

## Corporate

 Current price **1.57p**

 Sector **Oil & Gas**

 Code **CLNR**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **£22.1m**

 Shares in issue (m) **1,406m**

52 weeks High Low

**3.88** **1.33**

 Financial year end **Dec 31**

Source: Company Data, Allenby Capital

### Key Shareholders

Canaccord 16.9%

IPGL (Michael Spencer) 16.8%

Lombard Odier 8.1%

Janus Henderson Investors 6.7%

Hargreaves Lansdown 5.0%

Source: Company Data, Allenby Capital

### Peter Dupont

0203 002 2078

p.dupont@allenbycapital.com

www.allenbycapital.com

## Cluff Natural Resources Plc (CLNR)

### Major news flow potential

CLNR has the potential for extremely influential news flow in 2020 which will likely be a prelude to near-term drilling on the two Shell joint ventures. In the first half we believe a drilling decision is likely on the Selene prospect in the heart of the Southern North Sea (SNS) gas basin. We continue to believe Selene will ultimately be drilled in Q4 2020 or Q1 2021. There is also the real possibility in the coming months of a farm-out on the highly promising Dewar liquids prospect in the Central North Sea (CNS). Additionally, CLNR expects a drilling decision on the Pensacola prospect near the northern margin of the SNS by November 2020. A scheduled significant item of news flow in Q2 concerns the 32<sup>nd</sup> Offshore licence awards. CLNR has stated that the blocks applied for in the SNS and CNS are highly prospective and will significantly enhance resource potential. Importantly, CLNR has a pre-eminent farm-in partner for P2437 and P2252 in the SNS and has underpinned its financing needs through 2021.

- P2437:** P2437 is located about 100km east of the Humber estuary and contains the highly prospective Lower Leman Sandstone Selene gas play. The licence is owned 50:50 by Shell and CLNR. The latter is acting as the licence operator until a well investment decision is made. 3-D seismic is currently being evaluated by CLNR and Shell. We understand that Shell continues to be committed to drilling Selene at the earliest opportunity. Shell has under-utilised infrastructure in the vicinity in the form of the Clipper Hub and the onshore Bacton Terminal.
- P2252:** Licence P2252, in which CLNR has a 30% non-operated interest, is located about 75 km east of the Tees estuary in the northern SNS. It contains the Pensacola Zechstein reef play. 3D seismic obtained last August is currently being evaluated by Shell. Interesting developments concerning Zechstein reef plays over the past few months have been the oil/gas discoveries at ONE-Dyas Darach Central-1 well in the SNS and Rathlin Energy's West Newton A-2 well in East Yorkshire. The contingent well is expected to become firm in Q4 2020 with drilling in Q4 2021.
- P2352:** P2352 is owned 100% by CLNR and lies in the CNS Graben. It contains the Dewar Forties sandstone liquids prospect about 240km east of Aberdeen. Dewar is a relatively low-risk (GCOS 41%), 39mm barrel prospect situated close to the BP-operated Marnock-Skua field and the ETAP (Eastern Trough Area) infrastructure. The Dewar farm-out process commenced in July 2019 and is now at a mature stage. Dewar has been independently valued at £555m NPV10.
- Financials:** CLNR's near to medium-term work programme is comfortably financed. Our estimated cash position for end 2019 is £13.8m. Our cash forecast for end-2020 of £6.6m includes £5.5m for CLNR's share of Selene well costs and appraisal work.
- Valuation:** We are leaving our CLNR valuation unchanged from our November 26, 2019 note. 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 the success case we have assumed a farm-down to 50% for the Dewar working interest. The success case also reflects a valuation quotient pre-development of \$5.0/boe.

#### Year end: December 31

(£'000)	2016A	2017A	2018A	2019E	2020E
PBT	(1,731)	(1,590)	(1,659)	(2,076)	(1,812)
EBITDA	(1,240)	(1,473)	(1,532)	(1,140)	(1,674)
NET OP. CASH FLOW	(1,334)	(1,428)	(1,523)	(1,602)	(1,663)
NET CASH	1,708	1,017	1,426	13,798	6,614

Allenby Capital acts as Nomad &amp; Joint Broker to Cluff Natural Resources Plc (CLNR).

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

## ONE-Dyas Darach Central-1 discovery

The Darach Central-1 discovery well was spudded by Netherlands-based ONE-Dyas BV in August 2019. The announcement of the discovery in late 2019 has highly positive implications for Shell's/CLNR's Pensacola Permian, Zechstein carbonate reef prospect located about 50 km to the west. The geology is analogous. According to CLNR, the discovery well flowed 3,500 b/d of oil plus significant quantities of natural gas. The promising flow rate points to better than average porosity (the ability to hold hydrocarbons) and permeability (the ability to flow) characteristics than is typically the case in offshore Zechstein reef reservoirs. Interestingly, Rathlin Energy's apparently sizeable West Newton-2 oil and gas discovery in East Yorkshire was also made in a Zechstein reef play.

CLNR believes that the discovery of oil at Darach Central-1 was not totally unsurprising given the presence of oil-prone Carboniferous source rocks in the northern margins in the SNS. In the case of Pensacola however it believes that due to the apparent presence of a more mature source rock kitchen immediately to the south than at Darach, that any discovery is more likely to be wet gas (combination of methane and natural gas liquids such as ethane, propane and butane) similar to the Ineos Breagh field about 50 km to the south. The Darach consortium comprises: ONE-Dyas (35%), Spirit Energy (35%) and Neptune Energy (30%). ONE Dyas is the largest privately-owned E&P concern in the Netherlands, Spirit is the E&P arm of Centrica and Neptune is owned by private equity interests. From February 1, the operatorship of Darach is scheduled to switch from ONE-Dyas to Spirit Energy.

### Exhibit 1: Risked valuation summary

Project	Working interest	Net un-risked P50		Net risked P50		Valuation quotient	Un-risked valuation	Risked valuation adj. for working interest		
	post farm-in	bcfe	mmboe	bcfe	mmboe			\$m	\$m	£m
SNS licence P2252	30	157	26	47	8	2.5	65.4	19.4	15.2	1.1
SNS Licence P2437	50	193	32	77	13	2.5	80.4	32.2	25.2	1.8
SNS P2424, P2428	50	738	123	214	36	2.0	246.0	71.4	55.7	4.0
SNS P2435	25	34	6	18	3	2.0	11.3	6.1	4.7	0.3
CNS 30th Round licences P2352	50	119	20	47	8	2.5	49.4	19.75	15.4	1.1
<b>Total</b>		<b>1240</b>	<b>207</b>	<b>404</b>	<b>67</b>		<b>452.4</b>	<b>148.8</b>	<b>116.3</b>	<b>8.3</b>

Source: 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, P2352 assume a farm-down from 100%

Per share calculation based on 1,405.96m shares in issue

### Exhibit 2: Valuation success case

Prospect	Working interest	Net un-risked P50		Valuation quotient	Net un-risked valuation		
	post farm-in	bcfe	mmboe		\$/boe	\$m	£m
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
<b>Total</b>		<b>357</b>	<b>59.5</b>		<b>297.5</b>	<b>234.3</b>	<b>16.7</b>

Source: Allenby Capital; Exchange rate: US\$1.28; Conversion: 6000 cf/boe

Note: Working interests for Pensacola and Selene are post the Shell farm-outs.

Dewar per share not diluted for CLNR share of drilling costs

Per share calculation based on 1,405.96m shares in issue

**Exhibit 3: Summary financials 30 December (£'000)**

<b>INCOME STATEMENT</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
Gain on grant of option	0	0	0	0	0	462	0
Administrative Expenses	(1,745)	(1,547)	(1,416)	(1,592)	(1,661)	(1,737)	(1,812)
Impairment charge	0	(337)	(318)	0	1	(801)	0
<b>Operating Profit</b>	<b>(1,745)</b>	<b>(1,884)</b>	<b>(1,735)</b>	<b>(1,592)</b>	<b>(1,660)</b>	<b>(2,076)</b>	<b>(1,812)</b>
Finance Income/other	20	11	4	1	1	0	0
PBT	(1,725)	(1,872)	(1,731)	(1,590)	(1,659)	(2,076)	(1,812)
Taxation	-	-	-	-	-	-	-
Net Income	(1,725)	(1,872)	(1,731)	(1,590)	(1,659)	(2,076)	(1,812)
Comprehensive Loss	(1,725)	(1,872)	(1,731)	(1,590)	(1,659)	(2,076)	(1,812)
<b>EBITDA</b>	<b>(1,612)</b>	<b>(1,435)</b>	<b>(1,240)</b>	<b>(1,473)</b>	<b>(1,532)</b>	<b>(1,140)</b>	<b>(1,674)</b>
Avg. Shares Basic (m)	155	186.6	246.3	343.9	475.4	968.1	1,406.0
EPS (report) p	(1.11)	(1.00)	(0.70)	(0.46)	(0.35)	(0.21)	(0.32)
<b>CASH FLOW</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
<b>Net Loss for the year</b>	<b>(1,725)</b>	<b>(1,872)</b>	<b>(1,731)</b>	<b>(1,590)</b>	<b>(1,660)</b>	<b>(2,076)</b>	<b>(1,812)</b>
Change in receivables	(26)	85	(55)	54	7	0	0
Change in payables	105	(45)	(39)	(10)	2	0	11
Depreciation	7	344	326	5	8	13	13
Other	(20)	(11)	0	0	(2)	340	0
Share Based Payments	126	104	168	114	122	122	125
<b>Net Operating cash flow</b>	<b>(1,533)</b>	<b>(1,396)</b>	<b>(1,334)</b>	<b>(1,428)</b>	<b>(1,523)</b>	<b>(1,602)</b>	<b>(1,663)</b>
Acquisition of PPE	(1)	(1)	(2)	(2)	(10)	(10)	(10)
Exp and Eval assets additions	(208)	(513)	(449)	(224)	(665)	(869)	(5,510)
Miscellaneous	18	11	3	1	0	462	0
Proceeds from issue of shares	0	1,804	2,376	962	2,607	14,391	0
Net cash flow	(1,724)	(94)	594	(691)	409	12,372	(7,183)
<b>Net cash/(debt)</b>	<b>1,208</b>	<b>1,114</b>	<b>1,708</b>	<b>1,017</b>	<b>1,426</b>	<b>13,798</b>	<b>6,615</b>
<b>BALANCE SHEET</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
Intangible assets	254	428	554	775	1617	1675	7177
Property, Plant & Equipment	11	6	4	4	12	18	25
Other	54	54	1	54	54	54	54
<b>Total Non-Current Assets</b>	<b>319</b>	<b>488</b>	<b>559</b>	<b>833</b>	<b>1,683</b>	<b>1,747</b>	<b>7,255</b>
Receivables	173	88	197	89	82	82	82
Cash & Cash Equivalents	1,208	1,114	1,708	1,017	1,426	13,798	6,614
<b>Total Current Assets</b>	<b>1,380</b>	<b>1,202</b>	<b>1,905</b>	<b>1,106</b>	<b>1,508</b>	<b>13,880</b>	<b>6,696</b>
<b>Total Assets</b>	<b>1,699</b>	<b>1,690</b>	<b>2,464</b>	<b>1,939</b>	<b>3,191</b>	<b>15,627</b>	<b>13,951</b>
Non-Current Liabilities	0	0	0	0	0	0	0
Trade payables	97	176	60	112	269	269	280
Other payables	210	86	163	100	127	127	127
ST debt	0	0	0	0	0	0	0
Current Liabilities	307	262	223	213	396	396	407
Total Liabilities	307	262	223	213	396	396	407
<b>Net assets</b>	<b>1,392</b>	<b>1,428</b>	<b>2,241</b>	<b>1,727</b>	<b>2,795</b>	<b>15,231</b>	<b>13,544</b>
<b>Net cash/(debt)</b>	<b>1,208</b>	<b>1,114</b>	<b>1,708</b>	<b>1,017</b>	<b>1,426</b>	<b>13,798</b>	<b>6,614</b>
Shareholder Equity	1,392	1,428	2,241	1,727	2,795	15,231	13,544
<b>Total Equity &amp; Liabilities</b>	<b>1,699</b>	<b>1,690</b>	<b>2,464</b>	<b>1,939</b>	<b>3,191</b>	<b>15,627</b>	<b>13,951</b>

Source: Company; Allenby Capital

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**Allenby Capital, 5 St Helen's Place London EC3A 6AB, +44 (0)20 3328 5656, [www.allenbycapital.com](http://www.allenbycapital.com)**