



EMPIRE OIL & GAS NL

CHAIRMAN'S LETTER

I am pleased to invite you to the 2016 Annual General Meeting (AGM) for Empire Oil & Gas NL (Empire). The meeting will be held on Thursday, 17 November 2016 at 2:00pm AWST at The University Club of Western Australia.

The AGM is an annual event for shareholders and is central to Empire's approach to corporate governance and aligning the objectives of shareholders with the Empire Board and management team. Given the recent challenges Empire has faced, the AGM provides an important opportunity to update you on Empire's performance and provide an overview of our operational performance, near term objectives and future growth prospects. Shareholders will have the opportunity to ask questions and vote on the proposed resolutions. Empire shareholders that cannot attend the AGM in person are encouraged to either submit a proxy form or to appoint a proxy to attend in order to vote on their behalf.

The 2016 financial year (FY2016) saw Empire establish itself as a profitable producer of gas and condensate in the Perth Basin in the face of volatile commodity markets. We have shown strong commitment to our stated aim of being an operator of choice in the Perth Basin by providing safe and reliable gas supply from our 100% owned Red Gully Processing Facility.

The Empire Board would like to congratulate the management team for a number of operational successes over the FY2016 period including:

- Record production of 2,985 TJ of gas, solidifying Empire as a significant hydrocarbon producer in the onshore Perth Basin
- Realising A\$1 million in operating and maintenance contract cost savings
- Record 97% plant uptime (excluding scheduled downtime) with peak production of 9.4 TJ/day
- Discovery of 53 metres net gas pay at the Red Gully North-1 well with contingent reserves of 7.5 PJ, and
- Reaching three years without a Lost Time Incident (LTI)

Despite these operational successes, there have been sector-wide and well-specific challenges which the Empire Board would like to address in this letter and provide an update to all shareholders at the AGM.



The Annual General Meeting will be held on Thursday, **17 November 2016** at **2.00pm** AWST at The University Club of Western Australia.

FINANCIAL PERFORMANCE

Group revenues increased to A\$20 million and EBITDAX (EBITDA before one off significant items) was steady at A\$10 million, with a strong operational performance offsetting depressed commodity markets and declining condensate prices.

EBITDAX is regarded by the Board as the measure most reflective of its true operating performance.

After tax, Empire reported a net loss of A\$3.3 million. This was largely the result of the recognition of a pre-tax non-cash impairment of oil and gas properties of A\$7.2 million.

SHARE PRICE PERFORMANCE

FY2016 saw the continuation of challenging capital market conditions for oil and gas producers, initiated by the collapse of global oil prices in the December 2014 quarter which fell to decade lows in January 2016. Disappointingly, the Empire share price declined by 19% over the FY2016 period. To put this into context, it outperformed the S&P/ASX 300 Energy index (down 25%), Brent oil (down 21%) and the average of the small-mid cap ASX-listed energy peer group (down 43%).

Company	Ticker	Close price 30 June 2015 (A\$) ¹	Close price 30 June 2016 (A\$) ¹	FY2016 change (%)
Empire Oil & Gas	EGO	0.450	0.365	(19%)
S&P/ASX 300 Energy	XEK	11,121	8,349	(25%)
Brent (US\$/bbl)	n/a	63	50	(21%)
Small-mid cap ASX-listed energy peers				
Sundance Energy	SEA	0.505	0.100	(80%)
Tap Oil	TAP	0.300	0.093	(69%)
New Standard Energy	NSE	0.012	0.004	(67%)
Norwest Energy	NWE	0.004	0.002	(52%)
Transerv Energy	TSV	0.026	0.015	(43%)
Otto Energy	OEL	0.069	0.044	(36%)
Buru Energy	BRU	0.375	0.250	(33%)
AWE Limited	AWE	1.210	0.830	(31%)
Cooper Energy	COE	0.245	0.215	(12%)
Senex Energy	SXY	0.280	0.255	(9%)
Peer average	n/a			(43%)

Source: IRESS

¹ Historical closing share prices adjusted for changes in share capital due to share consolidations, splits, buy-backs and capital raisings

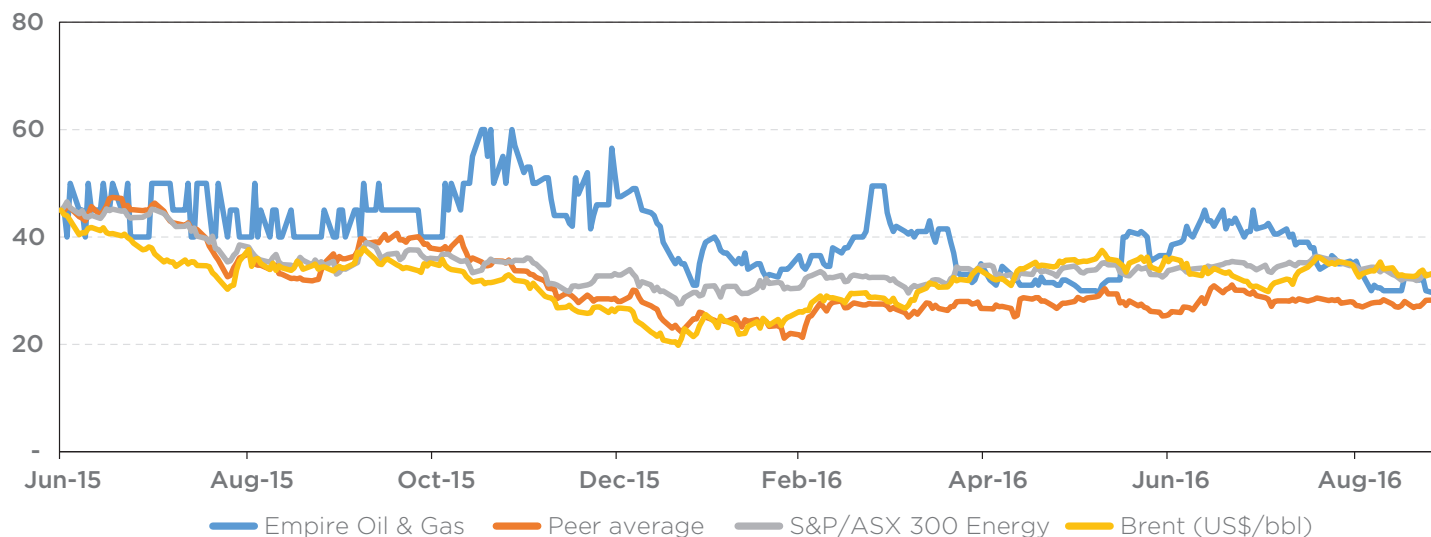
The volatility in the Empire share price in the FY2017 period to date is of concern to the Board. The successful remediation of the Red Gully North-1 well in late 2016, further exploration and development activity on key prospects and pursuit of several strategic opportunities should be viewed positively by the market. Despite the overall market conditions the Empire Board and management has maintained its focus delivering long term shareholder value in line with our five year strategy to build a respected mid cap producer.

EBITDAX was steady at A\$10 million, with strong operational performance

Our share price declined 19% over the FY2016 period, **outperforming** the S&P/ASX 300 Energy index (down 25%), Brent oil (down 21%) and the average of the small-mid cap ASX-listed energy peer group (down 43%)



Empire Share Price Performance since 30 June 2015 (Acps, rebased to Empire)²



²Peer average is an index based on equal weighted performance of the following ASX-listed small-mid capitalisation oil and gas peers: Buru Energy, Norwest Energy, Otto Energy, AWE Limited, Transerv Energy, Cooper Energy, New Standard Energy, Senex Energy, Sundance Energy, Tap Oil.

REMEDICATION OF RED GULLY NORTH-1

Red Gully North-1 (drilled in December 2015 encountered 53 metres of net gas pay) and the upper D and C sands were subsequently flow tested. Unfortunately, the test results were inconclusive due to cement bond isolation issues and high formation water production from an overlying water bearing zone. The Empire Board and management, were understandably disappointed with the inability to conclusively test the well and the consequent delay in commercialising the discovery.

The Empire Board and management have developed a remedial cementing solution, due to commence in late 2016. The remediation plan was independently prepared and the programme is considered to have a high chance of success of isolating the water and enabling a valid test. Successful remediation will convert the 7.5 PJ of contingent gas resources into reserves and allow the rapid commercialisation of Red Gully North-1 which is only 4 km from the Red Gully Production Facility.

A remedial cementing solution is due to commence in late 2016

ONGOING CORPORATE INITIATIVES

Our exploration ambitions have been seriously impacted by the declining global oil market. Most oil and gas companies including potential farm-in partners have turned their attention to conserving existing capital and to cost-cutting within their own portfolios, rather than investing in any new exploration. Due to the evaporation of the farm-in market, the Empire Board and management team committed significant time to progressing alternative corporate development opportunities focused on generating long term sustainable shareholder value. These opportunities included the ERM debt refinance and several additional corporate growth initiatives.

The Empire Board will continue to carefully consider any corporate initiatives having regard to the best interests of all Empire shareholders. The Empire Board also recognises the importance of keeping all shareholders fully informed, however, shareholders must appreciate the confidential nature of these initiatives. Further disclosure will be made in the event of any material developments.

The Empire Board and management team committed significant time to progressing alternative corporate development opportunities focused on generating long term sustainable shareholder value



PROPOSED RESOLUTIONS AND DIRECTORS RECOMMENDATIONS

Resolution 2: Re-election of Mr Stuart Brown	Board recommends in favour
Resolution 3: Election of Mr Peter Griffiths	Board recommends against
Resolution 4: Election of Mr Kent Quinlan	Board recommends against
Resolution 5: Election of Dr John Brough	Board recommends against
Resolution 6: Ratification of prior issue of Options	Board recommends in favour
Resolution 7: Approval of 10% Placement Facility	Board recommends in favour
Resolution 8: Approval of Rights Share Trust Plan	Board recommends in favour

The Empire Board recommends that shareholders vote in favour of the re-election of Mr Stuart Brown. Since his election in 2014, Stuart has contributed substantial technical expertise to the Empire Board and has been central to the Board's assessment process of corporate opportunities during his tenure. Stuart provides technical insights that leverage his senior management experience at Woodside Petroleum and Shell, and his accumulated public company board experience at three other ASX-listed oil and gas junior companies.

The Board also reviews its composition at least annually, and has concluded during its most recent review that there is no need for additional skills at this stage. If such a need arises, the Board would undertake a search for the best individual to complement the skill set of the Board. This may include nominations from our shareholders of persons with the appropriate skills. At this time, the Empire Board believes the current Directors and the successful re-election of Mr Stuart Brown provides the optimal balance of background, skills and experience.

This year the Board has received three new board nominations that will be put to a shareholder vote at the AGM including Mr Peter Griffiths, Mr Kent Quinlan and Dr John Brough. The nominations by the three shareholders to join the Board are not supported by the Board as the individuals do not, in the view of the Board, add to the existing collective capability and effective functioning of the Empire Board. Due to the extensive skill sets with existing Board members, the Empire Board recommend that shareholders vote against the election of Mr Peter Griffiths, Mr Kent Quinlan and Dr John Brough. Shareholders will note that the Explanatory Memorandum sets out details of Mr Kent Quinlan's previous nomination for a position on the Board last year, with the result being that 76% of votes were against his election.

The Board actively encourages shareholders to provide feedback and exercise their voting rights in accordance with our corporate governance principals. Recent activity by a vocal minority of shareholders have not been constructive to the Empire Board and management team, ongoing operations or share price. We believe the AGM is the most appropriate forum to allow all shareholders to exercise their voting rights to ensure the Empire Board and management team are aligned with shareholder objectives. The Board also recognises that the majority of shareholders are supportive of the Board and the actions being taken in this challenging environment.

I therefore, thank you for your continued support of Empire. I encourage you to join us at the AGM and I look forward to meeting as many shareholders as possible on the day.

Sincerely



Antonino (Tony) Iannello
Chairman

The Empire Board recommends that shareholders vote in favour of the re-election of Mr Stuart Brown

Empire Board recommend that shareholders vote against the election of Mr Peter Griffiths, Mr Kent Quinlan and Dr John Brough

We believe the AGM is the most appropriate forum to allow all shareholders to exercise their voting rights to ensure shareholder objectives are aligned with the Empire Board and management team.

About Empire Oil & Gas NL

Empire Oil & Gas NL ('Empire' or the 'Company') is an onshore conventional gas and condensate producer and explorer listed on the Australian Securities Exchange (ASX: EGO) with key assets in the Perth Basin in Western Australia.

The Company's producing assets at Red Gully are less than 150 kms from the city of Perth where there is a strong gas market. Since commencing operations in 2013, the 100% owned Red Gully Processing Facility has produced and delivered over 7,800 Terajoules (TJ) of gas. Gas produced to date has been contracted to Alcoa of Australia (Alcoa) and delivered through the Dampier to Bunbury Natural Gas Pipeline (DBNGP), which runs close to the Red Gully Processing Facility (RGPF). Condensate is transported via road to BP.

Empire is the holder of the largest net onshore acreage in the highly prospective Perth Basin with its production licenses and permits covering more than 9,000 km², representing 48% of the currently granted acreage in the onshore Perth Basin. Close to pipeline infrastructure and with rapid commercialisation opportunities, the Company has significant exploration potential in an underexplored, proven petroleum basin.

Empire's vision is to sustainably grow the business into a mid-tier exploration and production company. Empire's strategy is to be the Perth Basin operator of choice, safely supplying WA domestic gas by growing the Red Gully production hub, delivering reserves and production growth by drilling material quality exploration prospects in the high profit margin onshore Perth Basin and, enabling Empire to attract quality farm-in partners to assist in accelerating growth plans.