

88 Energy Ltd

17:12 05 Sep 2016

88 Energy in high demand thanks to Project Icewine's 'billion barrel' potential

Everything appears to be going to plan for 88 Energy Ltd (LON:88E) in Alaska, where it is uncovering what it hopes will be a significant new shale resource play.

The oil exploration group has been a rare highlight in the sector, with the AIM-listed shares rising more than 800% to change hands at around 3.40p in April, now trading at around 2.75 - still three-month highs.

88 Energy managing director Dave Wall in February used the word 'astounding' when he described the correlation of pre-drill expectations for the Project Icewine well with the actual results to date.

A project update in April, put the size of the prize sharply in focus for investors with an independent expert estimating 'billion barrel' potential in the HRZ shale at Icewine, on Alaska's North Slope.

It was the latest in a series of positive, albeit technical updates from the company.

At the start of September, the group announced a change of plans for the second Icewine well. It now intends to drill a vertical well, rather than the more complex and more expensive lateral well.

A vertical well is estimated to cost around US\$5m less to drill and the well can be paid for entirely from the group's current cash position.

The well will still enable a multi-stage fracking programme. Importantly, the vertical well will test both the HRZ and HUE shales at Project Icewine. The company added that as it will test the production potential of the entire HRZ/HUE interval there is potential for an upgrade to resources.

Icewine 2H is scheduled to 'spud' in the first quarter of next year.

Hitting the 'sweet spot' for thermal maturity

Indeed, since 88 Energy's Icewine well broke ground last October the company has not been shy in giving out technical detail to the market.

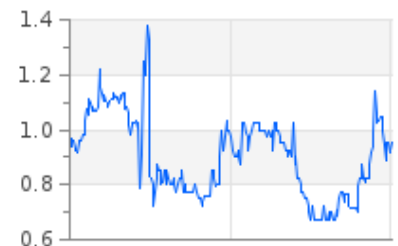
Simplification, of course, often requires a degree of assumption, and so 88 Energy's positivity has naturally come with a number of caveats.

Importantly, a number of important milestones must still be reached before the company can make definitive assertions

Price: 0.925

Market Cap: £63.56 m

1 Year Share Price Graph



December 2018 June 2019 December 20

Share Information

Code: 88E

Listing: AIM

52 week	High	Low
	1.45	0.6275

Sector: Oil & Gas

Website: 88energy.com

Company Synopsis:

The company's goal is to build a successful exploration and production company that delivers material benefits to its shareholders and contributes to the development of the regions in which it works.

action@proactiveinvestors.com

about what it has or hasn't got.

Through its recent analysis the company has confirmed that the HRZ shale formation is permeable, and it believes the shale is sufficiently porous.

Other analysis, meanwhile, indicated that a large part of the acreage is located in a 'sweet spot' for thermal maturity. The upshot of this is that the potential hydrocarbon resource is believed to comprise oil (with relatively low viscosity) and 'wet' gas.

Such details are still not conclusive of a commercial success, but are plainly encouraging.

New equity funding was oversubscribed amid high demand

88 Energy's new equity funding appears to have been inundated with demand, as the company has this morning revealed it raised significantly more than expected.

The company had set out to raise between A\$10mIn and A\$15mIn, but it had oversubscriptions amounting to A\$20mIn. It has therefore decided to increase the size of the placing to A\$25mIn. The company said its decision was influenced by the 'high calibre' the new investors and the significant level of demand.

"The level of support the company received from institutional and sophisticated Investors in Australia and the UK is a step change to only a few short months ago, reflecting the substantial de-risking that has occurred at Project Icewine as a result of the recent Icewine-1 exploration well," said managing director Dave Wall.

All has gone according to Paul Basinski's plan thus far

For the lay-person what probably matters most is that the findings conform to or exceed pre-drill expectations.

Those expectations were set out by shale expert Paul Basinski.

That the results have confirmed his predictions is particularly important for those following the 88 Energy story closely.

Basinski, who is partnered with 88 Energy in Icewine via his Burgundy Xploration vehicle, is an esteemed geologist. Significantly, he was among the early pioneers of the Eagle Ford shale play.

At Project Icewine, Basinski's exploration concept predicted that the HRZ could be another large 'play' similar to those unearthed during the recent US shale boom.

And, put simply, the findings from the Icewine project to date have supported that exploration concept.

88 Energy is now becoming sufficiently confident that, today, it told investors that at Icewine the formations and fracking possibilities are similar to the Haynesville and Marcellus shale plays.

It is increasingly confident that Icewine could prove to be a significant new find.

Aside from Icewine's shale play, the area also has conventional oil potential.

The recent well encountered evidence of a conventional petroleum system and an upcoming seismic programme aims

to firm up further conventional drilling targets.

'Super highway' shale samples are even better

On March 30, 88 Energy told investors that further evaluation of the suggestively named 'super highway' section of the well has revealed permeability measurements some 20 times better than forecast.

Measures of permeability - i.e. how easily a porous material lets liquids pass through - are significant indicators for exploration companies as they show the potential for oil to flow.

That the Icewine well generally, and the 'super highway' sections particularly, have seen high levels of permeability bodes well for the planned production testing.

Indeed, 88 Energy added that the latest findings provide further encouragement for the potential for high flow rates from planned production flow testing with the next Icewine well.

Permitting work is currently underway for Icewine 2, which will be drilled horizontally and will be fracked before production testing.

Dave Wall, 88 Energy managing director, said: "As expected, the permeability results from the 'super highways' are excellent and provide further support for a resource play that could yield production rates more akin to those normally experienced in conventional wells.

"An increasing body of evidence from Icewine#1 supports a case for potentially exceptional flow rates from the HRZ. The next step is to test this theory via the drilling of Icewine#2H, which will be a horizontal well with a multi-stage fracture stimulation."

It is a big shale discovery, the experts can agree that much

A new independent resource estimate, unveiled on April 6, saw some 1.4bn barrels of oil equivalent in a 'productive area' of the HRZ shale that spanned around 42% of the Icewine project area.

The consultant, DeGolyer & MacNaughton (D&M), also upgraded its view on the 'probability of geologic chance of success' to 60%, from 40%.

Internally, meanwhile, 88 Energy and Basinski's Burgundy Exploration estimate there is some 3.6bn barrels of resources, across a larger 70% of the Project Icewine area.

In a statement, 88 Energy highlighted that the assumptions used by D&M are largely consistent with the internal view of the project, and the main differences between the two relate to differing opinions of how much of the Icewine acreage will prove to be productive in the 'success case'.

88 Energy added that the internal view is based on experience and past expertise within the joint venture relating to the development of the Eagle Ford shale. It added that the initial Icewine well's confirmation of the pre-drill thermal maturity model was also a factor in the group's more positive assessment.

"D&M's assumption is largely driven by statistical analysis over a larger selection of global shale plays at a similar stage of life cycle," the company explained.

This Alaska shale could rival the Eagle Ford, so says Cenkos

The oil-bearing shale unearthed by 88 Energy Ltd (LON:88E) in Alaska could rival Texas's colossal Eagle Ford shale, says City broker Cenkos.

Jack Allardyce, analyst at Cenkos, described the HRZ shale found in the Project Icewine well as "a major new play" as he initiated a 'buy' recommendation for the AIM quoted explorer.

Although the analyst points out this remains early days for 88 Energy - and he holds back from giving an indication of 88 Energy's potential value- Allardyce does say that it is one of the most exciting stocks listed in the UK.

"While the still early-stage nature of Project Icewine makes valuation highly speculative, what is clear is that the company has already uncovered a potentially major new play in a relatively under explored, but hugely prolific region," Allardyce said.

"As it continues to de-risk the HRZ and begins to quantify conventional prospectivity, we believe it will continue to add significant value to its acreage."

He goes further, to highlight the high level of potential industry interest in the project.

"Given the scope of a commercial development we would expect major oil companies and North American independents to be likely suitors for the project.

"In our view 88E is likely to have a captive audience were it minded to divest part of or its entire stake in the project, given the major operators on its doorstep."

88 Energy's recent track record suggests there'll be plenty more news to come, and it certainly looks to be a stock to watch closely.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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