



22 July 2019

Dear Shareholder,

Shareholder Update

As Managing Director of Calima Energy, I am pleased to update you on the progress made by the Company over the past six months. A key milestone over this period was the very successful three-well drilling campaign on the Calima Lands. The results of this campaign validated our early geoscience work, which predicted that the Calima Lands in British Columbia (BC) would be rich in gas, condensate (or light oil) and natural gas liquids. Our target was to match the results achieved by our regional neighbours who are established producers. We believe our results show the potential to match or exceed the results of our immediate peer group.

Our strong drilling results significantly upgraded the recently released resource report prepared by McDaniel & Associates. It was particularly pleasing to see a significant increase in the overall Best Estimate resource volume in comparison to the 2018 report. Our Unrisked Contingent Resources (2C), based upon 124 wells over 20,549 acres, was 196.1 mmboe gross and 159.8 mmboe net of royalties. Our Unrisked Prospective Resources (2U), based upon 314 wells over 51,488 acres, was 497.3 mmboe gross and 394.4 mmboe net of royalties. Refer to the Company ASX announcement on 8 July 2019 for further details regards the resource assessment.

Noteworthy results from the drilling campaign include:

- **35% Well Recovery Increase** – the estimated ultimate recover of each well has increased to 8.4 Bcf per well; a material improvement from the 2018 estimate of 5.6 - 6.8 Bcf per well. Higher type curves translate to greater volumes of production and better economics per well.
- **45 bbls/mmcf liquids** – based on limited test results, the gas-to-liquids ratio is conservatively estimated at 45 barrels per million cubic feet of gas, (45 bbl/mmcf) with **65%** of the liquids being high-value condensate (priced at **WTI**). The liquids ratio is expected to increase once the wells are cleaned up and on steady production.
- Both horizontal wells are ready to be tied in as future producers.

Canada is currently one of the world's top five gas producers with the Montney, which currently produces more than 8 Bcf/d, accounting for almost half of all Canadian gas production. It is one of the most productive and lowest cost resource plays in North America, primarily due to the significant light oil and natural gas liquids associated with the gas production. Production rates have been increasing in the region by 20% year on year over the last three years.

Rapid increases in production have caused short term pipeline constraints depressing gas prices. Producers selling condensate at close to the WTI benchmark price have accepted gas prices at a significant discount to US benchmark prices such as Henry Hub. Fortunately, significant investment in pipeline capacity is underway and the futures curve predicts that the discount to the US benchmarks should decrease.

In addition to new pipeline capacity there are some major new energy and petrochemical projects which will add significant new demand for gas and condensate from the Montney over the next five years. Based on our own



review of public domain data (ASX release 18 July, 2019) we have identified more than 10 Bcfe/d (90% gas and 10% liquids) of additional demand coming from new projects.

The most significant of these new projects are the LNG projects currently in construction or close to final investment decision in British Columbia (BC). The Shell/Petronas and Chevron/Woodside projects at Kitimat will consume an additional 6.1 Bcf/d of Montney gas when running at full capacity.

LNG produced in BC is expected to have a unit cost 50% less than Australian LNG producers and the lowest carbon footprint of any LNG produced in the world. Global LNG demand is predicted to create significant demand for new projects from 2023 onwards with most of the new demand coming from Asia. The combination of lower production costs, a lower carbon footprint and short sailing time to Asia will give Canada a competitive advantage, underpinning significant new demand for Montney producers.

The pipeline expansion projects and build-up of gas demand as noted above will continue to place greater value on the Montney resources and will result in a re-rate in Montney producers. Many Australian investors are aware of the impact that the arrival of LNG can have on resource owners. In Queensland, once LNG trains were sanctioned at Gladstone, domestic resource owners and producers such as Queensland Gas, Pure Energy and Arrow Energy went through a sustained period of valuation increase and consolidation before being acquired by international companies such as Shell, BG and Petrochina.

To assist us in maximising our value going forward, we have engaged GMP First Energy in Canada, a leading Canadian investment bank, to achieve this goal. The Canadian mergers and acquisition (M&A) market, which showed encouraging positive growth through 2018, with average transaction metrics in the region of C\$4,000+ per acre for undeveloped land, has slowed since the decrease in oil prices during H2 2018. Despite reduced M&A activity, we note that Montney producer, Canbriam Energy Inc was recently acquired by Pacific Oil & Gas for C\$800-1,000 million in anticipation of supplying gas to their Woodfibre LNG project at Squamish near Vancouver. Canbriam produces approximately 200 mmcf/d of gas and 6,000 bbl/d of condensate and natural gas liquids.

In addition to the work undertaken by GMP, Calima is developing a strategy that makes our land position profitable and therefore attractive at near-term pricing metrics while preserving upside exposure to the demand growth thematic.

Calima is in the process of negotiating access agreements to certain parts of the Tommy Lakes Field infrastructure that can be used to bring the Calima Lands into production by 2Q 2020. Tommy Lakes is a mature field that lies immediately north of the Calima Lands. This would involve the construction of a 20km tie-in pipeline and the completion of transportation and offtake agreements as necessary. Tommy Lakes would be capable of handling initial production of up to 50 mmcf/d and 2,500 bopd. As is industry practice for a project of this nature, a debt facility and/or a partnership agreement would be required to achieve this goal.

The Tommy Lakes pipeline connects with the NorthRiver Midstream system which, in-turn, provides access to the major export routes; NGTL, Alliance and Westcoast, and, in addition, NorthRiver (a subsidiary of Brookfield Infrastructure) are proposing to build an inter-connector which will feed directly into the LNG facilities at Kitimat. A



Calima Lands project running at the current capacity of the Tommy Lakes infrastructure over ten years would consume less than 10% of the available resource base as implied by the recent McDaniel resource report. The cost savings accruing from the re-use of existing facilities should deliver a project that is profitable with near-term oil and gas pricing, leaving scope to expand or transact into rising prices and demand. We believe this situation should be of interest to both companies and investors active in the Montney.

In conclusion, on behalf of the Board and Management team, I would like to thank you for your support. The support of our shareholders is appreciated and never taken for granted. These are dynamic times, but we are well positioned to meet the challenges facing us and determined to secure a valuation in the market that better reflects the world-class quality of our assets.

Yours Sincerely

A handwritten signature in blue ink, appearing to read "Alan Stein".

Dr. Alan Stein
Managing Director