

# Calima Energy Ltd

## (CE1 \$0.054\*) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	17 <sup>th</sup> August 2018	\$0.15/sh

### Successful \$25m Capital Raising

#### Investment case

Calima has raised \$25m to advance drilling and appraisal of its Calima Montney Project. Drilling – expected to commence in early CY'19 will serve both hold the majority of its 100% owned ~72,000net acreage Montney interests by production but importantly, prove the assets' potential in terms of liquids' yield. We view that it is this latter point that will ultimately elicit the interest to crystallise effective valuation for CE1's interests more in-line with the current market rates of C\$2,500-5,500/acre. An implied \$180-360m EV compares favourably to the effective \$55m EV fully diluted or C\$720/acre. Therefore we view securing of funding ahead of drilling and production testing early in the new CY as significant grounds to re-rate the CE1 share price. We maintain our Speculative Buy recommendation, bringing our Price Target in-line with our \$0.15/sh Valuation.

#### Key points

- CE1 has received commitments to raise \$25m via a two tranche placement comprising 463m new FP Ord shares at \$0.054/sh;
- Funds will be applied to a 3 well (2x hzntl; 1x vertical pilot) drilling programme to commence in Dec;
- CE1 is “drill ready” with a 12ha pad cleared, with water rights and access routes permitted and under construction;
- This will support up to 20 drilling locations allowing for line of sight for drilling and cost optimisation for 3yrs of development;
- We also assume CE1 is nearing agreement to access existing infrastructure to process and export its gas. This will enhance the value proposition;
- CE1 has also consolidated 100% of the Calima Project, comprising:
  1. 72,000net acres of drilling rights in the liquids-rich, Montney Formation;
  2. Prospective Resources (indep. Certified) of 476mmbboe – 2.2Tcf; 54.2mmbbls condensate; 60.2mmbbls NGLs;
  3. 400 gross drilling locations;
- This commands market relevance in terms of size, simplicity and marketability, assumed under a single publically listed entity;
- CE1's Calima Project is strategically well placed to be a target of a number of PE backed entities looking to bulk up ahead of IPO (Black Swan, Saguaro etc);
- Recent market transactions within the Montney, notably inc. proximal to CE1's assets, price acreage at between C\$2,500-\$5,500/acre;
- The Calima Montney Project could command between A\$190-\$360m on an equivalent basis equating to \$0.13-0.25/sh;
- We set our Price Target with our retained our \$0.15/sh Valuation:

Montney (@C\$2,500/acre)	187.2	0.13
Africa other	5	0.00
Cash	27	0.02
Overhead	-5	-0.00
<b>Fully diluted valuation</b>	<b>214.2</b>	<b>0.15</b>

- Speculative Buy recommendation maintained.

Calima Energy (CE1) Ltd	Year Ended 30 June
Share Price	0.054* A\$/sh
Price Target	0.15 A\$/sh
Valuation	0.15 A\$/sh

Shares on issue	1,371.0m, undil
FB Ord Restricted	51.8 m
Performance Rights	39.5 m
Market Capitalisation	81 A\$m
Enterprise Value	55 A\$m
Debt	0 A\$m
Cash (est)	27 A\$m

Turnover	1.7m Sh/day
12 Mth Hi-Lo	7.3-3.9 Cps
Balance date	June 30th
* issue price	

#### 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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# Calima Energy Ltd

(CE1 \$0.054\*) Speculative Buy

## Analysis

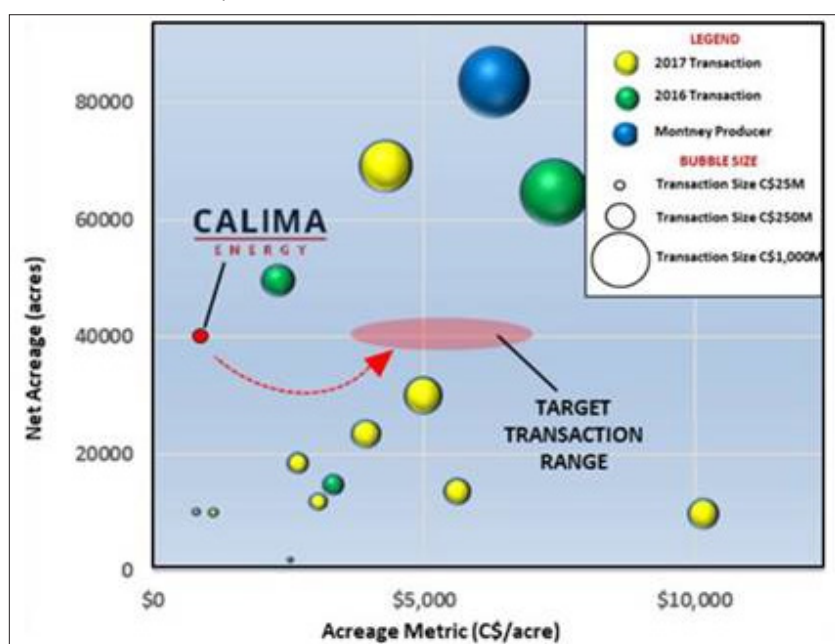
CE1 has received commitments to raise \$25m at 5.4c via a two tranche placement comprising:

- Tranche 1: 237.3m shares to raise \$12.8m under the Company's 25% capacity;
- Tranche 2: 225.7m shares to \$12.2m subject to shareholder approval via an EGM (expected Oct 1st).

We view that the capital raising ensures that CE1 can execute on proof of concept drilling, effectively serving to validate acreage quality.

It will also result in CE1 securing over 2/3rds of its 72,200net acres under a production retention license of 10yrs rolling.

Therefore, the raising and subsequent drilling renders CE1 as no longer a price taker in the event of potential asset divestment:



Source: CE1

## Impact to Valuation

We set our Price Target with our retained our \$0.15/sh Valuation:

Montney (@C\$2,500/acre)	187.2	0.13
Africa other	5	0.00
Cash	27	0.02
Overhead	-5	-0.00
<b>Fully diluted valuation</b>	<b>214.2</b>	<b>0.15</b>

Our Valuation is based upon recent market transactions within the Montney, notably inc. proximal to CE1's assets, pricing acreage at between C\$2,500-\$5,500/acre.

The Calima Montney Project could command between A\$190-\$360m on an equivalent basis equating to \$0.13-0.25/sh.

We have chosen the low end of this range for now, awaiting drilling results.

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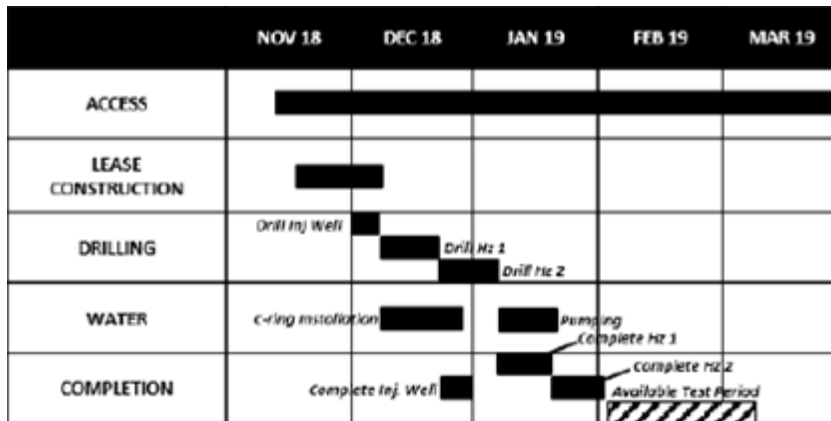
## Use of Funds

Funds will be applied to a 3 well drilling programme to commence in December 2018.

The programme will comprise:

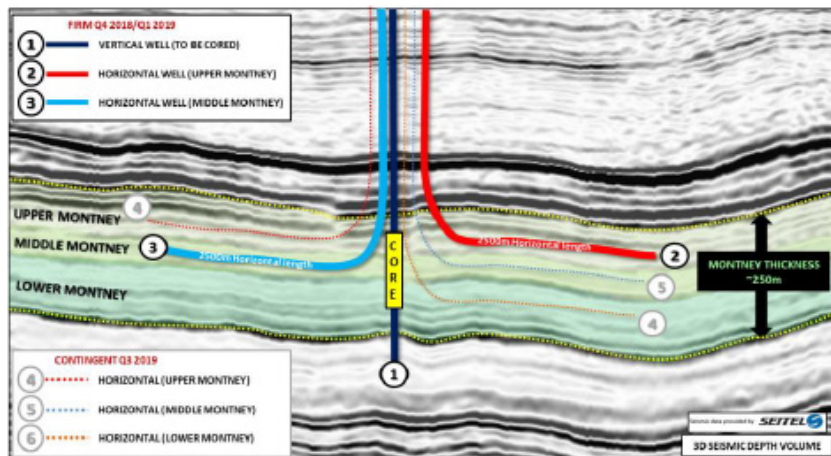
- 1 vertical pilot to provide stratigraphic calibration and core sampling for petrophysical analysis;
- 2 horizontal (2,500m lateral), stimulated wells that will be placed on extended production test.

Indicative timing of the programme (subject to weather) is outlined below:



Source: CE1 release

The proposed drilling programme design schematic overlaying a seismic section at the Montney horizon is shown below:



Source: CE1 release

Well drilling and completion design borrows from analysis of over 500 wells within a 75km radius of the proposed locations.

Given the high success rates in the trend (2% failure rate due largely to mechanical issues out of over 5,000 wells now in the Montney) we view that this programme has a high probability of successful completion and testing.

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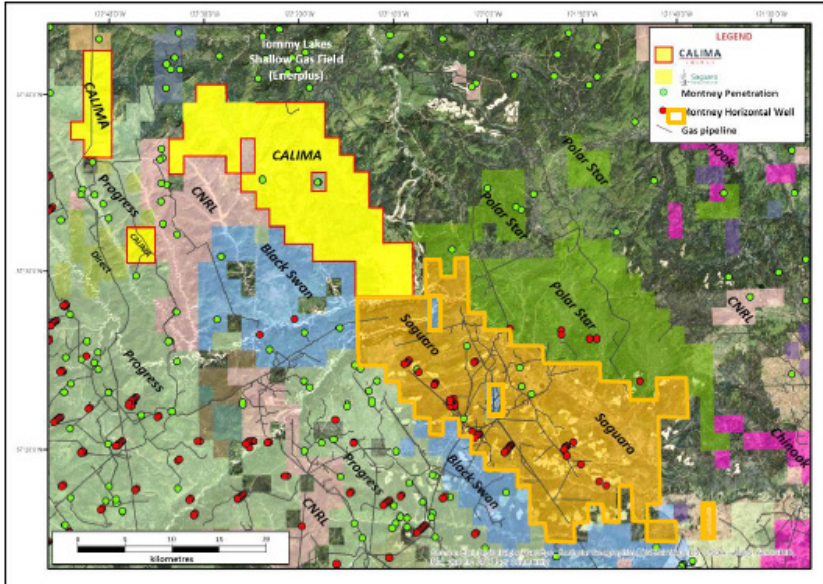
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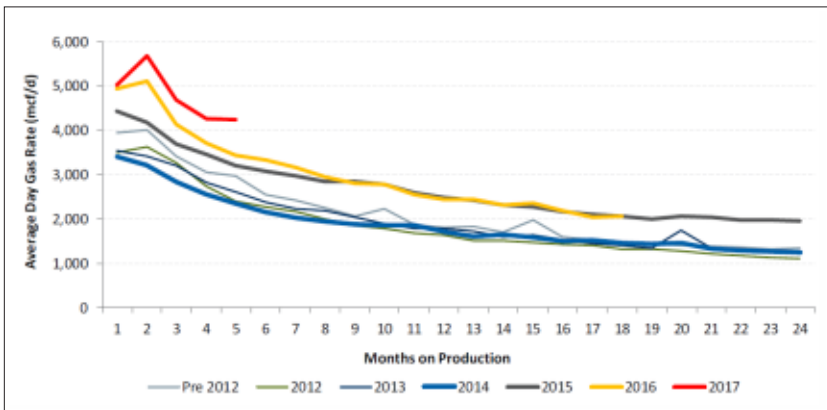
(CE1 \$0.054\*) Speculative Buy

We note that the nearest offset operator, Saguaro, has consistently defined an over-pressured, (11-15kPa/m) relatively porous (3-9%) siltstone-sandstone reservoirs through the Lower, Middle and Upper Montney:



Source: CE1 release

Using the latest generation well drilling and completion designs should ensure results consistent with rising productivity rates witnessed in northern British Columbia over the last +5yrs:



Source: CE1 release

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.

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## Calima Energy Ltd

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Therefore, the true success of the programme and the driver for asset value re-rating will lie with the liquids' yield defined by the production testing.

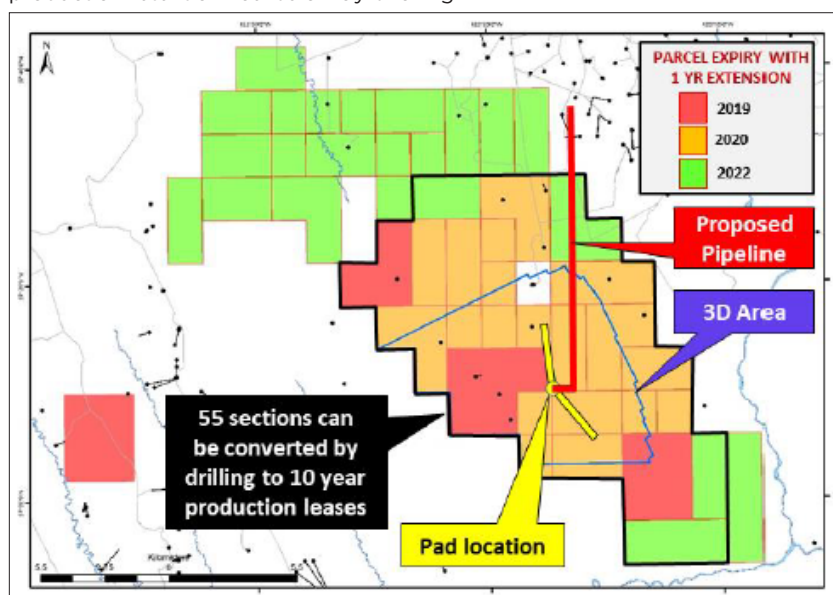
Saguaro has now drilled over 40 wells consistently achieving liquids yields of +35bbls/mmscf av. condensate plus high calorific, NGL (C3, C4 - 1,165Btu/scf) rich gas.

The independent Reserve Engineer, McDaniel, has borrowed heavily from the Saguaro data in determining CE1's maiden Prospective Resources of 476mmboe (2.2Tcf; 54.2mmbbls condensate; 60.2mmbbls NGLs).

#### Valuation Catalysts:

We view that the capital raising ensures that CE1 can execute on proof of concept drilling, effectively serving to validate acreage quality.

It will also result in CE1 securing over half of its 72,200net acres under a production retention license of 10yrs rolling:



Source: CE1 release

From a potential M&A perspective, the raising significantly enhances CE1's negotiating position.

Possible imminent announcement of access to gas take-away capacity will enhance potential value realisation via trade sale.

Furthermore, substantiation of liquids' yields at least consistent with those of the neighbouring operators (particularly Saguaro) could realise transaction prices towards the higher end of the market rates most recently paid for undeveloped liquids' rich Montney.

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Recent transactions are summarised below. In the past 12mnths, prices have ranged between C\$2,500-5,500/acre with an upward trend:

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
Jul-18	undisclosed	Cambrian	BC - gas/ gas-liq	50	11,000	4,545	undisc.	undisc.	n/a	undisc.	n/a	
Apr-18	Conoco Phillips		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	20,000	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	
<b>Enterprise Val.</b>												
	Saguaro		BC - gas/ gas-liq	590	110,000	5,364	27,000	26	21,852	286	2.06	EV accounts for equity line and finance facilities
	CE1		BC - gas/ gas-liq	55	72,200	762	-	26	n/a	238	0.23	2P Reserves are est. at 50% of Independent Prospective Resources

Activity in the Montney trend has ramp-up considerably in the 10mnths since we initiated coverage on CE1:

1. Suncor has vended its 123,000 net acres in the liquids rich Montney into PE backed Cambriam Energy in Feb 2018 (<https://www.energeticcity.ca/2018/02/canbriam-energy-acquires-suncors-northeast-b-c-holdings/>);

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2. 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/>);
3. Conoco-Phillips purchased 35,000 acres for US\$120m in April, 2018 (<http://www.alaskahighwaynews.ca/business/conocophillips-expands-montney-land-position-by-us-120-million-as-appraisal-work-continues-1.23255255>);
4. Painted Pony has recently flowed a Montney well at 2,000boepd (10mmscf/d & 360bbls condensate and NGLs) proximal to CE1's interests in April 2018 (<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>);

This is a function of inc. demand by the syncrude producers for diluent Condensate currently achieving C\$85/bbl, up 30% yr-on-yr (<https://www.pfac.ca/business/gmpfirstenergy/>);

Activity more broadly has picked up in response to positive developments regarding the NMMP: "Canada's National Energy Board has recommended the federal government approve a variance to NGTL's previously issued North Montney Mainline Project certificate, which would allow construction to start in northeast British Columbia" (<https://globeandmail.com/news-release/2018/05/24/1511449/0/en/National-Energy-Board-Recommend-Approval-of-1-4-Billion-North-Montney-Mainline-Project-Variance.html>);

This is translating to the likes of Progress Energy restarting gas wells and pushing new drilling development proximal to the Calima grounds.

With the trend heavily invested by Private Equity ("PE"), we view that the Montney is ripe for consolidation ahead of public offerings as the means for PE to exit.

To that end, the downturn (due to low oil prices and very low gas prices) of the last 6yrs has seen a number of PE backed Montney players stall in their growth ambitions.

Time limits on the respective PE investments will likely warrant a concerted effort to gross up value ahead of public listing as the logical exit point.

Therefore, fully funded to drill, we view recent consolidation of the Calima Project on 100% basis net to CE1 as a key trigger to entice corporate overtures. Drilling from year end, will serve to accelerate interest.

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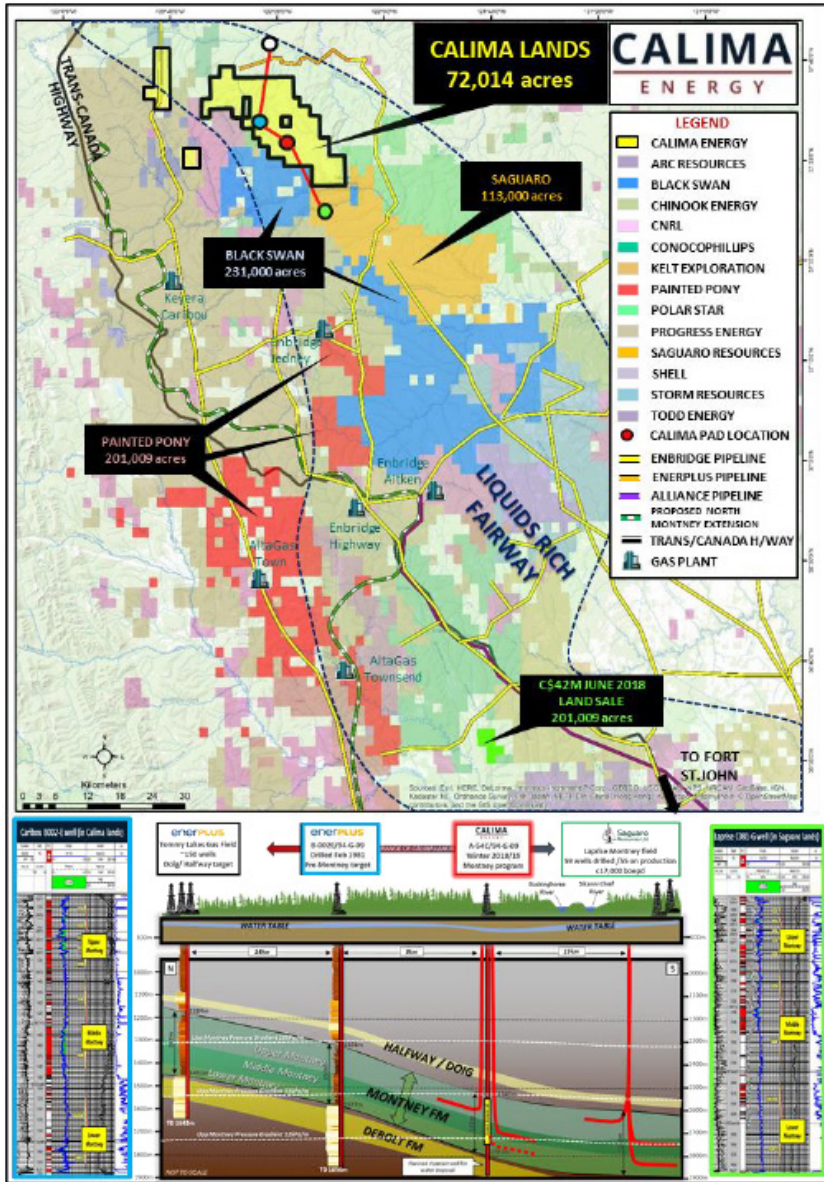
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Previously, Saguardo had been in the driving seat, however, moves by Progress, Black Swan and Painted Pony proximal to CE1's interests, suggests to us that the increasing demand for liquids yielding Montney rights could create stronger competitive tension:



Source: CE1 release

Speculative Buy maintained. With a revised Price Target now in line with our Valuation of \$0.15/sh.

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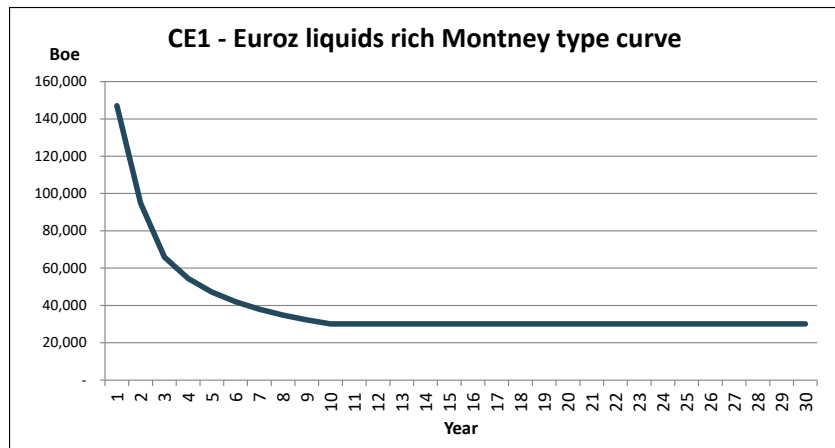
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## Key Variables

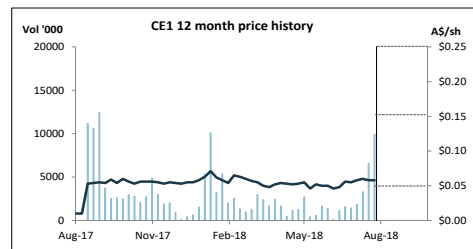
Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Gas USD	\$3.13	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
WTI USD	\$59	\$68	\$75	\$80	\$80	\$80
AUDUSD	\$0.78	\$0.76	\$0.76	\$0.78	\$0.78	\$0.78



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

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 Share Price Sensitivity



## Our Market Sensitivity

Price Target - \$0.15/sh

Valuation - \$0.15/sh

Bull Scenario - \$0.25/sh

Development and corporate activity within the Montney increases substantially, as a consequence of rising oil prices and increased demand for diluent feedstock for syncrude. Results in an asset sale at the high end of market range.

Base Scenario - \$0.15/sh

Execution of the appraisal program as proof of concept of the liquids rich nature of the Calima Montney Project culminates in asset sale at low end of market range.

Bear Scenario - \$0.05/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 475.8mmscf (CE1 - net: 261.7mmscf).

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

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