



LETTER TO SHAREHOLDERS

23 DECEMBER 2022

Dear Empire Shareholders,

I write to you on the eve of Christmas 2022 to reflect on an extraordinary year for Empire Energy and the industry.

The volatility in global energy markets, particularly for gas, is the most extreme in my 20-year career. High gas prices have resulted not only from the Ukraine war, but also years of insufficient investment in new supply. The uncertainty in international markets has been brought home with recent announcements.

Yet demand for gas is still increasing and will remain high for decades to come. Gas and coal remain the firming source for energy grids in countries transitioning towards renewable energy. For the first time Australian exporters have sent cargoes of LNG to Europe, previously a sub-economic proposition. Customers globally are desperately seeking ethically and reliably sourced supply, paying record prices.

Having raised \$30m early in the second half, Empire is proceeding with the most active field program in the Beetaloo Basin to date.

In the third quarter, Empire executed the largest fracture stimulation in Australian history, executing 21 stages in the Velkerri B shale in the Carpentaria-2H well. The results were highly encouraging, characterised by a peak flow rate of over 11 million cubic feet of gas per day, and an average normalised flow rate (per 1,000 metres of horizontal section stimulated) of 2.6 million cubic feet per day over the first 30 days. Empire is currently carrying out additional test work on this well which is providing critical insights into how to optimally produce gas from this huge resource.

Empire recently drilled the longest horizontal well in the history of the Beetaloo Sub-basin, Carpentaria-3H, with a total horizontal length within the target B-shale of over 2,600 metres, or 8,500 feet. 18 stages have been executed of a ~40 stage fracture stimulation over ~2,000 metre (6,500 foot) of the horizontal section, with results expected in the first quarter of 2023.

These wells can be used as production wells as part of Empire's rapid commercialisation program, reducing the future capital expenditure requirement to commence commercial gas sales.

Empire is currently drilling its fourth EP187 well, Carpentaria-4V, to gain critical data about the Velkerri resource in the Eastern part of EP187. The well has so far reached a depth of 850 metres (2,790 feet) and is drilling ahead. Success in this well is likely to see a significant increase in Empire's independently assessed contingent resource across the tenement and allow the company to further advance our technical knowledge set as we learn how to commercially stimulate the Velkerri shale resource in our Beetaloo properties.

Empire has commenced the FEED (Front End Engineering and Design) process for an initial pilot production project, and the company is in active commercial discussions with pipeline operators and potential customers for our gas who are facing extremely tight market conditions.

The 2022 work program has the potential to establish our EP187 Carpentaria project as commercially viable. With access to the McArthur River Pipeline only a few kilometres from our drilling sites, Empire has a gateway to markets in Australia and offshore.

The NT government is keen to see the Beetaloo developed with Deputy Chief Minister Hon Nicole Manison MLA commenting after visiting Empire's operations in July: "*There has been a huge amount done by other gas companies around the Beetaloo but when you have a look at the pace Empire's going, all doing it within the rules, conditions and regulations, you can see it is advancing very well.*" The NT government expect to be able to grant production licences following completion of Pepper Inquiry recommendations in the first half of 2023. Empire's challenge is to be the first company in the Beetaloo to successfully apply.

Empire's work programs have been executed at a fraction of the cost of similar programs, at or below budget forecasts. The company is well funded with both a healthy cash balance and a new credit facility, currently undrawn, which has been structured to grow into a project finance facility once gas sales agreements are secured, commercial flow rates achieved, and a final investment decision reached for our pilot project. Empire aims to achieve these key milestones in 2023.

This is a tremendous credit to the team. We bring a unique approach to appraisal in the Beetaloo, combining what I believe is the optimal mix of Australian technical, drilling and management expertise with the deep knowledge of shale gas fracture stimulation and completion techniques from world leading experts in the United States.

Empire's US gas production business, based in New York State and Pennsylvania, has had a great year, with excellent health and safety performance, stable production, and strong cash generation characterised by high US gas prices with a well-positioned hedge book and disciplined cost control. Management expects the US business to be debt free by the second half of 2023.

I would like to briefly address the recent developments in gas markets in Australia.

The Northern Territory Government recognises that the Beetaloo Basin, with its extremely low CO₂ levels and enormous resource base, will play a critical role in Australia's energy security and that of the broader Asian region. There is enough recoverable gas in the Beetaloo to satisfy all of Australia's gas demand for over 400 years. Since the 2018 lifting of a temporary moratorium put in place while an extensive independent scientific inquiry was carried out, the NT Government has enacted a rigorous regulatory regime that protects the environment, appropriately respects the rights of all affected stakeholders, and allows for exploration, appraisal, development, and production from this world class resource. Empire is operating within this framework and has established excellent working relationships with government, business, pastoralists, traditional owners and local communities. I thank all our NT stakeholders for your support as we play our part in the development of the NT economy.

However, legislation rushed through Australia's Federal Parliament last week demonstrates a real misunderstanding of the drivers of the energy crisis engulfing Australia's East Coast. The best solution is to rapidly and materially increase dispatchable energy supply. Coal fired power is being phased out, and nuclear power is years away even if regulatory settings are overhauled to allow it. This leaves only hydroelectric power, which has limited potential to grow further, battery power, which is very expensive, and proven gas peaking power generation to counter the increasing instability of the East Coast grid exacerbated by renewables.

Claims that renewable energy sources are cheaper than other forms of energy do not accommodate the realities of funding a complete rewiring of the grid and investment in backup.

Instead of encouraging new gas supply, the Federal Government has implemented legislation that caps gas and coal prices and creates unprecedented Government powers to direct companies to supply gas to customers on the Government's terms including volumes, dates, delivery points and prices. **Empire's Beetaloo resources are exempt from the cap, as will be any gas that we export to foreign markets, but the domestic proportion of our gas supply will be delivered under the so called 'reasonable pricing provision' framework, which we have no visibility over at the current time.**

This legislation could have a deleterious effect on investment confidence across not only the gas sector but also the broader economy. Caps on the prices of a range of products have been attempted by Governments throughout history, during the Roman Empire, under Napoleon, and more recently in Zimbabwe and Venezuela. These price caps have always failed because they increase demand, reduce supply, and ultimately cause shortages. Nobel prize winning economist, Milton Friedman, once said: *"We economists don't know much, but we do know how to create a shortage. If you want to create a shortage of tomatoes, for example, just pass a law that retailers can't sell tomatoes for more than two cents per pound. You'll immediately create a shortage. It's the same with oil or gas"*.

It is our firm view that the only real cure for high gas prices is to increase the supply of gas.

The Australian Government has an opportunity to work collaboratively with industry to solve this crisis by bringing on new supply to the benefit of Australian households and manufacturers. Empire is playing its part in resolving this enduring supply challenge.

Thank you to all our employees, contractors, consultants and directors for your dedication, hard work and comradery over the year. A special thank you to our people who will be working in the field on Christmas Day. Please stay safe and I wish you a relaxing break once you get home.

To our shareholders, thank you for your support. I recognise that our share price has been challenged this year and I assure you that we are all working very hard to generate strong returns for you. Empire's 2023 work programs, focused on bringing our Beetaloo project into production, can lead us to positive cashflows and commercial returns.

I wish you all a safe, happy and relaxing Christmas, and again thank you for your support in 2022.

Yours sincerely,

Alex Underwood
Managing Director
Empire Energy Group Limited

This ASX release has been authorised by the Managing Director

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