ENEGI OIL PLC
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Enegi Oil Plc
("Enegi" or "the Company")

Chairman's Update

The Company is delighted to provide the following update from its Chairman Alan Minty on its marginal field initiative.

Highlights:

- Enegi has formulated a strategy currently being implemented; it focuses on the 'marginal field initiative' communicated to the market over the last three years (the "Initiative").
- Enegi has invested in ABT Oil and Gas ("ABTOG") to utilise the solutions that ABTOG has developed to create a portfolio of projects to drive Enegi's value.
- ABTOG's solutions reduce the total capital and operational expense of a project by up to 60% over its life (the "Cost Transform").
- Enegi and ABTOG will work together to use the principles of the Cost Transform to identify, acquire and develop projects that have great unrealised value.
- Current oil price environment and the industry's need to reduce costs provides Enegi with a significant opportunity given its ability to achieve the Cost Transform.
- A number of projects have already been identified with negotiations under way to enable the projects to be delivered by the Consortium.
- Enegi has established a proven long term revenue model which will provide significant benefits through its investment in ABTOG as well as via its own projects.
- Arup's inclusion in the MFD Consortium (the "Consortium") (see separate announcement) is the final essential member of the Consortium
- The Consortium with an aggregate value of circa $5 billion of companies provides significant credibility and expertise to ensure projects are delivered on time, on budget, in order to provide returns for investors and operators.
- Strategic members of the Consortium are investing significant time and services at risk in order to develop the initiative, taking the form of technical services, marketing and business development to secure projects.

Alan Minty, Chairman of Enegi commented:

"After what has been a long and often frustrating journey, Enegi is now strongly positioned to take forward and considerably benefit from its investment in ABTOG and the creation of the Consortium. We believe that all the key elements are now in place and expect to add new projects to the portfolio which the Consortium has the ability to economically develop, delivering excellent returns on time and on budget. We look forward to working with all our partners taking this venture forward and delivering on the model and strategy that we have outlined."

Background

It is over three years since I informed shareholders that management had decided to focus on what was referred to then as the 'development of marginal fields' with target opportunities being those fields that were 'discoveries' considered too small to be developed by conventional methods. Focusing on discoveries reduced to negligible the exposure to exploration and appraisal risk with a fundamental element of the reasoning being that small AIM-quoted companies could not afford to take the sub-surface risk which had been a major characteristic of the plethora of previous IPOs in the sector, especially as development costs were continuing to rise. Therefore, an opportunity existed for smaller companies if (a) the costs could be reduced because (b) smaller projects could be made economic and then (c) there would be a population of smaller projects that could be targeted which larger companies might reject or neglect. It was also recognised from the outset that it was statistically more likely that there would be a larger population of smaller fields than larger fields.

On this basis, Enegi worked to establish and invested in a joint venture, ABT Oil and Gas ("ABTOG"), of which it owns 50% of the equity. Investment was made in validating technology and field economics and in communicating the potential strategy to the wider market. Early success occurred in striking a deal with Antrim Energy ("Antrim") to develop the Fyne field where the utilisation of one of ABTOG's solutions could improve the project economics. Work commenced and Wood Group was appointed to undertake the work to prepare a Field Development Plan as governed by a previously established working relationship. Further negotiations commenced to extend the commercial relationship with Wood Group to establish a JV company to 'deliver' marginal field projects but as those negotiations were protracted Enegi's commercial status became mired. This all happened against a backdrop of the oil price falling by 50% as well as highly publicised problems for the future of the UKCS such as lack of drilling, high development and operating costs, overly-high adversarial negotiations, and high decommissioning costs. The MER Review undertaken by Sir Ian Wood identified many of these issues and embodied the concerns of the industry – issues that we are looking to address through our marginal field initiative.

The reduction in North Sea activity has been startling, as has the extent of the analyses undertaken by operators, suppliers and government organisations. However, there are few disagreements over two critical issues. Plan for the oil price to remain at current levels for the next three to four years at least and, if projects are to be developed, the costs need to be lower.

ABTOG and MFD Consortium

The inclusion of Arup in the MFD Consortium (the "Consortium"), is a key step for the Consortium and for the Initiative in general because it completes the assembly of the key companies who will collaborate to develop smaller fields. The Consortium, with its collaboration principles, is probably the most effective way of combining and delivering the expertise required in order to develop smaller fields.

Within the Consortium, there are a number of 'strategic members' who have and continue to provide technical expertise at their own expense to refine and improve the solutions that are offered. Such input is a very significant investment and, importantly, it demonstrates the credibility of the solutions and the opportunity. It cannot be emphasised strongly enough that these are proven solutions using existing technology already utilised throughout industry in many projects. Other 'members' of the consortium have been invited to join because of the specific expertise they possess and they can contribute and work with clients on an 'as needed' basis. To all of the above expertise, though, there is a fundamental agreement within the Consortium that the major imperative is effective project management. Actually, it goes further than that; it is 'effective project risk management' that does not transfer the consequences of poor performance to the client. The Consortium's mandate is the delivery of projects 'on time', 'on budget' and to the performance specifications that enable the value unlocked by the solutions to be realised.

The objectives of the solutions that the Consortium offers are very clear and proven. They are to:

- Reduce Opex via 'Normally Unattended' operations. Frames, Kongsberg and RMRI are the key strategic members in delivering that performance; and

- Reduce Capex by innovation and proven design in a 'mature technology sector'. Arup with their 'ACE' design, Apollo with ongoing work on NU-SIFT refinements and buoyant technology will ensure that cost reductions can be achieved.

And with Braemar, AGR and ABTOG identifying and evaluating the opportunities, the 'modus operandi' of the Consortium becomes very clear.

The 'Business Model'

The structuring of ABTOG to reflect Enegi's equity interest hasn't changed and nor has the Business Model deviated from its original conception; that's what makes it so powerful. The key components are as follows:

- Through the reduction of project development costs more oil and gas resources could be produced;

- Through the reduction of project risks more project finance has the potential to become available; and

- By recognising, facilitating and investing to implement the above a company is uniquely positioned to profit from it.

However, it is an imperative that 'solutions' to achieve the cost reductions must be configured from existing and proven technology and this has remained the objective and is the actuality. Thus, the value in the current economic climate is very significant because through the utilisation of ABTOG's solutions cost reductions of up to 60% can be generated which can create new projects or extend project life. An interesting dimension is that marginal fields get larger as the oil price falls, creating more potential projects with increasingly high returns when the oil price rises again, confirming the robustness of the business model.

There are hundreds of marginal fields and ABTOG's solutions are suitable for a large proportion of those although the investment required for some small fields will never be justified when the risks are assessed. The proportion that ABTOG can target is very significant and can be segmented as:

- Already producing late-field life projects where the aim is to recover more reserves and defer decommissioning costs;

- Pre-production, early-field life projects where the aim is to reduce investment risk in the early stages of a project through incremental development; and

- Small field developments where initial assessment indicates ABTOG's solutions can unlock the value of fields that were previously considered to be 'stranded'.

When assessing a venture and the likely success of a business model a number of factors need to be considered and many of these will vary from enterprise to enterprise. However, there are number of elements that are fundamental: market, offering, delivery, credibility and resources. In the oil and gas sector with its high capital demands the final three are perhaps most critical.

With respect to delivery and credibility, no-one can question the reputation and expertise of the companies that have become members of the Consortium – with an aggregate value of circa $5bn. With respect to ABTOG's and Enegi's own resources, management have had to devise a strategy that recognises in particular Enegi's current position and that in, order for shareholder value to recover, aggressive dilution cannot take place too early in the recovery process.

Enegi's strategy

If the business model is to be implemented effectively, then access to projects is a strategic imperative and, to ensure this, it has always been recognised that Enegi and ABTOG have to work together, along with the other members of the Consortium, for mutual benefit. For Enegi, it was never sufficient to be just an investor in ABTOG and the terms of the initial agreement indicated that. Enegi's objective remains to be able to garner interests and equities in selected projects in order to move away from higher risk projects and this remains a cornerstone of its strategy.

Therefore, Enegi will work to identify, acquire and develop projects that have great unrealised value and in doing that these projects will drive Enegi's recovery. Already a number of projects have been identified and negotiations are under way and I hope to announce progress in the coming weeks. As Enegi acquires projects it continues to review its current portfolio which was acquired in a different oil price environment to see if it remains attractive. To the extent that it does not and costs need to be incurred to retain them, then assets will be relinquished. Interestingly, the converse effect may benefit Enegi in the future in that projects that are profitable now will only increase in value should the oil price recover.

Thus, Enegi's growth will come from ABTOG's independent activities. In order to fund these activities, ABTOG is seeking funding separately from Enegi. The rationale is that, at this point in time, ABTOG is potentially a more attractive investment proposition as it is private and is the focal point of the initiative. In addition, it does not have a proxy valuation, it is in the process of putting in place a new management team and it can access a different type of funding and investors who can look at the prospects for the business over a longer timeframe.

ABTOG is to operate and function independently from Enegi and its offering is based upon the premise that ABTOG is able to utilise its solutions to unlock value in oil and gas projects. ABTOG has been designed such that it can provide all the expertise and resources necessary to unlock that value both in engineering and asset operation through the Consortium and in the financing of appropriate projects. Consequently, ABTOG is flexible and innovative in the transactions that it enters into so that it can match the individual circumstances and desires of counterparties and it is able to utilise a number of revenue streams to increase its value including fixed fees, royalties and field equity.

ABTOG's ability to enable the development of these projects benefits Enegi greatly. As an oil company Enegi is interested in field equity and working with ABTOG provides it with a pipeline of projects that it can choose to acquire and later invest in. ABTOG is then able to provide the capability that Enegi may need in order to advance a project. For ABTOG, it can share the risk in any field equity position that it might acquire, a concept common in the industry

Once ABTOG’s fundraising is complete, the whole venture, including Enegi, benefits and stabilises. Clearly, as the original developers of the concept and business model the directors of Enegi are critical in the initial growth of ABTOG meaning that Enegi’s operating costs, having already been reduced to basically staff costs and associated overheads, will then be negligible. This allows the opportunity to complete negotiations, in conjunction with ABTOG, to acquire projects that will lead Enegi’s renaissance.

The implementation of this plan ensures the growth of Enegi, both in terms of its investment in ABTOG and in terms of its own projects. With the number of available projects, the credibility, resources and ability of the Consortium, the oil price environment and the industry’s drive to reduce costs, Enegi is ideally positioned and strongly differentiated from its peers to see its plans become a success.

Enegi Oil Tel: + 44 161 817 7460

Alan Minty, CEO

Cenkos Securities

Neil McDonald Tel: + 44 131 220 9771

Derrick Lee Tel: + 44 131 220 6939

www.enegioil.com

Facebook (Enegi Oil PLC)

Twitter (@enegioil)