

88 ENERGY LIMITED (88E)

Icewine #1 expected to spud mid-October

88 Energy Limited (88E) has progressed Project Icewine to the point where the Company is now in a position to spud its first well (Icewine #1) in mid-October. Since the beginning of July, 88E has managed to raise capital and secure a US\$50m credit facility, meaning the Icewine #1 exploration well is now fully funded with a rig contract secured. From a markets perspective, given the extent of three prolific source rocks across the North Slope (including Project Icewine), there is a high likelihood of Icewine #1 delivering hydrocarbon shows. Our 12-month target price is 2cps.

Icewine #1 well

With financing now in place, 88E should be able to complete final preparation ahead of spudding the Icewine #1 well in mid-October. 88E has today announced that a rig contract has been executed that secures the Kuukpik Rig 5 to drill Icewine #1. The well will be a vertical pilot hole with the primary objective being the Hue / HRZ shale (contained within the Brookian sequence). The Hue / HRZ shales compare favourably with other established US shale plays, based on the key (unconventional) success factors. These include TOC, porosity, liquids potential, and over-pressure.

An independent study by Degolyer and MacNaughton assessed the Prospective Oil Resource across the HRZ, Hue, Kingak, and Shublik Shales. Project Icewine was independently assessed as having an unconventional Prospective Resource (gross un-risked mean) of 492MM bbl. With a Probability of Geological Success of 41%, the risked mean Prospective Resource is 200MM bbl (gross).

Financing in place

88E has confirmed that Bank of America (BoA) has agreed to a US\$50m financing facility for Project Icewine. 88E will need to pre-fund US\$5.7m (A\$7.8m @ x-rate of 0.73) of a budgeted well cost of approximately US\$16m for the Icewine #1 well. Following the settlement of Tranche 2 of the recent equity issuance, 88E should have approximately A\$11m, before their share of the well cost and other costs associated with the BoA funding facility. We estimate 88E will have A\$4m in cash post the spudding of Icewine #1 but may receive direct rebates should the well cost come in under budget.

Otto Energy (OEL) – also entering Alaska

The entry of OEL into Alaska should be viewed as positive for the 88E story. OEL has farmed into the Great Bear acreage directly to the north of Project Icewine. Great Bear, together with partners Haliburton and now OEL, hold 579,374 gross acres. To date Great Bear has drilled three wells and collected 1800km² of 3D seismic. The Alkaid #1 well, spud in February this year, was targeting both conventional and unconventional reserves in the Shublik and Kingak formations. A successful outcome from Alkaid #1 would obviously be positive for 88E. In addition, Great Bear plans to drill a further two wells in early 2016.

Over the next 12-months, should 88E be able to complete its exploration program, then the stock could appreciate towards 2cps (US\$255/acre – well below other transaction values on the North Slope since 2011).

10 Sep 2015

Share Price: \$0.012

Hartleys Brief Investment Conclusion

88E has established a large acreage position on the central North Slope of Alaska on which it will be attempting to exploit both the conventional and unconventional resource potential. A well and a farmout plus Great Bear results are potential catalysts over the next 6 months.

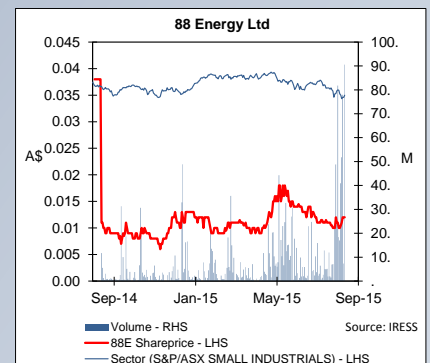
Board of Directors:

David Wall	Managing Director
Michael Evans	Non-executive Chairman
Dr Stephen Staley	Non-executive Director
Brent Villemarette	Non-executive Director

Company Address:

Level 1, 83 Havelock St, West Perth, WA, 6005

Issued Capital:	2339.3m
- fully diluted	2794.3m
Market Cap:	\$28.1m
- fully diluted	\$33.5m
Current Cash est.	\$10.0m



Authors:

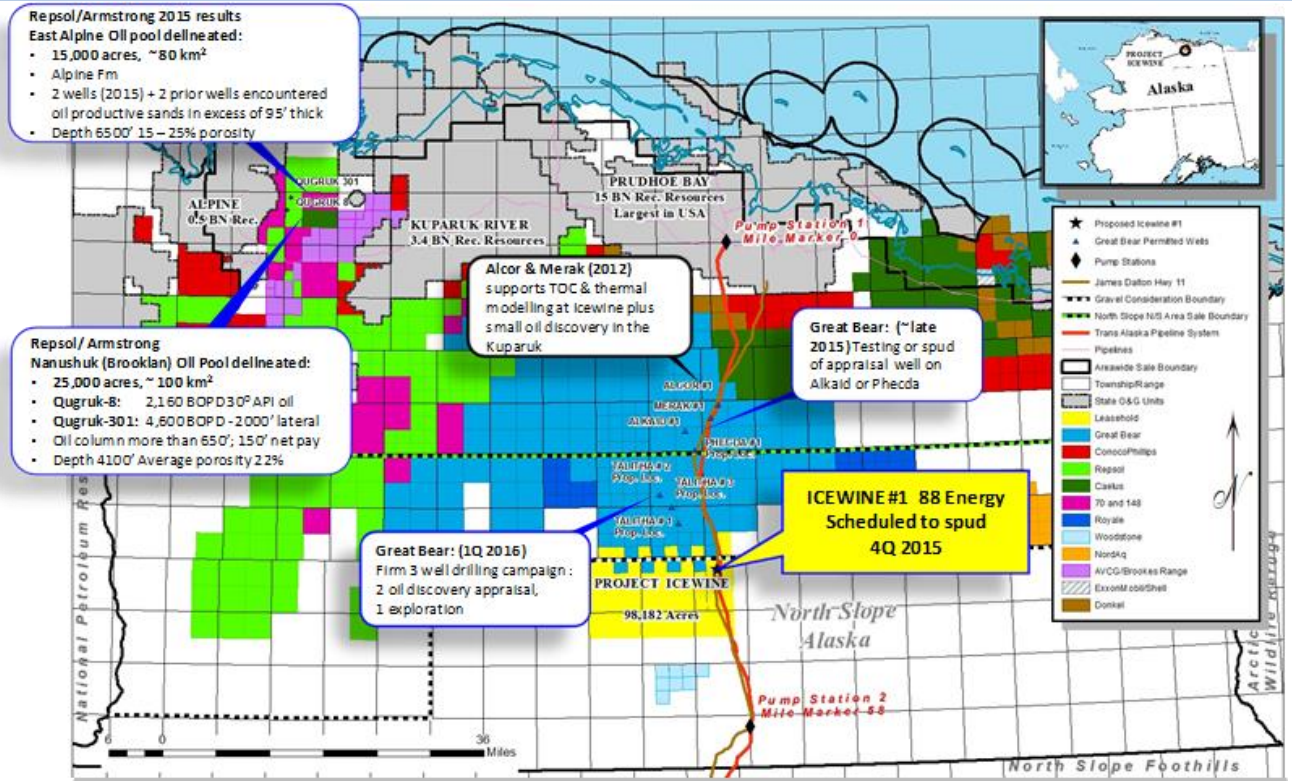
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Hartleys has assisted in the completion of capital raisings in the past 12 months for 88 Energy Limited ("88 Energy") for which it has earned fees. Hartleys has also provided corporate advice within the past 12 months and continues to provide corporate advice to 88 Energy, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 24 million 88 Energy options. The analyst has a

SUMMARY MODEL

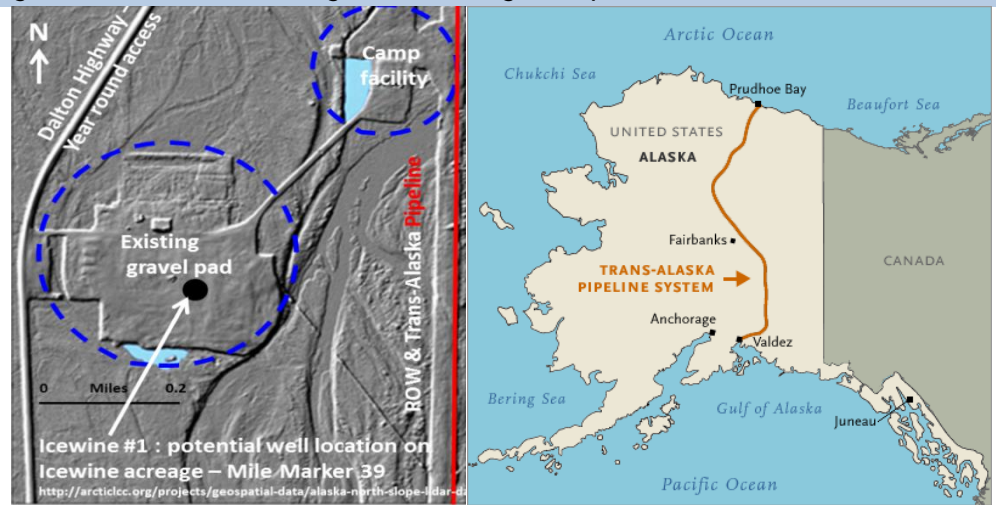
88 Energy Limited 88E		Share Price \$ 0.012		Sep-15 Speculative Buy		
Key Market Information			Directors			
Share Price				David Wall	Managing Director	
Market Capitalisation	Ordinary		\$28m	Michael Evans	Non-executive Chairman	
	Fully Diluted		\$34m	Dr Stephen Staley	Non-executive Director	
Current Cash est.			\$10.0m	Brent Villemarete	Non-executive Director	
Issued Capital			2339.3m			
Options			455.0m			
Issued Capital (fully diluted all options)			2794.3m			
Enterprise Value (EV)			\$23.5m			
Projects			Investment Summary			
Name	Country	State	Size (Acre)	W.I.*	Net acres	
Icewine	USA	Alaska	98,182	87.50%	85,909	
*Will reduce to 78% post spud of Icewine #1 well						
Prospective Resource Estimate						
Estimated Prospective Oil Resource						
HRZ, HUE, Kingak, & Shublik Shales						
Un-risked			Risked Mean			
MM Boe	Low	Ave.	High	Mean	41% PoGS	
Gross MMBO)	244.3	446.4	813.2	492.5	200.3	
88 Energy NET	213.7	390.6	711.5	430.9	175.3	
Independent Report completed by DeGolyer and MacNaughton						
Options						
Year Expires	Number	% ord	Avg Price	\$m unpaid		
26-Nov-15	5,000,000	0.3%	\$ 0.280	\$ 1.40		
31-Mar-16	5,000,000	0.3%	\$ 0.450	\$ 2.25		
10-Apr-16	300,000	0.0%	\$ 0.700	\$ 0.21		
22-Apr-16	1,000,000	0.1%	\$ 0.300	\$ 0.30		
12-Jun-17	1,000,000	0.1%	\$ 0.420	\$ 0.42		
12-Jun-17	2,000,000	0.1%	\$ 0.280	\$ 0.56		
12-Jun-17	250,000	0.0%	\$ 0.160	\$ 0.04		
22-Oct-17	12,000,000	0.8%	\$ 0.010	\$ 0.12		
18-Feb-18	4,800,000	0.3%	\$ 0.015	\$ 0.07		
1-Mar-18	20,000,000	1.3%	\$ 0.014	\$ 0.28		
2-Mar-18	403,659,650	25.3%	\$ 0.020	\$ 8.07		
TOTAL	455,009,650	28.5%	\$ 0.030	\$ 13.73		
Potential Newsflow			Event			
2H CY15			Great Bear well results			
4Q CY15			More detail on the Repsol discovery			
1Q CY16			Well spud			
			Great Bear drilling			
			Farm-out			
Quarterly Cash Flow- Historical						
	FY14	FY15				
A\$ m	3Q	4Q	1Q	2Q	3Q	4Q
Beginning	6.09	3.55	14.63	1.27	0.80	6.24
Operating	-2.24	-1.47	-14.12	-0.88	-1.07	-4.94
Investing	-0.30	3.21	0.38	-0.71	0.00	0.00
Financing	0.00	9.34	0.37	1.12	6.22	0.00
End	3.55	14.63	1.27	0.80	6.24	1.21
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Sources: IRESS, Company Information, Hartleys Research						
Last Updated: 10/09/2015						

Fig. 1: North Slope Alaska Activity Map



Source: 88 Energy

Fig. 2: Satellite image of existing drill pad



Source: 88 Energy

RISKS

Key risks are less geological and more around the engineering challenges to exploit the resource

Similar to other explorers, the key risks to our investment theseis for 88E include geological, commercial, financial, and commodity price related.

The key risks for 88E (like most oil and gas exploration and development companies) is making an economic discovery, and obtaining the funding for ongoing exploration. Other risks include delays, key person risk, country/sovereign risk, weather, JV partner obligations, cost inflation. Investing in explorers is very risky given that exploration value of the company in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%), and that failure is much more likely, in most cases. Other risks are earnings disappointments, given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, resource estimate errors, and management performance and contract negotiation skills. High financial leverage (if it exists at that time) would add to the problem.

Moroccan withdrawal. 88E has now formally withdrawn from the Tarfaya Offshore Block. It should be remembered however, that 88E has an outstanding contingent liability to Galp Energia (Galp). The details of this liability are that should 88E's market capitalisation reach or exceed US\$50m before September 2021, then Galp is entitled to a payment of US\$3.4m.

SIMPLE S.W.O.T. TABLE

Strengths	Early mover advantage with a large acreage position. Very attractive fiscal terms to encourage exploration. Funding in place for first phase work program.
Weaknesses	Geological risk – whilst the existing of prolific source rocks has been well established –there is limited knowledge of other key factors for a working petroleum system. Rebate rates decline over the next two years.
Opportunities	To be one of the first operators to prove up the unconventional potential of the North Slope of Alaska. A large equity position from which 88E could attract a farm-in partner.
Threats	A lower oil price. A tightening of environmental standards in Alaska.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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