December 11, 2019

Pipeline Connection To Regional Sales Networks Approved

Highlights:

- Permit granted to construct pipeline to connect the Calima well-pad with regional pipeline and processing infrastructure.
- Pipeline engineered for up to 50 Mmcf/d of wet gas and 1,500 bbls/d of well-head condensate.
- Pipeline will provide connections to main sales lines via NorthRiver Midstream Jedney facility (NGTL, Alliance and T-North).
- Together with the 10-year production lease continuations and the production facility approvals already announced, this permit allows a future joint venture partner to fast track development of the Calima Lands secure in the knowledge that key authorisations and environmental approvals have been obtained.

Calima Energy Limited (ASX:CE1) ("**Calima"** or the "**Company"**) owns and operates drilling and production rights in British Columbia ("Calima Lands"). As advised, the Company continues to advance the permitting and approval process associated with bringing the Calima Lands into production in a cost-effective manner and as part of that process, we are pleased to announce regulatory approval has been granted to construct and operate a 19.5 km steel 8-inch service pipeline (Figure 1).

The pipeline will connect existing and future Calima wells to the Tommy Lakes Field West 2 compressor facilities. The Tommy Lakes infrastructure has excess capacity and the Company is in discussions with the field operator to determine the optimal way to use that capacity in manner that delivers a benefit for both parties. Tommy Lakes is a conventional gas and condensate field that produces from a reservoir in the Halfway Doig Formation that overlies the Montney.

Calima's ongoing strategy is to obtain the necessary approvals, permits and authorizations necessary to complete a Field Development Plan ("FDP") that will allow fast-track development of the Calima Lands for a future Operator or joint venture partner.

Alan Stein, Calima's Managing Director commented: *"We are fortunate to find ourselves in a situation where Calima can access existing infrastructure in a manner that delivers a positive outcome and economics for all parties. Our successful drilling earlier in the year confirmed that we have a great acreage position with a substantial resource and the re-use of existing facilities provides cost-effective access to market. When funding has been sourced through either the introduction of a joint venture partner and/or project financing facilities we will be able to commence development. Fortunately, major* *investment in new pipeline capacity across western Canada is starting to have a positive impact on gas prices which gives us cause for quiet confidence.*

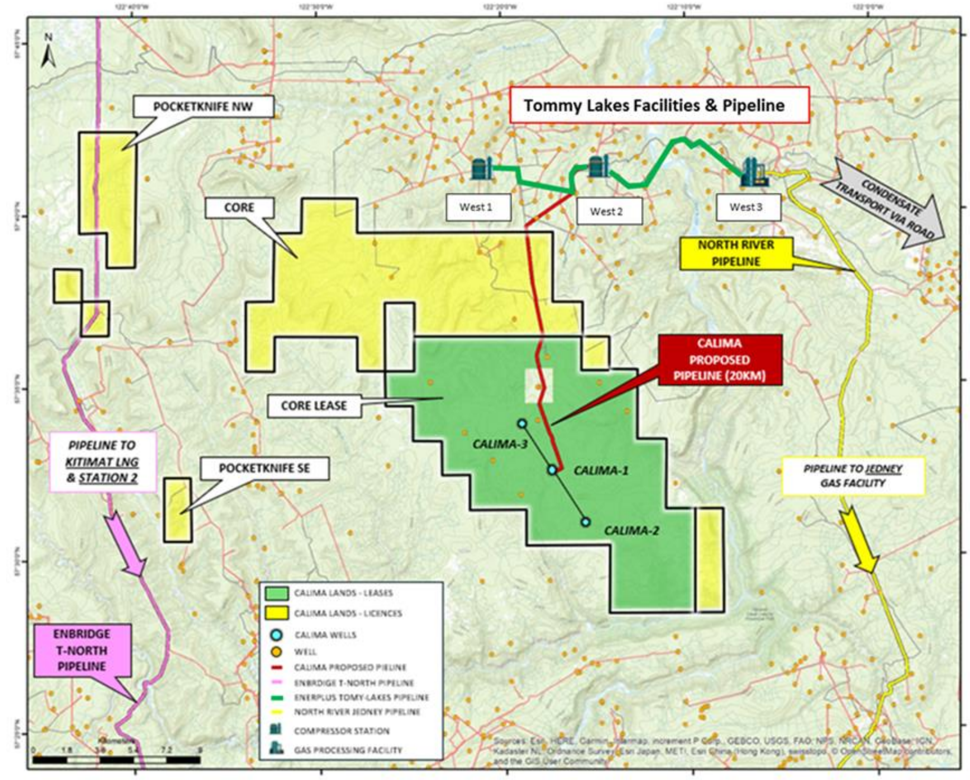

Figure One – *The proposed pipeline ties into the Tommy Lakes Field which lies immediately north of the Calima Lands and offers the closest, most cost-effective tie-in to processing facilities and regional pipeline networks.*

Figure Two – *The proposed pipeline route through the northern part of the Calima Lands follows an existing track.*

The pipeline which will run through the core of the Calima Lands will have capacity to transfer up to 50 mmcf/d of wet gas and 1,500 bbls/d of well-head condensate. Trialta Projects, the lead engineering contractor for the project design and regulatory approvals process, has costed the procurement and installation of the pipeline at ~C$17 million.

Gas and liquids produced from the wells will be separated and measured at the wellhead; the liquids will be re-injected back into the pipeline for transportation to the Tommy Lakes gathering system where it will be transferred into a North River Midstream sales line. Produced water will be removed at the well-pad to be recycled and stored for future completions.

The wet gas will then be further processed at the North River Midstream Jedney plant, where additional natural gas liquids (NGL's) recovered during processing will be removed and transported via pipeline to a liquid's hub adjacent to the Alaska Highway. The NGL's recovered during processing include additional condensate (C5+) plus lighter fractions such as Propane (C4) and Ethane (C3). Based on Company drilling results, public domain data and the results of wells drilled on adjacent land the Company's reserve auditors, McDaniels (CE1 ASX release 8 July 2019) estimate that the average liquid to gas ratio for wells in the Calima Lands should be 45 bbl/Mmcf with around two thirds of total production being condensate.

Connections to Gas Markets

The North River Jedney processing plant provides immediate access to the major export routes that service western Canada such as NGTL/AECO, Alliance and T-North/Station 2. In the future, inter-connects are being proposed to provide access to the Shell/Petronas' LNG Canada Facility and the proposed Woodside/Chevron LNG Facility at Kitimat.

Field Development Plan and Final Investment Decision

Approval of the new pipeline is one of the critical components of the FDP that advances the Calima Lands to a development-ready project.

Calima does not intend to undertake further development work until a Final Investment Decision ("FID") has been taken. The FID will be subject to securing funding through either the introduction of a joint venture partner and/or project financing facilities being arranged on the back of sustained rising gas prices.

The Calima Lands are rich in condensate that typically sells at a price close to West Texas Intermediate crude, however in terms of barrels of oil equivalent, based on energy content, around 70% of production from the Calima Lands is expected to be gas.

As prices in western Canada ("AECO") have been recovering following a massive programme of infrastructure and pipeline investment (CE1 ASX Announcement 18 July 2019) which, when complete, is predicted to more than double the market access for western Canadian gas. These investments are having an impact on forward strip pricing for AECO gas. A negative trend of successive futures curves from April 2018 (Figure Three) has been reversed since April 2019 with each new subsequent curve showing price growth. **These improvements are having a positive impact on the project economics and will make the project more attractive to prospective partners and financiers once the FDP is completed.**

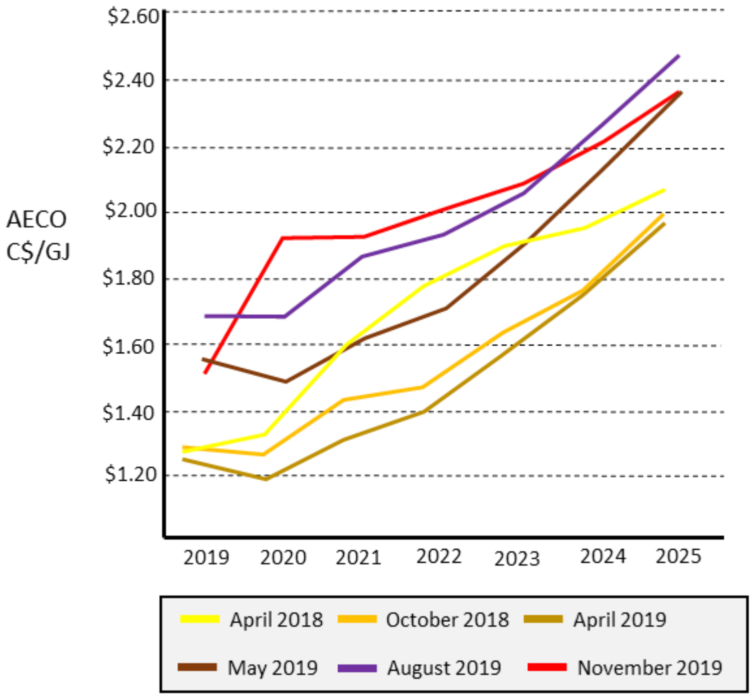

Figure Three – *Historical AECO gas forward strip pricing. Over the 12-month period up to April 2019 each successive curve predicted lower gas prices. Since April 2019 each successive curve has been predicting higher gas prices. The prospects for long term gas pricing appear to be improving.*

For and on behalf of the Board of Calima Energy Limited.

Alan Stein,
Managing Director

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