



18<sup>th</sup> July 2018

## **QUARTERLY REPORT**

### **Report on Activities for the Quarter ended 30 June 2018**

The Directors of 88 Energy Limited (“88 Energy” or the “Company”, ASX & AIM:88E) provide the following report for the quarter ended 30 June 2018.

### **Highlights**

#### **Project Icewine**

- Icewine#2 HRZ Shale Flow Test
  - Flow testing re-commenced at the Icewine#2 well, located on the North Slope of Alaska, on June 11 to determine the productivity of the unconventional HRZ shale, utilising a velocity string and artificial lift
  - During the period June 12 to June 30 flowback comprised
    - Gaseous hydrocarbons ranging from C1 to trace C6, predominantly 90% methane, averaging 26mcf/day since June 12
    - 1,372 barrels of fluid interpreted as 100% stimulation fluid
  - Flowback fluids are not considered representative of the reservoir fluid in situ
  - Given the low assisted flowback rate, and that in total only 24.8% of the stimulation fluid injected has been lifted during the entire 2017/2018 flowback operation, the Joint Venture made a decision on June 30 to suspend the Icewine#2 well
  - The Joint Venture believes that the flowback data, combined with results to date from core and logs, demonstrates that the HRZ is comparable to other early-stage commercial unconventional plays
- Icewine Western Margin Leases bid on by the Company in the Dec’17 State of Alaska Licensing Round were formally awarded
- Processing of the Icewine 3D seismic survey acquired Q1’18 commenced during the quarter to mature several large conventional leads previously identified on 2D seismic

#### **Yukon Acreage**

- Yukon Gold leases bid on by the Company in the Dec’17 State of Alaska Licensing Round were formally awarded
- The Yukon 3D survey, approximately 96 km<sup>2</sup> in area, was completed on April 1 with initial deblending commencing during the quarter

#### **Western Blocks**

- Agreement Executed to Drill High Impact Oil Prospect onshore Alaska Q12019
  - The Company executed a binding term sheet agreement, in conjunction with other parties, to acquire the majority of Great Bear Petroleum Ventures II LLC working interest in four leases comprising the “Western Blocks” located onshore North Slope Alaska



## **Project Icewine – Icewine#2 Flow Test**

Flowback re-commenced on schedule on 11th June 2018 to clean-up stimulation fluids from the Icewine#2 borehole. As per the flowback design, nitrogen was introduced gradually to the wellbore from 13th June, prior to installation of the coiled tube velocity string, to artificially lift stimulation fluids in order to gain connectivity to the reservoir.

Flowback was interrupted, as per the program, on the 15th June to allow installation of the velocity string. Post installation, flowback was re-established and nitrogen introduced into the annulus between the 4.5” casing and the 1.75” velocity string. From the 18th June to the 22nd June, adjustments were made to the flowback system to determine the optimal settings for the nitrogen lift operation and, consequently, production rates. During this period, flowback rates fluctuated between an average rate of 50 barrels of water per day to 120 barrels of water per day.

The early results from the flowback were within the range of expectations; however, the rate of returned fluid decreased, despite optimised lift settings, and the timeline to achieve the targeted percentage of returned fluid increased significantly. After careful consideration, the Icewine Joint Venture made a decision to suspend the Icewine#2 well on 30 June 2018.

The Joint Venture believes that results from the well support the potential economic viability of the HRZ shale play and are within the range of outcomes achieved at other early stage unconventional plays, despite not achieving a flow rate that is representative of the capability of the reservoir. The suspension operation was designed to maximise flexibility for the future use of the wellbore, including the drilling of a horizontal side-track with a multi-stage stimulation.

Hydrocarbon gas content during the flowback period was predominantly methane (90%) with some heavier elements up to trace C6. Hydrocarbon rate achieved, with velocity string installed, ranged from 5 – 113mcf/d of gas with an average of 26mcf/d.

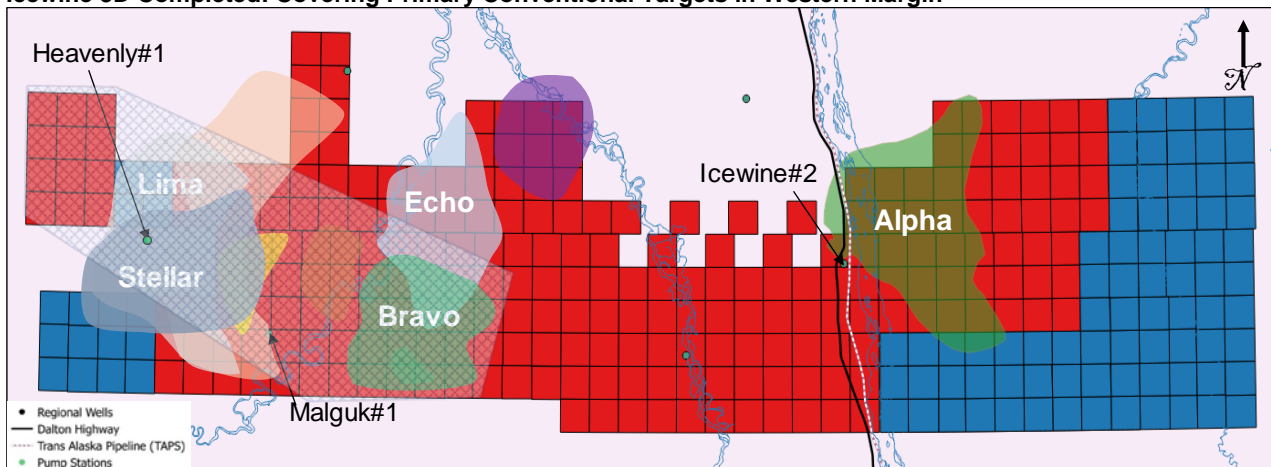
Total clean up fluid returned, (net of diesel for freeze protection and any other fluids introduced as part of the current operation), since commencement of flowback on 12th June 2018 is 1,372 barrels interpreted as 100% stimulation fluid. Total fluid returned for the entire Icewine#2 flowback operation, including last year, is 6,905 barrels or 24.8% of the frac fluid injected vs a target percentage return of at least 30%.

The Joint Venture believes that the flowback data, combined with results to date from core and logs, demonstrates that the HRZ is comparable to other early-stage commercial unconventional plays and that, as per those plays, progressing to horizontal appraisal wells is now the best use of time and money. Future evaluation of the large potential already identified is planned to be accomplished via farm-out and this process has already commenced.

### Project Icewine – Icewine 3D

Acquisition of the Icewine 3D seismic survey, approximately 450 km<sup>2</sup> in area and covering several large leads identified on 2D seismic was completed on the 28th March; processing of the 3D seismic data commenced in the quarter. Infield quality control, overseen by head office, has ensured that the data acquired is as clean as possible to enable fast track processing. Processing of shipments of data from the initial areas of the acquisition continued in the quarter and early products, namely post stack migration, will be available in mid-2018. This will allow confirmatory mapping of the stratigraphic / structural elements of the leads already identified in the conventional prospectivity portfolio.

#### Icewine 3D Completed: Covering Primary Conventional Targets in Western Margin

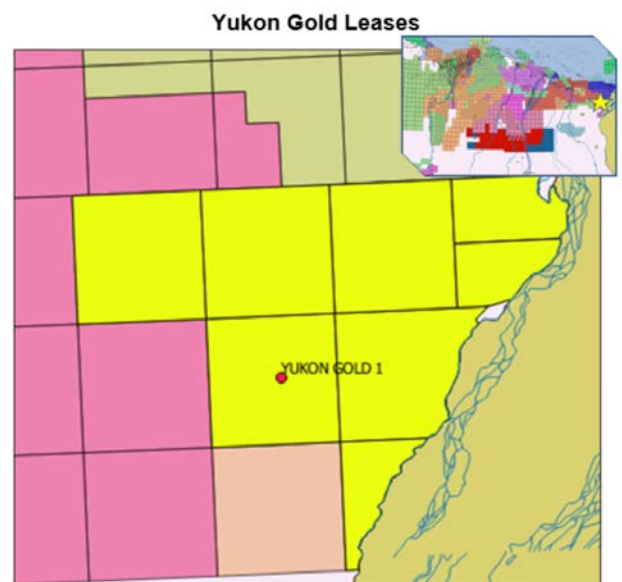


Velocity analysis and regularization will deliver an isotropic Kirchhoff pre stack time migration product. This product will be used to further analyse and confirm the highly encouraging amplitude vs offset (AVO) anomalies identified on the 2D seismic. These AVO responses are often associated with the presence of hydrocarbons and, significantly, have already been identified at horizons where both oil shows and good quality reservoir is observed in regional well data.

### Yukon Gold 3D

During the quarter, inhouse evaluation continued in relation to the recently acquired and awarded Yukon Gold leases, which contains an historic oil discovery.

In March 2018, the Company awarded a seismic contract to SAEExploration to acquire ~96km<sup>2</sup> of 3D seismic, predominantly over the Yukon Gold leases. Acquisition commenced on March 24 and was completed subsequent to quarter end on April 1. The seismic data will allow for assessment of the volumetric potential of the oil discovery as well as to identify any additional prospectivity over the broader lease position.

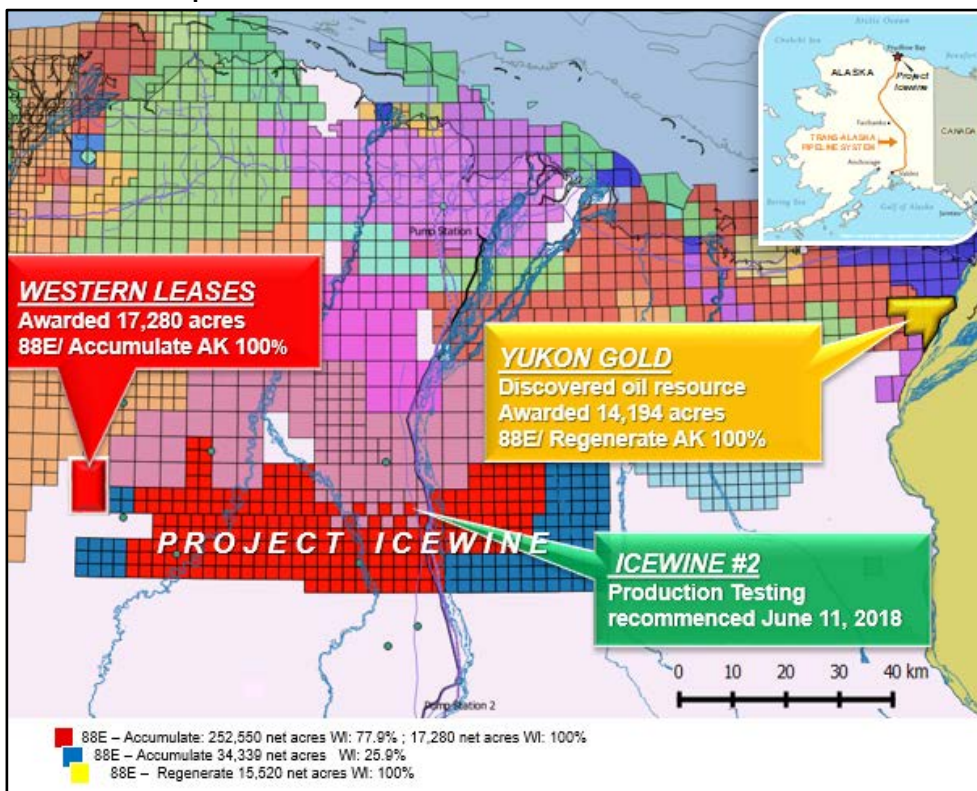


The Yukon 3D seismic survey was fast tracked to opportunistically benefit from an available seismic crew in the latter part of the 2018 acquisition season. Final processed products are anticipated in Q4 2018.

### Yukon Gold and Western Margin Leases Formally Awarded

88 Energy, via its subsidiaries Accumulate Energy Alaska, Inc and Regenerate Alaska, Inc, has been formally awarded acreage it successfully bid on in the State of Alaska North Slope Licensing round December 2017. Lease documents have been executed and balance of funds have been transferred to the Alaska Department of Natural Resources.

#### Lease Award Map



### Western Blocks - Agreement Executed to Drill High Impact Oil Prospect in Q1 2019

The Company announced on 25<sup>th</sup> June, along with Otto Energy Ltd (ASX:OEL) and Red Emperor Limited (ASX/AIM:RMP), collectively the “Consortium Partners”, that it had executed a binding term sheet agreement with Great Bear Petroleum Ventures II LLC (“Great Bear”) to acquire the majority of Great Bear’s working interest in the four leases comprising the Western Blocks (ADL 391718; ADL 391719; ADL 391720; ADL 391721). The leases are located immediately adjacent to the Horseshoe#1/1A well, which discovered oil in 2017 and is considered an extension of the Pikka Unit to the North..

In consideration for acquiring the above interests in the Western Block leases, the Consortium Partners will undertake the following:

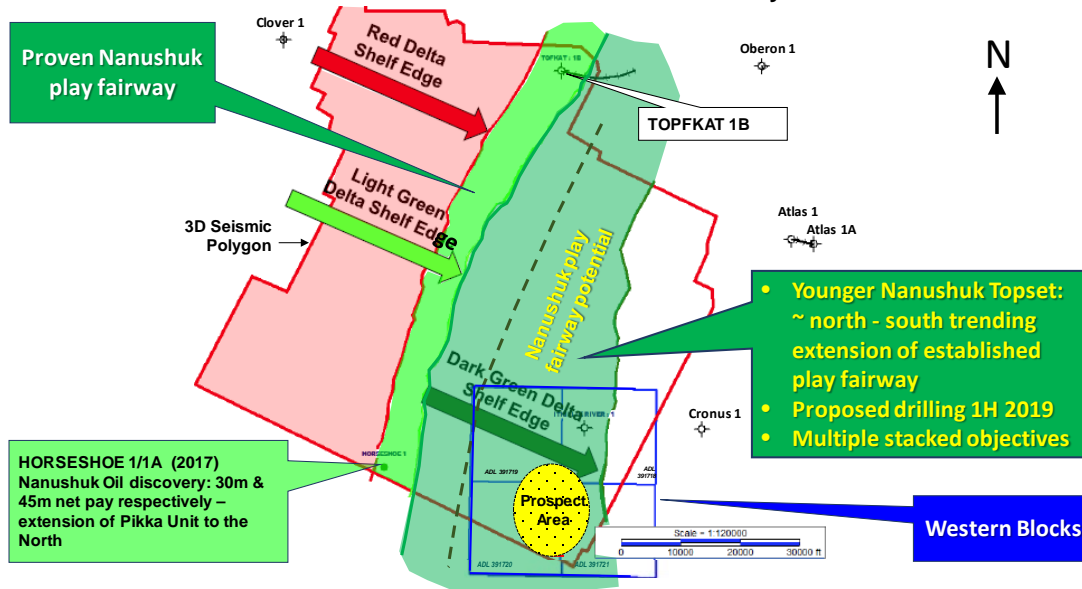
- Provide a performance bond to the State of Alaska of US\$3.0 million by 31 July 2018; and
- Drill an exploration well in the Western Block leases by 31 May 2019.

The Consortium Partners will provide the following consideration to Great Bear:

- Free carry Great Bear for a 10% working interest in the leases for the initial test well; including all associated costs such as permitting, ice road access and test production disposition;
- Pay US\$500,000 upon execution of the definitive agreements;
- Pay US\$500,000 upon receipt of final permits necessary to drill the initial test well, in any case by no later than 31 December 2018; and
- Provide an option for Great Bear to acquire a further 10% working interest prior to the spud of the initial test well by paying the pro-rata share of all costs of the initial test well, including all associated costs, or if exercised within 6 months of completing the initial test well by paying 200% of the pro-rata share of all costs of the initial test well, including all associated costs.

Technical evaluation and 3D seismic interpretation of the Western Blocks by our Consortium Partner, Otto Energy Ltd, has generated a large oil prospect in the successful Nanushuk Play, which is located approximately 4 miles east of the Horseshoe#1/1A Nanushuk oil discovery well drilled in 2017.

#### Western Blocks Location in Relation to Established Nanushuk Fairway



Source: modified from Otto Energy Ltd

#### Oversubscribed Placement to Raised A\$17 million

On the 2<sup>nd</sup> May, the Company announced that it had successfully completed a capital raise of A\$17 million (before costs), with the placement made to domestic and international institutional and sophisticated investors through the issue of 460 million ordinary shares at A\$0.037 (equivalent to £0.02) per New Ordinary Share.

Funds raised under the Placement will be used to fund the Company's ongoing evaluation of the conventional and unconventional propectivity of the acreage, and to enable the the Company to identify and exploit new opportunities on the North Slope of Alaska.



## Corporate

The ASX Appendix 5B attached to this report contains the Company's cash flow statement for the quarter. The significant cash flows for the period were:

- \$17.0m (before costs) was received in the quarter from the capital raise;
- Exploration and evaluation expenditure totalled A\$10.3m, primarily relating to expenditure associated with the Icewine 3D seismic acquisition as well as the Yukon Gold 3D, lease rental payments to the State of Alaska and also expenditure relating to Icewine#2 operations;
- \$1.3m in expenditure in the quarter relates to lease acquisition costs of the Yukon Gold and Western Margin leases;
- Payments in relation to the debt facility interest totalled A\$0.5m (US\$0.4m) and costs associated with the refinancing totalled A\$0.6m (US\$0.5m); and
- Administration and other operating costs A\$1.2m (Mar'18 Quarter A\$0.9m).

At the end of the quarter, the Company had cash reserves of A\$15.1m, including cash balances held in Joint Venture bank accounts.

Pursuant to the requirements of the ASX Listing Rules Chapter 5 and the AIM Rules for Companies, the technical information and resource reporting contained in this announcement was prepared by, or under the supervision of, Mr Brent Villemarette, who is a Non Executive Director of the Company. Mr Villemarette has more than 35 years' experience in the petroleum industry, is a member of the Society of Petroleum Engineers, and a qualified Reservoir Engineer who has sufficient experience that is relevant to the style and nature of the oil prospects under consideration and to the activities discussed in this document. Mr Villemarette has reviewed the information and supporting documentation referred to in this announcement and considers the prospective resource estimates to be fairly represented and consents to its release in the form and context in which it appears. His academic qualifications and industry memberships appear on the Company's website and both comply with the criteria for "Competence" under clause 3.1 of the Valmin Code 2015. Terminology and standards adopted by the Society of Petroleum Engineers "Petroleum Resources Management System" have been applied in producing this document.

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This announcement contains inside information.

## 88 Energy Alaska North Slope Assets Overview

### Project Icewine

In November 2014, the Company entered into a binding agreement with Burgundy Xploration (**BEX**) to acquire a significant working interest (87.5%, reducing to 77.5% on spud of the first well on the project) in a large acreage position on a multiple objective, liquids rich exploration opportunity onshore Alaska, North America, referred to as Project Icewine. The current gross acreage position is ~475,000 contiguous acres (301,000 acres net to the Company). These are marked in blue and red on the below map.

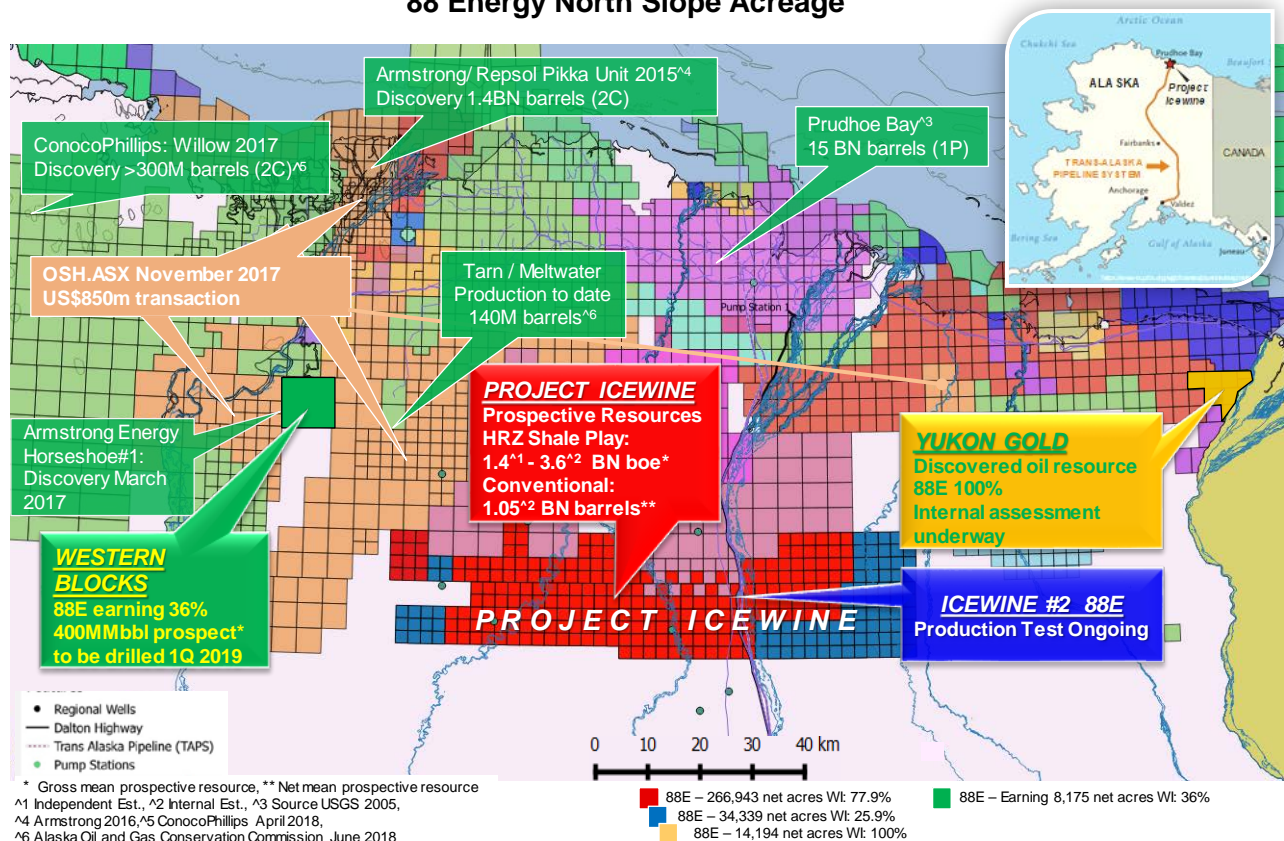
The Project is located on an all year operational access road with both conventional and unconventional oil potential. The primary term for the State leases is 10 years with no mandatory relinquishment and a low 16.5% royalty.

The HRZ liquids-rich resource play has been successfully evaluated based on core obtained in the Icewine#1 exploration well (December 2015), marking the completion of Phase I of Project Icewine. Phase II has now commenced, with drilling at the follow-up appraisal well, Icewine#2, concluding mid 2017.

Production testing at Icewine#2 concluded on 30 June 2018 after retrieving 24.8% of the injected stimulation fluid vs a targeted return of at least 30%. Gas rates of up 100mcf/d were achieved during flowback; however, these are not considered representative due to limited reservoir connectivity. A farm-out process is underway to fund the future work program.

Significant conventional prospectivity has also been identified on recently acquired 2D and 3D seismic across the project acreage.

### 88 Energy North Slope Acreage





*Cautionary Statement: The estimated quantities of petroleum that may be potentially recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation are required to determine the existence of a significant quantity of potentially movable hydrocarbons.*

A Prospective Resources Report by DeGolyer and MacNaughton, was commissioned by 88 Energy to evaluate the unconventional resource potential of Project Icewine in February 2016 and was released to the market on 6<sup>th</sup> April 2016.

### **Yukon Gold**

The Yukon Gold leases are located on the eastern border of the Central North Slope of Alaska and were acquired in 2018. 88 Energy via its subsidiary has a 100% working interest in these leases, totalling 14,190 acres. The leases contain an historic discovery well, Yukon Gold #1, which is currently being evaluated internally. 3D seismic was acquired in early 2018 to assist with this process and results are expected in 4Q2018. The leases are marked in yellow on the above map.

### **Western Blocks**

88 Energy is earning a 36% working interest in four leases (totalling 22,711 acres) immediately adjacent to the Horseshoe#1/1A oil discovery well. 88 Energy, with its consortium partners Otto Energy Ltd and Red Emperor Resources NL, will pay a US\$3m performance bond to the State of Alaska and 100% of the costs of well, targeting a prospect with a gross mean unrisks prospective resource volume of 400MMbbls (144MMbbls net to 88E), to be drilled in 1Q 2019. The leases are marked in green on the above map.



## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

88 Energy Limited

### ABN

80 072 964 179

### Quarter ended ("current quarter")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(11,923)	(19,096)
(b) development	-	-
(c) production	-	-
(d) staff costs	(602)	(978)
(e) administration and corporate costs	(667)	(1,224)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	6
1.5 Interest and other costs of finance paid	(569)	(1,038)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (JV Partner Contributions – Burgundy Xploration)	1,592	1,592
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(12,164)</b>	<b>(20,738)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	(1,341)	(1,341)
(c) investments	(410)	(410)
(d) other non-current assets	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (JV Partner Contributions – Burgundy Xploration)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(1,751)</b>	<b>(1,751)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	17,050	17,050
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	8,723
3.4	Transaction costs related to issues of shares, convertible notes or options	(1,192)	(1,496)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (Fees for debt refinancing)	(605)	(1,127)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>15,253</b>	<b>23,150</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	13,428	14,014
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(12,164)	(20,738)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,751)	(1,751)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	15,253	23,150
4.5	Effect of movement in exchange rates on cash held	317	408
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>15,083</b>	<b>15,083</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	15,083	13,428
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>15,083</b>	<b>13,428</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	252
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

6.1 Payments relate to Director and consulting fees paid to Directors. All transactions involving directors and associates were on normal commercial terms.

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	20
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

7.1 Payments relate to consulting fees paid to Director related entities. Consultant fees paid to associated entities were on normal commercial terms.

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
16,519	16,519
-	-
-	-

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

- On the 23rd of March 2018, 88 Energy Lt's 100% controlled subsidiary Accumulate Energy Alaska Inc entered into a US\$ 16.5 million debt refinancing agreement to replace the existing Bank of America debt facility. The key terms to the facility are noted in the ASX announcement released on 26th of March 2018. The facility is secured by available Production Tax Credits.

**9. Estimated cash outflows for next quarter**

**\$A'000**

9.1	Exploration and evaluation*	(4,800)
9.2	Development	-
9.3	Production	-
9.4	Staff costs	(375)
9.5	Administration and corporate costs	(420)
9.6	Other (provide details if material)**	(570)
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>(6,165)</b>

\* Includes amounts relating to lease rentals, 3D seismic processing & interpretation, G&A, G&G, expenditure on Icewine#2 operations which are net of anticipated JV partner contributions. Also includes expected expenditure in relation to the Western Leases project.

\*\* Includes amounts relating to costs associated with the Brevet debt interest costs.

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2	Interests in mining tenements and petroleum tenements acquired or increased	North Slope Alaska	Joint Venture – 88 Energy Net acreage interest*	286,589	318,063

\* Refer to announcement dated 18 June 2018 for leases awarded in June 2018 in relation to the December 2017 North Slope Lease Sale. All leases are held 100% by 88 Energy Ltd's subsidiaries.

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: .....  
(Company Secretary)

Date: 18 July 2018

Print name: Sarah Smith

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.