Calima Energy Ltd

(CE1 $0.056) Speculative Buy - Initiation of Coverage

EUROZ

Analyst	Date	Price Target
Jon Bishop	27th October 2017	$0.10/sh

Building a Solution

Key Points

CE1 is building a strategically valuable footprint in the highly prospective, over-pressured, liquids rich Montney Formation, onshore British Columbia;

Liquids plus access to infrastructure will set CE1 apart from its Montney peers;

Established play, low geological risk will result in development activity driving uplift to acreage valuations particularly with the recovering commodity price cycle;

Strategic partnerships and relationships with industry and neighbouring operators provides template to expedite and extract maximum value from the acreage;

Proof of concept drilling will likely commence in late CY'18 and represents a significant value catalyst for the stock, driving maiden reserves and further proof of concept;

Offset production rates (high deliverability and liquids yields) validate the technical basis driving CE1's acquisition strategy;

Off-take agreements and access to infrastructure also represent significant catalysts and draw further corporate attention to CE1;

Despite the commodity downturn, the trend has seen more than C$1Bn in transactions, supporting C$2,000 to over $5000/acre for largely undeveloped Montney;

CE1 has significant potential; look-through recoverable inventories equating to a modest EV/boe of A$0.10/boe compared with nearest peers A$1.00-2.10/boe for liquids rich gas;

Acreage transactions and peer comparisons support valuations of between $0.12-0.20/sh on that basis;

CE1 has A$7.5m in cash and no debt. EV of $26m fully diluted.

Quality management, underpinned by strong technical team with an established track record of creating and realising value for shareholders

We initiate coverage with Speculative Buy and a price target of $0.10/sh.

Calima Energy (CE1) Ltd	Year Ended 30 June	
Share Price	**0.056**	**A$/sh**
Price Target	**0.10**	**A$/sh**
Valuation	0.13	A$/sh
Shares on issue	438.6	m, undiluted
FP Ord Restricted	51.8	m
Performance Rights	116.3	m
Market Capitalisation - ex-perf rights	27.5	A$m
Enterprise Value	20	A$m
Debt	0	A$m
Cash (est)	7.5	A$m
Turnover	1.7m	sh/day
12 Mth Hi-Lo	6.2-1.8	cps
Balance date		June 30th

Dirctors & Management

Glenn Whiddon	Ex Chair
Alan Stein	MD
Jonathan Taylor	Tech Dir
Neil Hackett	NED

Shareholders

Dir & Mgmt	+20%

Company Details

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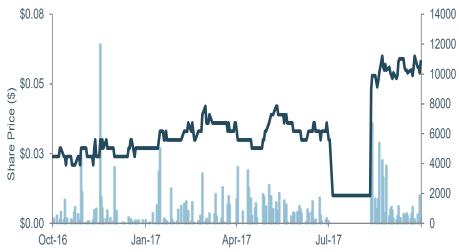
Facsimile: +61 8 6500 3275
Website: www.calimaenergy.com

Share Price Chart



Disclosure

Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Calima Energy Ltd during the last year. Euroz Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Calima Energy Ltd.

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Executive Summary

Calima Energy Ltd (ASX:CE1) is an early mover in the north western extent of the Montney resource play in British Columbia, targeting over-pressured liquids rich zone.

The Company and its prospect generator's technical IP have since been validated with offset operator results delivering strong flow rates and high liquids yields.

Consequently, CE1 has the added advantage of leveraging off industry best practice upon commencing drilling.

CE1 is undertaking a staged earn-in to secure a working interest in the Caribou area of north eastern British Columbian Montney, circa 2hr drive north west of Fort St John.

Under the terms of the farm-in CE1 will secure a 57% effective interest of the targeted 70,000 (currently 67,907 already secured) gross acres (99 sections) by end 2019 at the latest by undertaking staged work programmes to up to a certain value.

To date, the bulk of acreage has been acquired at <$130/acre vs recent transactions at $5000/acre and neighbouring acreage (pre-drill) that was acquired at $1000/acre;

CE1 has in place some strategic agreements to expedite government approvals as well as land management and infrastructure planning, permitting and development ahead of proof-of-concept drilling programme from mid CY'18.

Strong working relationships with offset operators should significantly enhance appraisal success potential and ultimately improve the corporate appeal of the Company.

Fundamentally, the Montney is a world class resource, which holds significant undeveloped reserves. Through the cycle, the play has seen continued growth to output: testament to the technical attributes of the rock, the relatively low cost hurdle (shallow) and the economics of the product mix.

The Montney Formation offers stacked play potential with an average 260m thickness in CE1 Caribou location: the Upper, Middle and Lower Montney is being targeted by industry in this area. Combined, this thickness of section would support a possible 1,000 gross drilling locations on the targeted 70,000 gross acre position.

We see CE1 and its Caribou interests as an emerging 'solution' to many of the more mature Montney players: Liquids and takeaway infrastructure are critical at this point in the cycle and the evolution of the Montney.

We therefore see CE1 as increasingly well positioned to benefit from a looming M&A cycle that will be driven by a need to consolidate to improve asset fundamentals and access to infrastructure. More generally, the resulting improvement to trading liquidity will drive investor interest and therefore better compete with the Lower 48 to access capital.

Under the farm-in work programme, maiden Prospective Resources are expected to be independently certified by mid FY'18 by Mc Daniel & Associates, arguably the leading reserve engineering firm for the Montney and the broader Western Canadian Sedimentary Basin.

Maiden Reserves are planned to be independently certified in CY 2019.

Independently assessed (by McDaniel) inventory from contiguous acreage supports volumes from the Upper, Middle and Lower Montney of up to:

1. 2,177mmboe gross in place (or 13Tcf; 26% liquids – 18% Condensate; 8% C3-C4)
2. 682mmboe gross recoverable (or 4.1Tcf)
3. Potential 2P gross reserves of 182mmboe (1.1Tcf);

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This look-through implies the market is buying CE1 potential volumes at <A$0.10/boe. Given the Company's $26m Enterprise Value, this represents exceptional leverage to rising commodity prices and asset appraisal milestones.

Strong shareholder alignment with Board and Management owning +20% of Company will serve shareholders well in terms of realising maximum value for the asset with minimum dilution at the point of exit.

We view the stock as catalyst rich in a recovering commodity price environment:

- Additions to lease holding
- Leasing activity by E&P industry, particularly concerning large tracts adjacent to CE1's ground currently under auction
- Continued M&A activity, providing further acreage valuation markers
- Drilling activity by neighbouring operators
- Commercial agreements to secure offtake and access to gas processing and take-away capacity
- Maiden independent Resource assessment mid FY'18
- Drilling activity from late CY'18
- Maiden Reserves CY'19
- Continued rise in price of oil and gas liquids

Investment case

We see CE1 and its Caribou interests as an emerging 'solution' to many of the more mature Montney players: Liquids and takeaway infrastructure are critical at this point in the cycle and the evolution of the Montney. CE1 Management is highly credentialed technically but importantly, has an exceptional record in building companies, creating and crystallising shareholder value. Set against a rising commodity price environment and recognising the growth of liquids prone Montney, we can see that fundamentally driven appraisal activity will culminate in trading CE1s Montney position for substantially higher value. In the background, the team can nurture new venture opportunities, ultimately growing the CE1 portfolio. We initiate with Speculative Buy recommendation and $0.10/sh Price Target.

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Valuation & Price Target

Our Valuation is $0.13/sh

As CE1 is a relatively early stage acquirer and appraiser of assets that currently do not have independently assessed reserves, resources or production. We therefore set our Price Target based upon a range of valuations that reflect recent market transaction metrics and peer group analysis. Our Valuation range is $0.12-0.20/sh.

Acreage Metric – C$2,000/acre

Acreage transactions are the most relevant at this stage of CE1s evolution.

We flag the Painted Pony acquisition of UGR's ~70,000 acres for C$296m in Mar of this year. The ground is of same or similar scale and is located proximal to CE1 and Saguaro's interests in north eastern British Columbia. The ground yields dry gas through liquids' rich gas and is thus considered a good proxy.

The transaction equates, after production (assumed C$20k/flowing boe), to ~C$2,000/acre undeveloped.

Similarly, Saguaro Resources (unlisted) at an assumed EV of C$590m (to account for existing funding) and assuming CY end production of 17,000boepd, determines undeveloped acres are valued at ~C$2,000/acre.

CE1's 57% interest in 70,000 acres undeveloped would support C$80m net or A$81.5m.

Corresponding EV of A$74m or $0.12/sh.

Reserves Metric - C$1.50/boe

Per the comps above, the Painted Pony transaction and Saguaro are the most relevant on account of their proximity to CE1's acreage and likely Montney yield.

The Painted Pony transaction valued relatively lower liquids' yielding (1% quoted) 2P Reserves at C$0.91/boe.

Applying our assumed Saguaro EV to its independently certified 2P Reserves (26% liquids) derives C$2.06/boe.

At C$1.50/boe, we take the mid-point of these two comp's, highlighting CE1's ground will be more liquids rich.

As noted, CE1 is yet to book maiden reserves however, it is immediately on-trend with Saguaro's ground. A pro-rata est. (illustrating the potential of the ground from recoverable volume perspective) = 70k acres/110k acres multiplied by Saguaro's 2P Reserves of 286mmbboe equates to a potential 182mmboe gross 2P Reserves

CE1 57% effective 2P Reserve estimate on that basis = 104mmbboe

This supports C$156m of value or A$159m.

Corresponding EV of A$124m or $0.20/sh, after netting off the balance of acquisition and proof of concept drilling costs.

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Our Price Target is $0.10/sh

We value CE1s net Montney assets at market comparable lease transaction prices deriving $0.12/sh. We assess nominal value for CE1's African portfolio and existing options adding existing cash and netting off corporate costs for the next 3yrs:

Valuation		
Montney (@land metric)	74	0.12
Africa other	5	0.01
Cash	7.5	0.01
Overhead	-5	-0.01
Fully diluted valuation	**81.5**	**0.13**

We set our Price Target at $0.10/sh to account for further equity to complete the earn-in/proof of concept work programme over the next 3yrs.

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Resources/Reserves

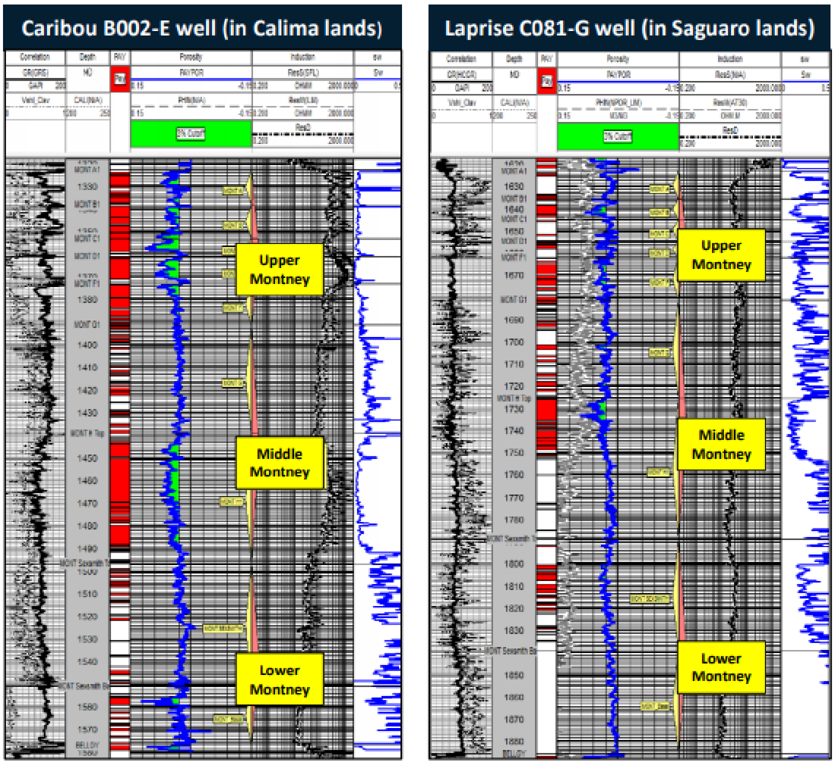
Maiden Prospective Resource to be independently certified by mid FY'18.

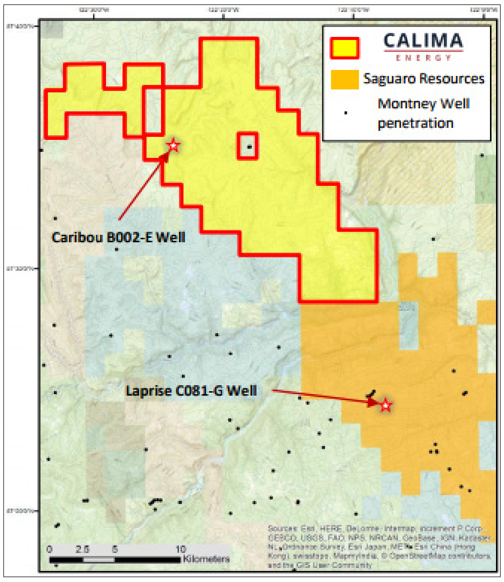
Maiden Contingent Resource to be independently certified by FY'19.

Maiden Reserves to be independently certified in CY 2019.

As a preliminary guide, to demonstrate the sheer 'tank size' that the Montney represents, we reference CE1's immediate neighbour to the south east, Saguaro Resources. Saguaro has 110,000acres C/F CE1's 57% effective interest in 70,000acres.

Well correlation between Saguaro's acreage and CE1's to the north west indicate extension of the Montney throughout CE1's land position, but significantly, the well data suggests potential for the Montney to be better developed on Calima's ground:





Well log correlation between Saguaro and CE1's acreage. Reservoir pay is highighted in red.
Source: CE1, Saguaro data and presentations

Assuming like for like, the independently assessed inventory for Saguaro implies pro-rata volumes from the Upper, Middle and Lower Montney of up to:

1. 2,177mmboe gross in place (or 13Tcf; 26% liquids – 18% Condensate; 8% C3-C4)
2. 682mmbboe gross recoverable (or 4.1Tcf)
3. Potential 2P gross reserves of 182mmbboe (1.1Tcf);

We stress however, that Saguaro's numbers are the result of development drilling (~47 wells) undertaken on their ground. As a consequence, the numbers above are illustrative and it should be read that they require development drilling before being booked.

Never-the-less, directionally, we can see very large Prospective Resources being independently assessed when delivered mid FY'18. Given the Company's current EV, this is one of the key attractions of this investment.

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Hedging

N/A

Dividends

There are no forecast dividends for CE1 whilst the JV undertakes appraisal of the Caribou assets. Any operating cash flow generated from future drilling will be applied to further appraisal activity.

Balance Sheet

CE1 currently has ~A$7.5m in cash and no debt.

Currency

All financials are reported in A$. In country expenditure and sales will likely be largely denominated in Canadian and to a lesser degree, US Dollars.

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Overview of Calima Energy

Proven Management

Managing Director, Alan Stein, Technical Director, Jonathan Taylor and the technical team from Havoc Partners (Messrs Norris, Higgins and Sofield) are the team behind Fusion Oil & Gas PLC and most recently, the highly successful Ophir Energy PLC.

Fusion was created in 1998, raising seed capital at 5p and building value via a number of green field West African oil and gas discoveries. The Company eventually listed on the LSX at 50p and achieved a high of 70p (2001) before eventually being taken over by Sterling Energy in 2003 for around 40p. Ophir was then formed in 2004, raising seed capital at 38p before making 20Tcf of discoveries offshore Africa. Ophir's 2011 IPO was the largest ever E&P IPO on the LSX at the time, raising GBP235m at GBP2.50/sh. Whilst still at the helm, Messrs Stein oversaw the Company peak at GBP6.00/sh in 2012, resulting in a market capitalisation of GBP2Bn and inclusion in the FTSE250.

The Group is technically strong and its focus on fundamental subsurface geology and geophysics has been instrumental in building a track record of consistent technical successes. A strong commercial overlay has subsequently crystallised value for the team's financial backers and market supporters.

A Proven, Back-able Strategy

We anticipate that Management will look to add value to the Caribou asset as commodity prices recover but seek to exit ahead of potential full field development so as to minimise dilution and exposure to broader commodity price cycle volatility. Consequently, existing African offshore interests will be matured within the portfolio in the background. Similarly, other new venture initiatives will be pursued in the background and may be vended into the CE1 vehicle in due course. Ultimately, this is where we view significant value uplift for CE1 shareholders will be realised: Offshore Africa, conventional E&P is Management's long suit.

Key Asset

Montney - One of the Largest Resource Plays in North America

CE1 – Operator

Earning effective 57% Working Interest in ~70,000gross acres

Commercial volumes of unconventional petroleum in the Montney Formation is estimated to be 449 tcf of natural gas, 14.5Bnbbls of natural gas liquids (NGLs) and 1.1Bnbbls of condensate & oil. Upward revision to estimates is likely given the continued expansion of the commercial footprint of the play in both the north west extents into NE British Columbia and towards the west in the oil fairway. What is more remarkable is that expansion has accelerated in the past 3-4yrs despite the downturn in commodity pricing.

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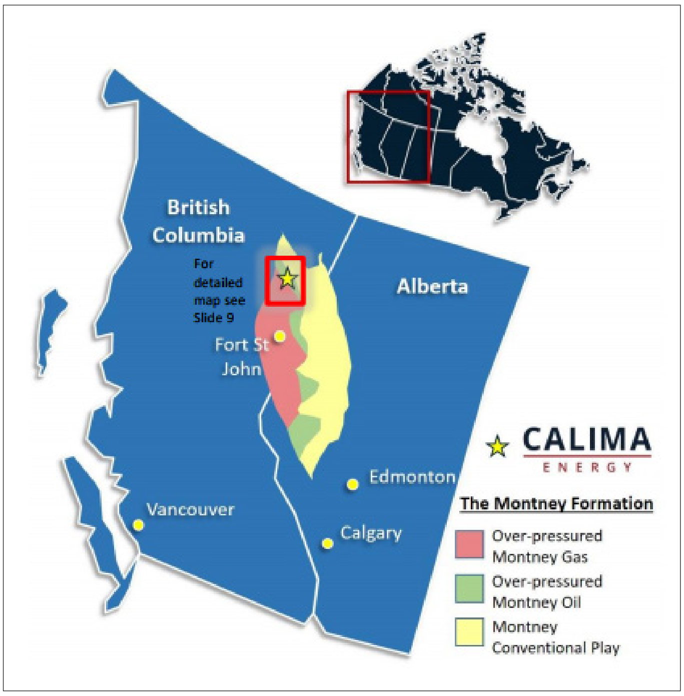
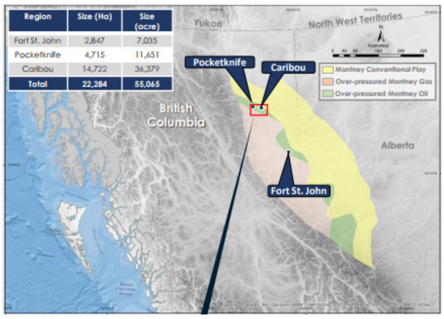
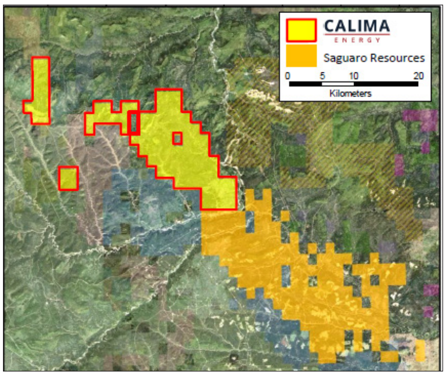
CE1's Focus Area – Caribou & Pocketknife







Source: CE1 presentations

CE1 has completed a farm-in with TSV-Montney Ltd and TMK-Montney Ltd (TSV/TMK) to acquire up to 55% of the Calima Lands.

Approx. C$10.5m invested in the Calima Lands by TSV/TMK.

Key terms and programme are set out below:

Stage	Cumulative Contributions	WI Earned (cumulative)	Latest Date
1	C$5 M	20% (20%)	01 Aug 2018
2	C$12 M	17.5% (37.5%)	28 Feb 2019
3	C$25 M	17.5 % (55%)	28 Feb 2020

Stage	Activities
1	Acreage acquisition, 3D seismic, Drill planning
2	Drill and complete one x 2,000 m Hz well
3	Drill and complete two x 2,000 m Hz wells

Source: CE1 presentations

The 3 Stage earn-in comprises:

Stage1 (C$5M) -

- C$3m invested already.
- Anticipate full-spend by early 2018.

Stages 2&3 (C$20M), timing at CE1's election:

- 3-well drilling campaign anticipated 2H 2018

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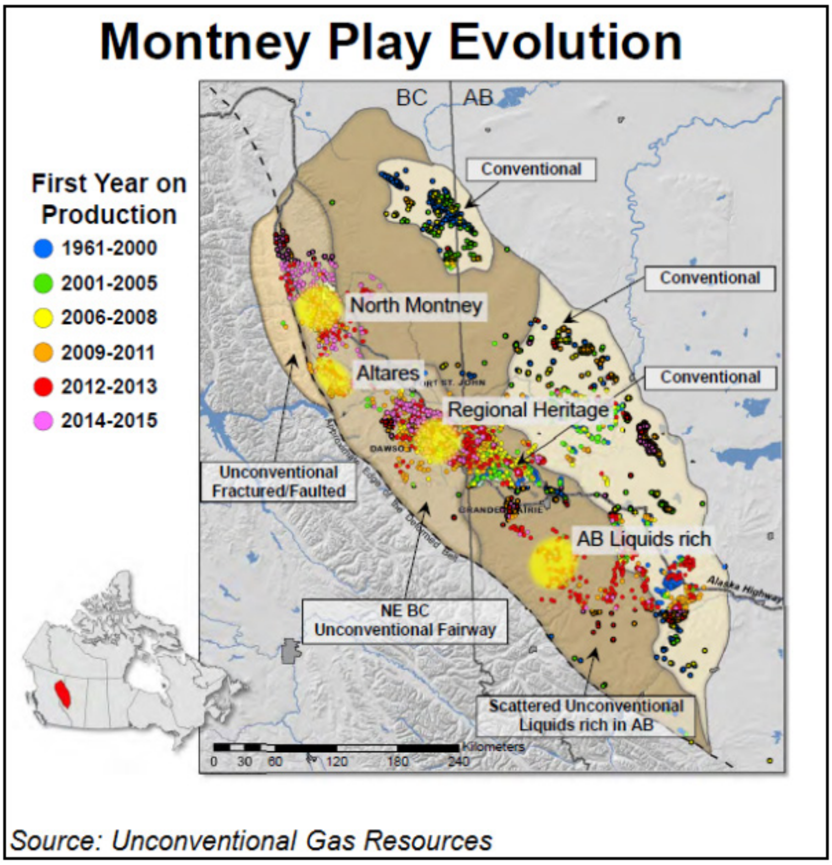
CE1 also owns 11.2% of the issued share capital of TMK, resulting in a fully diluted economic interest of 57% at completion.

Est. CE1 cost base upon completion: <$650acre.

Continued Expansion of the Play

The unconventional play has been evolving since commercial development commenced in the mid 2000s:



Source: http://www.naturalgasintel.com/montneyinfo#top

More recently, advancement of completions technologies have pushed the economic envelope of the Montney increasingly into the relatively lower pressure but more liquids prone areas.

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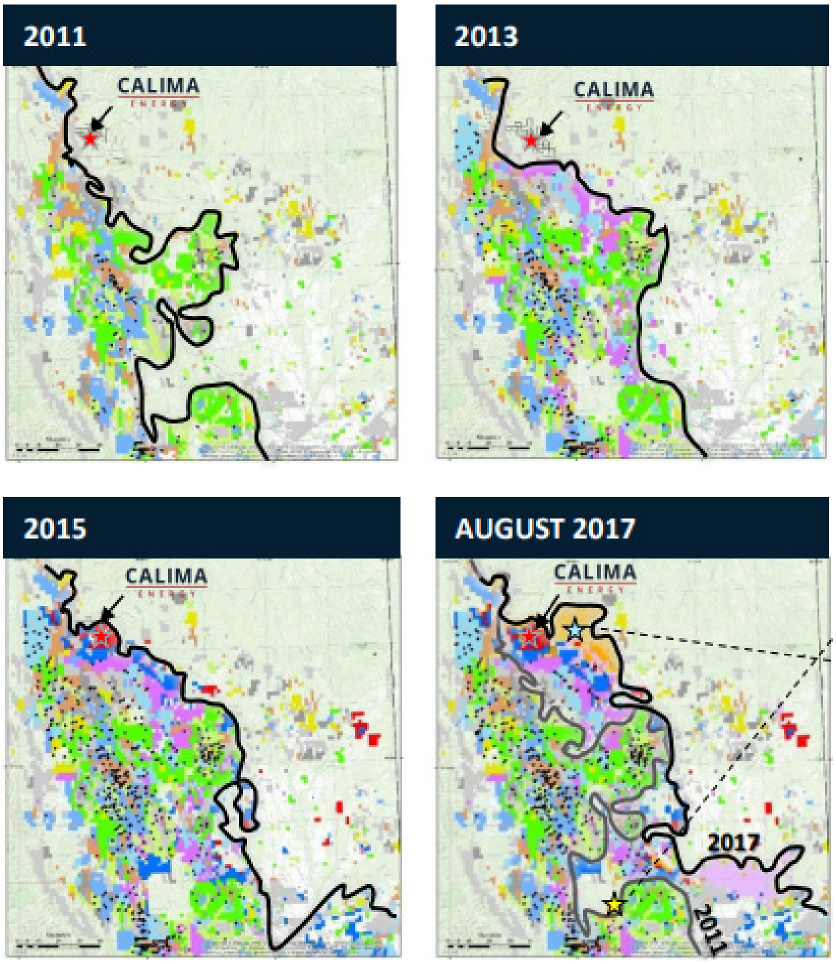
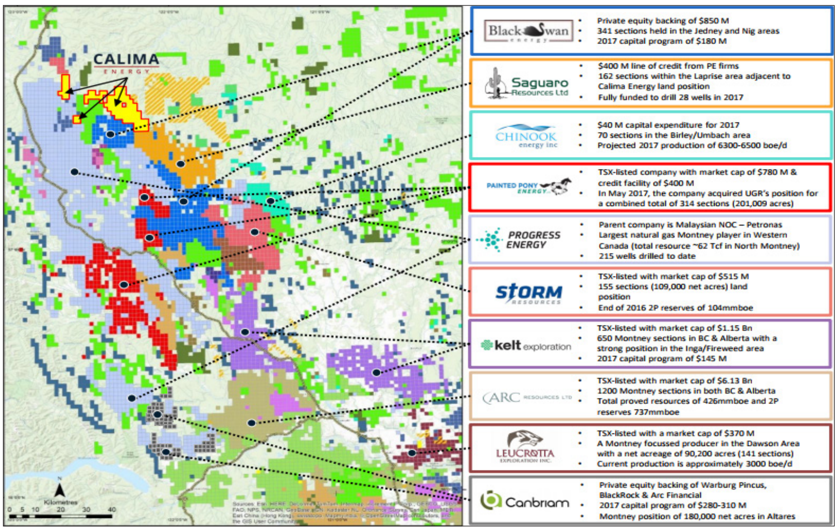
CE1 and its prospect generator identified this opportunity ahead of industry and before the downturn:



Source: CE1 presentations

Industry has since caught up, validating the strategy from a leasing (and lease cost) perspective:



Source: CE1 presentations

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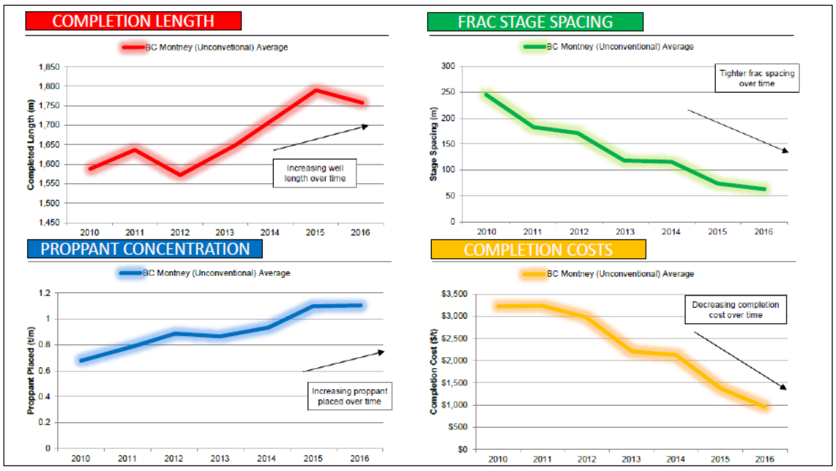
Mature and Established

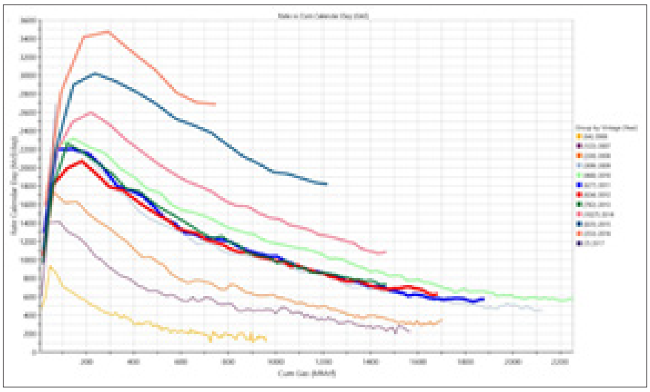
As a consequence of over 10yrs of activity in the play, completion design is very mature and industry knowledge, deep and well advanced. Broad industry trends are summarised below:



Source: CE1 presentations

Data sharing is prolific on account of the Canadian open file system (wells are made public after ~6mnths of production) and more locally, neighbours have a vested interest in ensuring neighbouring operators use best practice in order to drive consistent well results.

More recently, and consistent with our experiences in the Permian, Eagle Ford and TMS, increased well lateral length has been a recent evolution of completion design, consistently delivering substantially higher initial productivity. Historical trends reflective of both technical understanding of the Montney driving technological evolution and refinement of completion design but also focusing upon the better areas has seen consistent improvement in well productivity (absolute and normalised for well lateral length) year on year:



Source: McDaniel and Associates

This is translating to disproportionately higher EURs. Saguaro, neighbouring operator to CE1s ground and Saguaros independent engineers are seeing recent results from extended laterals that could support up to a 40% boost to EUR.

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Interestingly – and reflective of the relative qualities of the Montney sequence – proppant loading remains relatively low compared to the US resource plays. This is reflective of the sequence's high siliciclastic (siltstone and fine grained sandstone) content. Permeability is an order of magnitude better than the US gas shale basins. Whilst there is industry recognition that proppant loading density is yielding some benefits, we envisage that growth in average load volume will be relatively low. This will assist in maintaining relative well cost/boe advantage.

CE1 benefits from designing its appraisal-development drilling programme utilizing industry best practice. We chart pre-tax IRR sensitivity on our Montney wet-gas single well type curve at varying fully loaded well costs vs various oil prices below:

IRR %		Well Cost (US$m)				
		7	6.5	6	5.5	5
	50	8	10	12	14	18
	55	10	11	14	17	21
Oil Price (US$/bbl)	60	11	13	16	20	25
	65	13	16	19	23	29
	70	15	18	21	26	33
	75	17	20	24	30	38

Our type curve assumes:

- EUR - 7.2Bcfe
- Condensate yield - 30bbls per mmscf
- 30yr economic life
- Flat oil price - per assumption
- Flat gas price - US$2.50/mcf
- Gas royalty - 27%
- Liquids royalty - 20%
- Deep Gas Credits - C$850k (offsettable against operating cashflow)
- Transport and processing - C$1/mcf
- Opex - C$5,000/mth fixed. C$1.10/mcf variable.
- Well Capex - per variable; 6month spud to first cashflow
- Forex - USD0.81

One of the Most Economically Robust Resource Plays

The National Energy Board's current Canadian "deliverability" projection, rates the new northern BC and Alberta output as some of the lowest-cost gas in North America. Even accounting for transportation, Montney gas is competitive with Marcellus Shale production. Wood Mackenzie and several large North American investment banks assess that the Montney has NYMEX natural gas breakeven prices between $0.75 and $3.50 per MMbtu, competitive with any of the lower 48 basins.

Increasing well economics have followed advancements to drilling and completion techniques often borrowing from other plays. Experience with horizontal drilling and fracking is sharply cutting costs. TransCanada's Nova, in a facilities construction application to the NEB that draws on confidential industry information, says the full "supply cost" of putting Montney production into the market dropped by nearly 60% to C$2.69 (US$2.07) per MMBtu from C$6.45 (US$4.97)/MMBtu between 2006 and 2013. And efficiency continues to improve, with drill time falling substantially yr on yr.

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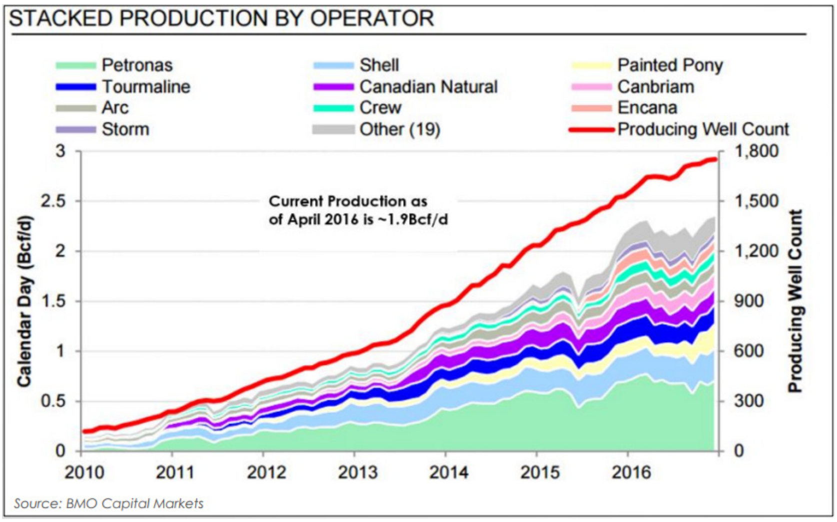
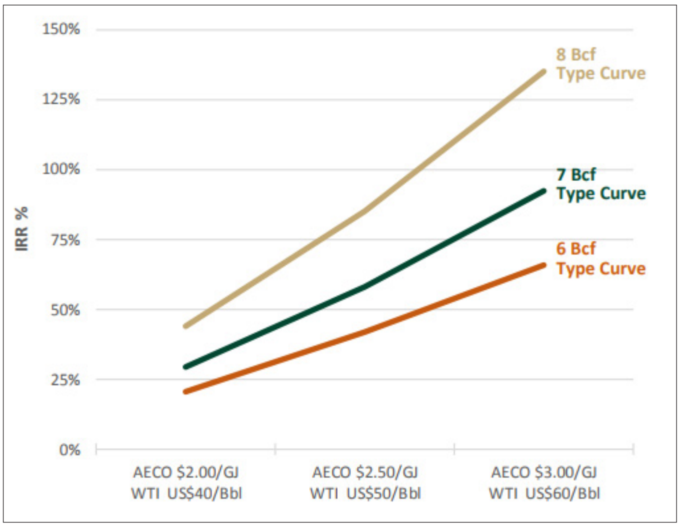
Production has continued to grow through the oil downturn since mid 2014 despite persistently low natural gas prices. Since 2010, Montney has seen a 16 fold increase to production to current rates estimated at circa 400kbboepd. Perhaps more remarkable is the fact that rates over the past 8mnths have at least sustained this rate (or more) despite Progress (Petronas) dialling back its development activity on account of its BC LNG project stalling:



Source: CE1 presentations

Liquids' yields are therefore critical in our assessment. Moreover, per our experience with AUT.ASX, over pressured reservoir, resulting in associating liquids existing in gas phase in the reservoir, should translate to high deliverability of a more valuable product stream.

Consequently, Saguaro, based upon the work of its independent Reserve auditor, McDaniel, highlight well potential in this part of the Montney, with EURs of between 6-8Bcfe and corresponding single well pre-tax IRRs of 42-85%. The leverage of the play in CE1's area is highlighted by the sensitivity plot below. This clearly articulates the importance of the associated liquids:



Single well IRR & sensitivity to commodity prices
Source: Saguaro data and presentations

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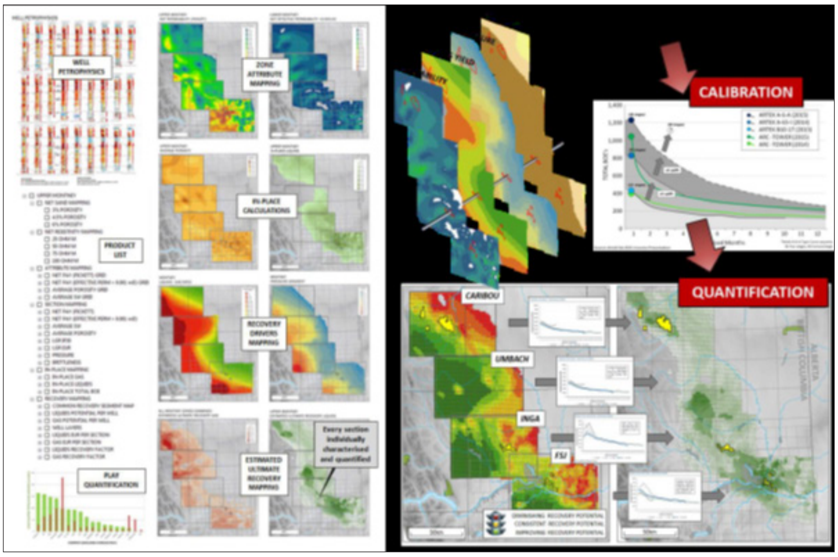
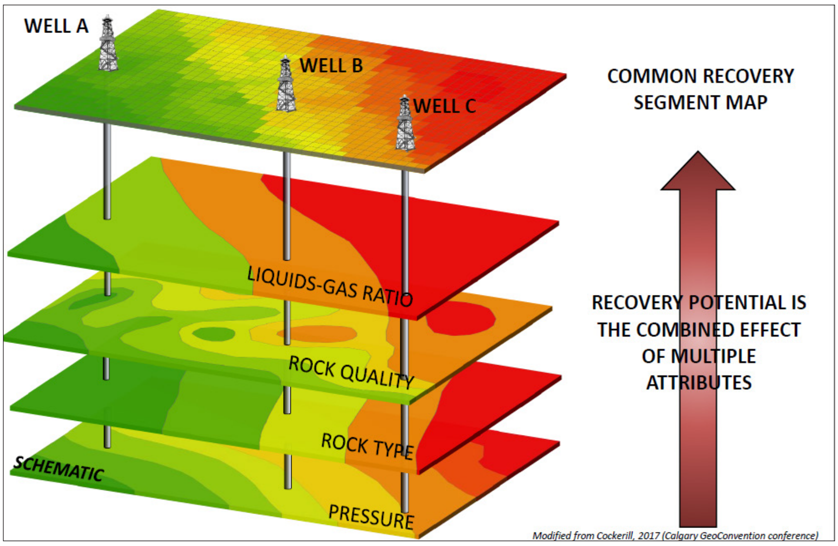
Technically Driven Acquisition Strategy provides First Mover Advantage

CE1's approach to aggregating its Montney position is founded in strong fundamental understanding of the subsurface:



Source: CE1 presentations

Simplistically, the target areas have been defined via overlaying maps of the key technical attributes believed to ultimately underpin the most productive and highest economically yielding acreage:



Source: CE1 presentations

CE1 and its prospect generator's modelling effectively pushed the known extent of the over pressured liquids rich fairway further to the north east. CE1's prospect generator was thereby able to aggregate acreage ahead of industry at the bottom end of Montney leasing prices. The majority of CE1's acreage position was acquired at C$130/acre. This compares with Saguaro that averaged C$1,000/acre for its neighbouring 110,000acre land position.

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Of greater significance, is that 2017 transactions support acreage prices of C$1,000 to over C$5,000/acre, reflecting level of development (and production) as well as product mix. Referencing CE1's initial <C$130/acre acquisition pricing and fully loaded est. of ~C$650/acre post proof of concept drilling, there is significant scope for share price appreciation.

Development of Contiguous Land has Validated Acreage Position

Saguaro Resources – in also recognising this opportunity – has since drilled +40 wells, growing production over the past 3yrs to +17,000boepd (25% liquids) by CY'17 end. Well correlations between Saguaro's wells and existing penetrations indicate that the liquid rich Montney Saguaro is developing extends through CE1's ground, with logs suggestive of better developed pay at least around the Caribou B002-E location.

Saguaro's activities have defined an over-pressured, (11-15kPa/m) relatively porous (3-9%) siltstone-sandstone reservoirs through the Lower, Middle and Upper Montney. Liquids yields of +35bbls/mmscf av. condensate plus high calorific, NGL (C3, C4 – 1,165Btu/scf) rich gas support robust potential economics even at low point in commodity price cycle. Furthermore, economics of this part of the Montney are enhanced by the relatively shallow reservoir at 1,400-1,900m. These depths translate to well development capex of $5-6m/well fully loaded and pre-average Deep Well Drilling Credit of $0.8-1.2m/well:

Type Curve Comparison	6 Bcf Type Curve	7 Bcf Type Curve	8 Bcf Type Curve
DC&E Capital[2] ($MM)	$5.25	$5.25	$5.25
IRR[3][4] (%; Before Taxes)	40%	56%	83%
Net PIR0[3]	2.37	2.97	3.83
Net PIR10[3]	0.90	1.23	1.70
NPV0 ($MM)	$12.46	$15.58	$20.09
NPV10 ($MM)	$4.69	$6.41	$8.87
Supply Cost[3] - Gas ($/MMBtu) Supply Cost[3] - Condensate ($/Bbl)	$1.29 $32.86	$1.03 $25.35	$0.67 $19.23
Total Peak (Sales MMcfd / MBoed incl. liquids)	5.6 / 1.3	6.9 / 1.6	8.2 / 1.9
IP30 (Raw MMcfd / Sales MBoed)	5.1 / 1.0	5.4 / 1.2	7.5 / 1.5
EUR[3] (Raw Bcf / Sales MMBoe)	6.3 / 1.2	7.3 / 1.4	8.3 / 1.6

Source: Saguaro data and presentations

Significant Resource Potential

McDaniel has compiled Reserves and Resources for the immediately adjacent Saguaro Resources' acreage, along trend to Calima's Caribou interests. The most recent assessment would support volumes from the Upper, Middle and Lower Montney of up to:

1. 2,177mmbboe gross in place (or 13Tcf)
2. 682mmbboe gross recoverable (26% liquids – 18% Condensate; 8% C3-C4)
3. Potential 2P gross reserves of 182mmbboe (1.1Tcf);

This is significantly cheap optionality on rising oil prices, improving productivity and falling well costs.

CE1 has engaged McDaniel to determine a maiden Resource Statement by mid FY'18. Following a maiden drilling campaign in CY'18, independently assessed Reserves will be published CY'19.

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Significant leverage offered by Liquids Yield

We chart pre-tax IRR sensitivity with changes to condensate yield and oil price in the table below:

IRR %		Condensate Yield (bbl/mmscf)				
		20	30	40	50	60
	50	7	14	23	34	48
	55	9	17	28	42	59
Oil Price (US$/bbl)	60	10	20	33	49	70
	65	12	23	38	58	83
	70	13	26	44	67	96
	75	15	30	51	77	109

Our Montney type curve assumptions as listed in 'Mature and Established' section above.

Strategic Alignment with Neighbouring Operator and Contractor Will Expedite Strategy

CE1 and its prospect generator have established a good working relationship with Saguaro and its third party service providers. We believe that these relationships will expedite the maiden drilling programme. Furthermore, Saguaro (unlisted) has a vested interest in ensuring smooth execution and strong well results from CE1's initial wells. In addition to which, relationship with third party service contractors, experienced through navigating Saguaro through its initial phases of development, will assist in securing commercial agreements to identify and secure takeaway capacity which may also provide a source of future development capital.

Emerging Infrastructure Solutions

During our site visit due diligence, we identify a number of opportunities that will result in take-away capacity options emerging over the short to medium term.

Longer term diversification of takeaway gas capacity will be critical to continued growth to the Montney, particularly to the north of the trend. Liquids and takeaway infrastructure are critical at this point in the cycle and the evolution of the Montney.

Similarly, we foresee that there will be an increasing mid-stream presence within the Montney. To date Canadian Western Basin gas producers have had a relative cost advantage over their American peers as a function of lower interest (relative Balance Sheet structures) and transportation costs. However, this has been offset by depressed pricing at both AECO and Station 2 as a consequence of sheer supply growth relative to demand and take-away capacity. In the near term, we see opportunity for short haul capacity to be built out by mid-stream players. Security of supply will be critical to bank development; therefore we can envisage that players at the frontiers of the Western Canadian Basin may source development capital in exchange for supply guarantee. Longer term, the development of reticulation into the US network/markets as well as LNG development (particularly) on the western seaboard of North America, will drive demand consumption to justify takeaway capacity.

In the interim, we can foresee evolution of development models within the play to focus upon the liquids, particularly whilst gas prices remain suppressed. Liquids' stripping focused developments -with the tangible benefit of being able to maintain pressure in the reservoir - should elevate acreage values in over-pressured, liquids' rich fairway.

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Looming M&A Cycle

There has already been over a C$1Bn of M&A transactions this CY, despite the prevailing moribund commodity price environment:

Date	Acquirer	Seller	Location	Transaction (C$m)	Acreage net	Acreage Metric (C$/acre)	Production (boepd)	Liquids (%)	Production metric (C$/ flowing boe)	2P Reserves (mmboe)	Reserves Metric (C$/2P)	Comments
Jul-17	Unknown	Crown (govt)	BC - gas/ gas-liq	77	13,700	5,620						
Jul-17	Paramount	Trilogy	AB - oil	1,163	70,000	16,614	-	n/a	n/a	0	n/a	
Jul-17	Paramount	Apache	AB - gas-liq	460	185,000	2,486	-	n/a	n/a	0	n/a	
May-17	Primavera	Crew	BC - gas/ gas-liq	49	18,400	2,663						
May-17	SanLing	Paramount	AB - gas-liq	150	30,080	4,987						
Apr-17	Leucrotta	CNRL	BC - gas-liq	36	11,840	3,041	-	n/a	n/a	0	n/a	
Mar-17	Conoco	Pengrowth	BC - gas/ gas-liq	92	23,424	3,928	-	n/a	n/a	0	n/a	
Mar-17	Painted Pony	UGR	BC - gas/ gas-liq	296	69,143	4,281	8,500	1	20,000.00	325.1	$0.91	Acreage metric net pre prod metric of C$20k/ flowing boe
Feb-17	Blackbird	Paramount	BC - gas/ gas-liq	5	1,984	2,520	-	n/a	n/a	n/a	n/a	
Feb-17	Unknown	Chinook	AB - gas-liq	8	10,112	791	-	n/a	n/a	3.8	$1.97	
Jan-17	Strath	Mosaic	AB - oil/ gas-liq	327			1,398	n/a	233,000	162.5	$2.01	inc. non-Montney production
Jan-17	CIOC	Kelt	AB - oil/ gas-liq	100	9,840	10,163	1,303	50	30,000	12.7	$7.87	
Jan-17	CIOC	Chinook	AB - oil/ gas-liq	11	9,984	1,102	99	35	20,000	323	$47.06	
Nov-16	Repsol	Delphi	AB - oil	49	14,816	3,307	n/a	n/a	n/a	n/a	n/a	
Oct-16	Enerplus	RMP	AB - oil	114	49,600	2,298	n/a	n/a	n/a	n/a	n/a	
Oct-16	Tourmaline	Shell	BC - gas/ gas-liq	478	64,640	7,395	n/a	n/a	n/a	n/a	n/a	est. Montney portion of transaction
Sep-16	Conoco	Bonavista	BC - gas/ gas-liq	n/a	38,410	4,800	n/a	n/a	n/a	n/a	n/a	est. deal based upon production
Jul-16	Seven Gen.	Paramount	AB - oil/ gas-liq	1,900	99,200	19,153	n/a	n/a	n/a	n/a	n/a	
Jun-16	Birchcliff	Encana	AB - gas-liq	625	54,200	11,531	n/a	n/a	n/a	n/a	n/a	
				Enterprise Val.								
	Saguaro		BC - gas/ gas-liq	590	110,000	5,364	17,000	26	34,706	286	2.06	EV accounts for equity line and finance facilities
	Calima		BC - gas/ gas-liq	20	39,900	501	-	26	n/a	182	0.11	2P Reserves are pro rata est.

Source: Industry data

With proof of concept in hand in terms of Caribou's liquids and deliverability qualities combined with takeaway access, we view that CE1 will be increasingly well positioned as a solution to a number of neighbouring and broader Montney players looking to grow as commodity prices recover.

Liquids rich acreage will provide significant leverage to rising prices. We view this will be a key driver of M&A and specifically corporate interest in CE1.

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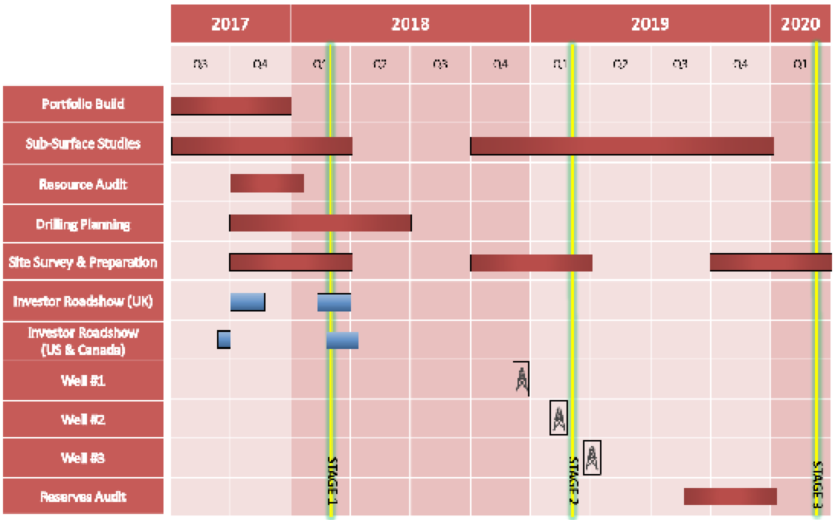
More generally, we foresee a looming M&A cycle that will be driven by a need to consolidate to improve asset fundamentals and access to infrastructure. The resulting improvement to trading liquidity will drive investor interest and therefore better compete with the Lower 48 to access capital. Strong alignment with shareholders on account of Management's large personal shareholdings will ensure a commercial approach by CE1 should corporate interest manifest.

Forward Programme

CE1's work programme and near to medium term catalysts are summarised below:



Source: CE1 presentations

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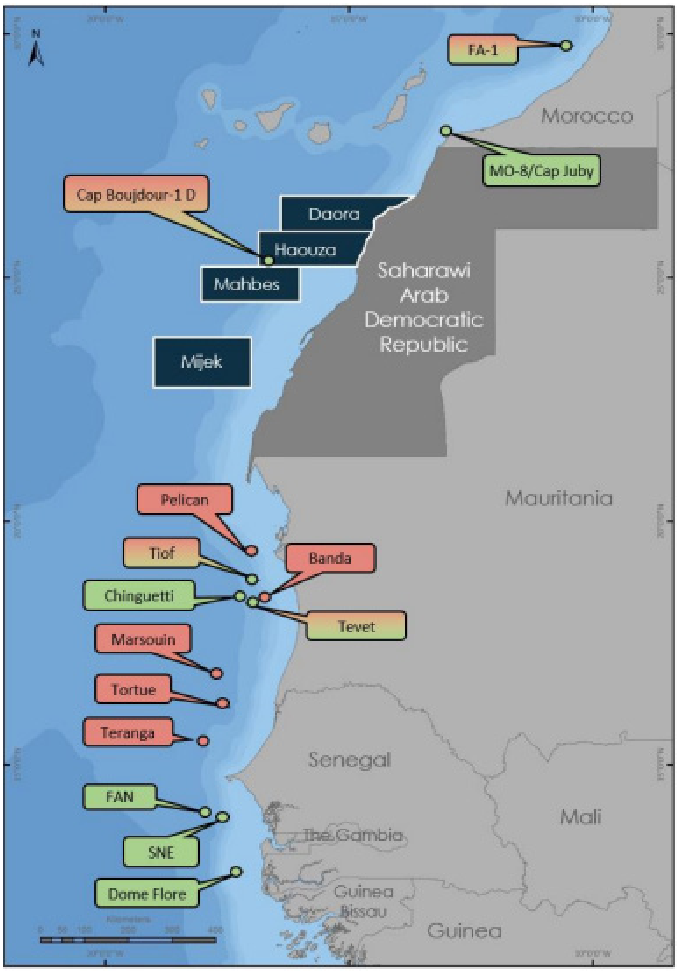
Other Assets

These are passive investments which do not currently require any capital investment from CE1.

Western Sahara

CE1 – 50%



Source: CE1 presentations

CE1 has a 50% operated interest in four blocks offshore Western Sahara; Daora, Haouza, Mahbes and Mijek. The blocks have a gross area of 74,327sqkm in water depths of 200 to 2,500m.

Calima acquired the interests in the PSCs from Ophir Energy in 2014 in consideration for the payment of a 2.5% net profits interest to Ophir in respect of petroleum produced from lands covered by the PSCs.

Offshore Western Sahara is one of the few remaining unexplored, deep-water regions in the world.

At present a significant part of the SADR, including the offshore, is occupied by Morocco and until such time as there is a resolution to the sovereignty dispute, Calima cannot undertake exploration activity.

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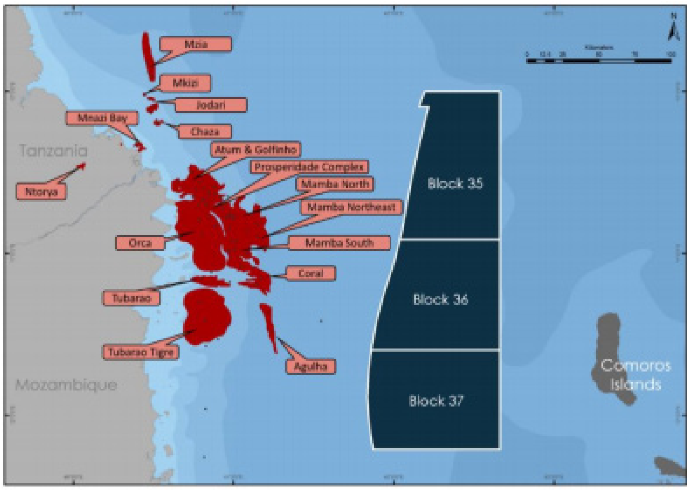
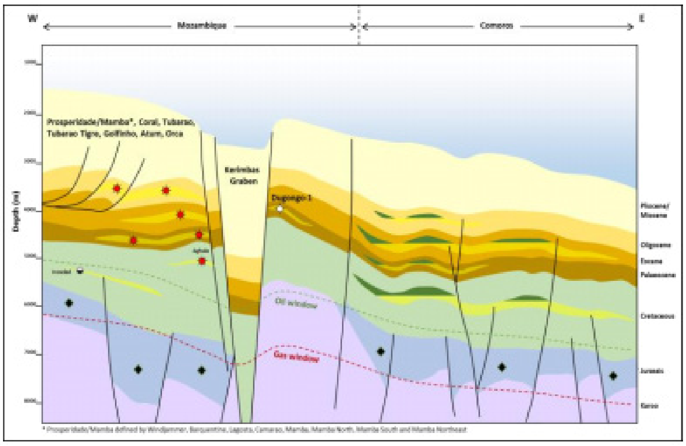
The Management Team has been involved in Western Sahara for over 15 years, first as Fusion Oil & Gas, then as Ophir Energy plc. During this period the partners have developed a strong relationship with the SADR Government.

Recent exploration success in Senegal and Mauritania has resulted in increased industry interest in Northwest Africa as evidenced by recent transactions by BP, Woodside and CNOOC, who have all acquired acreage positions.

Comoros

CE1 – 10% of Bahari Holding Company Limited (Bahari), a private company that owns 40% of three production sharing contracts (PSCs) in the offshore territory of the Union of the Comoros.





Source: CE1 presentations

The PSCs lie immediately adjacent to the border with Mozambique and a short distance from the giant gas discoveries made by Eni and Anadarko, who have discovered more than 175 Tcf of natural gas.

Research by Bahari has demonstrated that the petroleum system in the Comoros is identical to that in Mozambique, however, the primary source rocks have been less deeply buried and are considered to be prospective for oil rather than gas.

CE1 Management were involved in the first offshore gas discoveries in Tanzania and have extensive experience in East Africa.

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Overview of the Montney Shale Formation

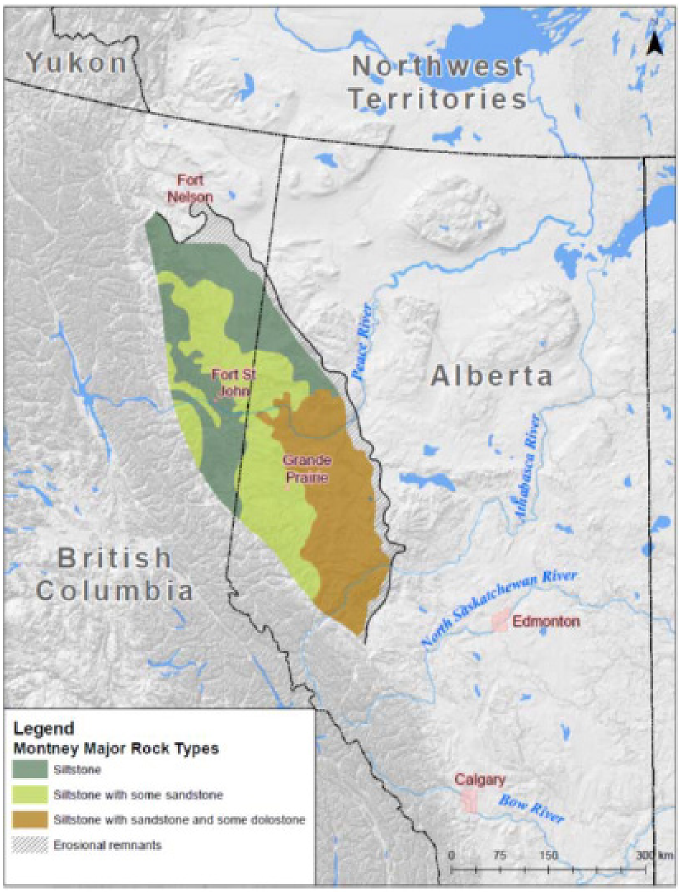
Canada – onshore British Columbia & Alberta

Geological Setting

The Montney Formation is a stratigraphical unit of Early Triassic age in the Western Canadian Sedimentary Basin ("WCSB") in British Columbia and Alberta. The Basin axis strikes in an approximate north east to south west orientation.

Lithology

The formation is composed of siltstone and dark grey shale, with dolomitic siltstone in the base and fine grained sandstone towards the top. The facies is shale dominated in the north and west of the extent (Fort St. John) ie more shelf edge/slope to basin floor, silty in the center (Dawson Creek and Pouce Coupe areas) ie shelf edge to shelf and becomes coarser (sandy) in western Alberta (Valleyview area) ie shelf to shoreline.



Source: National Energy Board

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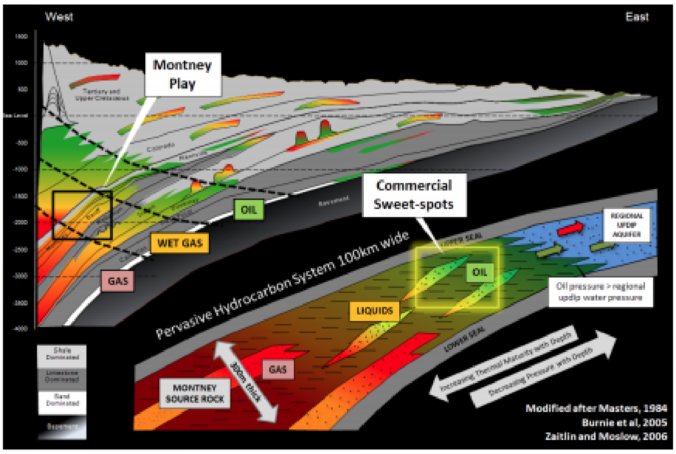
Reservoir Characterisation

Evolution of the play is systematically refining a broad understanding of the hydrocarbon phase trends. Correlation between depth (temperature and pressure) and phase broadly holds, however – and particularly where the sequence coarsens ie more proximal to the source – subtle variations to lithology as well as depth of burial provide for more heterogeneous distribution of yields and phase changes. In simple terms, the WCSB deepens towards the Canadian Rockies:



Source: CE1 presentations

The Montney is considered over-pressured, where by pressure gradient increases with depth to the west with typical gradients of 11-15kpa/m with localized zones of significant overpressure as function of structure, with wells encountering gradients of upwards of 18-20kpa/m. Reservoir pressure becomes more normally pressured to the east, particularly in Alberta Montney.

Moving in a south west to north easterly direction, the trend is dominantly over-pressured dry gas moving through liquids (in gas phase) rich gas and into liquids prone unconventional reservoir and finally more conventional oil prone reservoir in north eastern Alberta.

Production and Est. Resource Potential

The Montney Formation is a major shale gas and shale oil resource. Current rates of production from the play are estimated to be over 400kbboepd. Gas and associated gas liquids inc. condensate, is produced from the Montney Formation in both British Columbia and Alberta. Along with migration of supply development to the Canadian industry's "near frontier" of BC shale areas, the Towerbirch project highlights rising demand by Alberta thermal oil sands extraction plants. Over the same period, total Alberta consumption is projected to climb by nearly 50% to 6.94 Bcf/d from 4.67 Bcf/d. During 2015-2025 gas purchases by still-growing oil sands operations are forecast to jump by 91% to 3.56 Bcf/d from 1.86 Bcf/d.

Major operators include Progress Energy Canada Ltd. (a subsidiary of Malaysia's PETRONAS), Painted Pony Energy Ltd., Royal Dutch Shell plc, Encana Corporation, Murphy Oil Corporation, ARC Resources Ltd., and Advantage Oil & Gas Ltd. Oil is produced from the formation in Northern Alberta. Shale gas extraction emerged in the late 2000s in the distal facies of the formation's western extent driven largely by the emerging LNG export opportunities on the west coast of North America.

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A comprehensive joint study on the potential of the Montney Formation was completed by the National Energy Board, British Columbia Oil and Gas Commission and the Alberta Energy Regulator in 2013. This study found that the potential resources contained within the formation were 449 trillion cubic feet of marketable natural gas, 14,521 million barrels of marketable natural gas liquids (NGLs) and 1,125 million barrels of oil. This estimate makes it one of the largest known gas resources in the world and equivalent to 100years of Canada's 2016 consumption. EZL anticipates – on account of the expansion of the known economic extents of the play to the north and east – upward revisions to these estimates in the near term.

Leasing

Most land in British Columbia, Alberta and Saskatchewan carries two titles: surface rights and mineral rights. Mineral rights are largely under Crown ownership with the balance being freehold representing National Parks or First Nations. Crown petroleum and natural gas rights are issued in the form of licences or leases through a competitive bid auction system. Public offerings (or sales) of petroleum and natural gas rights are held every month. Notices of the parcels being offered are published on the department's website approximately eight weeks prior to the sale.

Mineral leases are time-limited and when first issued typically apply for initial periods of three to 10 years (typically 5yrs). However, they often provide for extensions and actual operations can continue for many years until oil or natural gas production concludes.

Key issues surround maintenance of tenure:

- annual rent of $3.50 per hectare must be paid for each hectare covered by the agreement
- tenure holders must meet all regulatory requirements
- lands in a licence are earned by the drilling of a well
- a lease is proven productive at the end of its five-year term by drilling, producing, mapping, being part of a unit agreement or by paying offset compensation
- if a lease is proven productive, it will continue indefinitely beyond the end of the term.

Leases are secured and held by production. Lease(s) held is determined by well orientation and lateral length.

Fiscal Regime/Tax/Royalties

Tax

Producers in British Columbia must pay provincial corporate income tax of 11%.

A 15% federal corporate income also applies.

Royalties

A fixed condensate royalty of 20%.

The royalty on gas is more complicated. It takes into account a number of factors including the greater of the "Producer Price" (essentially a weighted average price) and the "Select Price" which is a price set by the Govt. each year and which currently sits at $50 per 103m3 (~C$1.40/mcf). It is capped at 27%.

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The formulae for determining royalties on gas are provided below (the reference Price is the greater of the Producer Price and Select Price);

(1) For marketable gas and by-products produced from Crown land:

Conservation Gas:	(i) if RP $\leq$ 50, (ii) if RP > 50,	R% = 8 R% = $\frac{400 + 15(RP - 50)}{RP}$
Non-Conservation Gas, Base 15:	(i) if RP $\leq$ 50, (ii) if RP > 50,	R% = 15 R% = $\frac{750 + 25(RP - 50)}{RP}$
Non-Conservation Gas, Base 12:	(i) if RP $\leq$ SP, (ii) if RP > SP, (iii) if RP/SP $\geq$ 28/13,	R% = 12 R% = $\frac{12 \times SP + 40(RP - SP)}{RP}$ R% = 27
Non-Conservation Gas, Base 9:	(i) if RP $\leq$ SP, (ii) if RP > SP, (iii) if RP/SP $\geq$ 31/13,	R% = 9 R% = $\frac{9 \times SP + 40(RP - SP)}{RP}$ R% = 27
Natural Gas Liquids		R% = 20
Sulphur		R% = 16.667

where, RP is the Reference Price in \$ per $10^3 m^3$,
SP is the Select Price in \$ per $10^3 m^3$ and
R is the royalty rate as a percentage.

Source: http://www.sbr.gov.bc.ca/business/Natural_Resources/Oil_and_gas_royalties/royalty_handbook/royaltyhandbook.pdf)

The lands acquired prior to Aug 31, 2017, of the Montney JV are subject to a 1% royalty under an existing royalty agreement with the prospect generator. Should the Montney JV move into production, CE1 will be liable for its working interest share of this royalty (55% if the Company completes all three stages of the Farmin).

BC Deep Gas Well Drill Credit

The allocation of drilling credits is based on the "Deep Well Depth" (DWD). This is derived from a ratio of the vertical and lateral components which is then applied to the total well depth. The resultant meterage must exceed 2500m to qualify for drilling credits. The table below provides a summary of drilling credits relative to the DWD.

Deep Well Depth (metres)	Cumulative Value ($000)	Incremental Value ($/metre)
2500	445	430
3000	660	720
3500	1020	980
4000	1510	1006
4500	2013	974
5000	2500	622
5500	2811	

Source: https://www2.gov.bc.ca/gov/content/industry/natural-gas-oil/oil-gas-royalties/royalties-royalty-programs/deep-royalty-program

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Well credits only offset royalties and not tax.

Pricing

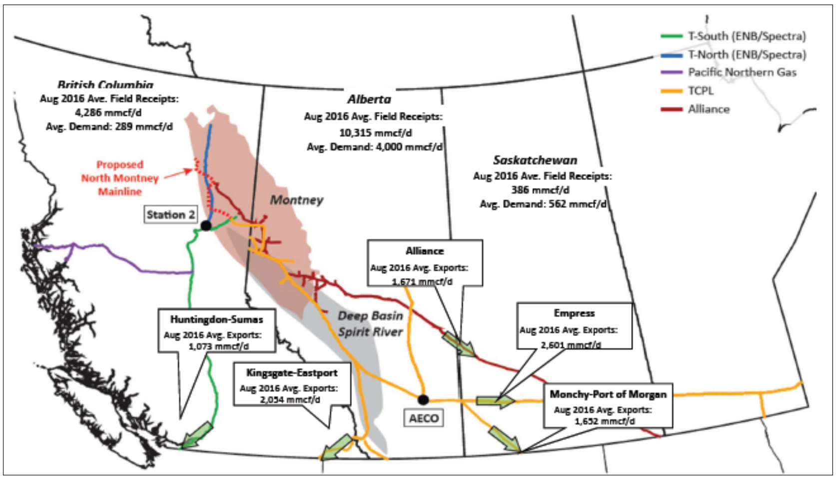
Condensate benchmark - "Edmonton Condensate". This currently trades at a ~US$15/bbl premium to WTI.

Gas benchmark – in north eastern BC, most gas is priced referencing 'Station 2'. However, emerging and historical takeaway infrastructure can indirectly access more favourable pricing benchmarks at AECO or Dawn.

Pricing data can be sourced here: http://www.psac.ca/business/GMPFirstEnergy/

Infrastructure - Local Major Pipelines

Natural Gas: Alliance, Coastal Gas Link (proposed), NGTL Merrick Mainline (proposed), NGTL North Montney (proposed), Prince Rupert Gas Transmission (proposed), Spectra;



Source: First Energy Capital

However, natural gas pipeline takeaway capacity remains an issue with clear bottlenecks at Station 2 and to a lesser degree, AECO. Western north American LNG developments, appear the most likely means of consuming the surplus production from Western Canadian Sedimentary Basin developments over medium term.

Crude Oil: Alberta Clipper, Energy East, Northern Gateway, TransMountain

In the CE1 area (NE BC), condensate is largely trucked from site to central terminals for either local processing or feeding into pipeline takeaway.

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Risks

CE1 is a high risk and therefore speculative investment. Whilst we endorse management and see value potential in the Company's assets, successful execution of the strategy and value realisation from the assets is subject to a number of risks including but not limited to:

Operational Execution – offset development gives us high confidence that CE1's Montney acreage is both highly productive and liquids rich. However, proof of concept appraisal drilling requires smooth execution to ensure productive wells thereby demonstrating the quality of the acreage.

Commodity Price - Whilst CE1 is not a producer, market sentiment and E&P interest in CE1's acreage and strategy will be partially a function of (particularly) oil price. Rising prices will both stimulate development activity in and around CE1's ground but also corporate transactions. It will also enhance the value of **the acreage as it is de-risked.**

Fiscal/Sovereign – we view Canada is of very low Sovereign Risk, however, **changes to taxation and royalty structures are always possible.**

Tenure – CE1 has been amassing its acreage since 2014. Lease renewal and extension are part of the current aggregation strategy but ultimately require drilling activity to secure tenure long term. It is likely that some sections may lapse/not be renewed.

Funding – Our valuation and price target takes into consideration the expected costs associated with enhancing the value of CE1s acreage and corresponding dilution. However, it should be noted that at this stage of the Company's evolution, equity capital will likely form the bulk of the early appraisal work programme to earn the full 57% effective interest.

Market Risk – General Market Risk

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Calima Energy Ltd

(CE1 $0.056) Speculative Buy - Initiation of Coverage

Issued Capital

Calima Energy Limited is listed on The Australian Stock Exchange (ASX: CE1).

Capital Structure:

Fully paid ordinary shares - 438,597,822

Fully paid restricted (24mnths from recompliance – Aug 2017) - 51,842,834

Performance Rights - 116,252,389

Total Fully Diluted Capital - 606,693,045

Directors and Management

Glenn Whiddon (Executive Chairman)

Mr Whiddon has an extensive background in equity capital markets, banking and corporate advisory, with a specific focus on natural resources. Mr Whiddon holds a degree in Economics and has extensive corporate and management experience. He is currently Director of a number of Australian and international public listed companies in the resources sector.

Mr Whiddon was formerly Executive Chairman, Chief Executive Officer and President of Grove Energy Limited, a European and Mediterranean oil and gas exploration and development company, with operations in Italy, Romania, Slovenia, Tunisia and the UK and Dutch North Seas. In 2002 Grove's Market capitalisation was less than C$5 million. In April 2007, Grove was acquired by Stratic Energy Limited, a TSX-listed oil and gas company, for C$150 million.

Mr Whiddon is currently a director of Auroch Minerals Limited, Statesman Resources Limited and Fraser Range Metals Group Limited.

Alan Stein (Managing Director)

Dr Stein has more than 25 years' experience in the international oil and gas industry. He was one of the founding partners of the geoscience consultancy IKODA Limited based in London and Perth and was the founding Managing Director of Fusion Oil & Gas plc and Ophir Energy plc. Fusion was listed on the UK AIM market in 2000 and made several discoveries offshore Mauritania before being sold in 2003. In early 2004, following the sale of Fusion, Dr Stein, together with Mr Jonathan Taylor, was one of the two founding executive directors of Ophir Energy plc. He held the position of Managing Director until 2011. Ophir was involved in several discoveries offshore Equatorial Guinea and Tanzania discovering more than 18 trillion cubic feet of gas.

Dr Stein is currently the Non-Executive Chairman of Hanno Resources Ltd and Sea Captaur Limited and is a Non-Executive Director of Bahari Holding Company Limited.

Jonathan Taylor (Technical Director)

Mr Taylor has more than 25 years' experience in the international oil and gas industry. He started his career with Amerada Hess in the UK before moving to Clyde Petroleum plc where he was involved in international exploration including postings to Yemen and Myanmar. He relocated to Perth in 1998 to take up the role of Technical Director at Fusion Oil & Gas plc which built an extensive portfolio focused on Northwest and West Africa. Fusion was listed on the UK AIM market in 2000 and made several discoveries offshore Mauritania before being sold in 2003. Following the sale of Fusion, Mr Taylor, together with Dr Alan Stein, was one of the two founding executive directors of Ophir Energy plc serving initially as its Technical Director.

Mr Taylor is currently a non-executive Chairman of Octant Energy PLC and non-executive director of Helium One Limited and Citra Partners Ltd.

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Calima Energy Ltd

(CE1 $0.056) Speculative Buy - Initiation of Coverage

Neil Hackett (Non-Executive Director)

Mr Hackett holds a Bachelor of Economics from the University of Western Australia, Post-graduate qualifications in Applied Finance and Investment, and is a Graduate (Order of Merit) with the Australian Institute of Company Directors.

Mr Hackett is currently Non-executive Chairman of Australian Securities Exchange listed entity Ardiden Ltd (ADV), and previous NED of African Chrome Fields Ltd (ACF), Modun Resources Ltd (MOU) and has held various ASX Company Secretary positions including Sundance Resources Ltd, Ampella Mining Ltd, and ThinkSmart Ltd. Mr Hackett is currently Chairman of WA State Government peak cycling organisation West Cycle Inc and company secretary of industrial footwear manufacturer Steel Blue Pty Ltd.

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Calima Energy Ltd

(CE1 $0.056) Speculative Buy - Initiation of Coverage

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Director Shareholdings

Director	Ordinary Shares	Class A Performance Shares	Class B Performance Shares	Class C Performance Shares	Management Options Class A	Management Options Class B	Performance Rights
Alan Stein	22,390,837	292,398	1,233,550	14,619,878	3,300,000	3,300,000	2,700,000
A Stein - Indirect - Rohama Pty Ltd	10,000,375	-	-	-	-	-	-
A Stein - Indirect - RBC Nominees	366,666	-	-	-	-	-	-
Jonathan Taylor	12,454,641	292,398	1,233,550	-	3,300,000	3,300,000	8,250,000
Glenn Whiddon	10,555,856	-	-	-	-	-	-
G Whiddon - Indirect - Getmeoutofhere Pty Ltd	666,666	-	-	-	-	-	-
Neil Hackett	735,556	-	-	-	-	-	2,167,060.00

Top 20 Shareholders

	Shareholder	as at 17th October 2017 Number of Shares	%
1	HSBC Custody Nominees	33.52	6.83
2	Pacific World Energy Ltd	33.50	6.83
3	Mr Alan Stein	22.39	4.57
4	6466 Investments Pty Ltd	19.07	3.89
5	Mr Glen Bull	17.48	3.56
6	Mr Jay Evan Dale Hughes	16.05	3.27
7	J P Morgan Nominees Australia Limited	16.01	3.26
8	Med Bravo Sa	13.39	2.73
9	Mr Jonathan Taylor	12.46	2.54
10	Rohama Pty Ltd	10.00	2.04
11	Mr Jay Hughes + Mrs Linda Hughes	10.00	2.04
12	Nautical Holdings WA Pty Ltd	9.00	1.84
13	Citicorp Nominees Pty Limited	7.91	1.61
14	Arredo Pty Ltd	6.67	1.36
15	Jutland Nominees Pty Ltd	6.67	1.36
16	Floteck Consultants Limited	6.64	1.35
17	Croesus Mining Pty Ltd	6.54	1.33
18	Alexander Holdings (WA) Pty Ltd	6.00	1.22
19	Croesus Mining Pty Ltd	5.46	1.11
20	Piama Pty Ltd	4.98	1.01
	Total	**263.71**	**53.75**

Corporate Details

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