The West Australian

Moment of truth draws near for Calima in the Montney

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Calima Energy is potentially on the verge of proving up its exciting oil and gas acreage in

Canada's revered Montney formation with the company getting the ball rolling on production testing operations this week.

The Perth based company's moment of truth is drawing near as it seeks to underline its theory that lucrative light oil that has been discovered along with gas in the southern and eastern parts of the Montney formation also exists to the North where Calima is sitting on 72,000 acres.

Wireline log data has already confirmed that porosities and hydrocarbon saturations at the Calima-1 vertical well are at least comparable to those in operating wells immediately to the south that are owned by Saguaro Resources. Analysis of log and core data has also confirmed the presence of the valuable light oil in the Upper and Middle Montney target intervals.

Saguaro's nearest wells are just 5km from Calima's acreage and given that hydrocarbon basins don't tend to observe lease boundaries, it will be interesting to see if Calima can also achieve commercial flows from its wells immediately to the north of Saguaro's lucrative ground.

The company has now started reservoir stimulation operations at its Calima-2 and Calima-3 horizontal wells which means an outcome one way or another shouldn't be too far away.

Stimulation work is expected to take between five to six days per well with production testing to be carried out over a 25 day period.

Management said it expects both wells to produce a mix of valuable light oil and natural gas.

The light oil and other liquids will be collected and sold locally whilst Calima has a permit to flare up to 105 million cubic feet of natural gas from each well, enough to clean up the well, establish an initial flow rate and then run a step rate production test.

Managing Director Alan Stein said: *"We continue to be delighted with the operational progress being delivered by the team in Canada and we are excited to be approaching the production testing phase of the project which will commence in the next week or so."*

A successful production test will validate Calima's belief in its acreage, dating back to 2013 and add another significant notch to the belts of its executive team.

Calima's core management team led by Stein were the founders of AIM-listed Fusion Oil & Gas back in 2000.

Fusion made several discoveries in offshore Mauritania, West Africa, in partnership with Australian companies Woodside Energy and Hardman Resources before it was sold in 2003.

The team then established Ophir Energy, which at £235m was the biggest exploration and production IPO in London when it listed in 2011. It then went on to make discoveries off the coasts of Equatorial Guinea and Tanzania.

Stein and his team left Ophir in 2012 which had grown to be a £2bn company by then with resources of more than 1bn barrels of oil equivalent.

Whilst searching for a new challenge, the Stein team chanced on the Montney play where drilling activity was moving from the original dry gas resources in the west to the more attractive liquids-rich areas to the east.

The liquids include light oil, also known as condensate, which generally trades at prices close to the benchmark West Texas Intermediate crude oil price and thus makes up a significant part of the Montney value proposition.

Light oil is particularly in demand in Canada where it is blended with the heavy oil produced from Alberta's tar sands, enabling the heavy oil to be transported.

However, rather than jump into the fray with other operators jostling for ground, Calima took up a 72,000 acre landholding in the virtually untouched portion of the Montney to the north after undertaking some "clever mapping" which suggested that the northern region could also be harbouring lucrative liquids amongst its gas deposits.

This also had the happy consequence of allowing Calima to pick up the land for an average price of just CAD$130 per acre, well below the premium prices paid by major companies for land to the south.

Interestingly, ExxonMobil paid $6800 an acre to acquire Celtic Exploration.

Saguaro Resources also had similar views about the northern Montney region and has hit the ground running with an investment to-date of some CAD$500 million across more than 66 successful wells.

So what does success look like for Calima?

Anything that replicates Saguaro’s recent successes wouldn’t be a bad start.

The private equity-backed company’s recent drilling results saw it emerge as a top quartile Montney producer with an estimated fourth quarter 2018 production of 14,756 barrels of oil equivalent.

The Canadian company currently has proved and probable reserves of about 401 million barrels of oil equivalent, or “boe”, of which about 23% is liquids. The company also enjoys low discovery, development and acquisition costs of just CAD$5.14 per boe.

Saguaro’s latest third-generation horizontal wells are drilled with 2500m long laterals, making them the closest analogues to Calima’s two horizontal wells.

These third-generation wells are able to produce about 1500 boe per day including overall light oil production of about 30 barrels per million cubic feet of gas, or up to 220 barrels per well.

Each well costs about $5.8m to drill, complete and equip and offers an attractive IRR of up to 46%, an NPV of $5.3m and a payback period of just 1.8 years.

Highlighting its belief in the Montney, Saguaro has also flagged a full development plan that will increase production to a peak of about 150,000boe per day in 2028.

This is expected to cost CAD$7.4bn while providing an IRR of 31% and an NPV of CAD$1.9bn.

Whilst it is still too early to be certain of how well Calima’s wells will perform, the data gathered to date strongly suggests that their geophysics are at least comparable to Saguaro’s wells.

Success could also open up the rest of Calima's 72,000 acre landholding, which, according to the company could comfortably host up to 400 wells with total prospective resources of about 475 million boe.

Calima could also benefit from the recent approval of the CAD$40bn LNG Canada project by Shell and its partners.

LNG Canada will initially consist of two LNG processing trains that can produce up to 14 million tonnes of LNG per annum with the potential to expand to four trains.

By way of comparison, Australia's famed North West Shelf project is capable of exporting 16.9Mt of LNG per annum.

LNG Canada could allow gas to come into its own by providing Montney producers with exposure to international markets with crude based pricing.

This is particularly relevant for Calima given that the proposed pipeline that will feed LNG Canada will run within 20km to 30km from its acreage.

LNG Canada could also drive further investment into the Montney, which is already the most active oil and gas pay in Canada with CAD$5.2bn invested in 2017. Investment in the Montney is expected to grow to CAD$7.5bn by 2022.

One thing seems certain now - this week's announcement by Calima that it is moving to the reservoir stimulation stage will no doubt have the market meerkats sitting bolt upright – just where this story finishes is anyone's guess.

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