



Empyrean Energy PLC - EME Proposed Disposal of Sugarloaf for up to US\$71.5M
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Empyrean Energy PLC ("Empyrean" or the "Company")

Proposed Disposal of Sugarloaf AMI Project for a Consideration of up to US\$71.5 million

Empyrean Energy PLC (AIM: EME.L), 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 has entered into a conditional 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 an initial cash consideration of US\$61,500,000 (the "**Purchase Price**") (the "**Transaction**"). The Company may also receive, in certain circumstances further set out below, a contingent consideration of a maximum of US\$10,000,000. Empyrean currently has 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.

Subject to Closing, the Transaction has an effective date of 1 October 2015 (the "**Effective Date**") and is expected to close in the first quarter of 2016. Following the Transaction, the Company's portfolio will comprise 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, further details of which are outlined below.

The value of the Transaction means that at, and subject to, Closing, the Transaction would be deemed to be a disposal resulting in a fundamental change of business of the Company under Rule 15 of the AIM Rules. Accordingly, Closing of the Transaction is conditional on the approval of Shareholders at a General Meeting. The Company intends to post a circular to Shareholders and a notice convening a General Meeting as soon as possible.

The Company confirms that it has received irrevocable undertakings from certain Shareholders to vote in favour of the Transaction in respect of a total of 23.6 per cent. of the Company's issued share capital. This includes irrevocable undertakings from Tom Kelly, Chief Executive Officer, who is interested in 20,881,563 Ordinary Shares, representing approximately 9.4 per cent. of the Company's issued share capital, and Messrs Knight, Appleby and Farthing who are interested, in aggregate, in a further 31,552,595 Ordinary Shares, representing approximately 14.2 per cent of the Company's issued share capital.

Empyrean CEO, Tom Kelly, said:

"This Transaction crystallises the value of the Sugarloaf AMI Project at a time when there are significant challenges facing the resources sector in general and, specifically, when the additional financing required to support the Company's continued participation in the development of the Asset in the current low oil price environment would incur either an unacceptable cost or unacceptable dilution when compared with the Transaction. In line with the Board's stated strategy, the last year has seen the Company, led by our partner, Marathon, continue to demonstrate the future upside potential of the Sugarloaf AMI Project and deliver significantly-increased reserves and resources. We believe that we have reached the right time to realise the value of the Sugarloaf asset and de-risk our position against continued depressed oil prices. I hope Shareholders will share in my excitement for the Transaction and the opportunities it may unlock in respect of the Company's remaining assets and others that may arise at a time when drilling and associated costs are significantly reduced and a number of operators and market participants are financially distressed. Subject to the successful completion of the Transaction, we will retain our interests in three further prospective exploration and development projects in the USA, and as a debt-free entity with sufficient working capital, we will be well placed to further develop those assets and build value in the future."

Carrier Energy Partners II CEO, Mark Clemans, commented:

"The addition of these Eagle Ford shale properties of the Sugarloaf AMI project are a complement to our existing unconventional assets located in the Permian Basin. Our non-operated business strategy is to partner with highly successful operators to focus on asset development and value creation in resource plays and other capital intensive basins. Marathon has a proven track record in Karnes County and we are excited to be included in the project as a joint venture partner."

Macquarie Capital acted as financial adviser to Empyrean in respect of the Transaction.

Overview of the assets subject to the Transaction

The Sugarloaf AMI Project is a development project covering approximately 24,000 gross acres in Karnes County, onshore Texas, USA, in the liquids rich core of the Eagle Ford Shale. As outlined above, the Company currently has a 3 per cent. WI in the Sugarloaf AMI Project, which is operated by Marathon, with approximately 290 gross wells in production and an inventory of a further 26 wells drilling and/or in various stages of completion as at 23 December 2015. Average daily production net to Empyrean's interest after royalties from the Sugarloaf AMI Project during the three months to 30 September 2015 was 1,250 boe.

The target in any well is any one of four formations; the Lower Eagle Ford Shale, which has been the major producer to date, the Austin Chalk, which was appraised and delineated for development during late 2013 and 2014, the Upper Eagle Ford Shale, which is expected to become increasingly important, and the upper portion of the Lower Eagle Ford Shale.

Aggregate production net to Empyrean after royalties and costs for the six months to 30 September 2015 ("H1 2015") was 224,182 boe. Revenues attributable to the Sugarloaf AMI Project in H1 2015 (excluding any general corporate or financing costs) totalled US\$5,790,000 (H1 2014: US\$7,534,000) and net profit before tax was US\$3,525,000 (H1 2014: US\$4,323,000). As disclosed in the Company's interim results announced on 31 December 2015, the Company's revenues for H1 2015 totalled US\$6,033,000 (H1 2014: US\$7,911,000) and net profit before tax was US\$1,830,000 (H1 2014: US\$2,705,000).

On 13 October 2015, the Company announced that an updated reserves report by DeGolyer and MacNaughton had highlighted a further significant increase in the Company's Reserves and Resources at the Sugarloaf AMI Project as set out below:

- 13.84% increase in Proven Reserves (1P) to 6.58 MMboe (5.78 MMboe to 31 December 2014)
- 9.77% increase in Probable Reserves to 7.53 MMboe (6.86 MMboe to 31 December 2014)
- 11.63% increase in Proven plus Probable Reserves (2P) to 14.11 MMboe (12.64 MMboe to 31 December 2014)
- 10.90% increase in Proven plus Probable plus Possible Reserves (3P) to 23.19 MMboe (20.91 MMboe to 31 December 2014)
- 2P Reserves plus 2C Resources up 0.65% to 15.59 MMboe (15.49 MMboe to 31 December 2014)
- NPV (10) of 1P Reserves valued at approximately US\$45.7m (US\$43.8m to 31 December 2014)
- NPV (10) of 2P Reserves valued at approximately US\$135.9m (US\$121.7m to 31 December 2014)
- NPV (10) of 3P Reserves valued at approximately US\$294.7m (US\$263.5m to 31 December 2014)

Principal terms of the Transaction

Pursuant to the terms of the PSA Agreement, the Company has conditionally agreed to sell to CEP II and CEP II has agreed to buy, as of the Effective Date, all of the Company's rights, interests and title in the Sugarloaf AMI Project (less certain excluded assets) for a purchase price of US\$61,500,000 in cash plus certain contingent

payments (if any) and less any agreed adjustments in accordance with the terms of the PSA Agreement.

The principal terms of the PSA Agreement are as follows:

Conditions to Closing

Closing of the PSA Agreement is conditional on, inter alia:

- the approval of the PSA Agreement and the transactions contemplated by it by the shareholders of the Company;
- the approval of the PSA Agreement and the transactions contemplated by it by the Board; and
- the aggregate amount of the downward adjustment of the Purchase Price at Closing to reflect any payment obligations owed by the Company for disputes relating to title defects or environmental defects (as determined pursuant to the terms of the PSA Agreement) not exceeding 12.5 per cent. of the Purchase Price.

Subject to certain conditions being met and there being no exercise of the termination rights under the PSA Agreement, the Closing of the Transaction shall occur on the later of (i) the fifth business day following Shareholder approval at a General Meeting and (ii) the thirty-first day after the date of the PSA Agreement.

Escrow of Funds

Upon Closing, the Company and CEP II have agreed that 10 per cent. of the Purchase Price will be deposited with an escrow agent to secure the indemnity obligations of the Company under the PSA Agreement and any payment obligations owed by the Company for disputes relating to title defects or environmental defects. 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.

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.

Withholding Tax

Under US taxation regulation, an amount equal to either (a) US\$7,150,000, (being 10 per cent. of the anticipated maximum consideration of US\$71,500,000) if Closing occurs on or before 16 February 2016 or, following recent changes to tax regulation, (b) US\$10,725,000 (being 15 per cent. of the anticipated maximum consideration of US\$71,500,000) if Closing occurs after 16 February 2016, is required to be 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. An amount equal to (a) or (b) above, depending on the Closing Date will be withheld in escrow (and held to whatever date the IRS confirm the Company's tax position) to meet any pending liability unless, as is intended, a Withholding Certificate Application, which provides a detailed estimated assessment of the Company's actual tax liability, is lodged by Empyrean before Closing, in accordance with Treasury Regulation Section 1.1445-1(c)(2)(i)(B), in which case the amount included on the Withholding Certificate Application will, once accepted by the IRS (who generally 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 .

Deposit

In accordance with the PSA Agreement, CEP II has deposited with the Company the sum of 10 per cent. of the Purchase Price which shall be applied toward the Purchase Price if Closing occurs (the "**Deposit**"). If Closing does not occur, the Deposit shall be returned to CEP II with any interest or earnings accrued unless the Company is entitled to retain such Deposit pursuant to the terms of the PSA Agreement.

Representations and warranties

The Company has given certain representations and warranties to CEP in connection with the disposal including without limitation, authority and capacity to enter into the PSA Agreement and implement the Transaction, and the status of the assets which are the subject of the Transaction.

Indemnity

The Company has agreed to indemnify CEP II, its affiliates, and all of its and their respective shareholders, partners, members, directors, officers, managers, employees, agents and representatives from liabilities arising, amongst others, from excluded assets and liabilities under the PSA Agreement, any breach of representation or warranty given by the Company, and agreed taxes allocable to the Company.

CEP II has agreed to indemnify the Company, its affiliates, and all of its and their respective shareholders, partners, members, directors, officers, managers, employees, agents and representatives from liabilities arising, amongst others, the assumed obligations under the PSA Agreement, certain environmental defects, and any breach of representation or warranty given by CEP II.

Termination Rights

The PSA Agreement and the transactions contemplated by it may be terminated in the following circumstances:

- (a) by agreement of CEP II and the Company;
- (b) by either party if Closing has not occurred by 18 March 2016;
- (c) by either party if the Board no longer recommends the PSA Agreement in certain circumstances; and
- (d) by either party if the Company enters into an agreement with respect to a Superior Proposal.

Termination Fee

In the event that the PSA Agreement is terminated because the Board no longer recommends the PSA Agreement or the Company enters into an agreement with respect to a Superior Proposal, the Company must return the Deposit to CEP II and pay a termination fee of US\$7,000,000 within 5 Business Days of such termination.

Governing law and jurisdiction

The PSA Agreement is governed and construed in accordance with the laws of the state of Texas and, save as set out in the PSA Agreement, the parties submit to the exclusive jurisdiction of the courts situated in the City of Houston, Harris County, Texas.

Background to and reasons for the Transaction

Despite the current low oil price environment, the continued activity and interest in corporate and asset acquisitions concerning high quality Eagle Ford Shale assets have demonstrated that assets such as the Sugarloaf AMI Project remain in demand. This activity, together with recent reserves updates by Emyrean and other partners in the Asset, have had positive implications on the underlying value of the Company's principal asset.

The board of Emyrean (the "**Board**") has for some time been focused on maximising the commerciality of the Sugarloaf AMI Project and, alongside its experienced major partners, of demonstrating its future upside potential. The Board launched a strategic review and formal sale process in July 2014 and, whilst that process did not result in the Company receiving any proposal which the Board believed appropriately valued either the Company or its assets at that time, the Board has continued to explore a number of different strategies to maximize value for Shareholders, resulting in the Transaction. Accordingly, the Board believes that the Transaction offers Shareholders a timely opportunity to realise the value of the Asset at a time when the challenges facing the resources sector may otherwise prevent them from doing so and the additional financing required to support the Company's continued participation in the development of the Asset in the current low oil price environment would, in the opinion of the Board, incur unfavorable cost and/or dilution when compared to the Transaction.

Ongoing activities and strategy following the Transaction

The value of the Transaction means that at, and subject to, Closing, it would be deemed

to be a disposal resulting in a fundamental change of business of the Company under Rule 15 of the AIM Rules. However, although the Asset has been the prime focus of the Company's recent activities, the Company still retains three other projects which will continue to be managed carefully by the Board:

- *Eagle Oil Pool Development Project*

Empyrean participates in a 58.084% working interest in the Eagle Oil Pool Development Project, located in the San Joaquin Basin in southern California. The primary target is the Gatchell Sand, which was encountered and had good oil shows during an exploratory well, the Eagle North-1 well, in 2006. Mechanical failure prevented a valid test being completed during operations on the Eagle North-1 well. In addition to the Gatchell Sand, Empyrean believes that the shallower Monterey Shale is also a valid and promising target.

No appraisal operations have recently been undertaken, as the Company has focused its resources on the development at the Sugarloaf AMI, however the Board views this project as an exciting opportunity and it is anticipated that a vertical well test of the Gatchell sands followed by a horizontal appraisal well would be an appropriate way forward, once the petroleum economic environment improves. The Company retains a large working interest in this project that would allow it to consider strategies such as farming out part or all of its interest in order to reduce any risk of appraisal operations, whilst possibly being able to retain a significant working interest. The project is operated by TSX and ASX-listed Strata-X Energy Ltd, who are presently undertaking a program to re-lease the main project area.

- *Sugarloaf Block A*

Empyrean holds 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. At present all eight wells are producing gas, condensate and NGL's (natural gas liquids). Empyrean has the right to participate in the drilling of further wells in locations that it has already earned a working interest.

Empyrean participated in the drilling of the first well as part of a farm-in agreement in May 2007 (Kunde #3). This well was also the first to produce in April 2008. Empyrean decided not to participate in further exploration drilling in Block A after the drilling of the fifth well, Marlene Olson#1 in 2008.

However, in more recent times Empyrean has elected to participate, albeit at much reduced working interests, in the drilling and completion of another seven wells which partly fall within Empyrean's acreage. These are the Baker Trust 4, Marlene Olson 3, Lucille Klein A1, and Marlene Olson #4, 5, 6 and 7 wells. The last five wells were spudded in 2014 and Marlene Olson #5, 6 and 7 commenced producing in April 2015. The more recently drilled wells have all measured total depths of greater than 20,000 ft. The AFE's are consequently substantially higher than the shallower wells of the AMI/Block B and average around US\$10.6 million (drilling and completion). Empyrean has a working interest of 0.852273% in these wells, three of which commenced production on 8 April 2015. Production continues to be from the Lower Eagle Ford Shale and rates have been maintained at a fairly consistent level for the more recently producing Marlene Olson wells 5, 6 and 7. During September 2015 the three wells were producing at well head between

11,371 and 15,169 barrels of condensate and 63,017- 70,674 msc.ft of gas.

Lucille Klein A1, recently re-named Kunde Unit A B1, is the eighth well drilled in which Emyrean has an interest (WI 3.154661%) and has been the best producer to date. It reached a measured TD of 19,325' and commenced production on 17 July 2014. For the first complete month of production in August 2014 the well produced 48,874 msc.ft of gas and 17,100 barrels of condensate. A year later in September 2015, it produced 10,236 barrels of condensate and 37,955 msc.ft of gas. No further drilling or an increase in the number of producing wells has occurred during 2015 in which Emyrean holds an interest.

- *Riverbend Project*

Emyrean participates in a 10% working interest in the Riverbend Project, located in the Tyler and Jasper counties, onshore Texas. This project has produced from the Wilcox Formation in the Cartwright Well that has been suspended from production since October 2014 pending a recovery in commodity prices.

The Company has a strong and experienced executive and non-executive team with extensive experience in the oil and gas industry. Accordingly, the Board of Emyrean, following Closing of the Transaction, intends to continue to work to maximize the commerciality of its remaining assets as well as seeking new investment opportunities.

The Company's ongoing working capital requirements are expected to be covered by the terms of the Transaction and the Directors believe that the financial position and outlook for the Company is robust.

Use of proceeds from the Transaction

Following Closing of the Transaction the Company will have certain liabilities, including:

- Payment of US tax liabilities in relation to its US operations, including the gain made on the disposal of the Asset. As set out above, Emyrean intends to lodge, in accordance with Treasury Regulation Section 1.1445-1I(2)(i)(B), a Withholding Certificate Application including an assessment of the Company's actual tax liability. Such application is currently being prepared, and it is estimated that tax of approximately US\$3,600,000 will be payable by the Company following the Closing of the Transaction. Following receipt of the Withholding Certificate Application, the IRS generally responds within 90 days to confirm whether it is in agreement of the analysis set out therein.
- Repayment of the Macquarie Facility which, as of 30 September 2015, totaled US\$19,670,000. Macquarie has provided the Company with an extension of the scheduled repayment of US\$1,000,000 due on 31 December 2015 such that the required repayment date has been amended and an estimate of the total principle and interest that will become due to Macquarie as at the anticipated Closing of the Transaction is approximately US\$21,600,000.
- Outstanding Joint Interest Billings owed to Marathon, and expenses incurred on the Sugarloaf AMI Project up to the Effective Date, which total approximately US\$5,200,000.

It is the Company's intention that following the settling of its US taxes, which, assuming the Withholding Certificate Application is lodged, is expected to take place in the second quarter of 2016, and the repayment of all other debts, including any 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.

Action to be taken

The Company intends to post a circular to Shareholders including a notice convening a General Meeting as soon as possible, which Circular will set out action to be taken in respect of the Transaction.

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

"AIM"

the AIM market operated by the London Stock Exchange

"AIM Rules"

the 'AIM Rules for Companies' published by the London Stock Exchange governing the admission to, and the operation, of AIM

"Board" or "Directors"

the board of directors of the Company

"Business Day"

a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, England

"Cenkos"

Cenkos Securities plc, which is authorised and regulated by the Financial Conduct Authority

"CEP II"

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>"Closing"</i>	subject to certain conditions being met, the Closing of the Transaction shall occur on the later of (i) the fifth business day following Shareholder approval at a General Meeting and (ii) the thirty-first day after the date of the PSA Agreement.
<i>"Closing Date"</i>	the date of Closing
<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>"General Meeting"</i>	the General Meeting of the Company which will be convened in a notice to be sent to shareholders shortly for the purpose of approving the Transaction
<i>"London Stock Exchange"</i>	London Stock Exchange plc
<i>"Macquarie"</i>	Macquarie Bank Limited
<i>"Macquarie Facility"</i>	the existing loan facility between the Company and Macquarie
<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
<i>"Purchase Price"</i>	US\$61,500,000, as adjusted in accordance with the PSA Agreement
<i>"Shareholders"</i>	the holders of Ordinary Shares
<i>"Superior Proposal"</i>	any bona fide offer made by a third party that, if consummated, would result in such party (or its shareholders) controlling the Company or owning, directly or indirectly, all or substantially all of the Asset, which the Board reasonably determines in good faith, <i>inter alia</i> , to be more favourable to its shareholders
<i>"Transaction"</i>	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
<i>"US\$"</i>	United States Dollars, the lawful currency of the United States of America

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

<i>"Austin Chalk"</i>	shale formation overlying the Eagle Ford Shale
<i>"boe"</i>	barrels of oil equivalent
<i>"D&M report"</i>	an independent appraisal and report prepared by DeGolyer & MacNaughton, effective to 30 June 2015
<i>"Eagle Ford Shale"</i>	shale formation underlying much of southern Texas in the United States
<i>"Eagle Oil Pool Development Project"</i>	the Company's 58.084 per cent. working interest in a target based in the San Joaquin Basin in southern California
<i>"Marathon"</i>	a subsidiary of US major Marathon Oil Corporation (NYSE:MRO)
<i>"possible reserves" or "3P reserves"</i>	unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves but with at least a 10 per cent. probability that the quantities actually recovered
<i>"probable reserves" or "2P reserves"</i>	reserves which, based on the available evidence and taking into account technical and economic factors, have at least a 50 per cent chance of being produced
<i>"prospective resources"</i>	those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
<i>"proven reserves" or "1P reserves"</i>	reserves which, based on the available evidence and taking into account technical and economic factors, have at least a 90 per cent chance of being produced
<i>"reserves"</i>	those quantities of petroleum which are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions, reference should be made to the full PRMS definitions for the complete definitions and guidelines
<i>"resources"</i>	contingent and prospective resources, unless otherwise specified
<i>"Riverbend Project"</i>	the Company's 10 per cent. working interest in the Wilcox Formation in the Cartwright Well in onshore Texas
<i>"Sugarloaf AMI Project"</i>	the Sugarloaf AMI development operated by Marathon Oil located in Karnes County, onshore Texas, USA, in the liquids rich core of the Eagle Ford Shale in which the Company has a 3 per cent. working interest

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