CALIMA ENERGY

# ABN 17 117 227 086

## Half-Year Financial Report
## 30 June 2019

## Corporate Directory

**Directors**

| | |
|---|---|
| Glenn Whiddon | Chairman |
| Alan Stein | Managing Director |
| Jon Taylor | Technical Director |
| Neil Hackett | Non-executive Director |

**Company Secretary**
Neil Hackett
James Bahen

**Registered Office – Perth Australia**
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Subiaco WA 6008
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Facsimile: +61 (0) 8 6500 3275
Email: info@calimaenergy.com
Website: www.calimaenergy.com

**Auditors**
BDO Audit (WA) Pty Limited
38 Station Road
Subiaco WA 6008

**Bankers**
National Australia Bank
UB14.01
100 St Georges Tce
Perth WA 6000

**Share Registry**
Computershare Investor Services Pty Ltd
Level 11,172 St. Georges Terrace, Perth WA 6000
Telephone: +61 (0) 8 9323 2000
Facsimile: +61 (0) 8 9323 2033

**Securities Exchange Listing**

The Company is listed on the ASX Limited (ASX).

Home branch: Perth, Western Australia
ASX Code: **CE1**

**Table of Contents**

## Directors' Report

Your Directors submit their report on Calima Energy Limited for the half-year ended 30 June 2019.

## Directors

The names of the directors of Calima Energy Limited ("Calima" or "Company") in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Glenn Whiddon
Alan Stein
Jon Taylor
Neil Hackett

## Review and Results of Operations

**Results**

The net loss for the half year ended 30 June 2019 was $1,003,758 (2018: $1,177,291).

**Principal Activity**

The principal activity of the Group is oil and gas exploration.

**Operations**

Calima's operations during the period were focused on the drilling, testing and analysing the prospectively of the Montney Formation in the Company's 72,000-acre lease holdings in Northeast British Columbia (Calima Lands), and the sale of PEL 90 license (Block 2813B) in Namibia.

**Calima Lands**

The Company completed its planned three well drilling programme in Canada during the period and all three wells were drilled without any significant health, safety or environmental incidents.

The Calima-1 vertical well reached a total depth of 1,872m. The top of the Montney Formation was encountered at 1,559.5m and the Company logged 256.5m of formation. Core data was successfully collected over 90% of the Montney interval.

Following the successful drilling of Calima-1, the Calima-2 well was drilled to a target length of 4,425m, including a 2,508m horizontal section and the Calima-3 well was drilled to a target length of 4,428m with a horizontal section of 2,561m.

Both of the horizontal wells underwent reservoir stimulation with a 92-stage completion design which was successful in delivering the planned proppant loading of 1.5 tonnes per metre over almost every stage.

The first phase of the production test recovered the load water injected during reservoir stimulation. As the water rate decreased the flow of gas increased and eventually light oil and other natural gas liquids were recovered. During the final stages of the clean-up phase Calima-2 flowed at a calculated maximum rate of 1,773 boe/d comprised of ~ 9.7 mmcf/d of gas and ~155.5 bbl/d of light oil and natural gas liquids. The well was then shut-in as planned to allow installation of production tubing before being brought back on production. The well continued to clean up and the ratio of liquids to gas was climbing steadily until completion of the test. The maximum well-head condensate-to-gas ratio (CGR) measured during testing was 22.15bbl/mmcf (constrained to a 38.1mm choke size). Based on normal plant yields that equates to a total liquid yield of 44.3 bbl/mmcf of which 60-70% would be condensate (C5+).

The Calima-3 well testing performed as expected until the arrival of an unseasonal early spring melt curtailed testing operations requiring a full decommissioning of the drill site over a short period of time. The Calima-3 test of the Upper Montney was flaring gas in the early stage of unloading (recovery of water injected during stimulation) at rates in excess of 2.5mmcf/d[1]. These rates are consistent with the early Calima-2 test rates and encouragingly were reached in a shorter period of time

Following the well testing results, Calima commissioned an independent technical auditor, GLJ, to review and benchmark the Calima testing results. In a March 2019 report, GLJ stated "…it is fair to say the Calima-2 well is likely to meet or exceed the performance of adjacent wells. This is true both in terms of overall production performance (such as gas production rate) and in terms of liquid yield."

In comparison to regional Montney testing data, the report concluded that "…from the D-021-C well (Calima-2), one can see that the total gas test rate from the Calima well compares favorably to other liquids-rich wells". This is best shown in Figure 1.

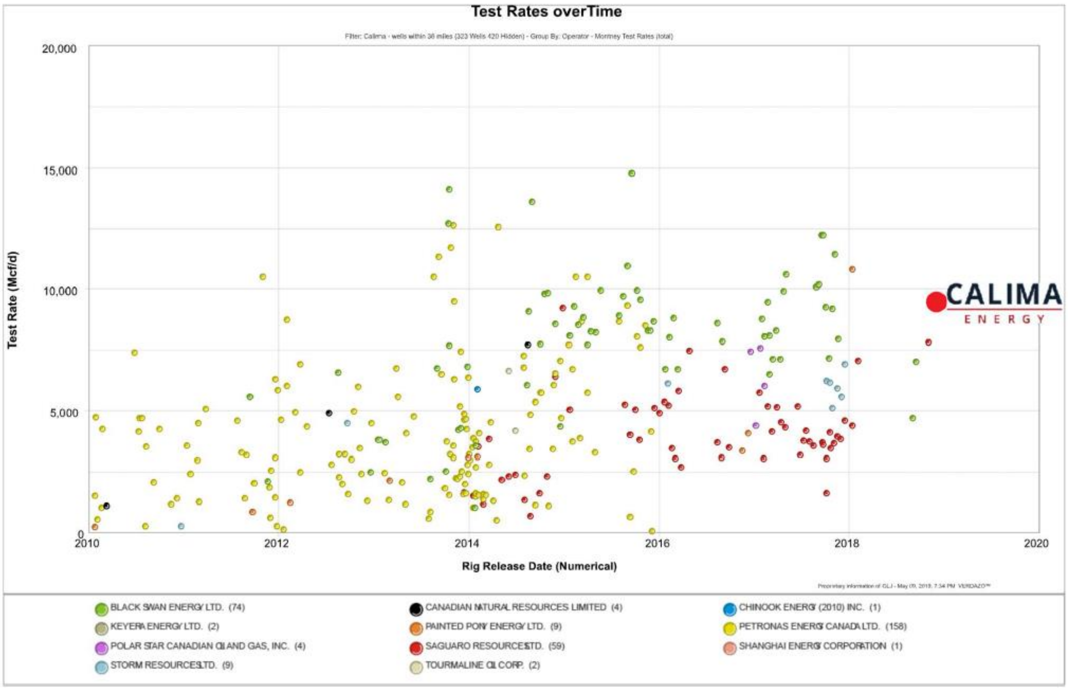


***Figure 1 – Well test rates over time by Montney operator***

Following the acquisition of wireline log data in the Calima-1 vertical well, Calima contracted NUTECH Energy, a leader in reservoir intelligence, to conduct analyses of the Montney reservoirs for comparison with nearby wells (well locations shown in Figure 2). Results from the study, summarised in Table 1, highlight the reservoir quality of the Montney reservoir targets in Calima-1. Notably, the key reservoir parameters of porosity and hydrocarbon saturation are far superior to the average of those calculated in the offset wells.

Average porosities in Calima-1, for the Upper and Middle Montney targets, are 28% and 20% higher, respectively, than the average of the offset wells. Porosity is a measure of the available pore-space capable of holding hydrocarbons and water and thus has a direct influence on the volumes of hydrocarbons in-place.

Average hydrocarbon saturations in Calima-1, for both the Upper and Middle Montney targets, are 14% greater than the average of the offset wells. The hydrocarbon saturations calculated in the wireline analyses are confirmed by AGAT's core analyses. Hydrocarbon saturation defines the percentage of hydrocarbons taking up pore space within the reservoir rock and will have a direct bearing on the volumes of hydrocarbons in-place.

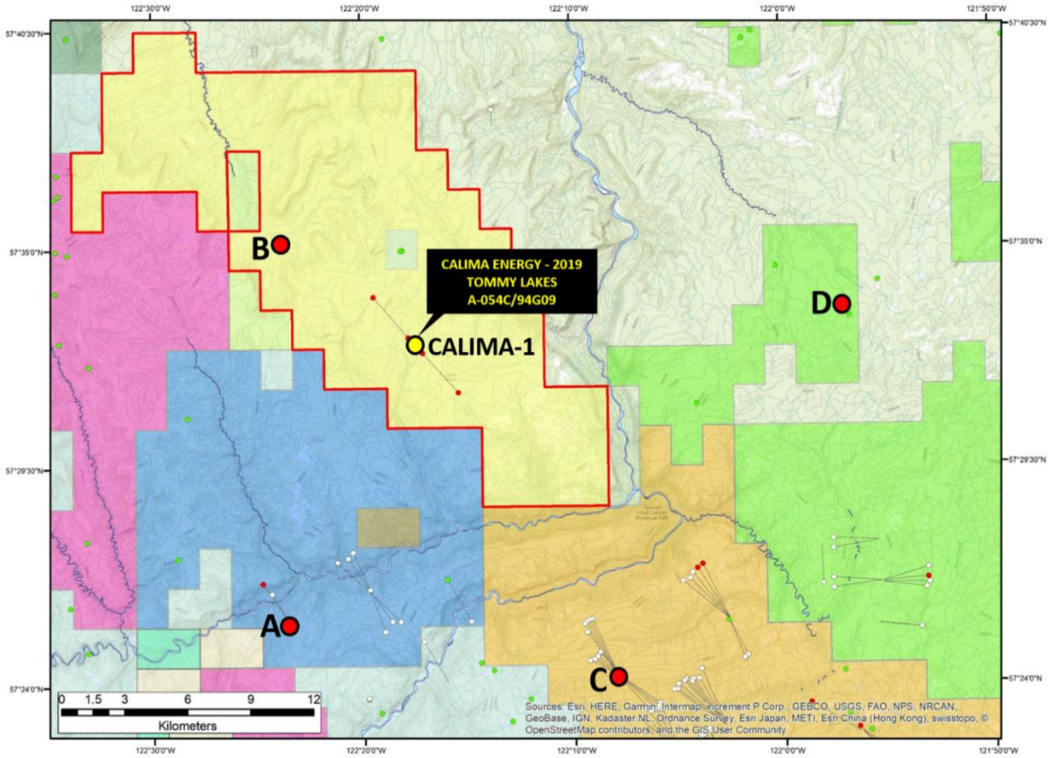


*Figure 2 – Location Map of vertical wells summarised in Table 1. Calima Lands shown in yellow.*

| Compiled for Calima Energy (March 2019) by; NUTECH | | LOCATION A | LOCATION B | CALIMA ENERGY CALIMA-1 | LOCATION C | LOCATION D |
|---|---|---|---|---|---|---|
| UPPER TARGET (tested with Calima-3) | Porosity (%) | 3.8 | 4.5 | **5.3** | 4.1 | 4.1 |
| | Hydrocarbon Sat. (1-Sw) % | 67.8 | 87.7 | **87.5** | 68.7 | 82.6 |
| | Thickness (m) | 48 | 49 | **46** | 38 | 35 |
| | Clay (%) | 18.6 | 16.6 | **14.3** | 18.2 | 16.1 |
| | TOC (%) | 1.48 | 2.13 | **1.7** | 1.36 | 2.0 |
| MIDDLE TARGET (tested with Calima-2) | Porosity (%) | 3.7 | 4.1 | **4.5** | 3.8 | 3.4 |
| | Hydrocarbon Sat. (1-Sw) % | 67.7 | 82.0 | **75.2** | 65.9 | 48.5 |
| | Thickness (m) | 73 | 70 | **73** | 65 | 64 |
| | Clay (%) | 23.7 | 23.3 | **20.6** | 20.8 | 18.8 |
| | TOC (%) | 1.05 | 1.33 | **1.3** | 0.92 | 0.93 |
| LOWER TARGET (upside potential) | Porosity (%) | 4.3 | 5.1 | **4.9** | 4.7 | 4.5 |
| | Hydrocarbon Sat. (1-Sw) % | 70.3 | 72.5 | **62.0** | 63.1 | 62.7 |
| | Thickness (m) | 146 | 132 | **136** | 158 | 136 |
| | Clay (%) | 30.0 | 27.4 | **27.0** | 30.2 | 28.4 |
| | TOC (%) | 0.87 | 0.87 | **1.1** | 0.65 | 0.59 |

*Table 1 – Reservoir parameters determined from Calima-1 wireline log data (highlighted in red) compared with wireline log analyses of nearby wells by Montney peers. Location B (grey outline) lies within the Calima Lands and providing further evidence that the exceptional reservoir quality encountered in the Calima wells extends further north into the Calima Lands.*

The well, identified as Location B in Table 1, is located ~8km northwest of Calima-1 and only 5km from the bottom hole location of Calima-3. Well B was drilled vertically by a previous operator to target a conventional reservoir below the Montney. The results of the Well B analysis validate the northwards extension of the Montney reservoir quality encountered in the Calima wells. The Well B location could be a de-risked future well pad.

Through the cumulative drilling of 9,353m over the campaign, the Company has earnt the right to convert ~35,000 acres of drilling licences to 10-year production leases. This corresponds to approximately 60% of the central area of the Calima Lands. The remainder of the central area is retained under drilling licences that are valid until 2021.

**Significant Resource Increase for Calima Lands**

Following completion of drilling, McDaniel & Associates, one of Canada's pre-eminent reserves auditors with particular experience of the Montney, were commissioned to undertake a resource audit. Based on the new drilling results and mapping provided by the Company using those results the new resource assessment was a significant increase both in terms of overall volume and in resource category over the pre-drill assessment undertaken in March 2018.

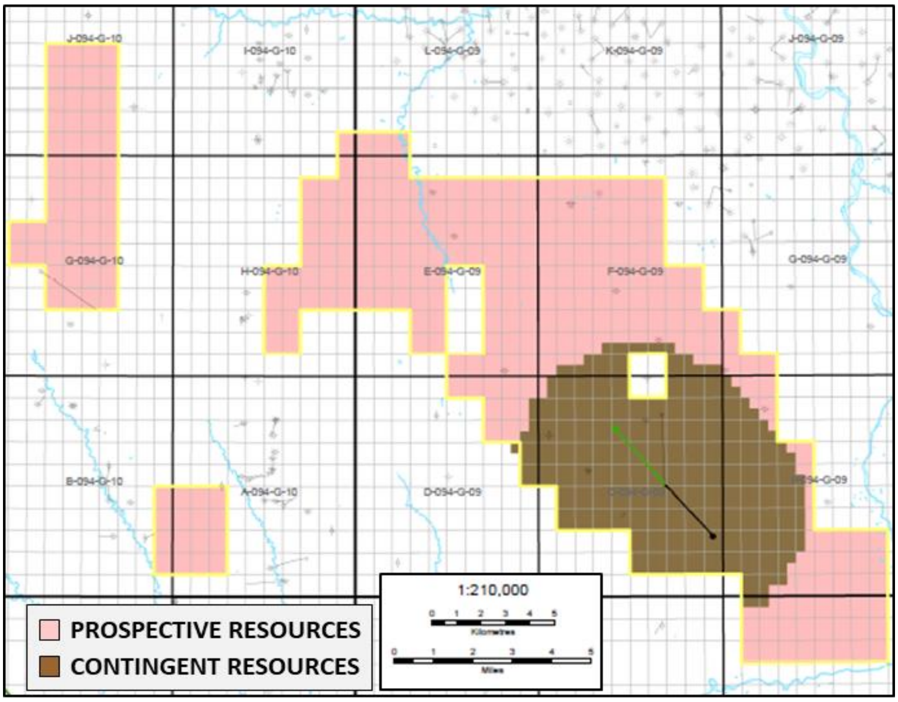


*Figure 3 - Map of Calima Lands defining the areas of Prospective (pink) and Contingent (brown) Resources*

McDaniel & Associates (McDaniel) Best Estimates of total un-risked contingent and prospective resources within the Calima Lands are summarised in Tables 2A/1B and Figure 3 and these were released to the market subsequent to the end of the period (refer to ASX announcement 8 July 2019).

| 1A Gross Unrisked Contingent Resources [4] (2C) based upon 124 wells over 20,549 acres | | |
|---|---|---|
| **Natural Gas (mmcf)** | Gross | 904,897 |
| | Net after Royalties | 730,359 |
| **Condensate (mbbl)** | Gross | 20,115 |
| | Net after Royalties | 16,912 |
| **Natural Gas Liquids[1] (mbbl)** | Gross | 25,136 |
| | Net after Royalties | 21,133 |
| **TOTAL LIQUIDS[2] (mbbl)** | Gross | 45,251 |
| | Net after Royalties | 38,045 |
| **TOTAL mmboe[3]** | Gross | 196.1 |
| | Net after Royalties | 159.8 |

| 1B Gross Unrisked Prospective Resources[5] (2U) based upon 314 wells over 51,488 acres | | |
|---|---|---|
| **Natural Gas (mmcf)** | Gross | 2,295,070 |
| | Net after Royalties | 1,795,581 |
| **Condensate (mbbl)** | Gross | 51,017 |
| | Net after Royalties | 42,355 |
| **Natural Gas Liquids[1] (mbbl)** | Gross | 63,752 |
| | Net after Royalties | 52,928 |
| **TOTAL LIQUIDS[2] (mbbl)** | Gross | 114,769 |
| | Net after Royalties | 95,283 |
| **TOTAL mmboe[3]** | Gross | 497.3 |
| | Net after Royalties | 394.4 |

***Table 2A – Best estimate Unrisked Contingent (2C) Resources and Table 2B - Prospective (2U) Resources of the Calima Lands as estimated by McDaniel & Associates effective 1 July, 2019***

***Notes to accompany Tables 1A & 1B***

*(1) Natural Gas Liquids refers to the product recovered after processing. Approximately 10 bbl/MMcf of the product recovered after processing is also condensate (C5) see also Note 2.*

*(2) Sum of Condensate and Natural Gas Liquids. Based on Company drilling results public domain data and the results of wells drilled on adjacent land McDaniel estimate that the average condensate to gas ratio for wells in the Calima Lands would be 22.5 bbl/MMcf (wellhead condensate/gas ratio) for the Middle Montney and 17.5bbl/MMcf for the Upper Montney. Additional liquids 25bbl/MMCF would be stripped from the gas upon processing comprising 6 bbl/MMcf of C3, 9 bbl/MMcf of C4, and 10 bbl/MMcf of C5+ (Condensate).*

*(3) Barrels of Oil Equivalent based on 6:1 for Natural Gas, 1:1 for Condensate and C5+, 1:1 for Ethane,1:1 for Propane, 1:1 for Butanes. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

*(4) Contingent Resources (2C) - Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Contingent resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by the economic status. The Contingent Resources (2C) in Tommy Lakes have been sub-classified as a "Development on Hold" as the accumulation is well defined and does represent a viable drilling target. The prospective resources have also been classified using a deterministic method of petroleum reserves estimation having an evaluation date of 1 July 2019.*

*(5) Prospective resources (2U) are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbon. The Prospective Resources (2U) in Tommy Lakes have been sub-classified as a "Prospect" as the accumulation is well defined and does represent a*

*viable drilling target. The prospective resources have also been classified using a deterministic method of petroleum reserves estimation having an evaluation date of 1 July 2019.*

*(6) Pre-Development – A pre-development study is an intermediate step in the development of a project scenario. The amount of information that is available for the reservoir of interest is greater than for a conceptual study. In particular, the petroleum initially in place has been reasonably well defined and the remaining uncertainty lies largely in the recovery factor and the economic viability.*

**Namibia – Sale of PEL 90**

On 28 June 2019, Calima entered into a formal sale and purchase agreement to sell its interest in the Namibia PEL 90 license (Block 2813B) to Tullow Namibia Limited (Tullow), a subsidiary of Tullow Oil plc, a leading deep-water operator with an outstanding track record in Africa. The transfer of title contemplated by the agreement is subject to customary Government and partner approvals relating to the assignment of interest and transfer of Operatorship.

Calima will receive US$2 million on completion. Success bonuses totalling US$10 million will be paid in two equal tranches (US$5 million) following the grant of a production license and then upon the commencement of commercial production.

## Corporate

**Director and Senior Management Appointments and Resignations**

There were no director or senior management changes in the period.

**Paradise Well Oil Agreement**

During the half-year, the Group entered into an arrangement to borrow CAD1,000,000. This facility, inclusive of CAD200,000 interest, is repayable through monthly remittance of net cash flows from the Paradise Well (official designation: Boundary 5-1-86-15 00/11-01-08615W6/0, located 40km north-east of Fort St. John and 180km southeast of the Group's core interests in the Montney) to the lender, over a maximum period of thirty-six (36) months to 1 April 2022. At the end of the term, any sum that has not been settled through the net cash flows from the well are payable in cash upon maturity.

Additionally, the loan contains a conversion feature. At any time between the 1 October 2021 and 1 April 2022, the lender may convert the outstanding balance of the loan into shares in Calima Energy Limited (at a price of the 20-day VWAP prior to such election), subject to shareholder approval. Furthermore, at any time, the lender may take ownership of the Well in full and final settlement of any liability under this agreement.

## Changes in State of Affairs

During the half year ended 30 June 2019 there was no significant change in the entity's state of affairs other than that referred to in this Directors' report, the half year financial statements or notes thereto.

## Events after the reporting date

**Placement and Rights Issue**

On 1 July 2019, the Company announced a $12.7 million (before costs) capital raising completed by way of a $4 million placement (Placement) and $8.7 million fully underwritten entitlement offer (Entitlement Offer) both at $0.018 per share.

Petra Capital and Euroz Securities acted as joint lead managers and joint bookrunners to the Placement and Entitlement Offer and joint underwriters of the Entitlement Offer.

The Placement was completed on 8 July 2019 and Entitlement Offer was completed 5 August 2019 with shares being allotted and funds received by the Company.

## Auditor's Independence Declaration

We have obtained an independence declaration from our auditors, BDO, which is included on page 8.

Signed in accordance with a resolution of the Directors.

**Glenn Whiddon**
**Chairman**

13 September 2019

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Australia

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF CALIMA ENERGY LIMITED

As lead auditor for the review of Calima Energy Limited for the half-year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Calima Energy Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 13 September 2019

## Consolidated Statement of Profit or Loss and Other Comprehensive Income
## For the half-year ended 30 June 2019

| | Notes | For the half year ended 30 June 2019 $ | For the half year ended 30 June 2018 $ |
|---|---|---|---|
| Interest revenue | | 10,032 | 6,880 |
| Other revenue | | 369,524 | 41,200 |
| | | 379,556 | 48,080 |
| General and administrative expenses | 3 | (1,383,314) | (1,225,371) |
| **Loss before income tax** | | (1,003,758) | (1,177,291) |
| Income tax expense | | - | - |
| **Net loss for the period** | | (1,003,758) | (1,177,291) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Foreign currency translation | | 1,543,664 | 30,255 |
| **Other comprehensive income for the period, net of tax** | | 1,543,664 | 30,255 |
| **Total comprehensive income/(loss) for the period** | | 539,906 | (1,147,036) |
| Loss for the period is attributable to: | | | |
| Non-controlling interest | | - | - |
| Owners of the parent | | (1,003,758) | (1,147,036) |
| | | (1,003,758) | (1,147,036) |
| Total comprehensive income/(loss) for the period is attributable to: | | | |
| Non-controlling interest | | - | - |
| Owners of the parent | | 539,906 | (1,147,036) |
| | | 539,906 | (1,147,036) |
| **Loss per share for the half year attributable to members of Calima Energy Limited** | | Cents per share | Cents per share |
| - basic loss per share attributable to owners of the parent | | (0.10) | (0.20) |
| - diluted loss per share attributable to owners of the parent | | N/A | N/A |

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

## Consolidated Statement of Financial Position
## As at 30 June 2019

| | Notes | 30 June 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 813,212 | 21,471,404 |
| Trade and other receivables | 5 | 1,792,579 | 1,534,253 |
| Asset Held for Sale | 6 | 1,460,463 | - |
| **Total current assets** | | 4,066,254 | 23,005,657 |
| | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 7 | 247,379 | 185,577 |
| Exploration and Evaluation expenditure | 8 | 58,753,487 | 32,438,808 |
| Investments | 9 | 1,086,320 | 1,080,852 |
| **Total non-current assets** | | 60,087,186 | 33,705,237 |
| **TOTAL ASSETS** | | 64,153,440 | 56,710,894 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 9,638,689 | 3,972,637 |
| Other Liabilities | | 79,139 | - |
| **Total current liabilities** | | 9,717,828 | 3,972,637 |
| | | | |
| **Non-Current Liabilities** | | | - |
| Provisions | | 45,951 | 43,873 |
| Lease Liabilities | | 56,854 | - |
| Loans | 10 | 1,061,662 | - |
| **Total Non-Current Liabilities** | | 1,164,467 | 43,873 |
| **TOTAL LIABILITIES** | | 10,882,295 | 4,016,510 |
| **NET ASSETS** | | 53,271,145 | 52,694,384 |
| | | | |
| **EQUITY** | | | |
| Issued capital | 12 | 284,241,650 | 284,246,600 |
| Share-based payment reserve | | 15,693,880 | 15,652,075 |
| Foreign currency translation reserve | | 1,529,272 | (14,392) |
| Accumulated losses | | (248,193,657) | (247,187,899) |
| **TOTAL EQUITY** | | 53,271,145 | 52,694,384 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Cash Flows
## For the half year ended 30 June 2019

| | Notes | 30 June 2019 $ | 30 June 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 158,764 | - |
| Payments to suppliers and employees | | (790,687) | (765,304) |
| Interest received | | 10,032 | 6,884 |
| Other | | - | (48,756) |
| **Net cash flows used in operating activities** | | (621,891) | (807,176) |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation assets | | (21,223,806) | (1,703,254) |
| Cash from acquisition of subsidiary | | - | 1,509,755 |
| **Net cash flows (used in)/from investing activities** | | (21,223,806) | (193,499) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 3,517,625 |
| Payments for capital raising | | (4,950) | (180,969) |
| Investment loan | | 1,040,482 | - |
| **Net cash flows from/(used in) financing activities** | | 1,035,532 | 3,336,656 |
| | | | |
| Net decrease in cash and cash equivalents | | (20,810,165) | 2,335,981 |
| Net foreign exchange differences | | 151,973 | 79,354 |
| Cash and cash equivalents at beginning of the period | | 21,471,404 | 2,394,365 |
| **Cash and cash equivalents at end of the period** | 4 | 813,212 | 4,809,700 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity
## For the half-year ended 30 June 2019

| | Share capital | Share-based payment reserve | Foreign currency translation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **At 1 January 2019** | 284,246,600 | 15,652,075 | (14,392) | (247,189,899) | 52,694,384 |
| Loss for period | - | - | - | (1,003,758) | (1,003,758) |
| Other comprehensive income | - | - | 1,543,664 | - | 1,543,664 |
| Total comprehensive loss for the period | - | - | 1,543,664 | (1,003,758) | 539,906 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Transaction costs of issuing shares | (4,950) | - | - | - | (4,950) |
| Share based payments | - | 41,805 | - | - | 41,805 |
| **At 30 June 2019** | **284,241,650** | **15,693,880** | **1,529,272** | **(248,193,657)** | **53,271,145** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity (continued)
## For the half-year ended 30 June 2019

| | Share capital | Share-based payments reserve | Foreign currency translation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **At 1 January 2018** | 236,983,645 | 15,547,680 | (4,954) | (244,062,601) | 8,463,770 |
| Loss for period | - | - | - | (1,147,036) | (1,147,036) |
| Other comprehensive income | - | - | 207,579 | - | 207,579 |
| Total comprehensive loss for the period | - | - | 207,579 | (1,147,036) | (939,457) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Issue of share capital | 3,517,625 | - | - | - | 3,517,625 |
| Transaction costs of issuing shares | (180,969) | - | - | - | (180,969) |
| Issue of shares to advisors | 150,000 | - | - | - | 150,000 |
| Issue of shares to TMKM and TSVM shareholders | 20,198,887 | - | - | - | 20,198,887 |
| Share based payments | - | 41,805 | - | - | 41,805 |
| **At 30 June 2018** | **260,669,188** | **15,589,485** | **202,625** | **(245,209,637)** | **31,251,661** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Notes to the Consolidated Financial Statements

## 1. Corporate Information

The half year financial report of the Group for the six months ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 13 September 2019.

Calima Energy Limited is a for profit company incorporated and domiciled in Australia. It is listed on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Preparation

This half-year financial report for the period ended 30 June 2019 is a general purpose condensed financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2018 and considered together with any public announcements made by Calima Energy Limited during the half-year ended 30 June 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

### (b) Adoption of new and revised Accounting Standards

The consolidated entity has adopted all of the new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases
The consolidated entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117.

However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted

Impact of adoption
AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

## Notes to the Consolidated Financial Statements (continued)

| | 1 January 2019 $ |
|---|---|
| Operating lease commitments as at 1 January 2019 (AASB 117) | 88,380 |
| Less: discount applied | (9,129) |
| Operating lease commitments discounted at our incremental borrowing rate on 1 January 2019 | 79,251 |
| Finance lease liabilities recognised at 31 December 2018 | - |
| Lease liability recognised as at 1 January 2019 | (79,251) |
| Right-of-use assets (value determined solely with reference to the lease liability value) | 79,251 |
| Reduction in opening retained profits as at 1 January 2019 | - |

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**(c) Going Concern**

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Directors are of the opinion that the Group can meet its obligations as and when they fall due.

At 30 June 2019, the Company was in a working capital deficient position. Subsequent to the end of the period, the company completed a $12.7 million (before costs) capital raising by way of a $4 million Placement and $8.7 million fully underwritten Entitlement Offer both at $0.018 per share. Refer to Note 17 for further details.

## Notes to the Consolidated Financial Statements (continued)

### 3. Expenses

| | For the half year ended 30 June 2019 $ | For the half year ended 30 June 2018 $ |
|---|---|---|
| **General and administrative expenses** | | |
| Employee benefit and director compensation expense | 397,243 | 68,850 |
| Share based payments | 41,805 | 41,805 |
| Corporate expenses | 644,845 | 1,038,503 |
| Consulting expenses | 267,806 | 74,140 |
| Depreciation of property plant and equipment | 31,615 | 2,073 |
| | 1,383,314 | 1,225,371 |

### 4. Cash and Cash Equivalents

For the purposes of the half-year statement of cash flow, cash and cash equivalents are comprised of the following:

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Cash and cash equivalents** | $ | $ |
| Cash at bank and on hand | 813,212 | 21,471,404 |
| | 813,212 | 21,471,404 |

### 5. Trade and Other Receivables

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Trade and other receivables** | $ | $ |
| GST receivable | 1,644,159 | 455,416 |
| Prepayments | 46,144 | 90,989 |
| Bank guarantee | 47,992 | 46,772 |
| Other | 54,284 | 941,076 |
| | 1,792,579 | 1,534,253 |

## Notes to the Consolidated Financial Statements (continued)

### 6. Asset Held for Sale

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| | $ | $ |
| Exploration & Evaluation Asset | 1,460,463 | - |
| | 1,460,463 | - |

**Non-current assets or disposal groups classified as held for sale**
Calima entered into a formal sale and purchase agreement to sell its interest in the Namibia PEL 90 license (Block 2813B) to Tullow Namibia Limited (Tullow), a subsidiary of Tullow Oil plc, a leading deep-water operator with an outstanding track record in Africa. The Company will receive US$2.0 million on transfer of title. Success bonuses totalling US$10.0 million will be paid in two equal tranches of US$5.0 million following the grant of a production licence and then upon the commencement of commercial production.

The transfer of title contemplated by the agreement is subject to customary Government and partner approvals relating to the assignment of interest and transfer of Operatorship.

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

### 7. Property Plant and Equipment

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Property plant and equipment** | $ | $ |
| Balance at the beginning of the period | 185,577 | 16,721 |
| Property plant and equipment acquired during the period | 19,989 | 170,929 |
| Less: accumulated depreciation | (5,937) | (2,073) |
| Land and buildings – Right of use | 82,650 | - |
| Less: Accumulated depreciation | (27,750) | - |
| Foreign exchange movements | (7,150) | - |
| | 247,379 | 185,577 |

The consolidated entity leases land and buildings for its offices under an agreement of between one to three years. lease has an escalation clause. On renewal, the terms of the lease will be renegotiated.

## Notes to the Consolidated Financial Statements (continued)

## 8. Exploration and Evaluation Expenditure

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Exploration and Evaluation Expenditure** | **$** | **$** |
| Balance at the beginning of the period | 32,438,808 | 4,663,926 |
| Expenditure incurred | 27,287,937 | 7,370,558 |
| Acquisition of Namibian assets | - | 1,460,463 |
| Less: transferred to Asset Held for Sale | (1,460,463) | |
| Acquired in the acquisition of TSVM and TMKM | - | 18,943,862 |
| Foreign exchange movements | (512,795) | - |
| | 58,753,487 | 32,438,808 |

## 9. Investments

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Investments** | **$** | **$** |
| Balance at the beginning of the period | 1,080,852 | 1,308,517 |
| Investments capitalised as part of the acquisition of TSVM | - | (396,677) |
| Gains on fair value movement | - | 113,609 |
| Movement due to foreign exchange translation | 5,468 | 55,393 |
| | 1,086,320 | 1,080,852 |

The investment related to a shareholding of 8.5% interest in Bahari Holding Company Limited.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs (level 3).

The fair value of the unlisted equity investment has been determined based upon indicative non-binding offers received from independent third parties to acquire certain assets of the investee. Due to the way the third-party offers are structured, the fair value of the investment has been assessed as a Level 3 measurement as per the fair value hierarchy set out above.

## Notes to the Consolidated Financial Statements (continued)

## 10. Loan

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| | $ | $ |
| Capital | 1,061,680 | - |
| Interest | 21,180 | - |
| Less Repayments | (21,198) | - |
| | 1,061,662 | - |

During the half-year, the Group entered into an arrangement to borrow CAD1,000,000. This facility, inclusive of CAD200,000 interest, is repayable through monthly remittance of net cash flows from the Paradise Well (official designation: Boundary 5-1-86-15 00/11-01-08615W6/0, located 40km north-east of Fort St. John and 180km southeast of the Group's core interests in the Montney) to the lender, over a maximum period of thirty-six (36) months to 1 April 2022. At the end of the term, any sum that has not been settled through the net cash flows from the well are payable in cash upon maturity.

Additionally, the loan contains a conversion feature. At any time between the 1 October 2021 and 1 April 2022, the lender may convert the outstanding balance of the loan into shares in Calima Energy Limited (at a price of the 20-day VWAP prior to such election), subject to shareholder approval. Furthermore, at any time, the lender may take ownership of the Well in full and final settlement of any liability under this agreement.

## 11. Commitments

The Company has the following commitments:

**Land Rentals**

The Group has the following obligations in respect of non-cancellable land rental over drilling rights:

- Later than one year but not more than five years: $212,000

**Namibia – Exploration Work**

The Group has the following obligations in respect of non-cancellable initial exploration work program over Block 2813B:

- Later than one year but not more than five years: US$2,000,000

Calima entered into a formal sale and purchase agreement to sell its interest in the Namibia PEL 90 license (Block 2813B) to Tullow Namibia Limited (Tullow), a subsidiary of Tullow Oil plc, a leading deep-water operator with an outstanding track record in Africa. The transfer of title contemplated by the agreement is subject to customary Government and partner approvals relating to the assignment of interest and transfer of Operatorship.

Calima will receive US$2 million on completion. Success bonuses totalling US$10 million will be paid in two equal tranches (US$5 million) following the grant of a production license and then upon the commencement of commercial production.

## 12. Contributed Equity

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| | $ | $ |
| **(a) Share capital** | | |
| Ordinary shares fully paid | 284,241,650 | 284,246,600 |

| | Number | $ |
|---|---|---|
| **(b) Movements in ordinary shares on issue** | | |
| Balance at 1 January 2019 | 1,444,885,070 | 284,246,600 |
| Share issue costs | - | (4,950) |
| Balance at 30 June 2019 | 1,444,885,070 | 284,241,650 |

## Notes to the Consolidated Financial Statements (continued)

### 13. Share Based Payments

No performance rights or options were granted during the half years ended 30 June 2019. The expense recognised in the year relates to the vesting of certain performance rights and options as disclosed in previous reports.

### 14. Related Party Transactions

The following table provides the total amount of transactions which have been entered into with related parties during the six months ended 30 June 2019 as well as balances with related parties as at 30 June 2019:

| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| Key management personnel of the group: | $ | $ | $ | $ |
| Havoc Services Pty Ltd | - | 420,763 | - | - |

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

The Company entered into a consulting agreement with Havoc Services Pty Ltd (Havoc), under which five Havoc members were engaged as members of the Company's Management team. The members include Managing Director Alan Stein, Technical Director Jon Taylor and senior geoscientists Mark Sofield, Richard Higgins and Justin Norris.

### 15. Segment Reporting

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. In the case of the Group the CODM are the executive management team and all information reported to the CODM is based on the consolidated results of the Group as one operating segment, as the Group's activities relate to oil and gas exploration. Accordingly, the Group has only one reportable segment and the results are the same as the Group results.

### 16. Contingent Assets and Liabilities

There are no contingent assets or liabilities as at 30 June 2019.

### 17. Events after the reporting date

On 1 July 2019, the Company announced a $12.7 million (before costs) capital raising to be completed by way of a $4 million placement (Placement) and $8.7 million fully underwritten entitlement offer (Entitlement Offer) both at $0.018 per share.

Petra Capital and Euroz Securities acted as joint lead managers and joint bookrunners to the Placement and Entitlement Offer and joint underwriters of the Entitlement Offer.

The Placement was completed on 8 July 2019 and Entitlement Offer was completed 5 August 2019 with shares being allotted and funds received by the Company.

## Directors' Declaration

In accordance with a resolution of the directors of Calima Energy Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the financial position as at 30 June 2019 and the performance for the half-year ended on that date of the consolidated entity; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

**Glenn Whiddon**
**Chairman**

13 September 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Calima Energy Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of Calima Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 13 September 2019