

Calima Energy Ltd

(CE1 \$0.055) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	2 nd May 2018	\$0.10/sh

CE1 to Consolidate 100% Interest in Montney Project

Investment case

Speculative Buy maintained: Consolidation of the Calima Project on 100% basis net to CE1 makes for a more relevant, liquids rich, strategic Montney land holder in an increasingly active part of the trend. 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. Our Valuation increases to \$0.15/sh. Our \$0.10/sh Price Target is retained.

Key points

- CE1 has reached an agreement to acquire the Montney "Calima Project" interests of the public unlisted companies and JVPs, TSV Montney and TMK Montney;
- The proposal is by way of a Bid Implementation Agreement that has been signed and unanimously recommended by the Boards of each of TSV & TMK;
- Success of both takeover bids will result in CE1 in assuming 100% of the Calima Project, constituting:
 - 72,000net acres of drilling rights in the liquids-rich, Montney Formation;
 - Prospective Resources (indep. Certified) of 476mmbboe – 2.2Tcf; 54.2mmbbls condensate; 60.2mmbbls NGLs;
 - 400 gross drilling locations;
- This will command greater market relevance in terms of size, simplicity and marketability, assumed under a single publically listed entity;
- It will also effectively set-off the balance of the earn-in terms pre-existing under the farm-in agreement there-by removing the short to medium term time pressures around securing appraisal (inc. carry) capital;
- This is timely given the increasing activity in the trend, specifically within the liquids rich fairway of the Montney;
- In addition, typical synergies will be realised via a 100% ownership in terms of improved decision making, aligned JV funding/access to capital for unlisted companies to proceed and administrative costs;
- The offer is expected to close on the 19th of Jun, 2018;
- The expanded capital structure will be off-set by increased ownership and full control of the assets;
- Ascribing our C\$2,000/acre metric (citing 20 transactions in the trend since mid CY'16) at forex CAD0.96, our fully diluted Valuation becomes \$0.15/sh (prev. \$0.13/sh):

Valuation		
Montney (@land metric)	149.76	0.15
Africa other	5	0.00
Cash	4.7	0.00
Overhead	-5	-0.00
Fully diluted valuation	154.46	0.15

- We retain our \$0.10/sh Price Target remains unchanged as a consequence of anticipation of assumed dilution to complete the initial phases of appraisal from late CY'18.

Calima Energy (CE1) Ltd	Year Ended 30 June	
Share Price	0.055	A\$/sh
Price Target	0.10	A\$/sh
Valuation	0.15	A\$/sh
Shares on issue	557.1	m, undiluted
FB Ord Restricted	51.8	m
Performance Rights	39.5	m
Market Cap – ex-perf rights	34	A\$m
Enterprise Value	30	A\$m
Debt	0	A\$m
Cash (est)	5	A\$m
Turnover	1.7m	Sh/day
12 Mth Hi-Lo	6.2-1.8	Cps
Balance date		June 30th

Directors & Management

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

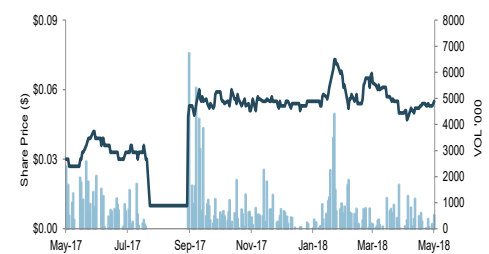
Shareholders

Dir & Mgmt	+20%
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Share Price Chart



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

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Analysis

Consolidation of the Calima Project on 100% basis net to CE1 makes for a more relevant, liquids rich, strategic Montney land holder in an increasingly active part of the trend.

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.

RENEWED INDUSTRY INTEREST IN THE LIQUIDS RICH MONTNEY

This is timely given the increasing activity in the trend, specifically within the liquids rich fairway of the Montney:

- Increasing higher-value liquids is a focus area for Encana. The Company reported a doubling in Montney liquids between 2016 and 2017, to 29,000 bbls/d. This is expected to again double in the fourth quarter of 2018 to up to 65,000 bbls/d. (<http://www.jwnenergy.com/article/2018/3/encanas-bc-montney-natural-gas-surges-one-billion-cubic-feet-day/>);
- Suncor has taken 37% interest in privately owned Cambrian Energy, a privately owned 100% focused Montney developer, to advance development of its 37k net acreage position within the liquids' rich portion of the Montney. <http://www.jwnenergy.com/article/2018/3/suncor-just-became-montney-liquids-rich-natural-gas-producer/>;
- Conoco Phillips has recently spent US\$120m to build a large, +120knet acre position focused upon the liquids rich portion of the Montney fairway. <http://www.alaskahighwaynews.ca/business/conocophillips-expands-montney-land-position-by-us-120-million-as-appraisal-work-continues-1.23255255>;
- Painted Pony has reported a liquids rich focused Montney well has flowed with the final 24 hour rate averaging an estimated rate of over 1,900 boe/d including 9.5 MMcf/d of natural gas and an estimated 340 bbls/d of liquids, (60% condensate and 40% NGLs). <http://paintedpony.ca/investors/news-releases/news-releases-details/2018/Painted-Pony-announces-discovery-well-test-results-on-Beg-block-in-northeast-British-Columbia/default.aspx>.

PLAY ECONOMICS/ASSET VALUE

The activity highlighted above comes as no surprise. Sensitivity analysis highlights the impact of liquids yield on individual well economics:

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		

Similarly, well capex - though not as sensitive - can substantially improve play economics:

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

We note Saguaro are achieving C\$5.5m/well; this is the assumption in our type well economics despite the Calima grounds being slightly shallower.

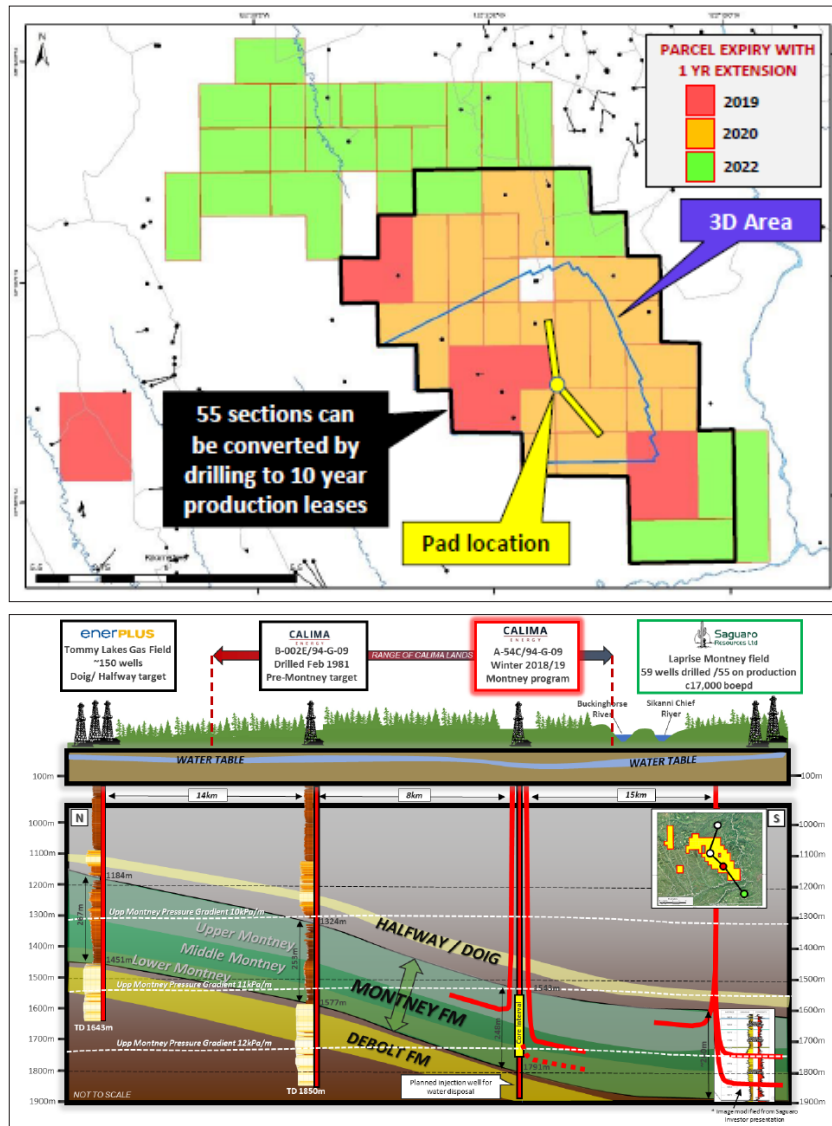
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CE1 plans to undertake an appraisal programme of up to 3 wells commencing late CY'18 subject to financing.



Source: CE1

Drilling will serve to:

- Validate the quality the Montney target within Calima Lands;
- Calibrate product mix vs neighbour Saguaro (currently advertising higher condensate yields and EURs vs independent Resource Report for Calima);
- Establish maiden production, cash flow and Reserves from the Project;
- Convert 55 sections to Production Leases (30yr term) - vs total of 105 sections;

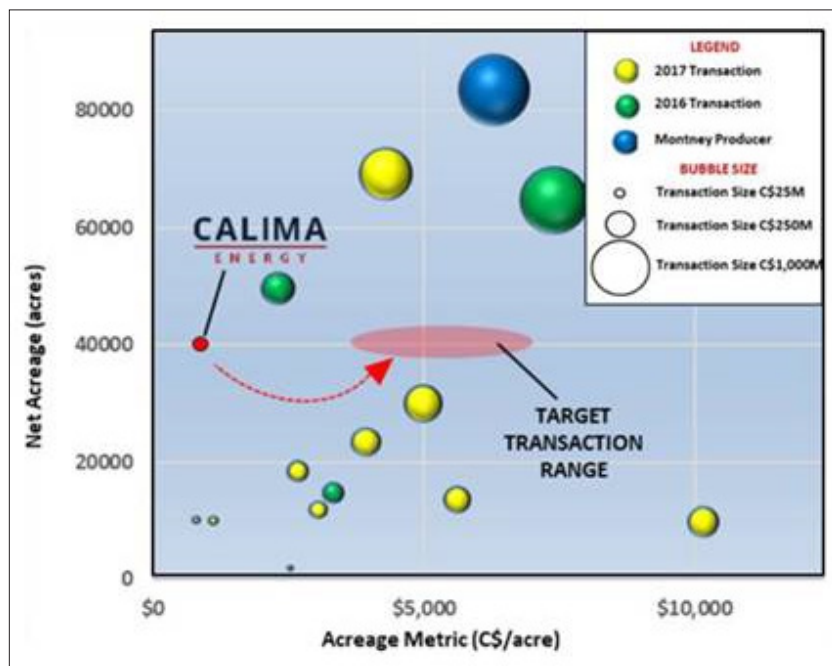
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This programme would therefore substantially increase the implied acreage value of the Calima Lands more in line with recent market comps:



Source: CE1

We view that liquids yielding Montney will be highly sought after by industry.

Therefore, at this point, we anticipate Management will seek to exit ahead of potential full field development so as to minimise dilution and exposure to broader commodity price cycle volatility. The impact of the drilling campaign end CY'18 onwards is therefore material in terms of revaluing the Calima Lands and CE1's interests.

Noting that the Project has secured all critical permitting and more recently, access to takeaway capacity (for gas), we view that the materiality of the position (105 sections, 72,000 acres) post validation of the play via the drill bit will enable CE1 to crystallise substantial upside to the av. C\$625/acre spent to that point.

IMPACT TO VALUATION

The expanded capital structure will be off-set by increased ownership and full control of the assets.

On the fully diluted share count, we value CE1's net Montney assets at market comparable lease transaction prices averaging C\$2,000/acre, deriving \$0.15/sh.

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Transactions within the Montney over the past two years are summarised below:

Date	Acquirer	Seller	Location	Transaction (C\$m)	Acreage net	Acreage Metric (C\$/acre)	Production (boepd)	Liquids (%)	Production metric (C\$/flowing boe)	2P Reserves (mmbboe)	Reserves Metric (C\$/2P)	Comments
Apr-18	Conoco Philips		BC - gas/ gas-liq	155	35,000	4,429	n/a	15	n/a	n/a	n/a	
Feb-18	Canbriam Energy	Suncor	BC - gas/ gas-liq	700	123,000	2,520	35,000	15	30,000	n/a	n/a	cash and equity
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	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	27	72,200	374	-	26	n/a	182	0.15	2P Reserves are pro rata est.

We assess nominal value for CE1's African portfolio and existing options adding existing cash and netting off corporate costs for the next 3yrs arriving at a combined Valuation of \$0.15/sh:

Valuation		
Montney (@land metric)	149.76	0.15
Africa other	5	0.00
Cash	4.7	0.00
Overhead	-5	-0.00
Fully diluted valuation	154.46	0.15

We retain a Price Target of \$0.10/sh to account for further financing required to complete the appraisal work programme over the next 3yrs.

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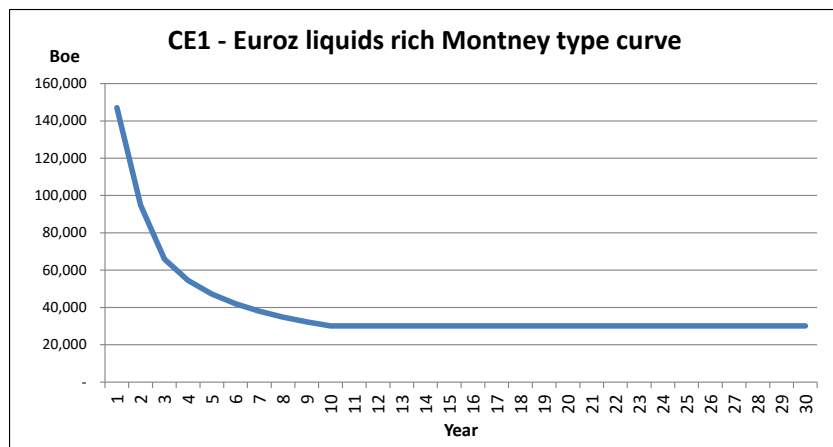
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Key Variables

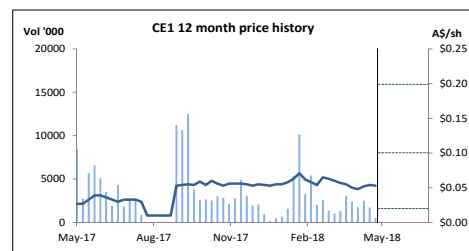
Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Gas USD	\$3.00	\$3.50	\$3.50	\$3.57	\$3.57	\$3.57
WTI USD	\$60	\$68	\$75	\$75	\$75	\$75
AUDUSD	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78



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

IRR %	Well Cost (US\$m)			
	7	6.5	6	5.5
	50	8	10	14
	55	10	11	17
Oil Price (US\$/bbl)	60	11	13	20
	65	13	16	23
	70	15	18	26
	75	17	20	30

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.15/sh

Price Target - \$0.10/sh

Bull Scenario - \$0.20/sh

Development and corporate activity within the Montney increases substantially, as a consequence of rising oil prices and increased demand for diluent feedstock for the tar sands.

Base Scenario - \$0.10/sh

Execution of the appraisal program as proof of concept of the liquids rich nature of the Calima Montney Project.

Bear Scenario - \$0.02/sh

Failure to execute on the Montney strategy and inability to sell the asset.

Company Summary

Calima Energy (CE1) is an oil and gas exploration company holding interests British Columbia (BC) and Western Sahara (SADR). CE1's current focus remains on the Montney Project (BC) development. Recently released Maiden Prospective Resources for Montney are 475.8mmboe (CE1 - net: 261.7mmboe).

Calima will continue to achieve option requirements to acquire a dominant land position within the Montney Project.

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