Decklar Resources Inc.

18 October 2021

Oil & Gas

Building momentum

Key Data

Listing:	TSX.V
Ticker:	DKL
Shares Outstanding:	91.2m
Share Price:	C$1.11
Market Cap:	C$96.7m
Cash Balance:	C$2.0m
Estimated Valuation:	C$267.0m
Asset Location:	Nigeria

Reserves (MMBOE) *(100%)*		
1P	2P	3P
1.21	2.03	2.83

Resources (MMBOE) *(100%)*		
1C	2C	3C
3.45	10.06	19.35

Prospective Resources (BCF) *(100%)*		
Low Estimate	Best Estimate	High Estimate
1.18	3.46	7.22

Reserves and Resources from DKL's estimates

Summary

On 30 September 2021, Decklar Resources Inc. (DKL) reported the successful testing of the L2.4 and L2.2 reservoir sands in the Oza-1 well. This follows the successful test of the L2.6 sands reported on 1 September 2021 and altogether the company is on track to resume production before imminently, delivering oil flow rates of 2,000-2,500 bbl/d and booking reserves, as indicated to the market at the time of the acquisition in 2020.

On 14 July 2021, DKL announced it had secured an entry into the development of the Asaramatoru Field in OML 11 through a Risk Service Agreement (RSA). More recently on 6 October 2021 DKL announced having signed a Letter of Intent to participate in the Emohua Field in OML 22 in Nigeria also through an RSA. With a combined potential estimated at 62 MMbbl of reserves (Asaramatoru) and resources (Emohua), we view these acquisitions as highly value accretive.

Due to the delay in unlocking the initially arranged development finance announced in August 2020 through San Leon Energy and the trading arm of a large IOC, DKL has raised alternative funding through total equity offerings of C$15.0 million, enabling the work programme to proceed in a timely manner with a lower dilution impact.

Valuation

We value DKL at C$2.53 per share up from C$0.92 previously, based on a DCF valuation including revised oil price assumptions marked-to-market to the current oil future curve as well as both new acquisitions. We see the stock moving towards that level driven by a positive newsflow and constructive oil price environment, representing a strong upside from current level.

Analyst

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Newsflow update

Decklar Resources Inc. (DKL) is a TSX Venture listed company which seeks to provide technical expertise and development capital to low risk and lost cost appraisal and development reserves and resources across Nigeria and the West Africa region.

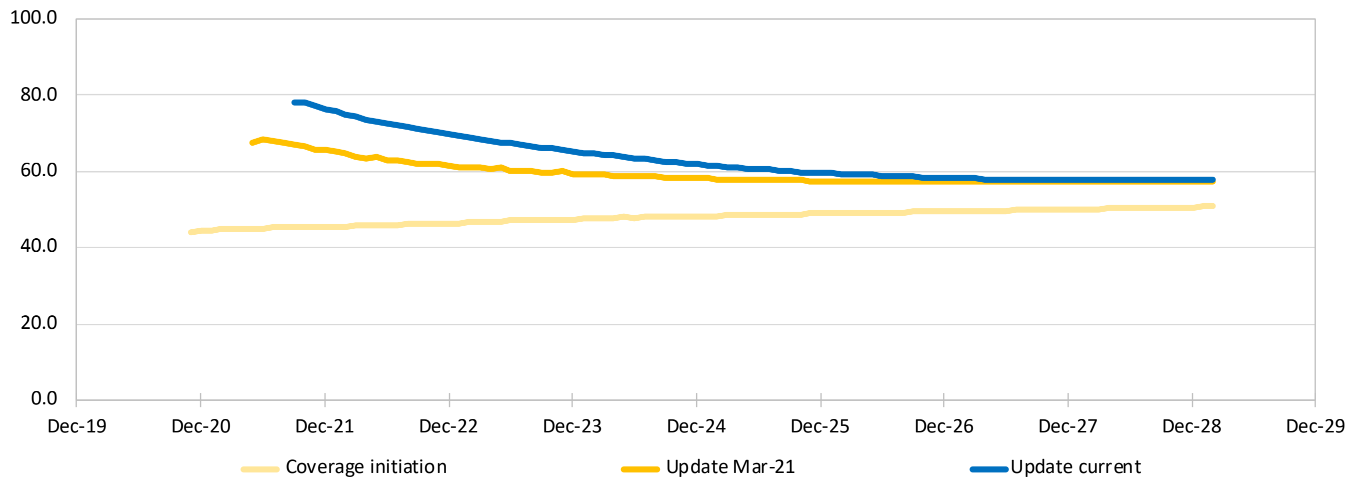
Its operations and business development endeavours are currently focused on marginal fields in Nigeria, which are being overlooked by IOCs due to the modest size of their petroleum reserves and resources in relation to the high cost-structures typical of large oil companies.

Smaller and nimble independents like DKL have the adequate cost structure to exploit these fields profitably and benefit from tax incentives granted to the operators by the Nigerian authorities who are keen to see these reserves produced. Also DKL's involvement in these development projects through Risk Service Agreements has beneficial cash flow characteristics.

Since our last update on 16 March 2021, DKL has (i) made good operational progress towards the development of the Oza field, (ii) taken steps to secure its financial position and (iii) reported positive business development initiatives to expand the portfolio.

In the following, we provide a summary assessment of the progress achieved as well as an updated valuation for DKL which accounts for these positive developments and for marked-to-market oil prices (**Exhibit 1**).

EXHIBIT 1: BRENT FUTURE PRICES



Source: Bloomberg

1. Operational update

On 1 September 2021 DKL announced the successful re-entry and testing of the Oza-1 well. The old tubing and completion equipment has now been removed and the deeper zones cemented off to isolate them from the target reservoirs one of which, the L2.6 sands, have been tested with two other target zones ready to be perforated and tested with results to be reported in the coming weeks.

The L2.6 sand is the deepest target zone of the re-entry program on the Oza-1 well and has 21 feet of gross hydrocarbon pay thickness. During the initial flow testing of the L2.6 sand, the zone produced at multiple choke settings ranging from 16/64 inch to 32/64 inch over the 116 hours testing period.

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The testing of the L2.6 sand yielded a stabilised flow rate of 2,463 bopd of 22º API sweet crude oil on a 32/40 inch choke setting and flowing tubing head pressure of 450 psig during the last three hour period of the 22.5 hour flow test at this choke setting. In all tests there was less than 0.05% basic sediment and water and no gas production

On 30 September 2021 DKL announced the successful testing of the L2.4 and L2.2 sands. The L2.2 sand is the shallowest target zone in the well, with 20 feet of gross hydrocarbon pay thickness whilst the L2.4 sand is the intermediate of the three target zones of the re-entry program on the Oza-1 well and has 24 feet of gross hydrocarbon pay thickness. In all tests there was zero basic sediment and water.

The L2.2 sand produced at multiple choke settings ranging from 16/64 to 28/64 inch over the 46 hours initial test period. The initial testing resulted in a flow rate of 1,361 bopd of 20º API sweet crude oil on a 28/64 inch choke setting and flowing tubing head pressure of 346 psig during the highest rolling average three hour period of the test at this choke setting.

The L2.4 sand produced at multiple choke settings ranging from 16/64 inch to 28/64 inch over the 25 hours testing period. The interval yielded a flow rate of 10.3 MMscfd of natural gas on a 28/64 inch choke setting and flowing tubing head pressure of 2,250 psig during the last three hour period of the five hour flow test at this choke setting.

The proposed Oza-1 well initial completion plan will utilise a single tubing string completion string to produce from the L2.6 sand and immediately put the well on commercial production. The completion will be designed with sliding sleeve technology that will also allow production from both the L2.4 and the L2.2 zones in the future.

DKL is evaluating gas lift to enhance well productivity and plans to develop the L2.2 sand by drilling a horizontal well from the Oza-1 well pad drilling slot location immediately after completing activities on the Oza-1 re-entry. The horizontal development will seek to maximize reservoir connectivity while optimizing pressure drawdown at the sand face, resulting in improvement to stabilised long term oil production rates while minimising both water and gas influx.

With the regional gas pipeline infrastructure network within 5km of the field, the Company intend to take advantage of opportunities presented by the gas zone.

The Oza Oil Field has significant export and production capacity through processing facilities and infrastructure already in place and operational, which is anticipated to allow for the immediate export and sale of crude oil from the Oza-1 well.

In addition, following these test results DKL expects to publish an independent revision of contingent resources into reserves within the next month or so.

2. Securing financial position

On 30 August 2021 DKL announced the closing of a C$5 million unit offering to continue developing the Oza Oil Field in Nigeria, to pursue new oil and gas development opportunities in Nigeria and for general corporate purposes. This follows the closing of a C$10 million unit offering in May 2021 and that of an additional C$1 million such offering in July 2021.

These successful offerings have provided a funding alternative to the delayed funding transaction previously agreed with San Leon Energy (SLE). We do not have a definite completion date for this transaction as it it contingent on the completion of the due diligence process for the Millenium loan agreement. A consequence of such delay is the extension to 31 March 2022 of the production milestone contained in the terms of the purchase agreement between DKL and SLE.

Finally, on 10 September 2021 DKL announced commencement of trading on the OTCQX market, the top tier of OTC Markets in the US. This new listing should enable DKL to provide easier access to the deeper U.S. capital markets.

3. Business development

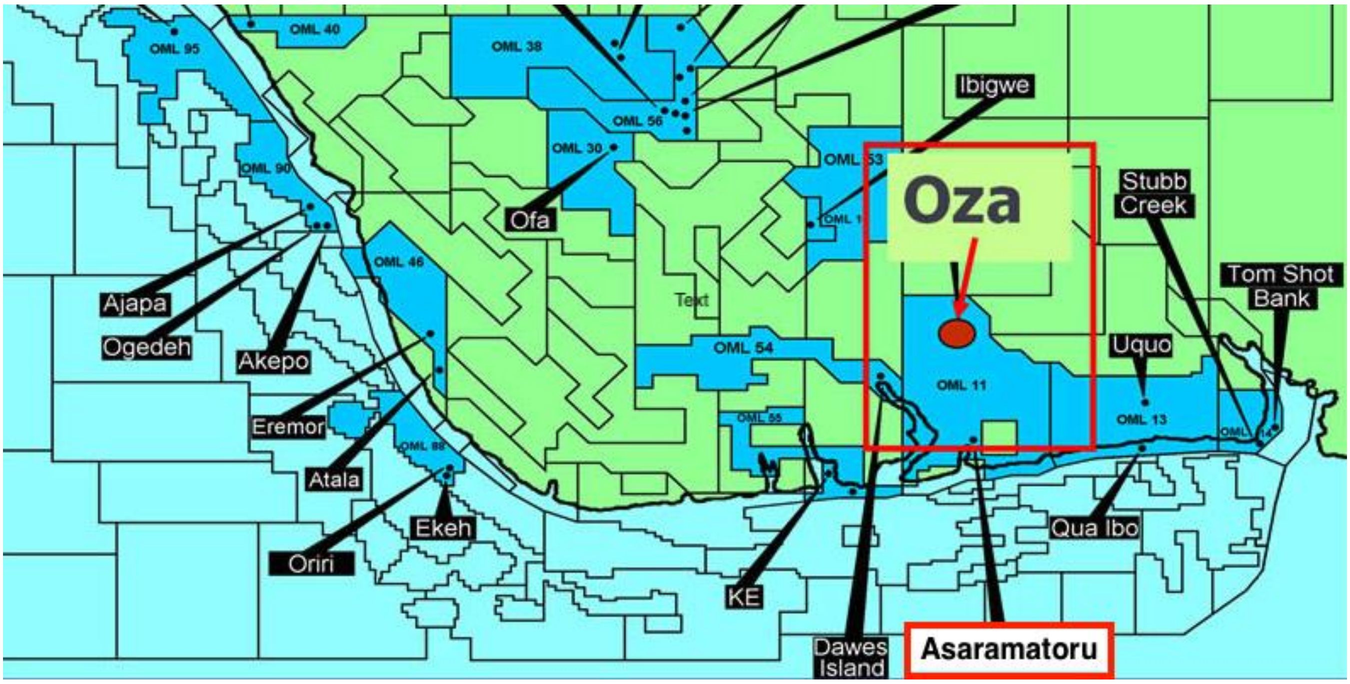
3.1 Asaramatoru Field

On 14 July 2021 DKL announced a share purchase agreement to participate in the development of the Asaramatoru oil field for up to 5.5 million common shares of DKL as consideration for the acquisition of all the issued and outstanding shares of Purion Energy Limited (Purion) a Nigerian entity that has signed a Risk Finance and Technical Service Agreement (RFTSA) to participate in the development of the field.

Asaramatoru lies in onshore block OML 11 where Decklar is developing Oza oil field and was discovered by Shell Petroleum Development Co. of Nigeria Ltd. (SPDC) in 1973 with 10 hydrocarbon bearing reservoirs encountered in the AST-1 well. The AST-2 well was drilled by SPDC in 1989 and discovered additional oil reservoirs in a separate fault block.

The two wells were never placed on production and both wells were suspended after drilling and completion activities. Data available includes wireline well logs, test data, and a 3D seismic survey conducted in 1996 (**Exhibit 2**).

EXHIBIT 2: ASARAMATORU LOCATION MAP



Source: Millenium Oil&Gas Limited

The field was awarded to Prime Exploration and Production (Prime) and Suffolk Petroleum Ltd (Suffolk) by the Federal Government of Nigeria in 2004 as part of the first Marginal Field Program and is operated and owned 51% by Prime with Suffolk retaining the 49% non-operated interest.

Prime and Suffolk re-entered the existing two wells and commenced initial production testing activities in 2014. The wells produced an average of 2,700 b/d of oil during intermittent production over 3 years. Crude was barged to offshore infrastructure for storage and export. The two wells have been shut in since late 2018 due to lower oil prices and logistics connected with barging and export activities, and limited storage facilities at the well locations.

Purion entered an RFTSA with Prime and is also seeking to enter an RFTSA with Suffolk Petroleum Ltd. with respect to Suffolk's 49% interest in Asaramatoru field. .

DKL and Prime's next planned stages for development include pulling existing tubing from the wells, running cement bond logs and cased hole reservoir saturation logs, and running new dual-string completions. The plan is to drill an additional seven wells and install production facilities, flow lines, and export facilities in phases as development progresses.

The full field development plan will include expansion of the processing infrastructure to enable handling and processing of up to 20,000 b/d of crude for the expected peak production levels including installing a 10 km export flowline from the field to a tie-in point at the Oloma flow station, which is connected to the Bonny export terminal

DKL expects that it will take 3-4 months to obtain all approvals and mobilise a rig in order to resume development of the field during Q1 2022.

3.2 Emohua Field

The Emohua Field was formerly operated by Shell Petroleum Development Company of Nigeria Limited (SPDC) and was recently awarded to Erebiina (60%) and other local Nigerian entities (40%) in the 2020/2021 Marginal Field Bid Round.

DKL has signed a non-binding letter of intent (LOI) with respect to the proposed acquisition of all issued and outstanding ordinary shares of Westfield which has separately entered into an RSA with Erebiina in respect of its 60% equity interest in the field.

The field is located onshore on dry land terrain in the southeastern section of OML 22 in the Eastern Niger Delta area, ca. 6 km west of the city of Port Harcourt in Rivers State and ca. 30 km west of the Oza Field. The Bonny Oil Export Terminal and Bonny LNG plant are located ca. 50 km south of the field.

One well (Emohua-1) was drilled by SPDC in 1979 to a depth of 11,050 ft and encountered oil and gas in several stacked reservoirs; it was suspended as an oil and gas discovery. Data available includes 3-D seismic acquired in 2000/2001 and wireline log data. Petrophysical analysis showed the presence of nine hydrocarbon bearing zones ranging from 20 ft to 70 ft in thickness. Seismic interpretation shows upside potential in the deeper undrilled/untested potential closures.

The next planned stages for development include re-entering the existing Emohua-1 well, drilling and completion of up to nine additional wells, installation of production and export facilities, and construction of flowlines. The Emohua Field can potentially be placed on production in an expedited manner immediately after the re-entry of the Emohua-1 well due to existing oil and gas export pipelines being located within 5 km of the well.

The full field development plan will include the expansion of the processing facilities to enable handling and processing of up to 30,000 barrels of crude per day for the expected peak production levels.

The terms of the LOI include a cash payment of US$7 million, which has already been paid as a deposit, and the issuance of up to 6.0 million common DKL shares as consideration for the acquisition of all the issued and outstanding shares of Westfield.

Westfield is also seeking to enter separate RSAs with one or more parties in relation to the remaining 40% interest in the Emohua Field and, if successful, up to an additional 2.5 million common DKL shares will be issued to the shareholders of Westfield.

The specific terms of the transaction remain under negotiation and an agreement could be completed by end of of November 2021.

Valuation

NAV Estimate

In the absence of equity oil volumes directly attributable to DKL due to the nature and structure of the RSA, we use a unit value per barrel equal to the ratio between our estimated value (NPV12) of the development for DKL and the gross oil volume produced (2P+2C).

For gross hydrocarbon volumes, we assume the conversion of current 2C resources into 2P reserves due to the successful tests of the Oza-1 well, resulting in an aggregate of 27.04MMbbl, and of the majority of current 3C resources into 2C resources for a total of 16.11 MMbbl.

We also use gross 2P reserves of 18.1 MMbbl for the Asaramatoru field and gross 2C resources of 43.97MMbbl for the Emohua field, as estimated by DKL management, and we risk them accordingly. The 50% risk we assign to resources at Emohua includes some risk attached to the current stage of the transaction.

We use a DCF valuation of current 2P reserves and 2C resources estimates to derive a unit value (NPV12) of US$3.30 per barrel, up from US$2.7 previously due to revised oil price assumptions. We apply risk factors of 0% for 2P reserves, 20% for 2C resources and 66% for prospective resources and we apply this unit value to risked reserves and resources to calculate a Net Asset Value (NAV) estimate of C$2.53 per share, after adjusting for capitalised corporate costs and net debt, and C$3.03 per share after further adjusting for the value of the warrants at price target (**Exhibit 2**).

EXHIBIT 2: NET ASSET VALUES

Item	Gross volume (MMboe)	Unit value (US$/boe)	Risk (%)	Value (US$M)	Unrisked (US$M)
Oza					
- 2P reserves	25.86	3.30	0%	85.34	85.34
- 2C resources	16.11	3.30	20%	42.52	53.15
- Prospective resources	9.60	3.30	66%	10.77	31.68
Asaramatoru (2P)	18.10	3.30	0%	59.71	59.71
Emohua (2C)	43.97	3.30	50%	72.55	145.09
Enterprise value	**113.63**			**270.89**	**374.98**
Corporate costs				(6.00)	(6.00)
Cash				2.00	2.00
Debt				-	-
NAV				**266.89**	**370.98**
Fully diluted number of shares				123.51	123.51
Emohua acquisition				8.50	8.50
Number of shares used				132.01	132.01
NAV per share (C$)				**2.53**	**3.51**
Value of 1/2 warrant at price target				0.50	0.50
NAV per share (C$)				**3.03**	**4.01**

Source: FDC

Exchange rate: 1 US$ = 1.25 C$

Peer Group Valuation

Based on 2P+2C volumes, DKL currently trades at a multiple of US$2.7/bbl which is at a premium to the median multiple of US$1.6/boe for a peer group of publicly listed companies with assets in Nigeria.

We argue that such premium is justified given the contrasting quality of the companies within the peer group, as well as the 100% share of oil in DKL's 2P reserves and 2C resources.

Indeed, applying a multiple of US$5.7/boe, in the top quartile of the peer group range, for a company with similar oil production cash flow, results in a value for DKL of C$2.13 per share broadly in-line with our NAV estimates (**Exhibit 3**).

EXHIBIT 3: PEER GROUP VALUATION

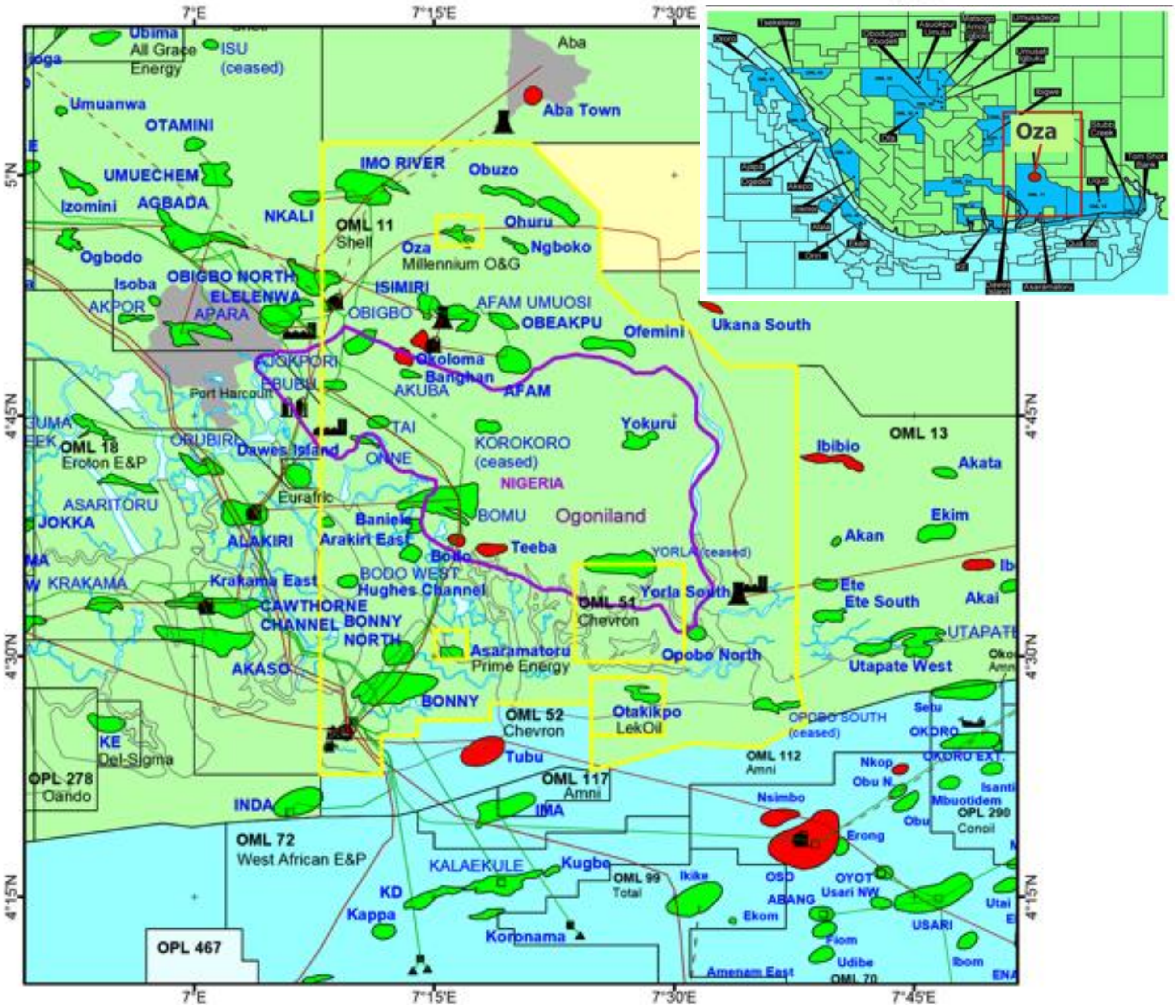
Name	**Price** (local)	**FX**	**EV** (US$M)	**2P** (MMboe)	**EV/2P** (US$/boe)
Africa Oil	1.63	CAD	456.5	80.6	5.7
ADM Energy PLC	2.30	GBp	3.1	16.4	0.2
Lekoil	0.95	GBp	7.1	22.7	0.3
Oando PLC	4.94	NGN	709.1	479.8	1.5
San Leon Energy	37.4	GBp	208.7	124	1.7
Seplat	89.8	GBp	1,084.5	481.0	2.3
Median					**1.6**
DKL	1.01	CAD	71.7	27.0	**2.7**
DKL (top quartile multiple)	2.13	CAD	153.1	27.0	5.7

Source: FDC

Background

The Oza Oil Field is an onshore conventional oil field, located on dry terrain in the northern part of OML 11, in the eastern Niger Delta (Abia State) of Nigeria. The concession covers 20 km2 carved out of OML 11 in 2003 as part of the Government's Marginal Field Development Program; it is surrounded by other producing fields operated by SPDC, including Isimiri, Obeakpu, Afam, Obigbo and Umuosi (**Exhibit 4**).

EXHIBIT 4: OZA OIL FIELD LOCATION MAP



Source: Decklar Resources

Three wells and one sidetrack were drilled in the field by SPDC and two extended well tests were carried out, achieving an estimated 2,000 boe/d of 35°/43° API gravity crude oil through an Early Production Facility (EPF) via the Isimiri Flow Station to the Bonny Crude Oil Terminal. Over 1.0 MMbbl were produced cumulatively during these two extended well test periods.

Images of Oza-1 site development work

We include below images of the work carried out from January to February 2021 at and around the Oza-1 well site. The site is now ready for the rig to be set on location (**Exhibit 5 and 6**).

Exhibit 5: Oza-1 Site Development Work (Q1/Q2 2021)

Oza-1 water holding tanks

Construction of on-site staff housing

Access road cleared for rig mobilization

Completed foundation for Oza-1 drilling pad

Source: Bloomberg

Exhibit 6: Oza-1 Drilling Rig Staging and Assembly (June 2021)

Oza-1 drilling rig arriving on site

Oza-1 drilling rig assembly on drilling pad

Oza-1 drilling rig assembled and ready on drilling pad

Oza-1 drilling rig equipment assembled and ready

Source: Bloomberg

Exhibit 7: Oza-1 Site

Drilling rig on Oza-1 location

Early Production Facility location

Manifold

Oza LACT Unit

Oza site overview

Drilling rig overview

Source: Bloomberg

Capital Structure and Main Shareholders

Following equity offerings for a total of C$15.0 million, the total number of shares issued is 91.2 million.

There are 8 million shares to be issued as part of this initial acquisition and to be payable contingent on the Oza Field achieving a minimum production rate within 12 months of closing. Also, the consideration for the acquisition of the Asaramatoru Field is 5.5 million. After taking into account a number of warrants and options, the fully diluted number of shares is 120.2 million as follows (**Exhibit 7**).

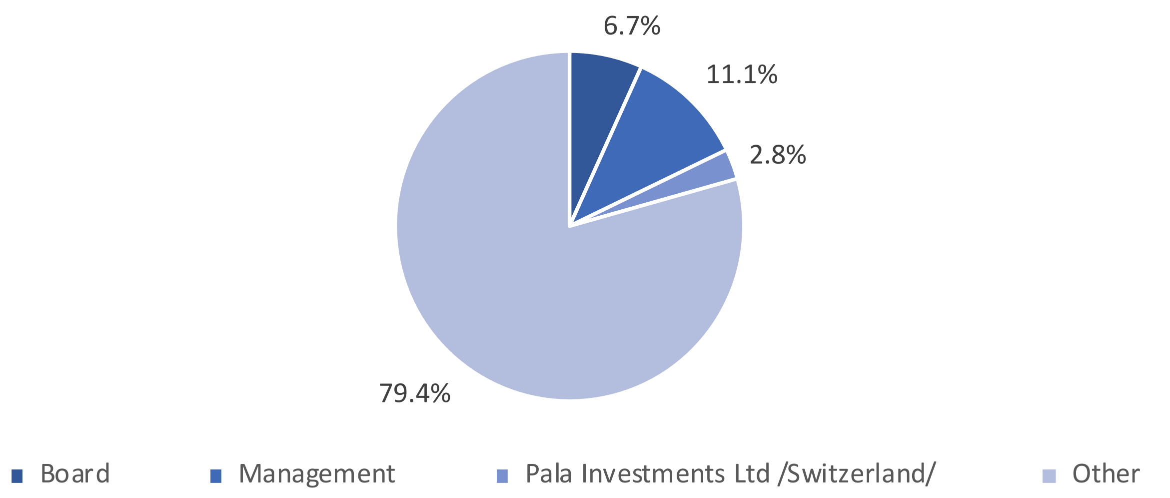
EXHIBIT 7: CAPITAL STRUCTURE

Number of Shares Issued	91,242,152
Warrants	7,817,500
Options	7,631,666
Fully diluted Share Capital	106,691,318
Potential Milestone Payment	
Number of Shares on Milestone of 1,000 boe/d	8,000,000
Asaramatoru transaction consideration	5,500,000
Fully diluted Share Capital (incl. Milestone Payment)	120,191,318

Source: DKL

Main shareholders are shown below (**Exhibit 8**).

EXHIBIT 8: MAIN SHAREHOLDERS



Source: Bloomberg

Research Disclosures

Lionel Therond CFA

Lionel has 30 years of experience in Oil & Gas and Banking. He is currently a Director of Fox-Davies Capital and a Director of Blue Oak Advisory, a London-based corporate finance boutique.

Until 2016, Lionel was Head of Oil & Gas Equity and Commodity Research and a Managing Director at Standard Bank, focusing on the financing of mid-size Oil & Gas companies in Emerging and Frontier Markets, in particular sub-Saharan Africa. Lionel joined Standard Bank from Fox-Davies Capital where he was Head of Oil & Gas Research. Prior to that, Lionel was an equity fund manager and buyside analyst with JPMorgan Asset Management in London, specialised in the Oil & Gas, Industrials and Media sectors. His oil industry experience includes nine years as a geoscientist with Royal Dutch Shell managing exploration projects internationally.

Lionel has an MBA from INSEAD, a DEA in Geology and Geophysics from Institut National Polytechnique de Lorraine and a Diplôme d'Ingénieur Géologue from Ecole Nationale Supérieure de Géologie (Nancy, France). He is a CFA Charterholder and a Fellow of the Geological Society of London.

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Research disclosure as of 19 October 2021

Company Name	Disclosure
Decklar Resources Inc.	2, 3, 7

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