

4 October 2013

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## ERM Power rejects Empire's Initial Response

### Key Points

- **ERM Power is not seeking to take control of Empire. ERM Power's proposals will ultimately see it hold just one of four Empire Board seats.**
- **ERM Power's move to strengthen the Empire Board is in response to continual project cost overruns and time delays.**
- **ERM Power's proposal will not delay nor interrupt Empire's operations.**
- **ERM Power seeks to realise the underlying value of Empire's assets for the benefit of all Empire shareholders.**

ERM Power Limited (ASX: EPW) notes the announcement of Empire Oil & Gas NL (ASX: EGO) of 3 October 2013 ("Empire Initial Response") in response to ERM Power's announcement of 27 September 2013 ("Requisition Announcement").

### **ERM Power is not seeking to take control of Empire**

As stated in the Requisition Announcement, ERM Power is seeking to appoint two ERM Power nominees to a new Board of Empire for a period of three to six months in which time the Board will appoint a new Chief Executive and two new Independent Directors, one of whom will take over as Chairman. On the appointment of the two new Independent Directors, one ERM Power nominee will retire from the Board. This will leave Tony Iannello as the sole ERM Power representative out of four Board members.

ERM Power reiterates it has no intention to make a takeover bid for Empire or for the Empire Board to remain at only three members for any longer than is absolutely necessary to implement the actions described above and in the Requisition Announcement.

ERM Power refutes the suggestion in the Empire Initial Response that it is attempting to use its 9.51% shareholding interest in Empire to take control of Empire. ERM Power is simply seeking the support of Empire shareholders to implement the actions that it believes are necessary to realise the potential underlying value of Empire's assets.

### **ERM Power's move to strengthen the Empire Board is in response to continual project cost overruns and time delays**

If ERM Power is successful in its resolutions it will conduct a whole of business review as a matter of priority. This review will consider all aspects of the business, including operational and governance structures. As this review has not yet been undertaken, ERM Power is unable to pre-empt its outcome.

ERM Power has corresponded with Empire on many occasions to express its dissatisfaction with Empire's operational management of the joint venture assets and in particular the Red Gully Gas Processing Facility ("Facility") development. ERM Power denies the implication in the Empire Initial Response that by not previously requesting Board representation it has acted inappropriately during joint venture operating committee and technical committee meetings.

Beginning in April 2013, ERM Power's shareholding in Empire is a recent occurrence in the six year joint venture relationship between ERM Power and Empire and was considered a necessary step by ERM Power to protect its interests in the respective joint ventures. ERM Power is of the view that the pattern of significant time and cost overruns of the Facility, and the extended drilling and seismic program delays across multiple tenements, are unsatisfactory and must be rectified.

ERM Power refers to Empire's statement that Mr Craig Marshall was in charge of the construction, commissioning and post commissioning of the Facility. ERM Power notes that the Facility costs of \$38.679m have overrun significantly from the initial cost estimate, and that the Facility is approximately 11 months past the Target Start Date and almost five months past the original last day for the Delivery Start Date of the Alcoa Gas Sale Agreement.

### **ERM Power's proposal will not delay nor interrupt Empire's operations**

In relation to Empire's suggestion that ERM Power's proposal in the Requisition Announcement will delay Empire's operations, including the drilling of three proposed wells, the North Erregulla 3D Seismic Survey in permits EP 426 and EP 368 and the "Across the Basin Farmout", ERM Power refers to the delayed timeframe for these events that has already occurred and that are unrelated to the Requisition Announcement.

ERM Power understands that the Black Arrow-1 and Charger-1 wells are still to be approved by the Department of Mines and Petroleum. As we are not a joint venture partner in EP 437 we are unable to comment on the proposed Dunnart-2 well program. ERM Power does not see how its proposal should have any effect on tenement work programs unless Empire as operator of the joint ventures itself decides to delay these programs.

ERM Power also fails to see how its actions are likely to delay the drilling of the Gingin/Wannamal gas prospects adjacent to the Facility. The EP 389 joint venture has not yet agreed on the location of this well and no well application has even been submitted to, or approved by, the Department of Mines and Petroleum to drill this prospect.

ERM Power notes it has been approximately seven months since the Empire announcement of Macquarie's appointment for the "Across the Basin Farmout" on 5 March 2013. We also note that according to the "Overview Memorandum Joint Venture Opportunity – May 2013" document as provided on Empire's own website, data rooms were to be open in June 2013 for a period of six to eight weeks with formal proposals due following this time. At the time of

this announcement, Empire has not announced the receipt of any formal proposals in relation to the “Across the Basin Farmout”.

## **ERM Power seeks to realise the underlying value of Empire’s assets for the benefit of all Empire shareholders**

ERM Power will advise Empire shareholders more fully of its proposed actions and plans to realise the potential underlying value of Empire’s assets for the benefit of Empire shareholders once the resolutions stated in the Requisition Announcement have been provided in a formal Notice of Meeting, lodged with the ASX and provided to Empire shareholders. ERM Power is of the view that it is in the best interests of Empire shareholders that Empire convenes an Extraordinary General Meeting of shareholders as soon as possible.

## **Empire 2013 Annual Report Disclosures**

ERM Power also notes that this week it has made certain requests to Empire for further information in relation to the new employment contract of the Managing Director, Mr Craig Marshall and the legal fees indemnity provided by Empire to its directors in relation to defamation actions undertaken by them against Empire shareholders and others, which were first disclosed in the Empire 2013 Annual Report announced on 30 September 2013.

A handwritten signature in grey ink, appearing to be 'P. Jans', written in a cursive style.

Peter Jans  
Group General Counsel & Company Secretary  
ERM Power Limited

## **For further information contact**

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### Empire shareholder queries

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## **About ERM Power**

ERM Power is a dynamic Australian energy company with interests in electricity sales and generation, and gas production and exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the 4th largest electricity retailer in the National Electricity Market with operations in every state. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 442 megawatts of low emission, gas fired peaking power stations in Western Australia and Queensland, sell conventional gas and condensate from onshore discoveries in Western Australia, and have gas exploration operations in Western Australia and New South Wales.

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