Calima Energy Limited (ASX:CE1)

April 29, 2021

Placing price: A$0.007
Target: A$0.035

Initiating Coverage: Calima Energy Limited

Calima Energy is an Australia listed ~US$50 mm market cap low risk **conventional oil** producer with ~26 mmboe WI 2P reserves in Canada and ~2.6 mboe/d WI production. Calima has taken advantage of the troubled Canadian oil sector to acquire the highly indebted Blackspur Oil at a very favourable price. With a prudently levered balance sheet and no exploration risk, the initial focus is to (1) >2x production by YE22 and (2) aggressively develop highly economic reserves that have been booked conservatively. Calima also offers exposure to ~1.5 tcf contingent resources in the Montney fairway (British Columbia), an area in which recent consolidation has taken place ahead of the completion of a large LNG export facility. ***Our A$0.035 per share target price reflects our ReNAV and implies over 5x upside.***

Production and reserves growth on conventional assets

Brooks and Thorsby are two shallow producing fields (50-70% oil) in Alberta with ~60 producing wells and 26 mmboe 2P reserves reflecting 63 future drilling locations. Drilling 9 of these locations is forecasted to boost production to 3.5 mboe/d by YE21 and a further 15 wells could increase production to 5.5 mboe/d by YE22. With drilling cost of US$1.0-$2.5 mm per well, the production is highly cash generative even at WTI<US$50/bbl. With an additional 185 unbooked drilling locations, the reserves could grow an additional ~130%. There are four further sources of potential reserves upside: (1) the 2P reserves assume conservative recovery factors (~20% on the high quality reservoir pools at Brooks and <5% on tighter reservoirs elsewhere). x2 recovery factors would 2x the reserves. (2) The decline curves used to estimate the 2P reserves are conservative. (3) A large proportion of Brooks production comes from five conventional oil pools. Additional prospective pools, and pool extensions have been identified on 3D seismic. (4) Acquisition of adjacent leases would unlock further potential. The mineral owner of these lands is a royalty corporation looking to make deals.

Option on big liquid rich gas in an area subject to consolidation

Calima holds 100% WI in a development ready asset in the Montney fairway with 192.4 mmboe of 2C contingent resources including 44 mmbbl of liquids. The resources are strategically located for the upcoming LNG Canada facility. Calima is looking for an industry partner to co-develop these lands. We view this asset as option value on increasing gas price.

Value build-up

The placing price implies EV/DACF of only 1.4x in 2022 and EV/2P liquid reserves of <US$2/bbl, suggesting Calima is one of the cheapest Canada-focused names. Our 2P NAV based is A$0.016 per share. Adding the unbooked drilling locations would add A$0.027 per share. Success at the ongoing waterflood pilot and improved performance of new wells would increase recovery assumptions and add A$0.016 per share. We don't carry any value for the Montney liquid rich gas. Our ReNAV is A$0.036 per share.

Rating & target		Old	New
Target		n.a.	$0.035
Yield			0%
Implied total return			400%
Share data	**2020a**	**2021e**	**2022e**
Shares dil., mm	2,346	10,552	10,552
Mkt cap, US$m	$12	$55	$55
EV, US$mm	$11	$58	$48
Financial data	**2020a**	**2021e**	**2022e**
Gas, mmcf/d	0.0	2.1	3.1
Liquids, bbl/d	20	1,560	3,600
Total boe/d (6:1	20	2,168	4,802
CFO, US$mm	($0)	$13	$37
Net capex, US$	$0	$14	$26
Net debt, US$m	($1)	$3	($7)
CFPS dil., US$/s	($0.00)	$0.00	$0.00
EPS dil., US$/sh	($0.00)	$0.00	$0.00
Valuation	**2020a**	**2021e**	**2022e**
Share price, A$/	$0.01	$0.01	$0.01
EV/DACF	-23.6x	4.2x	1.3x
EV per boe/d	n.a.	$26,541	$9,909
Net asset value			
CNAV, A$/shr			$0.02
RENAV, A$/shr			$0.04
Unrisked NAV, A$/shr			$0.09
P/CNAV			0.4x
P/RENAV			0.2x
P/Unrisked NAV			0.1x

All figures in US$ unless otherwise noted

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Figure 1. Financial & operating information

Calima Energy Ltd (CE1) — **Historical & Auctus Advisors Outlook**

Financial & Operating Information		2020a	2021e	2022e	2023e	2024e
Commodity Prices						
WTI	US$/bbl	$37.26	$57.00	$57.00	$57.00	$57.00
Henry Hub	US$/mcf	$5.41	$5.92	$6.04	$6.81	$6.09
USD/CAD	US$/C$	0.752	0.751	0.750	0.749	0.747
USD / AD	US$/A$	0.750	0.750	0.750	0.750	0.750
Production						
Oil and Liquids	bbl/d	20	1,560	3,600	4,156	4,234
Natural Gas	mmcf/d	0	2	3	4	4
Total (6 mcf = 1 boe)	boe/d	20	2,168	4,802	5,513	5,611
% Oil and Liquids	%	100%	72%	75%	75%	75%
Netbacks						
Realized Price	US$/boe	$27.46	$35.67	$48.17	$48.99	$49.07
Royalties	US$/boe	$0.00	$6.42	$8.67	$8.82	$8.83
Production Costs	US$/boe	$194.42	$8.99	$9.69	$9.60	$9.88
Operating Netback	US$/boe	($166.96)	$20.26	$29.82	$30.57	$30.36
Taxes	US$/boe	$0.13	$0.00	$0.00	$0.00	$0.00
Cash Flow Netback	US$/boe	($518.19)	$22.60	$27.80	$28.82	$28.64
Government Take	%	0%	0%	0%	0%	0%
Financials						
Cash Flow (CFO)	US$mm	($0)	$13	$37	$44	$44
CFPS - diluted	US$/shr	($0.00)	$0.00	$0.00	$0.01	$0.01
EBITDAX [a]	US$mm	($6)	$13	$37	$44	$44
E&D Capex	US$mm	$0.35	$10	$26	$22	$22
A&D Capex, Net	US$mm	$0	$4	$0	$0	$0
Total Net Capex	US$mm	$0	$14	$26	$22	$22
Total Net Capex/CFO	x	-0.7x	1.1x	0.7x	0.5x	0.5x
Leverage						
Net Debt	US$mm	($1)	$3	($7)	($28)	($49)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	$0	n.a.	n.a.
Capital Structure						
Basic Shares o/s @ YE	mm	2192	10268	10268	10268	10268
Diluted Shares o/s @ YE	mm	2346	10552	10552	10552	10552
Market Capitalization	US$mm	$12	$55	$55	$55	$55
Enterprise Value	US$mm	$11	$58	$48	$27	$6
Dividends & Sustainability						
Dividends	US$mm	0	0	0	0	0
Dividends	A$/shr	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend Yield	%	0%	0%	0%	0%	0%
Free Cash Flow	US$mm	($1)	($1)	$10	$22	$22
Cash Use/CFO	%	-70%	105%	71%	51%	51%
Performance						
Prod. Per Shr Growth (Y/Y) - dil	%	15632%	2509%	78%	15%	2%
PPS Growth (Y/Y) DDA - dil. [b]	%	n.a.	2288%	118%	101%	315%
CFPS Growth (Y/Y) - dil.	%	n.a.	-252%	119%	19%	1%
CFPS Growth (Y/Y) DDA - dil. [b]	%	n.a.	-133%	115%	109%	312%
ROCE	%	-15%	9%	16%	18%	17%
Net Asset Value [c]						
CNAV (Atax) - diluted	A$/shr	$0.02				
RENAV (Atax) - diluted	A$/shr	$0.04				
Unrisked NAV (Atax) - diluted	A$/shr	$0.09				
P/CNAV	x	0.4x				
P/RENAV	x	0.2x				
P/Unrisked NAV	x	0.1x				
Valuation		**2020a**	**2021e**	**2022e**	**2023e**	**2024e**
Share Price, YE/Current	A$/shr	$0.007	$0.007	$0.007	$0.007	$0.007
P/CF	x	-3.8x	2.5x	1.1x	0.9x	0.9x
EV/DACF	x	-23.6x	4.2x	1.3x	0.6x	0.1x
Target EV/DACF	x	-122.9x	21.4x	7.5x	5.8x	5.2x
EV per boe/d	US$/boe/d	n.a.	$26,541	$9,909	$4,824	$994
EV per 2P boe	US$/boe	$0.83	$2.20	$2.20	$2.20	$2.20
EV per 2P boe, with FDC	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus advisors, Company Disclosures **Futures strip as of 29-Apr-21

Timing is everything

Canada pure play with a near term focus on oil…

Calima Energy went public on the ASX in 2017 as a result of the merger of Azonto Petroleum with a private company with Canadian onshore gas assets, including a very large, ready to develop resource base in the Montney fairway in British Columbia.

Calima took advantage of the struggles of the Canadian oil sector in 2020 to agree to a merger on favourable terms with Blackspur Oil in late 2020. The transaction brought two very low-cost and very low risk oil assets (94% WI in Brooks and 100% WI in Thorsby) in Alberta with 2.6 mboe/d production and 26 mmboe WI 2P reserves (22.5 mmboe after royalties). The reserves should be simple to produce, with individual wells costs only C$1.0-2.5 mm with typical IP90 oil rates of 140-340 bbl/d. The combination of a highly levered balance sheet and the collapse in oil prices had forced Blackspur to abruptly interrupt the development of its two assets where production had already previously reached >5 mboe/d.

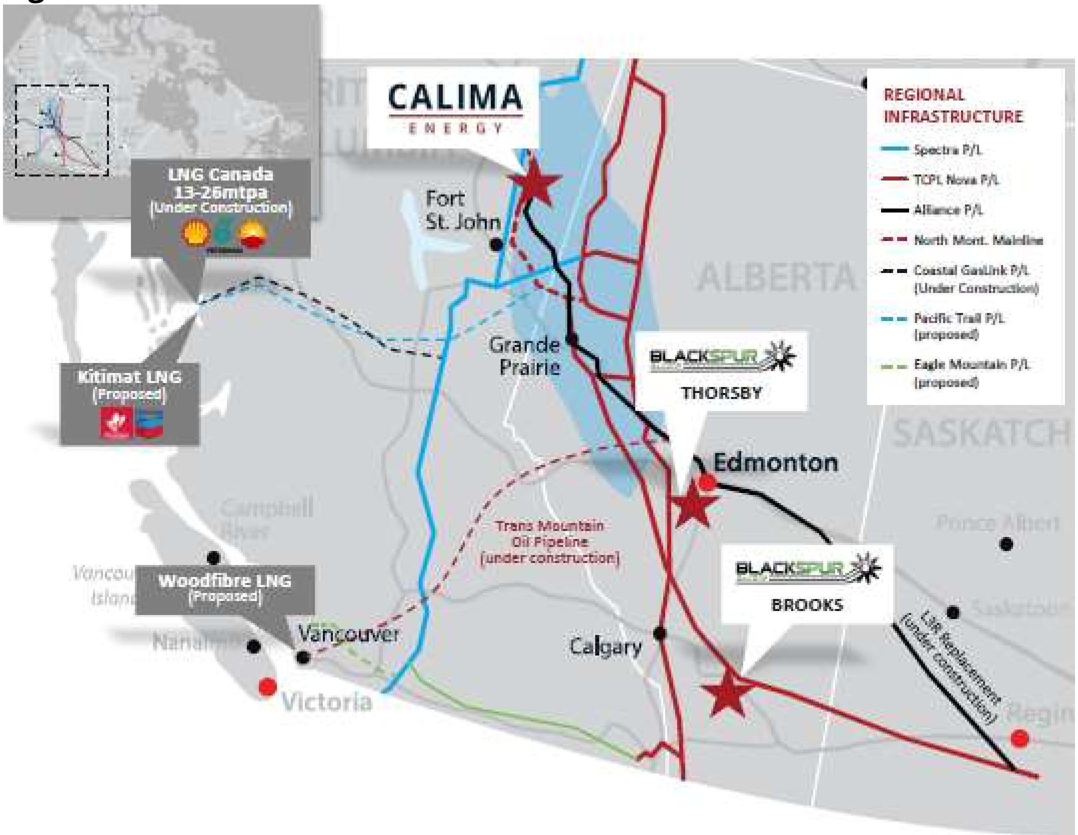
Since the terms of the merger were agreed, the oil price has increased ~50%, transforming what was initially a “good” transaction into a ”very good” transaction. The oil price rapid recovery also facilitated a A$38 mm equity raise by Calima, with a good part of the proceeds being used to repair Blackspur’s balance sheet, allowing the combined entity to reinstate and accelerate the development program of the Alberta assets where production should more than double by YE22 without any additional exploration. Given the combination of (1) very conservative reserves booking and (2) the early stage nature of the fields (low recovery factor to date), we believe that the 2P reserves could more than double rapidly.

With a good balance sheet and growing cash flow, Calima could also be acting as an asset consolidator in this area which has been underfunded.

… and an option on gas price recovery with a “liquid kicker”

The Montney assets in British Columbia hold 192.4 mmboe of 2C contingent resources. With Canadian gas prices of C$2.00-2.50/mcf, it is currently difficult to justify investing in the development of the assets. However, the resources are strategically located as a feed for the upcoming Shell backed LNG Canada facility which is under construction and due to come on stream in the mid 2020’s. British Columbia is one of the most active provinces for natural gas development in Canada. This is expected to increase further as the province’s gas resources are key to the growth strategy of numerous large players such as Ovintiv (Encana), Shell and Petronas. There have also been important acquisitions of small companies holding assets in the area in 2020, notably Painted Pony by Canadian Natural for C$461 mm, Kelt Exploration by ConocoPhillips for US$375 mm and most recently Kicking Horse by White Cap for C$350 mm just a few weeks ago. Calima is looking for an industrial partner that would unlock its value. The 44 mmbbl liquids associated with Calima's contingent resources would have a very material positive impact on the economics of development.

Figure 3. Calima main asset locations



Source: Company

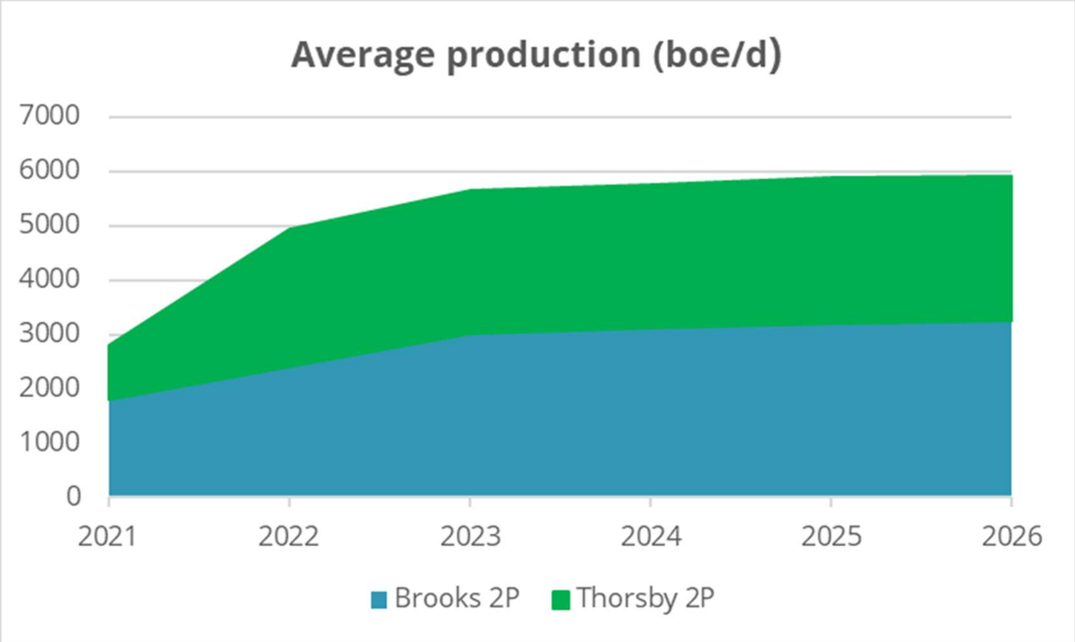
Figure 4. Calima's licences, reserves and resources

Licences	WI	Expiry Date	Commitments	WI Area Acres	WI 1P mmbbl	WI 2P mmbbl	WI Contingent Resources mmboe	WI Prospective Resources mmboe
Thorsby	100%	2034	Met	58,981	3	13		
Brooks	94%	2034	Met	53,120	4	14		
Calima	100%	2029	Met	69,120			192	364
Tommy Lakes	100%		N/A					
Total					**6**	**27**	**192**	**364**

Source: Company

Source: Company

Figure 5. Calima's production forecast



Source: Company

Brooks and Thorsby: near term production growth with reserves upside

The company's acreage positions in Brooks and Thorsby (Southern Alberta) have been progressively built by Blackspur since 2012 with acquisitions totalling C$74 mm. A total of 59 wells have been drilled in both areas. While total peak production reached >5,000 boe/d in 3Q18, the assets were subsequently capital starved resulting in production dropping to 2,600 boe/d in 4Q20 (1,860 boe/d at Brooks and the balance at Thorsby). Each asset holds a similar amount of ***conventional*** WI 2P reserves (Thorsby: 13 mmboe, Brooks 14 mmboe) that are mostly associated to proven reserves. Liquids represent >60% of the volumes.

While costs are higher at Thorsby (~C$2.5 mm per well) than at Brooks (~C$1.0-1.1 mm), a Thorsby well delivers higher initial oil production (up to 430 boe/d versus up to 185 boe/d at Brooks and recovers more volume (up to 420 mboe versus up to 235 mboe at Brooks).

The base development plan envisages production to be restored to 3.5 mboe/d by YE21 and 5.5 mboe/d by YE22 (~50/50 Thorsby/Brooks) with 9 wells at Thorsby and 15 wells at Brooks. This compares with a total of 35 net booked drilling locations at Brooks and 28 at Thorsby, suggesting that this level of production can be maintained for a few years even in a very conservative case. Overall, ~250 drilling locations have been identified on both licences. With overall opex of ~C$10/boe (US$8/boe) and sales prices suffering discounts to WTI (for quality and transportation) of approximately US$10.5/bbl for Brooks medium oil and approximately US$15/bbl for the heavier oil at Thorsby, this production is highly cash generative.

The overall running room at Thorsby is expected to be more material than at Brooks.

Brooks overview

Brooks consists of 83 sections (53,100 acres) with 48 wells drilled so far. Brooks 28° API oil, 1,860 boe/d production (>70% oil) comes from the Sunburst (~1,100 boe/d) and Glauconitic formations (~750 boe/d) where five conventional oil pools at 950 -1,150 m depth have been well delineated and are being developed. The Sunburst Formation has very good reservoir properties with ~500 mD permeability and >20% porosity. It can be developed at low cost (<C$1 mm/US$0.8 mm for a well drilled in just seven days and not requiring hydraulic fracturing).

The Glauconitic consists of thicker sands of lower quality (averaged of 10 mD for the regional Glauconitic and porosity of up to 18%) that require simple multi-stage fractured horizontal drilling. A hydraulically fractured well in the Glauconitic costs ~C$2.2 mm but recovers ~20% more volume.

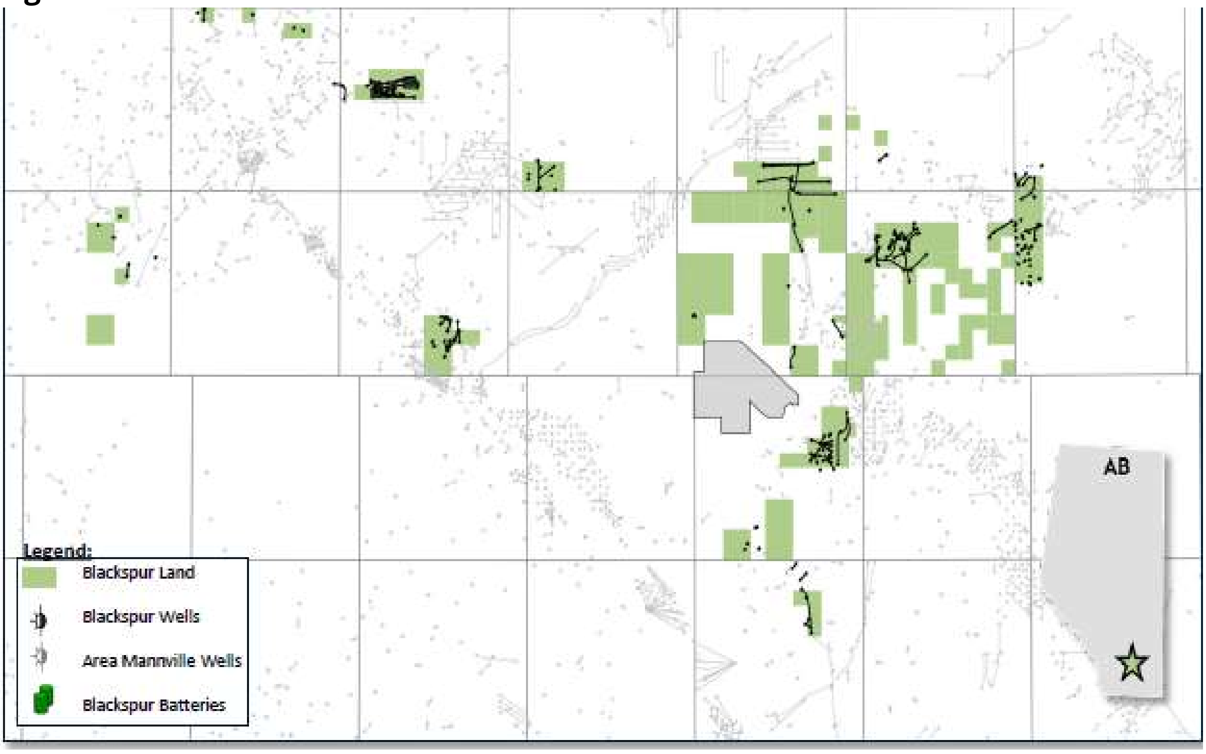
Water cut is ~78% but gas represents only 28% of Brooks hydrocarbon production (72% oil).

The company's existing infrastructure can process up to 7,000 bbl/d oil.

A total of 147 net locations have already been identified with only 35 booked. These locations include the booked 16 Sunburst and 17 Glauconitic PUDs. Three new wells have already been drilled in 2021.

The lands have year-round access and are proximal to oilfield services.

Figure 6. Brooks



Source: Company

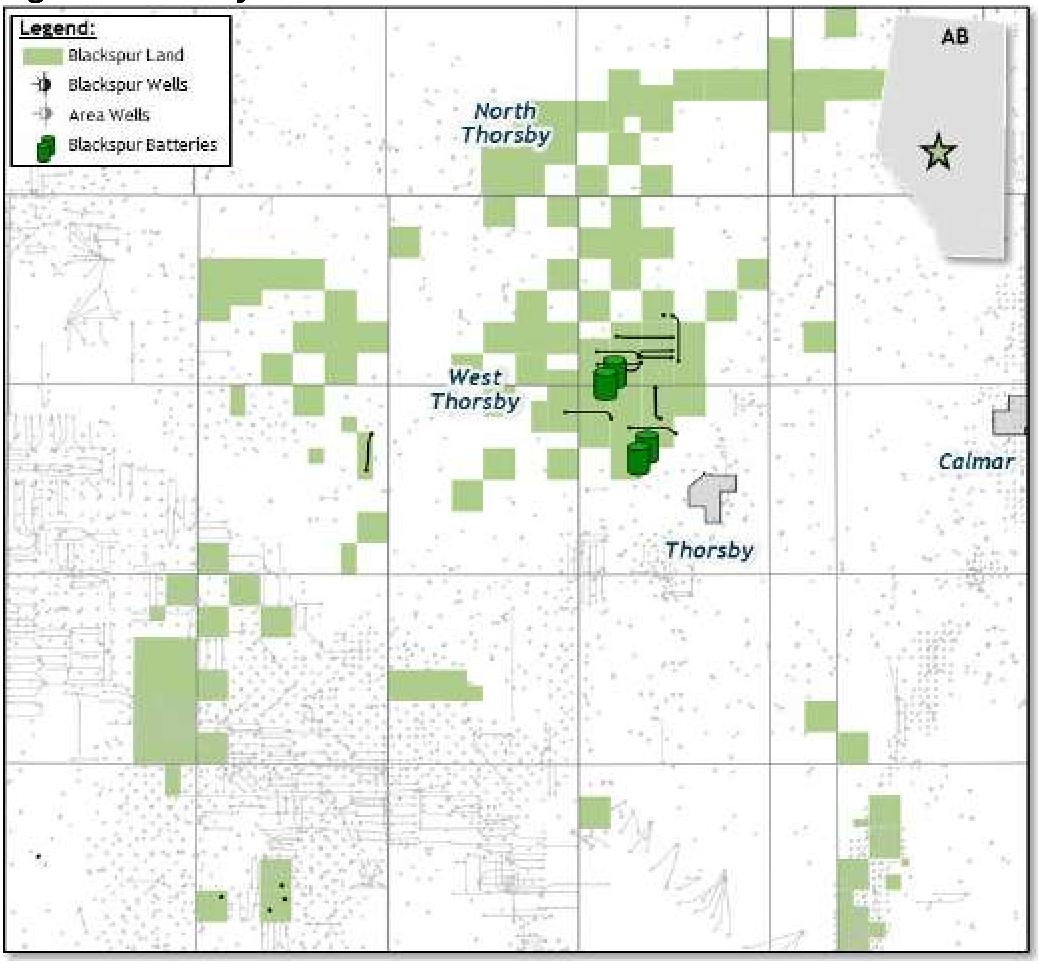
Thorsby overview

The oil produced at Thorsby has an API of 15°. Oil represents 58% of the 2P reserves. The Thorsby asset comprises a consolidated land base of ~108 net sections that will be developed through a network of multi-well pads in the Sparky Formation. Blackspur has drilled 11 wells to date in this area. Production comes from the Sparky reservoir at ~1,350 m depth. The Sparky sands can have a 20 m thickness in some cases with porosity of up to 15% and 10 mD permeability. A typical Sparky well requires simple multi-stage fractured horizonal drilling, and costs ~C$2.5 mm (US$2 mm).

Over C$5 mm has been spent building infrastructure on the Thorsby property which has existing oil processing capacity of 3,000 bbl/d.

Thorsby has a large inventory of wells to drill with 89 Sparky Formation and 12 Nisku Formation wells identified, which includes 28 Sparky PUD locations. Additionally, upside exists in 66 net sections of Duvernay Formation lands.

Figure 7. Thorsby



Source: Company

Conservative reserves booking and upside case

The reserves at Brooks at Thorsby reflect very conservative assumptions and we see multiple sources of potential upside, including the near term low risk potential to more than double existing booked reserves.

<u>1: Unbooked drilling locations could boost 2P reserves by 130%</u>

The company's 26 mmboe 2P reserves reflect 63 new drilling locations (35 at Brooks - half in the Sunburst and half in the Glauconitic - and 28 at Thorsby). Drilling 24 of these locations is expected to take production to 5.5 mboe/d by YE22.

An additional 185 drilling locations have been identified and have not yet been booked (112 at Brooks and the balance at Thorsby). This represents 3x the number of booked drilling locations. Conservative assumptions of 0.15 mmbbl EUR at for a Brooks location and 0.24 mmbbl EUR for a Thorsby location would suggest that booking these locations could add 35 mmbbl 2P reserves (+130%), including 17 mmbbl at Brooks and 18 mmbbl at Thorsby.

<u>2: Increased recovery factor could boost 2P reserves by 60%</u>

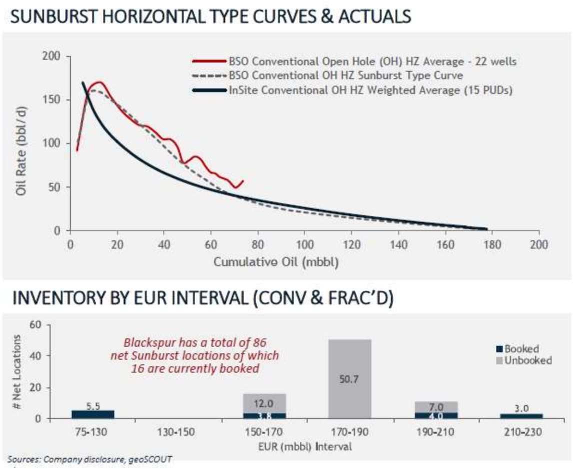
To date, the volumes recovered at Sunburst (Brooks) represent just 4% to 8.5% of the initial oil in place while only ~1% of the volumes in place in the Glauconitic has been produced. Historical production in the Sparky represents only 0.1% of the initial oil in place at Thorsby.

The 2P reserves estimates assume ~20% (on average) recovery factor in the Sunburst (Brooks) and about 7.5-10 % in the Glauconitic (Brooks) and 7-8% in the Sparky (Thorsby). These recovery factors appear very conservative for a few reasons.

- Blackspur recently initiated a waterflood in the Countess J2J Pool which is expected to show results in the near term. An oil recovery factor of up to 40% could be achieved in the Sunburst given the high quality characteristics of the reservoir.

- The decline curves at Brooks and Thorsby are based on very conservative assumptions. At Brooks, the existing 22 Sunburst wells have already materially outperformed what the reserves auditors are assuming. In the early stages of development at Thorsby, Blackspur tried different completions techniques in different areas of the reservoir and the average EUR per well assumed by the auditors is probably underestimating the reality. The difference is particularly material in the Sparky where the 3rd party reserve evaluators assume an average well performance 20% below a tier 3 well (i.e. the worst wells). A tier one well recovers 60% more oil than what is assumed by the reserve auditor.

Figure 8. Sunburst (Brooks) type curve assumptions



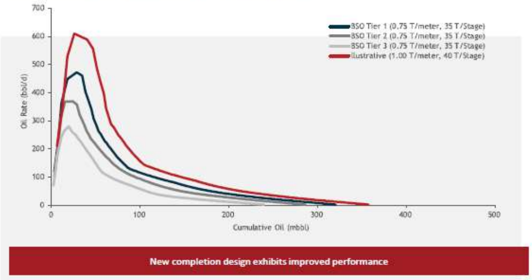
TYPE CURVE ECONOMICS (1)(2)(3)(4)

			Sunburst Type Curve Economics		
			BSO Conv.	InSite Wgt. Average	Frac'd
INPUTS	IP90 Boe (Wellhead)	boe/d	186	183	175
	IP90 Oil (Wellhead)	bbl/d	139	144	148
	EUR Boe (Technical)	mboe	235	222	261
	EUR Oil (Technical)	mbbl	178	178	204
	EUR Gas (Raw)	mmcf	356	284	316
	Yield (Shallow Cut GP)	bbl/mmcf	10	2	35
	% Liquids (Oil & NGLs)	%	77%	80%	82%
	GOR	scf/bbl	2,000	1,600	[1,000-1,600]
	Well Cost	$m	$1,000	$1,100	$2,200
	Fix. Op. Costs	$/well/mo	$6,000	$6,000	$6,000
	Var. Costs (Oil)	$/bbl	$4.20	$4.20	$4.20
	Var. Costs (Gas)	$/mcf	$1.26	$1.26	$1.26
	Var. Costs (Water)	$/bbl	$0.31	$0.31	$0.31
OUTPUTS	Op. Costs (1st year)	$/boe	$6.89	$7.54	$7.06
	NPV10	$m	$1,692	$1,251	$1,607
	IRR	%	207%	85%	56%
	Payout	Years	0.7	1.3	1.6
	F&D	$/boe	$4.25	$4.96	$8.43
	Recycle Ratio	x	5.1x	3.9x	3.3x
	Netback (Year 1)	$/boe	$21.67	$19.50	$28.01
	Break-even to WTI	US$/bbl	$30.82	$32.51	$35.31

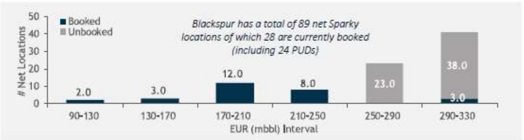
Source: Company

Figure 9. Sparky (Thorsby) type curve assumptions

AVERAGE HORIZONTAL TYPE CURVES



INVENTORY BY EUR INTERVAL



Sources: Company disclosure, geoSCOUT

TYPE CURVE ECONOMICS (1)(2)

			Sparky Type Curve Economics				
			BSO Tier 1 [a]	BSO Tier 2 [b]	BSO Tier 3 [c]	InSite TPP Weighted Avg. [d]	Illustrative 40 T/Stage [e]
Input	IP90 Oil (Wellhead)	bbl/d	336	274	182	183	460
	EUR BOE (Technical)	mboe	419	362	351	331	452
	EUR Oil (Technical)	mbbl	320	287	240	202	358
	EUR Gas (Raw)	mmcf	640	488	719	837	609
	% Liquids (Oil & NGLs)	%	78%	80%	70%	63%	80%
	Well Cost	$m	2,500	2,500	2,500	2,500	2,800
	Fix. Op. Costs	$/well/mo	2,860	2,860	2,860	2,860	2,860
	Var. Costs (Oil) (2)	$/bbl	4.96	4.96	4.96	4.96	4.96
	Var. Costs (Water)	$/bbl	0.99	0.99	0.99	0.99	0.99
	Var. Costs (Gas) (2)	$/mcf	1.19	1.19	1.19	1.19	1.19
Output	NPV10	$m	2,388	1,886	1,296	1,055	2,878
	IRR	%	67%	50%	31%	30%	77%
	Payout	yr.	1.5	1.7	2.6	2.8	1.3
	F&D	$/boe	5.97	6.90	7.13	7.54	6.20
	Recycle Ratio	x	3.2x	3.0x	2.7x	2.4x	3.4x
	Break-Even to WTI (4)	US$/bbl	$34.00	$35.10	$36.77	$38.23	$33.22

a) Tier 1 are planned future wells incorporating all technical learnings over the wells drilled to date and based on best 2 wells drilled to date (away from the fault).
b) Tier 2 adds a third well with sand issues and downtime but still consistent with all the learnings in tier 1 (away from fault).
c) Tier 3 includes all the tier 2 wells plus 3 additional wells with lower frac tonnage and closer to the fault which have higher GOR's, thus more risk in that it includes wells that are not representative of future drilling. Tier 3 are based on 30-35 T/stage & 0.5 – 0.8 T/m, BSO have optimized completion design and have 3D seismic to avoid the fault.
d) Insite curve is based on the Geology of the localized area and performance of offset wells.
e) The illustrative curve is based on increasing the frac size to 1 T/m, this increase in planned on future wells.

Source: Company

Assuming the potential to double the recovery factor at Brooks and increase well performance by 30% at Thorsby could boost 2P reserves by more than 17 mmboe.

<u>3: Exploring for new Sunburst pools at Brooks</u>

Only five Sunburst pools are in production so far. Some further pools have been identified on 3D seismic at Brooks that require exploration drilling

<u>4: Acquiring additional acreage in the area</u>

In 2015, Cenovus spun off its acreage in the area to Heritage Royalty. The acquirer is a royalty business that is looking to lease mineral rights on the lands it controls in return for a royalty on any production. This change of ownership from Cenovus to Heritage Royalty is very material as this means that it will be much easier for operators to access additional acreages for exploration/development activities.

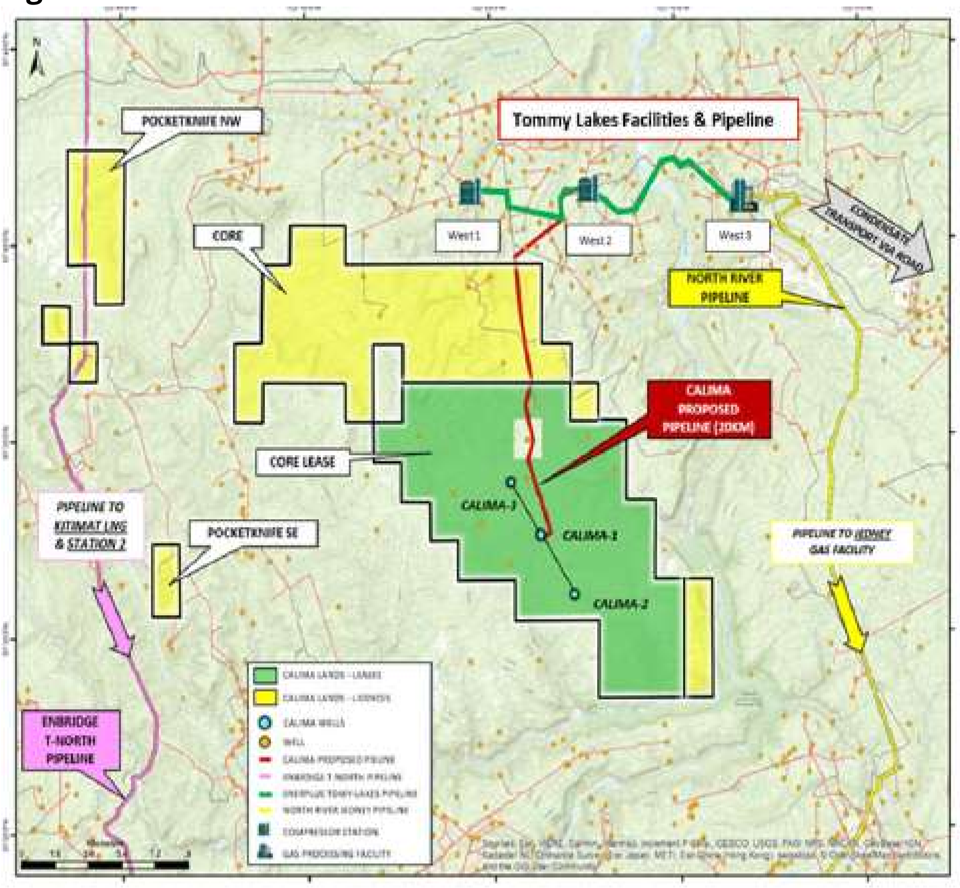
Montney assets

Calima owns and operates over 61,000 acres of drilling and production rights for the Montney Formation in British Columbia. These were acquired in 2017 and 2018. As a result of the three well (one vertical and two horizontal) 2019 drilling campaign, Calima now holds a 10-year Continuation Lease over 49 sections (33,643 acres) of land.

Approval to construct and operate a multi-well production facility has also been granted by the British Columbia Oil and Gas Commission, which includes a permit to construct a pipeline to connect the Calima well-pad with regional pipeline and processing infrastructure. The pipeline will connect existing and future Calima wells to the Tommy Lakes infrastructure (owned by Calima) with capacity to transfer up to 50 mmcf/d of wet gas and 1,500 bbl/d of wellhead condensate through to the North River Midstream sales line, providing access to the Canadian and US markets to AECO, Alliance and T-North/Station 2.

The facilities are in excellent condition with a replacement cost estimated at A$85 mm.

Figure 10. Calima Lands



Source: Company

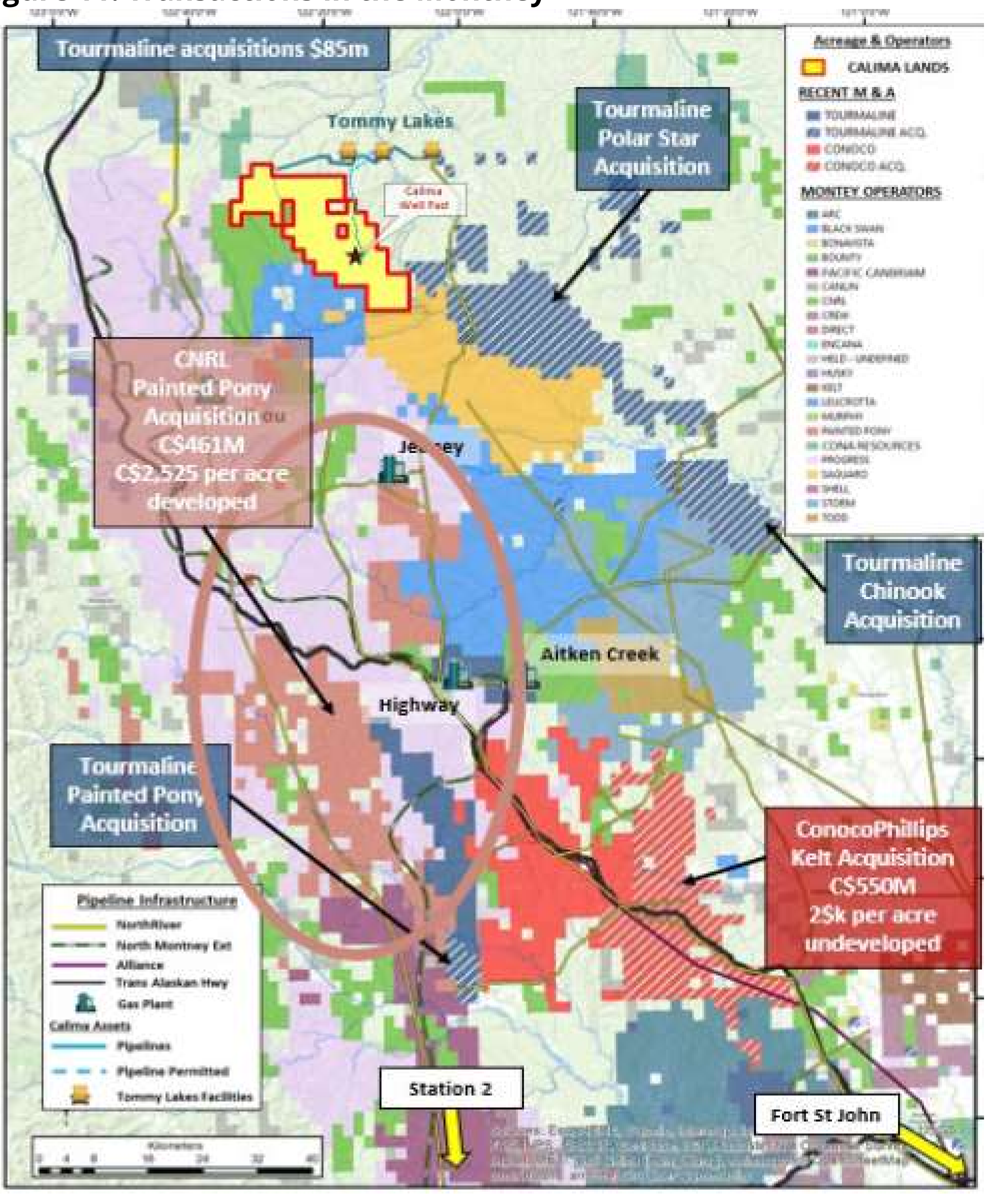
Overall ~192 mmboe resources have been classified as 2C contingent resources including ~53 mmboe as “development pending” and the balance as “development on hold”. The 192 mmboe contingent resources include 44.4 mmbbl of associated liquids.

In addition, Calima assets have been estimated to hold 1.7 tcf and 84 mmbbl (condensate and natural gas liquids) prospective resources.

With Canadian gas prices below C$2.50/mcf it is currently difficult to justify the development of these resources but the landscape is changing. With the ongoing construction of Canada LNG, the Montney is a strategic area for gas. There are a further two potential LNG export facilities at Kitimat with Chevron and Woodfibre proposed on the East Coast. A consolidation of the Greater Montney fairway is ongoing both in and around Calima’s acreage. With multiple corporate transactions involving larger players having recently taken place in the area, Calima is looking for a farm-in partner to unlock the value of its Montney assets.

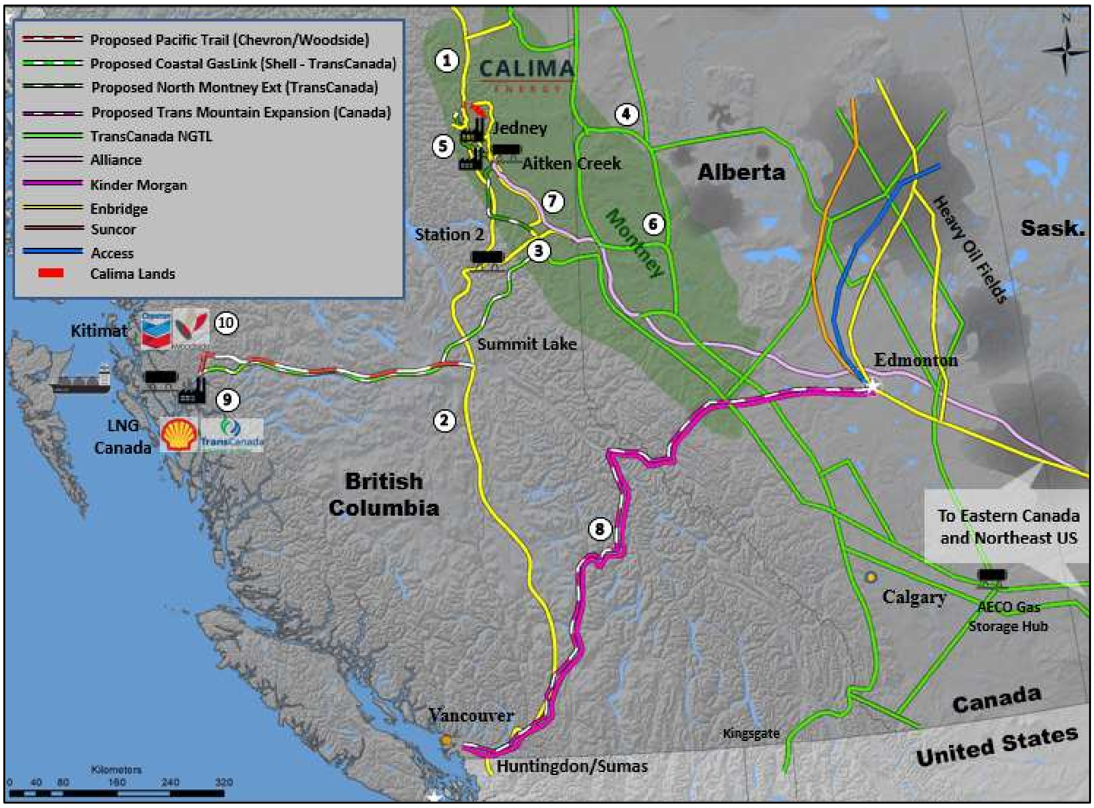
Since late 2019, this trend has accelerated, with Tourmaline acquiring Chinook Energy/Polar Star and a large land position from Painted Pony for C$85 mm. In 2020, Painted Painted Pony was acquired by Canadian Natural for C$461 mm and Kelt Exploration by ConocoPhillips for US$375 mm We note that Whitecap Resources announced the acquisition of Kicking Horse for C$350 mm just a few weeks ago.

Figure 11. Transactions in the Montney



Source: Company

Figure 12. Calima lands the Montney



Source: Company

Valuation and financials

Financials

At WTI prices of US$57/bbl in 2021, we forecast the company will generate ~US$13 mm (A$16 mm) operating cash flow (net of financial costs, G&A and cash tax) in 2021 which is enough to fund capex of US$10.5 mm (A$13.5 mm) as some of the budgeted full year capex of A$17 mm took place before the acquisition completed. The FY21 capex includes A$7.5 mm for three wells at Thorsby, A$6 mm for six wells at Brooks and the balance for work-overs and facilities.

At the completion of the merger, with the A$38 mm equity raise and the debt repayment, Calima held ~A$11 mm net debt and ~A$2 mm positive working capital.

National Bank is providing a revolving credit facility up to C$25 mm with C$13 mm drawn on completion of the transaction. The credit facility is reviewed semi-annually.

We estimate YE21 production of ~3.5 mboe/d rising to 5.5 mboe/d by YE22. FY22 cash flow (@US$57/bbl for WTI) is estimated at US$36 mm (A$48 mm) which compares with an expected capex program of only US$26 mm in 2022 to fund nine Brooks and six Thorsby wells.

On a production run rate of 5.5 mboe/d from 2023, the firm generates almost US$45 mm of cash flow per year (@US$57/bbl for WTI) with a capex of ~US$22 mm (eight Brooks and four Thorsby wells) to offset 22% natural decline and maintain production. This leaves plenty of room to fund shareholder distributions, accelerate production growth or make acquisitions.

Other assumptions include 18% royalty, C$10/boe for opex and transport and WCS discount of US$12/bbl. The medium oil at Brooks commands a C$2/bbl premium to WCS while the heavier oil of Thorsby is sold at C$4/bbl discount to WCS.

Absolute Valuation

Our Core NAV of ~A$0.016 per share is based on a DCF starting in 2022 on the company's 2P reserves only (10% discount rate). We assume WTI price of US$57/bbl for 2021 and thereafter without any escalation. We deduct a perpetuity for the ~A$4 mm per year G&A.

Fiscal terms at Brooks and Thorsby consist of 18% royalty over the next few years but the average royalty to be paid on the company's overall reserves is ~14%. The company has ~C$160 mm tax pools and is not expected to pay corporate tax in the near term.

We have included the potential for quick reserves growth in our risked upside where we have included the resources associated with the unbooked drilling locations that we have risked at 50%. Given more data on well performance and the ongoing waterflood pilot at

Brooks, we have also included the positive impact of the potential for an increased recovery factor (+10% at Brooks) and better recovery estimates per well (+30% for Thorsby) on the booked locations that we have risked at 40%. Applying the increased recovery factor and better type curves on the unbooked locations would have a further positive impact that we have not included.

We have not attributed any value to the Montney at this stage.

Overall, our ReNAV stands at A$0.036 per share with an Unrisked NAV of A$0.058 per share excluding the Montney. Attributing a nominal value of US$0.5/boe to the Montney assets would take our Unrisked NAV to A$0.060 per share.

Figure 13. NAV Table

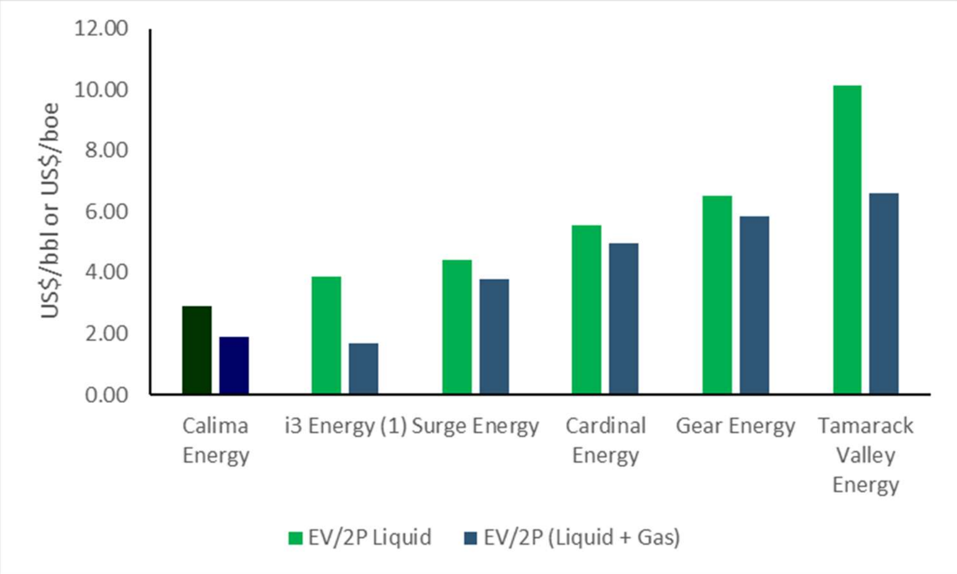
Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US$mm)	EMV (US$mm)	A$/Share (Risked)	A$/Share (Unrisked)	% Total
Net Cash/Debt YE21			-7	-7	-0.001	-0.001	-3%
G&A			-30	-30	-0.004	-0.004	-11%
Brooks 2P	13.5	100%	96	96	0.012	0.012	35%
Thorsby 2P	12.7	100%	60	60	0.008	0.008	22%
Total Core NAV			**119**	**119**	**0.015**	**0.015**	**44%**
Brooks upside							
Brooks 112 Unbooked Locations	16.8	50%	120	60	0.008	0.016	22%
Brooks increasing recovery factor by 10% - Booked locations	13.5	40%	96	39	0.005	0.012	14%
Brooks new Sunburst pools	0.0	0%	0	0	0.000	0.000	0%
Thorsby upside							
Thorsby 73 Unbooked locations	18.3	50%	87	43	0.006	0.011	0%
Thorsby - Better recovery performance (+30%) - Booked loctions	3.8	40%	27	11	0.001	0.004	4%
Montney Acreage							
Contingent resources	192.4	0%	96	0	0.000	0.012	0%
Prospective resources	364.1	0%	182	0	0.000	0.024	0%
Total Risked Exploration			**608**	**153**	**0.020**	**0.079**	**56%**
Total			**728**	**272**	**0.035**	**0.094**	**100%**
Unrisked NAV					**0.09**		
P/Core NAV				**45%**			
P/NAV				**20%**			
P/Unrisked NAV				**7%**			

Source: Auctus Advisors, Company Reports

Relative Valuation

At the placing price of A$0.007, the shares trade at EV/DACF multiples of 1.4x in 2022 and at EV/2P multiples of just ~US$1.90/boe. This is very attractive relative to peers. Given that gas reserves are not worth much in the context of current low Canadian gas prices, we believe that the EV/2P of the liquids is more relevant for purposes of comparison. With 65% of Calima's 2P reserves being liquids, Calima's shares trade at EV/2P liquid of only US$2.90/bbl, highlighting Calima as the cheapest name among peers.

Figure 14. EV/2P



	YE20 Net Debt (US$ mm)	Market Cap (US$ mm)	EV (US$ mm)	Liquid 2P reserves (mmbbl)	Overall 2P Reserves (mmboe)	EV/2P Liquid (US$/bbl)	EV/2P Liquid + Gas (US$/boe)
Calima Energy	*10*	*40*	*50*	*17*	*26*	*2.91*	*1.90*
i3 Energy (1)		97	97	25	58	3.89	1.67
Surge Energy	222	163	385	87	101	4.42	3.80
Cardinal Energy	197	297	494	89	99	5.56	4.98
Gear Energy	42	95	138	21	23	6.50	5.86
Tamarack Valley Energy	175	557	732	72	111	10.12	6.59

(1) Reserves at 30/06/2020. Liquid 2P reserves based on Overall 2P reserves x % of liquid production versus total production

Source: Company

Value build-up

The shares currently trade at [a discount] to the value of the company based only on its 2P reserves. There are various levers to create value such as adding 2P reserves.

In the table below we show the value of the shares assuming the progressive increase of 2P reserves. Given the historical conservative nature of reserves booking, we believe that 2P reserves will grow.

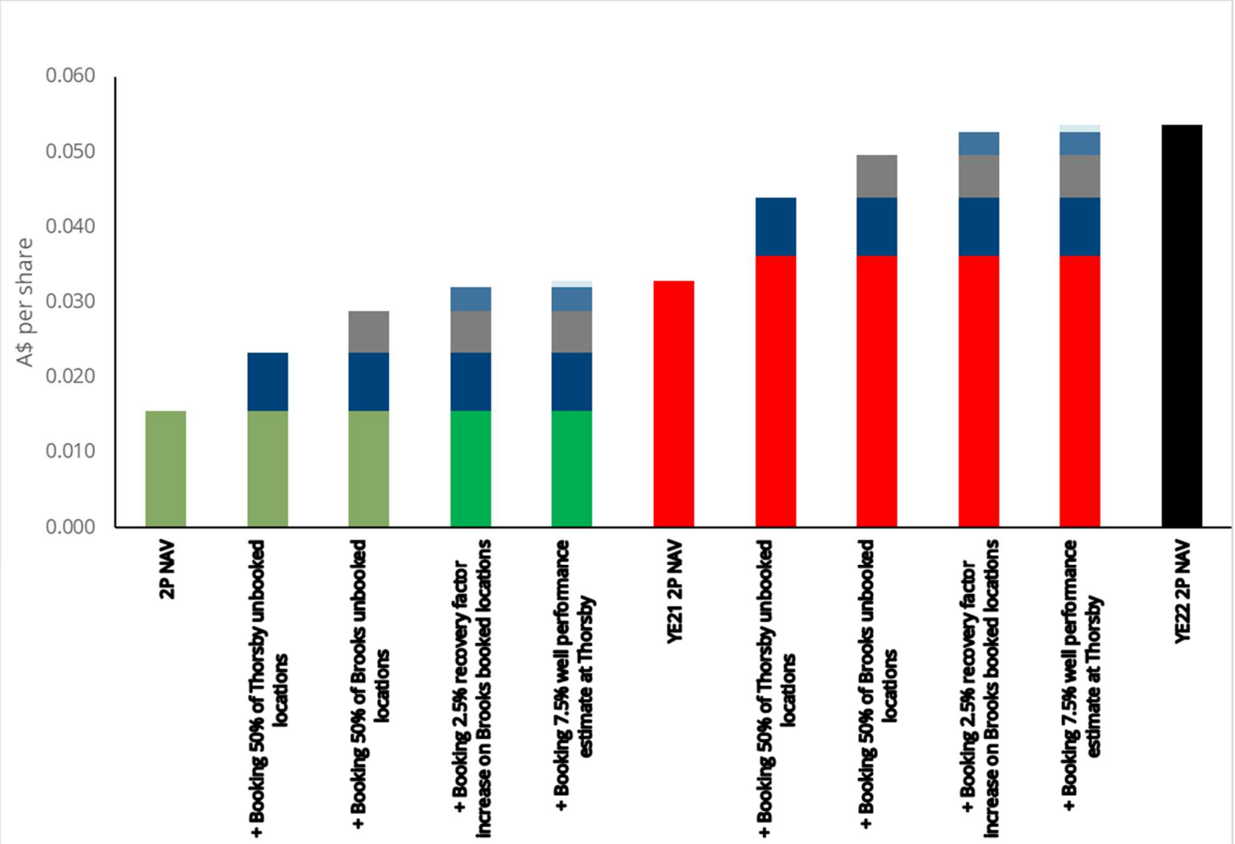
With a better balance sheet, we anticipate the company will start booking additional locations. Assuming 50% of the unbooked locations are booked at YE21 and YE22 would add A$0.027 per share to our 2P NAV at YE21 and A$0.027 per share at YE22.

Capturing only 25% of the upside associated with improved recovery factor/better well performance at each of YE21 and YE22 would add a further A$0.004 per share at YE21 and YE22.

For 2021 and 2022, we are grossing up our 2P NAV by 10% each year which is the discount rate we are using.

Overall, our 2P NAV could increase to ~A$0.033 per share by YE21 and ~A$0.054 per share by YE22.

Figure 15: Value build-up (2P NAV per share)



Source: Auctus

Valuation sensitivity

Given the recent oil price volatility, we have run some valuation sensitivities at alternative oil prices.

Figure 16. NAV sensitivity to oil price

WTI (US$/bbl)	Core NAV (A$/sh)	ReNAV (A$/sh)
45.00	0.004	0.013
50.00	0.009	0.023
55.00	0.014	0.032
60.00	0.019	0.043
65.00	0.024	0.051
70.00	0.029	0.060

Source: Auctus

Risk analysis

We have identified the following key area of risk

1. Development and resources risk. The company is about to embark in a drilling campaign to drill multiple wells at Brooks and Thorsby. We however note that the management has a lot of experience with these assets and has demonstrated its capability to drill the wells with the allocated budget. The 2P reserves are very conservatively estimated.

Appendix 1: Senior Management & Board of Directors

Glenn Whiddon: Chairman

Glenn Whiddon has an extensive background in equity capital markets, banking and corporate advisory, with a specific focus on natural resources. He was formerly Executive Chairman, Chief Executive Officer and President of Grove Energy Limited that was sold to Stratic Energy for C$150 mm. Glenn Whiddon holds a degree in Economics. He is currently Director of a number of Australian and international public listed companies in the resources sector.

Jordan Kevol: Chief Executive Officer

Jordan Kevol was a founder of Blackspur and has been the President and CEO since 2012. Jordan Kevol holds a BSc (Geology) with 16 years of public and private Canadian junior E&P experience. Jordan Kevol is also a Director of Source Rock Royalties.

Alan Stein: Non-Executive Director

Dr Stein has more than 30 years' experience in the international oil and gas industry. He 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. Ophir was involved in several discoveries offshore Equatorial Guinea and Tanzania discovering more than 18 trillion cubic feet of gas. The company was listed on the London Stock Exchange in 2011. Dr Stein is currently a partner at Havoc Partners LLP and he is a Director of Carbon X Australia Pty Ltd.

Lonny Tetly: Non-Executive Director

Lonny Tetley is a securities lawyer and partner at Burnet, Duckworth and Palmer LLP with over 15 years of experience in corporate finance and the oil and gas industry. Mr. Tetley serves on the Board of a number of companies including Certarus Ltd., Beyond Energy Services & Technology Corp. and Accelerate Financial Technologies Inc. He is also a member of the Private Funds Independent Review Committee of Deans Knight Capital Management Ltd.

Brett Lawrence: Non-Executive Director

Mr Lawrence is a 15-year veteran of the oil and gas industry and holds a Master of Petroleum Engineering, a Bachelor of Engineering (Mining) and Bachelor of Commerce (Finance) from Curtin University in Western Australia. Mr Lawrence worked with Apache Energy for over eight years, performing roles in drilling engineering, reservoir engineering, project development and commercial management and has held senior roles in the commercial, financial and corporate arenas with various ASX listed public companies.

Braydin Brosseau: Chief Financial Officer

Braydin Brosseau is the Chief Financial Officer of Blackspur where he has been working for 6+ years. He has over 15 years' experience in the Canadian E&P sector. His previous experience includes positions with West Valley Energy, Aston Hill Financial, and PwC.

Appendix 2: Share count

There are approximately 10,268 mm shares in issue. In addition there are 186 mm options and performance rights that can be converted into an equivalent number of shares.

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Author

The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

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