Economic Evaluation of the Bellevue and Thunderbolt Prospects in SEL-13/98, Australia

Prepared for
Sure Asset Management

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Date: Dec 2009

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DISCLAIMER

The opinions and interpretations presented in this report represent our best technical interpretation of the data made available to us. However, due to the uncertainty inherent in the estimation of all sub-surface parameters, we cannot, and do not guarantee the accuracy or correctness of any interpretation and we shall not, except in the case of gross or wilful negligence on our part, be liable or responsible for any loss, cost damages or expenses incurred or sustained by anyone resulting from any interpretation made by any of our officers, agents or employees.

Except for the provision of professional services on a fee basis, RPS Energy Pty Limited does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this report.

Our estimates of potential reserves, resources, un-risked and risked values are based on data provided by Great South Land Minerals Limited. We have accepted, without independent verification, the accuracy and completeness of these data.

All interpretations and conclusions presented herein are opinions based on inferences from geological, geophysical, engineering or other data. The report represents RPS's best professional judgment and should not be considered a guarantee of results. Our liability is limited solely to Great South Land Minerals Limited.

	REPORT TITLE: Economic Evaluation of the Bellevue and Thunderbolt Prospects in SEL-13/98, Australia		
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1. EXECUTIVE SUMMARY

Great South Land Minerals Limited (GSLM), a wholly owned subsidiary of Empire Energy Corporation, requested that RPS Energy (RPS) provide an economic valuation of the Bellevue and Thunderbolt Prospects located in Special Exploration Licence SEL 13/98, Tasmania.

GSLM holds 100% interest in the Special Exploration Licence SEL 13/98 which covers a portion of the Tasmania Basin. The permit area is approximately 15,410 square kilometres and covers approximately 25% of the island of Tasmania. SEL 13/98 expired on the 30th of September 2009. GSLM have advised RPS that a five year renewal of the exploration licence has been submitted and is likely to be granted. The new exploration licence will be called EL 14/2009. No petroleum wells have been drilled in the permit area to date.

The valuation presented in this report adopts an Expected Monetary Value (EMV) approach using a probability tree methodology to model the range of possible outcomes for the assumed developments. The conceptual development plan and corresponding production forecast were generated by GSLM based on the mean case Prospective Resource volumes reported by RPS in "Competent Persons Report on Assets of Great South Land Minerals Limited, Tasmania" dated 23rd October 2008[1,2]. RPS has reviewed these profiles and believes they are reasonable based on the un-risked mean Prospective Resource volumes.

The capital and operating cost were generated by RPS using "QUE$TOR"™, a cost and technical database covering all the producing regions of the world. When available, cost data specific to the asset in question was used. The calculated base case and commodity price sensitivities with corresponding EMV's for Special Exploration Licence SEL 13/98 is presented in Table 1.

Special Exploration Licence SEL 13/98 Bellevue and Thunderbolt Prospects	EMV10 (US$ million)
Base Case Oil: US$83.75/bbl	50.9
Oil Price Sensitivities: EMV10 (US$ million)	
Low Case Oil: US$65/bbl	24.5
High Case Oil: US$110/bbl	87.7

Table 1 – Calculated EMV10 of the Bellevue and Thunderbolt Prospects, as of 1 December 2009

[1] Great South Land Minerals Limited, 22nd December 2009; "Bellevue Prospect PoD Rev1"

[2] Great South Land Minerals Limited, 22nd December 2009; "Thunderbolt Prospect PoD Rev1"

2. ECONOMIC VALUATION

2.1 Methodology

The valuation presented in this report adopts an Expected Monetary Value (EMV) approach using a probability tree methodology to model the range of possible outcomes for the assumed developments.

Each prospect has two initial possible outcomes, success or failure. The chance of success (COS) is equal to the prospect specific Geological Probability of Success (GPoS). In PRMS this is referred to as the Chance of Discovery. The chance of failure (dry hole) is therefore always equal to (1 – COS).

Discrete production and cost profiles were generated for the mean success case resources for each of the prospects evaluated. These discrete cases were then used to estimate the value of the success case of each prospect. This value is assumed to be the Net Present Value of the cash flow associated with each prospect using a ten percent discount rate. The evaluation includes failure cases that are represented by the discounted value of total exploration commitment related to each of the prospects evaluated.

Additionally, the probability tree approach allows the inclusion of partial dependencies between prospects within the same basin. As a result, in addition to the prospect specific chance of success, an overall "play" chance of success that represents the existence of an oil play in the area under study has been also included in the evaluation. Figure 1 displays the probability used to estimate the value of the Bellevue and Thunderbolt Prospects.

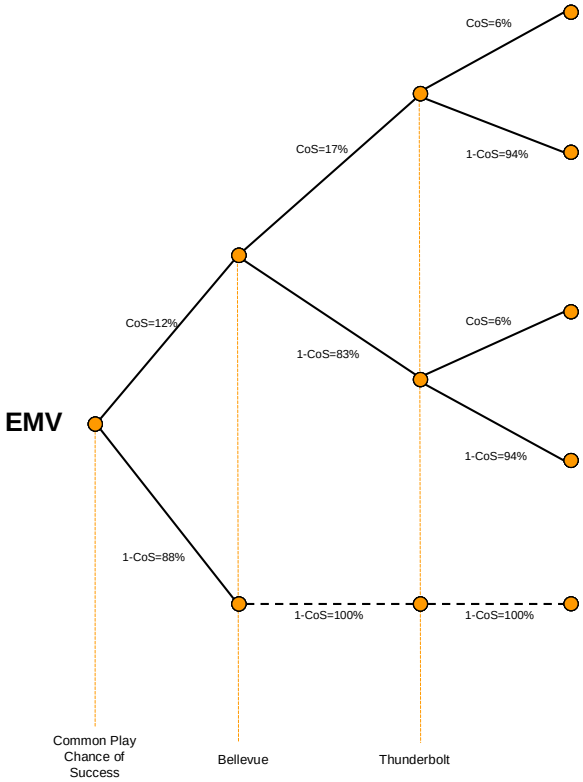

Figure 1 – Probability Tree Used to Estimate the EMV of the Bellevue and Thunderbolt Prospects

2.2 General Economic Assumptions

2.2.1 Evaluation date and discount rate

All net cash flows have been discounted at a rate of 10% (nominal) per year. The valuation date is 1 December 2009.

2.2.2 Pricing Assumptions

The valuation is based on RPS's view of the long term forecast for Brent Crude as shown in Figure 2. It is assumed that all crude is sold with no discount to the Brent Price. The base price case assumes a six year forward curve and US$83.75 per barrel flat real thereafter. The low price case and high price case assume a five year forward curves, US$65 per barrel and US$110 per barrel flat real thereafter, respectively. All crude price estimates had been escalated at 2% per annum (Figure 3).

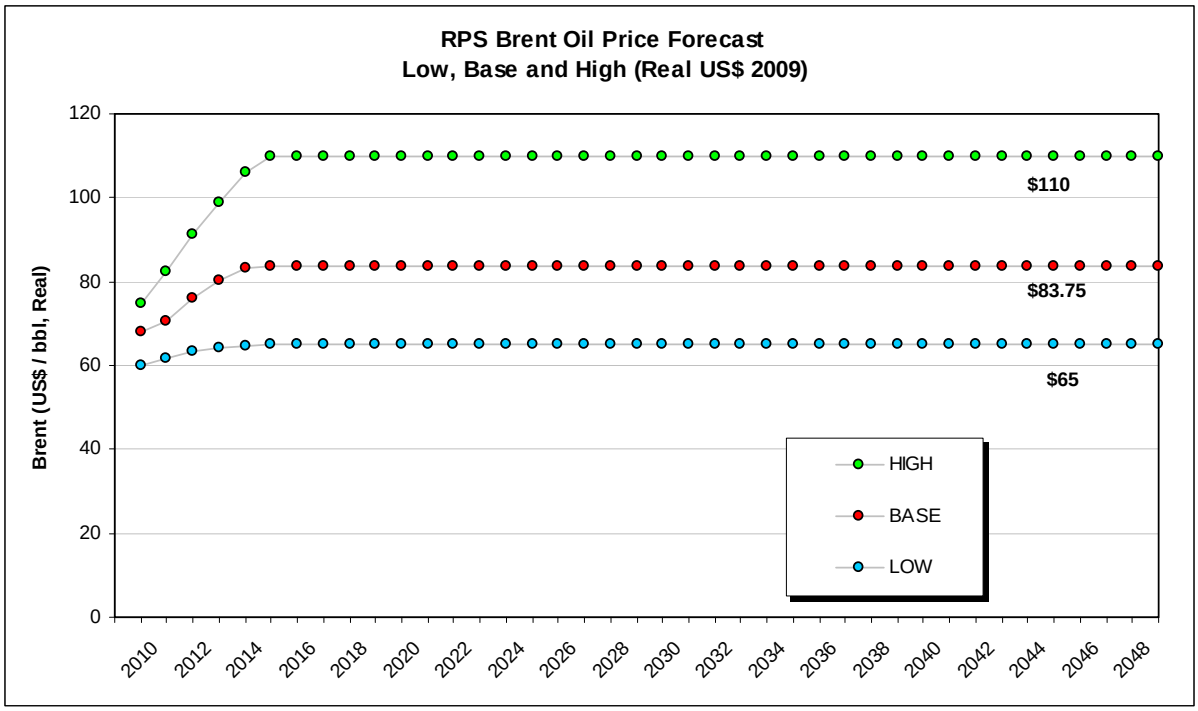

Figure 2 – RPS Brent Crude Price Forecast in Real Terms

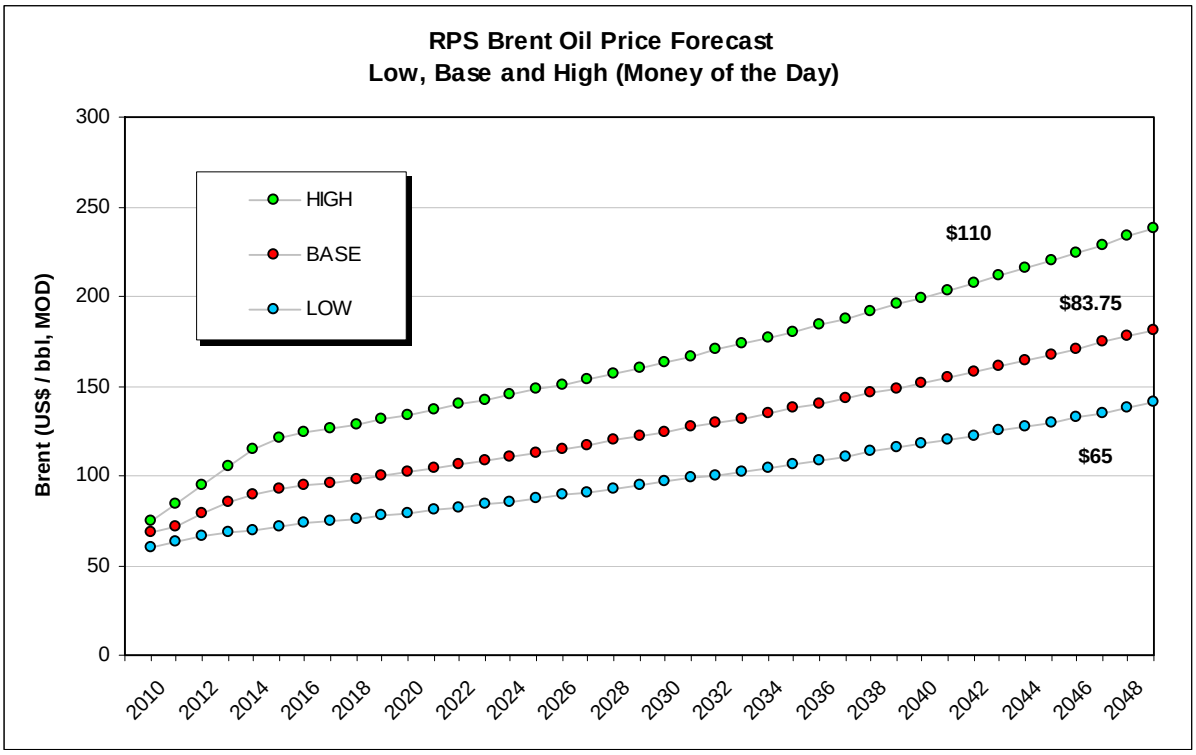

Figure 3 – RPS Brent Crude Price Forecast in Nominal Terms

2.2.3 Inflation

An annual inflation of 2.5% has been built into the valuation. This inflation rate has been applied to all cost estimates to adjust them to Money of the Day (MOD) terms.

2.2.4 Fiscal terms

The fiscal terms included in the evaluation are as follows:

Royalty:

- 12% of gross revenue.

Corporate Tax:

- 30% of taxable income.
- Taxable income assumes 15 year straight line depreciation for capital costs.
- It is assumed that excise tax is deducted from the corporate tax taxable income.

Excise Tax:

- Applicable on a field basis.
- First 30 MMstb of crude oil exempt from excise tax.
- Excise Rate applicable to gross revenue on an incremental sliding scale basis as shown in Table 2.

Annual Production MMstb			Excise Rate
0.000	to	0.315	0%
0.315	to	0.629	0%
0.629	to	1.259	0%
1.259	to	1.888	0%
1.888	to	2.517	0%
2.517	to	3.146	0%
3.146	to	3.776	10%
3.776	to	4.405	15%
4.405	to	5.034	20%
	>	5.034	30%

Table 2 – Excise Tax Rates

2.3 Development Assumptions

The conceptual development plan and corresponding production forecast were generated by Great South Land Minerals Limited based on the mean case Prospective Resource volumes reported by RPS in "Competent Persons Report on Assets of Great South Land Minerals Limited, Tasmania" dated 23rd October 2008. RPS has reviewed these profiles and believes they are reasonable based on the un-risked mean Prospective Resource volumes.

2.3.1 Bellevue Assumptions

The Bellevue Prospect contains a Mean Case Prospective Resource volume of 359 MMstb (un-risked) in the Upper and Lower Units of the Gordon Limestone. Assuming the Bellevue Prospect contains a medium gravity crude of approximately 30 deg API with a moderate water drive, an average drainage area per well is expected to be 40 acres. Therefore, using the mean area of the reservoir of 58 sq km, 360 vertical wells are required to drain the reservoir, equivalent to 1.0 MMstb per well.

Initial production rate per well is expected to be 910 stb/day declining at 30% per annum with a 10% downtime. This will recover the Prospective Resource volume in less than 30 years. An average gas-oil ratio of 200 scf/stb is assumed over the life of the project. This gas will be utilised as fuel gas to power facilities and artificial lift and remain cash neutral over the life of the project. The average field production rate and wells drilled is illustrated in Figure 4.

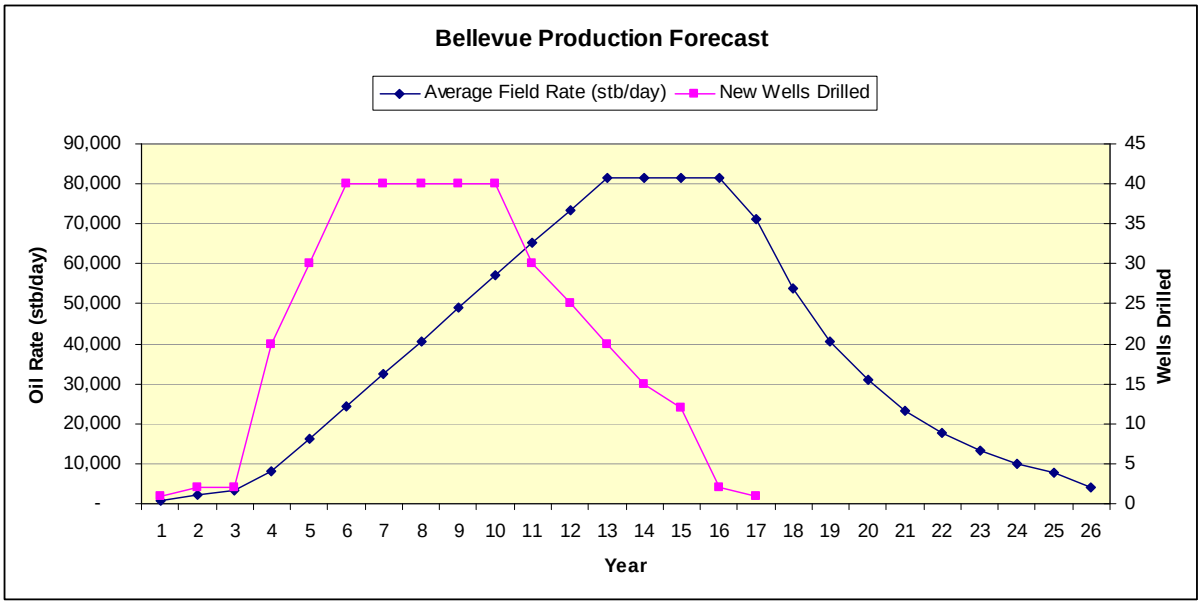

Figure 4 – Bellevue Production Forecast

2.3.2 Thunderbolt Assumptions

The Thunderbolt Prospect contains a Mean Case Prospective Resource volume of 88 MMstb in the Gordon Limestone. Assuming the Thunderbolt Prospect contains a medium gravity crude of approximately 30 deg API with a moderate water drive, an average drainage area per well is expected to be 40 acres. Therefore, using the mean area of the reservoir of 12 sq km, 74 vertical wells are required to drain the reservoir, equivalent to 1.2 MMstb per well.

Initial production rate per well is expected to be 875 stb/day declining at 24% per annum with a 10% downtime. This will recover the Prospective Resource volume in less than 30 years. An average gas-oil ratio of 200 scf/stb is assumed over the life of the project. This gas will be utilised as fuel gas to power facilities and artificial lift and remain cash neutral over the life of the project. The average field production rate and wells drilled is illustrated in Figure 5.

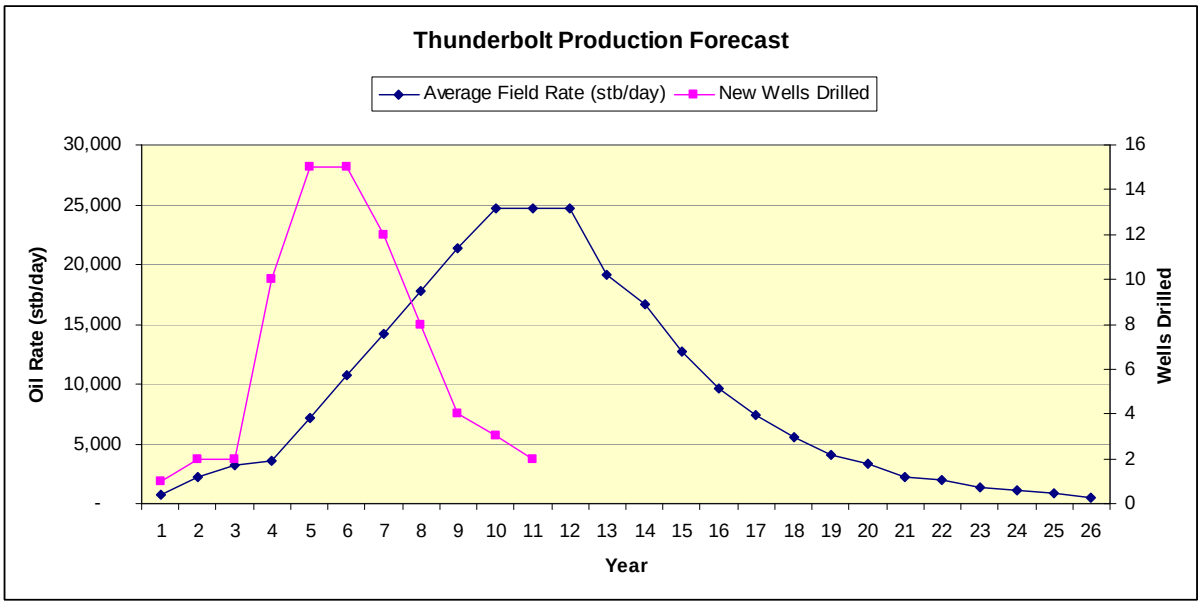

Figure 5 – Thunderbolt Production Forecast

2.4 Project Expenditures

The capital and operating cost were generated using "QUE$TOR"™, a cost and technical database covering all the producing regions of the world (when available, cost data specific to the asset in question was used). These databases are updated every six months with costs gathered from actual projects, fabricators, vendors, and service companies. A summary of exploration, development, operating and abandonment costs are provided in Table 3. All costs are in United States Dollars (US$) and are pre-inflation.

Cost	Bellevue Prospect	Thunderbolt Prospect
	US$ million	US$ million
Exploration Well	4.0	4.8
Appraisal Wells	31.4	18.8
Other G&G	13.5	8.1
Total Exploration/Appraisal Costs	**48.8**	**31.7**
Development Drilling	2292.6	512.6
Facilities	445.5	183.6
Pipelines	391.5	206.6
Total Development Expenditures	**3129.6**	**902.7**
Total Operating	**2653.1**	**1091.4**
Total Abandonment	**380.6**	**133.8**

Table 3 - Exploration, Development, Operating and Abandonment Costs

Projected exploration costs at Bellevue include seven exploration/appraisal wells and five wells for Thunderbolt. Other exploration costs include Geology and Geophysical (G and G) for sample analysis, G and G studies, environmental studies and if permitted, 3D seismic.

The Bellevue and Thunderbolt Prospects are located relatively close to infrastructure such as sealed roads, deep water ports and shipping lanes while transport distances or pipeline lengths are approximately 150km to the north coast of Tasmania. RPS has included an 18 inch pipeline for Bellevue and a 12 inch pipeline for Thunderbolt which will transport the oil 150km to a custody transfer terminal in northern Tasmania, near Devonport, for tanker transport to refinery.

Facilities required for gathering, testing, processing and handling gas, oil and water are designed and costed using the QUE$TOR model and database.

Operating costs include the cost of consumables like chemicals, utilities (power and water), salaries and wages, administrative overheads, repairs and maintenance. The QUE$TOR model was used to estimate the total operating costs which are made up of Fixed and Variable costs. The operating costs established by QUE$TOR were used for the initial, peak production and initial decline years, however, for the later years of decline the costs were adjusted down to better reflect the decline of the operation. QUE$TOR did not reduce the costs in later years resulting in unreasonably high costs that would not be maintained under normal operation. These costs were adjusted to reflect "most likely" cost reductions to maintain operations.

The abandonment costs include well abandonment, land reclamation, facilities decommissioning and salvage.

3. RESULTS

The NPV and EMV results of the valuation, based on RPS's long term base price forecast for Brent Crude, is presented in Table 4. Each row of Table 4 represents a different outcome of the probability tree for the assumed developments. The EMV is the sum of the risked NPV's.

Results based on commodity price sensitivities are presented in Table 5 (RPS Low Brent Forecast) and Table 6 (RPS High Brent Forecast)

					NPV10 (MM US$)			
Play Chance	Well 1	Well 2	Branch Probability		Bellevue	Thunderbolt	Total	Risked NPV
12%	17%	6%	0.12%		2972.9	990.6	3963.5	4.9
12%	17%	94%	1.92%		2972.9	-8.6	2964.3	56.8
12%	83%	6%	0.60%		-8.6	990.6	982.0	5.9
12%	83%	94%	9.36%		-8.6	-8.6	-17.1	-1.6
88%	100%	100%	88.00%		-8.6	-8.6	-17.1	-15.1
							EMV	**50.9**

Table 4 – RPS Base Price Case Valuation Results, as at 1 December 2009

					NPV10 (MM US$)			
Play Chance	Well 1	Well 2	Branch Probability		Bellevue	Thunderbolt	Total	Risked NPV
12%	17%	6%	0.12%		1824.1	583.4	2407.5	2.9
12%	17%	94%	1.92%		1824.1	-8.6	1815.5	34.8
12%	83%	6%	0.60%		-8.6	583.4	574.8	3.4
12%	83%	94%	9.36%		-8.6	-8.6	-17.1	-1.6
88%	100%	100%	88.00%		-8.6	-8.6	-17.1	-15.1
							EMV	**24.5**

Table 5 – RPS Low Price Case Valuation Results, as at 1 December 2009

					NPV10 (MM US$)			
Play Chance	Well 1	Well 2	Branch Probability		Bellevue	Thunderbolt	Total	Risked NPV
12%	17%	6%	0.12%		4577.4	1555.3	6132.7	7.5
12%	17%	94%	1.92%		4577.4	-8.6	4568.9	87.6
12%	83%	6%	0.60%		-8.6	1555.3	1546.7	9.2
12%	83%	94%	9.36%		-8.6	-8.6	-17.1	-1.6
88%	100%	100%	88.00%		-8.6	-8.6	-17.1	-15.1
							EMV	**87.7**

Table 6 – RPS High Price Case Valuation Results, as at 1 December 2009

APPENDIX A: GLOSSARY OF TERMS AND ABBREVIATIONS

B	Billion
bbl(s)	Barrels
bbls/d	barrels per day
bopd	barrels of oil per day
BTU	British Thermal Unit
Bscf	billions of standard cubic feet
condensate	liquid hydrocarbons which are sometimes produced with natural gas and liquids derived from natural gas
EMV	Expected Monetary Value
ft	Feet
G and G	Geology and Geophysical
GIP	Gas in Place
GIIP	Gas Initially in Place
LNG	Liquefied Natural Gases
LPG	Liquefied Petroleum Gases
M	Thousand
MM	Million
M$	thousand US dollars
MM$	million US dollars
MMscf/d	millions of standard cubic feet per day
Mt	thousands of tonnes
MMt	millions of tonnes
NGL	Natural Gas Liquids
NPV	Net Present Value
petroleum	deposits of oil and/or gas
scf	standard cubic feet measured at 14.7 pounds per square inch and 60° F
scf/d	standard cubic feet per day
scf/stb	standard cubic feet per stock tank barrel
stb	stock tank barrels measured at 14.7 pounds per square inch and 60° F
stb/d	stock tank barrels per day
STOIIP	stock tank oil initially in place
US$	United States Dollars
Tscf	trillion standard cubic feet