

16 October 2023

Empire Energy Group

Best exposure to the Beetaloo

Empire Energy Group Limited (ASX:EEG) is an oil and gas producer/developer, with onshore Northern Territory (NT) and US oil/gas production assets. EEG has the largest tenement position in the highly prospective Greater McArthur Basin, which includes the Beetaloo Sub-basin. We note the recent announcement from Tamboran Resources Limited (ASX:TBN) that it intends to re-domicile its main listing to the US, and set up an ASX Chess Depository Interest (CDI) quotation retaining the ticker "TBN", via a Scheme of Arrangement. The rationale behind the decision makes sense in holistic terms, with TBN seeking to access a nominally deeper and less expensive capital market; and an investor base more comfortable with shale gas plays. In broad terms these are good reasons but deeper markets means more competition particularly where US shale play analogues are better defined with project economics and outcomes significantly more predictable and comparatively lower risk. We suggest Empire Energy is effectively the best exposure, as a straightforward and leveraged ASX-listed play, on the transformational opportunities of the Beetaloo area. We already believe EEG is the best positioned exposure to the play, holding more gas certainty across its resources, with lower capital and likely lower operating costs. The way is clear for EEG to deliver a final investment decision (FID) on an initial development project by end-2023, subject to the timing of regulatory approvals, with first gas over the next 18-months to two-years. In this respect, Empire holds a significant first-mover advantage. The company continues to represent a pure, independent and leveraged exposure to the NT gas opportunities...the gas opportunity is transformational and with 100% interests, Empire controls the timing and pace of its development pathway. We understand the company remains fully-funded to FID.

Business model

Empire Energy Group Limited (EEG) is an oil and gas development and production company, focused on maturing its portfolio of onshore, long-life oil and gas opportunities. The key asset is the substantial tenement holdings across the world-class McArthur-Beetaloo basins. The disconnect between the demand-constrained gas market and share prices continues to be highlighted by high contract prices with, we believe, a recent east-coast supply deal set at around \$15-16/gj (anecdotal). There is a material commercial prize to be won by actively working assets and defining a clear timeline to production...in that regard Empire should be considered as being in a pre-development phase, particularly with upgraded gas resource numbers sufficient to underpin economic planning and an accelerated path to first gas. Beneficially, Empire holds its critical licences at 100% providing the ability to control the timing to development and longer-dated financing options through partnering. The company's resource base and high working interests provide opportunity and leverage.

EEG still leading the pack and the herd is thinning

In a sector where overall progress from gas discovery through reserves definition to production has been somewhat glacial, Empire Energy is the most advanced of the Beetaloo plays. Conservatively we believe Empire has a six-12-month head start on its Beetaloo peers, some that will require further capital to achieve FID, assuming testing results deliver to target. We recognise that all the data to date can be considered as somewhat preliminary in nature – the well design (including fracking) is not fully defined, the population of wells is small and there are few horizontal completions, but we suggest the error margin around EEG's data is robust and underpins a high degree of confidence that the nominal commercial flow-rate threshold can be delivered. The companies that attract the most investor interest are those prepared to work their asset bases. In a supportive commercial operating environment, mis-priced assets are invariably subject to corporate consolidation, although there has been little in the way of recent east coast gas M&A activity. Companies in production with a growth outlook will look increasingly attractive to investors and other industry operators. The path to scale and growth begins with the first PJ.

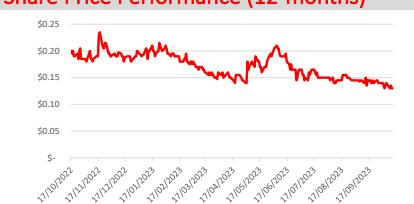
Driving to FID can close the valuation gap

We maintain our valuation, underpinned by testing data and a recent material increase in attributable contingent resources. With further re-rating events to come, a project sanction could be delivered by end 2023 subject to regulatory approvals. We model a base-case (mid-point) valuation of \$903mn (\$1.17/share) with an upside case to \$1.54/share. The success case at Carpentaria continues to build and could deliver valuation upside well in excess of our base case. There is likely to be no better time than now to progress and deliver gas projects.

Share Details

ASX code	EEG
Share price (13 Oct)	\$0.13
Market capitalisation	\$100.5M
Shares on issue	773M
Net cash at 30-Jun-2023	\$8.3M
Free float	~49.5%

Share Price Performance (12-months)



Upside Case

- Next stage evaluation of Carpentaria-3H further confirms the viability of long lateral well design and commercial benefits of the 'soaking process'.
- Further definition and acceleration of the early-production opportunity.
- Securing a binding off-take agreement and/or partner to offset market perceptions of future equity dilution.

Downside Case

- Capex inflation impacts project returns potentially slowing progress to first gas.
- Continuing financing reliance through equity issues on weaker field data resulting in excessive share dilution.
- Slower progress through FEED and delays to the timing of FID, expected around end-2023

Catalysts

- Successful delivery of Carpentaria Project sanction demonstrating low capex nature of start-up and setting the clock to first gas.
- Further successful evaluation results heading into FID
- Outline of expansion stage growth plans

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FINANCIAL SERVICES GUIDE

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