



EMPIRE OIL & GAS NL

ABN 55 063 613 730
229 Stirling Highway
CLAREMONT 6010 WESTERN AUSTRALIA
TELEPHONE + 61 8 9286 4600
FACSIMILE + 61 8 9284 6588
EMAIL admin@empireoil.com.au
WEB www.empireoil.com.au

1 September 2014

The Manager
Company Announcements Office
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

Corporate Transaction and Update on Contingent & Prospective Resources

Please find attached an Empire Oil & Gas NL (ASX: EGO) ASX Announcement concerning a corporate transaction between Empire and ERM Power Limited (ASX: EPW) and an update on the indicative Contingent and Prospective Resources for the future EP 389 exploration prospects.

Yours faithfully

Kent Quinlan
Company Secretary

1 September 2014

Empire strikes pivotal deal to buy out JV partner, raise cash and unlock value of extensive exploration acreage

Agreement with ERM Power will deliver Empire full ownership of the Red Gully gas project and several highly prospective Perth Basin tenements, paving the way for a potential company-making exploration drive

Key Points

- Empire agrees to buy ERM's interests in several Perth Basin permits for \$16.34m, with the acquisition to be funded via an interest-free loan from ERM
- ERM stands to receive a "top-up" payment to the purchase price linked to any increase in Empire's share price while the loan is outstanding
- Transaction will be subject to a number of conditions including shareholder, regulatory and contractual approvals and an Independent Expert opining that the transaction is fair and reasonable
- ERM agrees to participate up to \$7.5m in a placement and subsequent rights issue
- Asset purchase and placement are subject to Empire shareholder approval
- If the transaction is approved, Empire intends to undertake a rights issue at the same price as the placement to raise up to \$10m
- Empire will emerge with 100% ownership of 10 of its 12 Perth Basin permits and the Red Gully gas and condensate project and ~80% of another two permits
- Empires permits will then cover a total of more than 12,000sqkm, making Empire the largest acreage holder in this highly prospective onshore Perth Basin; Empire will operate more than 50%¹ of the Perth Basin
- The current credit facility provided by ERM will be increased to \$3.75m and extended to the earlier of an approved placement to ERM or 31 December 2014 to allow time for the documents to be finalised and for shareholder approval

¹ This percentage is as a proportion of all granted Exploration Permits and Production Licences in the Perth Basin as per Encom-GP Info Petroleum Permits of Australia 2014.

Empire Oil & Gas (ASX: EGO) is pleased to advise that it has struck a potentially company-making deal with major shareholder and joint venture partner ERM Power (ASX: EPW) aimed at unlocking the full value of Empire's extensive exploration acreage in WA's highly prospective Perth Basin.

Under the agreement, Empire will emerge with control of the largest acreage package in the Perth Basin. It will own 100 per cent of ten of the 12 tenements in this package, including the Red Gully gas and condensate project, and ~80 per cent of a further two tenements in this package.

This acreage package covers more than 12,000sqkm, representing more than 50¹ per cent of the Basin.

Empire Chief Executive Ken Aitken said that by taking full ownership of the tenements, Empire would be much better placed to unlock the potentially immense value of the Perth Basin for Empire shareholders.

"This deal will deliver Empire 100 per cent ownership and revenue of our cornerstone production asset, Red Gully, and the largest prospective oil and gas acreage holding in the Perth Basin," Mr Aitken said.

"This deal will mean that Empire will receive 100 per cent of all the cash from selling condensate and the additional cash from selling gas to Alcoa under Tranche 2 of the Gas Supply Agreement which we expect to commence in about a years time.

"Based on the current production rates of 8 TJ and 360 barrels of condensate per day, this is over \$25 million a year.

"The simpler ownership structure will in turn maximise our ability to attract the highest quality exploration partners and investors to help fund what is expected to be an aggressive exploration drive over the next few years to unlock the value of our highly prospective holding.

"The deal also provides funding solutions via both the vendor finance arrangements and the share placement, which will give us the time and financial stability to commence our work programs and seek longer-term solutions to funding an aggressive exploration drive."

Mr Aitken said the agreements ultimately had one key objective: to give Empire the best possible chance of making further commercial oil and gas discoveries in the onshore Perth Basin.

"We have long known that our acreage in the Perth Basin has enormous potential to host more commercial oil and gas discoveries that could create significant wealth for our shareholders," he said.

"These agreements are about maximising our chances of making those discoveries on behalf of our shareholders."

The transaction is subject to regulatory and contractual approvals and an Independent Expert opining that it is fair and reasonable to Empire's shareholders. If the Independent Expert provides this opinion, the transaction will then require the approval of Empire shareholders excluding ERM.

The agreement involves ERM selling its interests in EP 389, including Red Gully, and seven other tenements to Empire for \$16.34 million. ERM will provide Empire an interest-free loan to fund the purchase of the assets, repayable by Empire on the earlier of a disposal of the Red Gully processing Facility or two years.

ERM may also receive a top-up payment to the purchase price, based on gains in Empire's share price. Under this mechanism, the purchase price ultimately paid by Empire will escalate by 70 per cent of the percentage increase in Empire's share price until the loan is repaid. For example, if Empire's share price increases by 100 per cent, then Empire will make a top-up payment to ERM equal to 70 per cent of \$16.34 million.

This top-up mechanism will cease immediately the loan is repaid. Empire may choose to repay this loan prior to the expiry of the two-year period.

As part of the transaction, Empire will raise up to \$7.5 million from ERM through a combination of a share placement and rights issue to ERM. These will be done at a 12.5 per cent discount to Empire's 10-day VWAP immediately prior to the time of shareholder approval and will see ERM increase its stake in Empire from ~10.2 per cent currently to a maximum of 19.99 per cent.

On approval of the transaction by shareholders, Empire intends to offer all shareholders the opportunity to take part in a proposed rights issue on the same terms as the placement to raise a further \$10 million. Further details with respect to the proposed rights issue will be provided to shareholders as soon as those details are available.

The key terms of the transaction generally are appended to this release in Attachment A.

The interests Empire is purchasing

Under the agreement, Empire will purchase from ERM its 23.61 per cent interest in EP 389, which includes Red Gully and the Wannamal Exploration prospects, its 30.87 per cent interest in EP 426² which includes the North Erregulla prospect, its 13.88 per cent interest in EP 432², which includes the Black Arrow prospect, its 5.56 per cent interest in EP 416² which includes the Leschenault prospect, its 12.5 per cent stake in EP 440, its 50 per cent stake in EP 454 which includes the Charger and Garibaldi prospects, its 60 per cent interest in EP 480, its 100 per cent interest in EP 467 and its 21.25 per cent interest in Cattamarra Farms Pty Ltd (which owns the land that the Red Gully Facility and Gingin West-1 and Red Gully-1 wells are located on).

This transaction will leave Empire as the 100 per cent owner and operator of all these tenements, except for EP 426, in which Norwest Energy NL has a 22.22 per cent interest¹.

Credit facility

As part of the transaction, ERM has also agreed to increase the credit facility to \$3.75 million and to extend the term for repayment to the earlier of any approved placement to ERM or 31 December 2014 to allow time for the various documents to be executed, the Independent Expert to provide their report and the holding of the general meeting for shareholder approval.

Empire intends to drawdown \$1 million of this facility, taking it a total of \$3m drawn-down, in the coming week.

Next steps

Empire and ERM Power are currently finalising long form documentation for the acquisition and capital raisings and preparing the notice of meeting to be despatched to shareholders. Shareholder approval will be sought at a general meeting to be held no later than 17 November 2014, and which

² These percentages are after the deemed withdrawal of Allied Oil & Gas Plc from these tenements

is likely to be held as part of the Annual General Meeting in order to both minimise costs and inconvenience to shareholders.

Following the execution of formal long form documentation, Empire will provide shareholders with an update on the transaction and the proposed rights issue, including key terms and dates.

Wannamal prospects update

As notified in the March 2014 Quarterly Report, the company has identified four attractive and drill-ready prospects within easy tie-back distance of the Red Gully Production hub.

As part of this transaction, Empire conducted technical work and completed a peer review process of the resource numbers previously disclosed. These estimates of the contingent and prospective resources for the exploration prospects at Gingin, Gingin East, Bootine Deep and Wannamal have been updated. The new estimates better capture the range of expectations in respect to future drilling at these locations.

Table 1: EP 389 Joint Venture and Empire (net share) Contingent Resources and Prospective Resources for future Exploration Prospects.

Field/Prospect		EP 389 Joint Venture			EMPIRE (net @ 76.39%)		
		Contingent Resources			Contingent Resources		
		1C	2C	3C	1C	2C	3C
Gingin - D & LC1 sands	Gas (BCF)	8.4	16.7	27.0	6.4	12.8	20.6
	Condensate (kBBL)	92	184	297	70	141	227
Gingin East – LC4 & LC5 sands	Gas (BCF)	7.6	11.1	18.0	5.8	8.5	13.8
	Condensate (kBBL)	251	498	809	192	380	618
Field/Prospect		Prospective Resources			Prospective Resources		
		Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
Bootine Deep - LC1, LC2 & LC3 sands	Gas (BCF)	16.1	26.4	38.2	12.3	20.2	29.2
	Condensate (kBBL)	533	1189	1908	407	908	1458
Wannamal – LC1 & LC3 sands	Gas (BCF)	16.9	27.6	44.4	12.9	21.1	33.9
	Condensate (kBBL)	507	912	1996	387	697	1525

For further information:

Paul Armstrong/Nicholas Read

Read Corporate

+61 8 9388 1474

Unless otherwise indicated, the statements contained in this ASX Announcement about both the EP 389 Joint Venture and Empire's reserves and resource estimates have been compiled in accordance with the definitions and guidelines in the 2007 SPE PRMS. This information is based on, and fairly represents, information and supporting documentation prepared by Mr Ian Paton, who has consented to the inclusion of this information in the form and context in which it appears in this report. Mr Paton holds degrees in Geophysics (BSc (Hons)) and Petroleum Engineering (MPet Eng) and has over 35 years of experience as a specialist geophysicist with extensive experience in petroleum field exploration and development, and he is also a qualified petroleum reserves and resources evaluator and member of the Society of Petroleum Engineers. Mr Paton is a consultant to ERM Gas Pty Ltd and has been seconded to Empire.

Attachment A

Summary of key terms of the transaction

Purchase of ERM's Western Australian gas exploration assets

- **(Assets)** Empire has agreed to purchase from ERM Power its interests in the Permits, all production licences granted within the areas of the Permits, the physical assets associated with the Permits, intellectual property rights associated with the Permits, ERM Power's shareholding in Cattamarra Farms Pty Ltd and associated unsecured loan and all amounts payable by Wharf Resources Plc pursuant to a costs order made by the Supreme Court of Western Australia **(Sale)**.
- **(Consideration)** The total consideration for the Sale is \$16.34 million funded by way of vendor finance by ERM Power, which may be topped-up based on gains in Empire's share price, which is repayable on the earlier of the disposal of the Red Gully processing plant by Empire and 24 months from the date of the agreement. Empire may elect to repay the vendor finance at an earlier date on at least 120 days' notice. The top-up mechanism will cease immediately the loan is repaid.
- **(Conditions)** The Sale is subject to the approval of Empire's shareholders at a general meeting to be held on or before 17 November 2014, obtaining requisite regulatory and contractual approvals and Empire appointing an independent expert to assess the Sale and the expert opining that the Sale is fair and reasonable to Empire's shareholders.
- **(Completion Date)** Completion of the Sale will occur five business days after the satisfaction of the conditions, which is expected to be late November 2014.
- **(Credit Facility)** As part of the transaction, the existing credit facility provided by ERM (which was extended in August 2014) will be increased to \$3.75 million and the expiry date for the facility will be extended from 30 September 2014 to 31 December 2014.

Subscription and rights issue

- **(Subscription)** ERM Power will subscribe for an amount of fully paid ordinary shares in Empire at a 12.5% discount to the volume weighted average price of Empire shares over the 10 trading days ending on the date immediately prior to Empire's general meeting at which the Sale is considered **(Subscription)**. The amount outstanding under the existing credit facility will be applied towards the Subscription amount payable by ERM Power. As a result of the Subscription, ERM Power's shareholding (together with its associates) will increase to no more than 19.99%.
- **(Rights Issue)** Subject to completion of the Sale and Subscription, Empire intends to launch a pro-rata entitlement offer to existing shareholders at the same issue price as under the Subscription **(Rights Issue)**. ERM Power intends to participate in the proposed Rights Issue up to a maximum amount of \$7.5 million (less the Subscription amount) **(Commitment Amount)**. If, after participating in the Subscription and the proposed Rights Issue there is a balance in the Commitment Amount, ERM Power has agreed to commit to underwrite a portion of the Rights Issue up to the balance of the Commitment Amount.