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2022 HALF YEAR FINANCIAL REPORT

Empire Energy Group Limited

ABN 29 002 148 361



Empire Energy Group Limited and its controlled entities

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30 June 2022

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Empire Energy Group Limited and its controlled entities
Corporate directory
30 June 2022

Directors	Paul Espie AO (Chairman) Alexander Underwood (Managing Director) Peter Cleary Paul Fudge Jacqui Clarke (Alternate Director to Paul Fudge) Louis Rozman Prof John Warburton
Company Secretary	Ben Johnston
Registered Office	Level 17 123 Pitt Street Sydney, NSW 2000
Share Registry	Computershare Investors Services Pty Limited Level 3 60 Carrington Street Sydney NSW 2000
Australian Auditor	Nexia Sydney Audit Pty Ltd Level 16 1 Market Street Sydney NSW 2000
US Auditor	Schneider Downs & Co. Inc One PPG Place Suite 1700 Pittsburgh PA 15222
Australian Solicitors	Baker McKenzie Level 46, Tower One International Towers Sydney 100 Barangaroo Avenue Barangaroo NSW 2000
US Solicitors	Depew Rathbun & Gillen McInteer, LLC 8301 East 21st Street North Suite 450, Wichita KS 67206-2936
Bankers	Macquarie Bank Limited 50 Martin Place Sydney NSW 2000 Australia & New Zealand Banking Group Limited 1 Chifley Plaza Sydney NSW 200 PNC Bank 249 Fifth Avenue One PNC Plaza Pittsburgh PA 15222
Stock Exchange Listing	Empire Energy Group Limited shares are listed on: Australian Securities Exchange (ASX code: EEG) New York OTC Market (Code: EEGNY) OTC#: 452869103 Sponsor: Bank of New York 1 ADR for 20 Ordinary Shares
Website	www.empireenergygroup.net

REPORT OF CHAIRMAN AND MANAGING DIRECTOR TO SHAREHOLDERS

Dear Shareholders,

We are pleased with the Company's accomplishments and financial half-year results for the period ending 30 June 2022.

Empire Energy Group Limited ("Empire") has made good progress over the last six months as we pursue our objective to reach production and commercial cash flow. Achievements include:

1. In August 2022, Empire reported strong gas flow rates at Carpentaria-2H ("C-2H") with minimal decline. Encouragingly, C-2H did not require any artificial lift, such as nitrogen, demonstrating strong reservoir drive. Extended production testing ("EPT") of C-2H resulted in an average gas flow rate of 2.4 mmscf / day over the first 30 days of testing (representing a normalised rate of 2.6 mmscf / day per 1,000 metre horizontal section). C-2H is currently flowing at 2.1 mmscf / day. The principal objectives of C-2H stimulation and flow testing are to assess which of the four fluid systems trailed (crosslink, HVFR, hybrid and slickwater) provides the best production performance in the Beetaloo Sub-basin's shales and to optimise our completion methodology for future wells.
2. In February 2022, Empire announced an update to its Beetaloo Sub-basin Contingent and Prospective Resources following our successful 2021 Beetaloo work program.

During 2021 Empire completed production testing of Carpentaria-1, drilled C-2H and acquired the Charlotte 2D seismic survey which resulted in a substantial increase in resources for EP187 as independently assessed by Netherland, Sewell & Associates Inc ("NSAI"). Empire reported maiden 1C Contingent Resources of 81 BCF and an increase to 2C and 3C Contingent Resources to 396 BCF (from 41 BCF) and 1,292 BCF (from 86 BCF), respectively for EP187. Empire's total Beetaloo 2C Contingent Resources are now 554 BCF.

3. In February 2022, Empire's wholly owned subsidiary, Imperial Oil & Gas Pty Limited, executed replacement agreements with the Australian Government under the *Beetaloo Cooperative Drilling Program* (the "Program") for the provision of up to \$19.4 million in grant funding which will offset 25% of the cost of seismic acquisition and the drilling, fracture stimulation and flow testing of three horizontal appraisal wells in Empire's 100% owned EP187 tenement. During the half-year, Empire received progress payments totalling \$5.4 million (ex-GST) in cash under the Program. We expect to receive further progress payments in H2 2022 which will support our Beetaloo work programs.
4. The balance sheet was strengthened over the financial half-year with a capital raising of \$30.5 million (gross) in fresh equity investment at \$0.22 per share. The raising involved a single tranche placement that raised \$27.5 million (gross), a placement to Directors that raised \$520,000 and a Share Purchase Plan ("SPP") that raised \$2.5 million (gross). Following shareholder approval at Empire's recent General Meeting, participants in the capital raisings received one (1) free attaching option for every two (2) shares subscribed for in the raise. The free attaching options are exercisable at \$0.35 per share on or before their expiry on 14 June 2024. Empire is now fully funded for the drilling, fracture stimulation and flow testing of the Carpentaria-3H ("C-3H") well and the drilling of the Carpentaria-4V vertical well in EP187 in H2 2022 with all Northern Territory environmental approvals in place.
5. Mr Robin Polson joined the Empire management team as Chief Financial Officer based in Sydney. Mr Polson has been deeply involved in the development of the Australian east coast gas industry for over 20 years. His extensive knowledge of the gas industry and relationships will be integral to Empire as we seek to develop our Beetaloo footprint through to production.

Northern Territory Update

Over this half year, the Empire management, technical and field teams have been focused on the hydraulic stimulation and flow test of C-2H our first horizontal appraisal well. Empire successfully hydraulically stimulated 21 stages in C-2H. C-2H was the longest horizontal well drilled to date in the Beetaloo Sub-basin and we understand that the stimulation of C-2H was the largest in Australian history, both significant milestones for a company of our size and a credit to the team. Empire has placed 11 gas tracers across the C-2H horizontal wellbore which will measure the production performance of the various stages to demonstrate the relative contribution of each stage to overall production, providing a good indication of which fluid mixes and perforation designs are most productive. This represents important research and development as Empire seeks to demonstrate the commercial productivity of the Beetaloo's gas bearing shales.

The lessons learned from C-2H will be applied at Carpentaria-3H ("C-3H") aiming to drive improved fracture stimulation effectiveness and stronger production rates in that well and future wells, consistent with the learning curves that were achieved across the major US shale basins.

Neighbouring operators Origin Energy, Santos and Tamboran Resources have also been active over the 2022 dry season. Activities across the Beetaloo further enhance technical understanding which is important as the industry seeks to collaborate to accelerate achievement of optimal flow rates.

Key 2022 activities from neighbouring operations include:

1. The Origin / Falcon Oil & Gas joint venture has stated that the objective of its current Stage 3 work programme commencing in 2022 is to support a multi-well pilot programme in 2023/24. The Stage 3 planned work programme includes:
 - a. the acquisition of a 58-kilometre line of 2D seismic on the Amungee NW-1H well lease area;
 - b. drilling one ~1,000 metre horizontal well on the Amungee NW-1H pad, targeting the Velkerri B Shale;
 - c. drilling a further well with a vertical pilot hole and a ~1,000 metre horizontal well also targeting the Velkerri B Shale, ~10kilometers from the Amungee well pad; and
 - d. completing 15 fracture stimulation stages on both horizontal wells with EPT of up to 180 days. ¹
2. The Santos / Tamboran Resources joint venture has continued EPT activities at the Tanumbirini-2H ("T-2H") and Tanumbirini-3H ("T-3H") wells following the installation of production tubing and an extended period of "shut-in" of the wells. T-2H and T-3H achieved average 30-day ("IP30") flow rates that exceeded Tamboran's assessed commerciality threshold of 3.1 mmscf / per day and 2.1 mmscf / per day, respectively. These rates are strong performance indicators for the Velkerri Formation generally. ²
3. Tamboran as Operator of EP136 recently acquired 85kilometers of 2D seismic and expects to commence drilling the Maverick-1H well in September 2022. ³

¹ <https://falconoilandgas.com/company-presentations/>

² Tamboran Resources Limited, ASX announcement of 5 September 2022

³ Tamboran Resources Limited, ASX announcement of 12 August 2022

Looking Ahead

Empire continues the extended production test at C-2H. The average production rate for IP30 was 2.4 mmscf per day (a normalised rate of 2.6 mmscf per day / 1,000 meter horizontal section). The well was producing at a rate of 2.1 mmscf per day on day 30, with the rate of production decline lower than other analogue wells. Gas composition data confirms significant methane and ethane contribution with very low CO₂ (0.88%).

As we look forward to the rest of 2022, Empire is focused on the drilling, hydraulic stimulation and flow testing of C-3H and drilling of the vertical Carpentaria-4V ("C-4V") in EP187. On-ground civil works have commenced, and Empire is well placed to meet its timeline to complete the work program ahead of the wet season.

C-3H will be drilled from the same well pad as C-2H and will aim to continue improving production performance incorporating the learnings from C-2H with a longer horizontal section to access more of the Velkerri Shale in a single horizontal wellbore. C-4V will be drilled as a vertical well in the adjoining fault block to existing EP187 wells and will seek to prove the existence of the same Velkerri Shales in the Carpentaria East Area to uplift Contingent Resources across EP187. C-4V will be designed to allow a future horizontal section to be drilled later.

Global gas prices remain at record highs with supply into Europe remaining insecure. European electricity prices are also trading at stratospheric levels. Russia continues to use its gas tactically in its combat with Ukraine, impacting wider European markets. The decision by Russia to halt gas supplies through the Nord Stream 1 pipeline in August has heightened the need for the world to develop gas resources in other jurisdictions such as Australia to support their economies through LNG imports.

The Beetaloo stands as a world-class gas resource, strategically located on Asia's doorstep ready to meet this challenge.

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

Yours sincerely,



Paul Espie AO
Chairman
Empire Energy Group Limited



Alex Underwood
Managing Director
Empire Energy Group Limited

OPERATIONS REVIEW

A. 2022 OVERVIEW & HIGHLIGHTS

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

GROUP FINANCIAL HIGHLIGHTS

- Group Revenue \$6.3 million (June 2021: \$3.1 million)
- Net production 4,472 Mcfe per day (2021: 4,521 Mcfe per day)
- Outstanding debt US\$5.6 million (Dec 2021: US\$5.8 million)
- Cash at bank \$44.8 million (Dec 2021: \$25.7 million)

AUSTRALIA – NORTHERN TERRITORY

- Empire holds a 100% working interest and operatorship in approximately 28.9 million acres of petroleum exploration tenements across the McArthur Basin and its Beetaloo Sub-basin in onshore Northern Territory, Australia
- In February 2022, Empire announced maiden 1C Contingent Resources of 81 BCF, 2C Contingent Resources of 396 BCF and 3C Contingent Resources of 1,292 BCF for EP187 following completion of an updated independent resource report as assessed by NSAI.
- Also in February 2022, Empire's wholly owned subsidiary, Imperial Oil & Gas Pty Limited executed replacement grant agreements with the Australian Government totalling up to \$19.4 million which will offset 25% of the cost of seismic acquisition and the drilling, fracture stimulation and flow testing of three horizontal appraisal wells in its 100% owned EP187 tenement, located in the Beetaloo Sub-basin, Northern Territory.
- In May 2022, Empire announced that civil works for hydraulic stimulation of C-2H had been completed and mobilisation of equipment was underway. Baseline water sampling of the shallow aquifers as required by NT environmental approvals was undertaken.
- In June 2022, Empire announced it had successfully raised \$27.5 million (gross) via a single-tranche placement to existing and new institutional and sophisticated investors at \$0.22 per share. Strategic investor Bryan Sheffield provided cornerstone support with a \$7 million investment (Mr Sheffield was previously Chairman, CEO & Founder of Parsley Energy Inc, a major independent shale player in the Permian Basin, Texas which was later acquired by Pioneer Natural Resources Inc.). Empire Directors committed an additional \$520,000.
- Empire also launched a Share Purchase Plan ("SPP") during June 2022 to raise \$2.5 million. This allowed all Empire shareholders the opportunity to participate in the capital raise on the same terms as sophisticated and institutional shareholders. The SPP was fully underwritten by Blue Ocean Equities Pty Limited.

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Testing crosslink hydraulic stimulation fluid during Carpentaria-2H operations



Carpentaria-2H high-pressure hydraulic stimulation wellhead



Schlumberger hydraulic fracturing spread at Carpentaria-2H well pad



Empire Chief Geoscientist, Dr Alex Bruce, and Chairman, Paul Espie AO, at Carpentaria-2H site

USA – APPALACHIA

- Empire's Appalachia operations had strong operational performance throughout the financial half-year with minimal production decline and minimal capital investment.
- Empire's Appalachia operations have benefited from strong Henry-Hub gas prices during the financial half-year. NYMEX Henry-Hub futures, against which much of Empire's gas production is priced, are trading at ~US\$8.00 MMBtu at the time of writing driven by tight global markets following Russia's invasion of Ukraine and the resulting growth in LNG exports. The Henry-Hub forward curve suggests that strong gas prices will continue over the Northern Hemisphere winter months and beyond.
- Net gas production of 802,799 Mcf (2021: 810,634 Mcf) reflects some natural field decline.
- Net oil production of 1,117 Bbls (2021: 1,287 Bbls) reflects timing of oil sales and prices.

B. CREDIT FACILITY

The outstanding balance of Macquarie Bank Limited Credit Facility as at 30 June 2022 was US\$5.575 million (cf US\$5.85 million at December 2021). Total repayments of US\$275,000 were made during the financial half-year.

The Company's Credit Facility with Macquarie Bank Limited has the following key terms:

Principal Amount	US\$7.5 million (\$1.925 availability)
Term	5 years
Interest Rate	LIBOR + 650 bps
Repayment Terms	100% of Appalachia Net Operating Cashflow subject to minimum amortisation of US\$550,000 per annum
Hedging	Empire shall maintain a rolling hedging program whereby 55% of forecast Proved Developed Producing Reserves shall be hedged for 3 years
Key Covenants	Proved Developed Producing Reserves PV10 / Net Debt > 1.3x Current Ratio > 1.0x Working capital > 0

C. HEDGING

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

The fair value (marked to market) of combined oil and gas hedges in place as at 30 June 2022 was US\$68,127.

D. BUSINESS RISK

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 of 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. This facility matures in September 2024 and will need to be repaid or refinanced prior to maturity.

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 hydrocarbons. 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 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. It could adversely impact the value of the Company.

Climate Change Risk – Empire recognises the science supporting climate change and that the world is transitioning to a lower carbon economy in which gas has a crucial role to play. Climate change and management of future carbon emissions may lead to increasing regulation, activism, litigation and costs. Climate change may also have a direct physical impact on our operators e.g. through changing climate patterns such as wet seasons and increased frequency of large storms.

Empire Energy Group Limited and its controlled entities

Directors' report

30 June 2022

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Empire Group') consisting of Empire Energy Group Limited (referred to hereafter as the 'Company' or 'Parent Entity' or 'Empire') and the entities it controlled at the end of, or during, the half-year ended 30 June 2022.

Directors

The following persons were Directors of the Company during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Paul Espie AO	Non-Executive Director and Chairman
Alexander Underwood	Managing Director
Peter Cleary	Non-Executive Director
Paul Fudge	Non-Executive Director
Jacqui Clarke	Non-Executive Director – Alternate Director to Paul Fudge
Louis Rozman	Non-Executive Director
Prof John Warburton	Non-Executive Director

Principal activities

During the financial half-year the principal continuing activities of the Group 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 half year include the preparation for the hydraulic stimulation of Carpentaria-2H, and the commencement of procurement and design for drilling and hydraulic stimulation of Carpentaria-3H horizontal well and drilling of Carpentaria-4V vertical well in EP187.
- 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.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$2,389,297 (30 June 2021: \$6,288,364).

For information on a review of the Empire Group's operations refer to the Operations review prior to the Directors' report.

Business risks

Refer to the Operations review for details of the Group's business risks.

Significant changes in the state of affairs

- (1) On 16 February 2022, Empire announced that the successful 2021 Beetaloo work program had resulted in a substantial increase in Contingent and Prospective resources independently assessed by Netherland, Sewell & Associates Inc for EP187.
- (2) On 18 February 2022, Empire issued 993,774 Performance Rights and 568,778 Restricted Rights to its employees for the 2021 financial year.
- (3) On 23 February 2022, Empire provided an update regarding grants awarded under the Australian Government's Beetaloo Cooperative Drilling Program. Empire's wholly owned subsidiary, Imperial Oil & Gas Pty Limited, had executed replacement grant agreements with the Australian Government totalling up to \$19.4 million which would offset 25% of the cost of seismic acquisition and the drilling, fracture stimulation and flow testing of three horizontal appraisal wells in its 100% owned EP187 tenement, located in the Beetaloo Sub-basin, Northern Territory.
- (4) On 18 February 2022, Empire issued 1,200,000 ordinary shares following the exercise of 1,200,000 unlisted options at \$0.30 per share. The proceeds of the conversion of the options to shares were \$360,000.
- (5) During the half-year Empire executed three fixed price swaps with EnergyMark LLC, its largest gas customer in the USA. The terms of the swaps are: 1 April 2022 to 30 September 2022 (50,000 mmbtu per month at US\$4.21), 1 October 2022 to 31 March 2023 (50,000 mmbtu per month at US\$5.35) and 1 June 2022 to 28 February 2023 (25,000 mmbtu per month at US\$7.21) referenced against NYMEX Henry Hub.

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

Empire Energy Group Limited and its controlled entities
Directors' report
30 June 2022

Matters subsequent to the end of the financial half-year

On 19 July 2022, Empire issued 11,363,702 ordinary shares at \$0.22 per share following completion of Share Purchase Plan to raise \$2,500,000 (gross) in cash.

On the 12 August 2022, Empire issued prospectus for the offer of Attaching Options to Eligible Recipients on the basis of one (1) free Attaching Option for every two (2) Shares issued under the Placement, Director Placement and/or Share Purchase Plan.

On the 9 September 2022, Empire issued 69,227,558 unlisted options for every two shares subscribed for by participants under the Placement ("Attaching Options"). The Attaching Options will be exercisable at \$0.35 and expire two years from the date of allotment of Shares under the Placement.

Empire also issued 2,363,638 ordinary shares to Director's to raise \$520,000 at \$0.22 per share on the same terms as the Placement.

On the 9 September 2022, Empire issued 131,493 Restricted Rights to Mr Espie AO and Mr Cleary for Directors fees in lieu of cash for Q2 2022.

On the 12 September 2022, Empire announced C-2H average production rate over the first 30 days of testing was 2.4 mmscf per day (a normalised rate of 2.6 mmscf per day / 1,000m horizontal section). The well was producing at a rate of 2.1 mmscf per day on day 30, with the rate of production decline reducing with the early type curve flattening, at a lower rate of decline than other wells currently flow testing in the Beetaloo.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Alexander Underwood
Managing Director

13 September 2022
Sydney

13 September 2022

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

To the Board of Directors of Empire Energy Group Limited

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

As lead audit director for the review of the financial statements of Empire Energy Group Limited for the six-month period ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



Nexia Sydney Audit Pty Ltd



Joseph Santangelo
Director

Empire Energy Group Limited and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2022

		Consolidated	Consolidated
	Note	Half-year ended 30 June 2022 \$	Half-year ended 30 June 2021 \$
Sales revenue	4	6,267,624	3,123,073
Cost of sales		<u>(2,704,788)</u>	<u>(2,293,955)</u>
Gross profit		3,562,836	829,118
Other income	5	53,355	122,403
Interest revenue calculated using the effective interest method		13,669	5,739
Expenses			
Exploration expenses		(659,483)	(566,860)
General and administration expenses	6	(3,818,337)	(3,963,407)
Depreciation and amortisation		(646,446)	(1,634,607)
Finance costs	6	<u>(776,544)</u>	<u>(977,282)</u>
Loss before income tax expense		(2,270,950)	(6,184,896)
Income tax expense		<u>(118,347)</u>	<u>(103,468)</u>
Loss after income tax expense for the half-year attributable to the owners of Empire Energy Group Limited		(2,389,297)	(6,288,364)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>15,481</u>	<u>32,243</u>
Other comprehensive income for the half-year, net of tax		<u>15,481</u>	<u>32,243</u>
Total comprehensive loss for the half-year attributable to the owners of Empire Energy Group Limited		<u>(2,373,816)</u>	<u>(6,256,121)</u>
		Cents	Cents
Basic earnings per share	8	(0.38)	(1.90)
Diluted earnings per share	8	(0.38)	(1.90)

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

Empire Energy Group Limited and its controlled entities
Consolidated statement of financial position
As at 30 June 2022

		Consolidated	
	Note	30 June 2022	31 December 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		44,780,368	25,649,699
Trade and other receivables	7	5,199,624	5,359,851
Prepayments		407,278	267,624
Inventories		55,088	44,604
Derivative financial instruments		53,944	244,171
Total current assets		<u>50,496,302</u>	<u>31,565,949</u>
Non-current assets			
Derivative financial instruments		44,949	106,360
Oil and gas properties	9	37,220,261	34,808,232
Property, plant and equipment	10	545,261	645,163
Exploration and evaluation assets	11	94,268,730	90,849,806
Right-of-use assets		107,979	752,993
Intangibles assets		99,023	94,015
Total non-current assets		<u>132,286,203</u>	<u>127,256,569</u>
Total assets		<u>182,782,505</u>	<u>158,822,518</u>
Liabilities			
Current liabilities			
Trade and other payables	12	8,224,256	11,568,698
Borrowings	13	8,092,625	8,027,261
Lease liabilities		119,134	439,926
Provisions	14	235,030	213,482
Total current liabilities		<u>16,671,045</u>	<u>20,249,367</u>
Non-current liabilities			
Lease liabilities		49,497	389,341
Provisions	14	32,188,865	28,863,656
Total non-current liabilities		<u>32,238,362</u>	<u>29,252,997</u>
Total liabilities		<u>48,909,407</u>	<u>49,502,364</u>
Net assets		<u>133,873,098</u>	<u>109,320,154</u>
Equity			
Contributed equity	15	253,070,978	220,905,029
Contributed equity - unissued	15	-	5,629,437
Reserves	16	9,925,881	9,520,152
Accumulated losses		(129,123,761)	(126,734,464)
Total equity		<u>133,873,098</u>	<u>109,320,154</u>

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

Empire Energy Group Limited and its controlled entities
Consolidated statement of changes in equity
For the half-year ended 30 June 2022

Consolidated	Issued Capital \$	Unissued Shares \$	Reserves \$	Accumulated Losses \$	Total equity \$
Balance at 1 January 2021	139,060,493	-	6,862,086	(115,686,855)	30,235,724
Loss after income tax expense for the half-year	-	-	-	(6,288,364)	(6,288,364)
Other comprehensive income for the half-year, net of tax	-	-	32,243	-	32,243
Total comprehensive income/(loss) for the half-year	-	-	32,243	(6,288,364)	(6,256,121)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	-	1,000,801	-	1,000,801
Issue of ordinary shares	37,182,156	-	-	-	37,182,156
Less: share issue transaction costs	(1,728,742)	-	-	-	(1,728,742)
Balance at 30 June 2021	174,513,907	-	7,895,130	(121,975,219)	60,433,818
Consolidated	Issued Capital \$	Unissued Shares \$	Reserves \$	Accumulated Losses \$	Total equity \$
Balance at 1 January 2022	220,905,029	5,629,437	9,520,152	(126,734,464)	109,320,154
Loss after income tax expense for the half-year	-	-	-	(2,389,297)	(2,389,297)
Other comprehensive income for the half-year, net of tax	-	-	15,481	-	15,481
Total comprehensive income/(loss) for the half-year	-	-	15,481	(2,389,297)	(2,373,816)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 15)	32,165,949	(5,629,437)	-	-	26,536,512
Share-based payments	-	-	390,248	-	390,248
Balance at 30 June 2022	253,070,978	-	9,925,881	(129,123,761)	133,873,098

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

Empire Energy Group Limited and its controlled entities
Consolidated statement of cash flows
For the half-year ended 30 June 2022

	Note	Consolidated Half-year ended 30 June 2022 \$	Half-year ended 30 June 2021 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		5,223,427	3,377,217
Payments to suppliers (inclusive of GST)		(11,777,976)	(4,900,918)
Government grants		5,401,171	-
Interest received		13,669	5,739
Interest and other finance costs paid		(301,671)	(292,612)
Income taxes paid		(118,347)	(103,468)
Net cash used in operating activities		<u>(1,559,727)</u>	<u>(1,914,042)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(21,257)	(66,113)
Payments for exploration and evaluation assets		(5,618,399)	(5,696,970)
Proceeds from disposal of property, plant and equipment		-	5,184
Net cash used in investing activities		<u>(5,639,656)</u>	<u>(5,757,899)</u>
Cash flows from financing activities			
Net proceeds from issue of shares	15	26,536,512	35,453,414
Proceeds from borrowings		-	446,120
Repayments of interest-bearing liabilities		399,187	(351,148)
Repayment of lease liabilities		(164,558)	(185,911)
Net cash from financing activities		<u>26,771,141</u>	<u>35,362,475</u>
Net increase in cash and cash equivalents		19,571,758	27,690,534
Cash and cash equivalents at the beginning of the financial half-year		25,649,699	14,145,866
Effects of exchange rate changes on cash and cash equivalents		(441,089)	(156,568)
Cash and cash equivalents at the end of the financial half-year		<u><u>44,780,368</u></u>	<u><u>41,679,832</u></u>

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

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 1. General information

The financial statements cover Empire Energy Group Limited as a Group consisting of Empire Energy Group Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Empire Energy Group Limited's functional and presentation currency.

Empire Energy Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 17
123 Pitt Street
Sydney, NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 13 September 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Note 3. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments:

- 1) US Operations,
- 2) Northern Territory, and
- 3) Corporate.

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 3. Operating segments (continued)

Operating segment information

Consolidated - Half-year ended 30 June 2022	US Operations	Northern Territory	Corporate	Eliminations	Total
	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	6,267,624	-	-	-	6,267,624
Intersegment sales	-	-	1,951,319	(1,951,319)	-
Total sales revenue	6,267,624	-	1,951,319	(1,951,319)	6,267,624
Other income	67,024	-	-	-	67,024
Interest income (external)	-	358	1,321	(358)	1,321
Total revenue	6,334,648	358	1,952,640	(1,951,677)	6,335,969
EBITDA	2,865,193	(2,955,307)	(255,139)	(111,138)	(456,391)
Share-based payments	-	-	(390,248)	-	(390,248)
Depreciation and amortisation	(523,342)	(10,065)	(113,039)	-	(646,446)
Interest expense (external)	(280,769)	-	(8,554)	-	(289,323)
Finance costs non-cash	(488,542)	-	-	-	(488,542)
Interest expense (internal)	(1,182,000)	(2,021,641)	3,203,641	-	-
Profit/(loss) before income tax expense	390,540	(4,987,013)	2,436,661	(111,138)	(2,270,950)
Income tax expense					(118,347)
Loss after income tax expense					(2,389,297)
Assets					
Segment assets	45,527,425	97,736,408	237,522,270	(198,003,598)	182,782,505
Total assets					182,782,505
Liabilities					
Segment liabilities	72,422,769	131,091,621	988,124	(155,593,107)	48,909,407
Total liabilities					48,909,407

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 3. Operating segments (continued)

	US Operations	Northern Territory	Corporate	Eliminations	Total
	\$	\$	\$	\$	\$
Consolidated - Half-year ended 30 June 2021					
Revenue					
Sales to external customers	3,123,073	-	-	-	3,123,073
Intersegment sales	-	-	2,122,136	(2,122,136)	-
Total sales revenue	3,123,073	-	2,122,136	(2,122,136)	3,123,073
Other income	128,142	-	-	-	128,142
Interest income (external)	-	185	4,789	-	4,974
Intersegment interest income	-	-	2,283,408	(2,283,408)	-
Total revenue	3,251,215	185	4,410,333	(4,405,544)	3,256,189
EBITDA	(660,339)	(4,025,489)	2,118,597	-	(2,567,231)
Depreciation and amortisation	(433,757)	(13,956)	(132,613)	-	(580,326)
Unrealised loss on derivatives	(1,054,281)	-	-	-	(1,054,281)
Share-based payments	-	-	(1,000,801)	-	(1,000,801)
Interest expense (external)	(278,212)	-	(13,636)	-	(291,848)
Finance costs - non-cash	(690,409)	-	-	-	(690,409)
Profit/(loss) before income tax expense	(3,116,998)	(4,039,445)	971,547	-	(6,184,896)
Income tax expense					(103,468)
Loss after income tax expense					(6,288,364)
Consolidated - 31 December 2021					
Assets					
Segment assets	40,731,366	93,999,011	206,535,235	(182,443,094)	158,822,518
Total assets					158,822,518
Liabilities					
Segment liabilities	67,782,221	122,367,210	1,577,620	(142,224,687)	49,502,364
Total liabilities					49,502,364

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 4. Sales revenue

	Consolidated	Consolidated
	Half-year	Half-year
	ended 30	ended 30
	June 2022	June 2021
	\$	\$
Revenue from oil and gas sales	6,002,664	2,846,672
Revenue from well operations	264,960	161,349
Oil and gas price risk management income	-	115,052
	<u>6,267,624</u>	<u>3,123,073</u>

	Consolidated	Consolidated
	Half-year	Half year
	ended 30	ended 30
	June 2022	June 2021
	\$	\$
<i>Major product lines</i>		
Oil	161,552	103,870
Gas	5,841,112	2,778,118
Other	264,960	241,085
	<u>6,267,624</u>	<u>3,123,073</u>

The Group's total revenue are all generated in the USA and recognised at a point in time.

Note 5. Other income

	Consolidated	Consolidated
	Half-year	Half-year
	ended 30	ended 30
	June 2022	June 2021
	\$	\$
Government stimulus packages	-	116,856
Other	53,355	5,547
	<u>53,355</u>	<u>122,403</u>
Other income	<u>53,355</u>	<u>122,403</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 6. Expenses

	Consolidated Half-year ended 30 June 2022 \$	Consolidated Half-year ended 30 June 2021 \$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Depreciation - oil and gas properties (note 9)	354,543	311,280
Depreciation - property, plant and equipment (note 10)	142,967	82,577
Depreciation - right-of-use assets	148,936	186,469
	<u>646,446</u>	<u>580,326</u>
<i>General and Administration expenses</i>		
Salaries and wages - Australia	938,102	1,053,983
Other advisory fees	222,935	483,185
Other overhead	2,575,275	2,200,768
Insurance	82,025	225,471
	<u>3,818,337</u>	<u>3,963,407</u>
<i>Finance costs</i>		
Interest paid/payable on financial liabilities	288,002	286,873
Unwinding of the discount	37,371	319,790
Accretion of asset retirement obligation	451,171	370,619
	<u>776,544</u>	<u>977,282</u>
Defined contribution superannuation expense	82,818	64,791
Salaries and wages	855,284	989,192
	<u>938,102</u>	<u>1,053,983</u>

Note 7. Trade and other receivables

	Consolidated 30 June 2022 \$	Consolidated 31 December 2021 \$
<i>Current assets</i>		
Trade receivables	4,408,985	3,077,852
Other receivables	651,492	871,404
GST receivable	139,147	1,410,595
	<u>5,199,624</u>	<u>5,359,851</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 8. Earnings per share

	Consolidated Half-year ended 30 June 2022 \$	Consolidated Half-year ended 30 June 2021 \$
Loss after income tax attributable to the owners of Empire Energy Group Limited	<u>(2,389,297)</u>	<u>(6,288,364)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>629,375,291</u>	<u>331,726,838</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>629,375,291</u>	<u>331,726,838</u>
	Cents	Cents
Basic earnings per share	(0.38)	(1.90)
Diluted earnings per share	(0.38)	(1.90)

14,196,970 options (30 June 2021: 18,400,000), 7,624,768 Performance Rights (30 June 2021: 8,276,771), 2,438,558 Service Rights (30 June 2021: 2,438,558) and 3,906,451 Restricted Rights (30 June 2021: 3,137,552) have been excluded from the above calculation as their inclusion would be anti-dilutive.

Note 9. Oil and gas properties

	Consolidated 30 June 2022 \$	Consolidated 31 December 2021 \$
<i>Non-current assets</i>		
Oil and gas - Producing	92,893,040	84,911,695
Less: Accumulated depreciation	<u>(58,833,082)</u>	<u>(53,103,922)</u>
	<u>34,059,958</u>	<u>31,807,773</u>
Oil and gas - Non Producing	<u>3,160,303</u>	<u>3,000,459</u>
	<u>37,220,261</u>	<u>34,808,232</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Oil and Gas - Producing \$	Oil and Gas - Non Producing \$	Total \$
Balance at 1 January 2022	31,807,773	3,000,459	34,808,232
Exchange differences	2,606,728	159,844	2,766,572
Depletion	<u>(354,543)</u>	<u>-</u>	<u>(354,543)</u>
Balance at 30 June 2022	<u>34,059,958</u>	<u>3,160,303</u>	<u>37,220,261</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 10. Property, plant and equipment

	Consolidated 30 June 2022	31 December 2021
	\$	\$
<i>Non-current assets</i>		
Land - at cost	7,258	6,891
Buildings - at cost	327,529	310,963
Less: Accumulated depreciation	(114,031)	(103,200)
	<u>213,498</u>	<u>207,763</u>
Equipment - at cost	2,171,164	2,272,090
Less: Accumulated depreciation	(1,950,710)	(1,951,063)
	<u>220,454</u>	<u>321,027</u>
Motor vehicles - at cost	827,391	780,907
Less: Accumulated depreciation	(723,340)	(671,425)
	<u>104,051</u>	<u>109,482</u>
	<u><u>545,261</u></u>	<u><u>645,163</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Land \$	Buildings \$	Equipment \$	Motor Vehicles \$	Total \$
Balance at 1 January 2022	6,891	207,763	321,027	109,482	645,163
Additions	-	-	8,892	12,365	21,257
Exchange differences	367	10,841	8,420	2,180	21,808
Depreciation expense	-	(5,106)	(117,885)	(19,976)	(142,967)
Balance at 30 June 2022	<u><u>7,258</u></u>	<u><u>213,498</u></u>	<u><u>220,454</u></u>	<u><u>104,051</u></u>	<u><u>545,261</u></u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 11. Exploration and evaluation assets

	Consolidated 30 June 2022	31 December 2021
	\$	\$
<i>Non-current assets</i>		
Capitalised exploration and evaluation assets	<u>94,268,730</u>	<u>90,849,806</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Exploration and Evaluation \$
Balance at 1 January 2022	90,849,806
Additions	8,820,095
Government grants	<u>(5,401,171)</u>
Balance at 30 June 2022	<u>94,268,730</u>

Note 12. Trade and other payables

	Consolidated 30 June 2022	31 December 2021
	\$	\$
<i>Current liabilities</i>		
Trade payables	7,340,993	8,374,461
Accruals	844,267	1,806,704
Other payables	<u>38,996</u>	<u>1,387,533</u>
	<u>8,224,256</u>	<u>11,568,698</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 13. Borrowings

	Consolidated 30 June 2022	31 December 2021
	\$	\$
<i>Current liabilities</i>		
Bank loan	<u>8,092,625</u>	<u>8,027,261</u>

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 facility consisting of the following, as restated in October 2018 and and amended in September 2019, which matures in September 2024 with a bank that is a minority owner in the Company. Interest accrued on the outstanding borrowings at the 30-Day LIBOR (1.80% at 30 June 2022) plus 6.5%. At 30 June 2022, the Company's rate option was the 30-day LIBOR.

Outstanding borrowings under the agreement are secured by the assets of the company. Under the 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 during the six months ended 30 June 2022 and 2021 were approximately US\$275,000 and US\$412,000, respectively. The Company was compliant with all financial covenants as of 30 June 2022.

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\$1,649,990 on 31 December 2021.

The credit facility balance on 30 June 2022 was US\$5,575,010 (A\$8,092,625) (31 December 2021: US\$5,850,010 (A\$8,027,261)).

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

Principal Amount	US\$7.5 million (availability and outstanding loan balance US\$5.85 million)
Term	5 years
Interest Rate	LIBOR + 650 bps
Repayment Terms	100% of Appalachia net operating cashflow subject to minimum amortisation of US\$550,000 per annum
Hedging	Empire shall maintain a rolling hedging program whereby 55% of forecast Proved Developed Producing Reserves production shall be hedged for 3 years
Key Covenants	Proved Developed Producing Reserves PV10 / Net Debt > 1.3x Current Ratio > 1.0x Working capital > 0

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 13. Borrowings (continued)

Debt summary

	30 June 2022 \$	31 December 2021 \$
Facility	5,575,010	5,850,010
Less deferred financing costs, net	-	(25,429)
Total Debt in USD	<u>5,575,010</u>	<u>5,824,581</u>
Total Debt in AUD	<u>8,092,625</u>	<u>8,027,261</u>

Note 14. Provisions

	Consolidated 30 June 2022 \$	31 December 2021 \$
<i>Current liabilities</i>		
Employee benefits	235,030	213,482
<i>Non-current liabilities</i>		
Provision for rehabilitation (Northern Territory)	1,119,537	701,875
Asset retirement obligations (USA)	31,069,328	28,161,781
	<u>32,188,865</u>	<u>28,863,656</u>
	<u>32,423,895</u>	<u>29,077,138</u>

Movements in provisions

Movements in provision for rehabilitation and asset retirement obligations during the current financial half-year, are set out below:

Consolidated - 30 June 2022	Provision for Rehabilitation/ Asset Retirement Obligations \$
Carrying amount at the start of the half-year	28,863,656
Accretion expense for the period, included in finance costs	451,171
Provision for rehabilitation	417,662
Foreign currency translation movements	<u>2,456,376</u>
Carrying amount at the end of the half-year	<u>32,188,865</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 14. Provisions (continued)

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 2048. 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.

Note 15. Contributed equity

	Consolidated			
	30 June 2022	31 December	30 June 2022	31 December
	Shares	2021	\$	2021
		Shares		\$
Ordinary shares - fully paid	759,058,818	612,074,341	253,070,978	220,905,029

	Consolidated			
	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
	Shares	Shares	\$	\$
Unissued ordinary shares	-	20,105,132	-	5,629,437

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2022	612,074,341		220,905,029
Issue of shares on exercise of options	18 February 2022	1,200,000	\$0.300	360,000
Issue of shares on conversion of restricted rights	12 April 2022	679,345	\$0.000	-
Issue of shares on raising capital	10 June 2022	125,000,000	\$0.220	27,500,000
Issue of unissued shares as scrip for asset acquisition	10 June 2022	20,105,132	\$0.000	5,629,437
Share issue transaction costs, net of tax		-	\$0.000	(1,323,488)
Balance	30 June 2022	<u>759,058,818</u>		<u>253,070,978</u>

Movements in unissued ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 January 2022	20,105,132		5,629,437
Issue of unissued shares as scrip for asset acquisition	10 June 2022	<u>(20,105,132)</u>	\$0.000	<u>(5,629,437)</u>
Balance	30 June 2022	<u>-</u>		<u>-</u>

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 15. Contributed equity (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 16. Reserves

	Consolidated 30 June 2022	31 December 2021
	\$	\$
Foreign currency translation reserve	(592,363)	(514,095)
Options reserve	10,337,745	9,853,748
Fair value reserve	180,499	180,499
	<u>9,925,881</u>	<u>9,520,152</u>

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Options reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Fair value reserve

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

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Foreign Currency Translation \$	Options \$	Fair value \$	Total \$
Balance at 1 January 2022	(514,095)	9,853,748	180,499	9,520,152
Foreign currency translation	15,481	-	-	15,481
Share-based payments	-	390,248	-	390,248
Balance at 30 June 2022	<u>(498,614)</u>	<u>10,243,996</u>	<u>180,499</u>	<u>9,925,881</u>

Note 17. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
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Note 18. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 30 June 2022	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Derivative financial instruments	-	98,893	-	98,893
Total assets	-	98,893	-	98,893
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Consolidated - 31 December 2021				
Assets				
Derivative financial instruments	-	350,531	-	350,531
Total assets	-	350,531	-	350,531

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using a discounted cash flow model.

Note 19. Contingent assets

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

Note 20. 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 subject to various federal, state and local laws and regulations relating to the protection of the environment. The Empire Group has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or clean-up is probable, and the costs can be reasonably estimated. The Empire Group maintains insurance that may cover in whole or in part certain environmental expenditures. At 30 June 2022, the Empire Group had \$1,119,537 (31 December 2021: \$701,875) environmental contingencies requiring specific disclosure.

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

Empire Energy Group Limited and its controlled entities
Notes to the consolidated financial statements
30 June 2022

Note 21. Commitments

Exploration and petroleum tenement leases

In order to maintain current rights of tenure to exploration and mining tenements, the Company and the companies in the Group 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 30 June 2022.

Note 22. Events after the reporting period

On 19 July 2022, Empire issued 11,363,702 ordinary shares at \$0.22 per share following completion of Share Purchase Plan to raise \$2,500,000 (gross) in cash.

On the 12 August 2022, Empire issued prospectus for the offer of Attaching Options to Eligible Recipients on the basis of one (1) free Attaching Option for every two (2) Shares issued under the Placement, Director Placement and/or Share Purchase Plan.

On the 9 September 2022, Empire issued 69,227,558 unlisted options for every two shares subscribed for by participants under the Placement ("Attaching Options"). The Attaching Options will be exercisable at \$0.35 and expire two years from the date of allotment of Shares under the Placement.

Empire also issued 2,363,638 ordinary shares to Director's to raise \$520,000 at \$0.22 per share on the same terms as the Placement.

On the 9 September 2022, Empire issued 131,493 Restricted Rights to Mr Espie AO and Mr Cleary for Directors fees in lieu of cash for Q2 2022.

On the 12 September 2022, Empire announced C-2H average production rate over the first 30 days of testing was 2.4 mmscf per day (a normalised rate of 2.6 mmscf per day / 1,000m horizontal section). The well was producing at a rate of 2.1 mmscf per day on day 30, with the rate of production decline reducing with the early type curve flattening, at a lower rate of decline than other wells currently flow testing in the Beetaloo.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Empire Energy Group Limited and its controlled entities
Directors' declaration
30 June 2022

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Alexander Underwood
Managing Director

13 September 2022
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Empire Energy Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Empire Energy Group Limited (the Company and its subsidiaries ("the Group")), which comprises the Statement of Financial Position as at 30 June 2022, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

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

- i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
- iii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of 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 annual 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 review report.

Responsibility of the Directors for the Financial Report

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

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Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Nexia Sydney Audit Pty Ltd



Joseph Santangelo

Director
13 September 2022
Sydney

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