Decklar Resources Inc.

28 October 2020

Oil & Gas

Boosting alpha in the Delta

Key Data

Listing:	TSX.V
Ticker:	DKL
Shares Outstanding:	54.3m
Share Price:	C$0.28
Market Cap:	C$15.2m
Cash Balance:	C$0.8m
Estimated Valuation:	C$37.7m
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

Decklar Resources Inc. ("**DKL**") is an early entry opportunity into a cash flow yield play providing development capital to low risk and low cost appraisal and development reserves and resources across Nigeria and the West Africa region.

DKL is listed on the TSX Venture Exchange (TSX.V:DKL) and recently acquired Nigeria-based Decklar Petroleum Limited ("**Decklar**") which has a Risk Service Agreement ("**RSA**") with Millenium Oil & Gas Company Limited ("**MOG**") on the Oza Oil Field (the "**Field**"). The Field is located onshore in the northern part of OML 11 in the Eastern Niger Delta, it was carved out of SPDC operated OML 11 in 2003 as part of the Government's Marginal Field Development Program and awarded to MOG.

Recently, Decklar arranged preliminary funding of US$26 million to develop the Field, with up to US$15 million, in two stages, from San Leon Energy ("**SLE**") against up to a 30% interest in Decklar (01/09/2020). In return, Decklar benefits from a highly cash generative RSA structure and an accelerated recovery during the pay-out period of development capital. DKL's intention to capitalise on the need for development capital across the region to make further value accretive acquisitions, and maximise cash flows for distribution to shareholders, is a very relevant and attractive equity story for most investors in current markets environment.

Valuation

We value DKL at C$0.70 per share, based on a combination of valuation methods and DKL's estimates of reserves and resources. We see potential for NAV to reach C$1.30 within 12-18 months and believe the current share price represents an attractive early entry opportunity into a cash flow yield equity story with material upside.

Analyst

Lionel Therond CFA

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Investment Case

DECKLAR RESOURCES IS AN EARLY ENTRY OPPORTUNITY INTO A CASH FLOW YIELD PLAY PROVIDING DEVELOPMENT CAPITAL TO LOW RISK AND LOW COST APPRAISAL AND DEVELOPMENT RESERVES AND RESOURCES ACROSS NIGERIA AND THE WEST AFRICA REGION, A VERY RELEVANT EQUITY STORY AND HIGHLY ATTRACTIVE TO MOST INVESTORS.

- Decklar Resources Inc. (“**DKL**”), a TSX Venture listed company (TSX.V:DKL), recently acquired Decklar Petroleum Limited (“**Decklar**”), an Oil & Gas company based in Nigeria:
  - In 2019, Decklar entered into a Risk Service Agreement (“**RSA**”) with Millenium Oil & Gas Company Limited (“**MOG**”) who won the bid for the Oza Oil Field (the “**Field**”) during the 2003 Nigeria Marginal Fields Licensing Round;
  - As Risk Service Provider, Decklar will provide 100% of all funding requirements (capex, opex, and G&A) and technical assistance to restart commercial production and full field development;
  - In return, Decklar is entitled to an RSA income, as well as 80% of distributable funds as Cost Oil until full recovery of the capital and non-capital cost spend. After cost recovery is achieved, Decklar’s share is derived from a sliding scale based on cumulative sales of crude oil production.
- The Field is located onshore in the northern part of OML 11 in the Eastern Niger Delta, and was carved out of SPDC (Shell/Total/ENI JV) operated OML 11 in 2003 as part of the Government’s Marginal Field Development Program:
  - The Field has three wells and one side-track drilled between 1959 and 1974, with two periods of extended production testing. The Field was never tied into an export facility, nor was it fully developed and put into commercial production;
  - Since MOG’s acquisition of the Field, some US$50 million has been spent on infrastructure in support of a restart of production including an export pipeline to tie the Field to the Trans Niger Pipeline which goes to the Bonny Export Terminal;
  - We use DKL estimates (“**DKLest**”) of reserves and resources for the purpose of this report. DKL intends to file an updated reserve report (51-101) once Oza-1 has been re-entered.
  - DKLest include volumes, gross to DKL, of 2.03 MMbbl (2P) and 10.06 MMbbl (2C), whilst 3.46 MMbbl of prospective resources were identified in a separate structure located to the NW of the Field.
- Decklar has arranged preliminary funding of US$26 million to re-establish oil production and fully develop the Field, a financing scheme announced on 1 September 2020:
  - First, Decklar entered into a subscription agreement with San Leon Energy ("**SLE**") which entitles SLE to purchase 15% of Decklar for US$7.5 million, with an option for SLE to purchase an additional 15% for US$7.5 million under the same conditions and contingent on the well test results;
  - Second, MOG entered into a non-binding term sheet with a local Nigerian Bank and a large multinational oil company active in Nigeria for up to US$33 million of 5-year debt, of which US$11 million is for development activities on the Field and US$22 million to refinance existing debt of MOG;

- The RSA structure is highly cash generative to Decklar compared to a more traditional working interest ownership, due to a lower tax rate payable on RSA income (CIT) and of an accelerated recovery during the pay-out period of development capital.

- We value DKL at C$0.70 per share, based on DKLest of reserves and resources, using a combination of valuation methods (**Exhibit 1**):

  - We estimate a Net Asset Value ("**NAV**") of C$0.69 per share, based on our assessment of net cash flows attributable to DKL using a DCF valuation;

  - Our public market valuation of C$0.71 per share is based on a comparison with a peer group of publicly listed companies with assets in Nigeria. DKL currently trades at a discount to the peer group and we argue that, due to the specific nature of the RSA, a premium valuation to peers is probably warranted; hence we use the top of the valuation range;

  - The most relevant private market transaction is the recent funding organised by Decklar with SLE, and it leads to a value of C$0.69 per share. We also benchmark our valuation to a sample of recent transactions for West African assets, which results in a value for DKL of C$1.11 per share.

- DKL's management reckons that positive re-entry and drilling results, from development activities to be carried out within the next 12-18 months, would probably trigger the reclassification of most of possible reserves and contingent resources into 2P and 2C, in two steps as follows:

  - First, conversion of P3 into P1 and P2 once the first re-entry on the Oza-1 well is completed and after testing and bringing into production three zones that have never been tested before;

  - Second, beyond the initial well re-entries, conversion of significant additional Contingent resources to P2 reserves, as well as C3 into 2C resources, within the next 12-18 months after subsequent re-entries and new wells have been drilled;

  - In this report, we assume a potential reclassification of all P3 and C2 resources into 2P reserves, as well as two-thirds of C3 into 2C resources.

- We revisited our valuation results above in light of these possible future reserves and resources conversions, which remain contingent on drilling and testing results:

  - We see an increased NAV to C$1.30 per share, at a 12-18 months horizon (**Exhibit 2**):

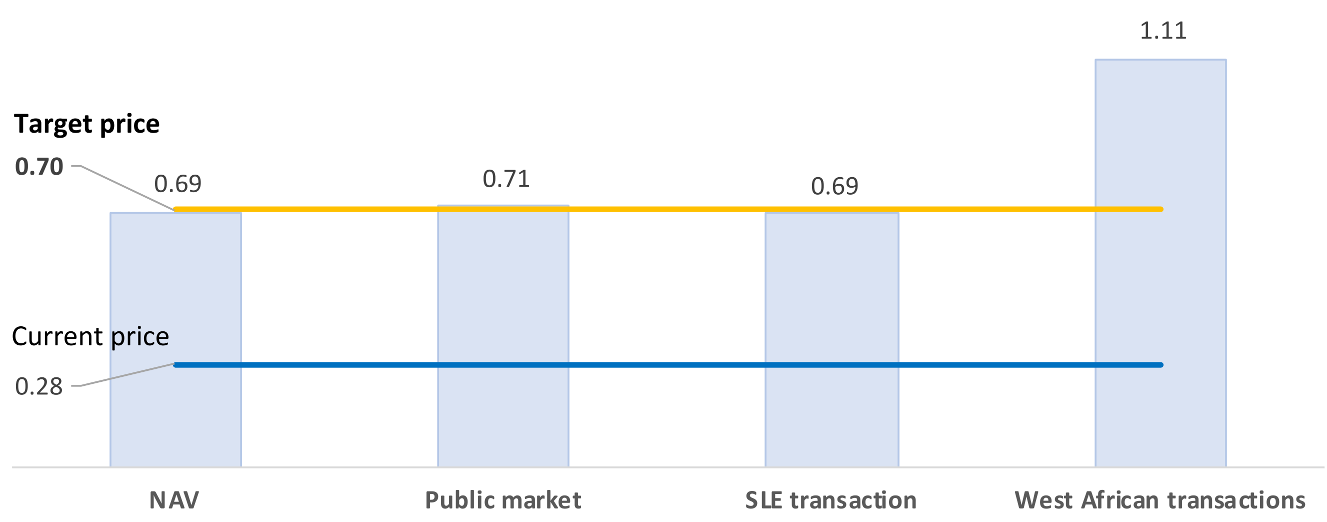
  - Whilst our public market valuation would increase to C$1.11 per share;

  - And benchmarking to a sample of recent transactions for West African assets results in an equity value for DKL of C$1.19 per share.

- We believe that DKL's intention to capitalise on the need for development capital across the region to make further value accretive acquisitions, and maximise cash flows for distribution to shareholders, is very relevant in the current context of the oil industry and should be very attractive to most investors:

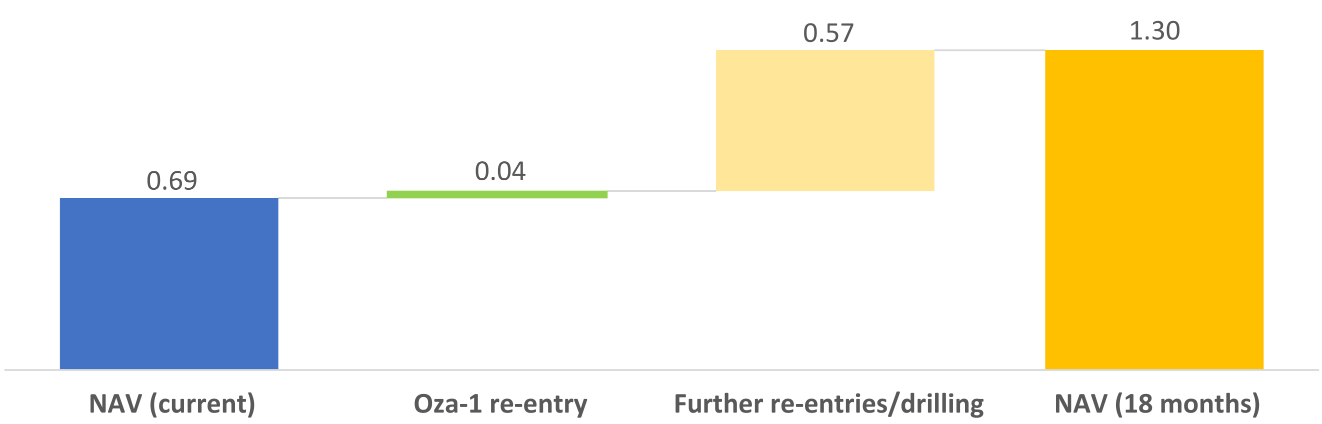
- The new paradigm in the industry is for value to be generated from exploiting low cost reserves efficiently, by focusing on already discovered reserves and resources and on the maximization of distributed cash flows. The benefit of such a strategy is the relatively low risk compared to higher risk exploration plays;
- Such lower risk cash flow yield investment opportunities should be very attractive to most investors in the current markets environment, where cash flow yield with low-moderate risk profile is at a premium;
- Hence, we believe that the current share price is a good entry point into an original and very relevant equity story with material upside.

EXHIBIT 1: TARGET PRICE



Source: FDC, Bloomberg

EXHIBIT 2: 12-18 MONTHS UPSIDE



Source: FDC

Background

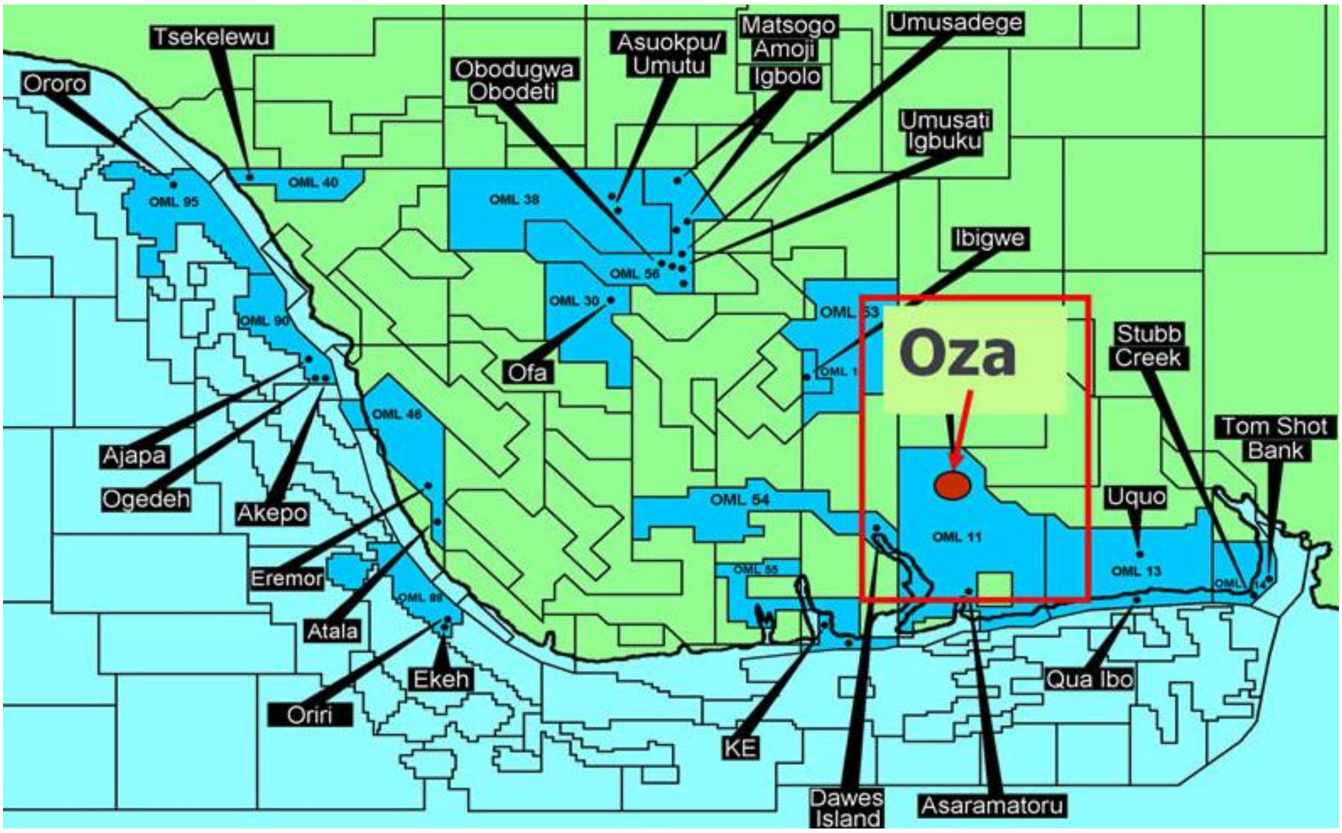
Effective 9 September 2020 and following a change of strategy, Asian Mineral Resources Limited, a company listed on the TSX Venture Stock Exchange, changed its corporate name to Decklar Resources Inc. (**"DKL"**) The name change reflected a strategic shift from its initial focus on the development of mining opportunities in Vietnam to the appraisal and development of oil and gas opportunities in the prolific West Africa region.

This strategic shift was enacted by DKL's divestment from the Ban Phuc Nickel Mine in Vietnam in 2018 and completed in July 2020 with the acquisition of Nigerian-based Decklar for C$8.550 million in shares. Decklar's sole asset is an RSA with MOG the owner of the Oza Oil Field, located onshore in the northern part of SPDC (Shell/Total/ENI JV) operated OML 11 in the Eastern Niger Delta of Nigeria.

Since MOG's acquisition of the Field, some US$50 million has been spent on infrastructure in support of a restart of production including an export pipeline to tie the Field to the Trans Niger Pipeline which goes to the Bonny Export Terminal. DKL estimated gross 2P reserves of 2.55 MMbbl and 2C resources of 23.31 MMbbl, for the Oza Field, whilst 9.60 MMbbl of prospective resources was identified in a separate structure located to the NW of the Field.

As Risk Service Provider, Decklar will provide 100% of all funding requirements (capex, opex, and G&A) and technical assistance to restart commercial production and full field development. In return, Decklar is entitled to an RSA income, as well as 80% of distributable funds as Cost Oil until full recovery of the capital and non-capital cost spend (**Exhibit 3**).

EXHIBIT 3: LOCATION MAP



Source: MOG, FDC

Assets Portfolio

Nigeria

The Oza Field is located onshore in the northern part of OML 11 in the Eastern Niger Delta of Nigeria. It was operated by SPDC (Shell/Total/ENI JV) and, between 1959 and 1974, there were two periods of extended production testing from three wells and one-sidetrack drilled in the Field. However, the Field was neither tied into an export facility nor fully developed and put into commercial production by SPDC.

In 2003, the Field was awarded to MOG as part of a Marginal Fields Licensing Round. The Marginal Fields program was launched by the Government of Nigeria to address fields which remained non-producing or not currently under development for over 10 years due to high fiscal terms and marginal economics for IOC operators. Over 130 individual fields were identified for the program and 24 of these Marginal Fields were awarded to indigenous companies in 2003. Incentives to attract potential investors to bid for these marginal fields included improved fiscal terms.

Since award, MOG invested some US$50 million on infrastructure in support of a restart of production, including an export pipeline into the Trans Niger Pipeline going to the Bonny Export Terminal, a lease automatic custody transfer (“**LACT**”) unit fiscal metering system, infield flow-lines, manifolds and a rental 6,000 bbl/d early production facility (“**EPF**”).

Despite such investment the Oza Field remained undeveloped and, in 2019, MOG entered into a Risk Service Agreement (“**RSA**”) with Decklar to secure funding and technical assistance in order to restart full field development and commercial production.

As Risk Service Provider, Decklar will provide 100% of all funding requirements (capex, opex, and G&A) and technical assistance to restart commercial production and full field development. In return, Decklar is entitled to an RSA income, as well as 80% of distributable funds as Cost Oil until full recovery of the capital and non-capital cost spend

The RSA gives Decklar the majority share of production and associated cash flow from the field in return and includes a preferential return of Decklar’s costs plus a share of cash flow thereafter. Decklar is entitled to priority recovery of its capital from 80% of distributable funds and, after achieving cost recovery, Decklar’s profit share is based on a sliding scale starting at 80% and declining to 40% once cumulative production exceeds 10 MMbbl.

Outside of Nigeria

DKL has an earn-in agreement on the Holt Property on Vancouver Island, British Columbia, Canada. The Property has a completed 43-101 compliant technical report on the area’s prospectivity, with proven volcanogenic massive sulphide (VMS) and skarn magnetite mineralization.

This is a low-cost earn-in exploration opportunity in an area with compelling geology due to historical production of gold, silver, and copper. Further, as is the case across most of the region, nearby infrastructure is excellent. A large portion of the land is accessible via active logging roads, several 500 kilovolt power lines intersect the tenements, and the Nanaimo Port is about 50km away.

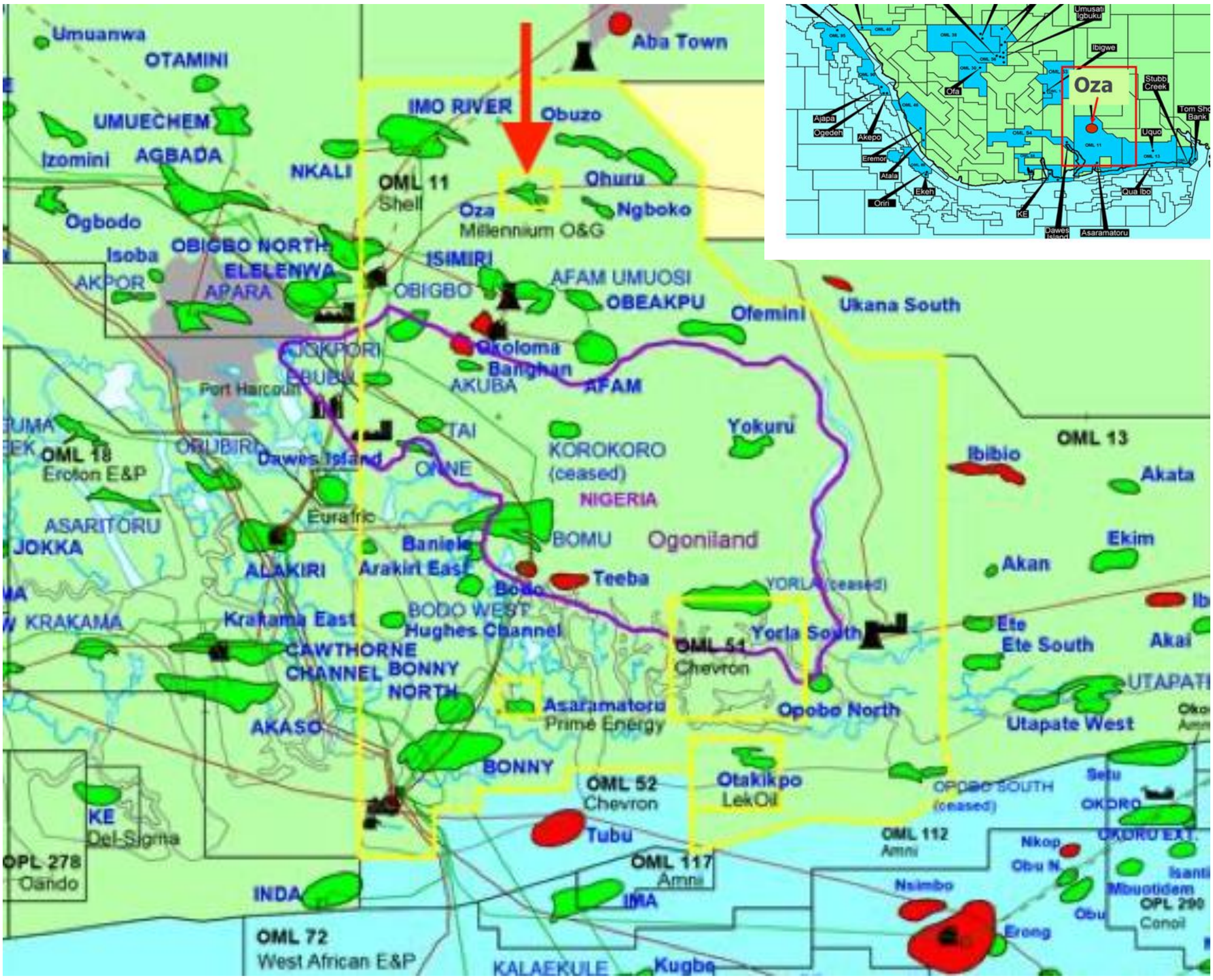
DKL does not anticipate making future capital commitments towards this project and intends to dispose of its interest to focus on the Oza Field and other similar oil & gas appraisal and development opportunities in West Africa.

Nigeria

Oza Field

The Oza 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 FIELD LOCATION MAP



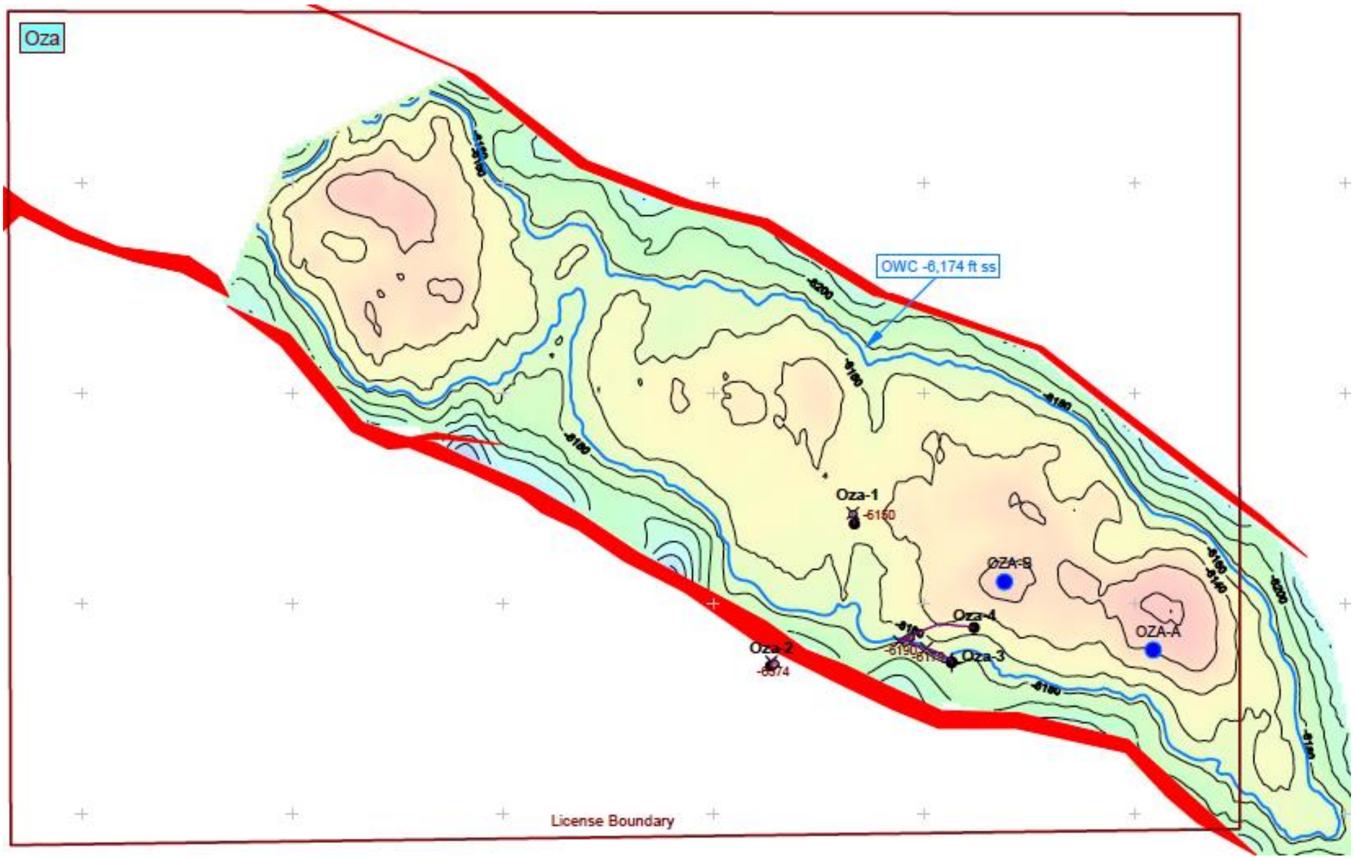
Source: San Leon Energy

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.

Oza Field Geology

The Oza Field structure is a faulted anticline formed by a number of growth faults and mapped from fair-good quality 3D data. Two main bounding NW-SE fault sets limit the structure from the North and South. These faults have a V-shaped profile in a N-S direction and the anticline gets narrower with depth, whilst the crestal part of the structure is about half-way between these bounding faults (**Exhibit 5**).

EXHIBIT 5: OZA FIELD STRUCTURE



Source: DKL

The log data suggests that the entire reservoir section can be divided into Lower, Middle and Upper units. The Lower unit consists of the M5000 Sand, the Middle unit is comprised of the L7000 to M2100 sands, and the Upper unit is comprised of sands from K7000 to the L3000. Reservoirs were formed within a widespread channel system environment under changing sea level conditions, ranging from estuarine to shoreface and lagoonal.

The structural shape is slightly different for each of these units and the trapping mechanism for most of the zones is a combination of structural closure and fault sealing depending on the horizon.

Hydrocarbons were interpreted in nine reservoirs, but only three (M2100, L9000 and M5000) were tested and produced oil. Most of the fields in the area contain both oil and gas accumulations, so the presence of gas is not unusual. The absence of reliable open hole logs with a full set of porosity logs (density, neutron and sonic logs) and test data does not allow for a definitive conclusion on the type of hydrocarbons in many of these reservoirs. Even in reservoirs found to be oil saturated in the existing well penetrations, gas caps may exist at the higher structural elevations outside well control.

Oza Field Reserves and Resources

DKL estimated 2P reserves of 2.55 MMbbl and 2C resources of 23.31 MMbbl for the Oza Field, whilst corresponding volumes (gross to DKL) are 2.03 MMbbl (2P) and 10.06 MMbbl (2C) (**Exhibit 6**).

EXHIBIT 6: RESERVES AND RESOURCES

	Proved Producing	Proved Developed	Proved Undeveloped	Total Proved	Probable	Total Proved & Probable	Possible	Total Proved, Probable & Possible
Light/Medium Oil								
Property Gross (1)	0.48	0.92	0.59	1.52	1.03	2.55	1.18	3.73
Company Gross (2)	0.38	0.74	0.48	1.21	0.81	2.03	0.81	2.83

	Low Estimate (1C)	Best Estimate (2C)	Unrisked Mean Estimate	High Estimate (3C)
Light/Medium Oil				
Property Gross (1)	5.08	23.31	25.09	47.47
Company Gross (2)	3.45	10.06	10.86	19.35

(1) Property Gross resources are 100 percent working interest reserves before deductions of royalties payable to others.
(2) Company Gross resources are based on Decklar's share of the distributable funds applied to the property gross resources, before the deduction of any royalties.

Source: DKL

DKL's share of reserves and resources are based on their sliding scale share of net available profit entitlement, as laid out in the RSA. Indeed, due to the nature of the RSA, DKL does not have a working interest ownership of gross field reserves and resources.

DKL estimated a chance of development to be 80% for all these contingent and prospective zones as all contingent zones are located behind pipe within the main Oza Field structure and all prospective zones are located in an adjacent structure.

In addition, DKL identified gross prospective resources of 9.60 MMbbl in a separate and yet undrilled structure located to the northwest of the main structure.

DKL's management reckon that positive re-entry and drilling results, from development plan activities within the next 12-18 months, would probably trigger the reclassification of most of possible reserves and contingent resources into 2P, in two steps as follows:

1. First, conversion of P3 into P1 and P2 once the first re-entry on the Oza-1 well is completed and after testing and bringing into production three zones that have never been tested before;
2. Second, beyond the initial well re-entries, conversion of significant additional Contingent resources to P2 reserves within the next 12-18 months after subsequent re-entries and new wells have been drilled.

In this report, we have assumed a potential reclassification of all P3 and C2 resources into 2P reserves, as well as all two-thirds of C3 into 2C resources. We explore the impact of such reclassification on our valuation results in the Valuation section.

Oza Field Development Plan

DKL intends to fast-track the initial development of the field through the re-entry of the existing Oza-1 well in order to test three oil-bearing zones and place the well into production from two of the three zones tested. The drilling rig is then expected to be skidded on the same location for a new development well to be drilled horizontally into the third zone. Oza-1 and the new well are anticipated to generate significant production (ca. 4,000 boe/d) and cash flow within 6-12 months.

The Oza Field development is anticipated to proceed in the subsequent 12-18 months, with one or two more re-entries of existing wells and a potential of 8-10 additional development wells being drilled for the full development. Additional early production and central processing facilities will be added to accommodate the increasing production from these activities.

Significant export and production capacity through processing facilities and infrastructure are already in-place and operational, allowing for the immediate export and sale of crude oil from the Oza-1 well re-entry, the initial Oza horizontal development well and future wells

The reservoir sands are continuous across field delineation wells and are expected to continue within the concession. We see three sources of potential upside:

1. the four-way dip closure extends to the northwest of the main field structure and provides additional drilling targets as well as a potential volume upside;

2. the actual structure of the field could be potentially larger if it were to extend beyond the last closing contour of the four-way dip closure to the bounding faults in a three-way dip closure; and

3. whilst oil has been found in the shallower sands, and contingent resources only assigned to behind pipe volumes in 6 already identified reservoirs, the presence of up to 12 stacked sands provides for additional oil or gas-condensate potential in the deeper sands.

The Oza Field production is presently sent to the nearby Isimir Field, and then transported through the Trans Niger Pipeline to the Bonny Export Facility and is therefore subject to a SPDC capacity and production tariff of $5.96/bbl which is applied to both crude oil and water production, which will be the case until water disposal is underway in 2021.

Oza Field Commercial Terms

Under the terms of the RSA, Decklar is responsible for funding 100% of all capital expenditures and, in addition to an RSA income, is entitled to 80% of distributable funds until all capital investment has been recovered. After cost recovery is achieved, DKL's share is based on a sliding scale based on cumulative sales of crude oil production after the signing of the RSA as follows:

- 80% prior to 2.5 MMbbl;
- 70% of 2.5-5.0 MMbbl;
- 60% of 5.0-7.5 MMbbl;
- 50% of 7.5-10.0 MMbbl; and
- 40% for greater than 10.0MMbbl cumulative field sales production.

The distributable funds to which the RSA sliding scale is applied to is defined as: Revenue less royalties, less operating expenditures, less capital investment and abandonment fees, less crude oil levies such as Niger Delta development contributions and education taxes, less Petroleum Profit Tax ("**PPT**") and corporate income tax.

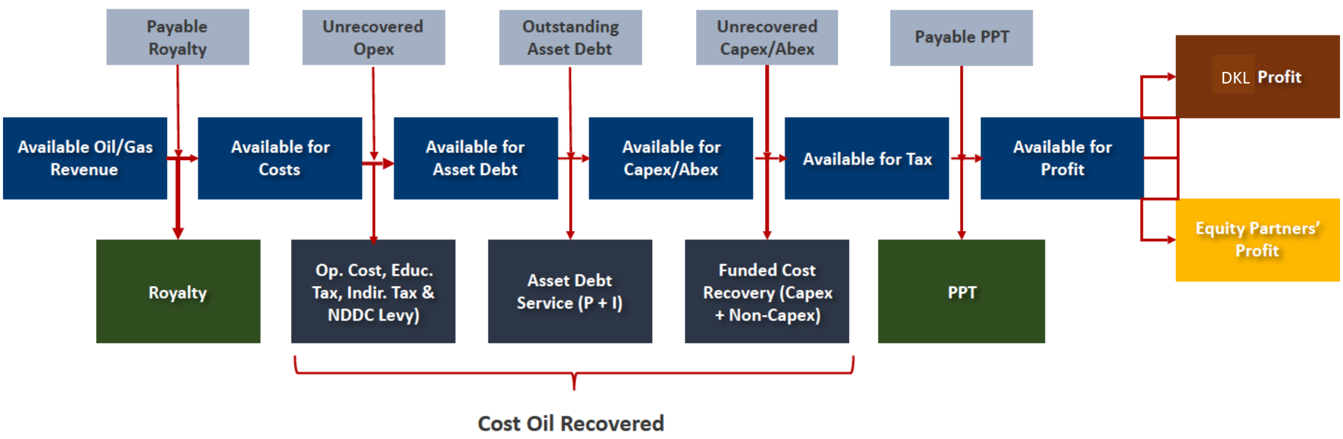
Marginal Field royalties are based on production-related metrics and payable to both Nigerian Government and original field owners, in this case SPDC.

The RSA income payable to DKL is included within Operating costs, and is taxable under CIT.

The calculated distributable funds are generally considered at the field level and do not take into account VAT, outstanding corporate loans and interest payments or other joint-venture provisions.

The commercial structure of the RSA is illustrated below (**Exhibit 7**).

EXHIBIT 7: RSA COMMERCIAL STRUCTURE



Source: DKL

Oza Field Development Finance

On 31 August 2020, DKL's wholly owned Nigerian subsidiary Decklar arranged preliminary development funding of US$26 million which will allow for re-entry of existing wells, initial development drilling and the anticipated re-establishment of oil production within 3-4 months after drawdown of the funds.

The funding amount consists of up to US$15 million in two tranches of US$7.5 million each (one firm and one optional) in Loan Notes subscribed by Decklar from SLE, and up to US$11 million of a 5-year term debt agreement between MOG and a local Nigerian bank and the trading subsidiary of a large multinational oil company active in Nigeria. The debt agreement also includes US$22 million to refinance existing debt of MOG, and Decklar is expected to provide a corporate guarantee for the total US$33 million of term debt facility entered into by MOG.

SLE is an independent oil and gas company listed on AIM, with a presence in Nigeria through its indirect interest in OML 18 and a track record of counter-cyclical value accretive acquisitions. We fully agree with DKL CEO's comment that receiving funding from SLE and a large crude trader underscores their confidence in the Oza Field development project, its management team and the upside of the field.

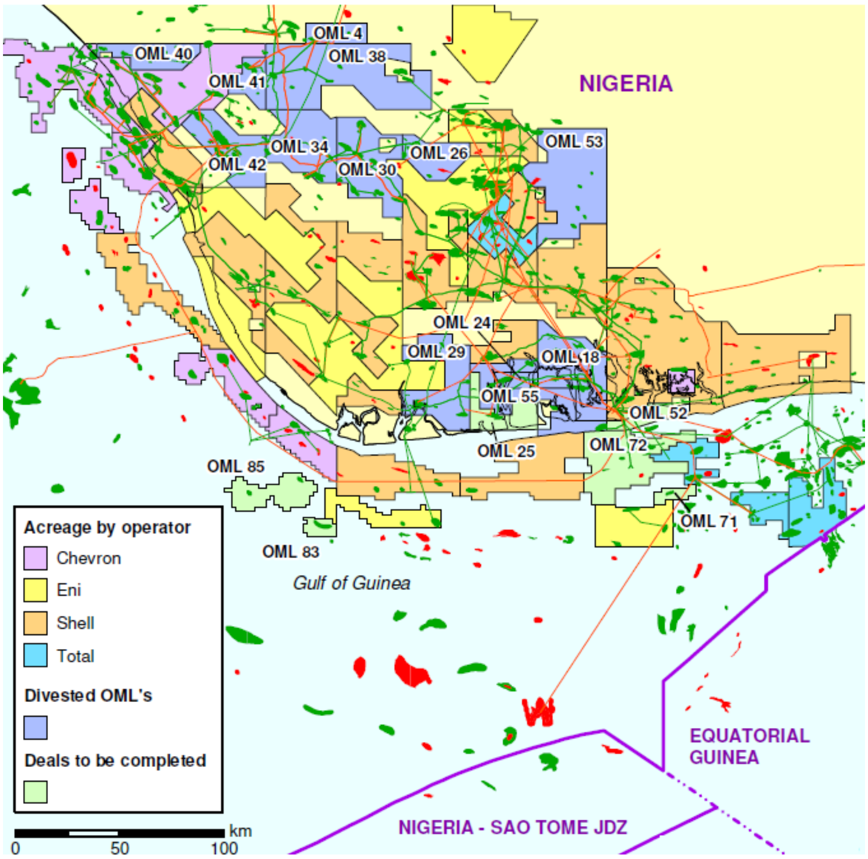
The Subscription Agreement entitles SLE to purchase US$7.5 million of 10% unsecured subordinated Loan Notes of Decklar as well as 15% of the share capital of Decklar for a cash consideration of US$7.5 million and N1,764,706, respectively. The Loan Notes are unsecured, subordinated and do not contain any financial or other maintenance covenants.

In addition, SLE is entitled to purchase an additional US$7.5 million of Loan Notes and an additional 15% of the share capital of Decklar for a cash consideration of US$7.5 million and N2,521,008, respectively, at any time until 45 days after the well test results of the first development well on the Oza Field.

Consolidation Play in Nigeria

The upstream oil sector is the single most important sector of the Nigerian economy, accounting for over 90% of exports and ca. 80% of Federal Government revenue. Although initially dominated by international companies (IOCs) since the discovery of crude oil in 1956 by Shell-BP in the Niger Delta, indigenous private operators now account for ca. 15% of oil production following the implementation of enabling legislation and onshore asset divestments by IOCs (**Exhibit 8**).

EXHIBIT 8: LICENCE DIVESTMENTS



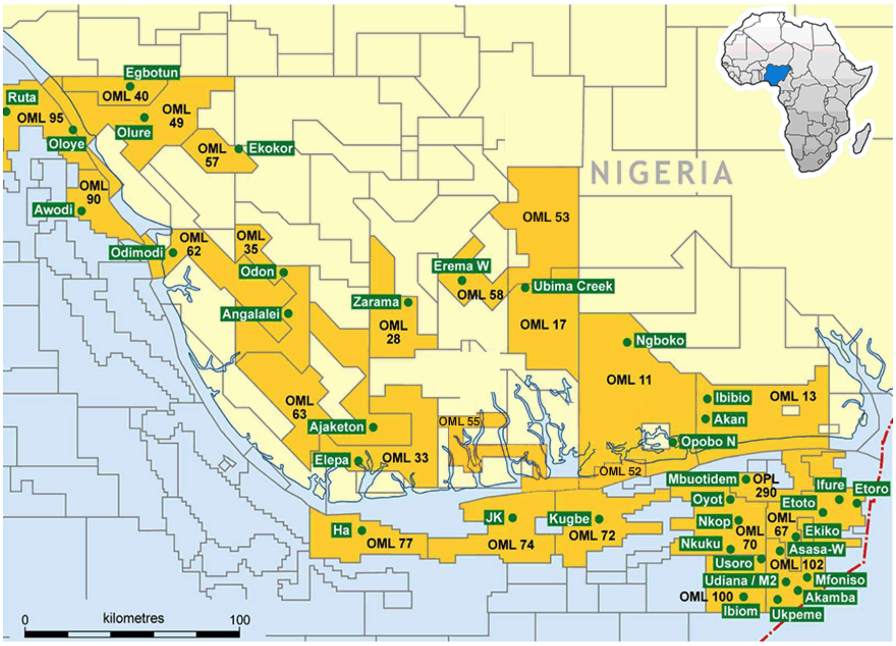
Source: Wood Mackenzie

Nigeria is estimated to hold remaining proved reserves of ca. 37.5 billion bbl of oil and 184 TCF of gas, making it a globally significant source of long-term supply. Nigeria hopes to boost its oil production to 3-4 MMbopd within 5 years from current production of ca. 1.9 MMbopd, by attracting some US$48 billion of investment into the upstream sector between now and 2025. There is certainly appetite for the sector at large, upstream but also mid and downstream, and large companies such as Adnoc and Aramco are reported to be assessing investment opportunities.

However, some of the recent changes to the fiscal framework for deepwater are not likely to promote private sector investment, making production targets rather difficult to achieve. Nevertheless, deepwater is still where large reserves are to be found and remains the focus of larger companies. For small/medium size companies, most investment opportunities are located in shallow-water and onshore, areas exited by larger companies due to the smaller pool size and the less attractive JV licensing regime. Hence a large consolidation play, which started in the early part of last decade still has a long way to go.

A bid round for 57 additional Marginal Fields is currently underway, to be attributed by the end of 2020. Marginal Fields carry considerably improved fiscal terms as compared to the historical royalty of 20% and 85% petroleum profit tax (**Exhibit 9**).

EXHIBIT 9: MARGINAL FIELDS LICENSING ROUND



Source: FDC

A significant opportunity also exists in the gas sector based on ambitious government targets for increasing power generating capacity of which the vast majority, up to 80% will need to come from gas-fired power plants (Source: Seplat Petroleum Plc). One reason being the need to minimise CO2 emissions given the government's pledge to reduce the country's greenhouse gas emissions by 20% by 2030, when compared to “business-as-usual” levels which are the second highest in Africa.

Indeed, Nigeria is significantly behind its peers in terms of electricity production per capita. With just 149 kWh in Nigeria compared to a global average of 2,800 kWh, but also lower than the average for sub-Saharan Africa, this situation has a debilitating effect on the social welfare of the country and also results in considerable lost economic growth.

Whether or not Nigeria can meet these ambitious targets, domestic gas demand is likely to increase significantly in the coming years. The IMF forecasts that by 2020 Nigeria will have added 11,000 MW of gas-fired generation capacity which in turn will require at least an additional 2 BCF per day of gas production over and above 2015 levels.

Nigeria has ample reserves to meet such an increase in demand with the largest proven gas reserves in sub-Saharan Africa and ninth largest globally. A number of companies have already entered the space on both the upstream and downstream ends of the gas value chain, as a result of government incentives and deregulation.

The Board

Chris Castle – Chairman

Mr. Castle is a chartered accountant with more than 44 years of experience in the investment and corporate finance sectors. His mining and mineral exploration background includes projects with Amoil NZ, Kanieri Gold Dredging and Australian Anglo-American. His investment sector experience includes Brierley Investments and Regina Confections/Charter Corporation Group. He is Managing Director and Chief Executive Officer of both TSX.V listed Chatham Rock Phosphate Limited and USX listed Aorere Resources Limited. He is also a non-executive director of NZX -listed SMW Group.

Duncan Blount – CEO & Executive Director

Mr. Blount has over 10 years of experience focused on the natural resources sector. He was previously Head of Emerging & Frontier Market Commodities at RWC Partners, where he was responsible for developing their commodity and natural resources portfolio strategy. Throughout his career, Mr. Blount has been an early investor (pre-IPO or IPO) in a number of public and private West African oil & gas companies, including Seplat Petroleum, Lekoil, Savannah Petroleum and Africa Oil. He also has experience in physical mineral trading and structuring off-take agreements. He holds an MBA from the Thunderbird School of Global Management and a B.A. in Language & World Trade from Samford University.

Paula Kember – CFO & Corporate Secretary

Ms. Kember is a Canadian chartered accountant with over 25 years of financial and administrative experience in the mining industry. From 1996 to 2006, she served as Vice- President, Finance of Philex Gold Inc. and previously as a financial officer of Corona Corporation and a director of PolyMet Mining Corporation.

Alan Le Bis – Non-executive Director

Mr. Le Bis worked for nearly two decades as a geophysicist and exploration manager with British Petroleum and has been an independent technical consultant to oil & gas companies throughout the world. He has worked both domestically and internationally, with experience in India for Canoro Resources Limited, Gabon for Ocelot Energy Inc, Nigeria for Yinka Folawiyo Petroleum Co Ltd., West Africa for Abacan Resources Corp. and Equator Exploration Ltd. and in Western Canada for Apache Corporation. He has also been a director of AC Energy Inc, Destiny Resources and Eagle Energy, all active in the oil and gas industry.

Norm Yurik – Non-executive Director

Mr. Yurik is a CPA and former tax partner at Deloitte LLP, where he worked for 38 years. He led the Merger and Acquisition Group of Deloitte in British Columbia for 20 years and was responsible for both tax planning and structuring and client service for some of Deloitte's most significant clients in Vancouver. Mr. Yurik is a director of RBI Ventures Ltd. He has also served on various Institute Boards and Charitable Boards over the past 20 years. He obtained a Bachelor of Commerce from the University of British Columbia and subsequently obtained his CA designation.

Management Team

David Halpin – VP of Finance

Mr. Halpin is a financial, accounting and tax consultant for several public and private Canadian and international resource companies. He is the former CFO/Senior Financial Advisor for Mart Resources Inc., a prior TSX-listed company that had a peak market capitalization of over CDN$750m. He also was employed by PanTerra Resource Corp. and was a director for a TSXV-listed company focused on the exploration and development of shallow and shale gas in Saskatchewan and the production of oil and gas in Alberta. He is a Certified Management Accountant (CMA) from the Institute of Management Accountants and the Association of Accountants and Financial Professionals in Business.

Sanmi Famuyide – Managing Director

Mr. Famuyide has over 20 years of experience focused on structuring natural resources (oil, gas and mining) and infrastructure transactions in West Africa. He is the former Strategic Advisor and subsequently Head, Business Development at Lekoil Limited. He was also the Head of Oil & Gas – Marginal Fields and Upstream Independents at Guaranty Trust Bank in Lagos, where he arranged the financings of many Nigerian independents. In addition, Mr. Famuyide has held executive positions at FBN Capital and MineQore Resources. He has a BSc in Chemical Engineering from the University of Lagos and a MSc in Applied Environmental Economics from the Imperial College London.

Zack Malone – VP of Operations

Mr. Malone is a highly experienced oil well drilling and work-over specialist. Zack has over 25 years of experience working and managing drilling rig operations with the past 15 years working in Nigeria. Mr Malone’s prior experience included working as a rig manager for Precision Drilling Canada and other rig contractors. Mr Malone’s certifications include Second Lime Supervisor’s Well Control, Well Service Blowout Prevention, Fall Protection, Fall Rescue, Rigging and Hoisting, Safety Management & Regulatory Awareness for Well Site Supervision.

Okwuriki David Ejimeh – Manager Completion

Mr. Ejimeh was the Product Sales Engineer/Well Completion with Baker Oil Tools having earlier worked as Operations/Marketing Account Manager, Operations & Technical Sales Manager and Completion Consultant. He is versed in Gravel Pack Pumping and Tools Services, Cased and Open Hole Completions, Filtration, Remedial tools, Liner Hanger Services, Hydraulics of Tools, Soft Ware applications in Pumping, Quality Assurance, Core Value Awareness, HS&E Management, Strategic Selling. He has a Master’s in Business Management and BSc. Petroleum Engineering, University of Ibadan.

Capital Structure and Main Shareholders

All of the shares issued in connection with the acquisition of Decklar by DKL are subject to a statutory four-month hold period. Aggregate purchase price was C$8.550 million to be settled with 30 million shares at a deemed value of C$0.285 per share, with 22 million shares were issued at closing and 8 million being payable only if the Oza Field achieves a minimum production rate within 12 months of closing (**Exhibit 10**).

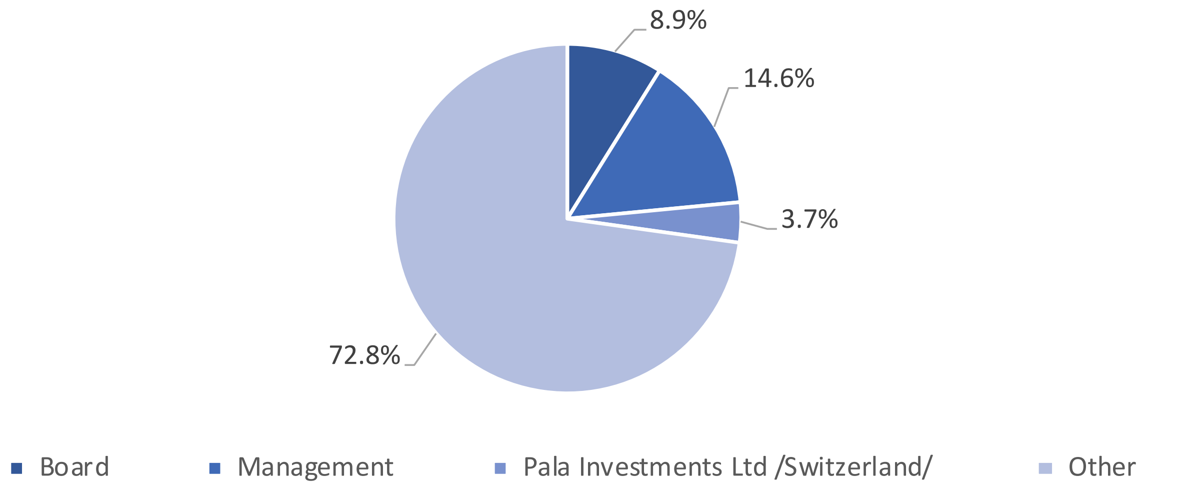
EXHIBIT 10: CAPITAL STRUCTURE

Number of Shares Issued	54,279,773
Warrants	3,133,331
Options	5,400,000
Fully diluted Share Capital	62,813,104
Potential Milestone Payment	
Number of Shares on Milestone of 1,000 boe/d	8,000,000
Fully diluted Share Capital (incl. Milestone Payment)	70,813,104

Source: DKL

Main shareholders are shown below (**Exhibit 11**).

EXHIBIT 11: MAIN SHAREHOLDERS



Source: Bloomberg

Valuation

We traditionally use a combination of valuation methods to estimate a value for DKL, i.e. NAV derived from a DCF-based sum-of-the-parts, multiple of 2P reserves from a peer group of publicly listed companies, and an assessment of relevant private transactions.

For hydrocarbon reserves and resources, we relied on DKL's estimates ("**DKLest**") of 2.55 MMbbl gross 2P reserves for the Oza Field, with 2C resources of 23.31 MMbbl and Prospective Resources of 9.60 MMbbl, corresponding to Decklar's gross volumes of 2.03 MMbbl, 10.06 MMbbl and 3.46 MMbbl respectively.

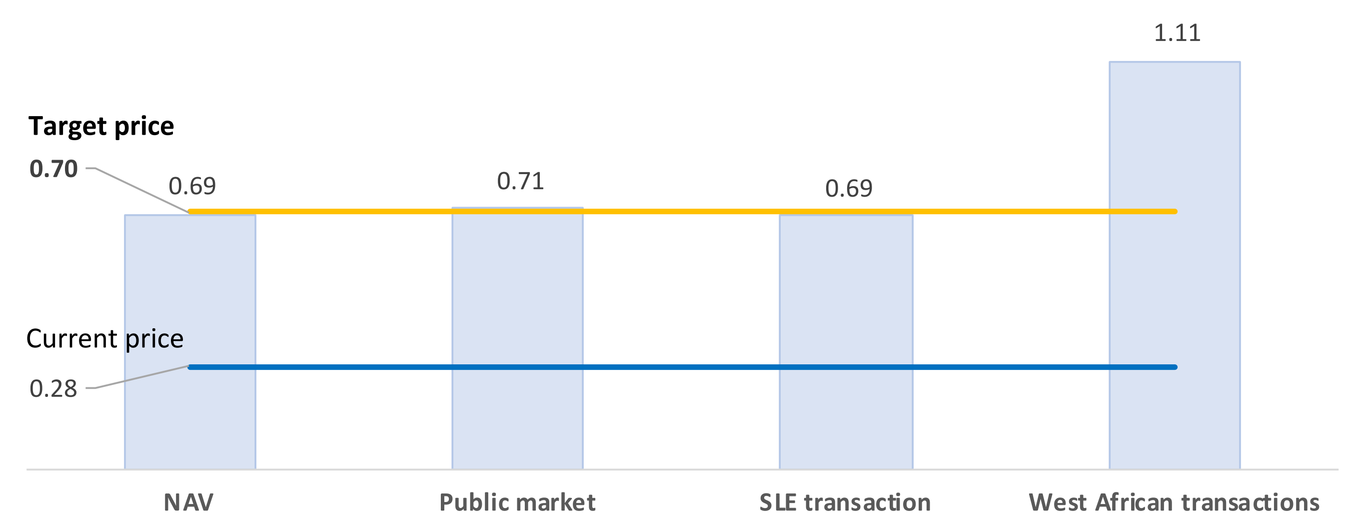
We estimate a NAV of C$0.69 per share, based on a risked valuation of 2P reserves, as well as 2C contingent and prospective resources, adjusted for capitalised corporate costs and balance sheet items.

From a multiple of reserves perspective, DKL currently trades at an EV/2P multiple of US$0.9/boe, at a discount to the median multiple of US$1.2/boe for a peer group of publicly listed companies with assets in Nigeria. We suggest that the highly cash flow generative nature of DKL, through the RSA construct vs. a traditional working interest ownership, should attract a premium to peers with equivalent reserves levels. We note that applying an EV/2P multiple of US$2.4/boe, at the top of the peer group range, results in a value for DKL of C$0.71 per share.

The relevant transaction for DKL is the recent loan of US$7.5 million provided by SLE to Decklar, against a 15% interest in Decklar, valuing DKL at C$0.69 per share, whilst applying the EV/2P median multiple of the transactions that occurred for West African assets in the past 30 months results in a value for DKL of C$1.11.

We derive a target price of C$0.70 per share to account for the valuation results above, which represents a material upside to current share price of C$0.28 (**Exhibit 12**).

EXHIBIT 12: VALUATION SUMMARY (C$)



Source: FDC

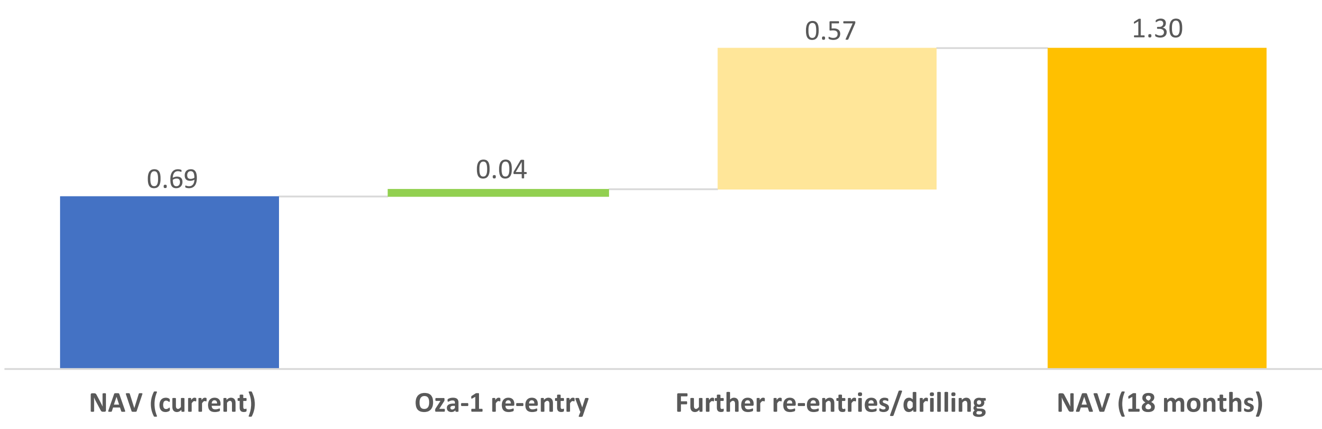
We believe that positive newsflow around the closing of the transaction with SLE and potential announcement of further value accretive deals should provide catalysts to close the gap between current share price and our target price.

DKL's management reckons that positive re-entry and drilling results, from development plan activities within the next 12-18 months, would probably trigger the reclassification of most of possible reserves and contingent resources into 2P, in two steps as follows:

3. First, conversion of P3 into P1 and P2 once the first re-entry on the Oza-1 well is completed and after testing and bringing into production three zones that have never been tested before;
4. Second, beyond the initial well re-entries, conversion of significant additional Contingent resources to P2 reserves within the next 12-18 months after subsequent re-entries and new wells have been drilled.

In order to illustrate the potential upside, we revisited our NAV calculation and peer group comparison after assuming a potential reclassification of all P3 and C2 resources into 2P reserves, as well as two-thirds of C3 into 2C resources. As a result, we see a potential increase of our NAV to C$1.30 per share, at a 12-18 month horizon (**Exhibit 13**).

EXHIBIT 13: 12-18 MONTHS UPSIDE



Source: FDC

Also, we estimate that our public market valuation would increase to C$1.11 per share, whilst our benchmarking to past transactions for West African assets would result in a value for DKL of C$1.19 per share.

There are numerous marginal fields that need development capital in Nigeria, and DKL has demonstrated, in the recent deal with MOG, its ability to capitalise on this opportunity.

More broadly, we believe that DKL's intention to capitalise on the need for development capital across the region to make further value accretive acquisitions, and maximise cash flows for distribution to shareholders, is very relevant in the current context of the oil industry and should be very attractive to investors.

The new paradigm in the industry is for value to be generated from exploiting low cost reserves efficiently, by focusing on already discovered reserves and resources and on the maximization of distributed cash flows. The benefit of such strategy is the relatively low risk compared to higher risk exploration plays.

Such a lower risk cash flow yield investment opportunity should be very attractive to investors in the current markets environment, where cash flow yield with low-moderate risk profile is at a premium. Hence, we believe that the current share price is a good entry point into an original and very relevant equity story with material upside.

NAV Estimate

We estimate a current Net Asset Value (NAV) of C$0.69 per share, based on a risked valuation of 2P reserves, as well as 2C contingent and prospective resources, adjusted for capitalised corporate costs and balance sheet items.

We have used a unit value of US$1.75 per boe, based on the net present value of net cash flows to DKL derived from gross asset volumes, including financing and discounted at a rate of 12%.

We have applied the resulting unit value to gross asset volumes for each category of reserves and resources and used a risk factor, based on DKLest, to arrive at a risked value.

We also estimate what level of NAV could be achieved at a horizon of 12-18 months, after the potential reclassification of possible reserves and contingent resources in case of positive results from development activities during the period. We see the NAV increasing to C$1.30 as a result (**Exhibit 14**).

EXHIBIT 14: NAV ESTIMATES

Item	**Gross volume** (MMboe)	**Unit value** (US$/boe)	**Risk** (%)	**Value** (US$M)
2P reserves	2.55	1.75	0%	4.5
2C resources	23.31	1.75	20%	32.6
Prospective resources	9.60	1.75	66%	5.6
Enterprise value	35.46			42.7
Corporate costs				(6.0)
Cash				0.8
Debt				-
NAV				37.5
NAV per share (C$)				**0.69**
NAV (12-18 months)				
2P reserves	27.04	1.75	0%	47.3
2C resources	16.11	1.75	20%	22.5
Prospective resources	9.60	1.75	66%	5.6
Enterprise value	52.75			75.4
Corporate costs				(6.0)
Cash				0.8
Debt				-
NAV				70.2
NAV per share				**1.30**

Source: FDC

We value the net cash flows to DKL to the end of economic life of the asset, using an oil price scenario following Brent oil price futures.

The 20% risk applied to 2C resources is based on the 80% probability of development estimated by DKL given the behind-the-pipe nature of these resources. As for prospective resources, DKL estimated a 42% geological risk and an 80% development risk.

Our estimate of Capitalised corporate costs of US$6 million is based on three years of yearly G&A expenses of US$2 million per annum. We have no relevant historical data for yearly G&A expenses of DKL, and our estimate is made in comparison with oil companies at a similar stage of development.

DKL currently had a cash balance of C$1.08 million at end 2Q20.

Public Market Valuation

For hydrocarbon reserves and resources, we relied on DKL's estimates ("**DKLest**") of 2.55 MMbbl gross 2P reserves for the Oza Field, with 2C resources of 23.31 MMbbl, corresponding to Decklar's gross volumes of 2.03 MMbbl, 10.06 MMbbl and 3.46 MMbbl respectively.

We note that DKL's share of reserves and resources based on their sliding scale share of net available profit entitlement, as laid out in the RSA. Indeed, due to the nature of the RSA, DKL does not have a working interest ownership of gross field reserves and resources.

From a multiple of reserves perspective, applying the methodology on DKL's 2P+2C and before potential reserves and resources reclassification, DKL currently trades at a multiple of US$0.9/boe, at a discount to the median multiple of US$1.2/boe for a peer group of publicly listed companies with assets in Nigeria.

We suggest that the highly cash flow generative nature of DKL, through the RSA construct vs. a traditional working interest ownership, should attract a premium to peers with equivalent reserves levels. We note that applying a multiple of US$2.4/boe, at the top of the peer group range, results in a value for DKL of C$0.71 per share.

After taking into account potential reclassification of reserves and resources, as a result of positive development activities in the next 12-18 months, the current share price would represent a larger discount to peers, i.e. US$0.6/boe instead of US$0.9/boe before reclassification. Similarly, applying a multiple of US$2.4/boe, at the top of the peer group range, would then result in a value for DKL of C$1.11 per share (**Exhibit 15**).

EXHIBIT 15: PEER GROUP VALUATION

Name	Price (local)	FX	EV (US$M)	2P (MMboe)	EV/2P (US$/boe)
Africa Oil	0.98	CAD	193.0	80.6	2.4
ADM Energy PLC	4.92	GBp	6.3	8.9	0.7
Lekoil	2.00	GBp	13.9	22.7	0.6
Oando PLC	2.25	NGN	627.7	479.8	1.3
San Leon Energy	25.5	GBp	124.3	124	1.0
Seplat	62.0	GBp	824.3	481.0	1.7
Median					**1.2**
Based on 2P+2C (before reclassification)					
DKL	0.28	GBp	10.9	12.1	**0.9**
DKL (at top of the mutiple range)	0.71	GBp	28.9	12.1	2.4
Based on 2P+2C (after reclassification)					
DKL	0.28	GBp	10.9	19.1	**0.6**
DKL (at top of the mutiple range)	1.11	GBp	45.7	19.1	2.4

Source: FDC, Bloomberg

Private Market Valuation

The relevant transaction for DKL is the recent loan of US$7.5 million provided by SLE to Decklar, against a 15% interest in Decklar, valuing DKL's EV at US$42.5 million, after taking into account DKL's shareholding interest of 85% in Decklar. After adjusting for DKL's capitalised corporate costs and balance sheet items we estimate an Equity value for DKL of US$37.3 million, equivalent to C$0.69 per share (**Exhibit 16**).

EXHIBIT 16: PRIVATE MARKET VALUATION (SLE TRANSACTION)

Item	Value (US$M)
San Leon Energy Transaction	
Loan value	7.50
Negotiated shareholding interest in Decklar	15.0%
DKL shareholding interest in Decklar	85.0%
Enterprise value	42.5
Corporate costs	(6.0)
Cash	0.8
Debt	-
Equity value	37.3
Equity value per share (C$)	**0.69**

Source: FDC

In order to broaden the scope of our Private Market valuation, we have collated the transactions which involved West African assets, in the past 30 months or so, and benchmarked our valuation of DKL to the median reserves and resources EV multiple. The sample of comparable transactions is the following (**Exhibit 17**).

EXHIBIT 27: RELEVANT PRIVATE MARKET TRANSACTIONS

Date	Country	Buyer	Seller	Portfolio	EV (US$M)	2P (MMboe)	EV/2P (US$/boe)
30-Jul-20	Gabon	Perenco	Total	7 mature non-op. assets	290.00	28.50	10.2
24-Feb-20	Nigeria	ADM Energy	EER	OML 113 (Aje)	3.00	7.50	0.4
28-Oct-19	Nigeria	Petronor	Panoro	OML 113 (Aje)	10.00	21.90	0.5
15-Oct-19	Nigeria	Seplat	Eland Oil&Gas	Corporate	500.42	41.00	12.2
06-Jun-19	Congo	Lukoil	New Age	Marine XII	800.00	325.00	2.5
03-Apr-19	Gabon	Gabon Oil	BW Energy	Dussafu	29.00	3.50	8.3
23-Oct-18	Angola	Maurel&Prom	Ajoco	3/05 3/05A	80.00	9.50	8.4
31-Jul-18	Gabon	Assala	Total	Rabi-Kounga	100.00	18.50	5.4
01-Feb-18	Ghana	Aker Energy	Hess	DWT/CTP	100.00	275.00	0.4
Median							**5.4**

Source: FDC

We estimate the Equity value of DKL by applying the median EV/2P+2C multiple to the relevant estimate for reserves and contingent (2P+2C) resources for two scenarios. The first one is DKLest of current 2P and 2C volumes, whilst the second takes into account the potential reclassification that would most likely occur as a result of positive outcome of development activities in the next 12-18 months.

We estimate equity values for DKL of C$1.11 and C$1.19 respectively (**Exhibit 18**).

EXHIBIT 38: PRIVATE MARKET VALUATION (WEST AFRICAN TRANSACTIONS)

Item	**Value** (US$M)
West Africa Transactions	
Based on current 2P+2C	
EV/2P	5.41
current 2P+2C	12.09
Enterprise value	65.35
Corporate costs	(6.0)
Cash	0.8
Debt	-
Equity value	60.1
Equity value per share (C$)	**1.11**
After 3P reclassification	
EV/2P	5.41
current 3P (2P after Oza-1 re-entry) + current 2C	12.89
Enterprise value	69.68
Corporate costs	(6.0)
Cash	0.8
Debt	-
Equity value	64.4
Equity value per share (C$)	**1.19**

Source: FDC

Fiscal Terms

Marginal Fields carry considerably improved fiscal terms as compared to the historical royalty of 20% and 85% petroleum profit tax. Each field is licensed to the local operators under a sub-lease held by the original owners of the field's Oil Mining Licence, in this case OML11.

Marginal Fields are subject to concession terms, with the Government receiving royalties and petroleum profit tax (PPT) whilst an overriding royalty is payable by the new operators to the official owners of the licences, in this case SPDC. All royalties are production-based (**Exhibit 19**).

EXHIBIT 19: ROYALTIES

Government Royalty

Oil production (boe/d)	Royalty Rate
0-5,000	2.5%
5,001-10,000	7.5%
10,001-15,000	12.5%
>15,000	18.5%

Overriding Royalty

Oil production (boe/d)	Royalty Rate
0-2,000	2.5%
2,001-5,000	3.0%
5,001-10,000	5.5%
10,001-15,000	7.5%
>15,000	Negotiated

There is an Education Tax of 2%.

Then Oil cash flows attract Petroleum Profits Tax (PPT) rate of 65.75% for the first 5 years and 85% thereafter.

Corporate Income Tax (CIT) of 30% is payable on RSA income (50% of Field Profit), with 75% attributable to the JV and 25% to Decklar on sole basis.

Value Added Tax (VAT) is 5% applied on RSA fee charged on the field.

There is a withholding tax (WHT) of 10%, and DKL intercompany loan procedure minimises WHT liabilities.

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 27 October 2020

Company Name	Disclosure
Decklar Resources Inc.	2, 7

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