

## Regulatory Story

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**Empyrean Energy PLC** - EME Acquisition of Interest in Duyung PSC, Indonesia  
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### **Empyrean Energy PLC ('Empyrean' or 'the Company')**

#### **Acquisition of Interest in Duyung PSC, Indonesia**

##### *Highlights*

- Acquisition of up to 20 per cent. interest in Duyung Production Sharing Contract in Indonesia from Conrad Petroleum Pte Ltd
- Permit includes the 'Mako' shallow gas discovery with a Competent Persons Report verifying 2C and 3C resource of 430-650 Bcf recoverable gas
- Mako South-1 well to be drilled in late Q2 / early Q3 to undertake flow test and establish reservoir quality
- Exploration upside potential identified through existing 2D and 3D seismic of 4 Tcf gas and 120 mmbbl oil over the permit
- Initial 10 per cent. interest conditionally acquired for US\$2 million utilising Empyrean's existing cash resources with further payment of US\$2 million to be paid for additional 10 per cent. interest prior to 12 May 2017
- Company intends to launch an Open Offer to all shareholders to provide additional funding

Empyrean Energy PLC, the AIM-quoted oil and gas company, is pleased to announce that it has entered into a sale and purchase agreement (the "SPA") to conditionally acquire up to a 20 per cent shareholding in West Natuna Exploration Ltd ("WNEL") from Conrad Petroleum Pte Ltd ("Conrad Petroleum") (the "Acquisition"). Conrad Petroleum is the registered and beneficial owner of WNEL, which holds a 100 per cent. Participating Interest in the highly prospective Duyung Production

Sharing Contract (the "Duyung PSC") in Indonesia. Following completion of the Acquisition, Conrad Petroleum will retain an 80 per cent. shareholding in WNEL and will remain the operator of the Duyung PSC.

The Acquisition follows the Company's recent investment in Block 29/11, located offshore China in the Pearl River Mouth Basin and is the next step in building an Asian offshore oil and gas portfolio of projects which boast mature targets and significant reserve potential. The Duyung PSC includes the Mako shallow gas discovery ("Mako") which, according to the LEAP CPR (as defined below) is estimated to contain 400 Bcf to 1.3 Tcf of gas in place. In addition, the permit contains a number of other drilling opportunities in a prolific proven basin with nearby infrastructure to support any development and production.

Three previous wells drilled at Mako in 1975, 1996 and 1999 intersected the gas zones but were not flow tested. Two of these wells were targeting deeper oil and the third well, targeting gas, encountered technical difficulties and so no flow test was completed. LEAP Energy, the international subsurface consulting and technology delivery group, completed a Competent Persons Report on the Mako discovery in 2017, which attributed 2C and 3C Resources of 433 Bcf and 646 Bcf recoverable gas, respectively (the "LEAP CPR").

A new well on the Mako discovery, the Mako South-1 Well, is planned to spud in late Q2 / early Q3 2017 targeting the Intra-Muda sands. The objective of the well is to flow test the gas sands and provide key data on the permeability and gas saturation properties of the reservoir.

#### *Duyung PSC*

The Duyung PSC is an offshore permit of over 1,100km<sup>2</sup> in the West Natuna Basin, one of Asia's most prolific proven basins, and is located in water-depths of 60-110 metres and close to existing pipeline infrastructure owned by the Indonesian Government.

High impact exploration leads and prospects have been identified within the Duyung PSC through analysis of existing 2D and 3D seismic data which was acquired in 2008 and 2009 respectively, indicating exploration upside potential of over 4 Tcf of gas and 120 mmbbl of oil (including Mako).

The permit also benefits from its proximity to key energy markets in Singapore, Malaysia and Indonesia (including both Batam Island and Sumatra), where there is a favourable domestic gas outlook. According to international oil and gas advisory firm RISC Advisory power generation is forecast to be the biggest source of gas demand and account for 35 per cent. of the 35,000 MW power acceleration programme to be built in 2014-2019.

Indonesia's demand for gas is forecast to grow strongly over the next decade, despite being the seventh largest producer of LNG in the world and the 28<sup>th</sup> in terms of oil production. This is due to a relatively low electrification rate which, as recently as 2013, stood at 81 per cent. This means that 60 million people in the country did not have access to electricity. Such low rates of electrification and frequent power outages are widely believed to have held back the country's economic growth in the past. In response, the Government of Indonesia has set itself the target to add 35,000MW of new electricity capacity by 2019, a 60 per cent. increase in total domestic power generation.

#### *Financing and payment of consideration*

Under the terms of the SPA, Empyrean will pay Conrad Petroleum an initial cash consideration of US\$2 million immediately upon signing of a Shareholders Agreement that is required to be negotiated between the Company and Conrad before completion (the "Initial Consideration") and, conditional on completion, has agreed to pay a further US\$2 million on or before 12 May 2017 (the "Further Consideration").

The Initial Consideration will be paid from the Company's existing cash resources. In the event that Empyrean does not make payment of the Further Consideration then its interest in WNEL will remain at 10 per cent.

The total costs of the Mako South-1 Well are estimated at US\$6.5 million. Following payment of the Initial Consideration and, if applicable, the Further Consideration, these amounts will be applied against the cost of the Mako South-1 well and any well costs exceeding these payments will be shared by the Company and Conrad, proportionally to their shareholdings in WNEL. All future costs in respect of the Duyung PSC will be borne by Conrad Petroleum and Empyrean on the same basis. For example, if Empyrean's interest is 10 per cent. then it is expected that it will contribute US\$2 million as Initial Consideration plus US\$0.45 million as its share of additional costs for the Mako South-1 well, if total well costs reflect the estimate of US\$6.5 million. If Empyrean's interest is 20 per cent. then it is expected that it will contribute US\$4 million as an Initial Consideration and Further Consideration plus US\$0.5 million as its share of additional costs for the Mako South-1 well, if total well costs reflect the estimate of US\$6.5 million.

Taking into account the Company's existing cash resources (following payment of the Initial Consideration) the Company has sufficient available cash resources to satisfy the Further Consideration. However, US\$3 million of existing cash has been earmarked for the proposed 3D seismic programme on Block 29/11 in the Pearl River Mouth Basin, offshore China, which is scheduled to take place in Q2 2017.

Accordingly, the Company intends to raise up to a further £2.7 million (before expenses) through the launch of an Open Offer to all qualifying shareholders of the Company (the "Open Offer") pursuant to which such shareholders may subscribe for 1 new Ordinary Share in the Company at a price of 3.5 pence each (the "Issue Price") for every 4 Ordinary Shares held at the record date.

It is intended that the net proceeds of the Open Offer (if sufficient) will be used to fund:

- the Company's payment of the Further Consideration;
- the Company's share of any costs on the Mako South-1 Well over and above the Initial Consideration and the Further Consideration (as appropriate); and
- the Company's general working capital purposes.

Shareholders should note that there is no guarantee that sufficient applications will be received under the Open Offer to allow the Company to cover all or any of the intended use of proceeds outlined above.

The proposed Open Offer will also provide an opportunity for all qualifying shareholders to apply to subscribe for Ordinary Shares in excess of their entitlement under the Open Offer pursuant to an excess application facility. Any allotment of Ordinary Shares under the excess application facility will be at the sole discretion of the board of directors of the Company.

In the event that the proposed Open Offer is not fully subscribed, it is intended that the board of directors will reserve the right to place the balance of the shares available under the Open Offer, at not less than the Issue Price, in order to raise up to the maximum proceeds under the Open Offer.

Further details of the proposed Open Offer, including the timetable, will be set out in a circular which will be sent to qualifying shareholders as soon as practicable.

Empyrean CEO, Tom Kelly, said, *"The Duyung PSC, with the high impact Mako shallow gas play to commence drilling in the near term, provides an exciting complement to our project in offshore China, Block 29/11. Existing sub-surface data has established that gas is present within the Mako reservoir, reducing typical geological risk considerably. We believe that the Mako South-1 well has highly compelling upside and is designed appropriately to address the uncertainty related to the flow potential of the Mako reservoir. We expect the results of this first well in Q3 2017, with drilling in Indonesia scheduled to take place at about the same time as we expect to be shooting 3D seismic in China.*

*"The acquisition reflects our recent focus on building an oil and gas company with a strong presence in Asia. Apart from Mako, the Duyung PSC has a host of significant leads and prospects already identified by both 2D and 3D seismic where Conrad has invested significant capital delineating these drilling opportunities. Together with our recent investment in Block 29/11, located in the Pearl River Mouth Basin offshore China, we believe that our newly established portfolio has the potential to provide us with significant production opportunities in the future."*

**\*\*ENDS\*\***

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The information contained in this announcement was completed and reviewed by the Company's Technical Director, Mr Frank Brophy, who has over 40 years' experience as a petroleum geologist.

**Notes to Editors**

*About Empyrean Energy*

Empyrean Energy is an AIM listed company focused on building an Asian offshore oil and gas portfolio with mature targets and company making reserve potential.

Following completion of the Acquisition, the Company will own up to a 20 per cent. Participating Interest in the Duyung PSC via a corresponding shareholding in the holding company, WNEL. The Duyung PSC contains prospects and leads identified using 2D and 3D seismic with exploration upside

potential of 4 Tcf of gas and 120 mmbbl oil, including the 'Mako' shallow gas discovery. LEAP Energy completed a Competent Persons Report attributing a 2C and 3C resource to Mako of 430-650 Bcf recoverable gas. Mako will be drilled to obtain a flow test and reservoir data late Q2 / early Q3 2017.

The Company also owns 100 per cent. of the exploration rights for Block 29/11 located in the Pearl River Mouth Basin, south of Hong Kong, offshore China. Two key exploration targets, Jade and Topaz, have been identified using 2D seismic. The Company expects to commence a 3D seismic programme over the permit in Q2 2017 to mature these targets before drilling.

2017 is set to deliver high impact news-flow, with drilling and 3D seismic being undertaken. Empryan has a strong cash position to contribute to costs following sale of Sugarloaf AMI Project in the USA in 2016 and, as announced above, will shortly be posting a circular to shareholders outlining the terms of an Open Offer to raise up to US\$2.7million.

#### *About Conrad Petroleum*

Conrad Petroleum is a private oil and gas exploration, development and production company domiciled in Singapore with an asset base focused on the shallow offshore waters of Indonesia, targeting natural gas near existing infrastructure including two licenses, offshore Indonesia: Duyung PSC and Offshore North X-ray PSC. Conrad Petroleum is the operator of all its permits.

#### *Glossary*

2C	Best estimate of contingent resources
3C	High estimate scenario of contingent resources
Bcf	Billion cubic feet of gas
Contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
Gas in place	The volume of gas in a reservoir before production.
MMbbl	Million barrels
Tcf	Trillion cubic feet of gas

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