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Decklar Resources

Closing of funding transaction with San Leon energy

Ticker: DKL CN

Valuation range: CAD1.05-1.75

Current price: CAD0.65

We think the closing of the funding transaction with San Leon is a critical catalyst for Decklar, as it should offer it the necessary firepower to proceed with further drilling at Oza. We also expect San Leon's wave of the option for an additional 15% stake in Decklar Petroleum to offer upside to our valuation range. The company's next big milestone catalyst is first oil from Oza-1, which has been delayed and we are awaiting updates from the management.

For our Decklar initiation please refer [here](#).

Event

Today (27 January) Decklar Resources announced that Decklar Petroleum (100% owned by Decklar Resources) and San Leon have agreed to new terms on financing arrangements whereby San Leon will advance \$4.75mn immediately and an additional \$2mn by 30 April, 2022 (or San Leon will accept a pro rata reduction in its shareholding in Decklar Petroleum) to Decklar Petroleum. The \$7.5mn (including the \$750k deposit already given to Decklar Petroleum) will be given by way of a loan to Decklar Petroleum, at 10% interest, and San Leon will also receive a 15% equity stake in the company. San Leon also had the option to invest an additional \$7.5mn for another 15% equity stake in Decklar Petroleum, which it has agreed to waive, according to the press release. Decklar Petroleum has agreed that San Leon will be fully involved in the planning and determining the location of the first new well to be drilled on the Oza oilfield.

The \$6.75mn had been sitting in an escrow account for months and were to be released upon satisfaction (or waiver) of certain conditions precedent. Delays were experienced in concluding conditions precedent to the San Leon transaction, and Decklar proceeded to complete the re-entry and testing of the Oza-1 well, which indicated positive oil results from two zones and gas in a third zone. San Leon has agreed to waive the conditions precedent and to proceed with its investment in Decklar Petroleum.

Our view

Funding is one of the biggest risks in the early stages of the lifecycle of an E&P (such as Decklar) and we view today's update as positive for the shares, giving Decklar important firepower to progress with the development of Oza. The closer involvement of San Leon, in the drilling operations of Oza, should also be viewed as positive, we believe, allowing the partners to leverage San Leon's resources and experience in the Delta. San Leon electing to waive its option to buy a further 15% in Decklar Petroleum, might not show a vote of confidence for the field, some could argue, but if the field does perform according to expectations, we believe it will be materially accretive to Decklar Resources, which is in lesser need of the additional funds at current oil prices.

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27 January 2022

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Oza

27 January 2022

Oza-1 has been completed since November and according to the company's press releases, it will be ready to start producing once logistics and export activities are finalised. Decklar has not offered an update on the status of Oza since November. After Oza-1 reaches production, at current oil prices and with the San Leon funds, we believe Decklar will be able to proceed to the second phase of Oza's development, which entails the drilling of 4-5 new development wells, additional infill drilling and well tie-ins to existing infrastructure. According to the competent person's report (CPR), each well is estimated to cost ~\$6.5-7.5mn and recompletion wells ~\$3mn.

Valuation

We are reviewing our model, but our valuation range for Decklar is CAD1.05-1.75/share, based on \$50-70/bbl LT Brent prices and 10-15% discount rates.

Figure 1: Decklar Resources valuation sensitivity, CAD/share

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	1.24	1.42	1.58	1.74	1.77
	11%	1.20	1.38	1.53	1.69	1.71
	12%	1.16	1.33	1.48	1.63	1.66
	13%	1.13	1.29	1.44	1.58	1.61
	14%	1.09	1.25	1.39	1.53	1.56
	15%	1.06	1.21	1.35	1.49	1.51

Source: Company data, Renaissance Capital estimates

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