

Zacks Small-Cap Research

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Calima Energy

(CLMEF-OTCQB)

CLMEF: Energy company continues to surprise on the upside.

OUTLOOK

Calima Energy provided an update the testing of the Montney asset and announced the completion of two well fracturing projects.

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.

The company continues to expand production and make smart investments that allows them to consistently exceed expectations, providing potential upside for investors.

Current Price (02/28/23) \$0.11
Valuation \$0.55

SUMMARY DATA

| | | | |
|-------------------------------|-----------|---------------|--------|
| 52-Week High | \$0.14 | Risk Level | Medium |
| 52-Week Low | \$0.07 | Type of Stock | N/A |
| One-Year Return (%) | N/A | Industry | N/A |
| Beta | N/A | | |
| Average Daily Volume (sh) | 13,004 | | |
| Shares Outstanding (mil) | 615 | | |
| Market Capitalization (\$mil) | \$68 | | |
| 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 | N/A | | |
| P/E using 2023 Estimate | N/A | | |
| Zacks Rank | N/A | | |

ZACKS ESTIMATES

Revenue

(in millions of AUD\$)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|---------|----------|----------|----------|----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (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 | Q2 | Q3 | Q4 | Year |
|------|---------|---------|---------|---------|-----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (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 an update on its ongoing Montney re-testing program. As a reminder, the Montney asset, the characteristics of the Montney siltstone are well suited to fracking resulting in exceptional fracture stability. Calima has used a proprietary geological work-flow to identify and capture a significant land position within the super liquids rich window of the Montney play in British Columbia where the presence of a significant proportion of natural gas liquids and oil results in improved economics. Additionally, Calima Energy holds over 34,000 acres of Montney rights in the “liquids rich” fairway in NE British Columbia. The company has been re-testing the asset in order to better determine what future course to take regarding the asset. A full analysis of production data should be released soon, but what was released recently was extremely encouraging:

- The testing and evaluation on Calima #2 and Calima #3 are complete.
- Calima #2 had a peak 24-hour condensate rate of 396 bbl/d at a rate of 3.4 mmcf/d gas.
- Calima #3 had a peak 24-hour condensate rate of 27.7 bbl/d at a rate of 4.9 mmcf/d gas.
- A total of around 5,900 bbl of condensate was produced and sold.

We are also excited that the company continued to show excellent expense management by announcing that this project came in “substantially” under budget, while they were also able to sell the clean condensate at an average of WTI plus \$4 per barrel—further helping to offset the costs.

The test analysis will help in the development of accurate Inflow Performance Relationship (IPR) curves, validation of type curves and calculation of the maximum potential gas flow rates. We continue to believe that the market is not giving Calima nearly the credit it deserves for this asset and believe the stock has substantial upside potential should the potential of this asset start to be realized.

Calima Production

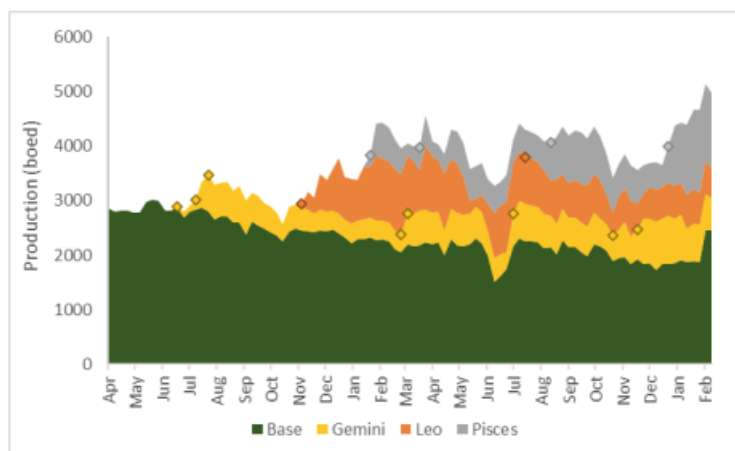


Figure 1: Corporate production graph showing base production plus new well additions. Montney testing volumes represented in “base”

Source: Calimaenergy.com, March 1, 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 Montney asset, the company also provided an update on the wells which we discussed in our report from a month ago:

Q1 2023 New Well Summary Table

| Area | Well name | Target formation | Spud Date | Lateral length (m) | Status |
|--------|-----------|------------------|-----------|--------------------|-------------------------|
| Brooks | Pisces #8 | Glauconitic | 06/01/23 | 2,744 | Frac'd; awaiting tie-in |
| Brooks | Pisces #9 | Glauconitic | 19/01/23 | 2,633 | Frac'd; awaiting tie-in |

Source: Calimaenergy.com, March 1, 2023

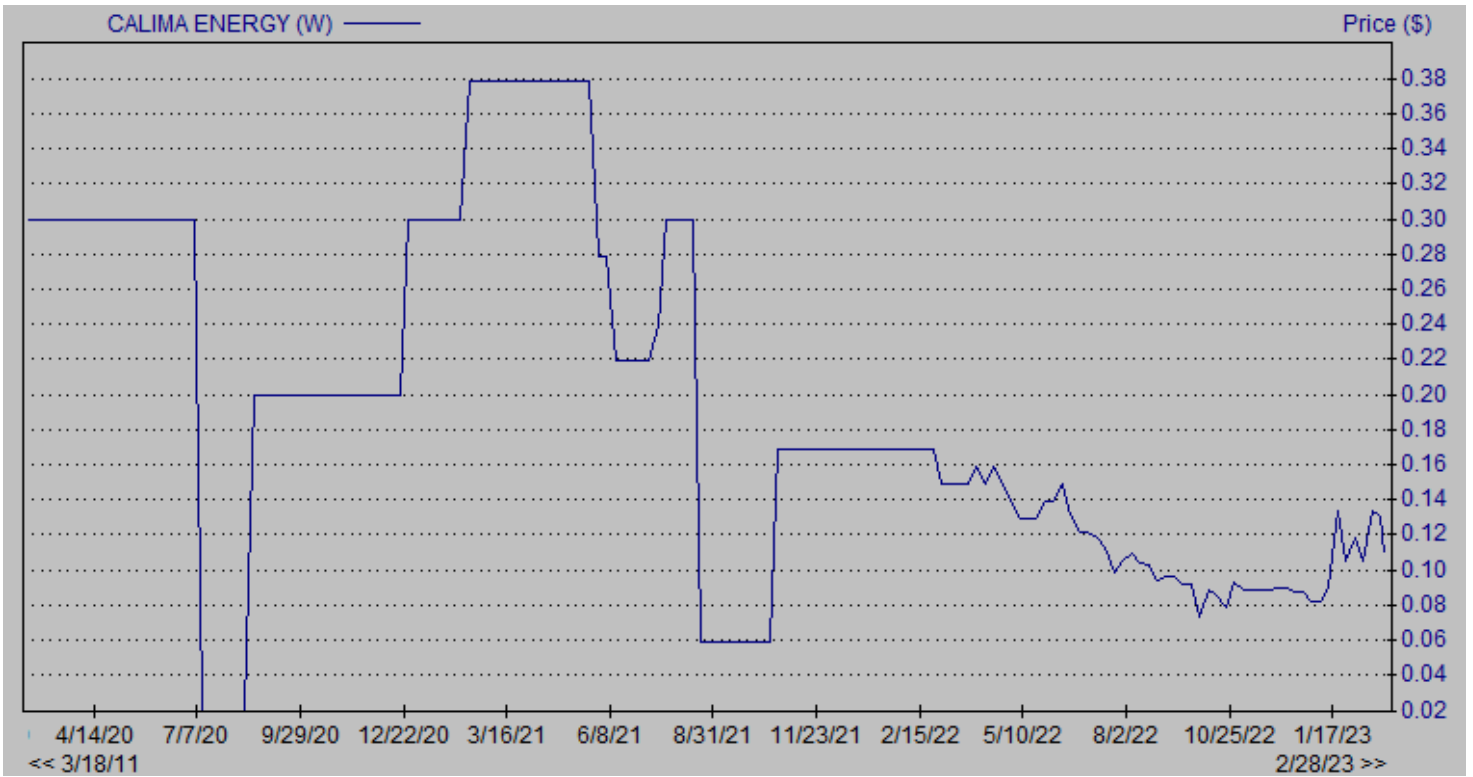
These wells are follow-up wells to the Glauconitic horizontal well drilled in 2020, which cumulatively produced over 132,000 boe. The company noted that these wells achieved, on average, a horizontal wellbore length 22% longer than expected and will have 15 more fracs, compared to the 12-23 well, which 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.

Following the announcement of the completion of these wells, the CEO of Calima, Jordan Kevol, announced that the company is “looking forward to a strong Q1 production result, which is anticipated to be above our forecasts.”

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, and as initial tests have indicated, 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.

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