

Calima Energy Ltd

(CE1 \$0.057) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	19 th March 2018	\$0.10/sh

A\$3.5m Placement & Maiden Resource

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. The small placement has no impact on our Valuation. We maintain our Speculative Buy recommendation and \$0.10/sh Price Target.

Key points

- CE1 has successfully raised A\$3.5m via an over-subscribed single Tranche placement;
- The raising was conducted at \$0.055/sh under the Company's placement capacity;
- Funds will ensure the Company's progression of the Calima Lands (liquids' rich Montney play, Canada): planning; permitting; and subsurface works;
- This work will facilitate a 2-3 well drilling programme commencing late 2018;
- The Company has also release maiden independently certified Prospective Resources for the Calima Project of 475.8mmbboe gross (CE1 – 55% net: 261.7mmbboe);
- The Resource estimate by McDaniel comprises:
 - Gross – 2.2Tcf; 54.2mmbbls condensate; 60.2mmbbls NGLs;
 - Net (55%) – 1.2Tcf; 29.8mmbbls condensate; 33.1mmbbls NGLs;
 - 400 gross drilling locations;
 - Numbers risked by 75% for chance of discovery & then 70% for chance of development;
 - EUR per well of 6.8Bcf Upper Montney; 5.6Bcfe Lower Montney (vs 8Bcf ascribed to neighbour Saguario);
- Our \$0.13/sh Valuation remains, as we had already assumed dilution to reflect future financing and consolidation of the JV;
- Our \$0.10/sh Price Target remains unchanged as a consequence.

Analysis

CE1 has successfully raised A\$3.5m via an oversubscribed placement at 5.5cps.

The placement will be completed through the issue of 63,956,820 fully paid ordinary shares under the Company's 15% capacity.

USE OF FUNDS

Funds raised will ensure the Company's progression of the Calima Lands (liquids' rich Montney play, Canada): planning; permitting; and subsurface works.

Calima Energy Ltd	Year End 30 June	
Share Price	0.057	A\$/sh
Price Target	0.10	A\$/sh
Valuation	0.13	A\$/sh
Shares on issue	502.6	m, undiluted
FB Ord Restricted	51.8	m
Performance Rights	116.3	m
Market Cap – ex-perf rights	27.5	A\$m
Enterprise Value	25	A\$m
Debt	0	A\$m
Cash (est)	6	A\$m
Turnover	1.7m	Sh/day
12 Mth Hi-Lo	6.2-1.8	Cps
Balance date	June 30th	

Directors

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

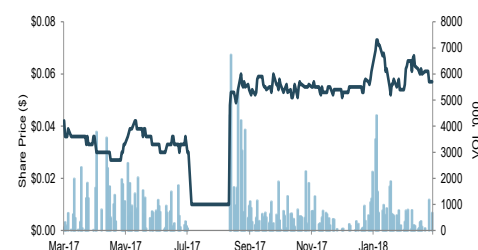
Shareholders

Dir & Mgmt	+20%
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Company Details

Head Office: Suite 1A, 1 Alvan St
Subiaco, WA, 6008
Telephone: +61 8 6500 3270
Facsimile: +61 8 6500 3275
Website: www.calimaenergy.com

Share Price Chart



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

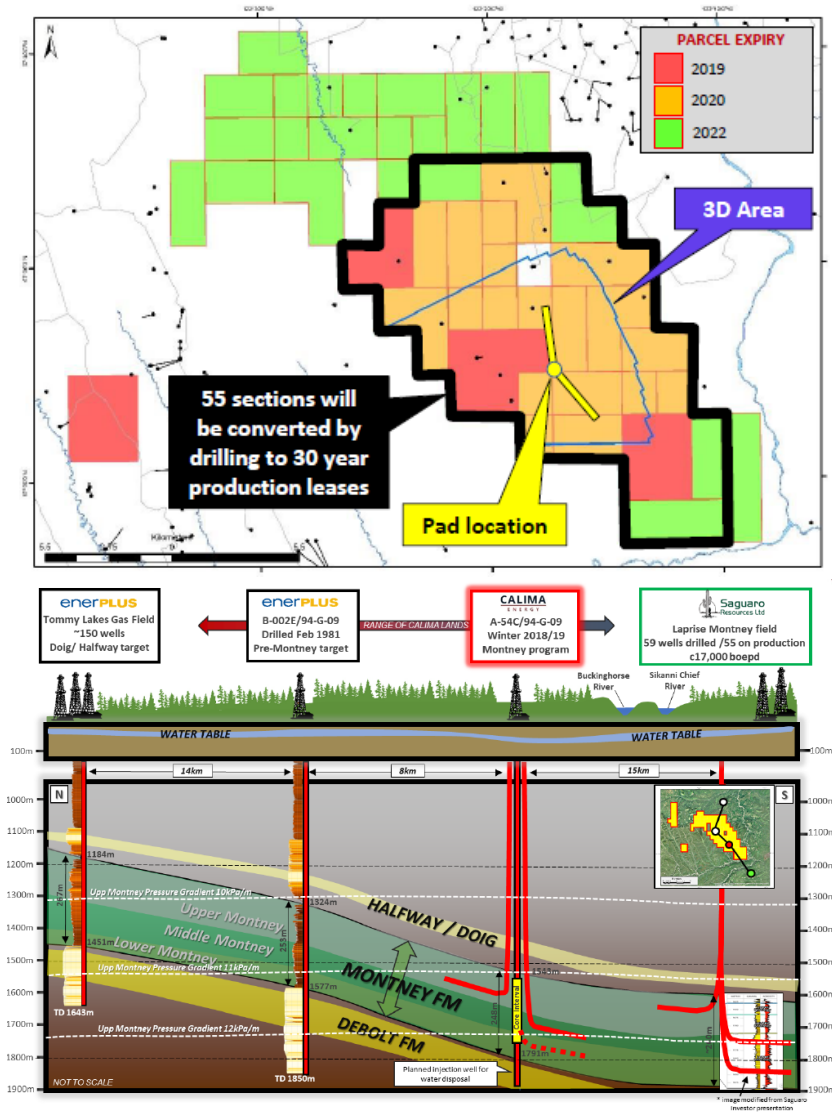
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This work will facilitate a 2-3 well drilling programme commencing late 2018:



Source: CE1 Company Presentations

Drilling will serve to:

1. Validate the quality the Montney target within Calima Lands;
2. Calibrate product mix vs neighbour Saguaro (currently advertising higher condensate yields and EURs vs independent Resource Report for Calima);
3. Establish maiden production, cash flow and Reserves from the Project;
4. Convert 55 sections to Production Leases (30yr term) - vs total of 105 sections;
5. Complete CE1's earn-in to 55% Working Interest.

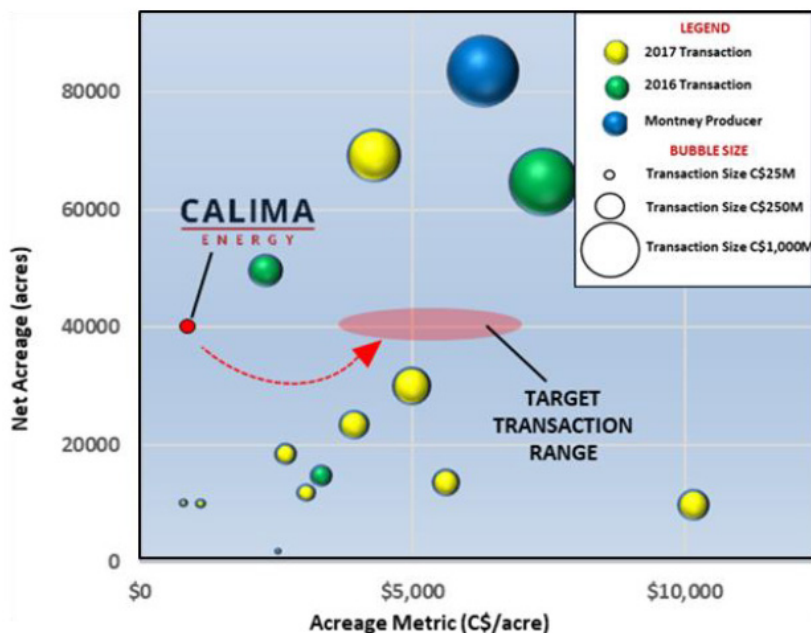
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This programme would therefore substantially increase the implied acreage value of the Calima Lands more in line with recent market comps:



Source: CE1 Company Presentations

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.

IMPACT TO VALUATION

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

Price Target of \$0.10/sh accounts for further equity to complete the earn-in/ proof of concept work programme over the next 3yrs, therefore remains unchanged as a consequence.

MAIDEN INDEPENDENT RESOURCES

CE1 has provided a maiden Prospective Resource estimate by McDaniel of 476mmbboe comprising:

- Gross – 2.2Tcf; 54.2mmbbbls condensate; 60.2mmbbbls NGLs;
- Net (55%) – 1.2Tcf; 29.8mmbbbls condensate; 33.1mmbbbls NGLs;
- 400 gross drilling locations;
- Numbers risked by 75% for chance of discovery & then 70% for chance of development;
- EUR per well of 6.8Bcf Upper Montney; 5.6Bcfe Lower Montney (vs 8Bcf ascribed to neighbour Saguario);

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The gross unrisked 900mmbboe implied, compares favourably to our estimate provided in our Oct 27, 2017 Initiation of Coverage research report, determining pro-rata volumes (applying Saguario numbers) from the Upper, Middle and Lower Montney of up to:

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

From this we derive our type curve, which again compares favourably to the curves applied by McDaniel:

- EUR - 7.2Bcfe (vs McDaniel: 6.8Bcfe for Montney Upper; 5.6Bcfe for Montney Lower & 8Bcfe for Saguario)
- Condensate yield - 30bbls per mmscf (vs 23bbls/mmscf est by McDaniel; and 50bbls/mmscf for Saguario)
- 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\$/mcf
- Opex - C\$5,000/mth fixed. C\$1.10/mcf variable.
- Well Capex - C\$5.5m; 6month spud to first cashflow
- Forex - USD0.81

PLAY ECONOMICS/ASSET VALUE

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

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.

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Blair Spaulding - Institutional Adviser	+61 8 9488 1418

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Duncan Relf - Associate Director	+61 8 9346 0322
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Associate Adviser	+61 8 9488 1431

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