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Zacks Small-Cap Research

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Calima Energy (CLMEF-OTCQB)

CLMEF: Energy production continues to expand.

CLMEF is an Australian company with energy assets in Canada that is traded OTC in the US. The company has a solid balance sheet and is increasing production, resulting in returning cash to shareholders.

Current Price (01/30/23)	$0.12
Valuation	**$0.55**

OUTLOOK

Calima Energy provided an update on production, again announcing increased production and good efficiency in well production.

The company continues to expand production and make smart investments that we believe will continue to grow cash flow and benefit investors.

SUMMARY DATA

52-Week High	**$0.14**
52-Week Low	**$0.07**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**13,787**
Shares Outstanding (mil)	**615**
Market Capitalization ($mil)	**$73**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**AUD$0.01**
Dividend Yield (%)	**5%**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**1.2**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Medium**
Type of Stock	**N/A**
Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of AUD$)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2021	$1.0 A	$10.1 A	$17.8 A	$19.8 A	$47.7 A
2022	$31 A	$37 A	$31 A	$24 A	$123 A
2023	$38 E	$40 E	$39 E	$40 E	$157 E
2024	$42 E	$45 E	$45 E	$48 E	$180 E

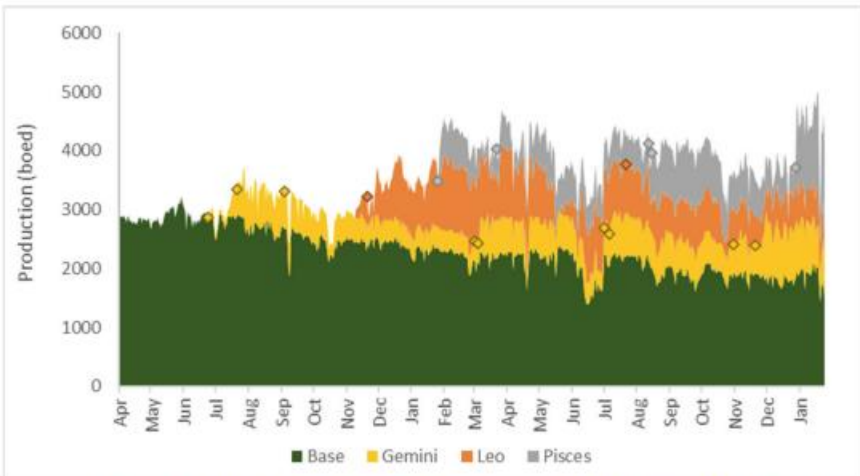
Earnings per share (AUD$)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2021	N/A	N/A	N/A	N/A	-$0.08 A
2022	N/A	N/A	$0.03E	$0.04E	$0.13 E
2023	$0.04E	$0.03E	$0.05E	$0.04E	$0.16 E
2024	$0.04E	$0.04E	$0.05E	$0.06E	$0.19 E

Update

Calima Energy provided investors with its 4Q quarterly activities and cash flow report and continued to show increased production, with its yearly production growing a robust 23% in 2022 over 2021. Production has continued to expand to this point in 2023, with the company noting that current production is above 4,700 boe/d versus the 3,727 bo/d that was reported in 2022. The chart below provides a pictorial representation of how the production increased throughout the year.

Calima Production



Note: Symbols represent new wells coming on and may represent multiple locations starting the same week

Source: Calimaenergy.com, January 31, 2023

These results fit with the story that we've been telling about Calima and that we continue to urge investors to pay attention to. In addition to the growth in production, the company announced that it continues to pay cash to shareholder in the form of dividends, with a $1.75 million (in US dollars—converted from Australian dollars) distribution reported in 4Q2022.

The company also provided an update on the wells which we discussed in our report from two weeks ago:

2022	Well name	Working Interest	Target formation	Spud Date	Lateral length (m)	On Production	Status
Brooks	Gemini #10	50%	Sunburst	5/10/22	1,253	31/10/2022	**Producing**
Brooks	Gemini #11	100%	Sunburst	15/10/22	927	23/11/2022	**Producing**
Brooks	Gemini #12	100%	Sunburst	26/10/22	423	29/11/2022	**Producing**
Brooks	Pisces #6	100%	Glauconitic	10/11/22	1,325	29/12/2022	**Producing**
Brooks	Pisces #7	100%	Glauconitic	19/11/22	1,498	29/12/2022	**Producing**
Brooks	Pisces #8	100%	Glauconitic	06/01/23	2,744	Mid March	**Awaiting Completion**
Brooks	Pisces #9	100%	Glauconitic	19/01/23	2,633	Mid March	**Awaiting Completion**

Source: Calimaenergy.com, January 31, 2023

We've already discussed the above programs but we do want to highlight the 1Q2023 wells that are awaiting completion—Pisces #'s 8 and 9. These wells are follow-up wells to the Glauconitic horizonal well drilled in 2020, which cumulatively produced over 132,000 boe. The company noted that these wells achieved, on average, a horizontal wellbore length 22% longer than expected and will have 15 more fracs, compared to the 12-23 well, which should result in higher production and reserve expectations. We also again want to note that both wells were drilled on the same pad, which provides cost saving and efficiencies on drilling, fracture completion and gas tie-in infrastructure.

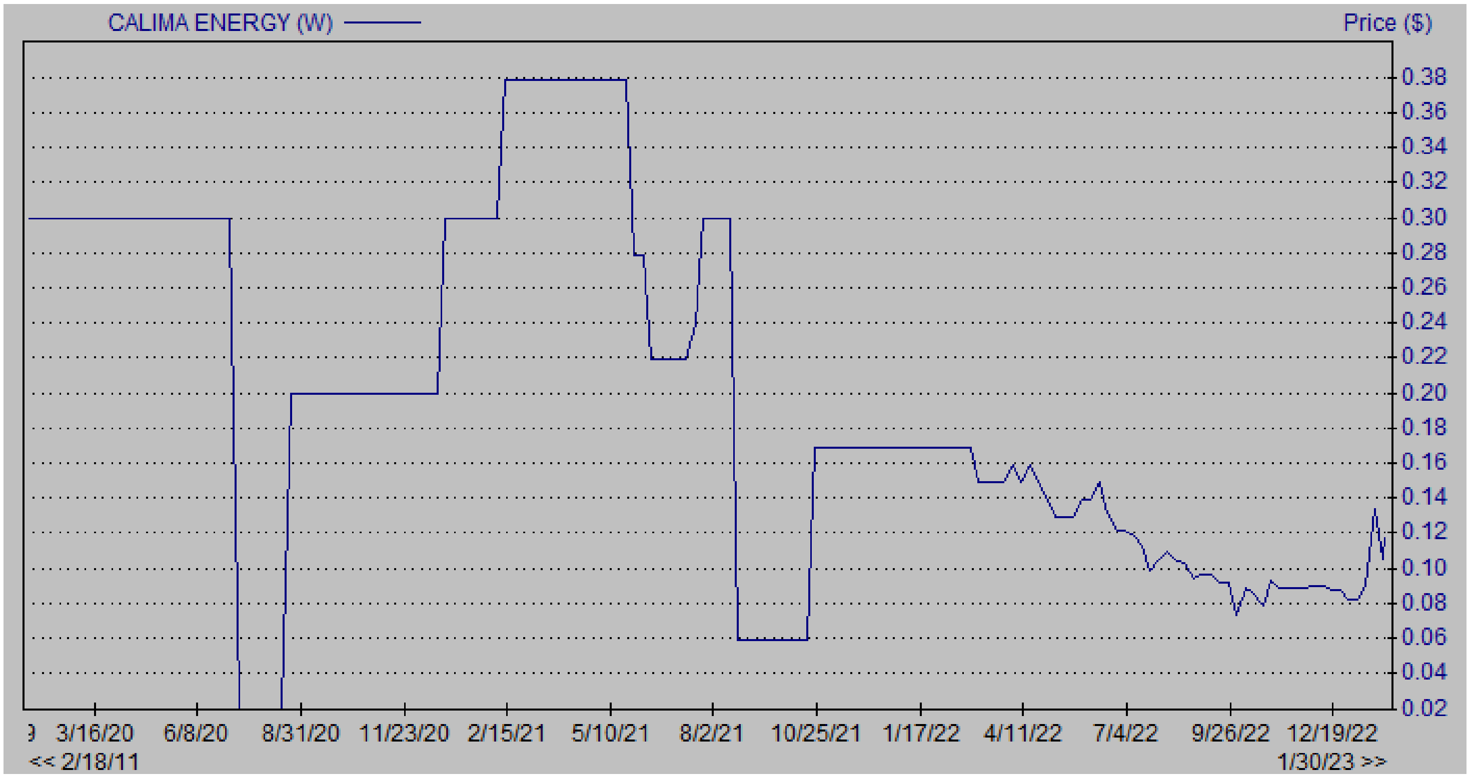
Management also gave an update on its hedging strategy, which it noted cost the company just over $11 million in 2022—although nothing in 4Q. We believe this was a prudent strategy despite the loss due to the extreme uncertainty and volatility in the energy market in 2022. Going forward, the company is using a three-way collar strategy, which should increase exposure to the upside and manage downside risk.

One final reminder, the company continues to explore its Montney asset, which we gave an extensive update on in our last report. We continue to believe that investors are failing to recognize the potential this asset can bring and are excited to see the results from the ongoing testing going on.

Summary

Calima Energy continues to make decisions that, in our view, enhances the value of the company by increasing production at a reasonable cost—resulting in a low risk, high return potential for the company with the current plans. We are of the opinion that investors are undervaluing Calima for two major reasons. First—investors aren't appropriately recognizing the production Calima is achieving and how the company continues to manage costs and increase production. Second—we don't think investors are giving any value to the Montney asset, which is one that we are very optimistic about. Once the testing is complete, our belief is that results will be quite positive and lead to a financially beneficial arrangement for Calima. This leads to our thinking that these actions will enable the company to continue to return cash to shareholders, bolster the investment case, and solidifies our belief that CLMEF is undervalued at recent prices.

HISTORICAL STOCK PRICE



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