

## 88 Energy Limited (ASX: 88E): Project Peregrine Farm-Out a Major Step Towards The Development

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By Team Ace Investors

Stock Code	ASX: 88E
Shares O/S	8.71 billion
Closing Price	AUD 0.010
Market Cap	87.14 million
52 W H/L	0.026/0.004
One Year Stock Performance	-56.00%
Avg. Volume(TTM)	51.89 million
EPS(TTM)	-0.002
P/E	-5
Annual Dividend Yield	0.00%
Franking	-
Last Dividend Ex-Date	-
Last Dividend Pay Date	-
DPS (AUD)	-
ROE (%)	-16.46%

(Source: ASX)

### Company Overview

88 Energy Limited is an oil & gas exploration company with substantial prospective resources in northern Alaska. The company's goal is to build a successful exploration and production company that delivers material benefits to its shareholders. Its projects include Project Icewine, Yukon Leases, and Project Peregrine.

### Project Icewine, Alaska

- Operator on majority of ~482,000 contiguous acres onshore Alaska in prolific oil-rich province with multiple objectives;
- Large oil and condensate discoveries were confirmed in 1Q2020 at the Charlie-1 well, further appraisal is planned to be funded by a farm-out;
- 64% Working Interest, 7-10 year leasehold, 16.5% royalty and strategically located in the heart of the play and close to infrastructure;

## Project Peregrine, Alaska

- Recently acquired via off-market takeover of XCD Energy Ltd;
- Prospective resources of ~1.6 billion barrels;
- Executed a farm-out agreement with APDC for 1Q2021 drilling activities;

## Yukon Leases, Alaska

- Awarded 15,312 acres (100% 88 Energy);
- Low-cost acquisition;
- 3D seismic identified 90 million barrel resources.

Project Name	Location	Area (acres)	Interest at beginning of Quarter	Interest at end of Quarter
Project Icewine	Onshore, North Slope Alaska	~482,000	64%	64%
Yukon Gold	Onshore, North Slope Alaska	15,235	100%	100%
Western Blocks	Onshore, North Slope Alaska	-	36%	NIL
XCD Energy	Onshore, North Slope Alaska (NPR-A)	195,373	85.67%	100%

(Source: Company Reports)

## Investment Rationale

### XCD Energy Takeover has created a diversified portfolio

The transaction has created an Alaska-focused oil exploration and appraisal company with a diversified portfolio of three highly prospective project areas: Project Icewine, Yukon Leases, and the newly acquired Project Peregrine. On 27 April 2020, 88 Energy announced its intention to make an off-market takeover offer to acquire all of the fully paid ordinary shares and listed options on the issue in XCD Energy Limited, an oil exploration company with operations on the North Slope of Alaska, USA. Subsequently, on 9th July, 88 Energy announced it would compulsorily acquire the remaining shares and listed options in XCD having reached over 90% of acceptances in the Offers and completed the acquisition on 17th August 2020. The strategic rationale for the Transaction is as follows:

- Created an established oil exploration and appraisal company with an attractive and complementary portfolio of exploration assets - at various stages of project maturity;
- Enhanced strategic, commercial, technical, and financial strength to optimize funding of operations, including an increased level of liquidity and exposure to a larger global investor base with greater financing flexibility;
- The ability to optimize operational activity across the highly prospective exploration/appraisal portfolio with potential synergies associated with future project development and infrastructure requirements;

- A strong board, management, and technical team with a proven track record

### **The farm-out model provides a low-cost development option**

The company has adopted a farm-out model for the development of its prospective assets viz., Icewine, Peregrine, and Yukon leases in the northern slope of Alaska. The farm-out model adopted will enable the company to pursue low-cost development options. After created a diversified portfolio of exploration assets followed by the XCD Energy takeover offer, the company is now exploring farm-out agreements to fund developmental activities.

### **Project Peregrine farm-out a major step towards the development**

88 Energy has executed definitive documents with Alaska Peregrine Development Company LLC ("APDC") concerning the farm-out of its 100% owned Project Peregrine on 4th Dec'20. APDC is a special purpose investment vehicle organized for Project Peregrine. Its members are a consortium of private US entities managed by individuals that have extensive experience in oil and gas. The salient features of the farm-out are as follows:

- APDC to earn 50% in Project Peregrine by contributing US\$11.3m towards the cost of the Merlin-1 well (estimated gross cost US\$12.6m)
- 88E to contribute \$1.3m, representing its 50% share over and above a US\$10m carry
- All additional costs associated with the project above the US\$10m carries will be borne equally by APDC and 88E

### **Well capitalized to pursue drilling activities at Project Peregrine**

The company has raised A\$10.07m through the placement from domestic and international institutional investors to fund the ongoing evaluation of conventional and unconventional prospectively and to enable it to identify and exploit new opportunities on the North Slope of Alaska. Under the placement, the company issued up to 1,678,333,334 fully paid ordinary shares @ A\$0.006 per share (equivalent to £0.033). The capital raised will place the company in a solid position to pursue drilling activities at Merlin-1 and Harrier-1 wells of the project Peregrine. The proceeds from the placement will provide the Company with sufficient capital to:

- Fund well costs for the Project Peregrine wells above an anticipated farm out / carry (first well expected to spud late February 2021);
- Lease rental payments on the Company's Alaskan acreage;
- Fund interest payments on the Company's debt facility;
- Apply funds towards new venture opportunities; and

- Finance the Company's ongoing working capital requirements and general and administrative overheads.

The Company increased its working interest on approximately 40% of the gross Project Icewine lease position from 30% to 75% in the surrounding area of Charlie-1 well (a net increase of ~85,000 acres) followed by the re-assignment of leases in “Area A”. The company also executed a sale and purchase agreement with Malamute Energy, Inc. and Renaissance Umiat LLC (Sellers) to acquire the Umiat Oil Field for a consideration of 4% overriding royalty interest (ORRI). The Umiat Oil Field is estimated to have gross 2P reserves of 123.7 million barrels of oil (94 million barrels attributable to 88E’s 76% net revenue interest). The company ended the Sep’20 quarter with cash reserves of A\$4.681m, including cash balances held in Joint Venture bank accounts relating to Joint Venture Partner.

### **ACE’s Recommendation**

88 Energy Limited is an oil & gas exploration company with a diversified portfolio. The company has adopted a low-cost farm-out model to pursue developmental activities. It has executed a farm-out agreement with APDC for the recently acquired project Peregrine. Peregrine farm-out agreement will enable the company to fund ongoing drilling activities in 1QCY21. The Company has also raised A\$10.07m to fund well costs for the Project Peregrine wells above an anticipated farm out and explore new venture opportunities.

We believe that a diversified portfolio of onshore assets along with a low-cost farm-out model will enable the company to operate sustainably in a low oil price regime. The stock is now 62% down from its 52-week high and offers an attractive opportunity. So, we would like to recommend a **SPECULATIVE BUY** rating on the stock.

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