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Empyrean Energy PLC - EME Completes Sale of Sugarloaf AMI for US\$71.5M
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Empyrean Energy PLC ("Empyrean" or the "Company")

EMPYREAN SUCCESSFULLY COMPLETES THE SALE OF THE SUGARLAOF AMI PROJECT FOR UP TO US\$71.5 MILLION

Empyrean Energy PLC, the profitable US onshore oil, gas and condensate exploration, development and production company with assets in Texas and California, is pleased to announce that it reached financial close ("**Closing**") on 19 February 2016, Houston time, of the purchase and sale agreement (the "**PSA Agreement**") with Carrier Energy Partners II, LLC ("**CEP II**"), a Delaware corporation, to dispose of all of its right, title and interest in the Sugarloaf AMI development (the "**Sugarloaf AMI Project**" or the "**Asset**") for a purchase price of US\$61,500,000 (the "**Purchase Price**") (the "**Transaction**"). The Company may also receive, in certain circumstances as further set out below, contingent payments up to a maximum of US\$10,000,000.

Empyrean had a 3% working interest in the Sugarloaf AMI Project, which is operated by Marathon Oil Company, a subsidiary of US major Marathon Oil Corporation (NYSE: MRO) ("**Marathon**" or the "**Operator**"). CEP II is a Houston, Texas based private oil and gas company focused on the acquisition and exploitation of upstream assets. Backed with an equity commitment from Riverstone Holdings LLC, its primary objective is to partner with select operators that are developing both unconventional and conventional reservoirs in North America.

The Transaction has an effective date of 1 October 2015 (the "**Effective Date**") and all of the conditions to close have now been met. Following the conclusion of the Transaction, the Company's portfolio comprises a 58.084% working interest ("**WI**") in the Eagle Oil Pool Development Project, located in the San Joaquin Basin in southern California; a 7.5% WI in two producing wells and lesser interests in another six producing wells located in the Sugarloaf Block A operated by ConocoPhillips; and a 10% WI in the Riverbend Project, located in the Tyler and Jasper counties, onshore Texas.

At closing, the Purchase Price was adjusted, under the terms of the PSA Agreement, to reach a settlement that reflected operations at the Sugarloaf AMI Project up until the Effective Date. These included adjustments for operating and prepaid expenses paid by the Company that were incurred on the Asset after the Effective Date and for revenue received by the Company after the Effective Date that related to production months prior to the Effective Date. Following these adjustments, an amount of US\$66,315,371.04 (the "**Adjusted Purchase Price**") was due to the Company. The Adjusted Purchase Price was reduced by the deposit of US\$6,150,000 already

received by the Company upon signing the PSA Agreement. Empyrean's settlement amount before the payments made upon Closing, below, was US\$60,165,371.04.

Empyrean has applied the proceeds first to (i) close out the Company's existing debt facility with Macquarie Bank, (ii) settle payments due to Marathon Oil Company for both pre-Effective Date outstanding expenses and also for post-Effective Date outstanding expenses, the latter having been recovered as part of the Purchase Price adjustments, (iii) make agreed payments under the terms of the PSA Agreement to the Withholding Tax Escrow Account and the 10% Holdback Escrow Account and (iv) settle the US-based advisory and legal expenses of the Transaction. Further details of these amounts are set out below.

Empyrean CEO, Tom Kelly, said, *"It is with great pleasure that Empyrean is able to announce the completion of what has been a very challenging transaction in perhaps the most difficult market conditions for the global oil and gas sector for decades. The transaction represents an excellent outcome for our Company and its shareholders given the backdrop of continued low oil prices and particularly limited development capital availability. We move forward debt free and with the potential to unlock further significant value for shareholders."*

Contingent Payments

The Company will be entitled to certain additional payments in relation to the Transaction in the following circumstances and calculated in the manner agreed in the PSA Agreement:

- If the average New York Mercantile Exchange strip price of light sweet crude oil (WTI) for the calendar period of 1 January 2016 until 30 June 2016 or 1 July 2016 until 31 December 2016 exceeds US\$55.00 per barrel (the "**First Contingency**"), then CEP II shall pay to the Company an additional US\$1,000,000 for every whole dollar in excess of US\$55.00 per barrel (collectively, the "**First Contingent Payment**"); provided, however, the First Contingent Payment shall not exceed US\$5,000,000;
- If the average New York Mercantile Exchange strip price of light sweet crude oil (WTI) for the calendar period of 1 January 2017 until 30 June 2017 or 1 July 2017 until 31 December 2017 exceeds US\$60.00 per barrel (the "**Second Contingency**"), then CEP II shall pay to the Company an additional US\$1,000,000 for every whole dollar in excess of US\$60.00 per barrel (collectively, the "**Second Contingent Payment**") provided the Second Contingent Payment shall not exceed US\$5,000,000. If there is no First Contingency Payment, this shall not preclude a Second Contingent Payment if the Second Contingency is met.

Macquarie Bank Loan Facility and close out of the hedge book

The Company has closed out its existing debt facility with Macquarie Bank and all related liens and encumbrances have been released. The total amount outstanding at closing was US\$23,434,531.65. This amount includes the previous amount outstanding of US\$19,670,000 plus further drawdowns, interest, fees and legal costs. Empyrean was granted an extension on 10 December 2015 to repay US\$1million of its loan due 31 December 2015 and outstanding interest was capitalised at this time. Two significant drawdowns were made under a bridge finance facility of US\$554,723.58 on 29 January 2016 and a further US\$2,482,802.12 on 10 February 2016 to meet new well commitments and avoid penalties under the terms of the PSA. These cash called payments were made to Marathon and have been recovered under the terms of the PSA as they are post Effective Date obligations of CEP II.

In addition, the Company is pleased to advise that it chose to close out its hedge position on 26 January 2016 for an amount of US\$1,582,000. The proceeds of the hedge closeout have been applied against the amounts owing to Macquarie Bank under the facility and are reflected in the total amount settled, outlined above.

Payment to Marathon

Empyrean has paid an amount of US\$7,492,279.19 as an initial payment to Marathon for the estimated amount of Joint Interest Billings outstanding as at 31 January 2016. This amount is split US\$5,366,759.02 in pre-Effective Date costs and US\$2,125,528.17 in post-Effective Date costs. The amount is subject to further adjustments as Marathon receives third party invoices after Closing. The post-Effective Date amounts are CEP II's obligation under the PSA Agreement and are adjusted for and effectively recovered by Empyrean. The payment of these direct to Marathon has negated the need for these amounts to have required alternate financing.

Holdback Escrow of Funds

An amount equal to US\$6,150,000 (being 10 per cent. of the Purchase Price) has been deposited with an escrow agent to secure the representation, warranty and indemnity obligations of the Company under the PSA Agreement. Subject to any deductions or holding back in accordance with the terms of the PSA Agreement, half of the escrowed funds will be distributed to the Company six months following Closing and the balance of such funds will be released to the Company twelve months following Closing.

Withholding Tax Escrow Account

An amount equal to US\$10,725,000 (being 15 per cent. of the anticipated maximum consideration of US\$71,500,000) has been withheld in respect of potential tax liabilities in relation to the Company's US operations, including the gain made on the disposal of the Asset. A Tax Withholding Certificate Application, which provides a detailed estimated assessment of the Company's actual tax liability, has been lodged by Empyrean and its US taxation advisors before Closing, in accordance with Treasury Regulation Section 1.1445-1(c)(2)(i)(B), and the amount included on the Withholding Certificate Application will, once accepted by the IRS (who are expected to respond within 90 days), be paid to the IRS to meet the tax liability and the balance of the amount held in escrow may be returned to the Company. The current total of potential estimated tax liability is US\$3,500,000. The US\$3,500,000 is split approximately US\$2,000,000 for the Purchase Price liability and US\$750,000 for each of the First Contingency Payment and the Second Contingency Payment, such that if the contingency payments are not made then the Company may have a reduced tax obligation.

US based advisory

The financial advisor to the Company on the transaction was Macquarie Capital. The Company's US legal team was Bracewell LLP, out of Houston and included J.J. McAnelly, Austin Lee, Scott Thompson and Luke Tanner.

The total costs of the Transaction, including the US based advisory fees above are estimated to be approximately US\$1,200,000.

Ongoing strategy

It is still the Company's intention that following the settling of its US taxes and the repayment of all other debts, including any further costs of the Transaction, and retention of sufficient funds to meet the Company's strategic goals and ongoing expenses, the Board will consider the most efficient manner in which to return surplus funds to Shareholders.

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The following definitions apply throughout this announcement, unless the context otherwise requires:

<i>"AIM"</i>	the AIM market operated by the London Stock Exchange
<i>"AIM Rules"</i>	the 'AIM Rules for Companies' published by the London Stock Exchange governing the admission to, and the operation, of AIM
<i>"Board" or "Directors"</i>	the board of directors of the Company
<i>"Business Day"</i>	a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, England
<i>"Cenkos"</i>	Cenkos Securities plc, which is authorised and regulated by the Financial Conduct Authority
<i>"CEP II"</i>	Carrier Energy Partners II, LLC, a Delaware corporation, with offices at 77 Sugar Creek Center Boulevard, Suite 550, Sugar Land, Texas 77478
<i>"CEP II EF, LP"</i>	the newly formed subsidiary of CEP II to serve as the legal entity for the Transaction
<i>"Company" or "Empyrean"</i>	Empyrean Energy plc (incorporated in England and Wales with registered number 5387837)
<i>"Effective Date"</i>	1 October 2015
<i>"London Stock Exchange"</i>	London Stock Exchange plc
<i>"Ordinary Shares"</i>	ordinary shares of 0.2 pence each in the issued share capital of the Company
<i>"PSA Agreement"</i>	

the conditional purchase and sale agreement entered into by the Company and CEP II EF, LP

"Purchase Price"

US\$61,500,000, as adjusted in accordance with the PSA Agreement

"Transaction"

the conditional PSA Agreement entered into by the Company with CEP II EF, LP to dispose of all of its right, title and interest in the Sugarloaf AMI Project operated by Marathon

"US\$"

United States Dollars, the lawful currency of the United States of America

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