

**November 02, 2018**

**REGIONAL UPDATE**  
**PIPESTONE BLACKBIRD MERGER PROVIDES ANOTHER**  
**STRONG MONTNEY M&A METRIC**

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**Highlights:**

- Pipestone Oil and Blackbird Energy have just announced a C\$700 million merger to create a mid-cap Montney focused E&P company.
- The transaction includes a C\$111 million equity financing and C\$195 million of debt capacity
- In its research note published on 31 October 2018, RBC included an implied value for Blackbird of approximately \$7,300/acre, which is a premium to regional Montney peers at approximately C\$5,000/acre.
- Positive read through for Calima which is currently being valued at less than C\$1,000/acre

*This is a regional update for information purposes only. It is based on public domain information and is not an official release by Calima Energy Limited.*

**Blackbird Pipestone Merger**

The merger between Blackbird Energy (TSXV:BBI) and Pipestone Oil (Private) announced this week creates a new mid-cap Montney liquids player which brings a well-regarded private company, Pipestone, into the public market via the reverse into Blackbird. The enlarged company to be called Pipestone Energy will have a market capitalisation of C\$700 million.

With comparable net acreage to Calima of 72,000 acres and a market capitalization of c.\$250 million Blackbird has always been an interesting comparison to what Calima could look like a few years into the future. They have drilled 12 wells as operator and participated in an additional 6 wells as non-operator. Daily production as at July 31<sup>st</sup> was 3,175 mboe. This should be comparable to what Calima could produce with 5 wells from Pad A by early 2020 if these wells meet pre-drill expectations.



Pipestone is a wholly owned subsidiary of Canadian Non-Operated Resources LP, a Calgary based oil and gas investment fund which is managed by Grafton Asset Management Inc.

Both Blackbird and Pipestone have adjacent acreage in the Pipestone area of Alberta (Figure 1) some 330 km SSE of the Calima Lands. This is the super-rich part of the Montney liquid rich fairway. Recent test results from the combined portfolio have delivered average rates of 1,800 boe/d (900-3,100 boe/d range) with average condensate gas ratios of 170 bbl/mmcf. The latest wells drilled by Saguario, our immediate neighbor and analogue, produce at an initial rate of 1,500 boe/d with a condensate gas ratio of 52 bbl/mmcf. These comparisons however do not give the full picture with Pipestone wells being drilled to 2,500 m in 20-25 days whereas Saguario wells are drilled to 1,600-1700 m in 10-15 days. Pipestone claim a 13-month payback on typical wells whereas Saguario report a 20-month payback.

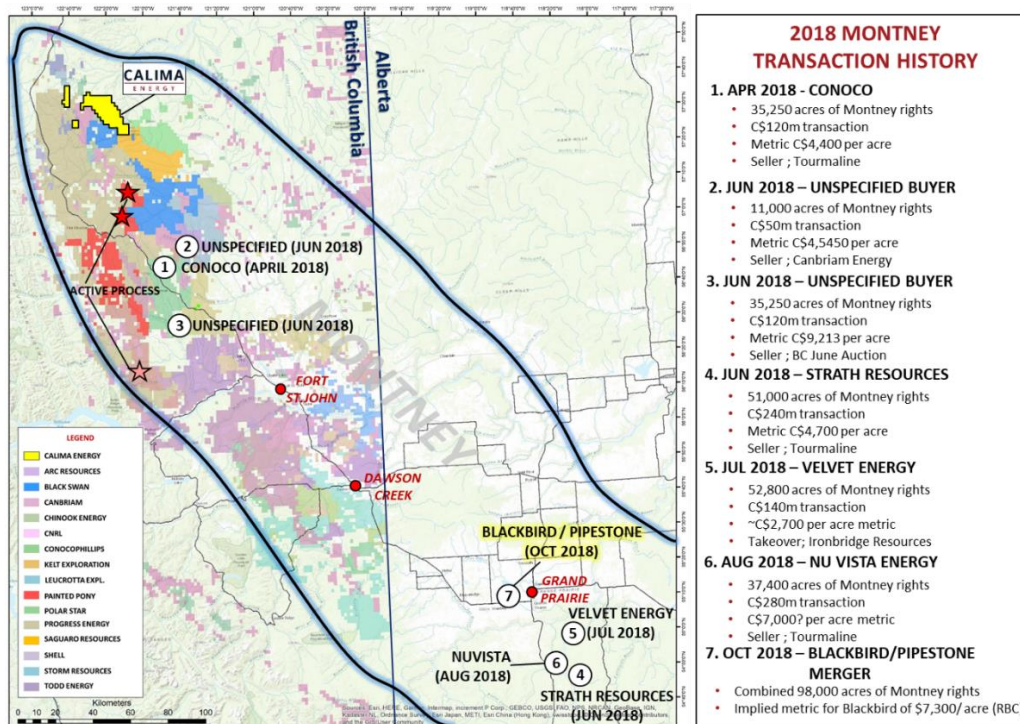


Figure 1 – Map of 2018 Montney M&As

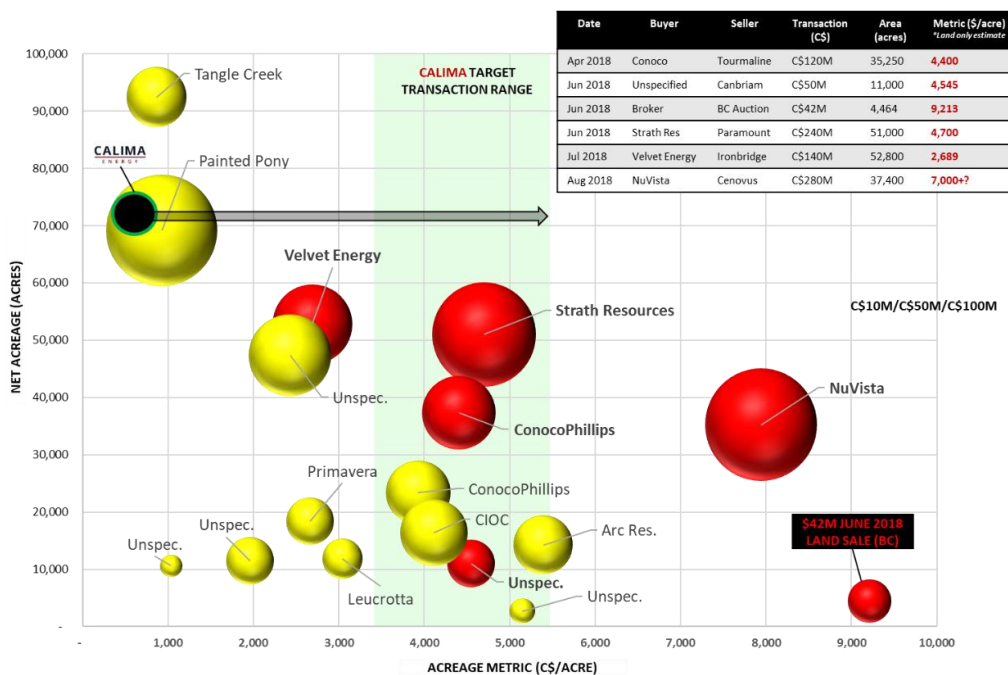
The new company, Pipestone Energy, will have an acreage footprint of 98,000 acres with 9,000 boe/d of tested production behind pipe and forecast end 2019 production of 14-16 mboe/d. The combined portfolio will report 165 mmboe of 2P reserves and 221 mmboe of 2C contingent resources based on 555 well locations (172 2P and 383 2C). Calima currently has 475 mmboe of unrisks resources based on 400 well locations. Not surprisingly the numbers are broadly comparable, however Pipestone has a higher liquids yield.



According to RBC’s research note published on 31 October 2018, and based on the assumptions set out therein, the deal values the Blackbird portfolio at approximately C\$7,300/acre and \$4.35/boe of 2P reserves, which is regarded as being in line with Montney peers at approximately C\$5,000/acre and \$5/boe. At this early stage it seems the valuation of Blackbird at C\$7,300/acre has not been adjusted to show underlying undeveloped land value after deductions for production and infrastructure, but the premium is probably not surprising given the very high liquids yields.

**Montney M&A activity**

After a quiet second half to last year there has been a pick-up in Montney M&A activity during 2018 which has seen land prices after adjustments for production and infrastructure jump from an average of C\$2,500/acre during 2017 to C\$4,500/acre this year (Figure 2).



**Figure 2 – Montney acreage transaction metrics (2017 in yellow, 2018 in red).**

The Pipestone/Blackbird merger valuation has yet to be adjusted for production to show underlying undeveloped land value however it is likely that it would plot somewhere to the right of the Calima target transaction range in Figure 2. Calima is currently being valued at less than C\$1,000 per acre.

The Blackbird/Pipestone combination and financing demonstrates continued M&A and investor interest in the Montney and underpins the trend of increasing land values implied by 2018 transactions.



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