

23 December 2024

Empire Energy Group

The science says potential water impacts likely minor

Empire Energy Group Limited (ASX:EEG) is a gas development company, with onshore Northern Territory (NT) gas exploration and development assets. EEG has the largest tenement position in the highly prospective Greater McArthur Basin, which includes the Beetaloo Sub-basin. The recently released findings of the Independent Expert Scientific Committee (IESC) on unconventional gas in the Beetaloo has assessed the potential environmental impact and risk on water resources to be 'minor' if appropriate mitigation strategies are implemented. The article* published on the NT News website, also references comments from the Federal Department of Climate Change, Energy, Environment and Water (DCEEW) which concluded that exploration work (to date) did not meet the legal threshold of being a matter of national environmental significance to be assessed under national environmental law. In our view, these findings from both assessments are positive for operators with respect to current gas development plans and potential future phases of gas expansion. With strong commercial leverage to production and a relatively short lead time to first gas, we think this outcome is particularly beneficial for EEG, which is well advanced on the path to first gas.

Business model

Empire Energy Group Limited (EEG), is an gas exploration and development company, well-funded for in-ground works. With the securing of binding commitment letters with Macquarie Bank on a \$65m debt package and material progress on the drilling of the Carpentaria-5H development well, the path and timing to first gas remains on track, as we see it. There are remaining regulatory approvals and agreements to be finalised, most notably the 'Beneficial Use of Test Gas' deal with the traditional owners. We read the findings of both Federal Government enquiries as positive with respect to an environmental go-ahead. The path to growth begins with the first PJ and first gas can unlock the organic opportunities within the Territory and access to eastern coast markets. The company appears to be adequately funded through to first gas on the success case and beneficially holds its licences at 100%.

"...you can't pick and choose when you accept the science"

So has been quoted the DCEEW Minister, Tanya Plibersek.* Never a truer statement made and in this case, emanating from the IESC findings after assessing the potential environmental impact and risk on water resources to be 'minor' if appropriate mitigation strategies are implemented. Of course, the onus is on the operator to implement these strategies correctly, but it is important that the regulatory authorities remain consistent in the application of the findings of their own enquiries. We highlight the commentary attributed to the DCEEW with respect to Beetaloo exploration being below the threshold to trigger 'environmental significance concerns' but note the caveat as reported that "...additional studies may be required if exploration activities are expanded". We have no doubt that the development success case will eventually result in further exploration drilling, but through the initial pilot development phase within the areas over which regulatory approvals have been granted, operations should not be significantly affected with respect to growth/expansion projects we suggest. With the Carpentaria-5H well materially progressed and complementary works underway in other parts of the basin, the next six months in particular could deliver important test results with look through implications on the 'rising (or falling) tide' analogy for EEG.

NAV range is \$0.80-\$1.23/share, with mid-point at \$0.91/share

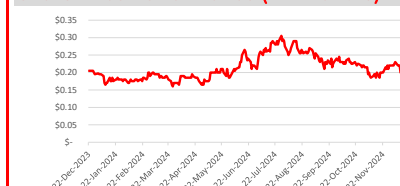
Our NAV estimate is unchanged at \$0.80-1.23/share with a mid-point (base case) of \$0.91/share. On critical positive outcomes associated with drilling and securing of the remaining regulatory approvals we'd anticipate the share price to better reflect the lower risk and higher value nature of gas reserves, as first production approaches. We note that the Midstream Infrastructure Facility terms include the issue of 50m options on financial close, with an ex-price of 28cps, a 33% premium to the pre-announcement share price. Assuming a success case and option exercise, our NAV on a fully diluted basis would reduce to \$0.78-1.19 with a mid-point (base case) of \$0.88/share – equity dilution is marginal.

* www.ntnews.com.au (Expert report finds potential risk to Beetaloo Basin's water 'minor') [subscription required]

Share Details

ASX code	EEG
Share price (20-Dec)	\$0.21
Market capitalisation	\$197.8M
Shares on issue	1,017M
Net cash at 30-Sep-2024	~\$35M
Free float	~49.5%

Share Price Performance (12-months)



Upside Case

- Successful completion of the C-5H well with operational results through 1Q25
- Above expectation flow rate data on the testing of the C-5H well.
- Securing remaining regulatory approvals – this absolutely defines the production case

Downside Case

- Under expectation results from C-5H and look-through data from other development drilling on the play
- Delays to securing the remaining regulatory approvals could push back the timing of first gas
- Higher capex requirements driving expectation of further and potentially material equity capital requirements

Catalysts

- Completion and testing results from C-5H well in 2Q25.
- Mobilisation of the gas plant to site with successful commissioning
- First gas

Company Contact

Alex Underwood (CEO) +61 2 9251 1846
info@empiregp.net

RaaS Contacts

Andrew Williams* +61 417 880 680
andrew.williams@raasgroup.com
Finola Burke* +61 414 354 712
finola.burke@raasgroup.com

*The analyst holds shares

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Level 1, 160 Edward Street, Brisbane, QLD, 4000 www.brsecuritiesaustralia.com.au

RaaS: c/- Rhodes Docherty & Co Pty Ltd, Suite 1, Level 1, 828 Pacific Highway, Gordon, NSW, 2072.

P: +61 414 354712

E: finola.burke@raasgroup.com

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