

### 1Q20 actions sustain prospects well beyond CV

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 province is fast developing as a gas-rich (and potentially liquids-rich) boost to future east coast Australia's energy needs and Darwin's expanding LNG export terminals, amid strong policy support from both the Northern Territory (NT) and Federal governments. The Beetaloo Basin alone is considered to contain recoverable shale dry gas volumes of over 100 Tcf, with liquids upside. EEG also owns conventional gas/oil assets in the US Appalachia, 80%-hedged at US\$2.50/mcf for 2020. In March, EEG received approval to drill its Carpentaria-1 vertical appraisal well into the Kyalla and Velkerri shale targets, to confirm recent better-than-expected seismic mapping results. Crystallising EEG's longer-term potential rests on successful drilling, then securing strategic funding and infrastructure support to commercialise the acreage. Given exceptional COVID-19 uncertainties, EEG has acted decisively to secure US debt covenant waivers until year-end, while conserving cash (A\$11.25m gross) and protecting staff and local communities, by deferring drilling until a safe-work plan can be finalised with local authorities.

#### Business model

Empire Energy Group (EEG) is a junior oil & gas producer/exploration company, focused 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 basin and is the 2<sup>nd</sup> largest gas producer in the US Appalachia NY State. EEG's NT assets are at an early exploration stage. Given the region's high prospectivity, success from future drill programs could see cashflows within 36-48 months, assuming links and upgrades to existing pipeline infrastructure are delivered in parallel. COVID-19 delays, rather than dents, the Opportunity.

#### 1Q20 quarterly takeaways well set for future

EEG's 1Q20 quarterly updated in line with our expectations. Gross positive cash of ~A\$11.25m leaves EEG funded to support its 2020 EP187 Carpentaria-1 work program appraisal aims in line with its strategic pivot towards the McArthur-Beetaloo. While risks exist switching from producer to explorer/appraiser, we believe the quality of assets justifies the decision. EEG's Appalachia business is running lean, 80%-hedged at US\$2.50/mcf & with debt covenant waivers until year-end. We chiefly await a) NT drilling commencement (COVID-19 safe-work clearance & a rig supply contract); b) an upgraded McArthur-Beetaloo resource statement; c) NT EMP submission for the Carpentaria-1 vertical frac; d) gaining regional land access clearance. Robust results from EEG's 20/21 programs could evolve its 2015 prospective resource (P50) of 1.85bln Boe (11 Tcfe) into a contingent resource (2C), better positioning the company to attract strong potential funding partners. Positive read-throughs from Beetaloo neighbour (eg Origin & Santos) are also likely to inject value.

#### Valuation

We assign a base case valuation of \$133m or \$0.51/share using the RaaS 2Q20 commodity price deck, on the current share count of 263.3m. EEG has a number of event drivers over the next 6-12 months which in our view 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	6.6*	1.9*	(5.3)*	(0.15)	(1.41)	19.4
12/19e	5.4	1.2	(12.0)	(4.12)	(9.29)	3.2
12/20e	4.7	1.4	(3.3)	1.32	(1.95)	5.4
12/21e	4.4	1.1	(3.7)	2.82	(2.22)	9.2

Source: Company data, RaaS estimates for FY19e, FY20e and FY21e  
\*restated for asset sale

### Energy exploration & production

7 May 2020

#### Share details

ASX Code	EEG
Share price (6-Feb)	\$0.24
Market Capitalisation	\$63.2M
Shares on issue	263.3M
Net cash	~US\$0.26M
Gross cash	~US\$6.9M

#### Share performance (12 months)



#### Upside Case

- EEG's Carpentaria-1 drill program proves the Beetaloo Velkerri/Kyalla shales extend into EP187 & hold both gas & liquids
- Further McArthur-Beetaloo work programs generate significant commercial outcomes
- EEG drilling success generates high-value LT strategic partnership(s) & funding options

#### Downside Case

- McArthur-Beetaloo EP 187 drilling proves unsuccessful, negatively impacting remaining NT permits (EP180-188) values
- Continuing equity issue financing is highly dilutive to future share 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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## Empire Energy Group Limited – 1Q20 activities target “new normal”

EEG reported its March 2020 quarter update, as the company continues its strategic investment pivot away from US conventional gas and oil production towards exploring the gas and liquids potential of its huge 14.5m acre tenement position in the Northern Territory’s highly prospective McArthur- Beetaloo basin.

With the largest acreage held by any company in the region and as the only independent ASX-listed junior explorer in the region, EEG announced “**better-than-expected**” **2D seismic** results in late-January, highlighting the promise that the Beetaloo sub-basin’s identified hydrocarbon-prospective shale sequences extend into the company’s EP 187 tenement holding. The company also concluded the first quarter with **~A\$11.2m gross positive cash on hand**, in line with our expectations and currently is adequately funded to complete EEG’s forward 12-month work program.

The company has deferred the drilling of Carpentaria-1 in EP187, its key near-term value driver, until the board and management can be confident that the first stage vertical appraisal program can be conducted in a “new normal” healthy, safe, responsible and cost-effective manner for all staff, contractors and local communities, in conjunction with government authorities and other key stakeholders.

EEG continues to focus on making progress on a number of fronts:

- a) The company has obtained an agreement with its US bankers to **waive all debt covenants until year-end**, allowing breathing space for US Henry Hub gas prices to recover, while providing investors with reasonable comfort that its US production assets can be self-sustaining for the remainder of 2020. EEG’s 2020 Appalachian gas output is 80%-hedged at US\$2.50/mmBtu.
- b) The company has engaged Netherland Sewell & Associates to prepare an **updated independent prospective resource** report covering all its tenement holdings in the Northern Territory. We anticipate the results will be released this quarter. EEG’s existing P50 Prospective Resource calculates ~11Tcfe (~13k PJ) across its McArthur basin holdings, covering 5.5m/14.5m acres. This was last updated in February 2016.
- c) The company is drafting the **Environmental Management Plan** for the next phase of its Carpentaria-1 well work program. Baseline environmental testing is ongoing.
- d) The company is also prioritising negotiations with **local landowners** to gain regional land access clearance on its remaining Northern Territory permits, including EP180, 181, 182, 183 and 188.
- e) EEG has been cleared to continue operating its New York State and Pennsylvania Appalachia conventional energy assets during the COVID-19 shutdown. In both states, natural gas for power generation has been deemed an “**essential service**” by the relevant local authorities.

### Financials – looking at March 2020 and beyond

EEG concluded the March 2020 quarter with a positive cash balance of US\$6.9m (A\$11.25m), US\$3m below its 4Q 2019 cash balance of US\$9.9m (A\$14.8m), in line with our expectations.

	AUD (m)	USD (m) *
Gross Cash	11.25	6.94
Debt	10.82	6.675
Net Cash	0.43	0.26

Source: Company data; assumes AUD-USD exchange rate of 1:0.6169

Looking ahead, we consider EEG holds adequate cash reserves to fund its 2020 Carpentaria-1 vertical drilling plans in the Beetaloo sub-basin for the upcoming 12-months. We estimate well and appraisal costs are likely to range A\$5-8m, while Australian corporate overheads are running at ~A\$2.5m per annum. We note that our funding forecasts assume a COVID-19 shutdown of 2-3 months and incorporate a small potential upward revision of costs to take account of additional health and safety distancing measures.

### Future funding sources

As discussed in previous reports, we believe EEG has a number of future potential funding sources, including:

- a) A Farm-Out partnership
- b) Additional equity raising
- c) An asset sale of EEG's US Appalachian conventional gas/oil assets across Pennsylvania and New York State, where the company is the second-largest regional gas supplier.
- d) The exercise of unlisted options. EEG has ~57.43m unlisted options exercisable at share prices of A\$0.30, \$0.32 and \$0.60 over various periods through until 30 December 2022.

### Appalachia cashflows linked to natural gas outlook

EEG's Appalachian production business is running largely at cash flow break even at prevailing gas prices. During the March 2020 quarter, the business generated US\$1.43m revenues, while total staff, production, development, interest and tax costs across Australia and the US amounted to ~US\$1.7m.

During the quarter, total net US Appalachian gas output reached 403,704 Mcf (4,436 Mcf/day), falling nominally by 356 Mcf from the December quarter's production total of 440,851 Mcf (4,792 Mcf/day).

EEG's outstanding US-denominated debt facility with Macquarie Bank totals US\$6.675m and does not mature until September 2024. Interest costs are covered from quarterly Appalachian conventional production cashflows. These debt costs amount to ~US\$0.1375m per quarter.

Gas hedging now extends to end-2023, providing additional downside protection for the operations. The hedges have all been set at a floor price of \$2.50/mmBtu, with premia of up to US\$0.41/mmBtu to be paid.

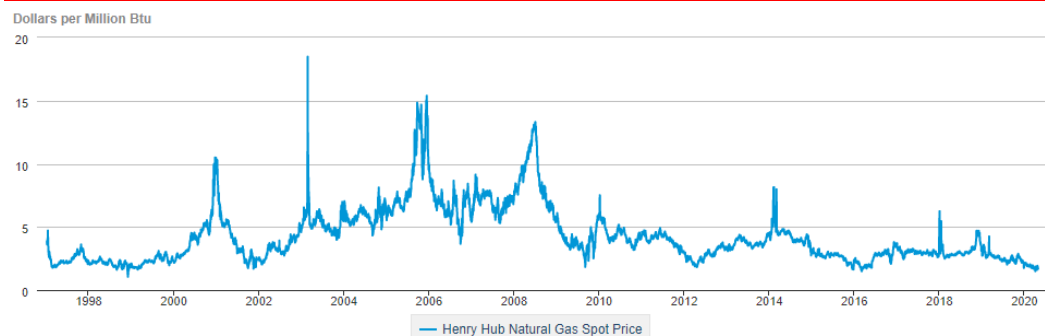
**Exhibit 2: EEG US Gas production hedging (2020-2023)**

Period	Volume mmbtu/month	Hedge Type	Strike Price US\$/mmbtu	Premium US\$/mmbtu
Apr 20 to Dec 20	120,000	Put Options	\$2.50	\$0.23
Jan 21 to Dec 21	25,000	Put Options	\$2.50	\$0.23
Jan 21 to Dec 21	25,000	Put Options	\$2.50	\$0.37
Jan 21 to Dec 21	25,000	Put Options	\$2.50	\$0.41
Jan 22 to Dec 22	25,000	Put Options	\$2.50	\$0.35
Jan 22 to Dec 22	50,000	Put Options	\$2.50	\$0.41
Jan 23 to Dec 23	25,000	Put Options	\$2.50	\$0.41

Source: Company data

### US Gas Outlook

**Exhibit 3: Henry Hub gas prices (USD/MBtu)**



Source: EIA data

After averaging 25-year lows of US\$1.91/mmBtu during the March quarter, we believe the Henry Hub price outlook is set to improve, in line with the forward curve contango averaging US\$2.40/mmBtu for the remainder of 2020. In our view, the principle driver is the significant fall in shale gas produced as a by-product of shale oil. With WTI oil price lows causing many US shale oil producers to plug wells and greatly curtail further drilling plans, by-product gas rates have been falling commensurately since COVID-19 began to restrict economic activity. The EIA estimates that by-product gas accounted for ~50% of total US gas supplies in 2019,

while other gas activities have been scaling back too. According to Baker Hughes data, active gas rigs have fallen to 81, compared to 183 rigs a year ago.

### Beetaloo neighbour activities help validate world class hydrocarbon significance

The virus shutdown appears in no way to have dented Origin's enthusiasm for the Beetaloo sub-basin's hydrocarbon potential, as mentioned in previous reports. Demonstrating its ongoing commitment to regional investments, Origin announced the purchase of an additional 7.5% of its JV partnership with Falcon, in early-April, lifting its total stake to 77.5%, for effective consideration of A\$25m.

In addition, Origin agreed to significantly lift the total investment cap on the JV Stage II and Stage III work programs from A\$113.3m to A\$263.8m, an increase of A\$150.5m or 133%.

With this latest deal, Origin is valuing its JV tenements and all completed works to date at a net A\$333m.

Origin is hopeful the Velkerri and Kyalla hydrocarbon plays may be stacked, as well as containing both gas and liquids, both of which would substantially improve project returns. Origin expects to restart its Kyalla work program during 2H 2020, while deferring its Velkerri-76 work program until 2Q next year.

**Exhibit 4: Beetaloo sub-basin: planned Regional Hydrocarbon Exploration**

Company	Activity Scheduled	Timeline
EEG	EP187 Carpentaria-1 vertical drill program ~2900m (Kyalla & Velkerri shale appraisal)	2H 2020
Origin-Falcon JV	EP 117 Kyalla 117 N2 1H ST2 extended horizontal production flow test continuance - targeting liquids rich gas fairway. 4Q19: announced C3,C4,C5 & elevated gas shows & total Kyalla thickness of 900m	2H 2020
Origin-Falcon JV	EP76 Velkerri 76 S2 eastern flank drill, HFS, test - targeting shale liquids rich gas (15-60 bbl/MMscf) - awaits NT EMP approval	1H 2021
Santos-Tamboran JV	EP 161 Tanumbirini-1 extended flow test completion 1Q20: gas discovery & maiden resource from "above-expected" flow test results of 1.2mmscf/d	1H 2021
Santos-Tamboran JV	EP161 Inacumba-1 vertical drilling	2H 2021
Santos - Armour Energy	South Nicholson 2D seismic tests	2021
Hancock Prospecting	2D seismic program awaits NT EMP submission (subject to landholder approval)	2021
Pangaea Resources	Activities await NT EMP submission	2021

Source: Company data; NT Department of Primary Industry and Resources

Santos has recently announced a maiden 2C prospective resource of 22mm boe (~130PJ), after making a gas discovery and finding "better-than-expected" flow test rates of >1.2mmscf/day from the vertical hydraulic fracture stimulation of its EP161 Tanumbirini-1 well. All work for 2020 has been deferred until 2021 due to COVID-19.

Santos also looks set to expand its exposure to the Beetaloo. At the end of January 2020, the company was provisionally granted a new (100%-owned) permit, EP354, located on the southern side of existing Beetaloo Basin exploration activities, squeezed to the south of Origin's EP76 permit; to the north of Pangaea's EP 169 permit and to the west of Sweetpea's EP136 permit.

## Exhibit 5: Financial Summary

EMPIRE ENERGY GROUP LTD		EEG				
YEAR END		Dec				
NAV	A\$mn	<b>\$0.51</b>				
SHARE PRICE	A\$cps	0.24	Last price 6-May			
MARKET CAP	A\$mn	63				
ORDINARY SHARES	M	263				
OPTIONS	M	54				
<b>COMMODITY ASSUMPTIONS</b>						
		2018	2019	2020E	2021E	
Realised oil price	US\$/b	59.86	59.76	36.90	39.16	
Realised gas price	US\$/mcf	3.24	2.72	2.49	2.36	
Exchange Rate	A\$:US\$	0.7452	0.6958	0.6389	0.6290	
<b>EARNINGS</b>						
	US\$000s	2018	2019	2020E	2021E	
Revenue		6,593	5,397	4,656	4,407	
Cost of sales		(4,723)	(4,189)	(3,305)	(3,325)	
<b>Gross Profit</b>		<b>1,870</b>	<b>1,208</b>	<b>1,352</b>	<b>1,082</b>	
Other revenue						
Other income		2,192	155	200	200	
Exploration written off		0	0	0	0	
Finance costs		(801)	(637)	135	45	
Impairment		0	(6,512)	0	0	
Other expenses		(8,399)	(6,052)	(4,950)	(4,985)	
<b>Profit before tax</b>		<b>(5,138)</b>	<b>(11,838)</b>	<b>(3,263)</b>	<b>(3,658)</b>	
Taxes		(115)	(135)	0	0	
<b>NPAT Reported</b>		<b>(5,254)</b>	<b>(11,973)</b>	<b>(3,263)</b>	<b>(3,658)</b>	
Loss on discontinued operations		(10,714)	(4,102)	0	0	
<b>NPAT Underlying</b>		<b>(15,968)</b>	<b>(16,075)</b>	<b>(3,263)</b>	<b>(3,658)</b>	
<b>CASHFLOW</b>						
	US\$000s	2018	2019	2020E	2021E	
<b>Operational Cash Flow</b>		<b>2,828</b>	<b>1,267</b>	<b>117</b>	<b>450</b>	
Net Interest		(2,974)	(1,885)	135	45	
Taxes Paid						
Other		(115)	(135)	(30)	(30)	
<b>Net Operating Cashflow</b>		<b>(261)</b>	<b>(753)</b>	<b>222</b>	<b>465</b>	
Exploration		0	0	(1,278)	(3,774)	
PP&E		(49)	0	0	0	
Petroleum Assets		(168)	(1,848)	0	0	
Net Asset Sales/other		359	20,008	(472)	(715)	
<b>Net Investing Cashflow</b>		<b>(120)</b>	<b>17,407</b>	<b>(1,528)</b>	<b>(4,024)</b>	
Dividends Paid		0	0	0	0	
Net Debt Drawdown		(7,878)	(18,497)	(2,148)	(1,893)	
Equity Issues/(Buyback)		11,677	8,037	0	0	
Other		0	0	0	0	
<b>Net Financing Cashflow</b>		<b>3,785</b>	<b>(10,693)</b>	<b>(2,148)</b>	<b>(1,893)</b>	
<b>Net Change in Cash</b>		<b>3,404</b>	<b>5,961</b>	<b>(3,454)</b>	<b>(5,452)</b>	
<b>BALANCE SHEET</b>						
	US\$000s	2018	2019	2020E	2021E	
Cash & Equivalents		4,157	9,882	6,429	977	
PP&E & Development		31,241	26,633	25,704	29,928	
Exploration		0	141	127	114	
Other Assets		28,673	2,993	991	1,495	
<b>Total Assets</b>		<b>64,071</b>	<b>39,650</b>	<b>33,251</b>	<b>32,515</b>	
Debt		24,369	6,481	4,883	2,990	
Other Liabilities		18,332	19,504	20,846	25,212	
<b>Total Liabilities</b>		<b>42,701</b>	<b>25,985</b>	<b>25,729</b>	<b>28,202</b>	
<b>Net Assets/Shareholders Equity</b>		<b>21,370</b>	<b>13,665</b>	<b>7,522</b>	<b>4,313</b>	
Net Cash/(Debt)		(20,211)	3,401	1,546	(2,013)	
Gearing dn/(dn+e)		-33%				
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	1,778	1,748	1,731	
<b>TOTAL</b>	<b>kboe</b>	<b>432</b>	<b>385</b>	<b>294</b>	<b>291</b>	
<b>Product Revenue</b>						
	A\$mn	14.0	10.3	4.5	4.3	
<b>Cash Costs</b>						
	A\$mn	(5.1)	(4.4)	(2.4)	(2.4)	
Ave Price Realised	A\$/boe	32.49	26.84	15.30	14.60	
Cash Costs	A\$/boe	(11.84)	(11.54)	(8.00)	(8.10)	
<b>Cash Margin</b>		<b>20.65</b>	<b>15.29</b>	<b>7.30</b>	<b>6.50</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	24.3	34.4	38.2		
<b>EQUITY VALUATION</b>						
	Risked Range (In A\$M)			Risked Range Per Share (A\$)		
<b>NT</b>	Low	Mid	High	Low	Mid	High
Gas	\$60	\$90	\$202	\$0.23	\$0.34	\$0.77
Oil	\$22	\$33	\$74	\$0.08	\$0.13	\$0.28
<b>US Onshore</b>						
Appalachian	\$5	\$10	\$15	\$0.02	\$0.04	\$0.06
	<b>\$87</b>	<b>\$133</b>	<b>\$292</b>	<b>\$0.33</b>	<b>\$0.51</b>	<b>\$1.11</b>
Net cash/(debt)	\$5	\$5	\$5			
Corporate costs	(\$5)	(\$5)	(\$5)			
<b>TOTAL</b>	<b>\$87</b>	<b>\$133</b>	<b>\$292</b>	<b>\$0.33</b>	<b>\$0.51</b>	<b>\$1.11</b>
<b>RATIO ANALYSIS</b>						
		2018	2019	2020E	2021E	
Shares Outstanding	M	2313	263	263	263	
EPS (pre sig items)	UScps	(1.05)	(6.46)	(1.24)	(1.39)	
EPS	Acps	(1.41)	(9.29)	(1.95)	(2.22)	
PER	x	na	na	na	na	
OCFPS	Acps	(0.15)	(4.12)	1.32	2.82	
CFR	x	na	na	na	na	
DPS	Acps					
Dividend Yield	%					
BVPS	Acps	1.2	7.5	4.5	2.6	
Price/Book	x	19.4x	3.2x	5.4x	9.2x	
ROE	%		na	na	na	
ROA	%		na	na	na	
(Trailing) Debt/Cash	x					
Interest Cover	x					
Gross Profit/share	Acps		6.6	8.1	6.6	
<b>EBITDAX</b>	<b>ASM</b>	<b>2.3</b>	<b>0.6</b>	<b>(2.0)</b>	<b>(2.3)</b>	

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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

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