



EMPIRE OIL & GAS NL

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The Manager
Company Announcements Office
Australian Securities Exchange
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ANNUAL GENERAL MEETING 2014 – CHAIRMAN'S ADDRESS

Please find attached an Empire Oil & Gas NL (ASX: EGO) ASX Announcement containing the Chairman's Address given at the 2014 Annual General Meeting held today by Non-Executive Chairman, Mr Anthony (Tony) Iannello.

Yours sincerely
For Empire Oil & Gas NL

Timothy Spencer
Company Secretary

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Annual General Meeting 2014

Chairman's Address

Good morning and thank you for joining us at Empire's 2014 Annual General Meeting.

I'm Tony Iannello, the Chairman of your Company.

When I stood here just over a year ago, having just been appointed Chairman of Empire, I was extremely mindful of some of the financial and operational challenges our company faced.

There was a host of issues ranging from our cashflow through to the need to conduct more exploration and address corporate governance concerns among shareholders.

However, I think it is fair to say that over the past year I have come to realise that these challenges were somewhat greater than I had believed at that time.

In particular, our progress has been hampered somewhat by the worse than expected financial position of the company, the unreliable performance of the Red Gully Facility and the Red Gully-1 D Sands in the first half of 2014 and, more recently, the impact of lower oil prices on the revenue and cashflow we generate from condensate sales.

Some shareholders have expressed their frustration at the company's financial position, mainly because they had come to believe that the start of production at Red Gully would generate strong sales revenue and profits.

However, the gas we are producing under Tranche 1 was pre-sold to Alcoa. Under that arrangement, Alcoa paid for the gas upfront by providing the Red Gully joint venture with \$25 million. Empire used this money – and significantly more – to build the Red Gully Facility. But of course, we are still incurring the ongoing cost of producing this gas.

We expect that all the gas for which Alcoa has pre-paid will be delivered by around October next year. At that time, we expect to be in a position to commence delivering the Tranche 2 gas to Alcoa. Gas supplied under Tranche 2 of the contract will be paid for as we deliver it on a monthly basis. This means Red Gully will then have an ongoing revenue cashflow from gas and condensate sales, probably in the order of around \$25 million a year.

Until then, Empire's only revenue cashflow comes from the condensate we produce in addition to the gas. This condensate is sold to BP, which pays for it as it is delivered. As a result of the recent fall in the oil price, Empire's share of Red Gully's condensate sales revenue is running at just \$400,000 a month.

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The reality is that our cash position is tight and has been so since we started. This has made it necessary for us to borrow \$3.75 million over the past year from our major shareholder ERM Power to ensure we had sufficient funding to meet our ongoing expenses while we completed the corporate reviews, implemented repairs to the Red Gully Facility to improve its reliability and taken the first steps to set up the company for the sort of exploration programs that could generate significant wealth for shareholders.

So the past year has brought its challenges on both the financial and operating fronts. But we have also enjoyed some significant success. I know all too well that these achievements are yet to be reflected in either the profit line or the share price. And I appreciate that these are the only benchmarks which ultimately matter to shareholders.

However, I believe that as a result of the progress we have made, Empire is now poised to embark on its next chapter of growth, one which I believe has the potential to generate significant returns for shareholders.

I acknowledge that some of this progress may not appear spectacular. But it has been nonetheless important for steadying the ship and ensuring we set sail on the right course for the long term.

Over the past year, your new Board and management has taken various step to protect shareholders' interests. This included legal action against the previous Directors to recover significant sums – more than \$440,000 - of your money that was paid in legal fees incurred by them. Those legal proceedings are well underway and the trial is set down for February next year.

The new Board was also left with no choice but to continue legal action in order to have the courts resolve Wharf Resources' deemed withdrawal from EP 389, which hosts Red Gully. This action increased Empire's stake in Red Gully to 76.39 per cent and saw the company receive more than USD\$594,000 in back payments from BP for condensate sales.

The new Board also initiated five reviews covering Empire's assets and tenements, its operations, finances, governance and strategic issues. These reviews helped ensure that shareholders' interests had been protected. They also provided vital insights and information as to the areas of our business which required additional attention and those which offered the most opportunity.

One of these reviews focused exclusively on the Red Gully Facility. I believe this was a particularly successful exercise and played a key role in enabling us to improve the performance of the facility significantly. A year ago, the facility was notoriously unreliable. Today, I think it is fair to say that it is consistently operating in the way it was meant to, producing on average ~8TJ and ~360 barrels of condensate per day. While the plant is performing well, there are further efficiency improvements that will be progressed.

During the past year we also received and evaluated the Wannamal 3D seismic survey. It identified four additional prospects within close proximity to the Red Gully Facility. The results of this survey will be used to determine the location of the next well at Red Gully next year.

And on the subject of exploration, a particular highlight for the year was the successful perforation and well test program of the Red Gully-1 B Sands. The upshot of this program

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was that the B Sands are now known to contain economic amounts of gas and we expect in the next quarter to have independently certified reserves for Red Gully, a first for Empire. By establishing that we have access to this gas, Empire can have confidence that it can deliver Tranche 2 of its gas supply agreement with Alcoa. As I mentioned earlier, this next round of gas sales will generate significant revenue cashflows for Empire.

Finally, I would like to acknowledge the new members of the team we have built at Empire. Much of our time over the past year was spent recruiting people with the skills and experience Empire needed if it were to have any chance of unlocking the value of its assets. At Board level, we were delighted to have former Woodside and Shell executive Stuart Brown join us as a Non-executive Director. Stuart has brought extensive operational and technical experience to Empire.

We also conducted an extensive executive search which resulted in the appointment of Ken Aitken as Chief Executive Officer in May. As a petroleum engineer, Ken has vast experience in the key aspects of our business, including drilling wells and operating sophisticated production facilities in the Perth Basin. He knows the Perth Basin well from his previous executive and operating positions.

Milton Schmedje took up the key position of Exploration Manager in July and Tim Spencer has more recently joined Empire as the Chief Financial Officer. Both Milton and Tim have extensive experience in their respective fields and their appointments have completed the full skill set required by Empire in order to meet its key financial, operational and exploration objectives.

Also, I would like to take the opportunity to thank Kent Quinlan. Kent took over as interim CEO at a very difficult time, and has performed many different roles for the company over the past 12 months. His hard work and enthusiasm for the Company's success is appreciated by all directors. I am pleased you have been able to join us today. Many thanks from me personally.

Finally, I would like to address the current issue on our plate, that being the proposed transaction with ERM Power. This deal is both the culmination of the work we have done at Empire and the foundation of the work we are about to do.

I have seen comments from some shareholders suggesting that now the facility is operational, Empire would have sufficient cashflow to shore up its existing financial position and fund an aggressive drilling program.

This is simply not true. The cashflow we are currently generating is paying the day to day bills at best, but not much more. If we begin selling gas to Alcoa under Tranche 2, our position will strengthen somewhat. But it will not be enough to fund the costly seismic and drilling programs needed to exploit the full potential of our extensive Perth Basin acreage and to ensure we hold onto our large acreage position by conducting the minimum required work programs each and every year.

Therefore, Empire needs to secure quality investors and farm-in partners if it is to unlock the value of its assets. And this is where the ERM deal is an ideal outcome for our company.

To attract these investors and partners, Empire needs to own a bigger share of our tenements and in most cases 100 per cent. The quality farm-in partners we want to attract will want the ability to earn a significant slice of our permits, and we too will want to retain a

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worthwhile share. By buying ERM back out of our permits, we can achieve these twin objectives.

At the same time, ERM has agreed to inject cash into Empire via a share placement and rights issue. This will enable Empire to primarily repay its debt to ERM. The subsequent rights issue to all shareholders will raise the much needed funds for the next six months to commence the initial work programs underpinning the planned aggressive exploration drive while Empire seeks quality farm-in partners and/or corporate investors to help fund this aggressive exploration program.

I have no doubt that by approving the ERM transaction, Empire shareholders will be setting our company on course for a future of outstanding growth potential through exploration to unlock the significant potential value of our assets.

With that point at the front of our minds, I will move onto the business of today's meeting.

**Non-Executive Chairman
Empire Oil & Gas NL**

Tony Iannello

Media

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