

## Regulatory Story

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**Empyrean Energy PLC** - EME Investor Update and Withdrawal of Request from EGM  
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### **Empyrean Energy PLC ("Empyrean" or the "Company")**

#### **Investor Update and Withdrawal of Request from EGM**

Empyrean Energy PLC is pleased to provide an update to its shareholders following the sale of its 3 per cent. interest in the Sugarloaf AMI in Texas (the "Asset") to Carrier Energy Partners II, LLC ("Carrier") for up to US\$71.5 million in February 2016 (the "Sale").

Following receipt of the initial proceeds of the Sale, as outlined in the Company's announcement of 22 February 2016, the Company has a current cash balance of approximately £11.6 million as at 29 June 2016.

As previously announced, an amount of US\$10.725 million (being 15 per cent. of the anticipated maximum consideration of US\$71.5 million and equivalent to approximately £8 million) is currently being 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.

The Company has submitted a Withholding Tax Certificate Application (the "Application"), which provides a detailed estimated assessment of the Company's actual tax liability, to the Internal Revenue Service (the "IRS") in the US and the amount included on the Application will, if accepted by the IRS, be paid to the IRS to meet the tax liability, with the balance of the amount held in escrow expected to be returned to the Company. The Company estimates the aggregate tax liability to be approximately US\$3.5 million, with approximately US\$2 million attributable to the initial purchase price of \$61.5 million (the "Initial Purchase Price") and two possible payments of a further US\$0.75 million attributable to each of the two contingency payments of up to US\$5 million each (the "Contingency Payments"). The Contingency Payments to the Company are

subject to the average strip pricing of light sweet crude oil (WTI) during 2016 and 2017.

Accordingly, the Company estimates that the amount to be refunded to the Company following the payment of relevant taxes in the US will, subject to any reduced tax obligation in the event that either or both of the Contingency Payments are not made, amount to approximately \$7.225 million (equivalent to approximately £5.432 million). The Company currently expects that the IRS will respond to the Application before 31 August 2016. Further updates will be issued in due course.

In addition, an amount of US\$6.15 million (being 10 per cent. of the Initial Purchase Price and equivalent to approximately £4.62 million) is currently deposited with an escrow agent to secure the representation, warranty and indemnity obligations of the Company under the purchase and sale agreement entered into with Carrier (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 after closing of the Sale on 19 February 2016 ("Closing") with the balance of such funds to be released to the Company 12 months following Closing. To date, adjustments have totalled approximately US\$0.11 million in Carrier's favour, such deductions principally relating to ad valorem taxes paid by Carrier attributable to Empyrean. Accordingly, the first tranche of escrowed funds, which is estimated to total US\$2.96 million (equivalent to approximately £2.23 million), is due on or about 19 August 2016 with a further, final tranche due (subject to any further adjustments) on or about 19 February 2017.

It remains the Company's intention to retain sufficient funds only to meet the Company's ongoing working capital requirements and the maintenance and development of its remaining assets (as further described below) and to return all surplus funds received from the Sale to shareholders as quickly and efficiently as possible.

In that regard, the Board believes that it is prudent to receive both the judgement of the IRS in respect of the Application (and any refund due thereafter) as well as the first tranche of escrowed funds under the PSA, both of which will materially impact the funds available to the Company, before finalising plans for a distribution to shareholders. In the meantime, the Company continues to take advice on the most tax efficient manner in which to effect such a distribution and to clarify the procedure required, which may involve both shareholder approval and court approval.

Specifically, the Company's intention is to ensure that it has sufficient funds to allow it to protect shareholder value and to avoid its interests in its existing assets being diluted. Whilst the low oil price environment during the past 18 months has resulted in no further in field activities on either the Eagle Oil Pool Development Project or the Riverbend Project, recent positive momentum in the oil price has reignited interest at the Eagle Oil Pool Development Project and the Company will budget for its share of a small seismic programme and a single test well, estimated at an aggregate US\$2.5 million net to Empyrean

(equivalent to approximately £1.878 million). It remains the Company's intention to seek a farm-out partner for the Eagle Oil Pool Development Project such that no further major financial risk is taken by the Company and, to the extent that any surplus funds are held following a successful farm-out process, to distribute these to shareholders in due course. For clarity, the Company has not received a proposal/AFE to conduct seismic or drill a well at this stage and these funds are being set aside to make sure the Company is not diluted out of this project should these operations be proposed after the distribution to shareholders.

The ongoing operating costs of the Company have been significantly reduced in the past to reflect the continued low oil price environment and these are being actively reviewed by the Board with the objective of implementing further reductions following the distribution to Shareholders. The most significant cost reductions have been achieved by reducing Directors' salaries from £0.51 million in the financial year to 31 March 2015 to £0.37 million in the financial year to 31 March 2016. The Company is in the process of completing its audit for the Annual Report and Financial Statements for the financial year to 31 March 2016, which it expects to announce no later than the end of August 2016 or earlier if possible.

Further to the announcement on 17 June 2016 regarding the receipt of a request for the calling of an Extraordinary General Meeting of the Company (the "EGM Request") to consider certain board changes, the Company has engaged in discussions with the requisitioning shareholders, Messrs James Kight and Richard Appleby, regarding the Company's stated objectives and the proposed distribution to shareholders outlined above. Following those discussions, the Company confirms that the EGM Request has been withdrawn.

Tom Kelly, CEO of Emyprean, commented: "I am pleased to provide Shareholders with an update on our current activities, financial position and strategy. Notwithstanding current market uncertainty, we are clear in our objective of returning surplus funds to Shareholders whilst preserving shareholder value. Our position has been improved through a steady rise in the price of WTI oil to a level which is approximately 75% above its lows for calendar year 2016, and, whilst there can be no guarantees that Emyprean will receive any of the contingency payments, the probability of receiving such additional sale proceeds has certainly increased since financial close was achieved in February. The Company also notes the recent weakness in Sterling since the referendum on the UK's membership of the European Union which, if sustained, may have a positive impact on the level of any proposed distribution to shareholders."

For the purposes of this announcement, the Company has used £1:US\$1.33.

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

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