

CORPORATE

 Current price **1.70p**

 Sector **Oil & Gas**

 Code **(CLNR)**

 Listing **AIM**
SHARE PERFORMANCE


	1m	3m	12m
—CLNR	-24%	-24%	-19%

Source: Fidessa, Allenby Capital

SHARE DATA

 Market cap (£) **£23.9m**

 Shares in issue (m) **1,405.96m**

 52 weeks **High** **Low**
3.88p **1.63p**

 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)
Dewar farm-out process begins on schedule

CLNR has announced the commencement of the farm-out process for its 100%-owned CNS (Central North Sea) licence P2352 containing the promising Dewar oil prospect. This follows the farm-outs to Shell of the SNS (Southern North Sea) gas-focused licences, P2252 and P2437, earlier in 2019. The commencement of the P2352 farm-out process is on schedule and follows the completion of a geophysical study and a review of the commercial development options. CLNR considers the Dewar prospect to be drill-ready and is now seeking one or more partners to provide funding for the exploration of P2352. A farm-out would be expected to include a commitment for a Dewar exploration well. We would expect the farm-out process to be conducted over the next six months or so. On this basis and allowing for the lead time for well design, rig mobilisation and OCTG procurement the earliest that Dewar could be drilled is probably Q4 2020. Arguably, however, 2021 is more likely. CLNR remains cautiously rated vis-à-vis our risked valuation of £116m or 8.3p/share.

- **Location:** P2352 lies in the CNS Graben about 240 km east of Aberdeen adjacent to the BP operated Marnock-Skua field and Eastern Trough Area Project (ETAP) infrastructure. The ETAP comprises a grouping of nine relatively small, liquids-rich fields covering 35 km². According to industry reports, reserves in the ETAP could be over 500mm boe. Water depths are about 90m which suggests that jack-up drilling rigs are viable. CLNR gives the cost of an exploration well, including a 15-day test, as £17m gross.
- **Geology:** Dewar is a Palaeocene Forties sandstone prospect which is one of the three key reservoir formations in the CNS. In CLNR's appraisal of Dewar the breakthrough came with the re-processing of 3-D seismic data which enabled a reassessment of the resource base and the geological chances of success to be made. This information was unavailable to previous licence holders. AVO (amplitude versus offset, a technique used to determine the presence of hydrocarbons) analysis has provided support for CLNR's geological modelling.
- **Dewar resources:** The P50 un-risked prospective resource base is unchanged from earlier CLNR indications at 39.5mm barrels gross. In a success case, this points to the significant potential for development even assuming lower oil prices and given the proximity to ETAP infrastructure. Significantly, the GCOS (geological chances of success) at 41% is as high as can be expected pre-drilling and suggests low-risk in an exploration well context.
- **Regional development projects:** Currently, there are two major development projects underway in the CNS about 10 km southwest and southeast of Dewar. These are Neptune Energy's Seagull and Total's Culzean's HPHT projects respectively. 2P reserves are 50mm boe (80% oil) for Seagull and 260mm boe for Culzean. (80% gas). The Seagull project is being tied back to the ETAP central processing facility with oil then flowing via the Forties pipeline to Grangemouth. Gas will flow via the CATS pipeline to Teesside. In the case of Culzean, gas will be exported via CATS while liquids will be handled by an FSO vessel for tanker offloading.
- **Development feasibility study:** CLNR has undertaken an early-stage feasibility study for the development of Dewar. The initial approach has been to assume a two-well subsea project tied-back to the ETAP central processing facility located 5 km to the northwest of the prospect. An alternative on a liquid's scenario might be to use an FSO as for Total Culzean.
- **CLNR valuation:** We are leaving our CLNR valuation unchanged from that provided in our June 17 report in the absence of any change to the P50 resource base. Our GCOS risked estimate is £116m or 8.3p/share. In a success case purely for the Selene, Pensacola and Dewar prospects, our valuation estimate is £234m or 16.7p/share. For both the risked and success cases we have assumed a farm-down to 50% for the working interest in Dewar. For the success case we have used a valuation quotient pre-development of \$5.0/boe.

Please refer to the last page of this communication for all required disclosures and risk warnings.

EXHIBIT 1: SUMMARY FINANCIALS

INCOME STATEMENT	2015	2016	2017	2018	2019E	2020E
Income	0	0	0	0	462	0
Administrative Expenses	(1,547)	(1,416)	(1,592)	(1,661)	(1,732)	(1,807)
Impairment charge	(337)	(318)	0	1	0	0
Operating Profit	(1,884)	(1,735)	(1,592)	(1,660)	(1,270)	(1,807)
Finance Income/other	11	4	1	1	0	0
PBT	(1,872)	(1,731)	(1,590)	(1,659)	(1,270)	(1,807)
Taxation	-	-	-	-	-	-
Net Income	(1,872)	(1,731)	(1,590)	(1,659)	(1,270)	(1,807)
Comprehensive Loss	(1,872)	(1,731)	(1,590)	(1,659)	(1,270)	(1,807)
EBITDA	(1,435)	(1,240)	(1,473)	(1,532)	(1,140)	(1,674)
Avg. Shares Basic (m)	186.6	246.3	343.9	475.4	977.4	1,406.0
EPS (report) p	(1.00)	(0.70)	(0.46)	(0.35)	(0.13)	(0.32)
CASH FLOW	2015	2016	2017	2018	2019E	2020E
Net Loss for the year	(1,872)	(1,731)	(1,590)	(1,660)	(1,270)	(1,807)
Change in receivables	85	(55)	54	7	0	0
Change in payables	(45)	(39)	(10)	2	0	12
Depreciation	344	326	5	8	8	8
Other	(11)	0	0	(2)	0	0
Share Based Payments	104	168	114	122	122	125
Net Operating cash flow	(1,396)	(1,334)	(1,428)	(1,523)	(1,140)	(1,662)
Acquisition of PPE	(1)	(2)	(2)	(10)	(10)	(10)
Exp and Eval assets additions	(513)	(449)	(224)	(665)	(505)	(5,510)
Miscellaneous	11	3	1	0	0	0
Proceeds from issue of shares	1,804	2,376	962	2,607	14,391	0
Net cash flow	(94)	594	(691)	409	12,736	(7,182)
Net cash/(debt)	1,114	1,708	1,017	1,426	14,162	6,979
BALANCE SHEET	2015	2016	2017	2018	2019E	2020E
Intangible assets	428	554	775	1617	2118	7623
Property, Plant & Equipment	6	4	4	12	18	25
Other	54	1	54	54	54	54
Total Non-Current Assets	488	559	833	1,683	2,190	7,702
Receivables	88	197	89	82	82	82
Cash & Cash Equivalents	1,114	1,708	1,017	1,426	14,162	6,980
Total Current Assets	1,202	1,905	1,106	1,508	14,244	7,062
Total Assets	1,690	2,464	1,939	3,191	16,434	14,764
Non-Current Liabilities	0	0	0	0	0	0
Trade payables	176	60	112	269	269	280
Other payables	86	163	100	127	127	128
ST debt	0	0	0	0	0	0
Current Liabilities	262	223	213	396	396	408
Total Liabilities	262	223	213	396	396	408
Net assets	1,428	2,241	1,727	2,795	16,038	14,356
Net cash/(debt)	1,114	1,708	1,017	1,426	14,162	6,980
Shareholder Equity	1,428	2,241	1,727	2,795	16,038	14,356
Total Equity & Liabilities	1,690	2,464	1,939	3,191	16,434	14,764

Source: Company data, Allenby Capital

EXHIBIT 2: VALUATION SUMMARY									
Project	Working interest post farm-in %	Net un-risked P50 resources		Net risked P50 resources		Valuation quotient \$/boe	Un-risked valuation \$m	Risked valuation adj. for working interest	
		bcfe	mmboe	bcfe	mmboe			\$m	£m
SNS licence P2252	30	157	26	47	8	2.5	65.4	19.4	15.2
SNS Licence P2437	50	193	32	77	13	2.5	80.4	32.2	25.2
SNS P2424, P2428	50	738	123	214	36	2.0	246.0	71.4	55.7
SNS P2435	25	34	6	18	3	2.0	11.3	6.1	4.7
CNS 30th Round licences P2352	50	119	20	47	8	2.5	49.4	19.75	15.4
Total		1240	207	404	67		452.4	148.8	116.3

Source: CLNR, Allenby Capital. Exchange rate: US\$1.28, Conversion: 6000 cf/boe. Note: Working interests for P2252 and P2437 are post the Shell farm-outs. Working interest for P2435 is actual as of June 2019. Working interests for P2424, P2428 and P2435 assume a farm-down from 100%.

EXHIBIT 3: VALUATION POST SUCCESS							
Prospect	Working interest post farm in %	Net un-risked P50 resources		Valuation quotient \$/boe	Net un-risked valuation		
		bcfe	mmboe		\$m	£m	p/share
Pensacola	30	93	15.5	5.00	77.5	61	4.3
Selene	50	146	24.3	5.00	121.3	95	6.8
Dewar	50	118.5	19.8	5.00	98.8	78	5.5
Total		357	59.5		297.5	234.3	16.7

Source: Allenby Capital. Note: Conversion 6,000 cf/boe, exchange rate £1=\$1.27, Dewar working interest assumes a farm-down from 100%, working interests for Pensacola and Selene are post the Shell farm-outs, per share calculation based on 1,405.96m shares in issue, Dewar per share not diluted for CLNR share of drilling costs.

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