Calima Energy

Guidance implies strong Q2'22 free cash flow ahead of potential H2'22 share buyback

Calima Q1'22 Quarterly Activity Report: >A$10mm of FCF in Q2'22

Calima released its Q1'22 report yesterday. Calima generated A$11mm of cash flow in Q1 against A$12mm of capex to be broadly free cash flow neutral. Its A$20mm equity raise went towards repaying A$22mm of its credit facility and leaving it with A$20mm of available funding. Production in Q1'22 averaged 4.0kboe/d, up 21% q/q; exit production was 4.3kboe/d and is expected to be kept flat over Q2'22. H1'22 production guidance has been narrowed to 4-4.2kboe/d from 4-5kboe/d due to various minor factors (e.g. power outages/ downtime / water handling constraints) impacting production. H1'22 adjusted EBITDA guidance has been increased to A$35-39mm from C$30-35mm on higher oil and gas prices, which is more than offsetting inflationary pressures. However, expected realised hedging losses have been increased to A$10mm from A$4mm. Cash flow from operations after realised hedges is expected to be A$24-28mm in H1'22, while capex guidance of A$19-21mm has been decreased to A$19-20mm.

Calima to initiate shareholder returns in H2'22

We expect ~A$15mm of cash flow and ~A$3mm of capex in Q2'22 generating >A$10mm of FCF. Calima ended 2021 with A$28mm of net debt, issued A$18.3mm of equity in mid-February (net of fees) and net debt should fall to close to zero at mid-year. Also, Calima has a C$27mm (~A$30mm) revolving credit facility which was signed when it had lower production and reserves and in a much lower oil and gas price environment. Therefore, we expect that the facility will be increased at the next review later in Q2'22. The Calima Board is evaluating a dividend and/or share buyback program to commence in the third or fourth quarter of 2022. We expect Calima to ramp up capex in H2'22 once again to a level that will at least offset production declines and generate FCF. We currently estimate ~A$40mm of H2'22 adjusted EBITDA and ~A$15mm of capex plus ~A$5mm in shareholder returns in H2'22.

Montney: further improvements in gas prices and LNG export outlook

We expect Calima's acreage position in the Montney to see renewed interest given higher global gas prices, the revival of many proposed North American LNG export facilities, the increased focus on security of supply of gas with North America as a source, increased drilling activity near to Calima's lands and the recent acquisition of Montney-focused company Leucrotta by Vermillion. This acquisition is positive in that it demonstrates that Vermillion appeared to be assigning significant value to Leucrotta's undeveloped acreage and long-life reserves, which is a positive sign in terms of potential acquirors looking at Calima's acreage. Vermillion was also a sizeable new entrant into the Montney. In terms of drilling activity: Tourmaline and Storm (now CNRL) are the main players on strike with Calima's land base. The well type curve for both the upper and middle Montney has increased due to this activity and more production history, recovery per zone (EUR) increased by 7% to 9bcf per well. We expect Calima to update the market shortly on the status of its ongoing process to unlock shareholder value through development, partnerships, farm-out or outright sale.

Valuation: ~220% upside to our risked NAV

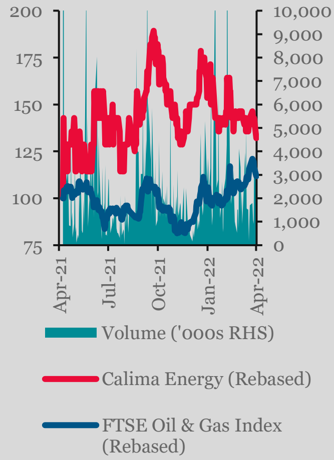
Calima offers a combination of value, growth and shareholder return potential. It offers organic growth through the drill-bit with a reserve life of >15 years. Our risked NAV of AUD 58c/sh implies 220% upside from the current share price. There is also ~90% upside to our Core NAV of AUD 34c/sh, which only includes the 1P reserves. Our 2022 forecasts are based on US$90/bbl Brent and US$70/bbl flat from 2023 onwards; at US$80/bbl our risked NAV would increase by 22%. On a multiple basis, we estimate that Calima is trading on 2022 EV/EBITDA of 1.7x. Using the ~C$25mm valuation for the Montney implied pre-Blackspur (which we see as conservative in the current environment), sees it trading on just 1.4x EV/CFFO in 2022. On operational metrics, we see Calima trading on EV/2P reserves of C$5.7/boe and on a flowing barrel basis on $29k per boe/d in 2022.

GICS Sector	**Energy**
Ticker	ASX:CE1
Market cap 26-Apr-22 (US$mm)	80
Share price 26-Apr-22 (AUD c)	18

NAV summary (AUD c/sh)

Asset	Unrisked	Risked
Core NAV	37	34
Development	108	23
Exploration	32	1
Total NAV	**177**	**58**

Source: H&P estimates



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Investment Case

Our risked NAV on Calima of 58c/sh implies 220% upside. Calima has near-term oil price exposure from the Blackspur assets and longer-term gearing into the energy transition through its Montney position. The company offers a combination of value, growth and shareholder return potential. It offers organic growth through the drill-bit with >15 year 2P reserve life. It has some of the lowest cost (<US$20/boe capex plus opex) and highest return drilling locations available globally. We expect >30% production growth in 2022 whilst generating >20% FCF yield based on the current price. Calima has a strong balance sheet and minimal decommissioning liabilities relative to its peer group and is self-funding even at low oil prices. It also has high insider ownership with management largely compensated in stock.

Stands out versus its Alberta peer group – Relative to its peer group (mid-cap Alberta oil weighted producers), Calima has stronger production and cashflow growth in 2022, without any acceleration of activity. It has a much healthier balance sheet, both in terms of much lower net debt and decommissioning liabilities. It also has a higher reserve base than peers and a lower cost base leading to higher margins and more downside protection.

Acceleration of drilling/production targets – Calima has ample inventory on the Alberta acreage, where high returns can be locked in by hedging at current pricing, giving less than 6 months payback on some locations. We would expect potentially another 3-5 wells at least in H2'22. Calima can quickly respond to rising energy prices by accelerating its drilling programs given its ability to convert wells from spud to on-stream in 30-60 days.

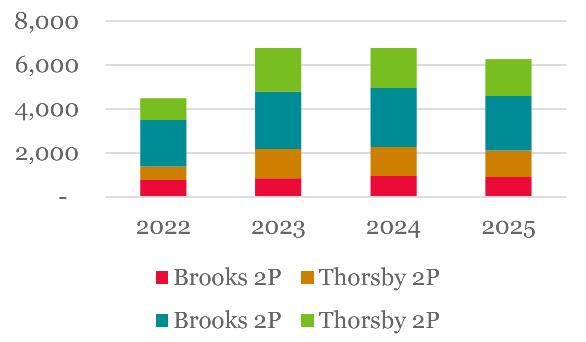
Potential to grow materially faster and move 2P to 1P – Our modelling is based on the base case drilling scenario for the 2P reserves, which assumed a more conservative macro environment. We think that higher prices could lead to an acceleration of drilling and the production forecasts are based off the conservative well type curves rather than the better results that have been realised by Blackspur. Therefore, there is the potential to grow significantly faster than planned, whilst continuing to generate free cash flow. Blackspur already has a large drilling inventory with greater than 60 booked PUD locations. However, it sees a further ~210 locations on its acreage.

Montney optionality – Calima was incorporated as an explorer focused on the Montney and the company succeeded in what it set out to do in proving up the resource in the Montney. Calima now has >1Tcfe of liquids rich natural gas resource in the Montney play. >50mmboe of 2C resource will be converted to 2P reserves once it secures funding to build the tie-in pipeline from its existing well pad into its owned infrastructure. Interest in the play has been picking up with a wave of recent corporate activity, moving it from a buyer's market to a seller's market. We see the Montney play as having attractive standalone economics; however, we think that it currently struggles to compete for limited capital versus the assets that have been acquired from Blackspur. We expect liquids to account for 50% of revenue but only 25% of production. In the current higher gas price environment, the economics still improve markedly for the Montney. We value the base case 50mmcf/d development scenario as worth ~C$581mm (C$4.7/boe) unrisked and heavily risked we carry ~C$50mm of value in our NAV.

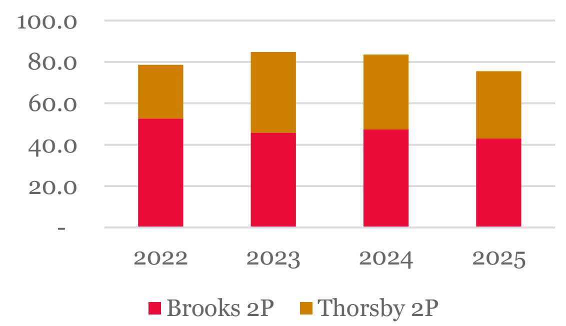
Base case development plans (2P reserves)

The charts below look at the key metrics for the 2P reserves at Brooks and Thorsby.

Production profile by area



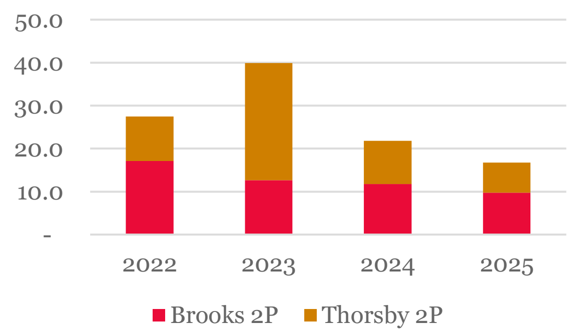
Pre-tax cashflow by asset (C$mm), ex-hedging



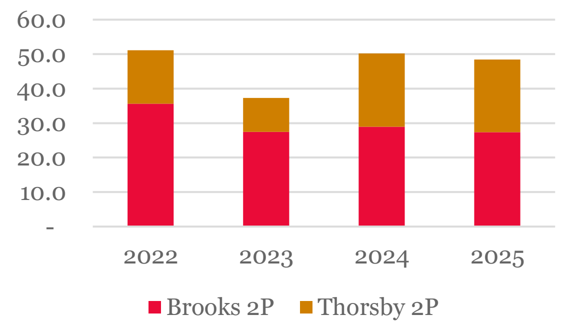
Source: H&P estimates

2023 sees higher production growth being offset by a lower oil price forecast of US$70/bbl from US$90/bbl and also higher capex.

Capex by area (C$mm)



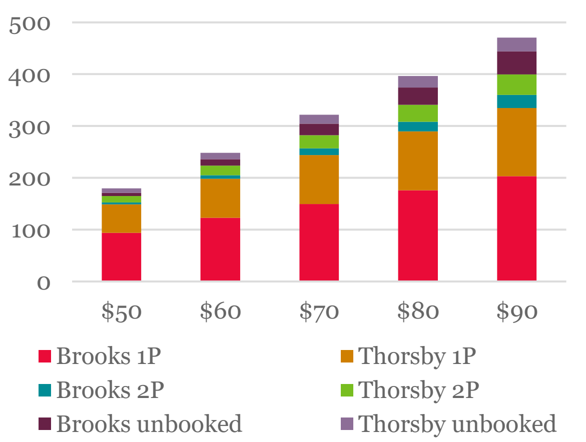
Post-tax free cashflow by asset (C$mm), ex-hedging



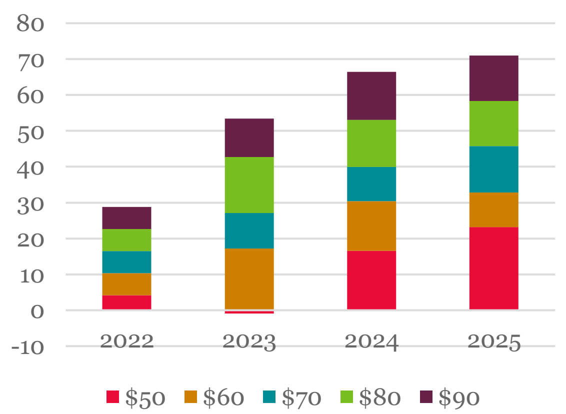
Source: H&P estimates

The charts below show the sensitivity of NPV10 valuation and FCF under the base case drilling scenario to various Brent oil prices in US$/bbl.

Risked NPV10 (C$mm) by reserve type vs Brent



Post-tax free cashflow (C$mm) Brent price sensitivity



Source: H&P estimates

Valuation

Our favoured valuation methodology is a bottom-up risked NAV, in which we have built a DCF valuation of the 2P reserves, plus the main development and exploration prospects (assuming they will be developed), and then risked them for geological and commercialisation risk. We also take a look at how Calima compares on a multiple basis.

In our base case scenario, we use US$90/bbl in 2022 and US$70/bbl Brent long-term flat from 2023, a US$14/bbl differential to WCS pricing, US$3.75/MMBtu AECO gas price in 2022+, a US$1.33/AUD exchange rate, US$1.25/CAD exchange rate and a 10% discount rate from 1/1/2022.

NAV

Asset	Gross mmboe	Interest	Net mmboe	NPV C$/boe	Unrisked C$m	Unrisked A$c/sh	Geological CoS	Commercial CoS	Risked C$m	Risked A$c/sh
Net debt (end-'21)					-$26	-4.4			-$26	-4.4
2022 Equity Raise					$20.0	3.3			$20.0	3.3
Asset retirement obligations					-$13.9	-2.3			-$13.9	-2.3
Options proceeds					$3.1	0.5			$3.1	0.5
Hedging gain/loss					-$12.9	-2.1			-$12.9	-2.1
Brooks PDP reserves	3.3	100%	3.3	$18.1	$59.9	10.0	100%	100%	$59.9	10.0
Thorsby PDP reserves	2.7	100%	2.7	$16.8	$44.7	7.4	100%	100%	$44.7	7.4
Brooks planned PUD	5.9	100%	5.9	$16.8	$99.5	16.5	100%	90%	$89.6	14.9
Thorsby planned PUD	6.1	100%	6.1	$9.0	$55.3	9.2	100%	90%	$49.7	8.3
H2 Sweet					$0.4	0.1			$0.4	0.1
Capitalised G&A @ 2x		-4.1			-$8.2	-1.4			-$8.2	-1.4
1P Core NAV	**18.0**		**18.0**	**$12**	**$221**	**36.8**			**$206**	**34.2**
Incremental Brooks 2P	2.5	100%	2.5	$6.2	$15.9	2.6	90%	90%	$12.9	2.1
Incremental Thorsby 2P	3.4	100%	3.4	$9.3	$31.4	5.2	90%	90%	$25.4	4.2
Brooks remaining unbooked	12.9	100%	12.9	$4.7	$60.3	10.0	75%	50%	$22.6	3.8
Thorsby remaining unbooked	6.6	100%	6.6	$7.0	$45.9	7.6	75%	50%	$17.2	2.9
Montney 2C 50mmcf/d	125	100%	125	$4.7	$581	96.6	90%	10%	$52.3	8.7
Montney remaining 2C	68	100%	68	$1.0	$67.8	11.3	75%	10%	$5.1	0.8
Development upside	**192.4**		**192.4**		**$649**	**107.9**			**$135**	**22.5**
Montney Prospective Resource	364	100%	364	$0.5	$182.1	30.3	33%	5%	$3.0	0.5
PEL-10 production licence					$6.3	1.0	25%	25%	$0.4	0.1
PEL-10 commercial production					$6.3	1.0	25%	10%	$0.2	0.0
SADR exploration		50%							$0.0	0.0
5% in Discover Exploration Ltd									$1.0	0.2
Exploration upside	**364.1**		**364.1**		**$195**	**32.3**			**$5**	**0.8**
Total NAV					**$1,065**	**177.0**			**$346**	**57.5**

Source: H&P estimates

NAV sensitivities

We look at the risked NAV for Calima at various oil prices and discount rates relative to our base case.

Risked NAV (AUD c/sh) at different oil prices and discount rates

		Brent Oil price (US$/bbl)				
		$50.00	**$60.00**	**$70.00**	**$80.00**	**$90.00**
	6%	44c	58c	74c	89c	105c
Discount	**8%**	38c	51c	65c	78c	92c
rate	**10%**	34c	45c	**58c**	70c	82c
	12%	30c	41c	52c	63c	74c
	14%	27c	37c	47c	57c	67c

Source: H&P estimates

Valuation metrics and multiples

The table below shows the key financial ratio and operational metrics for Calima.

Financial ratios and multiples (C$mm)	2022E	2023E	2024E	2025E
Market capitalisation	101.2	101.2	101.2	101.2
Net debt	-$8.0	-$27.6	-$56.6	-$89.6
EV	**127.7**	**127.7**	**127.7**	**127.7**
Equity	108.2	148.7	183.2	215.0
Capital employed	100.2	121.1	126.6	125.4
EV/2P reserves (2020)	$5.7	$5.7	$5.7	$5.7
EV per boe per day ($ per kboe/d)	$28.5	$18.9	$18.8	$20.4
Cashflow per barrel ($/boe)	$34.1	$29.9	$28.0	$28.0
EBITDA per barrel ($/boe)	$44.8	$32.9	$32.3	$31.6
Net income per barrel ($/boe)	$19.5	$19.8	$18.9	$20.1
P/E	3.2x	2.1x	2.2x	2.2x
P/CFPS	1.8x	1.4x	1.5x	1.6x
EV/EBITDA	1.7x	1.6x	1.6x	1.8x
EV/CFFO	2.3x	1.7x	1.8x	2.0x
ROAE	29.5%	32.9%	25.6%	21.4%
ROACE	31.9%	40.4%	37.0%	36.7%
FCF yield	22.7%	27.7%	40.9%	46.6%
Dividend yield	6.8%	8.3%	12.3%	14.0%
Net debt/EBITDA	-0.1x	-0.3x	-0.7x	-1.2x
Net debt/equity	-7.4%	-18.6%	-30.9%	-41.7%
Net debt/capital employed	-8.0%	-22.8%	-44.7%	-71.4%

Source: H&P estimates, CapIQ

Financial Summary

Assumptions	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
USD:AUD FX rate	$1.40	$1.40	$1.40	$1.40	$1.40
CAD:AUD FX rate	$1.09	$1.09	$1.09	$1.09	$1.09
Brent (US$/bbl)	$70.67	$90.00	$70.00	$70.00	$70.00
WTI (US$/bbl)	$67.80	$87.00	$67.00	$67.00	$67.00
WCS (C$/bbl)	$70.40	$94.08	$68.48	$68.48	$68.48
Henry Hub (US$/mcf)	$0.00	$4.00	$4.00	$4.00	$4.00
AECO (US$/mcf)	$4.48	$4.80	$4.80	$4.80	$4.80
Brooks oil price (C$/bbl)	$72.96	$96.64	$71.04	$71.04	$71.04
Thorsby oil price (C$/bbl)	$65.28	$88.96	$63.36	$63.36	$63.36
NGL price (C$/bbl)	$42.88	$55.68	$42.88	$42.88	$42.88
Gas price (C$/mcf)	$4.48	$4.80	$4.80	$4.80	$4.80
Oil production (bbl/d)	2,389	3,030	4,465	4,385	4,042
Gas production (mcf/d)	5,644	8,233	13,061	13,565	12,594
NGL production (kbbl/d)	51	78	125	131	114
Total production (kboe/d)	3,381	4,481	6,767	6,776	6,255

Income Statement (C$mm)	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Revenue	$43.6	$120.3	$135.3	$134.6	$124.2
Royalties	-$8.4	-$21.6	-$24.4	-$24.2	-$22.3
Opex and transportation	-$11.7	-$21.2	-$23.5	-$24.2	-$23.9
G&A	-$4.8	-$4.1	-$6.2	-$6.2	-$5.7
EBITDAX	**$18.8**	**$73.3**	**$81.2**	**$79.9**	**$72.2**
DD&A	-$51.3	-$23.8	-$25.0	-$22.3	-$17.9
EBIT	**-$32.5**	**$49.6**	**$56.2**	**$57.6**	**$54.3**
Cash Interest	-$1.5	-$0.6	$0.5	$1.4	$2.6
Hedging (gains) losses	-$5.8	-$17.0	$0.0	$0.0	$0.0
EBT	**-$39.8**	**$32.0**	**$56.7**	**$59.0**	**$56.9**
Gain on acquisition	$10.5	$0.0	$0.0	$0.0	$0.0
Tax	-$0.2	$0.0	-$7.8	-$12.1	-$10.9
Net income	**-$29.5**	**$32.0**	**$48.9**	**$46.9**	**$46.0**

Source: H&P estimates

Cash flow (C$mm)	2021E	2022E	2023E	2024E	2025E
Earnings before interest and tax	-$32.5	$49.6	$56.2	$57.6	$54.3
Depreciation	$51.3	$23.8	$25.0	$22.3	$17.9
Share based remuneration	$0.0	$0.0	$0.0	$0.0	$0.0
Cash interest charge	-$1.5	-$0.6	$0.5	$1.4	$2.6
Cash tax	-$0.2	$0.0	-$7.8	-$12.1	-$10.9
Other	-$5.8	-$17.0	$0.0	$0.0	$0.0
Cash flow from operations (pre w/c)	**$11.3**	**$55.8**	**$73.9**	**$69.2**	**$63.9**
Decrease/(increase) in trade receivables	$0.0	$0.0	$0.0	$0.0	$0.0
Increase/(decrease) in trade creditors	$0.0	$0.0	$0.0	$0.0	$0.0
Decrease/(increase) in inventory	$0.0	$0.0	$0.0	$0.0	$0.0
Cash flow from operations (post w/c)	**$11.3**	**$55.8**	**$73.9**	**$69.2**	**$63.9**
Capital expenditure	-$24.5	-$32.8	-$45.9	-$27.8	-$16.8
Free cashflow	**-$13.3**	**$23.0**	**$28.0**	**$41.4**	**$47.1**
Acquisitions	$0.0	$0.0	$0.0	$0.0	$0.0
Disposals	$0.0	$0.0	$0.0	$0.0	$0.0
Dividends	$0.0	-$6.9	-$8.4	-$12.4	-$14.1
Change in net debt	**-$13.3**	**$16.1**	**$19.6**	**$29.0**	**$33.0**

Source: H&P estimate

Balance Sheet (C$mm)	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Cash and cash equivalents	$3.2	$37.7	$57.3	$86.3	$119.3
Trade and other receivables	$6.8	$6.8	$6.8	$6.8	$6.8
Prepaid expenditures and deposits	$0.7	$0.7	$0.7	$0.7	$0.7
Risk management assets	$0.0	$0.0	$0.0	$0.0	$0.0
Total current assets	$10.8	$45.3	$64.9	$93.9	$126.8
Deferred income tax asset	$11.6	$11.6	$11.6	$11.6	$11.6
Property, plant and equipment	$122.6	$122.6	$143.5	$149.0	$147.8
Right of use asset	$0.0	$0.0	$0.0	$0.0	$0.0
Exploration and evaluation expenditure	$0.0	$0.0	$0.0	$0.0	$0.0
Investments	$1.1	$1.1	$1.1	$1.1	$1.1
Total non-current assets	$135.3	$135.3	$156.2	$161.6	$160.5
TOTAL ASSETS	**$146.0**	**$180.6**	**$221.1**	**$255.5**	**$287.3**
Bank indebtedness	$20.7	$20.7	$20.7	$20.7	$20.7
Trade and other payables	$16.3	$16.3	$16.3	$16.3	$16.3
Other Liabilities	$2.8	$2.8	$2.8	$2.8	$2.8
Total current liabilities	$39.8	$39.8	$39.8	$39.8	$39.8
Decommissioning obligation	$24.2	$24.2	$24.2	$24.2	$24.2
Deferred income tax liability	$0.0	$0.0	$0.0	$0.0	$0.0
Restoration provision	$0.0	$0.0	$0.0	$0.0	$0.0
Lease liabilities	$0.3	$0.3	$0.3	$0.3	$0.3
Loan	$0.0	$0.0	$0.0	$0.0	$0.0
Total Non-Current Liabilities	$24.5	$24.5	$24.5	$24.5	$24.5
TOTAL LIABILITIES	**$64.3**	**$64.3**	**$64.3**	**$64.3**	**$64.3**
NET ASSETS	**$81.8**	**$116.3**	**$156.8**	**$191.2**	**$223.1**
Issued capital	$333.8	$333.8	$333.8	$333.8	$333.8
Options/Mgmt Rights	$16.0	$16.0	$16.0	$16.0	$16.0
Fundraising Costs	$0.0	$0.0	$0.0	$0.0	$0.0
Contributed surplus	$0.0	$0.0	$0.0	$0.0	$0.0
Reserves	$5.4	$5.4	$5.4	$5.4	$5.4
Accumulated losses	-$273.5	-$247.0	-$206.5	-$172.1	-$140.2
TOTAL EQUITY	**$81.8**	**$108.2**	**$148.7**	**$183.2**	**$215.0**

Source: H&P estimate

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