



08 August 2019

Puja Patel
Advisor, Listings Compliance (Sydney)
Australian Securities Exchange

Email: puja.patel@asx.com.au

Dear Ms Patel,

Re: Appendix 5B Query

1. **Does the entity expect that it will continue to have negative operating cash flows for the time being and, if not, why not?**

Yes.

Empire Energy Group Limited ("**Empire**" or "**the Company**") has two distinct operating units:

- a) Cash flow positive producing oil and gas assets located in Kansas and Appalachia (Pennsylvania and New York State) in the United States of America (collectively, "**the USA Assets**"); and
- b) Exploration assets located in the Northern Territory, Australia ("**the Northern Territory Assets**").

The USA Assets have consistently produced positive operating cash flows since they were acquired between 6 and 13 years ago. The USA assets are expected to continue to produce positive operating cash flows for the foreseeable future due to their long life, low decline nature, low operating costs and extensive hedging programs which ensure that prices received exceed the cost of production.

The Northern Territory assets are exploration assets, and as such, do not produce any operating cash flows at the present time.

Until the Northern Territory assets enter into commercial production, which may not occur for some time, the Company anticipates that its exploration expenditures will result in the Northern Territory assets generating negative operating cash flows.

2. **Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?**

No.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes.

The Company's cash balance at the end of Q2 2019 was US\$4.8 million (~A\$7.1 million). This is the Company's highest quarterly cash balance since Q1 2013.

Furthermore, the Company's cash balance under new management and Board leadership has increased more than fourfold from US\$1.1 million at the end of Q2 2018 to US\$4.8 million at the end of Q2 2019.

In addition to the Company's increase in its cash balance, during that period, the Company has reduced its total debt outstanding from US\$37.9 million at the end of Q2 2018 to US\$25.4 million at the end of Q2 2019.

During Q2 2019, the Company announced the sale of its Kansas assets for US\$19.1 million. The Company has already received a cash deposit of US\$2 million from the purchaser of the Kansas assets, Mai Oil Operations, Inc ("**the Buyer**").

The Buyer's due diligence process is nearing completion, with the Buyer currently in the final credit approval and documentation stage of its debt financing to complete the acquisition.

The Company anticipates that the sale of the Kansas assets will reach financial close by the end of Q3 2019.

The Company intends to utilise approximately US\$18 million of the sale proceeds to further reduce debt to between US\$7.5 million and US\$8 million (subject to closing costs and closing adjustments).

The Company expects to retain approximately US\$0.5 million to US\$1 million of the proceeds of the Kansas sale in cash which it will utilise for working capital purposes and to fund the Company's first stage of its Northern Territory exploration program.

Importantly, after the completion of the sale of the Kansas assets, the Company will retain the cash flow positive production from its remaining USA assets in the Appalachia region. The Company expects to be able to service its significantly reduced debt obligations from the positive operating cash flows generated by the Appalachia region assets.

The Company anticipates a one-off increase in cash outflows in Q3 2019 (as detailed in the Appendix 5B dated 31 July 2019) due to:

- a) Non-recurring increase in exploration and evaluation expenditure of US\$1 million to fund the Northern Territory EP187 2D seismic program (timing subject to regulatory approvals and seismic crew availability); and
- b) The Company intends to use a proportion of the deposit already received from the Buyer of the Kansas assets to make additional principal repayments to the Company's debt facility with Macquarie Bank Limited.

The Company's Q3 2019 cash outflows will be funded by revenues from the USA assets of approximately US\$2.5 million - US\$3 million (subject to timing of the Kansas sale, commodity

prices and operating costs) and cash at bank, which, as stated above, was US\$4.8 million at the end of Q2 2019.

The Company presently anticipates a material reduction in cash outflows in Q4 2019 (assuming that the Kansas sale and Northern Territory EP187 2D seismic program are completed in Q3 2019).

- 4. Please confirm that the entity is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that rule that has not already been released to the market.**

The Company confirms that it is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that rule that has not already been released to the market.

- 5. Please confirm that the entity's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the entity with delegated authority from the board to respond to ASX on disclosure matters.**

The Company's responses to the questions above have been authorised and approved by the Board of Directors of the Company.

Should you have any further questions, please do not hesitate to contact the writer.

Yours sincerely,



Alex Underwood
Managing Director
Empire Energy Group Limited



5 August 2019

Reference: ODIN05023

Mr Julian Rockett
Company Secretary
Empire Energy Group Limited

By email: Julian.rockett@boardroomlimited.com.au

Dear Mr Rockett

Empire Energy Group Limited ('EEG'): Appendix 5B Query

ASX refers to EEG's Appendix 5B quarterly report for the period ended 30 June 2019 lodged with ASX Market Announcements Platform on 31 July 2019 (the 'Appendix 5B').

ASX notes that EEG has reported:

- negative net operating cash flows for the quarter of \$30,047;
- cash at the end of the quarter of \$4,826,182; and
- estimated cash outflows for the next quarter of \$5,070,000.

It is possible to conclude, based on the information in the Appendix 5B that if EEG were to continue to expend cash at the rate indicated by the Appendix 5B, EEG may not have sufficient cash to continue funding its operations.

In view of that, ASX asks EEG to respond separately to each of the following questions and requests for information:

1. Does EEG expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has EEG taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does EEG expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please confirm that EEG is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
5. Please confirm that EEG's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of EEG with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9 AM AEST Friday, 9 August 2019**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in EEG's securities under Listing Rule 17.3. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, EEG's obligation is to disclose the

information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1 and Listing Rule 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to EEG’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that EEG’s obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in EEG’s securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Kind regards

Puja Patel
Adviser, Listings Compliance (Sydney)