

14th April 2021

Empire Energy Group Ltd

Transformational deal delivers sizeable resource uplift

Empire Energy Group Limited (EEG.ASX) is a junior oil and gas producer and explorer with onshore Northern Territory and US oil & gas assets. EEG has announced a transformational deal to acquire an operated 82.5% interest in five tenements across the Beetaloo Sub-Basin in the Northern Territory. The acquisition, with an estimated value of \$54.7m (based on yesterday's close), will more than double EEG's Prospective Resource to 41 TCFe, comprising 37 TCF gas and 657 MMbbls liquids (condensate and oil). Empire's 2C Contingent Resources have increased more than 350%, comprising 170 BCF gas and 2.9 MMbbls liquids. The liquids offer the potential to substantially enhance the economics of future production via lower drilling costs and liquids "credits". The vendor, Pangaea (NT), will be issued 140m shares in EEG, \$5m cash and 8m unlisted options with an exercise price of \$0.70/share. Pangaea's controlling shareholder, Paul Fudge, a pioneer of Queensland's coal seam gas industry, will join EEG's board. The deal is subject to EEG shareholder and NT Government approvals, with an expected completion of June 2021. EEG is in a trading halt, pending the outcome of a capital raising (estimated at \$30m) to fund the acquisition and future drill program. Details of the capital raise are yet to be released.

Business model

Empire Energy Group (EEG) is a junior oil & gas producer/exploration company, focused on maturing its portfolio of onshore, long-life oil & gas fields. EEG is the 2nd largest conventional gas producer in the US NY State and with the completion of the Pangaea acquisition, will hold the most exploration acreage (26.4m acres) in Australia's Northern Territory McArthur-Beetaloo basin. Given the region's high prospectivity, success from drilling works may generate cashflows within 24-36 months (RaaS estimate), assuming links & upgrades to pipeline infrastructure are delivered in parallel.

Terms of the deal

EEG has signed a binding sale and purchase agreement with Pangaea (NT) Pty Ltd as trustee for the Pangaea (NT) Unit Trust to acquire an 82.5% interest in EP167, EP168, EP169, EP305, and EP198. EEG will pay \$5m cash, 140m shares in Empire and 8m options, with an exercise price of \$0.70 and expiry three years from issue. Pangaea has undertaken to voluntarily escrow 125m shares (55m shares for 12 months, 75m for 24 months). The shares issued to Pangaea represent a ~30% interest in EEG, prior to any capital raise. EEG also has the opportunity to acquire the remaining 17.5% stake in the tenements held by Pangaea's joint venture partner Energy and Minerals Group (EMG) of Texas, USA. If EMG joins the deal, the consideration payable by EEG would be \$1.06m cash, 29.7m EEG shares and 1.7m EEG \$0.70 options. The deal is contingent on approval from EEG shareholders and the NT Government, with June 30 targeted for transaction close.

Resource (and acreage) uplift positions EEG as leading play

The resource uplift from the acquisition (2C contingent resource of 170.9 BCF gas and 2.9mmmbbls condensate and oil versus 41 BCF gas previously) positions EEG as one of the leading plays in the Beetaloo sub-basin, a region viewed by the Federal Government in January 2021 as having the potential "to rival the world's biggest and best gas resources". The acquisition delivers tenements which are further defined than EEG's existing tenements. From 2013 to 2016 (when the moratorium against fracking began in the NT), Pangaea and EMG invested \$110m in drilling five wells (1 exploration and four appraisal), drilled two stratigraphic holes, acquired 1,800 kms of 2D seismics, flew 29,000 kms of airborne surveys and analysed more than 3,500m of core samples. The tenements also deliver significant exposure to the Kyalla liquids rich gas play, which EEG had been chasing, but was not material in its Carpentaria-1 well, plus increase its exposure to the mid-Velkerri Shale plays where the company booked its initial 2C volumes in February. Importantly, EEG now holds tenements surrounding those held by Santos and Origin Energy, giving additional look-through from their drill programs.

Share details

ASX Code	EEG
Share Price (13 April)	\$0.355
Market Cap (pre-announcement)	\$115.0M
No of shares (pre-announcement)	323.94M
In the money options	15.6M
Net cash at 31 Dec '20	US\$4.56M
Gross cash at 31 Dec '20	US\$11.1M

Share price - 12 months (source: Refinitiv Eikon)



Upside Case

- Pangaea acquisition substantially increases EEG's 2C contingent resources and includes liquids
- EEG will now hold tenements across the Beetaloo sub-base in close proximity to both Santos and Origin activity
- Future drilling success generates high-value LT
- strategic partnership(s) & funding options

Downside Case

- Horizontal drilling on the Pangaea tenements fails to deliver commercial flow rates
- Continuing financing through equity issues highly dilutive to future capital growth
- Fracking success in NT/Qld pushes onshore energy prices to sub-economic levels.

Catalysts

- Jun 21: Completion of the Pangaea acquisition
- Q2 frack evaluation of Carpentaria-1 well in EP187

Comparative companies (Australia & NZ)

AJQ, CTP, GLL, STX, WGO

Company contacts

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Substantial Shareholders (source: EEG Annual Report)

Global Energy & Resources Development 8.71%,
Macquarie Investment Management 8.17%
Elphinstone Group 6.15%, Liangrove Media 5.50%

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FINANCIAL SERVICES GUIDE

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