COMPANY NOTE

Update

2 May 2019

CORPORATE

Current price	**2.45p**
Sector	**Oil & Gas**
Code	**(CLNR)**
Listing	**AIM**

SHARE PERFORMANCE

	1m	3m	12m
CLNR	+8.9%	-19.7%	+11.4%

Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£)		**£14.8m**
Shares in issue (m)		**548.82m**
52 weeks	High	Low
	3.87p	**1.62p**
Financial year end		**31 December**

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

IPGL	11.8%
Hargreaves Lansdown	10.7%
Fiske	7.7%
Interactive Investor	6.6%
Janus Henderson	6.0%
Guinness	5.0%

Source:Company Data

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EQUITY RESEARCH

CLUFF NATURAL RESOURCES PLC (CLNR)

Second Shell farm-out

The good news continues to flow at CLNR. Following the farm-out of P2252 to in February, Shell has exercised an exclusive option for a second farm-out on P2437 which hosts the highly prospective Selene prospect in the core of the SNS (Southern North Sea) Gas Basin. The agreement is contingent on the consent of the UK regulatory body, the Oil & Gas Authority but this is unlikely to be a stumbling block. CLNR has suggested regulatory completion by end Q2 2019. The latest farm-out again validates the technical expertise and strategic vision of CLNR. Furthermore, there is a clear path to early drilling with Shell indicating their intention to commit to an exploration well on Selene at the earliest opportunity. This could take place during 2020. With a market capitalisation of £15m CLNR is modestly valued based on our risked resource-based valuation across its licences of £110m.

- **P2437:** Licence P2437 is located about 100km east of the Humber estuary in the heart of the SNS's Lower Leman Sandstone gas play. The Selene prospect has been imaged on high-quality 3-D seismic and is highly analogous to the Shell operated Barque field, located 20 km to the south. Selene has critical-mass with gross P50 un-risked resources of 291 bcf (49mm boe) and by exploration standards is low-risk with geological chances of success (GCOS) of 39%. The potential for commercial development of Selene is clearly enhanced by its proximity to the Barque gas field which is in turn tied back to the Clipper gathering hub. This in turn links to the Bacton gas terminal on the Norfolk coast. Both Clipper and Bacton have seen significant investment by Shell and its partners of late. The farm-out terms call for Shell receiving a 50% working interest in return for a consideration on completion. Following a well decision, Shell will pay 75% of well costs up to a gross cap of $25m and become the operator. CLNR retains the option to farm down its working interest and exposure to drilling costs.

- **P2252** update Licence P2252, the subject of an earlier Shell farm-in, is located 75 km east of the Tees estuary towards the northern margin of the SNS. The focus of attention is the Pensacola Zechstein Reef prospect with gross un-risked P50 prospective resources of 309 bcf (52mm boe). Commerciality is enhanced by proximity to the Breagh infrastructure and the Teesside terminal. Shell is carrying CLNR through the acquisition of 3-D seismic which is scheduled for Q3 2019 and expected to cost about $10m. This could result in a significant improvement in the GCOS which is currently 20%. In return for the free-carry, Shell will acquire a 70% working interest in P2252 with any future drilling costs split pro-rata to working interest. The timeline to drilling is potentially longer on P2252 than P2437 and is tentatively scheduled for 2021. The planned well is classed as contingent by the OGA and would require significant technical justification for this commitment to be waived.

- **Valuation:** Our risked valuation for CLNR has been upgraded from £95m to £110m reflecting the first-time inclusion of the Central North Sea licence P2352 and an increase in the working interest assumption for P2437 from 30% to 50%. Partly offsetting these factors has been the exclusion of P2248 due to the regulatory timing out of the licence. Note, P2248 could return to the portfolio following the 32nd Licensing Round. We have continued to use valuation quotients of $2.5/boe for P2252 and $2437. In the case of the other SNS licences and P2352 we have used $2.0/boe. After diluting for the prospective annual financing requirement of £2.1m our valuation/share is 17.4p against 15.8p previously.

SUMMARY FINANCIALS

Year-end December (£'000)	2015A	2016A	2017A	2018	2019E
EBITDA	(1,435)	(1,240)	(1,473)	(1,532)	(1,612)
Net cash/(debt) end year	1,114	1,708	1,017	1,426	(234)

Source: Company data, Allenby Capital

P2352 UPDATE

The 100% owned Licence P2352 is located in the Central North Sea (CNS) about 240 km east of Aberdeen. The CNS has been a prolific source of hydrocarbons for more than 40 years.

Significantly, P2352 contains the Dewar oil prospect. As noted in the recently published CLNR Annual Report, inhouse technical work based on newly available 3-D seismic has resulted in a significant upgrade of Dewar's potential. CLNR has identified Dewar as a low-risk Forties Sandstone channel which is estimated to contain P50 prospective resources of 39.5mm barrels with a GCOS of 40%.

Dewar is well placed for infrastructure. It lies a few kilometres from the BP operated ETAP infrastructure at the Marnock field and a number of export options exist locally. Interestingly, CLNR has indicated that it will begin a formal farm-out process for Dewar in the summer of 2019 with the objective of attracting a partner or partners to drill the prospect some time in 2020.

Reflecting the scale and type of resource (liquids) and the proximity to infrastructure, Dewar would appear to have interesting commercial potential. In an exploration success case it also has the potential to be a significant value driver for CLNR.

PORTFOLIO

CLNR holds interests in a number of other operated and non-operated licences primarily located in the Southern North Sea. These are the focus of ongoing technical studies including seismic reprocessing. While CLNR regards these licences as having significant potential, they are clearly longer-term projects than P2437 and P2252. Importantly, CLNR has indicated that intends applying for further acreage in the 32nd Offshore Licensing Round. This is expected to commence mid-2019, with awards announced in the first half of 2020. As a result, CLNR's licence portfolio could be expanded.

FINANCIALS

CLNR is comfortably financed near-term. At end December 2019 there was a cash position of £1.43m and the company has suggested it is funded until the beginning of Q4 2019. Since year end, CLNR has received part of the $0.6m consideration for P2437 and is scheduled to receive the balance on completion of the Selene farm-out at the end of the second quarter of 2019.

INCOME STATEMENT	2014A	2015A	2016A	2017A	2018	2019E
Administrative Expenses	(1,745)	(1,547)	(1,416)	(1,592)	(1,661)	(1,731)
Impairment charge	0	(337)	(318)	0	1	0
Operating Profit	(1,745)	(1,884)	(1,735)	(1,592)	(1,660)	(1,731)
Finance Income	20	11	4	1	0	464
PBT	(1,725)	(1,872)	(1,731)	(1,590)	(1,660)	(1,267)
Taxation	-	-	-	-	-	-
Net Income	(1,725)	(1,872)	(1,731)	(1,590)	(1,660)	(1,267)
Comprehensive Loss	(1,725)	(1,872)	(1,731)	(1,590)	(1,660)	(1,267)
EBITDA	**(1,612)**	**(1,435)**	**(1,240)**	**(1,473)**	**(1,532)**	**(1,612)**
Avg. Shares Basic (m)	155	186.6	246.3	343.9	475.4	548.8
EPS (report) p	(1.11)	(1.00)	(0.70)	(0.46)	(0.35)	(0.32)
CASH FLOW						
Net Loss for the year	**(1,725)**	**(1,872)**	**(1,731)**	**(1,590)**	**(1,660)**	**(1,731)**
Change in receivables	(26)	85	(55)	54	7	0
Change in payables	105	(45)	(39)	(10)	2	3
Depreciation	7	344	326	5	8	5
Other	(20)	(11)	0	0	(2)	0
Share Based Payments	126	104	168	114	122	114
Net Operating cash flow	**(1,533)**	**(1,396)**	**(1,334)**	**(1,428)**	**(1,523)**	**(1,609)**
Acquisition of PPE	(1)	(1)	(2)	(2)	(10)	(10)
Exp and Eval assets additions	(208)	(513)	(449)	(224)	(665)	(505)
Miscellaneous	18	11	3	1	0	464
Proceeds from issue of shares	0	1,804	2,376	962	2,607	0
Net cash flow	**(1,724)**	**(94)**	**594**	**(691)**	**409**	**(1,660)**
Net cash/(debt)	**1,208**	**1,114**	**1,708**	**1,017**	**1,426**	**(234)**
BALANCE SHEET						
Intangible assets	254	428	554	775	1617	2122
Property, Plant & Equipment	11	6	4	4	12	17
Other	54	54	1	54	54	54
Total Non-Current Assets	**319**	**488**	**559**	**833**	**1,683**	**2,193**
Receivables	173	88	197	89	82	82
Cash & Cash Equivalents	1,208	1,114	1,708	1,017	1,426	200
Total Current Assets	**1,380**	**1,202**	**1,905**	**1,106**	**1,508**	**282**
Total Assets	**1,699**	**1,690**	**2,464**	**1,939**	**3,191**	**2,475**
Non-Current Liabilities						
Trade payables	97	176	60	112	396	399
Other payables	210	86	163	100	0	0
ST debt	0	0	0	0	0	434
Current Liabilities	**307**	**262**	**223**	**213**	**396**	**833**
Total Liabilities	**307**	**262**	**223**	**213**	**396**	**833**
Net assets	**1,392**	**1,428**	**2,241**	**1,727**	**2,795**	**1,642**
Net cash/(debt)	**1,208**	**1,114**	**1,708**	**1,017**	**1,426**	**(234)**
Shareholder Equity	**1,392**	**1,428**	**2,241**	**1,727**	**2,795**	**1,642**
Total Equity & Liabilities	**1,699**	**1,690**	**2,464**	**1,939**	**3,191**	**2,475**

Source: Company data, Allenby Capital

EXHIBIT 2: CLNR VALUATION SUMMARY

	Risked resources P50		Valuation quotient	Risked valuation	Working interest post farm-in	Risked valuation adj. for working interest	
Project	bcf	mmboe	$/boe	$m	%	$m	£m
SNS licence P2252	157	26	2.5	65.4	30	19.6	15.2
SNS licence P2437	154	26	2.5	64.2	50	32.1	24.8
SNS 30th Round licences	447	75	1.5	111.8	50	55.9	43.2
CNS 30th Round licences	96	16	1.0	16	50	8	6.0
Total	**854**	**142**		**257.3**		**115.6**	**89.2**

Source: Company and Allenby Capital. Exchange rate: US$1.294. Conversion: 6000 cf per 1boe

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