Calima Energy

Strong financial performance after the Blackspur purchase and further increased guidance

Solid performance from initial 2 months' contribution from Blackspur

In Q2'21 for the months of May and June, Calima produced an average 2,959boe/d, primarily from the Brooks and Thorsby assets. Calima exited the quarter with June production of 2,883boe/d. The production mix was Brooks (~70%) and Thorsby (~30%). Adjusted EBITDA was approximately A$4.5mm for 61 days of Blackspur contribution. Production and revenue from the four Gemini wells drilled at Brooks will flow through to the September quarter results. Net debt was A$16.4mm at the end of the quarter leaving an ample A$10.9mm of liquidity and net debt has fallen to A$15.5mm as of today. We estimate that net debt will fall to ~A$12mm by YE'21, despite a heavy investment programme.

Revised guidance: strong oil price leads to higher EBITDA once again

Calima's original EBITDA guidance in May was for C$18mm for the 8 months from May 2021 to year end. In June it upgraded the guidance to C$21.1mm (including hedging losses of C$4.6mm). In July it has further increased guidance to C$27.3mm with a similar hedging loss. This implies H2'21 EBITDA of ~C$23mm or C$46mm annualised. On this annualised basis, Calima is trading on 2.5x EV/EBITDA or adjusted for the value of the Montney (not generating EBITDA) implied in the share price prior to the Blackspur deal of ~C$25mm, it is trading on <2x EBITDA. Furthermore, with significantly higher Canadian gas prices and deal activity in the Montney, the market value of these assets should be significantly higher than C$25mm.

Growth capital being deployed for new wells in 2021

Calima has budgeted C$15.4mm in capital expenditure on the Brooks and Thorsby asset areas between July and December 2021. This includes a portion of the drilling, completion and equipping costs for Gemini 3 and 4 wells, the three wells planned at Thorsby in Q3'21, as well as waterflood, workover, and maintenance capital on existing assets. Calima will commence a three-well (net) drilling program in August in the Thorsby area (Sparky Formation). The development wells are expected to be on stream early in Q4'21. End-'21 exit production is guided to be >4,500 boe/d, with average production for the 8 months of 3,700 boe/d.

Catalysts: Blackspur well performance; Montney and LNG activity

The key catalysts for Calima are continued well type-curve outperformance from its current drilling campaign (results from Gemini wells in early September). We also expect some small bolt on acquisitions around the existing assets. In the Montney, Calima continues to evaluate strategies with respect to the Calima Lands to unlock shareholder value through development, partnerships, farm-out or outright sale. The much anticipated consolidation of the Montney in North East British Colombia has commenced and with rising gas prices, currently above US$4/mcf in North America, the Calima Lands provides significant optionality. Also of note, Calima's closest comparable in the Montney, Saguaro, sold a 50% interest in its production and facilities to Tourmaline for ~C$205mm (9,000 boe/d, 25% condensate/NGL's).

Valuation: ~155% upside to our increased risked NAV

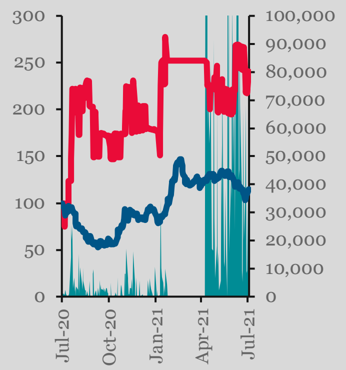
We have slightly increased our risked NAV to AUD 2.55c/sh from AUD 2.45c/sh, implying 155% upside from the current share price, on the back of marking to market the 2021 Brent price to US$67.5/bbl on average from US$60/bbl. There is 6% upside to our Core NAV of AUD 1.06c/sh, which only includes the 1P reserves. Using the ~C$25mm valuation for the Montney implied pre-Blackspur, sees it trading on just 2.1x EV/CFFO in 2022 at a conservative US$60/bbl Brent. On operational metrics, we see Calima trading on EV/2P reserves of C$5/boe and on a flowing barrel basis on $24k per boe/d in 2022. We expect C$24/boe of post-tax cashflow per barrel in 2022. Cash distributions will be driven by market conditions and achieving sustainable production of >5kboe/d, which we expect in 2022.

GICS Sector	Energy
Ticker	ASX:CE1
Market cap 27-Jul-21 (US$mm)	80
Share price 27-Jul-21 (AUD c)	1.00

NAV summary (AUD c/sh)

Asset	Unrisked	Risked
Core NAV	1.18	1.06
Development	3.27	1.42
Exploration	1.86	0.07
Total NAV	**6.31**	**2.55**

Source: H&P estimates



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