



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022**

Report Date: November 28, 2023



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022

The following discussion of the operating results and financial position of Decklar Resources Inc. (the "Company" or "Decklar"), should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021, which were prepared in accordance with International Financial Reporting Standards (IFRS) by management and are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedarplus.ca](http://www.sedarplus.ca). All amounts are in Canadian dollars (CAD) unless otherwise stated. References to the "Company", "Decklar", "we", "our" and "us" means Decklar Resources Inc., its predecessors and consolidated subsidiaries, or any one or more of them as the context requires.

This management's discussion and analysis ("MD&A") has been prepared as of November 28, 2023, with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

#### Forward-Looking Information

This MD&A contains "forward-looking information," which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its projects, future oil prices, estimates of oil reserves and future net revenues, the realization of resource estimates, supply and demand for petroleum, the timing and amount of estimated future production, revenues, margins, costs of production, estimates of initial capital, sustaining capital, operating and exploration expenditures, costs and timing of the development of risk service assets, projections of market prices and costs, costs and timing of future exploration, requirements for additional capital, foreign exchange risks, governmental regulation of exploration operations, timing and receipt of approvals, consents and permits under applicable resource legislation, environmental risks, title disputes, or claims, limitations of insurance coverage and regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases, or may be identified by statements to the effect that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and a variety of material factors, many of which are beyond the Company's control which may cause the actual results, performance or achievements of Decklar, its subsidiaries and affiliated companies to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. There can be no assurance that the Company will obtain licenses or other approvals when needed, or at all, or that further exploration of the Oza Oil Field, Emohua Oil Field or Asaramatoru Oil Field will lead to additional commercial discoveries or, if there are commercial discoveries, that the Company will be able to realize such resources as intended. Readers are cautioned that forward-looking statements may not be appropriate for other purposes than outlined in this document. Such factors include, among others, future oil and gas prices; general business, economic, competitive, political and social uncertainties; the actual results of current exploration and development activities; conclusions of economic evaluations and studies; fluctuations in the value of the United States dollar (USD) and Canadian dollar relative to the local currencies in the jurisdictions of the Company's key projects; changes in project parameters as plans continue to be refined; possible variations of petroleum grade or projected recovery rates; accidents, labour disputes or slow-downs and other risks of the oil and gas industry; climatic conditions; political instability; labour force availability and turnover; delays in obtaining financing or governmental approvals or in the completion of exploration and development activities; as well as those factors referred to in the section entitled "Risks and Uncertainties" section of this MD&A. The reader is also cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the Company's forward-looking statements.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this document and, except as required by applicable law, the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and

future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

In addition, please note that statements relating to “reserves” or “resources” are deemed to be forward-looking information as they involve the implied assessment, based on certain estimates and assumptions, that, the resources and reserves described can be profitably produced in the future.

### **Decklar Resources Inc.**

Decklar Resources Inc. is an Africa-focused, Canadian resource company. Through its subsidiaries, Decklar Petroleum Limited, Purion Energy Limited and Decklar Emohua Resources Limited, the Company is involved in the provision of technical and financial support to companies involved in the exploration and development of oil resources in Nigeria.

Decklar Petroleum Limited (“Decklar Petroleum”) has a Risk Finance and Technical Service Agreement (“RSA”) with Millenium Oil and Gas Company Limited (“Millenium”) for the Oza Oil Field. The Oza Oil Field is located onshore in the northern part of Oil Mining License (“OML”) 11 in the eastern Niger delta of Nigeria. Through the RSA, Decklar Petroleum will be entitled to an 80 percent economic interest (pre-cost recovery) in the Oza Oil Field. After cost recovery its economic interest will reduce, on a sliding scale based on cumulative production, to 40 percent, once cumulative production exceeds 10 million barrels (“bbls”) of oil.

Decklar Emohua Resources Limited (“Decklar Emohua”), has an RSA for a 60.13 percent participating interest in the Emohua Oil Field held by Erebiina Energy Resources Limited (“Erebiina”). The Emohua Oil Field was awarded to Erebiina, and two other Nigerian entities, in the 2020/2021 Marginal Field Bid Round. The RSA allows Decklar Emohua to participate in the continued development of the oil resources in the field. The Emohua Oil Field is situated approximately 6 km west of the city of Port Harcourt in Rivers State and approximately 30 km west of the Oza Oil Field.

Purion Energy Limited (“Purion”) is a Nigerian entity that has an RSA with Prime Exploration and Production Limited (“Prime”) with respect to Prime’s 35.44 percent equity interest in the Asaramatoru Oil Field in Nigeria. Prime is the operator of the Asaramatoru Oil Field. The Asaramatoru Oil Field is also located in OML 11.

The risk service assets recognized in Company’s subsidiaries are aggregated into Cash Generating Units (“CGUs”). CGUs represent the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### **2023 Highlights**

The Company’s focus in 2023 has been on facilitating sustained operations at the Oza Oil Field. Decklar and Millenium worked to leverage the initial crude oil sales that commenced in late 2022 into a more robust and reliable revenue model.

In January the Company announced that production from the Oza-4 well had commenced. The initial production rate of 400 bbls per day supplemented the 900 bbls per day being produced from the Oza-1 well. With this additional production Millenium seemed well-positioned to fulfill the 30,000 barrel sales contract signed with a refinery in Edo State in December 2022.

In March Decklar and Millenium announced that two new crude oil sales contracts had been executed. Millenium expanded its relationship with the refinery in Edo State with a new commitment to sell 150,000 bbls of crude. This agreement was then quickly expanded to 200,000 bbls. Millenium then also executed a sales agreement with a new refinery for an initial commitment of 5,000 bbls and then 2,500 bbls per month thereafter for up to 100,000 bbls over 12 months.

Unfortunately, the promise associated with the expanded sales contracts and increased production was short-lived. Water issues forced the suspension of production from the Oza-4 well and lower than expected shipments of crude oil necessitated reduced flows from Oza-1. Diminished production capabilities, coupled with ongoing licensing issues related to trucking, limited the Company’s ability to realize the optimal delivery capacity of the Oza Oil Field and the targeted volumes it endeavoured to achieve. These circumstances translated into negative outcomes with respect to the levels of revenues and cash flows.

### **Results of Operations**

Decklar’s financial results for the three and nine month periods ended September 30, 2023 speak to how returns under the cost recovery mechanism of the Oza Oil Field RSA will evolve. The Company’s revenue derives from the risk service fees generated under the terms of the RSA with Millenium. Risk service fees originate from the sale of crude oil by Millenium. It is measured at the price per barrel stipulated in the sales contract multiplied by the contracted volume. The proceeds are subsequently reduced for operating costs, royalties, taxes and other similar costs prescribed in the



### **Risk service fees**

Millenium delivered just under 9,000 bbls of crude oil in Q3 2023. This brought year-to-date deliveries to slightly more than 62,700 bbls. Those crude oil sales allowed Decklar to recognize risk service fees of \$279,532 in Q3 2023 and \$1,965,973 for the nine months ended September 30, 2023. There was no comparable value for the same period in 2022. As discussed above, the Oza Oil Field RSA contemplates a number of deductions from the crude oil proceeds, representing ongoing obligations associated with operations at the Oza Oil Field. While variations in crude oil prices will directly impact the value of risk service fees Decklar receives, due to the nature of deductions contemplated in the RSA, there is not an exact correlation between crude oil volumes and prices and the risk service fees recognized by the Company.

### **General and administrative expenses**

General and administrative expenditures in the three and nine month periods ended September 30, 2023 were \$940,865 and \$2,963,411, respectively. This compares to \$1,161,995 and \$3,087,704 for the equivalent periods in 2022. Not all of these expenditures are recoverable under the Oza, Emohua or Asaramatoru RSAs.

- Consulting costs of \$533,450 and \$1,658,510 in the three and nine month periods ended September 30, 2023 (2022: \$544,545 and \$1,506,610) reflect remuneration of employees, directors and contracted consultants of the Company and its subsidiaries. The year-to-date increase reflects some changes in the number of employees and the decision to initiate director fees in 2023. As many of these costs are paid in US dollars, there is also a foreign exchange component to the increases.
- Professional and regulatory fees for the three and nine month periods ended September 30, 2023 totaled \$151,262 and \$485,417 compared to \$168,586 and \$301,750, respectively for the same period in 2022. These expenditures consist primarily of legal fees, audit fees, and costs associated with public markets. The year over year increases reflect the increasing cost and complexity of Decklar's annual financial statement audit. They are also impacted by a credit of \$42,100 being recorded in Q2 2022 which understates the comparative number for the prior year.
- Office and administrative expenses were \$70,433 and \$335,600 for the three and nine month periods ended September 30, 2023 (2022: \$190,806 and \$582,477). These expenditures are primarily related to the administrative cost associated with the Company's Nigerian staff. The Nigerian naira has depreciated significantly versus the US and Canadian dollars over the past year. As most of these costs are denominated in naira, the Company is seeing some reduction in the translated values.
- Business development expenses of \$169,055 and \$374,191 (2022: \$175,115 and \$319,365) represent costs incurred to negotiate potential funding and other agreements. The year over year increase is due to a \$74,166 credit being recorded in Q1 2022 as the result of a refund from an unfulfilled contract.
- Share-based compensation expense for the three and nine month periods ended September 30, 2023 was \$16,665 and \$109,693, respectively (2022: \$82,943 and \$377,502). The decrease in expense in 2023 reflects the fact that the 2022 option grant had a lower fair value option price than the 2021 option grant.

### **Amortization expense**

The risk service assets are amortized using the unit-of-production method over the total underlying asset's reserve life. Crude oil sales for the three and nine month periods ended September 30, 2023 were 8,876 and 62,169 bbls, respectively. The resulting amortization expense was \$545,047 and \$1,320,657. As crude oil sales did not commence until December 2022, there were no comparative values in 2022.

### **Finance expense**

2023 finance expenses include interest on the Decklar Petroleum's US\$300,000 short-term loan. The loan bears flat interest, fixed at 20% per 90 day period. Interest and principal were originally due and payable in March 2023; however, the term was subsequently extended for another 90 days. Under the revised terms of the loan, interest and principal were due on the June 9, 2023. Decklar was not able to repay the principal by the due date. Decklar did make partial interest payments, however there is still approximately US\$150,000 of interest owing under the renegotiated terms of the loan. As at the time of writing, it is not clear on what actions the lender will take to enforce the terms of the loan agreement, however management has requested an extension to the repayment deadline. Finance expenses also include interest on the Company's US\$5,500,000 loan notes. The terms of the loan notes provide for an interest rate of 10% per year, which accrues on a quarterly basis. The loan notes mature in January 2027. No payments (whether on account of interest or principal) are required under the loan notes unless there are available funds from operations

of the Oza Oil Field. Available funds, as contemplated in the loan notes, have yet occurred. Interest on the loan notes was capitalized for much of 2022, consequently there was no similar expense in 2022.

### Foreign exchange loss and Other comprehensive loss

A recent policy decision by the Central Bank of Nigeria (“CBN”), had a material impact on both the realized and unrealized foreign exchange transactions in Q2. In June 2023, the CBN elected to eliminate official Nigerian naira exchange rates and allow the value of the naira to float against other global currencies. This decision caused the value of the naira, relative to the US dollar, to decrease by almost 37% overnight. The naira has fallen even further since. Given the Company’s significant proportion of naira denominated debts, the Company recognized gains in both the settlement and revaluation of these amounts. A foreign exchange gain of \$193,411 in the three months ended September 30, 2023, reduced the foreign exchange loss for the nine months ended September 30, 2023, to \$2,038 (2022: \$1,794 gain and \$23,159 loss).

Other comprehensive loss – The Company recognized unrealized foreign exchange gains on translation in the amount of \$157,015 and \$2,451,606 for the three and six month periods ended September 30, 2023 (2022: \$1,047,850 gain and \$1,387,911 gain). This demonstrates just how profound the impact of the CBN policy change was for Decklar. Since Decklar Petroleum’s functional currency is US dollars, a material decrease in the value of the naira will reflect positively in the determination of other comprehensive income.

### Risk service assets

As at September 30, 2023, Decklar had a total of \$60,479,295 capitalized in risk service assets (December 31, 2022: \$59,114,263). In the nine month period ended September 30, 2023, expenditures of \$1,925,968, related to Oza Oil Field well operations and other facility and infrastructure expenditures, were added to the Oza Oil Field risk service asset. There were no additional investments made at either the Emohua or Asaramatoru Oil Fields during the period.

<b>Oza RSA</b>	<b>Sept 30, 2023</b>	December 31, 2022
Balance, beginning of year	\$ 41,369,199	\$ 29,054,010
Additions during the period	3,477,209	10,383,626
Foreign exchange	(930,535)	1,931,563
	\$ 43,915,873	\$ 41,369,199
Accumulated amortization	(1,320,657)	(153,890)
<b>Balance, end of period</b>	<b>\$ 42,595,216</b>	<b>\$ 41,215,309</b>

<b>Emohua RSA</b>	<b>Sept 30, 2023</b>	December 31, 2022
Balance, beginning of year	\$ 17,898,954	\$ 17,899,917
Additions during the period	-	-
Foreign exchange	(14,875)	(963)
<b>Balance, end of period</b>	<b>\$ 17,884,079</b>	<b>\$ 17,898,954</b>

<b>Asaramatoru RSA</b>	<b>Sept 30, 2023</b>	December 31, 2022
Balance, beginning of year	\$ -	\$ 7,687,189
Additions during the year	-	1,047,434
Impairment	-	(8,777,867)
Foreign exchange	-	43,244
<b>Balance, end of period</b>	<b>\$ -</b>	<b>\$ -</b>

### Impairment

At September 30, 2023, there were no indicators of impairment or impairment reversal for the Oza Oil Field risk service assets in the Oza CGU. However, due to the Company not fulfilling its contractual spending commitment at the Emohua Oil Field, there is an indicator of impairment for the Emohua Oil Field risk service assets in the Emohua CGU. The Emohua RSA between Decklar Emohua and Erebiina Exploration and Production Limited (“Erebiina”) required that the Company invest US\$1.5 million in the Emohua Oil Field by June 28, 2023. Given the recency of that shortfall, circumstances are fluid, and it is not yet clear if there will be immediate repercussions for Decklar. Under the RSA,

Erebiina can notify Decklar Emohua that it has committed a material breach of the RSA. This notification would give Decklar Emohua 60 days to resolve the material breach. As a result, management believes that impairment of the Emohua risk service assets in the Emohua CGU would be premature as at September 30, 2023. Management has been in contact with Erebiina, and efforts are ongoing to seek an extension to the minimum commitments in the Emohua RSA.

#### *2022 Asaramatoru CGU Impairment:*

The Asaramatoru CGU has seen very little investment since it was acquired in 2021. Decklar's liquidity challenges caused the Company to focus all of its 2022 investment activity in the Oza and Emohua CGUs. Consequently, Purion has only made minor investments in the Asaramatoru CGU to reimburse Prime for certain expenditures. Purion is also in arrears on its general and administrative obligations to Prime. These factors potentially jeopardize Purion's status as the Risk Service Provider at Asaramatoru.

The lack of investment was also attributable to uncertainty caused by a legal dispute between Prime and a former investor. In 2008, Prime had signed a Profit Oil Agreement with this investor. The existence of the Profit Oil Agreement caused the investor to dispute the validity of the RSA between Purion and Prime and it challenged the agreement in court. The two parties have now arrived at a negotiated settlement whereby 15.56% of Prime's 51% share of the property will be transferred to the former investor. The impact of the settlement on the RSA is a reduction in Purion's participation rate in the field to 35.44 percent. It is unclear whether Purion has any recourse against Prime, and management will reassess the potential cash flows that underpinned the original investment for Asaramatoru. The uncertain situation made it highly unlikely that Purion would make any capital investments in the Asaramatoru Oil Field, or that Purion could sell the RSA to another party. Given these multiple uncertainties, management deemed the recoverable amount of the Asaramatoru CGU to be zero at December 31, 2022. This precipitated the Company writing off the entire carrying value of the Asaramatoru CGU and recording an impairment charge of \$8,777,867. Given the reduction of Purion's rights under the RSA and pending reassessment of the project, Purion will explore all options to determine whether funding the further development of the Asaramatoru CGU in the future is warranted, and the impairment will be revisited at that time.

#### **Capital Resources and Liquidity**

The Company's primary objective for capital management involves maintaining sufficient sources of liquidity to fund its obligations under its RSAs. This includes not only funding the development of the respective properties, but the ongoing costs associated with the entities and individuals overseeing those activities. These are all very capital intensive undertakings, and it has proven to be very challenging for Decklar to meet all of these competing demands. Impairment of the Asaramatoru CGU in 2022 is recognition that the Company's financial resources are limited and must be targeted to its most promising prospects. However, putting operations at Asaramatoru on hold will not mute demand for additional capital. Investments will continue to be required at the Oza and Emohua Oil Fields in order satisfy obligations under the respective RSAs and to realize the potential of these properties.

At September 30, 2023, Decklar's capital structure was comprised of shareholders' equity, cash, accounts receivable, short-term loans, trade payables and accrued liabilities and loan notes. It had cash of \$61,738 (December 31, 2022: \$16,434) and had a working capital deficit of \$25,268,475 (December 31, 2022: \$23,855,740 deficit). During the nine month period ended September 30, 2023, the Company incurred a net loss of \$3,360,559 and generated cash from operations of \$2,316,575. The commencement of crude oil sales at the Oza Oil Field, and the resulting risk service fees received will improve the Company's liquidity. It will also help to reduce the immediate need for substantial additional external funding. However, given that the risk service fees are susceptible to adjustments that impact Decklar's cash flows, new sources of financing will ultimately be required in order to fully develop the Oza and Emohua Oil Fields. This is particularly true for Emohua due to the minimum commitments detailed in the RSA. While the Company does have a debt facility with Shell Western Supply and Trading Limited, these funds are only available for the further development of the Oza Oil Field and cannot be accessed to meet other obligations. New sources of funding will need to be arranged, or new partners will need to be brought in to address funding requirements. Continuing cash flows should improve the Company's prospects for securing additional funding, however, the ability to do so is still not guaranteed. Decklar has trade payables and accrued liabilities of \$24,219,749. It has short-term loans totalling \$1,722,801. All of these amounts need to be repaid, in addition to the amounts required for future development at Oza and Emohua. Even if financing is available, it might not be available at terms favourable to the Company or may not be realized when needed. It may also involve dilution to existing shareholders.

The Company had the following contractual obligations at September 30, 2023:

	<b>Payments due by period</b>			
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>
Short-term loans	\$ 1,722,801	\$ 1,722,801	\$ -	\$ -
Loan Notes	6,697,113	-	-	6,697,113
Due to related parties <sup>(1)</sup>	1,290,344	1,290,344	-	-
Emohua RSA	106,582,000	26,480,000	80,102,000	-
<b>Total</b>	<b>\$ 116,292,258</b>	<b>\$ 29,493,145</b>	<b>\$ 80,102,000</b>	<b>\$ 6,697,113</b>

(1) Represents consulting fees payable to directors and officers of the Company.

### **Share Capital**

As at November 28, 2023 the Company had 109,992,152 common shares outstanding. It also had 9,623,332 share purchase options outstanding. The options expire between September 4, 2025, and December 21, 2027. They are exercisable at between \$0.28 and \$1.00 per share. The Company also had 2,500,000 half share purchase warrants that expired August 27, 2023.

As of November 28, 2023, on a fully diluted basis, the Company has 119,615,484 common shares outstanding.

### **Transactions with Related Parties**

#### **Directors**

The Company recognized \$144,792 of directors' fees in the nine month period ended September 30, 2023. There were no directors' fees recognized in 2022. Share options were granted to the Company's directors in December 2022 and August 2021.

#### **Key Management**

Consulting fees paid to, and accrued for, key individuals during the three and nine month periods ended September 30, 2023 totaled \$193,706 and \$601,955, respectively (2022: \$76,060 and \$261,207, respectively). Share-based compensation expense for these same individuals was \$8,812 and \$53,578, respectively for the three and nine month periods ended September 30, 2023, (2022: \$35,731 and \$137,662).



## **Summary of Quarterly Results**

CAD, except per share amounts	2023			2022				
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Risk service fees	279,532	482,763	1,203,678	287,172	-	-	-	-
General & administrative expenses	940,865	969,539	1,053,008	1,343,100	1,161,995	823,558	1,102,151	1,159,705
Amortization expense	545,049	361,608	414,002	147,829	-	-	-	-
Impairment (reversal)	-	-	-	8,777,867	-	-	-	(3,346,978)
Finance (income) expense	331,738	359,214	350,275	47,990	-	-	-	-
Foreign exchange (gain) loss	(193,411)	(30,056)	225,505	(20,445)	(1,794)	(3,270)	28,223	38,737
Net (income) loss	1,344,709	1,176,739	839,112	10,009,169	1,160,199	819,908	1,130,202	(2,148,842)
(Income) loss per share (basic)	\$0.01	\$0.01	\$0.01	\$0.10	\$0.01	\$0.01	\$0.01	\$(0.02)
(Income) loss per share (diluted)	\$0.01	\$0.01	\$0.01	\$0.10	\$0.01	\$0.01	\$0.01	\$(0.02)
Total assets	61,153,370	60,043,011	60,733,681	59,667,392	73,284,955	68,645,698	49,907,182	45,897,195

### **Critical Judgements in Applying Accounting Policies**

There have been no changes in critical judgements in applying accounting policies in the three and nine month periods ended September 30, 2023. Further information on the Company's material accounting policies and judgements can be found in the notes to the audited annual consolidated financial statements and MD&A for the year ended December 31, 2022.

### **Risks and Uncertainties**

Given the nature of its business, any operations of the Company are subject to a number of risks, including the following, any one or all of which could have a material adverse effect on the Company and its business:

#### **Additional funding requirements**

Additional financing will be required to fully exploit the potential of the Company's risk service assets in Nigeria. Decklar's ability to obtain additional capital is dependent on, among other things, a general interest in energy industry investments, and more particularly, interest in Decklar's common shares. However, Decklar's common shares may not meet the investment criteria for certain investors, including those who are not willing or able to hold securities of oil and gas companies for reasons that are unrelated to financial or operational performance. These may include environmental, social and governance related concerns, or fossil fuel divestment initiatives. These outcomes would adversely affect the value of Decklar's outstanding shares and the Company's ability to obtain new financing. They may also increase our borrowing costs. These issues are amplified by the additional risks associated with operating in Nigeria.

Unpredictable financial markets and more restrictive central bank policies may impede Decklar's ability to secure and maintain cost effective financing and limit the Company's ability to achieve timely access to capital on acceptable terms and conditions. If external sources of capital become limited or unavailable, the Company's ability to make capital investments, meet its financial obligations as they come due and maintain existing properties may be impaired. As was evidenced at Asaramatoru, and again more recently at Emohua, the inability to obtain sufficient financing in a timely manner under reasonable terms could result in certain properties being impaired. The termination clauses in the RSAs also could lead to the Company to be removed as Risk Service Provider if certain funding commitments are not met. These eventualities could also result in the Company proceeding into reorganization, bankruptcy, or insolvency.

From time to time the Company may enter into transactions that may be financed in whole or in part with debt or equity. The level of indebtedness could impair Decklar's ability to obtain additional financing on a timely basis. This could

impair the Company's ability to take advantage of business opportunities that may arise. Additionally, the Company may issue securities from treasury in order to reduce debt, complete acquisitions and/or optimize our capital structure.

### **Resource industry**

The Company's fortunes revolve around the ability of Decklar and its Nigerian co-venturers to successfully develop and operate oil and gas properties in Nigeria. The exploration for and development of oil and gas reserves involves significant risks that cannot be completely eliminated. While the discovery of oil and gas resources may result in substantial rewards, some properties that are explored may not ultimately be developed into commercially successful operations. Substantial expenses may be incurred to locate and establish oil and gas reserves, to develop operational processes, and to construct facilities at a particular site. It is impossible to ensure that these activities will result in profitable commercial production operations. Whether an oil and gas reservoir will be commercially viable depends on many factors including, but not limited to: the particular attributes of the oil and gas resources, such as volume, qualitative characteristics, and proximity to infrastructure; oil prices, which are cyclical and somewhat unpredictable; government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of petroleum products; and changes to environmental regulations. The effects of these factors cannot always be accurately predicted, but in combination they could result in the Company not receiving an adequate return on invested capital.

The Company's activities are subject to all the hazards and risks normally encountered in the exploration, development and production of oil and gas. These include unusual and unexpected geological formations and other conditions involved in drilling and production, any of which could result in damage to, or destruction of, oil and gas wells and production facilities, damage to life or property, environmental damage, and possible legal liability.

Our co-venturer's oil and gas reserves are a depleting resource and decline as such reserves are produced. As a result, Decklar's long-term commercial success depends on the ability to find, acquire, develop and commercially produce oil and gas reserves. The business of exploring for, developing or acquiring reserves is capital intensive. If external sources of capital become limited or unavailable on commercially reasonable terms, our ability to make the necessary capital investments to maintain or expand our co-venturer's oil reserves may be impaired.

### **Estimation of reserves and contingent resources**

The reserve and contingent resource estimates underpinning Decklar's RSAs are estimates only. There are numerous uncertainties inherent in estimating quantities of reserves and contingent resources, including many factors beyond the Company's control. In general, estimates of economically recoverable oil and natural gas reserves, and the future net revenues therefrom, are based upon a number of factors and assumptions made as of the date on which the reserves estimates were determined, such as geological and engineering estimates that have inherent uncertainties, the assumed effects of regulation by governmental agencies, historical production from the properties, initial production rates, production decline rates, the availability, proximity and capacity of oil and gas gathering systems, pipelines and processing facilities and estimates of future commodity prices, foreign exchange rates and capital costs, all of which may vary considerably from actual results. These risks are amplified for contingent resources such as those at the Emohua Oil Field.

All such estimates are, to some degree, uncertain and classifications of reserves and contingent resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves and contingent resources attributable to any particular RSA, the classification of such reserves and contingent resources based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The reserve and contingent resource calculations as at December 31, 2022 are estimated using forecast prices and costs. Actual production, revenues, royalties, taxes and development, abandonment and operating expenditures with respect to our co-venturer's reserves and contingent resources will likely vary from such estimates, and such variances could be material. These reductions would impact Decklar's risk service fees as well.

Estimates of reserves and contingent resources that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves and contingent resources, rather than upon actual production history. Subsequent evaluation of the same reserves and contingent resources based upon production history will result in variations in the previously estimated reserves and contingent resources and such variances could be material.

### **Government regulation in the oil and gas industry**

The Company is reliant upon exploration, development and operating activities that are subject to various laws governing oil and gas development, production, taxes, labour standards, land use, water use, land claims of local

residents, and other matters. Although the Company's planned activities will be carried out in accordance with all applicable rules and regulations, there can be no assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail such planned activities with materially adverse impacts on financial performance and profitability. This has proven to be even more problematic for operations reliant on trucking, as the sales from the Oza Oil Field currently are.

The oil rights and interests of the Company's co-venturers are subject to obtaining government approvals, licenses and permits. Such approvals, licenses and permits are, as a practical matter, subject to the discretion of the government or governmental officials. No assurance can be given that the Company will be successful in obtaining or maintaining any or all of the various approvals, licenses, and permits in full force and effect without modification or revocation. To the extent such approvals are required and not obtained or are delayed, the Company may be curtailed, prohibited or delayed from continuing or proceeding with planned activities. Ongoing difficulties with renewing trucking permits and accessing export pipelines are examples of these disruptive effects.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration and production of petroleum resources may be required to compensate those suffering loss or damage by reason of operational and production activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Application of, or amendments to, current laws and regulations governing operations, or more stringent implementation thereof could have a substantial adverse impact on the Company and cause increases in capital expenditures, or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new properties.

### **Pricing**

The commencement of crude oil sales by Millenium has increased Decklar's exposure to pricing risks. While the value of the Company's risk service assets has always been linked to the pricing assumptions tied to the related reserves and contingent resources, its revenues are now also captive to this volatile metric. Global benchmarks such as the Brent Crude Oil price are impacted by a number of unpredictable factors such as the actions of OPEC and OPEC+, global economic performance, geopolitical events, government regulation, the adoption of alternate fuel sources and weather events. All of these factors are beyond our control. The pricing of crude oil sales in US dollars and Nigerian naira further exacerbates the volatility associated with these risks.

### **Counterparty risk**

Counterparty risk is the risk that each party to a contract will not fulfill its contractual obligations. Decklar endeavours to manage this risk by working closely with its co-venturers on operational matters. Although Decklar is not the operator of the Oza Oil Field, the Asaramatoru Oil Field or the Emohua Oil Field, the RSAs permit it to be actively involved in operations. A contractual default by its co-venturers, owners of export pipelines, or the future purchasers of oil from the Oza, Asaramatoru or Emohua Oil Fields could have a material impact on the Company's cash flows. Issues related to the Asaramatoru RSA speak to these risks.

Conversely, our counterparties may deem Decklar to be at risk of defaulting on our contractual obligations. These counterparties may require that we provide additional credit assurances by prepaying anticipated expenses or posting letters of credit, which would decrease our available liquidity and increase our costs. The Company's current failure to meet its minimum commitments in the Emohua RSA speaks to this risk.

### **Competition in the oil industry**

The resource business is competitive in all of its phases. Decklar competes for capital, acquisitions of reserves and/or resources, undeveloped lands, skilled/qualified labour, access to drilling rigs, service rigs, hydraulic fracturing pumping equipment and related skilled personnel, access to processing facilities, pipeline capacity, as well as many other services. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical, and other resources, in the search for and the acquisition of these assets and services. As a result, some of our competitors may have greater opportunities and be able to access services or vendors that we are not able to access, thereby limiting our ability to compete.

### **Insurance and uninsured risks**

The crude oil and natural gas operations that are undertaken as part of our RSAs are subject to all of the risks normally incidental to the: (i) storing, transporting, processing, refining and marketing of crude oil, natural gas and other related

products; (ii) drilling and completion of crude oil and natural gas wells; and (iii) operation and development of crude oil and natural gas properties, including, but not limited to: encountering unexpected formations or pressures, premature declines of reservoir pressure or productivity, blowouts, fires, explosions, equipment failures and other accidents, gaseous leaks, uncontrollable or unauthorized flows of crude oil, natural gas or well fluids, migration of harmful substances, oil spills, corrosion, adverse weather conditions, pollution, acts of vandalism, theft and terrorism and other adverse risks to the environment. Again, a reliance on trucking may exacerbate these risks.

Although the Company maintains insurance in accordance with customary industry practice, Decklar is not fully insured against all of these risks nor are all such risks insurable and in certain circumstances the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. In addition, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect on its business, financial condition, results of operations and prospects.

### **Energy transition**

A transition away from the use of petroleum products, which may include conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy, could reduce demand for oil and natural gas. Certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen demand for petroleum products and put downward pressure on commodity prices. In addition, advancements in energy efficient products have a similar effect on the demand for oil and gas products. We cannot predict the impact of a changing demand for oil, and any major changes may have a material adverse effect on business and financial condition by decreasing cash flow from operating activities and the value of Decklar's assets.

### **Public perception**

Concern over the impact of oil and gas development on the environment and the climate has received considerable attention in the media and recent public commentary. The social value proposition of resource development is being challenged. Oil bunkering, pipeline leaks and natural gas flaring, among other things, have gained media, environmental and other stakeholder attention. Future laws and regulation may be impacted by such incidents, which could have a material adverse effect on the Company's financial condition, results of operations and prospects.

### **Personnel**

The Company is dependent on obtaining and retaining the services of professional management and skilled personnel. Failure to obtain such services, or the loss of them, could have a material adverse effect on the Company's operations. There can be no assurance that the required personnel will be available on suitable terms.

### **Enforceability of civil liabilities**

Certain of the Company's directors and officers reside outside Canada. Substantially all the assets of such persons, and substantially all the assets of the Company, are located outside Canada. It may not be possible for investors to effect service of process within Canada upon such persons, and it may also not be possible to enforce against the Company and/or such person's judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

### **Litigation risk**

All industries, including the resource industry, are subject to legal claims, with and without merit. The Company may be involved from time to time in various routine legal proceedings, which include labour matters such as unfair termination claims, supplier matters, and property issues incidental to its business. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Conversely, the Company may be put in a position where it must pursue legal remedies, the disposition of which are also uncertain. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material effect on financial position and results of operations. These risks played a key role in the Company's decision to impair the value of its Asaramatoru CGU.

### **Market for Decklar's securities**

The market price of Decklar's common shares is sensitive to a variety of market-based factors including, but not limited to, commodity prices, foreign exchange rates and the comparability of Decklar's common shares to other securities. Any changes in these market-based factors may adversely affect the trading price of Decklar's shares. There can also be no assurance that an active market for Decklar's securities will continually exist.

### **Financial Instruments**

At September 30, 2023, the Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, short-term loans and loan notes. Other than the loan notes, the fair values of these financial instruments are not materially different from their carrying values. The loan notes are valued at amortized cost using the effective interest rate method. Consequently, their carrying value is less than their fair value.

To help to manage liquidity risk, the Company forecasts and monitors working capital and cash requirements to aid in determining the funds needed to support normal operating requirements on an ongoing basis, including capital development and exploration expenditures. Discussions about the Company's ongoing ability to operate as a going concern are included in note 1 in the September 30, 2023, Condensed Consolidated Interim Financial Statements, Nature of business and going concern.

### **Disclosure Controls**

In connection with Exemption Orders issued in November 2007, and revised in December 2008, by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed consolidated interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificates under National Instrument (NI) 52-109 Certification of disclosure in an Issuer's Annual and Interim Filings, the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

### **Additional Information**

Additional information relating to the Company, including the December 31, 2022 NI 51-101 reports for the Oza Oil Field, Emohua Oil Field and Asaramatoru Oil Field, are available on SEDAR at [www.sedarplus.ca](http://www.sedarplus.ca).