of Cobar Mines Pty Ltd after a management buy-out in 1993. Mr Espie was previously responsible for Bank of America operations in Australia, New Zealand and Papua New Guinea and Chairman of the Australian Infrastructure Fund. He is a Fellow of the Australian Institute of Company Directors, Trustee of the Australian Institute of Mining & Metallurgy, Educational Endowment Fund, and a Director of the Menzies Research Centre.

**Special Responsibilities:**
Chairman of Empire Energy Group Limited

**Other Current Listed Public Company Directorships:**
Aurelia Metals Limited

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

**Alexander Underwood**, LLB, BCom (Hons) Age 38

**Managing Director and Chief Executive Officer**

Mr Underwood has nearly fifteen years of specialist upstream oil and gas investing and financing experience. Previously he spent two years with the Commonwealth Bank of Australia, Singapore as Director of Natural Resources and spent nine years with Macquarie Bank in Sydney and Singapore as Associated Director of Energy Markets Division. He commenced his career at BHP Billiton Petroleum.

**Special Responsibilities:**
Chief Executive Officer of Imperial Oil & Gas Pty Limited
Executive Director of Imperial Oil & Gas Pty Limited
President and Managing Member of the Company's 100% wholly owned US subsidiaries

**Other Current Listed Public Company Directorships:**
Nil

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

**John Gerahty,** BCom, MBA Age 78

**Non-Executive Director**

Mr John Gerahty is a former investment banker and company director with wide experience in business and commerce. He was a Founding Director of Macquarie Bank and has served as a director of a considerable number of publicly listed companies, including roles as Chairman of AFP Group PLC and MPI Mines Ltd. He is currently Chairman of Hardie Grant Pty Ltd publishing group, its major shareholder Associated Media Investments Pty Ltd, and an associated company AMI Advertising Media Pty Ltd. He is also a Director of Kaplan Partners Pty Ltd and Kaplan Funds Management Pty Ltd, as well as his family owned Liangrove group companies. He was formerly a Director (and Chairman) of the Sydney Swans, a Director of Cricket NSW, and a Trustee of the SCG Trust.

## Directors' Report
## for the year ended 31 December 2020

**Special Responsibilities:**
Member of the Audit and Risk Committee

**Other Current Listed Public Company Directorships:**
Nil

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

**Professor John Warburton**, PhD, FGS, FPESA, MAICD Age 63
**Non-Executive Director**

John Warburton has 38 years of professional oil and gas experience in operated and non-operated conventional and unconventional petroleum discovery, development and in new business delivery. John has worked in Western Europe, West Africa, Central Asia, Middle East, Pakistan, Papua New Guinea and throughout the Asia Pacific Region including Australia and New Zealand. He has resided as an expatriate in a number of these regions and has a keen focus on people, safety, cultural heritage and environment.

Prof Warburton's career includes 14 years of senior technical and leadership roles at BP. He was Executive General Manager for Exploration & New Business at Eni in Pakistan, and until March 2018 John was Chief of Geoscience & Exploration Excellence at Oil Search Ltd.

Prof Warburton has been a Director of Empire's wholly owned Northern Territory subsidiary, Imperial Oil & Gas Pty Limited ("Imperial"), since 2011 and was its Chief Executive Officer from 2011 to 2014. He continues to serve as a Non-Executive Director of Imperial. In addition, John is Visiting Professor in the School of Earth & Environment at Leeds University UK where he has served ten years on the External Advisory Board of Geosolutions, Leeds (formerly Petroleum Leeds) which is the focus for integrated Petroleum Engineering, Geoscience and Climate Research.

**Special Responsibilities**
Non-Executive Director of Imperial Oil & Gas Pty Limited
Chairman of the Audit and Risk Committee

**Other Current Listed Public Company Directorships:**
Senex Energy Limited

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

**Peter Cleary,** BCom. & LLB Age 63
**Non-Executive Director**

Mr Cleary is a leader in the oil and gas sector. He holds relationships with commercial and government entities gained over a distinguished 29-year career representing Santos, the North West Shelf Venturers and BP in Asia. His executive career was in LNG, pipeline gas and chemicals operations.

Mr Cleary is currently a member of the Executive Committee of the Australia Japan Business Co-operation Committee and the Australia Korea Business Council. He is Fellow of the Australian Institute of Energy – SA Branch and the President of Water Polo South Australia.

He previously held positions as a Board member of the Australian Petroleum Production & Exploration Association (APPEA), the Australia China Council and the Australia Japan Foundation. He is a Graduate of the Australian Institute of Company Directors.

## Directors' Report
## for the year ended 31 December 2020

**Special Responsibilities:**
Chairman of Remuneration Committee
Member of the Audit & Risk Committee

**Other Current Listed Public Company Directorships:**
Nil

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

**Louis Rozman,** BEng, MGeoSc Age 63
**Non-Executive Director**

Mr Rozman is a mining engineer and executive with 40 years' experience in operating and constructing projects in Africa, Australia and Papua New Guinea. Mr Rozman was the Chief Operating Officer of AurionGold Limited and was instrumental in the growth and development of its predecessor, Delta Gold Limited. He was the Chief Executive Officer of CH4 Gas Limited, during its pioneering coal seam gas development in Queensland.

He has held numerous senior management positions in the industry. His experience as Chief Executive Officer of CH4 Gas Limited ("CH4") a successful Queensland coal seam gas developer and producer, is of direct relevance to Empire's growth plans. CH4 was one of the first companies to commercialise a Queensland coal seam methane project. CH4 merged with Arrow Energy in 2006, and the enlarged business was later acquired by Royal Dutch Shell and PetroChina for >A$3 billion.

Mr Rozman is a Fellow of the Australian Institute of Company Directors, the Australasian Institute of Mining and Metallurgy ("AusIMM") and a Chartered Professional (Management). He is the Chairman of the VALMIN Code Committee for the AusIMM and Australian Institute of Geoscientists. He has a Bachelor of Engineering (Mining) degree from the University of Sydney and a Masters in Geoscience (Mineral Economics) from Macquarie University.

**Special Responsibilities:**
Member of the Remuneration Committee

**Other Current Listed Public Company Directorships:**
Nil

**Former Listed Public Company Directorships in Last 3 Years:**
Nil

### COMPANY SECRETARY

**Andrew Phillips**
Mr Phillips was appointed Company Secretary in November 2020. Mr Phillips has over 25 years' experience working in senior financial and commercial management positions with public and multinational companies based in Australia and New Zealand and has served as Company Secretary for a number of ASX listed companies.

He is currently Executive Director, CFO and Company Secretary of Lithium Power International Limited and holds independent directorships for ASX listed companies, Southern Cross Exploration NL and Donaco International Limited.

# Directors' Report
## for the year ended 31 December 2020

### EXECUTIVES

**Alex Bruce** BSc (Hons), PHD, Grad. Cert Geostatistics
**Chief Geoscientist**
Dr Bruce was appointed Chief Geoscientist in March 2020 to lead the Company's technical analysis and understanding of its Northern Territory assets and the wider Basin. Prior to joining the Company, Dr Bruce was most recently with Cooper Basin focused player Bridgeport Energy which is owned by New Hope Corporation.

He is a well-credentialed oil and gas professional serving in similar roles with other mid-cap ASX oil and gas companies including AWE (now Mitsui), Drillsearch Energy (acquired by Beach Energy) and ROC oil. Dr Bruce is the President of the NSW Branch of the Petroleum Exploration Society of Australia and earned his PhD from the University of NSW in Reservoir Characteristics.

**Ben Johnston** CA, MBA
**Vice President Business Development**
Mr Johnston was appointed to the position of Vice President Business Development on 1 November 2019. Mr Johnston qualified as a chartered accountant with KPMG and obtained his MBA at the Australian Graduate School of Management. Following his studies Mr Johnston has worked with leading financial institutions including RBC Capital Markets and Commonwealth Bank of Australia in London and Sydney.

Throughout his banking career Mr Johnston focused on corporate advisory and lending to energy and natural resources clients across M&A, ECM and debt / project finance transactions.

**Kylie Arizabaleta** B.Bus (Acct) (Fin)
**Financial Controller**
Ms Arizabaleta was appointed to the position of Financial Controller in March 2012. Before joining Empire Energy Group Limited she worked in Chartered Accounting firms specialising in Audit and Assurance Services.

### MEETINGS OF DIRECTORS

The number of Directors' meetings and committee meetings held and the attendance by each of the Directors of the Company at those meetings during the financial year were:

| | Directors' Meetings | | Remuneration Committee Meetings | | Audit Committee Meetings | |
|---|---|---|---|---|---|---|
| **Director** | **Attended** | **Held Whilst in Office** | **Attended** | **Held Whilst in Office** | **Attended** | **Held Whilst in Office** |
| Mr A Underwood | 7 | 7 | - | - | - | - |
| Mr P Espie | 7 | 7 | 1 | 1 | 1 | 1 |
| Mr J Gerahty | 7 | 7 | - | - | 2 | 2 |
| Prof J Warburton | 7 | 7 | 2 | 2 | 2 | 2 |
| Mr P Cleary | 4 | 4 | 2 | 2 | - | - |

During the Financial Year, the Audit and Risk Committee comprised of Mr Gerahty and Mr Warburton. The Remuneration Committee comprised of Mr Espie and Prof Warburton.

**Retirement, Election and Continuation in Office of Directors**

- Mr Peter Cleary was appointed Non-Executive Director on 25 May 2020
- Mr John Gerahty retired as Non-Executive Director on 11 March 2021
- Mr Louis Rozman was appointed Non-Executive Director on 11 March 2021

## Directors' Report
## for the year ended 31 December 2020

### Remuneration Report – Audited

This report outlines the remuneration arrangements in place for Directors and Executives of the Empire Group.

#### REMUNERATION COMMITTEE

During the Financial Year, the Remuneration Committee reviewed and approved policy for determining executives' remuneration and any amendments to that policy. The Committee makes recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts) and remuneration for Non-Executive Directors.

The members of the Remuneration Committee during the period were:

| | |
|---|---|
| P Cleary | Independent Non-Executive Director (Chairman) |
| J Warburton | Independent Non-Executive Director |

The Committee meets as often as required but not less than once per year. The Committee met two times during the period and Committee member's attendance record is disclosed in the table of Directors' Meetings shown above.

**Executive Directors' and Executive Remuneration**

Executive remuneration and other terms of employment are reviewed annually and are based on pre-determined performance criteria tied to operational outcomes and total shareholder return ("Key Performance Indicators" or "KPIs").

In addition to base salary, remuneration packages include superannuation and other incentives. Executive Directors and executives can participate in a Share Rights Plan which was approved by shareholders in 2019. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Consolidated Entity's operations. Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

The Remuneration Committee utilises the services of independent remuneration consultants for advise regarding remuneration benchmarks.

**Performance Based Remuneration**

As part of the executives' remuneration packages there is a performance-based component, consisting of KPIs. The intention of this program is to align the interests of executives with shareholders.

Performance in relation to the KPIs are assessed annually, with incentive payments awarded depending on performance of the Empire Group over the past year. Incentive payments can be awarded in cash and / or Share Rights.

Following the assessment, the KPIs will be reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency assessed in relation to the Empire Group's goals and total shareholder returns.

## Directors' Report
## for the year ended 31 December 2020

**Non-Executive Directors' Remuneration**

Remuneration of Non-Executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time. Non-executive Directors can participate in the Share Rights Plan.

The Board undertakes an annual review of its performance and the performance of the Board Committees against performance goals set. Details of the nature and amount of each element of the remuneration of each Director and each specified executive of the Empire Group receiving the highest remuneration are set out in the following tables.

The annual limit on cash remuneration that can be paid to the Non-Executive Directors is $300,000. This was approved by shareholders on 30 May 2019.

*Use of remuneration consultants*
During the financial year ended 31 December 2020, the consolidated entity, through the Remuneration Committee, engaged Godfrey Remuneration Group to review share-based payments remuneration and provide general advice. Godfrey Remuneration Group was paid $4,200 for these services.

An agreed set of protocols has been put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Remuneration Committee being present or without the authorisation of the Chairman of the Remuneration Committee, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultants' processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and that there was no undue influence.

**2020 Financial Year**

| | Short term benefits | | | Post-employment benefits | Long-term benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees | Bonus payments | Non-monetary | Super contributions | Termination Payment | Long service leave | Share / option-based payments* | Total $ |
| **Directors** | | | | | | | | |
| A Underwood | 369,469 | - | 35,195 | 20,531 | - | - | 374,398 | 799,593 |
| P Espie (a) | - | - | - | - | - | - | 83,623 | 83,623 |
| J Gerahty | 50,000 | - | - | 3,558 | - | - | - | 53,558 |
| J Warburton | 50,000 | - | - | 3,359 | - | - | 186,000 | 239,359 |
| P Cleary (b) | 30,137 | - | - | - | - | - | - | 30,137 |
| **Executives** | | | | | | | | |
| D Evans | 320,000 | 64,000 | - | 21,004 | - | - | 46,081 | 451,085 |

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued using the Black Scholes methodology. The non-cash cost of the above options issued under the ESOP over the year was $6,714 and the non-cash loss on options relating to the above directors that expired over the year was $43,192. The net non-cash cost of options issued to the above directors and executives for the year was $36,477.
(a) Paul Espie received Director Fees as Restricted Rights in lieu of a cash payment as approved at the 2020 AGM held 14 July 2020.
(b) Peter Cleary has elected to take his Director fees in Restricted Rights in lieu of cash. The $30,137 is accrued not paid and will be paid in share rights if approved at the next AGM.

## Directors' Report
## for the year ended 31 December 2020

**2019 Financial Year**

| | Short term benefits | | | Post-employment benefits | Long-term benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees | Bonus payments | Non-monetary | Super contributions | Termination Payment | Long service leave | Share / option-based payments* | Total $ |
| **Directors** | | | | | | | | |
| A Underwood | 401,374 | - | 18,967 | 10,266 | - | - | 143,183 | 573,790 |
| D H Sutton | - | - | - | 30,000 | - | - | 25,964 | 55,964 |
| L Tang | 2,056 | - | - | - | - | - | 25,964 | 28,020 |
| P Espie | 52,006 | - | - | 4,941 | - | - | - | 56,947 |
| J Gerahty | 37,452 | - | - | 3,558 | - | - | - | 41,010 |
| J Warburton | 71,956 | - | - | 3,359 | - | - | - | 75,315 |
| **Executives** | | | | | | | | |
| A Boyer** | 115,651 | - | 49,186 | - | 77,675 | - | 20,143 | 262,655 |
| D Evans | 62,100 | - | - | 4,076 | - | - | 53,452 | 119,628 |

* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued using the Black Scholes methodology. The non-cash cost of the above options issued under the ESOP over the year was $6,714 and the non-cash loss on options relating to the above directors that expired over the year was $43,192. The net non-cash cost of options issued to the above directors and executives for the year was $36,477.
** Al Boyer's employment was terminated on 16 April 2019. He was paid termination benefits in accordance with the terms of his termination.

**Service Agreements**

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|---|---|
| Name: | Alex Underwood |
| Title: | Managing Director |
| Details: | Base Salary for the year ended 31 December 2020 of $369,469 plus superannuation of $20,531 to be reviewed annually by the Remuneration Committee. Entitled to received short-term incentives (STIs) and long-term incentives (LTIs) under the Company's Rights Plan. |

| | |
|---|---|
| Name: | David Evans |
| Title: | Chief Operating Officer |
| Details: | Base Salary for the year ended 31 December 2020 of $320,000 plus superannuation of $21,004 to be reviewed annually by the Remuneration Committee. Entitled to received short-term incentives (STIs) and long-term incentives (LTIs) under the Company's Rights Plan. Mr Evans' employment with Empire ceased on 28 January 2021. |

There were no other service agreements in place.

**Loans to Directors and Executives**

There were no loans made to Directors or Specified Executives of the Company and the consolidated entity during the period commencing at the beginning of the financial period and up to the date of this report.

There are no loans outstanding to Directors or Specified Executives at the date of this report.

## Directors' Report
## for the year ended 31 December 2020

**Share-based compensation to Directors and Key Management Personnel**

**Options**
No options were granted to Directors and other members of key management personnel during the year.

**Service, Performance and Restricted Rights**

The terms and conditions of each grants of service and performance rights affecting remuneration of directors and other key management personnel in this financial year or future reporting year are as follows:

***Service Rights***

| Director | No. of granted Service Rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of Rights at grant date |
|---|---|---|---|---|---|---|
| J Warburton | 600,000 | 7 Aug 2020 | 31 Dec 2020 | 31 Dec 2035 | Nil | $186,000 |

***Performance Rights***

| Director | No. of granted Performance Rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of Rights at grant date |
|---|---|---|---|---|---|---|
| A Underwood | 1,427,089 | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $60,465 |
| D Evans | 984,891 | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $46,081 |

***Restricted Rights***

| Director | No. of granted Restricted Rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of Rights at grant date |
|---|---|---|---|---|---|---|
| A Underwood | 750,000 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | $232,500 |
| P Espie | 269,753 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | $83,623 |

The vesting of Performance Rights is subject to challenging performance hurdles tested as at the Vesting date including internal performance hurdles tied to the executive's performance and total shareholder returns of between 10% per annum compounded and 40% per annum compounded from the date of award to the Vesting date.

No Performance Rights, Service Rights or Restricted Rights expired or were exercised in the year.

**Directors' Interests and Benefits**
The relevant interest of each director in the share capital of the Company as at the date of this report is:

**Number of shares held by Directors**

| Director | Balance at 1 January 2020 | Acquired during period through Capital Raisings | Acquired on Market | Other changes during period* | Balance at 31 December 2020 |
|---|---|---|---|---|---|
| A Underwood | 1,950,000 | - | 100,000 | 250,000 | 2,300,000 |
| P Espie | 4,850,000 | - | - | 375,000 | 5,225,000 |
| J Gerahty | 12,245,000 | - | - | 5,562,500 | 17,807,500 |
| J Warburton | 194,000 | - | 160,633 | - | 354,633 |
| P Cleary | - | - | 250,000 | - | 250,000 |

## Directors' Report
## for the year ended 31 December 2020

*Other changes during the period relates to the exercise of options held by Directors of the Company that were granted to the Directors in partial consideration for their participation in a capital raise in 2019 on the same terms as other investors in that capital raise. Exercise of options by Directors was in cash and the funds were utilised for the Company's Northern Territory exploration programs and corporate purposes.

**Option holdings**

Number of options over ordinary shares in the Company held during the financial period by each Director of the Company, including their related entities are set out below:

| Director | Balance at 1 January 2020 | Granted during the period | Exercised during the period | Expired/ forfeited/ other | Balance at 31 December 2020 |
|---|---|---|---|---|---|
| A Underwood | 850,000 | - | 250,000 | - | 600,000 |
| P Espie | 375,000 | - | 375,000 | - | - |
| J Gerahty | 5,562,500 | - | 5,562,500 | - | - |
| J Warburton | - | - | - | - | - |
| P Cleary | - | - | - | - | - |

The following options held by Directors were issued under an Employee Share Option Plan (which has since been replaced by the Share Rights Plan for all future equity-linked remuneration to Directors) and are exercisable on the following basis and subject to a minimum term of employment:

| Director | No. of options | Exercise Price A$ | Expiry Date |
|---|---|---|---|
| A Underwood | 600,000 | $0.30 | 30 December 2021 |

**Performance Rights holdings**

The number of performance rights in the Company held during the financial period by each Director or other members of key management personnel of the Company, including their related entities are set out below:

| Director | Balance at 1 January 2020 | Granted during the period | Exercised during the period | Expired/ forfeited/ other | Balance at 31 December 2020 |
|---|---|---|---|---|---|
| A Underwood | 3,150,000 | 1,427,089 | - | - | 4,577,089 |
| D Evans | 362,317 | 984,891 | - | - | 1,347,208 |

**Service Rights holdings**

The number of service rights in the Company held during the financial period by each Director or other members of key management personnel of the Company, including their related entities are set out below:

| Director | Balance at 1 January 2020 | Granted during the period | Exercised during the period | Expired/ forfeited/ other | Balance at 31 December 2020 |
|---|---|---|---|---|---|
| A Underwood | 1,000,000 | - | - | - | 1,000,000 |
| J Warburton | - | 600,000 | - | - | 600,000 |

Service Rights granted to Prof Warburton during the period were in connection with a Contract Services Agreement between Prof Warburton and the Company and were approved at the 2019 AGM.

## Directors' Report
## for the year ended 31 December 2020

**Restricted Rights holdings**

Number of restricted rights in the Company held during the financial period by each Director or other members of key management personnel of the Company, including their related entities are set out below:

| Director | Balance at 1 January 2020 | Granted during the period | Exercised during the period | Expired/ forfeited/ other | Balance at 31 December 2020 |
|---|---|---|---|---|---|
| A Underwood | - | 750,000 | - | - | 750,000 |
| P Espie | - | 269,753 | - | - | 269,753 |

Restricted Rights issued to Mr Underwood during the period were granted in lieu of a cash short term incentive in relation to the 2019 financial year and were approved by shareholders at the 2019 AGM.

Restricted Rights issued to Mr Espie during the period were granted in lieu of cash Director's fees and were approved at the 2019 AGM.

**End of Audited Remuneration Report**

### SHARE OPTIONS

**Movements**

**Cancelled**

No options were cancelled during the financial year or in the period since the end of the financial year and up to the date of this report.

**Grant of Options**

No options were granted during the financial year or in the period since the end of the financial year and up to the date of this report.

**Exercise of Options**

A total of 27,770,001 unlisted options were exercised during the financial year or in the period since the end of the financial year and up to the date of this report.

**Expiry of Options**

The following options expired during the financial year or in the period since the end of the financial year and up to the date of this report:

| Number | | Exercise Price A$ | Expiry Date |
|---|---|---|---|
| 906,250 | Unlisted options | $0.32 | 31 July 2020 |
| 9,311,753 | Unlisted options | $0.30 | 26 September 2020 |

## Directors' Report
## for the year ended 31 December 2020

At the date of this report the total number of unissued shares held under option was 18,400,000. These options are exercisable on the following terms:

| Number | | Exercise Price A$ | Expiry Date |
|---|---|---|---|
| 1,300,000 | Unlisted options | $0.30 | 30 December 2021 |
| 600,000 | 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 |
| 18,400,000 | | | |

### PERFORMANCE RIGHTS

**1)** During the 2013 financial year the Company issued 2,500,000 Performance Rights (pre-consolidation) over fully paid ordinary shares in the Company as part consideration for the buyback of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interests in Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

| Fair Market Value of Consideration Received by the Company | Performance rights exercisable |
|---|---|
| Less than $25.0 million | 0.0% |
| At least $25.0 million but less than $45.0 million | Percentage calculated by dividing Fair Market Value of Consideration received by the Company by $45.0 million. |
| $45.0 million or more | 100.0% |

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.
- The holder of the Performance Rights is an associated entity of a former senior executive of the Company's US subsidiaries, Mr Allen Boyer.
- At the Company's Annual General Meeting conducted on 30 May 2019, Shareholders approved the consolidation of the Company's equity on a 1 for 10 basis. The effect of the Share Consolidation during the period reduced the 2,500,000 Performance Rights to 250,000 Performance Rights.

**2)** During the 2019 financial year the Company issued 3,150,000 Performance Rights to Managing Director, Alex Underwood under the terms of the Company's Rights Plan approved by Shareholders on 30 May 2019. The award of Rights to Mr Underwood was approved by shareholders on 30 May 2019.

**3)** During the 2019 financial year, the Company issued 962,811 Performance Rights to senior executives (excluding the Managing Director) under the under the terms of the Company's Rights Plan approved by Shareholders on 30 May 2019.

**4)** During the 2020 financial year, the Company issued 3,913,960 Performance Rights to the Managing Director and senior executives under the under the terms of the Company's Rights Plan approved by Shareholders on 14 July 2020.

## SERVICE RIGHTS

During the 2020 financial year the Company issued 838,558 Service Rights to Prof John Warburton and a senior executive under the terms of the Company's Rights Plan approved by Shareholders on 14 July 2020.

## RESTRICTED RIGHTS

During the 2020 financial year the Company issued 1,019,753 Restricted Rights to the Chairman and Managing Director under the terms of the Company's Rights Plan approved by Shareholders on 14 July 2020.

## DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE

During the financial year Empire Energy Group Limited paid an insurance premium, insuring the Company's Directors (as named in this report), Company Secretary, executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

### Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

### Environmental Regulations

There are environmental regulations surrounding oil and gas activities which have been conducted by the Empire Group. There has been no material breach of these regulations during the financial period or since the end of the financial period and up to the date of this report.

### Declaration by the Managing Director and Chief Financial Controller

The Directors have received and considered declarations from the Managing Director and Chief Financial Controller in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the financial year ended 31 December 2020 present a true and fair view in all material aspects of the financial position and performance and are in accordance with relevant accounting standards.

### Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors' behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Details of amounts paid or payable to the auditor for non-audit services are outlined in Note 34 to the financial statements.

## Directors' Report
## for the year ended 31 December 2020

The audit firm is engaged to provide tax compliance services. The Directors believe that given the size of the Empire Group's operations and the knowledge of those operations by the audit firm that it is appropriate for the auditor to provide these services. The Directors are of the opinion that these services will not compromise the auditor's independence requirements of the *Corporations Act 2001*.

**Auditors' 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 31 and forms part of the Director's Report for the financial year ended 31 December 2020.

**Auditor**

Nexia Sydney 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.

**Alex Underwood**
**Managing Director**
Sydney 30 March 2021

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

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

As lead audit director for the audit of the financial statements of Empire Energy Group Limited for the financial year ended 31 December 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 audit; and

(b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia

**Nexia Sydney Audit Pty Ltd**

**Lester Wills**
Director

Date: 30 March 2021



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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
### for the year ended 31 December 2020

| | Note | Year ended December 2020 A$ | Year ended December 2019 A$ |
|---|---|---|---|
| Sales Revenue | 6a | 6,464,202 | 7,763,090 |
| Cost of Sales | 7 | (5,266,429) | (6,025,621) |
| **Gross Profit** | | 1,197,773 | 1,737,469 |
| Other income | 6b | 1,038,608 | 223,585 |
| General and administration expenses | | (5,308,876) | (4,115,309) |
| Exploration expenses | | (253,947) | (203,800) |
| Other non-cash expenses | 9a | (3,403,196) | (13,794,619) |
| **Operating Loss before interest costs** | | (6,729,638) | (16,152,674) |
| Net interest expense | 8 | (754,995) | (916,108) |
| **Loss before income tax from continuing operations** | | (7,484,633) | (17,068,782) |
| Income tax expense | 10a | (199,822) | (194,005) |
| **Loss after income tax from continuing operations** | | (7,684,455) | (17,262,787) |
| Loss after income tax from discontinued operations | 20 | - | (5,971,115) |
| **Loss after income tax expense for the year** | | (7,684,455) | (23,233,902) |
| **Other comprehensive (loss)/income** | | | |
| Items that will subsequently be reclassified to profit and loss: | | | |
| Exchange differences on translation of foreign operations | | (258,669) | (97,530) |
| Other comprehensive (loss)/income for the year, net of tax | | (258,669) | (97,530) |
| **Total comprehensive loss for the year** | | (7,943,124) | (23,331,432) |
| | | **Cents per share** | **Cents per share** |
| **Earnings per share for loss attributable to the owners of Empire Energy Group Limited** | | | |
| Basic earnings per share | 31 | (2.73) | (9.92) |
| Diluted earnings per share | 31 | (2.73) | (9.92) |

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 31 December 2020

| | Note | As at December 2020 A$ | As at December 2019 A$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 14,145,866 | 14,105,603 |
| Trade and other receivables | 11 | 2,536,059 | 2,589,807 |
| Prepayments | 12 | 619,469 | 193,580 |
| Inventories | 13 | 39,717 | 47,963 |
| Financial assets, including derivatives | 14 | 482,240 | 609,122 |
| Assets of discontinued assets | 20 | - | 360,080 |
| **TOTAL CURRENT ASSETS** | | 17,823,351 | 17,906,155 |
| **NON-CURRENT ASSETS** | | | |
| Financial assets, including derivatives | 14 | 493,664 | 374,373 |
| Oil and gas properties | 15 | 46,441,614 | 37,505,476 |
| Property, plant and equipment | 15 | 566,797 | 509,489 |
| Right-of-use assets | 19 | 1,149,087 | 201,537 |
| Intangible assets | 16 | 88,571 | 97,369 |
| **TOTAL NON-CURRENT ASSETS** | | 48,739,733 | 38,688,244 |
| **TOTAL ASSETS** | | 66,563,084 | 56,594,399 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 5,969,972 | 4,789,976 |
| Interest-bearing liabilities | 18 | 7,823,606 | 9,250,600 |
| Lease liabilities | 19 | 311,233 | 142,623 |
| Provisions | 21 | 150,608 | 71,292 |
| Liabilities of discontinued operations | 20 | - | 142,848 |
| **TOTAL CURRENT LIABILITIES** | | 14,255,419 | 14,397,339 |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | 19 | 972,287 | 180,524 |
| Provisions | 21 | 21,099,654 | 22,511,419 |
| **TOTAL NON-CURRENT LIABILITIES** | | 22,071,941 | 22,691,943 |
| **TOTAL LIABILITIES** | | 36,327,360 | 37,089,282 |
| **NET ASSETS** | | 30,235,724 | 19,505,117 |
| **EQUITY** | | | |
| Contributed equity | 22 | 139,060,493 | 121,420,294 |
| Reserves | | 6,862,086 | 6,087,223 |
| Accumulated losses | | (115,686,855) | (108,002,400) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 30,235,724 | 19,505,117 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2020

| Consolidated | Issued Capital | Fair Value Reserve | Foreign Currency Translation Reserve | Options Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|---|
| Balance at 31 December 2019 | **121,420,294** | **180,499** | **(380,008)** | **6,286,732** | **(108,002,400)** | **19,505,117** |
| **Total Comprehensive income for year** | | | | | | |
| Loss after income tax | - | - | - | - | (7,684,455) | (7,684,455) |
| Exchange differences on translation of foreign operations | - | - | (258,669) | - | - | (258,669) |
| **Total comprehensive income for the year** | **-** | **-** | **(258,669)** | **-** | **(7,684,455)** | **(7,943,124)** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Issue of ordinary shares | 18,272,877 | - | - | - | - | 18,272,877 |
| Plus: share issue transaction costs | (632,678) | - | - | - | - | (632,678) |
| Options/rights issued during the year – share-based payments | - | - | - | 1,033,532 | - | 1,033,532 |
| Warrants lapsed in period, transferred to issue capital | - | - | - | - | - | - |
| **Total transactions with owners** | **17,640,199** | **-** | **-** | **1,033,532** | **-** | **18,673,731** |
| **Balance at 31 December 2020** | **139,060,493** | **180,499** | **(638,677)** | **7,320,264** | **(115,686,855)** | **30,235,724** |

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 year ended 31 December 2019

| Consolidated | Issued Capital | Fair Value Reserve | Foreign Currency Translation Reserve | Options Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|---|
| Balance at 31 December 2018 | **110,400,710** | **180,499** | **(282,478)** | **8,637,104** | **(88,439,595)** | **30,496,240** |
| **Total Comprehensive income for year** | | | | | | |
| Loss after income tax | - | - | - | - | (23,233,902) | (23,233,902) |
| Exchange differences on translation of foreign operations | - | - | (97,530) | - | - | (97,530) |
| **Total comprehensive income for the year** | **-** | **-** | **(97,530)** | **-** | **(23,233,902)** | **(23,331,432)** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Issue of ordinary shares | 12,508,371 | - | - | - | - | 12,508,371 |
| Less: share issue transaction costs | (1,488,787) | - | - | - | - | (1,488,787) |
| Options/rights issued during the year – share-based payments | - | - | - | 1,320,725 | - | 1,320,725 |
| Warrants lapsed in period, transferred to issue capital | - | - | - | (3,671,097) | 3,671,097 | - |
| **Total transactions with owners** | **11,019,584** | **-** | **-** | **(2,350,372)** | **3,671,097** | **12,340,309** |
| **Balance at 31 December 2019** | **121,420,294** | **180,499** | **(380,008)** | **6,286,732** | **(108,002,400)** | **19,505,117** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2020

| | Note | Year ended 31 December 2020 A$ | Year ended 31 December 2019 A$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 7,851,651 | 16,265,845 |
| Payments to suppliers and employees | | (9,821,260) | (14,443,943) |
| Interest received | | - | 469 |
| Interest paid | | (754,995) | (2,712,497) |
| Income taxes paid | | (199,822) | (194,005) |
| Net cash flows from operating activities | 30(b) | (2,924,426) | (1,084,131) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of oil and gas assets | | 184 | 27,698,113 |
| Payments for oil and gas assets | | (12,841,410) | (2,657,727) |
| Payments for property, plant and equipment | | - | - |
| Net cash flows from investing activities | | (12,841,226) | 25,040,386 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from issuing of shares | | 18,272,877 | 12,208,874 |
| Repayment of interest-bearing liabilities | | (1,414,314) | (26,608,801) |
| Finance lease payments | | (430,986) | (334,137) |
| Share Issue Transaction Costs | | (632,678) | (647,307) |
| Net cash flows from financing activities | | 15,794,899 | (15,381,371) |
| Net increase/(decrease) in cash and cash equivalents | | 29,247 | 8,574,884 |
| Cash and cash equivalents at beginning of financial year | | 14,105,603 | 5,890,018 |
| Effect of exchange rate changes on cash and cash equivalents | | 11,016 | (359,299) |
| **CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR** | 30(a) | 14,145,866 | 14,105,603 |

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

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### *1.* SIGNIFICANT ACCOUNTING POLICIES

***Corporate information***

The financial report covers Empire Energy Group Limited and its controlled entities ("Empire Group"). Empire Group is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange. The parent entity of the Empire Group is incorporated and domiciled in Australia with its core operations in the Northern Territory.

The principal activities of the Empire Group during the financial year are described in the Directors' Report.

The financial report of the Empire Group for the year ended 31 December 2020 was authorised for issue in accordance with a resolution of Directors on 30 March 2021.

***Basis of preparation***

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations, and the requirements of the *Corporations Act 2001,* as appropriate for for-profit orientated entities. The consolidated financial statements have been prepared on a cost basis, modified, where applicable, by the measurement at fair value of derivative financial instruments, and share-based payment transactions.

***Statement of compliance***

The financial report complies with Australian Accounting Standards ('AASB's'). Compliance with AASBs ensures that the financial report, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards ('IFRS').

***Change in presentation currency***

As the Group's strategy is focussed on the operations in the Northern Territory, Australia, the Group's cashflows are now principally denominated in Australian dollars ("AUD$"). From 1 January 2019, the Group changed the currency in which it presents its consolidated and parent Company financial statements from US$ to AUD$. The change has no impact on the net results of the consolidated entity other than presentation in AUD$ instead of US$. The Directors consider the change in presentation currency will provide shareholders with a more meaningful presentation of the Empire Group's underlying performance.

To effect the change in presentation currency, the US dollar functional currency assets and liabilities at 31 December 2018 were converted at the spot rate of AUD$1:US$1.4273 on the reporting date; revenue and expenses for the twelve month period ended 31 December 2019 were converted at the average exchange rate of AUD$1: US$1:4835 for the reporting period, or at the exchange rates ruling at the date of the transaction to the extent practicable and equity balances were converted at applicable historical rates.

***Early adoption of standards***

The Empire Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2020.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Principles of Consolidation***

The consolidated financial statements comprise the financial statements of Empire Group Limited and its controlled entities.

Subsidiaries are all those entities over which the Empire Group has control. The Empire Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Controlled entities are consolidated from the date on which control is transferred to the Empire Group and cease to be consolidated from the date on which control is transferred out of the Empire Group.

Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost.

All intercompany transactions, balance, including unrealised profits arising from intercompany transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in the equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position. Losses incurred by the Empire Group are attributed to non-controlling interest in full, even if that results in a deficit balance.

***Discontinued operations***

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

***Foreign Currency Translations***

The financial report is presented in Australian Dollars (A$) which is the functional currency for the majority of the entities within the Empire Group. The functional currency of Empire Energy Group Limited is Australian Dollars and the reporting currency of Empire Energy Group Limited is Australian Dollars.

*Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to United States Dollars at the foreign exchange rate ruling at that date.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Foreign operations*

The assets and liabilities of entities that have a functional currency in US Dollars are translated to AUD Dollars at exchange rates at the reporting date. The revenue and expense of entities that have a functional currency in US Dollars are translated to AUD Dollars at exchange rates at the dates of the transaction. Foreign currency differences on translation are recognised directly in equity.

***Revenue recognition***

*Natural gas revenue*

Revenue from the sale of natural gas is recognised when natural gas has been delivered to a custody transfer point, contracts exist with customers, control of the assets passes to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. Natural gas is sold by the Empire Group under contracts with terms ranging from one month up to the life of the well.

Virtually all of the Empire Group contracts' pricing provisions are tied to a market index with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of natural gas and prevailing supply and demand conditions, so that the price of the natural gas fluctuates to remain competitive with other available natural gas suppliers.

Because there are timing differences between the delivery of natural gas and the Empire Group's receipt of a delivery statement, the Empire Group has unbilled revenues. These revenues are accrued based upon volumetric data from the Empire Group's records and the Empire Group's estimates of the related transportation and compression fees, which are, in turn, based upon applicable product prices.

*Oil and Gas revenue*

Revenue from the sale of oil and gas is recognised when control of the asset has been transferred to the buyer and can be measured reliably, which is usually at the time of lifting, transferred into a vessel, pipe or other delivery mechanism.

There are no elements at variable consideration in contracts with customers and prices are determined based on prevailing market sales price data.

*Well operations*

Well operations and pipeline income are recognised when persuasive evidence of an arrangement exists, services have been rendered, collection of revenues is reasonably assured and the sales price is fixed or determinable. The Empire Group is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly operating and accounting costs, insurance and other recurring costs. The Empire Group might also receive additional compensation for special nonrecurring activities, such as reworks and recompletions.

*Finance income*

Finance income comprises interest income on funds invested as well as fair value gains on oil and gas derivatives the group is party to. Interest income is recognised as it accrues, using the effective interest method.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Government grants*

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

***Current and non-current classification***

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

***Cash and cash equivalents***

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

***Trade and other receivables***

Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any expected credit loss.

An estimate of expected credit is loss is made based on historic data on collectability and consideration of the credit worthiness of customers. Bad debts are written-off when identified.

***Inventories***

Inventories consists of crude oil, stated at the lower of cost to produce or market and other production supplies intended to be used in natural gas and crude oil operations.

***Financial Assets, including derivatives***

The Empire Group utilises oil and gas option and forward contracts to manage the exposure to price volatility. The Empire Group recognises its derivatives on the consolidated statement of financial performance at fair value at the end of each period. Changes in the fair value of the oil and gas forward contracts are recognised in the statement of profit and loss.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Derivatives are classified as current or non-current depending on the expected period of realisation.

***Oil and gas properties***

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting for gas producing activities. Costs to acquire mineral interests in gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells and related asset retirement costs are capitalised. Depletion is based on cost less estimated salvage value using the unit-of-production method. The process of estimating and evaluating gas reserves is complex, requiring significant decisions in the evaluation of geological, geophysical, engineering and economic data. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

***Major maintenance and repairs***

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Empire Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off.

***Property, plant and equipment***

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The capitalised value of a finance lease is also included within property, plant and equipment. Plant and equipment are depreciated over their estimated useful lives using the straight line method as follows:

Plant and equipment: 10-20%

Assets are depreciated from the date of acquisition. Profits and losses on sales of property, plant and equipment are taken into account in determining the results for the year.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

***Recoverable amount of assets***

At each reporting date, the Empire Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Empire Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or Empire Groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

***Intangible Assets***

Intangible assets consist of goodwill. Goodwill is tested for impairment annually under AASB 136.

***Interest-bearing liabilities***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

***Lease liabilities***

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

***Provisions – Employee Benefits***

Obligations for contributions to accumulation plans are recognised as an expense in the consolidated statements of comprehensive income as incurred. Liabilities for employee benefits for wages, salaries, annual leave and represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Empire Group expects to pay as at the reporting date including related on-costs, such as, workers compensation insurance, superannuation and payroll tax.

***Asset Retirement Obligations***

Asset retirement obligations are recognised when the Empire Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The present value of the estimated asset retirement costs is capitalised as part of the carrying amount oil and gas properties. For the Empire Group, asset retirement obligations primarily relate to the plugging and abandonment of oil and gas-producing facilities.

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. The liability is discounted using a discount rate that reflects market conditions as at reporting date. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, remaining lives of the wells, if regulations enact new plugging and abandonment requirements, or there is a change in the market-based discount rate.

## NOTES TO THE FINANCIAL STATEMENTS
### for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Changes in the estimated timing of decommissioning or decommissions cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas properties. The unwinding of the discount of the asset retirement obligation is recognised as a finance cost.

***Income tax***

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

***Tax consolidation***

Empire Energy Group and its wholly-owned Australian resident entities form a tax-consolidated Empire Group. As a consequence, all members of the tax-consolidated Empire Group have been taxed as a single entity since 1 July 2003. The head entity within the tax-consolidated Empire Group is Empire Energy Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Empire Group are recognised in the separate financial statements of the members of the tax-consolidated Empire Group using the 'separate taxpayer within Empire Group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Empire Group and are recognised by the Empire Group as amounts payable/(receivable) to/from other entities in the tax-consolidated Empire Group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Empire Group as an equity contribution or distribution.

The Empire Group recognises deferred tax assets arising from unused tax losses of the tax consolidated Empire Group to the extent that it is probable that future taxable profits of the tax consolidated Empire Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

***Nature of tax funding arrangements and tax sharing arrangements***

The head entity, in conjunction with other members of the tax-consolidated Empire Group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Empire Group in respect of tax amounts.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated Empire Group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

***Goods and Services Tax***

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the statement of cash lows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

***Earnings per share***

Earnings per share is calculated by dividing the profit attributable to the owners of Empire Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

There are no preference shares issued in Empire Group Limited, thereby resulting in no dilutive effect being noted in any calculation of diluted earnings per share.

***Share based payment transactions***

The Empire Group provides benefits to directors and senior executives of the Empire Group through the executive share option plan whereby eligible participants render services in exchange for options over shares.

***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.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Conceptual Framework for Financial Reporting***

The consolidated entity has adopted the revised Conceptual Framework from 1 January 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

***Estimates and assumptions***

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

**2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

- Note 9 – Impairment expense
- Note 10 – Income tax
- Note 15 – Oil and gas properties
- Note 21 – Provisions for liabilities and charges
- Note 27 – Share based payments

***Judgments***

In the process of applying the Empire Group's accounting policies, the Directors have made the following judgments at apart from those involving estimates, which may have the most significant effect on the amounts recognised in the consolidated financial statements:

*Reserves base*

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production and other capital costs. The current gas price curves are used for price assumptions. The Empire Group uses suitably qualified persons to prepare annual evaluation of proven hydrocarbon reserves, compliant with US professional standards for petroleum engineers.

*Carrying value of oil and gas assets*

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped reserves.

The calculation of the UOP rate of depreciation, depletion and amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves.

## NOTES TO THE FINANCIAL STATEMENTS
### for the year ended 31 December 2020

**2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. Estimates of gas reserve quantities provide the basis for calculation of depletion, depreciation and amortisation and impairment, each of which represents a significant component of the consolidated financial statements.

These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions, and unforeseen operational issues.

*Impairment indicators*

The fair value of oil and gas properties is determined with reference to estimates of recoverable quantities of reserves (as outlined above) to determine the estimated future cash flows. An impairment loss is recognised for the amount by which the asset or Empire Group of assets carrying value exceeds the present value of its future cash flows.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

*Recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value-in-use, using an asset's estimated future cash flows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

*Significant judgement – Impairment of oil and gas assets*

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future oil price and discount rates.

The estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually.

The discount rates applied to the future forecast cash flows are based on the Group's weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the country in which the asset operates.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in impairment losses or the reversal of previous impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow.

Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments or reversals of impairments under the different sets of assumptions in subsequent reporting periods.

*Asset retirement obligations*

Asset retirement costs will be incurred by the Empire Group at the end of the operating life of some of Empire Group's facilities and properties. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites.

The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

*Share-based payments*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

**3. 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 $7.7m for the year ended 31 December 2020, experienced net cash outflows from operating activities of $2.9m and had net assets of $30.2m.

Given the above and cash reserves at 31 December 2020 of $14.1m, the directors believe there are sufficient resources available to settle outstanding debts as and when they become due.

**4. 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$19.25m.

The sale proceeds were principally used to retire debt to a maximum remaining gross debt balance of US$7.5m, while retaining a proportion from the sale proceeds for working capital and continued investment in Empire's core Northern Territory shale assets. Further details of the discontinued operations are disclosed in Note 20.

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.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

4. **DISCONTINUED OPERATIONS (continued)**

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.

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

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Empire Group's principal financial instruments, other than derivatives comprise bank loans, financial assets, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Empire Group's operations. The Empire Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations. The Empire Group also enters derivative transactions, principally commodity hedges.

The board has overall responsibility for the determination of the Empire Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Empire Group's finance function.

The board receives monthly reports through which it reviews the effectiveness of the processes put in place and appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Empire Group's competitiveness and flexibility.

The Empire Group is exposed to risks that arise from its use of financial instruments. The main risks arising from the Empire Group's financial instruments are interest rate risk, commodity price risk, liquidity risk, equity risk and credit risk. This note describes the Empire Group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Empire Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Further details regarding these policies are set out below:

**(A) MARKET RISK**

***(i) Foreign Exchange Risk***

The Empire Group's core operations are located in Australia where the main expenditures are recorded. The Statement of Financial Position can be affected by movement in the A$/US$ exchange rates upon translation of the US operations into the A$ presentation currency.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Empire Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US$ for US operations and maintaining a minimum cash balance in Australia. Excluding presentation translation adjustments, the Empire Group's exposure to foreign exchange risk at the reporting date is limited to loans and investments between the Parent entity and the US subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

***(ii) Commodity Price Risk***

The Empire Group's revenues and cash flows are exposed to commodity price fluctuations, in particular oil and gas prices. The Empire Group enters option and forward commodity hedges to manage its exposure to falling spot oil and gas prices.

To mitigate a portion of the exposure to adverse market changes, the Empire Group's commodity hedging programs utilise financial instruments based on regional benchmarks including NYMEX Henry Hub Natural Gas.

The Empire Group enters into derivative instruments for the Empire Group's production to protect against price declines in future periods while retaining some of the benefits of price increases. While these derivatives are structured to reduce exposure to changes in price associated with the derivative commodity, they also limit benefits the Empire Group might otherwise have received from price changes in the physical market. The Empire Group believes the derivative instruments in place continue to be effective in achieving the risk management objectives for which they were intended.

***(iii) Interest Rate Risk***

The Empire Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. The Empire Group's exposure to interest rate risk at 31 December 2020 is set out in the following tables.

The Empire Group's exposure to the risk of changes in market interest rates relates primarily to the Empire Group's long-term debt obligations with a floating interest rate in the US.

The Empire Group's policy is to continually review the portion of its borrowings that are either at floating or fixed rates of interest. To manage this mix in a cost-efficient manner, the Empire Group previously entered into interest rate swaps, in which Empire agrees to exchange, at specified intervals, the difference between fixed and variable interest rate amounts calculated by reference to an agreed upon notional principal amount. These swaps were designated to hedge underlying debt obligations. There are no interest rate swaps at 31 December 2020.

The Empire Group monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

| | | | Fixed Interest Maturing in | | | |
|---|---|---|---|---|---|---|
| | % | Floating Interest Rate | 1 Year or Less | Over 1 to 5 Years | Non-Interest Bearing | Total |
| **31 December 2020** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 0.10 | 14,145,866 | - | - | - | 14,145,866 |
| Trade and other receivables | | - | - | - | 2,536,059 | 2,536,059 |
| Financial assets | | - | - | - | 975,904 | 975,904 |
| | | 14,145,866 | - | - | 3,511,963 | 17,657,829 |
| **Financial Liabilities** | | | | | | |
| Trade & other payables | | - | - | - | 5,969,972 | 5,969,972 |
| Interest-bearing liabilities | 6.65 | - | 7,823,606 | - | - | 7,823,606 |
| | | - | 7,823,606 | - | 5,969,972 | 13,793,578 |

## NOTES TO THE FINANCIAL STATEMENTS
### for the year ended 31 December 2020

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

| | | | Fixed Interest Maturing in | | | |
|---|---|---|---|---|---|---|
| | **%** | **Floating Interest Rate** | **1 Year or Less** | **Over 1 to 5 Years** | **Non-Interest Bearing** | **Total** |
| **31 December 2019** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 0.01 | 14,105,603 | - | - | - | 14,105,603 |
| Trade and other receivables | | - | - | - | 2,589,807 | 2,589,807 |
| Financial assets | | - | - | - | 983,495 | 983,495 |
| | | 14,105,603 | - | - | 3,573,302 | 17,678,905 |
| **Financial Liabilities** | | | | | | |
| Trade & other payables | | - | - | - | 4,789,976 | 4,789,976 |
| Interest-bearing liabilities | 8.25 | - | 9,250,600 | - | - | 9,250,600 |
| | | - | 9,250,600 | - | 4,789,976 | 14,040,576 |

***(iv) Empire Group Sensitivity***

Based on the financial instruments held at 31 December 2020, had the Henry Hub prices increased/decreased by 10% and 10% respectively, with all other variables held constant, the Empire Group's post-tax profit for the year would not materially change due to the extent of effective hedging of oil and gas production. Equity would not have materially changed under either scenario.

Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately $78,000.

**(B) CREDIT RISK**

Credit risk is the risk that the other party to the financial instrument will fail to discharge their financial obligation in respect of that instrument resulting in the Empire Group incurring a financial loss. The Empire Group's exposure to credit risk arises from potential default of the counter party with the maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Empire Group.

The Empire Group trades only with recognised, credit worthy third parties. In the US, trade receivables, (balances with oil and gas purchases) have not exposed the Empire Group to any bad debt to date. All derivatives are with the same counterparty.

In the US, all of the purchasers that the Empire Group's operators choose to deal with are oil or gas companies and local utilities.

Trade and other receivable balances are monitored on an ongoing basis with the Empire Group's exposure to bad debts minimal.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The maximum exposure to credit risk at balance date is as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Trade, other receivables, and derivatives | 3,511,963 | 3,573,302 |

The maximum exposure to credit risk at balance by country is as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Australia | - | - |
| United States of America | 3,511,963 | 3,573,302 |

### (C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Empire Group being unable to meet its obligations in an orderly manner as they arise.

The Empire Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Empire Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Funding is in place with reputable financial institutions in the US and Australia. Bank compliance reporting is undertaken quarterly and adherence to covenants checked regularly. Management also regularly monitors actual and forecast cash flows to manage liquidity risk.

| **Maturity Analysis** | **Fair Value<br>$** | **Carrying Amount<br>$** | **Contractual Cash flows<br>$** | **1 year<br>$** | **1-5 years<br>$** |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| ***Non Derivatives*** | | | | | |
| **Current** | | | | | |
| Trade and other payables | 5,969,972 | 5,969,972 | 5,969,972 | 5,969,972 | - |
| Interest bearing liabilities | 7,823,606 | 7,823,606 | 8,488,055 | 714,120 | 7,773,935 |
| **Non-current** | | | | | |
| Interest bearing liabilities | - | - | - | - | - |
| ***Derivatives*** | | | | | |
| Financial asset | (975,904) | (975,904) | (975,904) | (482,240) | (493,664) |
| Financial liability | - | - | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| Maturity Analysis | Fair Value $ | Carrying Amount $ | Contractual Cash flows $ | 1 year $ | 1-5 years $ |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| ***Non Derivatives*** | | | | | |
| **Current** | | | | | |
| Trade and other payables | 4,789,976 | 4,789,976 | 4,789,976 | 4,789,976 | - |
| Interest bearing liabilities | 9,250,600 | 9,250,600 | 10,705,110 | 1,177,562 | 9,527,548 |
| **Non-current** | | | | | |
| Interest bearing liabilities | - | - | - | - | - |
| ***Derivatives*** | | | | | |
| Financial asset | (983,495) | (983,495) | (983,495) | (609,122) | (374,373) |
| Financial liability | - | - | - | - | - |

### (D) EQUITY RISK

The Empire Group relies on equity markets to raise capital for its exploration and development activities and is thus exposed to equity market volatility.

Equity price risk arises from investments in equity securities and Empire Group Limited's issued capital.

The Company's equity risk is considered minimal and as such no sensitivity analysis has been completed.

**Fair Value of Financial Assets and Liabilities**

The fair value of all monetary financial assets and liabilities of Empire Group Limited approximate their carrying value there were no off-balance financial assets and liabilities at year end.

The Empire Group is required to classify financial instruments, measured at fair value, using a three level hierarchy, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

## NOTES TO THE FINANCIAL STATEMENTS
### for the year ended 31 December 2020

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

| Consolidated 31 December 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value of derivatives | - | 975,904 | - | 975,904 |
| Total assets | - | 975,904 | - | 975,904 |

| Consolidated 31 December 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value of derivatives | - | 983,495 | - | 983,495 |
| Total assets | - | 983,495 | - | 983,495 |

There were no transfers between levels during the financial year.

**Capital Risk Management**

The Company considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic operation needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt the Company considers not only its short-term position but also its long-term operational and strategic objectives.

**6. REVENUE**

| | 2020 $ | 2019 $ |
|---|---|---|
| **a. Sales revenue** | | |
| Revenue from oil and gas sales | 4,832,351 | 6,391,318 |
| Revenue from well operations | 625,074 | 675,976 |
| Oil and gas price risk management income | 1,006,777 | 695,796 |
| | 6,464,202 | 7,763,090 |
| **b. Other income** | | |
| Interest income | 9,885 | 469 |
| Rental income | - | 8,638 |
| Government stimulus packages | 1,043,871 | - |
| Other income | (15,148) | 214,478 |
| | 1,038,608 | 223,585 |

**7. COST OF SALES**

| | 2020 $ | 2019 $ |
|---|---|---|
| Oil and gas production | 5,266,429 | 6,025,621 |

**8. INTEREST EXPENSE**

| | 2020 $ | 2019 $ |
|---|---|---|
| Interest paid/payable on financial liabilities | 754,995 | 916,108 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

| | 2020 $ | 2019 $ |
|---|---|---|
| **9. EXPENSES** | | |
| **a. Other non-cash expenses** | | |
| Leasing expiration expenses (note 9c) | - | 3,596 |
| Impairment of assets (note 9c) | - | 9,367,454 |
| Depreciation, depletion and amortisation (note 9c) | 1,290,186 | 2,002,484 |
| Finance costs (note 9b) | 1,414,314 | 1,678,826 |
| Unrealised derivative movement | (90,652) | 142,914 |
| Share-based payments expense (note 27) | 958,532 | 518,725 |
| Other expenses including foreign currency movements | (169,184) | 80,620 |
| Total other expenses | 3,403,196 | 13,794,619 |
| | | |
| **b. Finance expenses (non-cash)** | | |
| Accretion of asset retirement obligation (note 21) | 694,257 | 801,707 |
| Unwind of discount of debt | 720,057 | 877,119 |
| Total finance costs (non-cash) | 1,414,314 | 1,678,826 |
| | | |
| **c. Loss before income tax from continuing operation includes the following specific expenses:** | | |
| *Depreciation, depletion and amortisation* | | |
| Oil & Gas properties and plant & equipment (note 15) | 876,415 | 2,002,484 |
| Right-of-use-asset (note 19) | 413,771 | - |
| | 1,290,186 | 2,002,484 |
| *Employee benefits expense* | | |
| Defined contribution superannuation expense | 102,668 | 36,981 |
| Other employee expenses | 4,407,013 | 5,382,514 |
| Total employee benefits expense | 4,509,681 | 5,419,495 |
| *Impairment expense* (i) | | |
| Impairment/(Write-back) of additional asset retirement obligation | - | 3,784,445 |
| Impairment of property plant & equipment | - | 5,583,009 |
| Total impairment expense | - | 9,367,454 |
| Leasing expiration expense (ii) | - | 3,596 |

(i) **Impairment expense**

There was no impairment on the Company's assets for the year 31 December 2020.

(ii) **Leasing expiration expense**

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

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 10. INCOME TAX

| | 2020 $ | 2019 $ |
|---|---|---|
| **a. Income tax expense** | | |
| Current tax | - | - |
| Deferred tax | 199,822 | 194,005 |
| Income tax benefit attributable to continuing operations | 199,822 | 194,005 |
| **b. Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Loss before income tax from continuing operations | (7,484,633) | (17,068,782) |
| Loss before income tax from discontinuing operations | - | (5,971,115) |
| | (7,484,633) | (23,039,897) |
| Tax at the Australian tax rate of 27.5% (2019: 27.5%) | (2,058,275) | (6,325,003) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Withholding tax paid | 199,822 | 194,005 |
| Deferred tax asset in relation to tax losses and temporary differences (utilised)/not recognised | 2,052,668 | 6,117,209 |
| Effect of difference in overseas tax rates | 5,607 | 207,794 |
| **Income tax benefit** | 199,822 | 194,005 |
| **c. Deferred tax assets not recognised relate to the following:** | | |
| Tax losses | 10,542,726 | 8,716,356 |
| Capital losses | 201,841 | 203,420 |
| Other | 5,013,964 | 6,509,496 |
| | 15,758,531 | 15,429,272 |

The potential benefit of the deferred tax asset attributable to tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the asset.

**d. Dividend Franking Account**

There are no franking account credits available as at 31 December 2020.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 10. INCOME TAX (continued)

| | 2020 $ | 2019 $ |
|---|---|---|
| **e. Deferred tax liabilities** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Forward commodity contracts | 268,382 | 243,795 |
| Oil & Gas and Property, Plant & Equipment | 5,475,641 | 2,929,261 |
| Other | 2,246,404 | 1,053,538 |
| | 7,990,427 | 4,226,594 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (note f) | (7,990,427) | (4,226,594) |
| Net deferred tax liabilities | - | - |
| **f. Deferred tax assets** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Accrued asset retirement obligation | 1,253,859 | 1,771,306 |
| Oil & Gas and Property, Plant & Equipment | 2,786,798 | 3,624,926 |
| Other | 19,775 | 1,536,600 |
| | 4,060,432 | 6,932,832 |
| Set-off of deferred tax assets pursuant to set-off provisions (note e) | (4,060,432) | (6,932,832) |
| Net deferred tax assets | - | - |

### 11. TRADE AND OTHER RECEIVABLES

| | 2020 $ | 2019 $ |
|---|---|---|
| **Current** | | |
| Trade receivables | 1,930,760 | 2,267,317 |
| Other receivables | 50,539 | 62,823 |
| GST receivable | 554,760 | 259,667 |
| | 2,536,059 | 2,589,807 |

### 12. PREPAYMENTS

| | | |
|---|---|---|
| Prepayments | 619,469 | 193,580 |

### 13. INVENTORIES

| | | |
|---|---|---|
| Crude oil and production supplies | 39,717 | 47,963 |

### 14. FINANCIAL ASSETS, INCLUDING DERIVATIVES

| | | |
|---|---|---|
| **Current** | | |
| Oil and gas price forward contracts | 482,240 | 609,122 |
| **Non-current** | | |
| Oil and gas price forward contracts | 493,664 | 374,373 |

Commodity hedge contracts outstanding as at 31 December 2020 are outlined below.



| 2020 NATURAL GAS - HENRY HUB - NYMEX – Swaps | | | | | 2019 NATURAL GAS - HENRY HUB - NYMEX - Swaps | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Period** | **Swap Price** | **Premium** | **Product** | | **Period** | **Swap Price** | **Premium** | **Product** | |
| Jan 21 – Mar 21 | US$3.10 | - | 150,000 | mmbtu | Jan 20 – Mar 20 | US$2.91 | - | 227,500 | mmbtu |
| Apr 21 – Sep 21 | US$2.85 | - | 300,000 | mmbtu | - | - | - | - | - |
| Oct 21 – Dec 21 | US$3.10 | - | 150,000 | mmbtu | - | - | - | - | - |

| 2020 NATURAL GAS - HENRY HUB - NYMEX – Options | | | | | 2019 NATURAL GAS - HENRY HUB - NYMEX - Options | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Period** | **Floor Price** | **Premium** | **Volume** | | **Period** | **Floor Price** | **Premium** | **Volume** | |
| Jan 21 – Dec 21 | US$2.50 | US$0.23 – US$0.41 | 900,000 | mmbtu | Jan 20 – Dec 20 | US$2.50 | US$0.23 | 1,440,000 | mmbtu |
| Jan 22 – Dec 22 | US$2.50 | US$0.35 – US$0.41 | 900,000 | mmbtu | Jan 21 – Dec 21 | US$2.50 | US$0.23 - US$0.37 | 600,000 | mmbtu |
| Jan 23 – Dec 23 | US$2.50 | US$0.41 | 300,000 | mmbtu | Jan 22 – Dec 22 | US$2.50 | US$0.23 - US$0.35 | 300,000 | mmbtu |

## 15. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

| | Oil & Gas – Proved | Oil & Gas – Unproved | Land | Buildings | Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost in $** | | | | | | | |
| At 1 January 2020 | 84,290,679 | 8,129,233 | 6,530 | 333,045 | 1,088,981 | 1,056,246 | 94,904,714 |
| Additions | - | 12,599,879 | - | - | 221,632 | 19,899 | 12,841,410 |
| Disposals | - | - | - | - | | - | - |
| Expiration costs | - | - | - | - | (1,646) | - | (1,646) |
| At 31 December 2020 | 84,290,679 | 20,729,112 | 6,530 | 333,045 | 1,308,967 | 1,076,145 | 107,744,478 |
| **Accumulated Depreciation in $** | | | | | | | |
| At 1 January 2020 | (55,258,369) | - | - | (113,658) | (973,413) | (854,045) | (57,199,485) |
| Depreciation and depletion | (726,702) | ` | - | (7,669) | (93,944) | (48,100) | (876,415) |
| Disposals | - | - | - | - | 1,451 | - | 1,451 |
| Impairment | - | - | - | - | - | - | - |
| At 31 December 2020 | (55,985,071) | - | - | (121,327) | (1,065,906) | (902,145) | (58,074,449) |
| **Opening written down value** | **29,032,310** | **8,129,233** | **6,530** | **219,387** | **115,568** | **202,201** | **37,705,228** |
| **Impact of foreign currency adjustments** | **(1,986,121)** | **(606,985)** | **(38)** | **(15,927)** | **(13,460)** | **(39,087)** | **(2,361,618)** |
| **Closing written down value** | **26,319,487** | **20,122,127** | **6,492** | **195,791** | **229,601** | **134,913** | **47,008,411** |

## 15. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

| | Oil & Gas – Proved | Oil & Gas – Unproved | Land | Buildings | Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost in $** | | | | | | | |
| At 1 January 2019 | 166,869,517 | 8,980,918 | 43,342 | 470,102 | 1,302,380 | 981,275 | 178,647,535 |
| Additions | - | 2,558,333 | - | - | 17,584 | 81,808 | 2,657,727 |
| New asset retirement obligation | 3,755,067 | - | - | - | - | - | 3,755,067 |
| Write-back of asset retirement obligation | (13,408) | - | - | - | - | - | (13,408) |
| Sale of wells | (86,320,497) | (3,409,850) | (36,812) | (137,057) | (190,984) | (6,837) | (90,102,038) |
| Disposals | - | - | - | - | (21,629) | - | (21,629) |
| Reclassifications | - | 3,428 | - | - | (18,370) | - | (14,942) |
| Expiration costs | - | (3,596) | - | - | - | - | (3,596) |
| At 31 December 2019 | 84,290,679 | 8,129,233 | 6,530 | 333,045 | 1,088,981 | 1,056,246 | 94,904,714 |
| **Accumulated Depreciation in $** | | | | | | | |
| At 1 January 2019 | (102,182,142) | - | - | (133,593) | (1,116,296) | (812,669) | (104,244,701) |
| Depreciation and depletion | (1,880,695) | - | - | - | (73,573) | (48,216) | (2,002,484) |
| Write-off sale of wells | 58,179,854 | - | - | 19,935 | 194,480 | 6,840 | 58,401,109 |
| Disposals | - | - | - | - | 21,976 | - | 21,976 |
| Change in ARO | (7,935) | - | - | - | - | - | (7,935) |
| Impairment | (9,367,451) | - | - | - | - | - | (9,367,451) |
| At 31 December 2019 | (55,258,369) | - | - | (113,658) | (973,413) | (854,045) | (57,199,485) |
| **Opening written down value** | **64,687,375** | **8,980,918** | **43,342** | **336,509** | **186,084** | **168,606** | **74,402,834** |
| **Impact of foreign currency adjustments** | **296,061** | **47,872** | **(100)** | **(42,094)** | **(4,301)** | **12,297** | **309,735** |
| **Closing written down value** | **29,328,371** | **8,177,105** | **6,430** | **177,293** | **111,267** | **214,498** | **38,014,965** |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 15. OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

At 31 December 2020, the group assessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy.

Estimates of recoverable amounts for producing assets are based on an asset's value in use or fair value less costs to sell, using a discounted cash flow method, and are most sensitive to the key assumptions described in note 2.

The pre-tax discount rate that has been applied in assessing oil and gas assets is 12% (2019: 12%).

| | 2020 $ | 2019 $ |
|---|---|---|
| **16. INTANGIBLE ASSETS** | | |
| Goodwill[(a)] | 88,571 | 97,369 |
| | 88,571 | 97,369 |

[(a)] Movements in goodwill relate to foreign currency fluctuations.

| | 2020 $ | 2019 $ |
|---|---|---|
| **17. TRADE AND OTHER PAYABLES** | | |
| **Current** | | |
| Trade creditors | 5,935,271 | 4,746,474 |
| Other creditors | 34,701 | 43,502 |
| | 5,969,972 | 4,789,976 |
| **18. INTEREST-BEARING LIABILITIES** | | |
| **Current** | | |
| Bank loan - secured | 7,823,606 | 9,250,600 |
| | 7,823,606 | 9,250,600 |

**Classification of Borrowings**

These accounts are presented on the basis that all borrowings have been classified as current liabilities. This treatment is as a result of a strict application of the relevant provisions of AASB 101 Presentation of Financial Statements ("AASB 101"). This accounting standard requires the Group to classify liabilities as current if the Group does not have an unconditional right to defer payment for twelve months at period end. However, the expected repayment of the borrowings is not for complete repayment within the twelve month period.

The Company maintains a credit facility consisting of the following, as restated in October 2018 and amended in September 2019, which matures in September 2024 with a bank that is a minority owner in the Company. Interest accrues on the outstanding borrowing at rate options selected by the Company and based on prime lending rate, 3.25% at December 31, 2020 or the London InterBank Offered Rate (30-Day LIBOR) (.15% at 31 December 2020) plus 6.5%. At 31 December 2020, the Company's rate option was the 30-day LIBOR.

Outstanding borrowings under the agreement are secured by the assets of the Company. Under terms of the facilities, the Company is required to maintain financial ratios customary for the oil and gas industry. The Company is required to repay the facilities monthly to the extent certain benchmarks of an applicable percentage of net operating cash flow and capital transactions are met and occur. Principal payments made in 2020 and 2019 were approximately US$962,500 and US$18,497,000, respectively.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**18. INTEREST-BEARING LIABILITIES (continued)**

The most restrictive operational and financial covenants for which the Company is required to maintain is the adjusted proved developed producing (PDP) and present value (PV) ratios and interest coverage ratio. The Company was either compliant with or received a waiver for certain covenants as of 31 December 2020. The credit facility is guaranteed by a related party.

On May, 8, 2020, the Company received a Paycheck Protection Program (PPP) Term Note for approximately US$553,000. 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. As of December 31, 2020, approximately US$543,000 of the loan has been forgiven, which has been recognised as a gain on PPP loan forgiveness in Statement of Profit or Loss and Other Comprehensive Income in the current year. The Company has included the portion of the loan that has not been forgiven in long-term debt. As of March 2021, the remaining balance of $US10,000 was paid in full by the Small Business Administration under the Economic Aid to Hard-Hot Small Businesses, Nonprofits and Venues Act.

In connection with multiple debt transactions, the Company had issued warrants of a wholly owned subsidiary of the Company, which expired in February 2019.

Due to the debt restructuring in October 2018, the Company accumulated deferred financing costs of approximately US$1,622,000. Amortisation expense of the deferred financing costs is included with other non-cash expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Credit Facility Summary

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 US$7,500,000.

The credit facility balance on 31 December 2020 was US$6,537,500 (A$8,488,290).

Uses of credit facility:

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

Credit facility structure

| | | |
|---|---|---|
| Term Loan: | Availability | US$6,537,500 |
| | Interest rate | LIBOR+6.5% |
| | Drawn balance as at 31 December 2020 | US$6,537,500 |
| | Term | Matures in September 2024 |
| | Repayment | 100% of Appalachia Net Operating Cashflow subject to minimum amortisation of US$550,000 per annum. |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 18. INTEREST-BEARING LIABILITIES (continued)

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

A summary of period end debt is as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Facility | 6,537,500 | 7,500,000 |
| PP term note | 10,000 | - |
| Sub-Total | 6,547,500 | 7,500,000 |
| Less deferred financing costs, net | (521,759) | (1,019,030) |
| Total Debt in USD | 6,025,741 | 6,480,970 |
| Total Debt in AUD | 7,823,606 | 9,250,600 |

### 19. LEASE ASSETS AND LIABILITIES

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Right-of-use assets | 1,149,087 | 201,537 |
| **LIABILITIES** | | |
| **Current** | | |
| Leases – minimum lease payments | 311,233 | 142,623 |
| **Non-Current** | | |
| Leases – minimum lease payments | 972,287 | 180,524 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 19. LEASE ASSETS AND LIABILITIES (continued)

| **Movement in Right-of-use-assets** | **2020 $** | **2019 $** |
|---|---|---|
| Balance at beginning of the period | 201,537 | - |
| Adoption of AASB16 | - | 474,609 |
| Additions for the period | 1,391,359 | - |
| Depreciation | (413,771) | - |
| Disposals (net) | - | (273,072) |
| Foreign currency translation movements | (30,038) | - |
| Balance at end of the period | 1,149,087 | 201,537 |

The Company leases its US corporate headquarters under a non-cancellable operating lease recognised as a right-of-use asset and lease liability, with monthly payments ranging from US$3,665 to US$3,966 through February 2022. The US corporate headquarters moved in 2019 to Mayville, New York into a building owned by the Company. The Company is still obliged to make payments on the last office. Net rental expense approximated US$51,000 and US$52,000, for the years ended 31 December 31, 2020 and 2019 respectively. The Kansas office lease was terminated in 2019 following the closure of the Kansas office without penalty.

The Company leases trucks under an operating agreement recognised as a right-of-use asset and lease liability. The term of the agreement begins upon the delivery of each truck and last for a period of up to 48 months. Lease payments in 2020 and 2019 were approximately US$144,000 and US$188,000 respectively. The Empire Energy Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

The Company leases its Australian corporate headquarters in Sydney under a 5-year operating sublease recognised as a right-of-use asset and lease liability, with monthly payments approximately A$18,600. The rental agreement has a 4% fixed rent review on the anniversary of the commencement date of the sublease being 29th January 2020.

The Company leases a photocopier under a 4-year operating agreement which commenced in November 2021. Monthly lease payments are A$399.

### 20. DISCONTINUED OPERATIONS

| *Financial performance information* | **2020 $** | **2019 $** |
|---|---|---|
| **Revenue** | | |
| Oil and gas sales | - | 7,496,287 |
| Well operations and services fees | - | 226,319 |
| | - | 7,722,606 |
| **Cost of sales** | | |
| Cost of oil and gas sales | - | 3,762,963 |
| Cost of well operation services | - | 722,570 |
| Unrealised gain/loss on hedges | - | 2,291,623 |
| Administration costs | - | 213,985 |
| Lease expiration costs | - | 2,009,560 |
| | - | 9,000,701 |
| Interest expense, including amortisation of deferred financing costs | - | 1,796,389 |
| Other income, net | - | (66,307) |
| | - | 1,730,082 |
| **Loss from discontinued operations** | - | 3,008,178 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 20. DISCONTINUED OPERATIONS (continued)

| | 2020 $ | 2019 $ |
|---|---|---|
| **Proceeds** | | |
| Proceeds on completion of sale | - | (27,475,620) |
| Proceeds from post-closing adjustment | - | (222,495) |
| Net assets disposed | - | 30,661,052 |
| **Total Loss from discontinued operations** | - | 2,962,937 |
| | | |
| **Total loss from discontinued operations** | - | (5,971,115) |
| | | |
| *Cash flow information* | | |
| | | |
| Net cash from operating activities | - | (716,554) |
| Net cash from investing activities | - | 18,823 |
| Net decrease in cash and cash equivalents from discontinued operations | - | (697,731) |
| | | |
| *Carrying amounts of assets and liabilities disposed* | | |
| | | |
| At date of disposal: | | |
| Accounts receivable | - | 293,036 |
| Inventory | - | 729,049 |
| Fair value of hedges | - | 2,273,835 |
| PPE Net | - | 29,975,268 |
| **Total assets** | - | 33,271,188 |
| | | |
| Accounts payable | - | 368,537 |
| Asset retirement obligations | - | 2,479,599 |
| **Total liabilities** | - | 2,848,136 |
| | | |
| **Net assets** | - | 30,423,052 |

*Assets and liabilities of disposal groups classified as discontinued:*

| | 2020 $ | 2019 $ |
|---|---|---|
| Accounts receivable | - | 360,080 |
| **Assets classified as held for sale** | - | 360,080 |
| | | |
| Revenue payable | - | 142,848 |
| **Liabilities directly associated with assets classified as held for sale** | - | 142,848 |
| | | |
| **Net assets** | - | 217,232 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 21. PROVISIONS

| | 2020 $ | 2019 $ |
|---|---|---|
| **Current** | | |
| Employee entitlements | 150,608 | 71,292 |
| | | |
| **Non-current** | | |
| Asset retirement obligations | 21,099,654 | 22,511,419 |
| | | |
| **Movement in Asset Retirement Obligation** | | |
| Balance at beginning of the period | 22,511,419 | 20,325,903 |
| Disposed – discontinued operations | - | (2,479,599) |
| Write-off accrued plugging costs | - | (36,300) |
| Accretion expense for the period, included in finance costs | 694,257 | 801,707 |
| Change in estimate | - | 3,755,067 |
| Foreign currency translation movements | (2,106,022) | 144,641 |
| Balance end of the period | 21,099,654 | 22,511,419 |

**Asset Retirement Obligation**

The Empire 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.

### 22. CONTRIBUTED EQUITY

| | 2020 $ | 2019 $ |
|---|---|---|
| **a) Shares** | | |
| **Issued Capital** | | |
| Balance at beginning of period | 121,420,294 | 110,400,710 |
| | | |
| **Movement in ordinary share capital** | | |
| - Issue of 375,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 112,500 |
| - Issue of 250,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 75,000 |
| - Issue of 600,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 180,000 |
| - Issue of 30,000,000 fully paid ordinary shares in November 2019 as a private placement to raise funds | - | 12,000,000 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

| 22 CONTRIBUTED EQUITY (continued) | 2020 $ | 2019 $ |
|---|---|---|
| - Issue of 25,000 fully paid ordinary shares in December 2019 due to conversion of options | - | 7,500 |
| - Issue of 175,000 fully paid ordinary shares in December 2019 due to conversion of options | - | 52,500 |
| - Issue of 104,348 fully paid ordinary shares in December 2019 in lieu of cash payment for fees and services rendered | - | 20,870 |
| - Issue of 200,000 fully paid ordinary shares in January 2020 (funds received in December 2019) due to conversion of options | - | 60,000 |
| Issue of 150,000 fully paid ordinary shares in January 2020 due to conversion of options | 45,000 | - |
| - Issue of 93,750 fully paid ordinary shares in February 2020 due to conversion of options | 30,000 | - |
| - Issue of 6,250 fully paid ordinary shares in February 2020 due to conversion of options | 1,875 | - |
| - Issue of 33,333,334 fully paid ordinary shares in September 2020 as a private placement to raise funds | 10,000,000 | - |
| - Issue of 3,575,000 fully paid ordinary shares in September due to conversion of options | 1,072,500 | - |
| - Issue of 4,087,500 fully paid ordinary shares in September 2020 due to conversion of options | 1,226,250 | - |
| - Issue of 19,245,001 fully paid ordinary shares in September 2020 due to conversion of options | 5,773,500 | - |
| - Issue of 412,500 fully paid ordinary shares in November 2020 due to conversion of options | 123,750 | - |
| Less costs associated with the shares issues detailed above | (632,676) | (1,488,786) |
| Balance as at 31 December 2020 | 139,060,493 | 121,420,294 |

| **b) Shares** | **2020 No. of shares** | **2019 No. of shares** |
|---|---|---|
| **Issued shares** | | |
| Balance at beginning of period | 262,838,649 | 2,313,084,176 |
| **Movement in ordinary share capital** | | |
| - Effect of Share Consolidation in May 2019 on a 1:10 basis | - | (2,081,775,758) |
| - Issue of 883 fully paid ordinary shares due to the round up on consolidation | - | 883 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

| 22 CONTRIBUTED EQUITY (continued) | 2020 No. of shares | 2019 No. of shares |
|---|---|---|
| - Issue of 375,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 375,000 |
| - Issue of 250,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 250,000 |
| - Issue of 600,000 fully paid ordinary shares in November 2019 due to conversion of options | - | 600,000 |
| - Issue of 30,000,000 fully paid ordinary shares in November as a private placement to raise funds | - | 30,000,000 |
| - Issue of 25,000 fully paid ordinary shares in December 2019 due to conversion of options | - | 25,000 |
| - Issue of 175,000 fully paid ordinary shares in December 2019 due to conversion of options | - | 175,000 |
| - Issue of 104,348 fully paid ordinary shares in December 2019 in lieu of cash payment for fees and services rendered | - | 104,348 |
| - Issue of 200,000 fully paid ordinary shares in January 2020 due to conversion of options | 200,000 | - |
| - Issue of 150,000 fully paid ordinary shares in February 2020 due to conversion of options | 150,000 | - |
| - Issue of 93,750 fully paid ordinary shares in February 2020 due to conversion of options | 93,750 | - |
| - Issue of 6,250 fully paid ordinary shares in February 2020 due to conversion of options | 6,250 | - |
| - Issue of 33,333,334 fully paid ordinary shares in September 2020 as a private placement to raise funds | 33,333,334 | - |
| - Issue of 3,575,000 fully paid ordinary shares in September due to conversion of options | 3,575,000 | - |
| - Issue of 4,087,500 fully paid ordinary shares in September 2020 due to conversion of options | 4,087,500 | - |
| - Issue of 19,245,001 fully paid ordinary shares in September 2020 due to conversion of options | 19,245,001 | - |
| - Issue of 412,500 fully paid ordinary shares in September 2020 due to conversion of options | 412,500 | - |
| Balance as at 31 December 2020 | 323,941,984 | 262,838,649 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**22 CONTRIBUTED EQUITY (continued)**

**Shares**
At balance date the Empire Group had the following securities on issue:

- 323,941,984 (2019: 262,838,649) listed fully paid ordinary shares – ASX Code: EEG

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during the year, or since the year-end.

**c) Share Options**

**Movements**

**Granted**
No options were granted during the year.

**Exercise of Options**
27,770,001 unlisted options were exercised during the financial year or in the period since the end of the financial year and up to the date of this report.

**Expiry/Lapse of Options**
10,405,503 unlisted options expired during the financial year, or in the period since the end of the financial year and up to the date of this report.

**Options**
At balance date the Company had 18,400,000 (2019: 56,575,504) unissued shares under option. These options are exercisable on the following terms:

| Number | | Exercise Price A$ | Expiry Date |
|---|---|---|---|
| 1,300,000 | Unlisted options | $0.30 | 30 December 2021 |
| 600,000 | 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 |
| 18,400,000 | | | |

**d) Performance Rights**

At balance date the Company had 8,267,771 unissued shares subject to Performance Rights. The Performance Rights are subject to certain preconditions being met.

During the 2013 financial year the Company issued 2,500,000 Performance Rights (pre-consolidation) over fully paid ordinary shares in the Company as part consideration for the buyback of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**22 CONTRIBUTED EQUITY (continued)**

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interests in Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

| Fair Market Value of Consideration Received by the Company | Performance rights exercisable |
|---|---|
| Less than $25.0 million | 0.0% |
| At least $25.0 million but less than $45.0 million | Percentage calculated by dividing Fair Market Value of Consideration received by the Company by $45.0 million. |
| $45.0 million or more | 100.0% |

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

- The holder of the Performance Rights is an associated entity of a former senior executive of the Company's US subsidiaries, Mr Allen Boyer.

- At the Company's Annual General Meeting conducted on 30 May 2019, Shareholders approved the consolidation of the Company's equity on a 1 for 10 basis. The effect of the Share Consolidation during the period reduced the 2,500,000 Performance Rights to 250,000 Performance Rights.

During the 2019 financial year, the Company issued 4,112,811 Performance Rights to the Company's Managing Director and employees under the terms of the Company's Rights Plan approved at the Shareholders on 30 May 2019.

During the 2020 financial year, the Company issued 3,913,960 Performance Rights to the Company's Managing Director and employees under the terms of the Company's Rights Plan approved at the Shareholders on 14 July 2020.

The terms and conditions of each grants of performance rights affecting remuneration of directors and other key management personnel in this financial year or future reporting year are as follows:

***Performance Rights***

| Director | No. of granted performance rights | Grant Date | Vesting date and exercisable date | Expiry Date | Exercise price | Fair value of performance rights at grant date |
|---|---|---|---|---|---|---|
| A Underwood | 1,427,089 | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $60,465 |
| D Evans | 984,891 | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $46,081 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**22 CONTRIBUTED EQUITY (continued)**

**e) Service Rights**

At balance date, the Company had 1,838,558 unissued shares subject to Service Rights. The Service Rights are subject to certain preconditions being met.

During the 2019 financial year, the Company issued 1,000,000 Service rights to the Company's Managing Director, under the terms of the company's Rights Plans approved at the Shareholders meeting on 30 May 2019.

During the 2020 financial year, the Company issued 838,558 Service Rights to the Company's Non-Executive Director and employees under the terms of the Company's Rights Plan approved at the Shareholders Meeting on 14 July 2020.

The terms and conditions of each grants of service rights affecting remuneration of directors and other key management personnel in this financial year or future reporting year are as follows:

***Service Rights***

| Director | No. of granted service rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of service rights at grant date |
|---|---|---|---|---|---|---|
| J Warburton | 600,000 | 7 Aug 2020 | 31 Dec 2020 | 31 Dec 2035 | Nil | $186,000 |

**f) Restricted Rights**

At balance date, the Company had 1,019,753 unissued shares subject to Restricted Rights. The Restricted Rights are subject to certain preconditions being met.

During the 2020 financial year, the Company issued 1,019,753 Restricted Rights to the Company's Managing Director/Non-Executive Chairman Director under the terms of the Company's Rights Plan approved at the Shareholders on 14 July 2020.

The terms and conditions of each grants of service rights affecting remuneration of directors and other key management personnel in this financial year or future reporting year are as follows:

***Restricted Rights***

| Director | No. of granted restricted rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of restricted rights at grant date |
|---|---|---|---|---|---|---|
| A Underwood | 750,000 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | $232,500 |
| P Espie | 269,753 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | $83,623 |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 23. RESERVES

**Fair value reserve**
The fair value reserve comprises the cumulative net change in the fair value of equity investments until the investment is derecognised.

**Foreign currency translation reserve**
The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

**Option reserve**
The option reserve comprises the value of options, performance rights, service rights and restricted rights issued but not exercised at balance date.

### 24. CONTINGENT LIABILITIES

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 31 December 2020, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

There have been no other changes in contingent liabilities since the last annual reporting date.

### 25. CONTINGENT ASSETS

There are no contingent assets as at the date of this annual report.

### 26. COMMITMENTS FOR EXPENDITURE

**Exploration and Mining Tenement Leases**

In order to maintain current rights of tenure to exploration and mining tenements, the Company and the companies in the consolidated entity are required to outlay lease rentals and to meet the minimum expenditure requirements of the various Government Authorities. These obligations are subject to re-negotiation upon expiry of the relevant leases or when application for a mining licence is made. No expenditure commitment exists at 31 December 2020.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 27. SHARE BASED PAYMENTS

**Year Ending – 31 December 2020**
During the 2020 financial period the following share-based payments occurred:

The Company granted the following service, performance and restricted rights to the Company's Managing Director, Non-Executive Directors and employees under the terms of the Company's Rights Plan approved by Shareholders on 30 May 2019.

***Service Rights***

| No. of granted service rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of service rights at grant date |
|---|---|---|---|---|---|
| 600,000 | 7 Aug 2020 | 31 Dec 2020 | 31 Dec 2035 | Nil | $186,000 |
| 238,558 | 7 Aug 2020 | 31 Dec 2020 | 31 Dec 2035 | Nil | $73,953 |

***Performance Rights***

| No. of granted performance rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of performance rights at grant date |
|---|---|---|---|---|---|
| 3,191,922* | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $75,329 |
| 722,038** | 7 Aug 2020 | 31 Dec 2022 | 31 Dec 2035 | Nil | $111,916 |

* Tranche 1 ** Tranche 2

***Restricted Rights***

| No. of granted restricted rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of restricted rights at grant date |
|---|---|---|---|---|---|
| 750,000 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | 232,500 |
| 269,753 | 7 Aug 2020 | 5 Nov 2020 | 31 Dec 2035 | Nil | $83,623 |

**Options**
No options were granted during the 2020 financial year.

**Service Rights**
For the Service Rights granted during the 2020 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Vesting date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 600,000 | 7 Aug 2020 | 31 Dec 2020 | $0.31 | 114.65% | Nil | 0.83% |
| 238,558 | 7 Aug 2020 | 31 Dec 2020 | $0.31 | 114.65% | Nil | 0.83% |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**27. SHARE BASED PAYMENTS (continued)**

**Performance Rights**
For the Performance Rights granted during the 2020 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Vesting date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 3,913,960 | 7 Aug 2020 | 31 Dec 2022 | $0.31 | 114.65% | Nil | 0.83% |

**Restricted Rights**
For the Restricted Rights granted during the 2020 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Vesting date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 1,019,753 | 7 Aug 2020 | 5 Nov 2020 | $0.31 | 114.65% | Nil | 0.83% |

The weighted average share price during the financial year was A$0.311 (2019: A$0.294 on a post consolidation basis).

The weighted average remaining contractual life of options granted during the financial year and outstanding at the end of the financial year was 2 years (2019: 3 years).

The weighted average remaining time to Vesting Date of Service Rights (unless extended in accordance with the rights Plan Rules) granted during the financial year and outstanding at the end of the financial year was 1 year (2019: 1.7).

The weighted average remaining time to Vesting Date of Performance Rights (unless extended in accordance with the rights Plan Rules) granted during the financial year and outstanding at the end of the financial year was 2 years (2019: 1.8).

The weighted average remaining time to Vesting Date of Restricted Rights (unless extended in accordance with the rights Plan Rules) granted during the financial year and outstanding at the end of the financial year was 0.3 years (2019: n/a).

**Year Ending – 31 December 2019**

During the 2019 financial period the following share-based payments occurred:

The Company granted 104,348 ordinary fully paid shares to Amicaa Pty Ltd Partial consideration for capital raising and other financial advisory services in December 2018 in lieu of cash payment of A$20,870 for services rendered, at a deemed issued price of A$0.20 per share.

During the financial year the following options were granted:

| No. of Options | Grant Date | Vesting Date | Exercise Price A$ | Expiry Date |
|---|---|---|---|---|
| 2,800,000 | 30 Dec 2019 | 30 Dec 2019 | $0.60 | 30 Dec 2022 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 27. SHARE BASED PAYMENTS (continued)

The Company granted the following service and performance rights to the Company's Managing Director and employees under the terms of the Company's Rights Plan approved by Shareholders on 30 May 2019.

***Service Rights***

| No. of granted service rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of service rights at grant date |
|---|---|---|---|---|---|
| 1,000,000 | 14 Jun 2019 | 31 Aug 2021 | 30 Jun 2034 | Nil | $180,000 |

***Performance Rights***

| No. of granted performance rights | Grant Date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value of performance rights at grant date |
|---|---|---|---|---|---|
| 3,150,000 | 14 Jun 2019 | 31 Aug 2021 | 30 Jun 2034 | Nil | $89,100 |
| 792,903* | 30 Dec 2019 | 31 Dec 2021 | 30 Dec 2034 | Nil | $104,663 |
| 169,908* | 30 Dec 2019 | 31 Dec 2021 | 30 Dec 2034 | Nil | $37,380 |

* Tranche 1
** Tranche 2

**Options**
For the options granted during the 2019 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Expiry date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 2,800,000 | 30 Dec 2019 | 30 Dec 2022 | $0.44 | 115.59% | Nil | 0.88% |

**Service Rights**
For the Service Rights granted during the 2019 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Expiry date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 1,000,000 | 14 Jun 2019 | 30 Jun 2034 | $0.18 | 104.36% | Nil | 1.38% |

**Performance Rights**
For the Performance Rights granted during the 2019 financial year, the valuation model inputs used to determine the fair value at the grants date, are as follows:

| Granted during year | Grant Date | Expiry date | Share price at grant date A$ | Expected volatility | Dividend yield | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 3,150,000 | 14 Jun 2019 | 30 Jun 2034 | $0.18 | 104.36% | Nil | 1.38% |
| 962,811 | 30 Dec 2019 | 30 Dec 2034 | $0.44 | 103.22% | Nil | 1.31% |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**27. SHARE BASED PAYMENTS (continued)**

The weighted average share price during the financial year was A$0.294 (2018: A$0.28 on a post consolidation basis).

The weighted average remaining contractual life of options granted during the financial year and outstanding at the end of the financial year was 3 years (2018: 2.1 years).

The weighted average remaining time to Vesting Date of Service Rights (unless extended in accordance with the rights Plan Rules) granted during the financial year and outstanding at the end of the financial year was 1.7 years (2018: n/a).

The weighted average remaining time to Vesting Date of Performance Rights (unless extended in accordance with the rights Plan Rules) granted during the financial year and outstanding at the end of the financial year was 1.8 years (2018: n/a).

**a) Expenses arising from share-based payment transactions**

**Year ending - 31 December 2020**
The share-based payments during the year have been recognised as follows:

- Expense relating to issued options based on a pro-rata portion of the vesting period A$958,532
- Recognised directly against issued capital as a cost associated with the share A$nil

**Year ending - 31 December 2019**
The share-based payments during the year have been recognised as follows:

- Expense relating to issued options based on a pro-rata portion of the vesting period A$518,725
- Recognised directly against issued capital as a cost associated with the share A$784,000

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 28. SEGMENT INFORMATION

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

| | **US Operations** | | **Northern Territory** | | **Corporate** | | **Eliminations** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| *in USD* | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Revenue (external) | 6,464,202 | 7,763,090 | - | - | - | - | - | - | 6,464,202 | 7,763,090 |
| Revenue (internal) | - | - | - | - | 3,162,341 | 332,800 | (3,162,341) | (332,800) | - | - |
| Other income (excluding interest income) | 938,608 | 213,347 | - | 1,600 | 100,000 | 8,868 | - | - | 1,038,608 | 223,815 |
| **Reportable segment result before tax** | **537,944** | **488,401** | **(3,649,144)** | **(731,869)** | **(215,241)** | **(1,821,560)** | **-** | **(332,800)** | **(3,326,441)** | **(2,397,828)** |
| **Adjustments:** | | | | | | | | | | |
| Effect of interest income and expense: | | | | | | | | | | |
| - Interest income (internal) | - | - | - | - | 3,505,498 | 2,706,231 | (3,505,498) | (2,706,231) | - | - |
| - Interest income (external) | - | - | 652 | 253 | 8,523 | 4,531 | - | - | 9,175 | 4,784 |
| - Interest expense (internal) | (1,998,222) | (1,940,502) | (1,507,276) | (765,730) | - | - | 3,505,498 | 2,706,231 | - | - |
| - Interest expense (external) | (722,995) | (913,861) | - | - | (41,175) | (7,031) | - | - | (764,170) | (920,892) |
| | (2,721,217) | (2,854,363) | (1,506,624) | (765,477) | 3,472,846 | 2,703,731 | - | - | (754,995) | (916,108) |
| Material non-cash expenses not included in segment result | | | | | | | | | | |
| - Depreciation and amortisation | (1,023,252) | (1,973,748) | (17,690) | (7,677) | (249,244) | (21,058) | - | - | (1,290,186) | (2,002,484) |
| - Share-based payment expense | - | - | - | - | (958,532) | (518,725) | - | - | (958,532) | (518,725) |
| - Impairment of assets | - | (5,583,011) | - | - | - | - | - | - | - | (5,583,011) |
| - (Impairment) / write-back of ARO | - | (3,784,443) | - | - | - | - | - | - | - | (3,784,443) |
| - Lease expiration costs | - | (3,596) | - | - | - | - | - | - | - | (3,596) |
| - Unrealised gain/loss on derivatives | 90,652 | (142,915) | - | - | - | - | - | - | 90,652 | (142,915) |
| - Finance cost - ARO accretion | (694,257) | (801,707) | - | - | - | - | - | - | (694,257) | (801,707) |
| - Finance cost - Discount on debt | (720,057) | (877,118) | - | - | - | - | - | - | (720,057) | (877,118) |
| - Other non-cash expenses | - | (40,845) | - | - | 169,183 | - | - | - | 169,183 | (40,845) |
| **Loss before income tax - continuing operations** | **(4,530,187)** | **(15,573,345)** | **(5,173,458)** | **(1,505,023)** | **2,219,012** | **342,387** | **-** | **(332,800)** | **(7,484,633)** | **(17,068,781)** |
| Reportable segment assets | 33,596,007 | 39,370,655 | 18,390,703 | 6,015,128 | 111,623,338 | 93,323,430 | (97,046,964) | (82,114,814) | 66,563,084 | 56,594,399 |
| Reportable segment liabilities | (57,785,746) | (57,444,206) | (36,005,503) | (18,456,472) | (1,753,821) | (482,977) | 59,217,710 | 39,294,375 | (36,327,360) | (37,089,282) |
| Capital expenditure | - | (56,790) | (12,653,271) | (2,580,307) | (41,763) | - | - | - | (12,695,034) | (2,637,097) |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**28. SEGMENT INFORMATION (Continued)**

The revenue reported above represents revenue generated from external customers. Intersegment revenue relates to Corporate overhead charges only. Included in Other income above are gains disclosed separately of the face of the Statement of Profit and Loss and Other Comprehensive Income. Information reported to the Chief Operating Decision Maker (CODM) allows resources to be allocated and subsequent performance to be analysed. This is reviewed on a monthly basis.

The Empire Group's reportable segments under AASB 8 and reviewed by the CODM are as follows:

- US operations - includes all oil and gas operations located in the USA. Revenue is derived from the sale of oil and gas and operation of wells.
- Northern territory – includes all exploration and drilling activity of the Group in the Northern Territory, conducted through Imperial Oil & Gas.
- Corporate - includes all centralised administration costs, minor other income and investments/loans in Empire Group USA and imperial Oil and Gas (eliminated on consolidation).

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs and directors' salaries, finance income and finance expense, gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Geographical information**

All revenue generated from the sale of oil and gas to external customers is derived from operations in the USA.

All of the Company's producing oil and gas assets are located in the USA.

The Company has exploration oil and gas tenements in the Northern Territory, Australia and is nearing completion of the first producing well.

**Major customers**

Revenues from two major customers of the Empire Group's US Operations segment represents approximately $4,848,152 (2019: two major customers $7,505,508) of the Empire Group's total revenues.

**29. RELATED PARTY DISCLOSURES**

**a. Disclosures Relating to Directors**

The names of persons who were directors of the Company at any time during the financial year were:

- A Underwood
- P Espie
- J Gerahty
- J Warburton
- P Cleary

Details of remuneration and equity holdings of directors and other key management personnel are included in the remuneration report.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

**29. RELATED PARTY DISCLOSURES (continued)**

**b. Disclosures Relating to Controlled Entities**

Empire Energy Group Limited is the ultimate controlling Company of the Consolidated Entity comprising the Company and its wholly owned controlled companies.

During the year the Company advanced and received loans and provided accounting and administrative services to other companies in the Consolidated Entity. These balances, along with associated charges, are eliminated on consolidation.

**c. Investments in Controlled Companies**

| | Country of Incorporation | Class of Share | Interest Held | |
|---|---|---|---|---|
| | | | December 2020 % | December 2019 % |
| **Controlling Empire Group** | | | | |
| Empire Energy Group Limited | Australia | | | |
| **Controlled Companies** | | | | |
| Imperial Oil & Gas Pty Limited | Australia | Ordinary | 100 | 100 |
| Empire Energy Holdings, LLC | USA | Units | 100 | 100 |
| Empire Energy USA, LLC | USA | Units | 100 | 100 |
| Empire Energy (MidCon), LLC | USA | Units | 100 | 100 |
| Empire Energy E&P, LLC | USA | Units | 100 | 100 |

All entities are audited by Nexia Sydney Audit Pty Ltd with the exception of Empire Energy Holdings, LLC, Empire Energy USA LLC, Empire Energy (MidCon), LLC and Empire Energy E&P, LLC which are companies incorporated in the USA and are audited by Schneider Downs.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020



### 30. NOTES TO THE STATEMENT OF CASH FLOWS

| | December 2020 $ | December 2019 $ |
|---|---|---|
| **(a) Reconciliation of Cash** | | |
| Cash at the end of the financial year is shown in Statement of Financial Position as follows: | | |
| Cash at bank and in hand | 14,145,866 | 14,105,603 |
| **(b) Reconciliation of profit after income tax expense to net cash flows from operating activities** | | |
| (Loss) for the period after income tax expense | (7,684,455) | (23,233,902) |
| ***Adjustments for non-cash items:*** | | |
| Amortisation on right-of-use assets | 413,771 | 354,781 |
| Depreciation & amortisation expense | 876,415 | 2,002,484 |
| Impairment of property, plant & equipment | - | 5,583,009 |
| Write-back of Asset Retirement Obligation | - | 3,784,445 |
| Expiration of leases | - | 2,013,156 |
| Discount on debt | 720,057 | 877,119 |
| Asset retirement obligation accretion | 694,257 | 801,707 |
| Share-based payment expense | 958,532 | 518,725 |
| Unrealised loss/(gain) on forward commodity contracts | (90,652) | 2,395,005 |
| Other non-cash expenses | (169,184) | 80,620 |
| Loss on disposal of discontinued operations | - | 2,968,960 |
| ***Operating loss before changes in working capital and provisions*** | (4,281,259) | (1,853,891) |

| | 2020 $ | 2019 $ |
|---|---|---|
| Change in Trade and other receivables | 53,748 | 486,917 |
| Change in Prepayments and other current assets | (65,809) | 381,520 |
| Change in Inventories | 8,246 | 117,619 |
| Change in Trade and other payables | 1,281,332 | (262,175) |
| Change in Provisions | 79,316 | 45,878 |
| | 1,356,833 | 769,759 |
| **Net cash flows used in operating activities** | (2,924,426) | (1,084,132) |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 30. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### (c) Changes in Liabilities arising from Financing Activities

| | Balance at 1 January 2020 | Financing Cashflows | Options and refinance costs | Amortisation of deferred finance costs | Effect of changes in FX | Balance at 31 December 2020 |
|---|---|---|---|---|---|---|
| Interest bearing borrowings | 9,250,600 | (1,414,314) | - | 720,057 | (732,737) | 7,823,606 |

| | Balance at 1 January 2019 | Financing Cashflows | Options and refinance costs | Amortisation of deferred finance costs | Effect of changes in FX | Balance at 31 December 2019 |
|---|---|---|---|---|---|---|
| Interest bearing borrowings | 34,526,285 | (26,608,801) | - | 877,118 | 455,998 | 9,250,600 |

### 31. EARNINGS PER SHARE

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per share from continuing operations (cents per share) | (2.73) | (7.37) |
| Diluted earnings per share from continuing operations (cents per share) | (2.73) | (7.37) |
| Loss used in the calculation of basic and diluted earnings per share from continuing operations | (7,684,455) | (17,262,787) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share from continuing operations | 281,399,784 | 234,326,722 |
| Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share from continuing operations | 281,399,784 | 234,326,722 |

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per share from discontinued operations (cents per share) | - | (2.55) |
| Diluted earnings per share from discontinued operations (cents per share) | - | (2.55) |
| Loss used in the calculation of basic and diluted earnings per share from discontinued operations | - | (5,971,115) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share from discontinued operations | - | 234,326,722 |
| Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share from discontinued operations | - | 234,326,722 |

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 31. EARNINGS PER SHARE (continued)

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per share (cents per share) | (2.73) | (9.92) |
| Diluted earnings per share (cents per share) | (2.73) | (9.92) |
| Loss used in the calculation of basic and diluted earnings per share | (7,685,455) | (23,233,902) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | 281,399,784 | 234,326,722 |
| Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share | 281,399,784 | 234,326,722 |

### 32. SUPERANNUATION COMMITMENTS

The Empire Group contributed to externally managed accumulation superannuation plans on behalf of employees.

Empire Group contributions are made in accordance with the Empire Group's legal requirements.

### 33. PARENT ENTITY INFORMATION

| | 2020 $ | 2019 $ |
|---|---|---|
| **Information relating to Empire Energy Group Limited:** | | |
| Current Assets | 13,569,775 | 12,443,321 |
| Total Assets | 30,967,743 | 12,527,619 |
| Current Liabilities | 971,767 | 411,841 |
| Total Liabilities | 1,759,322 | 338,374 |
| Shareholders' Equity: | | |
| Issued Capital | (139,060,493) | (121,420,294) |
| Reserves | | |
| - Fair value reserve | (607,280) | (607,280) |
| - Foreign currency translation reserve | (177,261) | (4,028,453) |
| - Options reserve | (4,079,053) | (3,047,771) |
| - Share based payment reserve | (236,630) | (234,380) |
| - General Reserve | (337,482) | (337,482) |
| Accumulated Losses | 115,289,778 | 117,308,967 |
| Total Shareholders' Equity | 29,208,421 | 12,366,693 |
| Loss for the period | 2,019,189 | 148,381 |
| Total Comprehensive Loss/(Income) | 5,870,381 | (172,481) |

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 34. AUDITORS' REMUNERATION

| | 2020 $ | 2019 $ |
|---|---|---|
| **Audit Services** | | |
| Auditors of the Company – Nexia Sydney: | | |
| Audit and review of financial reports | 121,059 | 116,000 |
| Other auditors: | | |
| Audit and review of financial reports | 137,712 | 148,672 |
| | 258,771 | 264,672 |
| **Other services** | | |
| Auditors of the Company – Nexia Sydney : | | |
| Taxation services | 18,182 | 7,590 |
| Other auditors: | | |
| Taxation services | 48,623 | 35,546 |
| | 66,805 | 43,136 |

### 35. MATTERS SUBSEQUENT TO BALANCE DATE

1) On 4 January 2021, ASIC form 315 Removal of Auditor was lodged due to the Company current auditors Nexia Sydney Partnership, merging with another company and renaming it from Nexia Sydney Partnership to Nexia Sydney Audit Pty Ltd. Aside from a name change, no other changes occurred.

2) As at 31 December 2020, the Company was not compliant with the Interest Coverage Ratio under the Macquarie Credit agreement. Macquarie had previously waived all existing / prior defaults under the credit agreement and waived any potential breaches up to and including 31 December 2020. Empire is in advanced discussions with Macquarie Bank relating to a potential refinancing of the credit facility including amending certain financial covenants.

3) On 16 February 2021, Empire was granted a second loan of US$343,602 under the Paycheck Protection Program (PPP). The second tranche is fully forgivable provided the loan proceeds are used for eligible expenses including payroll, carries a fixed interest rate of 1% per annum and has a maturity of 5 years.

4) At the date of completion of the Financial Report, the Group is continuing to monitor and respond to the effects of COVID-19. Empire has implemented COVID-19 policies designed to minimise the risk of transmission of COVID-19 among its workforce and local communities while minimising the risk of disruption to its ongoing business activities. Any potential financial effect of the virus on Empire's operations is currently unquantifiable.

5) An Environment Management Plan submitted to the Northern Territory Government for the hydraulic stimulation and flow testing of the vertical Carpentaria-1 well was approved on 16 February 2021. The EMP will remain active for five years from the date of approval. Empire intends to commence fracture stimulation and flow testing operations at Carpentaria-1 in Q2 2021.

# NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

### 35. MATTERS SUBSEQUENT TO BALANCE DATE (continued)

6) On 22 February 2021, Empire advised shareholders that Netherland, Sewell & Associates Inc had updated its independent resource assessment for Empire's EP187 permit in the Northern Territory. The assessment increased Empire's best estimate prospective gas resource in EP187 by 47% to 3.5 TCF and assessed a maiden best estimate prospective condensate resource of 27mmbbls. In addition, a maiden best estimate contingent resource of 41 BCF in the immediate vicinity of the Carpentaria-1 well location was assessed.

7) On 11 March 2021, Empire announced the appointment of Mr Louis Rozman as a Non-Executive Director of the Company, effective immediately. At the same time, Mr John Gerahty retired from the Board of Directors.

## NOTES TO THE FINANCIAL STATEMENTS
## for the year ended 31 December 2020

## DIRECTORS' DECLARATION

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

**a** The financial statements and notes of the Company and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 22 to 27, are in accordance with the *Corporations Act 2001,* including:

- **i** Giving a true and fair view of the Company's and Group's financial position as at 31 December 2020 and of their performance, for the year ended on that date; and

- **ii** Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

**b** the financial report also complies with the International Financial Reporting Standards as disclosed in note 1; and

**c** there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Controller for the year ended 31 December 2020.

Signed in accordance with a resolution of the directors.

**Alexander Underwood**
**Managing Director**

**Date:** 30 March 2021

Nexia Australia

# Independent Auditor's Report to the Members of Empire Energy Group Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Empire Energy Group Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of proved oil and gas assets**<br>Refer to note 15 (Oil and Gas properties and property, plant and equipment).<br>At 31 December 2020, the Group has capitalised proved producing oil and gas assets of $26.3m. AASB 136 – 'Impairment of Assets' requires that the recoverable amount of an asset, or cash | Our procedures included, amongst others:<br>▪ reviewing management's identification of impairment indicators existing during the period; |





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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| generating unit to which it belongs, be determined whenever an indicator of impairment exists. Management identified that such indicators did exist during the reporting period, including declined oil and gas prices. However, the management assessment based on the external expert valuation concluded that there is no impairment of the carrying value at reporting date.<br><br>The Group's assessment of the recoverable amount of its producing gas properties was a key audit matter because the carrying value of the assets are material to the financial statements and management's assessment of recoverable amounts incorporate significant internal and external judgements and assumptions including commodity prices, available reserves, residual values and discount rates. | ▪ assessing whether the external expert engaged by management to provide independent valuations was appropriately experienced and qualified;<br>▪ evaluating management's key assumptions and estimates used to determine the recoverable amount of its assets, including those related to forecast commodity prices and revenue, costs, discount rates and estimated residual values;<br>▪ checking the mathematical accuracy of the cash flow models, testing inputs from valuation reports produced, as well as external inputs, including spot and forward prices for gas at the reporting date;<br>▪ assessing the accuracy of management's forecasting by evaluating the reliability of historical forecasts and reviewing whether current market conditions would impact those forecasts; and<br>▪ assessing whether appropriate disclosure regarding significant areas of uncertainty has been made in the financial report. |
| **Exploration and evaluation expenditure - oil and gas assets**<br><br>Refer to note 15 (Oil and Gas properties and property, plant and equipment).<br><br>At 31 December 2020, the Group has capitalised exploration and evaluation expenditure in relation to unproved oil and gas assets of \$20.1m. These costs predominately relate to the Northern Territory area of interest. The Group's accounting policy in respect of exploration and evaluation assets is outlined in note 1.<br><br>This is a key audit matter because the carrying value of the assets are material to the financial statements, and significant judgements have been applied in determining whether an indicator of impairment exists in relation to capitalised expenditure assets in accordance with Australian Accounting Standard AASB 6 – 'Exploration for and Evaluation of Mineral Resources'. | Our procedures included, amongst others:<br>▪ We confirmed the existence and tenure of the exploration permits in the Northern Territory area of interest;<br>▪ We tested a sample of additions of capitalised exploration expenditure to supporting documentation;<br>▪ In assessing whether an indicator of impairment exists in relation to the Group's exploration assets in accordance with AASB 6 – 'Exploration for and Evaluation of Mineral Resources', we:<br>  – reviewed the minutes of the Group's board meetings, market announcements and management assessment;<br>  – discussed with management the Group's ability and intention to undertake further exploration and evaluation activities. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Asset retirement obligations**<br>Refer to note 21 (Provisions)<br><br>At 31 December 2020, the Group has a carrying value of Asset Retirement Obligations of $21.1m.<br><br>The measurement of the provision for Asset Retirement Obligations incorporates significant judgement and uncertainty, with restoration cost estimates varying in response to many factors including changes in technology, legal requirements, discount rates, past experience at other production sites, and estimates of future restoration well plugging costs.<br><br>The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation.<br><br>This was a key area of audit focus due to the size and nature of these estimates and their consequential effects on assessing the recoverable amount of producing assets. | Our procedures included, amongst others:<br>▪ evaluating management's process of estimating and measuring the provision for asset retirement obligations;<br>▪ evaluating whether the discount rate applied by management to the forecast cash outflows is appropriate and consistent with the requirements of AASB 137 – 'Provisions, Contingent Liabilities and Contingent Assets';<br>▪ considering the Group's estimates of plugging costs per well, including assessment of whether there have been changes in technology or costs that would materially impact those estimates. We compared the estimates for plugging costs against actual costs incurred in 2020;<br>▪ considering whether the key assumptions and judgements used in management's estimates were consistently applied in measuring the asset retirement obligations and in assessing the recoverable amount of the related assets; and<br>▪ performing sensitivity analysis on management's estimates used in calculating the obligations. |

## Other information

The directors are responsible for the other information. The other information comprises the information in Empire Energy Group Limited's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibility for the financial report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 27 of the directors' Report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2020, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Nexia

**Nexia Sydney Audit Pty Ltd**

**Lester Wills**
Director
Dated: 30 March 2021

Sydney

SHAREHOLDER INFORMATION

## ORDINARY SHARES

### a Substantial Shareholders as at 29 March 2021 (grouped)

| Name | Number of Shares | % Holding |
|---|---|---|
| Global Energy and Resources Development Limited | 28,211,000 | 8.71 |
| Macquarie Bank Limited | 26,451,367 | 8.17 |
| Elphinstone Group | 19,916,667 | 6.15 |
| Liangrove Media Pty Limited | 17,807,500 | 5.50 |

### b Distribution of Fully Paid Ordinary Shares

| | Holders | Number of Shares | % Holding |
|---|---|---|---|
| 1 – 1,000 | 179 | 52,970 | 0.02 |
| 1,001 – 5,000 | 530 | 1,636,583 | 0.51 |
| 5,001 – 10,000 | 318 | 2,581,615 | 0.80 |
| 10,001 – 100,000 | 785 | 31,797,913 | 9.82 |
| 100,001 and over | 371 | 287,872,903 | 88.87 |
| **Total number of holders** | 2,183 | 287,872,903 | 100.00 |

| | | |
|---|---|---|
| **i** | Number of holders of less than a marketable parcel | 217 |
| **ii** | Percentage held by 20 largest holders | 48.31% |

### c Twenty Largest Shareholders as at 29 March 2021 (ungrouped)

| | Name | Number of Shares | % Holding |
|---|---|---|---|
| 1 | GLOBAL ENERGY AND RESOURCES DEVELOPMENT LIMITED | 28,211,000 | 8.71 |
| 2 | MACQUARIE BANK LIMITED <METALS MINING AND AG A/C> | 26,451,367 | 8.17 |
| 3 | ELPHINSTONE HOLDINGS PTY LTD | 18,666,667 | 5.76 |
| 4 | LIANGROVE MEDIA PTY LIMITED | 17,807,500 | 5.50 |
| 5 | CITICORP NOMINEES PTY LIMITED | 11,369,498 | 3.51 |
| 6 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 7,699,435 | 2.38 |
| 7 | CHA QIAN | 7,245,000 | 2.24 |
| 8 | MR KOOI ONN CHYE | 4,643,363 | 1.43 |
| 9 | CHEOY LEE YACHTS AUSTRALIA PTY LTD | 4,130,000 | 1.27 |
| 10 | NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C> | 3,615,750 | 1.12 |
| 11 | GROSVENOR EQUITIES PTY LTD <NO 2 A/C> | 3,111,692 | 0.96 |
| 12 | MR ANDREW FORSTER | 3,000,000 | 0.93 |
| 13 | NATIONAL NOMINEES LIMITED | 2,792,680 | 0.86 |
| 14 | INVIA CUSTODIAN PTY LIMITED <PACIFIC ROAD PROVIDENT A/C> | 2,725,000 | 0.84 |
| 15 | JETAN PTY LTD | 2,677,405 | 0.83 |
| 16 | ORACLE FINANCIAL PLANNING PTY LTD | 2,575,000 | 0.79 |
| 17 | INVIA CUSTODIAN PTY LIMITED <KUARKA A/C> | 2,500,000 | 0.77 |
| 18 | MR CHARLES PHILLIP LOWSLEY PEAKE | 2,490,000 | 0.77 |
| 19 | MR TEIK TATT OH | 2,420,000 | 0.75 |
| 20 | ALL-STATES FINANCE PTY LIMITED | 2,371,530 | 0.73 |
| | | 156,502,887 | 48.31 |

**Voting Rights**

On a show of hands every member present in person or by proxy shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for every share except if the issue price has not been paid in full, then the holder is only entitled to a fraction of a vote on that share, being, the quotient of the amount paid up divided by the issue price of that share.

**UNQUOTED SECURITIES AS AT 29 MARCH 2021**

| Class of unquoted securities | No. of securities | No. of holders |
|---|---|---|
| - Unlisted options exercisable at A$0.30 expiring 30 December 2021 | 1.300,000 | 9 |
| - Unlisted options exercisable at A$0.30 expiring 30 December 2021 | 600,000 | 1 |
| - Unlisted options exercisable at A$0.32 expiring 31 December 2021 | 12,000,000 | 1 |
| - Unlisted options exercisable at A$0.30 expiring 30 December 2022 | 1,700,000 | 11 |
| - Unlisted options exercisable at $0.60 expiring 30 December 2022 | 2,800,000 | 2 |
| - Unlisted Performance Rights | 8,276,771 | 5 |
| - Unlisted Service Rights | 1,838,558 | 3 |
| - Unlisted Restricted Rights | 1,019,753 | 2 |

**Voting Rights**

There are no voting rights attached to any of the unquoted securities listed above

**LIST OF MINERAL LEASES – USA AND AUSTRALIA**

A full list of the mineral (oil & gas) leases and rights of way held by the Company was announced on the Australian Securities Exchange on 31 March 2021. Given the extensive list it was not practical to include this listing in the Annual Report of the Company.

**CORPORATE GOVERNANCE STATEMENT**

The Company's corporate governance statement can be found on the Company's website at the following location: [http://empireenergygroup.net/company-overview/corporate-governance](http://empireenergygroup.net/company-overview/corporate-governance)