

## First EP187 well cleared for vertical drilling

Empire Energy Group Limited (ASX:EEG) is a junior oil and gas producer and explorer with onshore oil & gas shale assets. EEG holds the largest acreage position (>14.5m acres) in the highly prospective, potentially global-scale NT McArthur-Beetaloo basins. The Beetaloo alone is forecast to contain shale dry gas volumes of over 100 Tcf, with liquids upside. EEG has a number of event drivers in the coming 12-18 months, aiming to transform the company into a strategically-important, long-life Australian onshore energy generator. Ending 2019 with US\$9.9m gross cash, EEG is fully-funded for the 2020 drill program planned on its EP187 tenement in SE Beetaloo. Its Carpentaria-1 vertical appraisal well received NT clearance early-March. The well, set to begin mid-year, aims to confirm recent better than expected seismic mapping results of the Kyalla and Velkerri shales, with the wells prognosed total depth now 2,900m. The Basin is fast developing as a gas-rich (and potentially liquids-rich) option to boost east coast Australia's future energy self-sufficiency, as well as expansion gas supplying Darwin's LNG export terminals, amid strong policy support from both Northern Territory (NT) and Federal governments. Crystallising EEG's longer-term potential rests on successful drilling, securing strategic funding and infrastructure support to commercialise the acreage.

### Business model

Empire Energy Group (EEG) is a junior oil & gas producer/exploration company, focusing on maturing its portfolio of onshore, long-life oil and gas fields. The company holds substantial exploration acreage in Australia's Northern Territory McArthur-Beetaloo basins. Although EEG's NT assets are at early exploration stage, given the high prospectivity of the region, success from the company's 2Q 2020 drilling programme could see cashflows generated within 24-36 months, assuming links and upgrades to existing pipeline infrastructure are undertaken in time.

### NT EMP approvals point to good support & governance

On 5 March 2020, Empire Energy Group (EEG) received NT Government environment management plan (EMP) clearance to drill its first vertical well, Carpentaria-1, within the hydrocarbon-prospective EP187 tenement, situated on the SE flank of the Beetaloo sub-Basin. In our view, EEG's EMP approvals should deliver investors significant confidence that EEG has gained local government and landholder backing, while adhering to the strict new governance protocols implemented since the NT's unconventional drilling enquiry in 2018; the first junior to do so. EEG expects to release its final investment decision and drill start date in coming weeks, once rig operator negotiations are concluded. We expect total program costs of sub-A\$7m, leaving ~A\$6.0m to complete the planned follow-on vertical frac program in 4Q, assuming positive appraisal of the vertical well results. **Strongly positive results from these 2020 drilling programs would allow EEG to evolve its current prospective resource (P50) of 1.85bn Boe (11 Tcfe) into a contingent resource (2C). This would place EEG into a stronger negotiating position with future potential fund partners.**

### Valuation

In our 23 December scoping report, [Forging New Frontiers](#), we assigned a base case valuation of \$160m to EEG (\$0.61/share) which uses a long-run average oil price of US\$70 WTI. If we apply the current WTI spot price of US\$31.73/bbl and exchange rate of US\$0.62, the valuation would be \$0.29/share. In our view, the market is applying a commodity price which is unsustainable longer term. EEG has a number of event drivers within its portfolio over the coming 6-12 months which hold potential to generate a sizeable uplift in NAV.

#### Historical earnings and RaaS Advisory estimates

Year end	Revenue (US\$m)	Gross Profit (US\$m)	NPAT reported (US\$m)	OCFPS (AUD cps)	EPS Adj (AUD cps)	Price/Book (x)
12/18a	14.3	5.0	(15.9)	(0.15)	(1.41)	15.7
12/19a	6.7	1.7	(7.4)	(9.87)	(6.13)	2.0
12/20e	4.4	1.2	(3.0)	0.64	(1.47)	4.2
12/21e	4.5	1.2	(3.0)	2.06	(1.40)	6.7

Source: Company data, RaaS Advisory Estimates for FY20e and FY21e

## Energy exploration & production

16 March 2020

### Share details

ASX Code	EEG
Share price (date)	\$0.20
Market Capitalisation	\$51M
Shares on issue	263.3M
Net cash	~\$5.0M
Gross cash	~\$15.0M

### Share performance (12 months)



### Upside Case

- Drilling success in McArthur-Beetaloo Basin generates significant commercial outcomes for EEG's EP187
- Seismic program proves the eastern extension of the Beetaloo Basin into EP187
- Drilling success generates high-value LT strategic partner & funding options

### Downside Case

- McArthur-Beetaloo Basin EP 187 2Q 2020 drilling is unsuccessful, negatively impacting value of remaining NT permits (EP180-188)
- Continuing financing through equity issues highly dilutive to future capital growth
- Fracking success in NT/Qld pushes onshore energy prices to sub-economic levels.

### Board of Directors

Alex Underwood	Managing Director/CEO
Paul Espie AO	Non-Executive Chairman
John Gerahty	Non-Executive Director
Dr John Warburton	Non-Executive Director

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### RaaS Advisory contacts

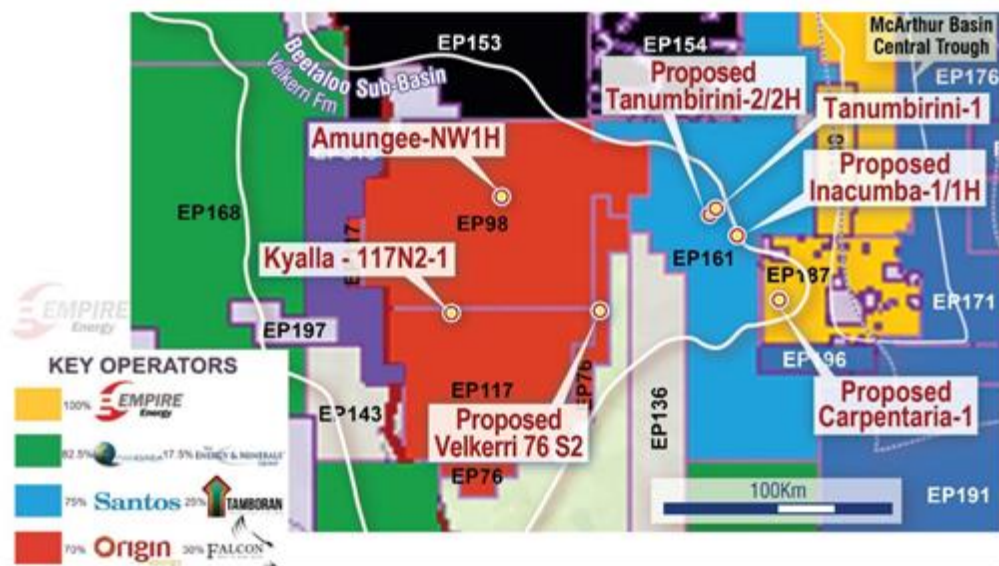
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## Carpentaria-1 vertical well approvals in place

On 5 March 2020, Empire Energy received clearance from the Northern Territory Minister for Environment and Natural Resources to begin drilling its first well on its Beetaloo EP187 tenement, to be called Carpentaria-1, following approval of its Environmental Management Plan (EMP) by the Ministry. In our view, this is an important milestone.

Joining Origin and Santos, Empire is only the third company (and the first junior) to be cleared by Northern Territory authorities under the new regulatory framework implemented since the NT Government's hydraulic fracturing enquiry concluded in April 2018. In our view, EEG's EMP approvals should deliver investors significant confidence that EEG has gained both government and local landholder backing, while adhering to the strict governance protocols implemented since the NT's unconventional drilling enquiry. Each drilling appraisal stage needs to be separately approved by government authorities.

### Exhibit 1: EEG's EP187 & adjoining lease holder 2020 drilling programs in the NT's Beetaloo sub-basin



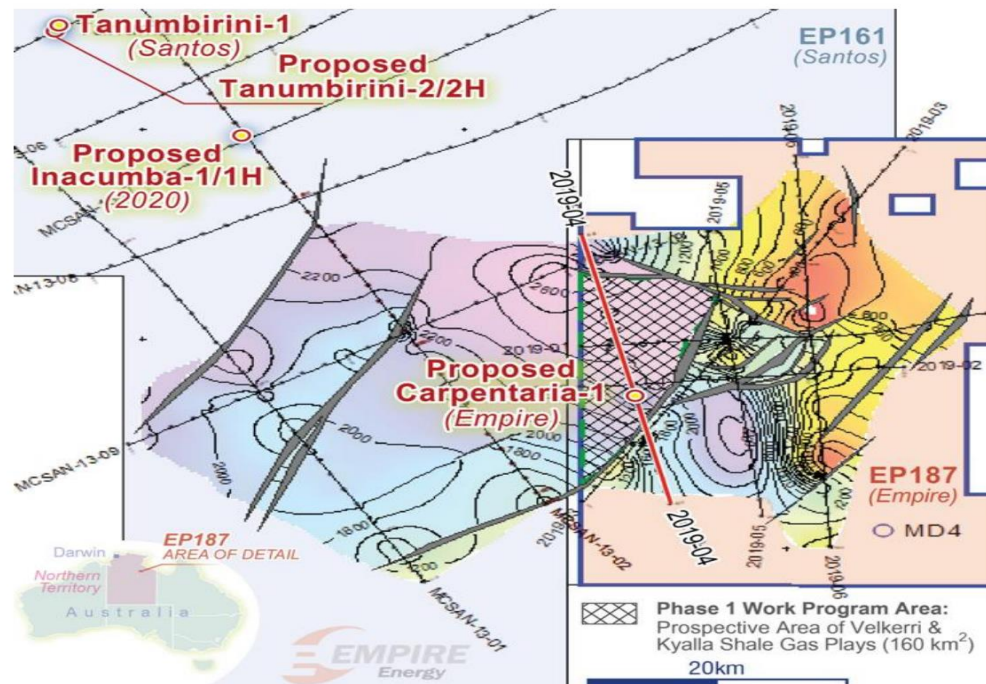
Source: Company data

EEG's upcoming Carpentaria-1 vertical well, which is planned for mid-year, aims to reach a depth of ~2,900m. The well is the first to be drilled on the EP187 tenement, which lies along the SE flank of the NT's Beetaloo sub-basin.

The Carpentaria-1 well, which will be suspended for future re-entry once drilled, aims to confirm recent better than expected 2D seismic results and appraise both the Velkerri and Kyalla Shales for their potential recoverable hydrocarbon volumes present in the seismically defined Phase 1 work area, extending across 160km<sup>2</sup>.

The well coring and drill gas analysis results will also determine the hydrocarbon composition of both the Velkerri and Kyalla shales (crude oil vs natural gas (liquid/dry), as well as the mechanical rock properties of these shales, ahead of designing the next phase of appraisal work.

**Exhibit 2: Planned EEG Carpentaria-1 vertical well location amid regional settings**



Source: Empire Energy data graphics

**Next Steps**

We expect EEG to use the appraisal results from the Carpentaria-1 vertical well to next develop a vertical fracture stimulation program currently timed to commence during 4Q2020, ahead of the onset of the NT wet season. We understand the design of this vertical program would be similar to the 4-stage stimulation program to 4,000m depths, recently conducted successfully by Santos to test the Velkerri shale production flow rates at its Tanumbirini-1 well. This well is located on Santos JV’s EP 161 tenement, which adjoins EEG’s EP187 tenement to the west. Santos reported better-than-expected gas flow rates from the well, of over 1.2mmscf/d, comprising 90% methane; 3% ethane and less than 5% inert content, supporting the view of significant resource potential in the region. WE note that both the Kyalla and Velkerri shale formations within EEG’s EP187 tenement lie some 1,000m shallower compared to the adjoining Santos/Origin permits, increasing the potential for both dry and wet gas flows, while decreasing potential total appraisal costs.

Assuming further positive appraisals from the Carpentaria-1 vertical stimulation, we anticipate EEG will next proceed to design a multi-stage horizontal well section drill and fracture stimulation evaluation program to carry out extended production tests, timed to commence in 2Q next year, once the NT’s wet season ends. While we note that each of these additional drilling phases will require separate NT clearance to commence, the early-March approval for its Carpentaria-1 vertical well demonstrates that EEG is keen to meet all its landholder and regulatory requirements.

**Positive results from these upcoming drilling programs could evolve EEG’s current Prospective resource (P50) of 1.85bln Boe (11 Tcfe) into a Contingent resource (2C). This would place the company in an even stronger strategic negotiating position with future potential funding partners.**

**Funding**

We expect the Carpentaria-1 vertical well and evaluation costs to be under ~A\$7m. This will leave EEG with gross cash funds of ~A\$6m to complete the planned follow-on vertical stimulation drill program slated for 4Q this year, assuming positive appraisal results from the Carpentaria-1 mid-year well. Financing is always a risk for earlier stage companies. At this point EEG has a number of financing options it can pursue.

We note that EEG has ~53.3m unlisted currently out-of-the-money options exercisable at share prices of A\$0.30 and A\$0.32 over various periods through to 30.12.2022. These options could raise a further ~A\$11m in 2020; ~A\$4.4m in 2021 and ~A\$0.5m in 2022 if they become in-the-money once again.

**Exhibit 3: EEG Options**

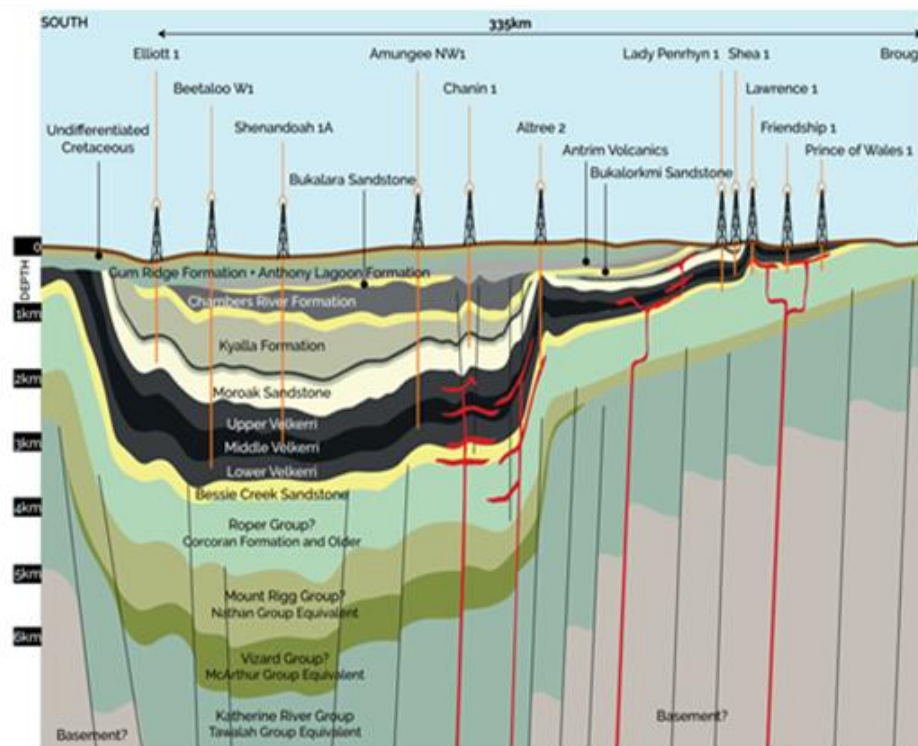
Date	Option Class	Issued No	Exercise price A\$	Gross Cash Value A\$
31/07/2020	Unlisted	906,250	0.32	290,000
26/09/2020	Unlisted	36,218,754	0.30	10,865,626
26/10/2020	Unlisted	600,000	0.30	180,000
30/12/2021	Unlisted	1,300,000	0.30	390,000
30/12/2021	Unlisted	300,000	0.30	90,000
30/12/2021	Unlisted	300,000	0.30	90,000
31/12/2021	Unlisted	12,000,000	0.32	3,840,000
30/12/2022	Unlisted	1,700,000	0.30	510,000
30/12/2022	Unlisted	2800000	0.60	1,020,000

Source: Company data

**EP187 Seismic results recap**

According to EEG’s seismic results, the top of the Velkerri Shale lies around 2,200m below surface and has a gross thickness of roughly 600m, while the shallower Kyalla shale is located ~1,200m below surface with a gross thickness of ~100m.

**Exhibit 4: Beetaloo South-North schematic cross-section**



Source: NT Department of Primary Industry & Resources

EEG’s recently-finalised 2D seismic interpretations contained a number of significant strategic highlights, serving to underpin our existing net equity valuation metrics:

- a) Confirmation that the Beetaloo sub-basin shale formations extend south-east into EEG’s EP187 tenement;
- b) The south-western flank of EP187 likely contains at least one area covering 160sq km, if not a second area of a similar size, benefiting from both shale formations of interest and no faulting interference. This lack of faulting also significantly de-risks the prospective site chosen for the upcoming 2,900m vertical drill Carpentaria-1 hole;



c) The Middle Velkerri shale can be confidently mapped into EP187 with continuous thickness (up to 600m gross (270m net) over the A,B,C shales), similar to those noted in the Tanumbirini-1 well, some 76km to the north-west, although at greater depths. As noted, the Tanumbirini-1 flowed 1.2MMcfd of gas on test;

d) The seismic data suggests the presence of the Kyalla shale over the western flank of the EP187 tenement down to a depth of c.1,200m, with a gross thickness of 100m. This is encouraging as the Kyalla shale had been considered a higher risk opportunity, which became too thin and shallow as it extended towards the east along EEG's EP187 tenement. It should also be noted that the Kyalla could be a relatively liquids rich target in EEG's areas, given the suggested depth. EEG hopes the upcoming well may confirm this upside;

e) Both the Kyalla and Velkerri shale formations lie some 1,000m shallower through EP187, compared to the adjoining Santos/Origin permits, increasing the potential for both dry and wet gas flows, while decreasing total appraisal costs.

These seismic results now need to be confirmed during the EEG's 2020/21 vertical/horizontal well drilling program.

Further appraisal drilling results by near-neighbours, Origin/Falcon and Santos/Tamboran Resources, in the Beetaloo, will also help expand understanding of the basin's gas & oil economic potential to improve Australia's energy self-sufficiency and streamline EEG's future exploration and development plans.

#### Exhibit 5: 2020 Beetaloo sub-basin – regional drilling work programs

Companies	Activity scheduled
Origin / Falcon	Kyalla 117 N2 1H shale well: horizontal production flowtest results due within 2Q 2020; Velkerri 76 S2 shale well: begin drilling 2Q 2020; flowtest results due 4Q 2020 (aiming for liquids-rich gas flows under production test conditions) Stage 3 follow-on: 2Q 2020 begin long-lead preparations for further 2 horizontal wells
EEG	1Q 2020: drill rig & regulatory approvals; 2Q 2020: Carpentaria-1 vertical drilling begins 1H 2020:
Santos / Tamboran Resources	a) EP161 Tanumbirini-1 - extended flowtest results b) Inacumba 1/1H- drilling/stimulate/flowtest results
Santos / Amour Energy	2020 South Nicholson planning; 2021: 2D seismic & well tests
Hancock Prospecting	2H 2020: 2D seismics & 1-3 well vertical exploration drilling planned
Pangaea Resources	Awaiting NT EMP notification

Source: Company data

#### Market is pricing in spot price outcomes

We have run a sensitivity analysis on our valuation using the current spot prices for WTI Crude and USD/AUD exchange versus the average oil price of US\$70 we use in our commodity assumptions and a long run average USD/AUD exchange rate of US\$0.7285.

If we apply the current WTI spot price of US\$31.73 and exchange rate of US\$0.62, the valuation would be \$0.29/share, which suggests that the market is pricing in a commodity price which is not sustainable at these levels, in our view.

### Exhibit 5: Financial Summary

EMPIRE ENERGY GROUP LTD		EEG				
YEAR END		Dec				
NAV	A\$mn	<b>\$0.61</b>				
SHARE PRICE	A\$cps	0.20	Last price 13-Mar			
MARKET CAP	A\$mn	51				
ORDINARY SHARES	M	263				
OPTIONS	M	54				
<b>COMMODITY ASSUMPTIONS</b>						
		2018	2019	2020E	2021E	
Realised oil price	US\$/b	59.86	60.05	53.43	51.72	
Realised gas price	US\$/mcf	3.24	2.78	2.40	2.44	
Exchange Rate	A\$:US\$	0.7452	0.6945	0.6807	0.6848	
<b>EARNINGS</b>						
	US\$000s	2018	2019	2020E	2021E	
Revenue		14,252	6,460	4,465	4,488	
Cost of sales		(9,253)	(5,008)	(3,257)	(3,277)	
<b>Gross Profit</b>		<b>4,999</b>	<b>1,452</b>	<b>1,208</b>	<b>1,211</b>	
Other revenue						
Other income		2,304	208	200	200	
Exploration written off		0	(199)	0	0	
Finance costs		(2,976)	(1,919)	23	45	
Impairment		0	0	0	0	
Other expenses		(20,079)	(7,210)	(4,950)	(4,985)	
<b>Profit before tax</b>		<b>(15,752)</b>	<b>(7,668)</b>	<b>(3,518)</b>	<b>(3,529)</b>	
Taxes		(115)	(86)	0	0	
<b>NPAT Reported</b>		<b>(15,867)</b>	<b>(7,754)</b>	<b>(3,518)</b>	<b>(3,529)</b>	
Underlying Adjustments		(101)	(2,995)	0	0	
<b>NPAT Underlying</b>		<b>(15,968)</b>	<b>(10,749)</b>	<b>(3,518)</b>	<b>(3,529)</b>	
<b>CASHFLOW</b>						
	US\$000s	2018	2019	2020E	2021E	
<b>Operational Cash Flow</b>		<b>2,828</b>	<b>205</b>	<b>117</b>	<b>431</b>	
Net Interest		(2,974)	(1,919)	23	45	
Taxes Paid						
Other		(115)	(84)	(30)	(30)	
<b>Net Operating Cashflow</b>		<b>(261)</b>	<b>(1,799)</b>	<b>111</b>	<b>446</b>	
Exploration		0	0	(6,000)	(6,000)	
PP&E		(49)	(113)	0	0	
Petroleum Assets		(168)	(19)	0	0	
Net Asset Sales/other		359	18,453	(361)	(696)	
<b>Net Investing Cashflow</b>		<b>(120)</b>	<b>16,522</b>	<b>(6,250)</b>	<b>(6,250)</b>	
Dividends Paid		0	0	0	0	
Net Debt Drawdown		(7,878)	(17,936)	(2,001)	(2,018)	
Equity Issues/(Buyback)		11,677	7,627	0	0	
Other		0	0	0	0	
<b>Net Financing Cashflow</b>		<b>3,785</b>	<b>(10,321)</b>	<b>(2,001)</b>	<b>(2,018)</b>	
<b>Net Change in Cash</b>		<b>3,404</b>	<b>4,402</b>	<b>(8,140)</b>	<b>(7,822)</b>	
<b>BALANCE SHEET</b>						
	US\$000s	2018	2019	2020E	2021E	
Cash & Equivalents		4,157	8,503	363	(7,459)	
PP&E & Development		52,228	30,897	33,662	40,112	
Exploration		0	410	369	332	
Other Assets		7,686	2,270	972	1,503	
<b>Total Assets</b>		<b>64,071</b>	<b>42,080</b>	<b>35,366</b>	<b>34,488</b>	
Debt		24,440	7,575	6,049	4,031	
Other Liabilities		18,262	16,824	21,054	25,202	
<b>Total Liabilities</b>		<b>42,701</b>	<b>24,399</b>	<b>27,103</b>	<b>29,233</b>	
<b>Net Assets/Shareholders Equity</b>		<b>21,370</b>	<b>17,681</b>	<b>8,263</b>	<b>5,255</b>	
Net Cash/(Debt)		(20,282)	928	(5,686)	(11,490)	
Gearing dn/(dn+e)		49%				
nm = not meaningful na = not applicable						
<b>NET PRODUCTION</b>						
		2018	2019	2020E	2021E	
Crude Oil	kb	127	89	3	3	
Nat Gas	mmcf	1,834	1,743	1,713	1,695	
<b>TOTAL</b>	<b>kboe</b>	<b>432</b>	<b>379</b>	<b>288</b>	<b>285</b>	
<b>Product Revenue</b>						
	A\$mn	14.0	10.3	4.3	4.3	
<b>Cash Costs</b>						
	A\$mn	(5.1)	(4.4)	(2.3)	(2.3)	
<b>Ave Price Realised</b>						
	A\$/boe	32.49	27.24	14.94	15.17	
<b>Cash Costs</b>						
	A\$/boe	(11.84)	(11.72)	(8.00)	(8.10)	
<b>Cash Margin</b>		<b>20.65</b>	<b>15.52</b>	<b>6.94</b>	<b>7.07</b>	
<b>RESOURCES and RESERVES</b>						
	Prospective Resources	P90	P50	P10		
<b>Northern Territory</b>						
<b>Gas</b>						
Barney Creek Fm	Bcf	3,304	8,699	20,172		
Velkerri Fm	Bcf	383	1,192	3,086		
Woogorang Fm	Bcf	524	1,185	2,371		
<b>TOTAL</b>		<b>4,211</b>	<b>11,076</b>	<b>25,629</b>		
<b>Oil</b>						
Barney Creek Fm	Mb	66	174	403		
Velkerri Fm	Mb	8	24	62		
Woogorang Fm	Mb	10	24	47		
<b>TOTAL</b>		<b>84</b>	<b>222</b>	<b>512</b>		
		1P	2P	3P		
<b>US</b>						
<b>Gas</b>	Bcf	50.0	57.0	61.0		
<b>EQUITY VALUATION</b>						
	Risked Range (In A\$M)			Risked Range Per Share (A\$)		
<b>NT</b>	Low	Mid	High	Low	Mid	High
Gas	\$72	\$108	\$244	\$0.27	\$0.41	\$0.93
Oil	\$23	\$35	\$78	\$0.09	\$0.13	\$0.30
<b>US Onshore</b>						
Appalachian	\$9	\$17	\$26	\$0.03	\$0.06	\$0.10
	<b>\$104</b>	<b>\$160</b>	<b>\$347</b>	<b>\$0.40</b>	<b>\$0.61</b>	<b>\$1.32</b>
Net cash/(debt)	\$5	\$5	\$5			
Corporate costs	(\$5)	(\$5)	(\$5)			
<b>TOTAL</b>	<b>\$104</b>	<b>\$160</b>	<b>\$347</b>	<b>\$0.40</b>	<b>\$0.61</b>	<b>\$1.32</b>
<b>RATIO ANALYSIS</b>						
		2018	2019	2020E	2021E	
Shares Outstanding	M	2313	263	263	263	
EPS (pre sig items)	UScps	(1.05)	(4.43)	(1.34)	(1.34)	
EPS	Acps	(1.41)	(6.33)	(1.97)	(1.96)	
PER	x	na	na	na	na	
OCFPS	Acps	(0.15)	(9.87)	0.62	2.48	
CFR	x	na	na	na	na	
DPS	Acps					
Dividend Yield	%					
BVPS	Acps	1.2	9.7	4.6	2.9	
Price/Book	x	15.7x	2.0x	4.2x	6.7x	
ROE	%			na	na	
ROA	%			na	na	
(Trailing) Debt/Cash	x					
Interest Cover	x					
Gross Profit/share	Acps		8.0	6.8	6.7	
<b>EBITDAX</b>	<b>ASM</b>	<b>2.3</b>	<b>0.6</b>	<b>(2.1)</b>	<b>(2.1)</b>	

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26<sup>th</sup> November 2018



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