



EMPIRE ENERGY GROUP LIMITED
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ASX Announcement – Successful Recapitalisation

6th August 2018

EMPIRE ENERGY RECAPITALISATION SUCCESSFULLY CARRIED OUT

OVERVIEW

- Recapitalisation plan successfully carried out with cornerstone support from Macquarie Bank Limited (“Macquarie”), existing shareholders and new sophisticated and institutional shareholders
- Empire has raised A\$15 million by way of a two tranche placement of shares with attaching 1:2 options to sophisticated and institutional investors (“Equity Raising”) with strong support from existing major shareholders and new institutional investors joining the shareholder register
- Macquarie Bank Limited (“Macquarie”) has agreed to provide a new 3 year senior secured credit facility (“New Credit Facility”) with opening availability of US\$26.5 million
- Macquarie has provided cornerstone support for the recapitalization by agreeing to convert US\$4 million of the existing credit facility to equity at the Equity Raising price
- Pro-forma debt balance upon completion will reduce from US\$38 million to US\$26.5 million
- Pro-forma cash at bank upon completion will be ~A\$5 million

Empire Energy Group Limited (“Empire” or the “Company”) is pleased to announce that it has successfully refinanced its existing credit facility with Macquarie and executed a two tranche placement to sophisticated and institutional investors, with strong support from existing major shareholders.

As part of the credit facility refinancing, Macquarie has agreed to convert US\$4 million of the existing credit facility to equity at the Equity Raising price (“the Debt to Equity Conversion”). Macquarie will return to being Empire’s largest shareholder with a 14.58% shareholding upon completion.

Key terms of the New Credit Facility, the Debt to Equity Conversion and the Equity Raising are subject to shareholder approval as detailed below.

NEW CREDIT FACILITY

Macquarie provided cornerstone support for the recapitalisation plan, agreeing to convert US\$4 million of the existing credit facility to equity and providing a new 3 year credit facility.

The Directors of the Company are grateful to Macquarie for its support over the last 11 years and for its support for the Company's growth strategy going forward.

The key terms of the New Credit Facility are summarised in the table below:

KEY TERMS	DETAILS
Lender	Macquarie Bank Limited
Borrowers	Empire Energy USA LLC Empire Energy E&P LLC
Facility Availability	US\$26.5 million
Maturity	28 February 2022
Security	First lien security over US assets Guarantee from Empire Energy Group Limited Share pledge over Empire Energy Group Limited shareholding in Imperial Oil & Gas Pty Limited
Upfront Fee	2% of Facility Availability
Interest Rate	LIBOR + 6.50%
Financial Covenants	PDP Reserves NPV10 : Net Debt \geq 1.30x Total Proved Reserves NPV10 : Net Debt \geq 1.50x Interest Coverage Ratio \geq 1.80x
Options	120 million options Maturity Date – December 2021 Exercisable at 3.2c per share
Repayment	100% of US Net Operating Cash Flow (after payment of interest and G&A allowance described below) Subject to minimum US\$625,000 per quarter After US\$43,000 per month G&A allowance to Empire Energy Group Limited to help fund corporate overheads

DEBT TO EQUITY CONVERSION

The key terms of the Macquarie debt to equity conversion are summarised in the table below:

KEY TERMS	DETAILS
USD Converted Debt to Equity Amount	US\$4 million
FX Rate	AUD:USD spot FX rate 0.7365
AUD Converted Debt to Equity Amount	A\$5,431,093
Issue Price	A\$0.02 per share
Underwriting Fee payable in shares	<u>Converted Debt Amount</u> Issue Price * 19
Conversion Shares to be Issued	271,554,650
Underwriting Shares to be Issued	14,292,350
Total Shares to be Issued to Macquarie	285,847,000

A\$15 MILLION EQUITY RAISE

In conjunction with the New Credit Facility and Debt to Equity Conversion, the Company has successfully carried out a two-tranche A\$15 million placement of shares to sophisticated and institutional investors.

The Equity Raise received strong support from existing major shareholders, new sophisticated investors and new institutional investors.

Key management personnel demonstrated their commitment to the Company's growth by participating in the Equity Raise (subject to shareholder approval).

Key terms of the Equity Raise were as follows:

KEY TERMS	DETAILS
Offer size and structure	Two tranche institutional placement to raise A\$15 million via the issue of 750 million Empire Energy Group Limited shares at A\$0.02 per share: <ul style="list-style-type: none"> - Tranche 1: 189,785,576 million shares utilizing the Company's existing ASX LR 7.1 capacity to raise A\$3,795,711 - Tranche 2: 560,214,424 shares to raise A\$11,204,289 subject to shareholder approval
Options	Participants in the Equity Raise will be granted one option for every two shares subscribed for with an exercise price of A\$0.03 per share and expiry date of two years from the date of allotment The options will be unlisted and non-transferable The grant of the options is subject to shareholder approval
Pricing	A\$0.02 per share, representing a discount of: <ul style="list-style-type: none"> - 13.0% to the Company's closing share price on 1 August 2017; - 21.5% to 5 day VWAP prior to trading halt; and - 30.3% to 15 VWAP prior to trading halt
Ranking	New shares will rank equally with existing shares
Use of funds	Funds raised from the Equity Raise will be applied towards: <ul style="list-style-type: none"> - Partial repayment of the existing Macquarie debt facility; - Ramping up the work program for Empire's Northern Territory acreage in the Greater McArthur Basin; and - General working capital
Joint Lead Managers	Baillieu Holst Limited and Bell Potter Securities Limited
Co-Managers	Bizzell Capital Partners Pty Limited and Sanston Securities Pty Limited
Legal Advisors	Clifford Chance LLP

Empire has agreed to issue 5,000,000 options to each of the Joint Lead Managers exercisable at A\$0.032 per share expiring on 31st July 2020, in partial consideration for services provided in connection with the Equity Raise (subject to shareholder approval).

SOURCES AND USES OF FUNDS

The New Credit Facility, Debt to Equity Conversion and Equity Raise will materially reduce leverage levels and provide Empire with the financial capacity to return to growth.

The sources and uses of funds are summarised in the table below:

SOURCES	A\$ million
Equity Raise	15.0
Debt to Equity Conversion	5.4
TOTAL SOURCES OF FUNDS	20.4
USES	A\$ million
Partial Macquarie Debt Repayment from Equity Raise Proceeds	10.1
Macquarie Debt to Equity Conversion	5.4
Northern Territory Work Program and Working Capital	3.3
New Credit Facility Fees	0.7
Costs and Expenses of the Equity Raise	0.9
TOTAL USES OF FUNDS	20.4

SHAREHOLDER APPROVALS

Empire will be conducting an Extraordinary General Meeting ("EGM") to seek shareholder approvals to effect the recapitalisation as summarised in the table below:

RESOLUTION	DESCRIPTION
1	Ratification of issue of Tranche 1 Equity Raise shares
2	Approval of issue of Tranche 2 Equity Raise shares
3	Approval of issue of Equity Raise options
4	Approval of issue of Tranche 2 Equity Raise shares and options to a related party - Linda Tang, a Director of the Company
5	Approval of issue of Tranche 2 Equity Raise shares and options to a related party – Bruce McLeod, a Director of the Company
6	Approval of issue of Tranche 2 Equity Raise shares and options to a related party – Alexander Underwood, a Director of the Company
7	Approval of issue of shares and options to Macquarie
8	Approval of issue of options to the Joint Lead Managers of the Equity Raise
9	Approval of Executive Incentive Plan

**Resolutions contained in the table above are subject to change*

Resolutions 2 – 8 will be inter-conditional.

The New Credit Facility contains certain conditions precedent that are contingent on receipt of shareholder approval for the Debt to Equity Conversion, the issue of options to Macquarie and a cash repayment of US\$7.5 million which is to be funded by the two tranche placement.

The Directors of Empire strongly recommend that shareholders vote in favour of all of the resolutions.

Formal dispatch of the Notice of Meeting and associated Explanatory Statement is expected to be undertaken on Friday 17th August 2018.

TIMETABLE FOR THE RECAPITALISATION

KEY EVENT	INDICATIVE DATE
Trading Halt Lifted, Capital Raising Announced and Resume Trading	Monday 6 th August 2018
Announcement of EGM	Monday 6 th August 2018
Settlement of Tranche 1 of Equity Raise	Thursday 9 th August 2018
Issue and Quotation of Tranche 1 shares	Friday 10 th August 2018
EGM Notice Period	Wednesday 22 nd August 2018 – Wednesday 19 th September 2018
EGM to approve the recapitalisation	Thursday 20 th September 2018
Settlement of Tranche 2 of Equity Raise	Tuesday 25 th September 2018
Issue and Quotation of Tranche 2 shares and conversion of Macquarie Debt to Equity	Wednesday 26 th September 2018

**Key events and dates contained in the table above are subject to change*

ABOUT EMPIRE ENERGY GROUP LIMITED

Empire Energy is a conventional oil and natural gas producer with operations in Appalachia (New York and Pennsylvania) and the MidCon (Kansas and Oklahoma). In addition, Empire Energy holds approximately 405,000 acres (gross) of Marcellus and Utica shale in New York State, US.

Empire Energy has over 14.5 million acres in McArthur & Beetaloo Basins, in the Northern Territory, both of which are considered highly prospective for large shale oil and gas resources. Work undertaken by the Company over the past 5 years demonstrates that the Central Trough of the McArthur Basin, of which the Company holds around 80%, is highly prospective, with key similarities to those extending through Oman, Siberia and Southern China and which contain resources of billions of barrels of oil equivalent.