

## Decklar Resources Marginal field specialists

Decklar Resources is a Canadian-listed E&P company, whose focus and strategy is the development of marginal fields in Nigeria via Risk Service Agreements (RSA) with existing operators. Nigeria is one of the most prolific hydrocarbon provinces in the world, offering excellent subsurface opportunities and by pursuing this niche business model with its experienced team, Decklar aims to take advantage of these opportunities. The company is not pursuing high-risk exploration and is developing fields that have already been proven, reducing subsurface risk to a large extent. Funding and execution are the primary risks we see in this business model. We initiate coverage of Decklar Resources with a rounded fair value range of CAD1.05-1.75/share, based on our SoTP methodology.

### Growth potential

130 marginal fields have been identified by Nigeria's Department of Petroleum Resources (DPR) and 24 awarded in the first marginal field bid round (2003), only a handful of which have made material development progress to date. A second round is ongoing with 57 marginal fields on offer and results should be announced soon. In just 18 months, Decklar boasts two marginal field RSAs and is in discussions to participate in a third one. Several Nigerian indigenous players are seeking partners to provide technical and financial capabilities, thereby presenting opportunities for Decklar.

### De-risking and several catalysts ahead

Decklar is fully funded for re-entry, completion and production from the first Oza well. It also has a financing agreement with UK-listed San Leon Energy (not covered) and has agreed the terms of financing with a crude trader, as financing options for full field development. First oil from Oza and its subsequent development could materially de-risk the story, in our view, making Decklar less reliant on equity markets for funding. We believe Decklar has a healthy set of other catalysts, including production from Oza, the completion of the Asaramatoru RSA (51%) and its potential expansion to 100%, the release of San Leon funds and the signing of other RSAs, including Emohua.

### Attractive valuation with upside

Assuming discount rates of 10-15% and a long-term (LT) oil price of \$50-70/bbl, we value the shares at CAD1.05-1.75, underpinned by Oza and Asaramatoru. Further upside potential could ensue from signing more RSAs, 3P/3C upside, fiscal upside from the Petroleum Industry Act (PIA) and exploration.

### Risks

In advance of bringing Oza production to levels that will generate material FCF, Decklar primarily relies on equity capital markets (ECM) for funding, which although supportive to date, a potential oil price crash could result in reduced access to funding and also potential dilution. Other risks include subsurface risk, execution risk, project delays and sabotage/crude theft, which are typical Nigerian sector risks.

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### Initiation of coverage

Oil & Gas  
International E&Ps  
Nigeria

**Report date:** 19 October 2021  
**Valuation range, CAD** 1.05-1.75  
**Current price, CAD** 1.02

MktCap, \$mn 75  
Average daily volume, \$mn 0.1  
Free float, % 79  
Bloomberg DKL CN

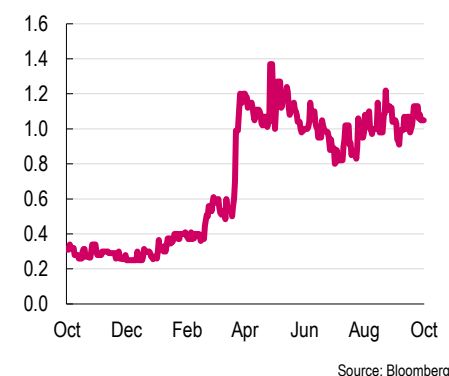
Prices in this report as of close 15 October 2021.

### Valuation range, 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

Figure 1: Price performance – 52 weeks



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**Unique business model, sound strategy.** Decklar's strategy is to acquire or set up RSAs for onshore marginal fields in Nigeria, which could be a successful strategy if executed correctly and is not easily replicated by the competition.

**What is an RSA?** This is a financing agreement between the operator and owner of the field (concessionaire). They are prevalent in Nigeria (in various forms), especially in marginal fields or other licences where indigenous companies are operators and seek financing for the development of the assets. In return for financing the field's development the risk service provider has priority in the field's cash flows and also gets a share post cost recovery. For more details on Oza and Asaramatoru please refer to the Fiscal terms and RSA chapter.

**Nigeria – one of the world's most prolific hydrocarbon provinces.** Nigeria is one of the most prolific hydrocarbon provinces in the world, offering excellent subsurface opportunities and there are several assets available for development, but a lack of funding, above-ground risk and navigating the Nigerian business environment pose the biggest challenges for the Nigerian upstream sector. By pursuing this niche business model with an experienced team, Decklar is able to take advantage of these opportunities, in our view. The company is not pursuing high-risk exploration and is developing fields that have already been proven or produced. Although subsurface uncertainties are always a risk in this sector, funding and execution are the primary risks of this business model, in our view.

**Nigerian marginal fields – ample opportunities.** 130 marginal fields have been identified by the DPR and 24 awarded in the first marginal field round (2003), a handful of which have made material development progress. A second round is now ongoing with 57 marginal fields on offer and results should be announced soon. Many Nigerian indigenous players are seeking partners such as Decklar to provide technical and financial capabilities to develop these fields. We expect Decklar to continue pursuing new marginal fields opportunities, in addition to Oza, Asaramatoru and the recently announced Emohua.

**De-risking story.** Decklar is fully funded for the re-entry and production from the first Oza well. It also has a financing agreement with UK-listed San Leon Energy and has agreed the terms of financing with a crude trader, as financing options for full field development. First oil from Oza and its subsequent development would materially de-risk the story, in our view, making Decklar less reliant on volatile equity markets for funding.

**Material catalysts ahead.** We believe Decklar has a healthy set of catalysts, including first oil from Oza, the completion of the Asaramatoru RSA (51%) and its potential expansion to 100%, release of San Leon funds and the signing of other RSAs.

**Attractive valuation.** Assuming discount rates of 10-15% and LT Brent prices of \$50-70/bbl, we value Decklar Resources at CAD1.05-1.75/share.

Figure 2: Decklar Resources valuation sensitivity, \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	107.4	123.2	137.1	150.9	153.4
	11%	103.9	119.1	132.6	145.9	148.3
	12%	100.6	115.4	128.3	141.2	143.5
	13%	97.5	111.8	124.3	136.8	139.0
	14%	94.6	108.4	120.5	132.6	134.7
	15%	91.8	105.2	116.9	128.6	130.6

Source: Company data, Renaissance Capital estimates

Figure 3: 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

**Further upside.** Further upside potential could stem from a 3P/3C resource recovery, prospective resources from different horizons, new RSA agreements and fiscal upside from the PIA.

**Management with a track record.** Decklar might resemble an E&P start-up, but it comes with an experienced management team, expertise in Nigeria's oil sector (both subsurface and on-ground). Despite offering excellent subsurface opportunities, Nigeria's business environment can often be challenging to navigate and for companies with strong management teams, this could provide an opportunity.

## Risks

**Funding:** Prior to reaching production levels that will generate cash flow, Decklar is primarily dependent on funding from ECM and potentially San Leon Energy and crude offtake financing facilities. Decklar's capacity to fund Oza's full field development, Asaramatoru and other opportunities will depend on its ability to raise capital or debt.

**Oil price:** Oil price volatility is a key risk for the sector, affecting both the potential FCF generated from production, but also the sector's share prices.

**Dilution:** Although we expect Decklar to be less reliant on ECM, post Oza first oil, we still expect this to be its main source of funding. Past issuances also involved out-of-the money options, which could dilute existing shareholders.

**Subsurface risk:** Decklar's strategy is to target low risk, high quality assets, but as some of the reservoirs have not been flow tested, there could be some subsurface risk.

**Other Nigerian geopolitical risks:** Other risks common to the sector and/or Nigeria include crude evacuation issues due to infrastructure uptime, local community disturbances, delays and cost over-runs. Decklar's management is targeting assets in order to minimise these risks.

**Energy transition:** We expect the energy transition and related ESG pressures to make funding more challenging for oil and gas companies and potentially increase their cost of capital.

**Decklar Resources is a Canadian listed E&P company, whose focus and strategy is the development of marginal fields in Nigeria. The company has an RSA and is the technical advisor and financial partner of two marginal fields, Oza and Asaramatoru (pending transaction completion), both in OML11.**

## Strategy

The company's strategy is to acquire or set RSAs for onshore marginal fields in Nigeria, which could be an attractive, high-return strategy if executed successfully, and is not easily replicated by competition. Nigeria offers excellent subsurface opportunities and there are several assets available for development, but lack of funding, above-ground risk and navigating the Nigerian business environment, pose the biggest challenges for the Nigerian upstream sector. By pursuing this niche business model with an experienced team, Decklar is able to take advantage of these opportunities. The company is not pursuing high risk exploration and is developing fields that have already been proven. Funding and execution are the primary risks of this business model, in our view.

## Asset overview

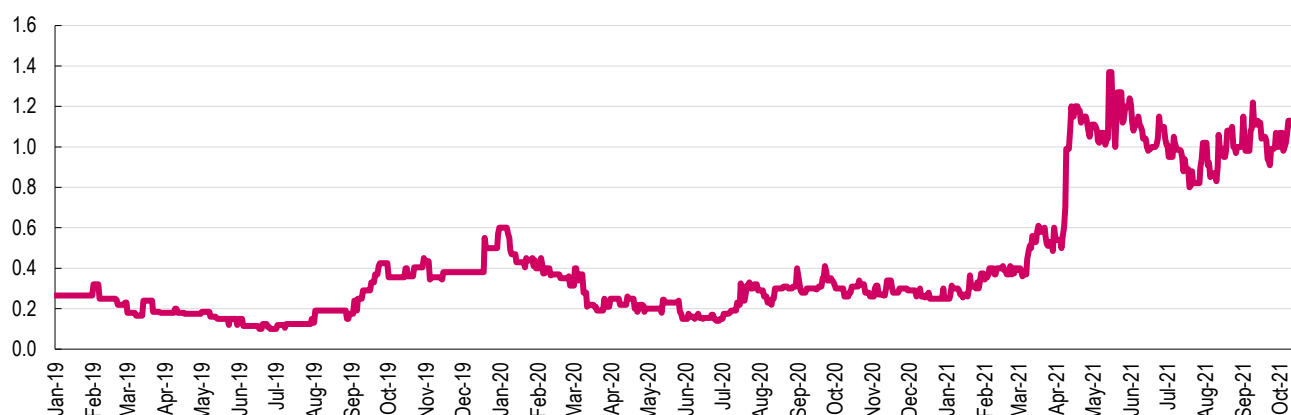
**Oza** is a marginal field in OML11 (Millenium Oil & Gas [operator, 60% WI], Hardy [20%], Emerald Energy Resources [20%]). According to McDaniel's (Decklar's reserves auditors) Competent Person Report (CPR), the field has 2.39mmbbls of 2P reserves and 23.4mmbbls of 2C resources, across nine sandstone reservoirs. In 2020, Decklar Resources (then known as Asian Mineral Resources) acquired 100% of Decklar Petroleum, which has an RSA with the field partners. Decklar is fully funded to recommence production at Oza and in July re-entered the Oza-1 well and tested three zones and is to commence commercial production (targeting 4Q21). We value Decklar's Resources RSA stake in Oza at \$50-100mn, assuming discount rates of 10-15% and oil prices of \$50-70/bbl.

**Asaramatoru:** Asaramatoru is a marginal field in the swamp of OML11 [Prime (operator, 51% WI), Suffolk Petroleum (49%)]. The field's 2P reserves, according to McDaniel, are 17.47mmbbls, with no material contingent resource. The field was producing from two wells until 2018, when they had to shut in due to lower oil prices, logistics connected with barging and export activities, and limited storage facilities at the well locations. In July 2021, Decklar announced a share purchase agreement (SPA) to acquire Purion, which had signed an RSA with Prime and is separately seeking to enter into an RSA with Suffolk. In our modelling, we assume that Decklar will be successful in increasing its RSA to 100% of the field, but considering the funding requirements and potential dilution, we heavily risk it at 50% in our \$27-45mn valuation, based on the same set of sensitivities as Oza.

**Letter of intent to participate in Emohua field:** In early October Decklar announced that it has entered into a non-binding letter of intent to acquire Westfield (a Nigerian E&P company), which has entered into an RSA with Erebiina to participate in the Emohua field in Nigeria. Emohua is located in OML 22, which is 6km west of Port Harcourt and was recently awarded to Erebiina (60%) and the balance (40%) to other local Nigerian entities in the 2020/2021 Marginal Field Bid Round. Prior to the signing of an SPA, we exclude Emohua from our valuation.

## History

Figure 4: Decklar share price chart, CAD/share



Source: Bloomberg, Company data

Prior to 2019 – the company then known as Asian Mineral Resources, divested its sole asset (Ban Phuc Nickel Mine in Vietnam) to effectively become a shell company listed on the TSX Venture Exchange (TSX-V).

16 July, 2019 – Asian Mineral Resources announces private placement for \$1mn

3 September, 2019 – the company closes private placement

20 November, 2019 – announces the acquisition of Decklar Petroleum, whose sole asset is an RSA with Millennium for the Oza field

16 December, 2019 – the TSX Venture Exchange conditionally approves Asian Mineral Resources' acquisition of an economic interest in Oza

17 July, 2020 – Acquisition of Decklar Petroleum completed

31 August, 2020 – Preliminary funding of \$26mn to develop Oza announced

8 September, 2020 – Asian Mineral Resources changes name to Decklar Resources

29 January, 2021 – Funding due diligence completed. \$7.5mn tranche of funds from San Leon are held in an escrow account

22 February, 2021 – Announced private placement for CAD4mn at CAD0.28/share. Contracted rig for re-entry of Oza-1 well.

8 April, 2021 – Drilling rig contracted

13 April, 2021 – Announces up to \$15mn unit offering at a CAD1.0/share and 1.5 warrants per share at a strike price of CAD1.5/share.

14 July, 2021 – Announces share purchase agreement (SPA) to participate in the Asaramatoru oil field in OML 11 in Nigeria. Raises ~CAD\$10mn from unit offering and no longer seeks to raise a further ~\$5mn.

30 August, 2021 – Raises \$5mn from unit offering

1 September, 2021 – A flow test of the L2.6 reservoir (the first of the three to be tested) yields flow rates ahead of expectations and with <0.05% low sediment and water production and no gas production.

30 September, 2021 – The initial flow testing of the L2.4 sand resulted in a flow rate of 10.3mmcfpd and of the L2.2 sand in a flow rate of 1,361bopd. Decklar announced that the well is expected to be put on commercial production after the completion equipment is installed, producing from L2.6 sands.

6 October, 2021 – Decklar announces that it has entered into a non-binding letter of intent to acquire Westfield, which has entered into an RSA with Erebiina to participate in the Emohua field in Nigeria.





## Growth potential

We think there is a lot to like about Decklar's business model, including reduced-subsurface risk, short lead times to first oil, low capex intensity to first oil, quick paybacks and high margins (a combination of advantageous fiscal terms and RSA entitlement). Growth is incremental in nature, in the form of additional RSAs with other marginal fields, for which there are plenty of candidates, in our view.

## Story de-risks as it is executed

Funding and execution are the main risks of this business model, in our view. There are marginal fields that have had seismic shot in the 1960s or 1970s and no wells drilled or tested. For these there could be subsurface risk present, but the level of subsurface risk Decklar could pursue is within its control and management has been clear that exploration is not what it is after.

Currently, Decklar is primarily reliant on ECM for funding, and oil price volatility presents a risk to the company's funding abilities in the future. For Oza well re-entry, the company is already fully funded, has a financing agreement with San Leon Energy and has agreed the terms of financing with a crude trader as financing options for full field development.

If Decklar is able to execute its plans successfully and Oza produces oil and generates FCF, the company will be less reliant on ECM for funding, and other potential financial avenues could also become available, de-risking the equity story materially, in our view. We view first oil from Oza as a major, re-rating catalyst for the shares. As Decklar continues to grow a portfolio of producing assets, we expect a further de-risking of the story.

## Further upside potential

McDaniel has extensive experience in the Niger Delta and its CPR and projections should carry weight. However, we believe that there is good reason to be optimistic on potential upside from a P50/2P reserves recovery as reserves auditors typically take a more conservative approach on pre-production fields recoverable resource. A good example of this is Otakikpo, another marginal field in the OML11, where production from the two wells that had been drilled in the 70s has only marginally declined since 2017 and materially outperformed McDaniel's CPR expectations. Decklar also reported stronger flow rates than pre-drilled expectations from the L2.6 sands, although the L2.4 sands flowed gas (potentially liquids rich) vs initial expectations for oil.

# Asset overview

## Oza

Decklar Resources, via its subsidiary Decklar Petroleum (100% Decklar Resources but we expect it to reduce to 70% Decklar Resources, 30% San Leon) has an RSA for Oza, which underpins most of the company's valuation. The Oza-1 re-entry well spudded in July 2021 and flow tested three reservoirs (L2.6, L2.4 and L2.2), flowing oil in the L2.6 and L2.2 zones and gas in L2.4. Decklar is installing the completion equipment in order to commence production from the L2.6 zone prior to transforming the company into a producer.

Decklar announced in September that the flow test of the L2.6 reservoir yielded stabilised flow rates ahead of expectations at 2,463kbopd, with <0.05% low sediment and water production and no gas production. The initial flow testing of the L2.4 sand resulted in a flow rate of 10.3mmcfpd but management believes that there is potential for significant condensate yield and other natural gas liquids (NGLs). The L2.2 sand flowed at rate of 1,361bopd. Decklar announced that the well is expected to be put on commercial production after the completion equipment is installed, producing from L2.6 sands, and it will evaluate artificial lift strategies such as gas lift to enhance well productivity; it plans to develop the L2.2 sand by drilling a horizontal well from the Oza-1 well pad drilling slot location immediately after completing activities on the Oza-1 re-entry.

Decklar has managed to secure funding to recommence production from Oza-1, overcoming one of the biggest challenges marginal field operators face. For the FFD, financing could come from San Leon, crude traders, banks or ECM. For our base case, we assume that San Leon will exercise its option to buy 30% of Decklar Petroleum (\$15mn) and other funds (up to \$20mn) will be sourced from banks/traders as debt. On this basis, we value Decklar Resources' RSA for Oza between \$47mn and \$82mn, based on discount rates of 10-15% and LT oil prices of \$50/bb-70/bbl and assigning no value to L2.4 sands.

Figure 6: Oza field overview

Oza overview			
Asset name	Oza	Reserves 1P, 2P, 3P (mmbbl)	1.48, 2.39, 3.57
Operator	Millennium Oil & Gas	Resources 1C, 2C, 3C (mmbbl)	5.04, 23.40, 47.51
Fiscal framework	Tax and royalty and RSA	Oil as a % of 2P/2C resources	100%
Partners	Millennium (60%), Emerald Energy (20%), Hardy (20%)	NPV10-15 (gross)*, \$mn	223-392
RSA partners**	Decklar Resources (70%), San Leon Energy (30%)	NPV10-15 (net to Decklar Resources)*, \$mn	47-90

\*Assumes \$50-70/bbl (real) range. Reserves and Resources as reported in the CPR.

\*\*Assumes San Leon will exercise option to acquire 30% of Decklar Petroleum.

Source: Company data, Renaissance Capital estimates

## Background

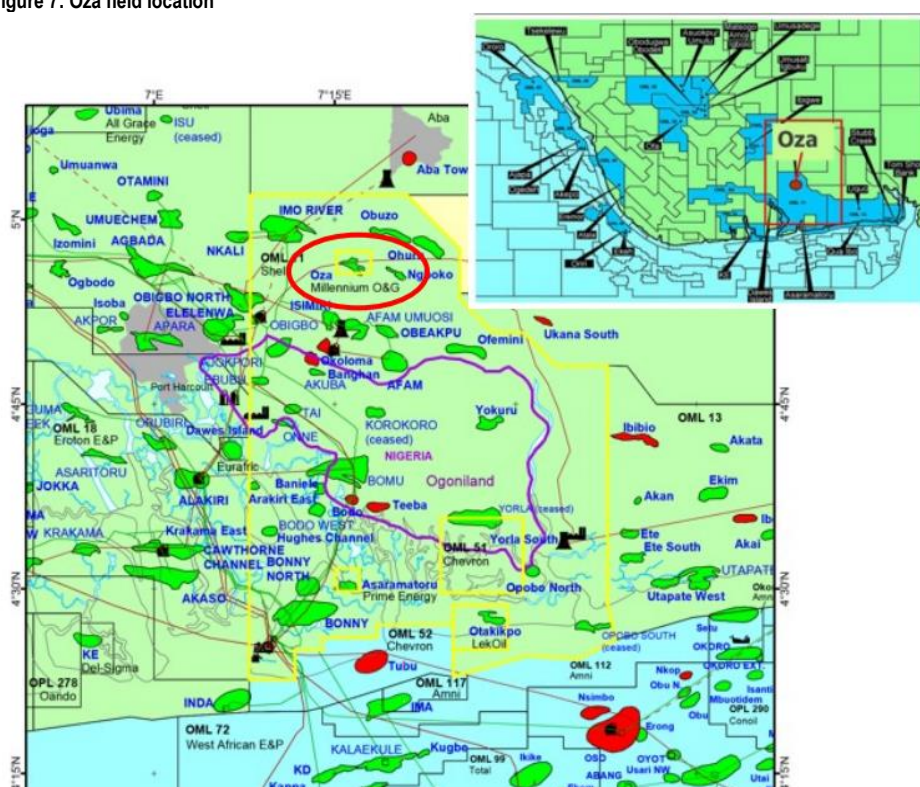
The Oza field is located in Abia State in the northwestern part of OML11, approximately 30 kilometres southwest of Port Harcourt. The field is a 20km<sup>2</sup> concession out of OML11 and its crude oil is routed through the Trans Nigerian Pipeline (TNP), which transports crude to the Bonny Export Terminal for export and is surrounded by the Isirmi, Obeakpu, Afam, Obigbo and Umuosi fields. Oza was discovered by Shell Petroleum Development Company (SPDC) in 1959 with the Oza-1 well, which encountered multiple reservoirs and was put into production in 1962, exploiting the M5000 Reservoir. The Oza-2 well delineated the boundaries of many reservoirs found in Oza-1 and exploited the L9000 and the M2100 reservoirs. Oza-3 was drilled and then side-tracked (Oza-4) in 1975, and produced from the M5000 for only six months before being shut-in due to an increasing gas-oil ratio (GOR). By 1983, the field had produced more than one million barrels of oil from the aforementioned three zones and was subsequently shut-in by SPDC due to declining oil production and increasing GORs.

In 2004, as part of the first marginal field round, Millennium entered a farm-out agreement with the joint venture members of OML11 and was appointed operator of the field.

Following a farm-out to Hardy (2006) and Emerald (2008), the participating interest is currently 60%/20%/20% between Millennium, Hardy and Emerald, respectively.

In April 2019, Decklar Petroleum entered an RSA with Millennium on behalf of the joint venture partners of the Oza field, to provide technical, financial and operational support needed to develop the Oza field. Under the terms of the RSA, Decklar is responsible for funding 100% of all capital expenditures and is entitled to 80% of distributable funds until all capital investment has been recovered. After cost recovery is achieved, Decklar's share is based on a sliding scale, which is explained in detail in the fiscal terms section of this report.

Figure 7: Oza field location



Source: Decklar Resources

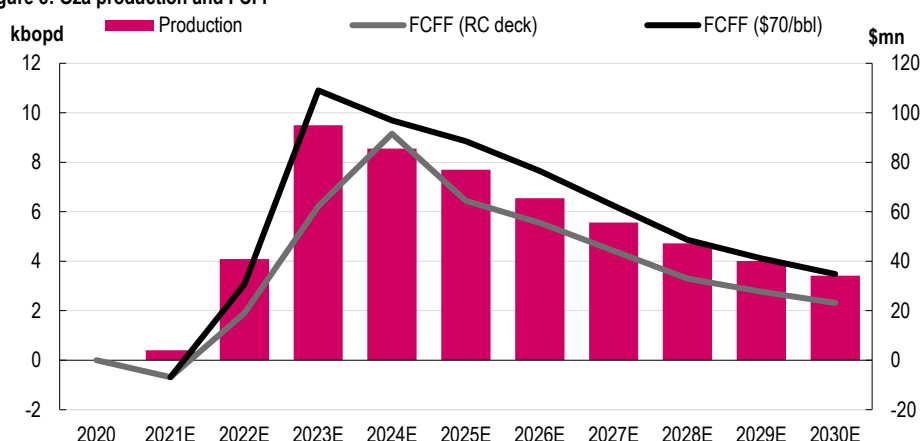
## Development plan

**Phase 1:** The first phase of Oza-1 involves the re-entry of the existing Oza-1, as a multi-zone producer, which is currently underway. Decklar will produce from the L2.6 sands initially and will drill a horizontal well to produce from the L2.2 sands. Production can be brought online in 2021 given existing production facilities and export pipelines with excess capacity and Decklar aims to upgrade facilities to handle production increases and replace rental equipment with permanent facilities, allowing for potential operating cost reductions.

**Phase 2:** The next phase entails the drilling of 4-5 new development wells, additional infill drilling and well tie-ins to existing infrastructure.

**Costs:** According to the CPR, each well is estimated to cost ~\$6.5-7.5mn and recompletion wells ~\$3mn. We forecast unit opex of ~\$6/bbl, which tallies with the CPR.

Figure 8: Oza production and FCFF



Note: Renaissance Capital's oil price deck is \$60/bbl in 2022E and \$50/bbl (real) from 2023+.

Source: Company data, Renaissance Capital estimates

## Financing and valuation

The Oza-1 re-entry and production will be funded from Decklar Resources' balance sheet. To finance subsequent development activities, Decklar is pursuing the following options:

- Decklar has signed a financing agreement with San Leon for up to \$15mn (in two tranches), structured as \$7.5mn for 15% of Decklar Petroleum (the local Nigerian subsidiary), with the option to purchase an additional 15% (30% in total) on the same terms following the initial development well. The first \$7.5mn tranche is currently in an escrow account.
- Debt financing – the company has agreed the terms of with a crude trader.
- Potential bank debt following Oza first oil.
- Equity capital markets.

For our modelling, we assume that San Leon will exercise its option for 30% of Decklar Petroleum and that the rest of the funds will be sourced via debt. Based on \$50-70/bbl Brent and 10-15% discount rates, we value the Oza field at \$223-392mn, on a gross basis and \$47-90mn, net to Decklar Resources.

Figure 9: Oza gross valuation, \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	272.1	302.2	332.3	362.3	392.2
	11%	261.2	290.0	318.8	347.5	376.2
	12%	250.9	278.5	306.2	333.7	361.1
	13%	241.2	267.7	294.2	320.6	346.9
	14%	232.0	257.6	283.0	308.3	333.6
	15%	223.4	248.0	272.4	296.8	321.0

Source: Company data, Renaissance Capital estimates

Figure 10: Oza valuation net to Decklar Resources, \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	57.5	65.8	74.1	82.4	90.3
	11%	55.0	63.1	71.1	79.0	86.7
	12%	52.8	60.5	68.2	75.9	83.2
	13%	50.6	58.1	65.6	72.9	80.0
	14%	48.6	55.9	63.0	70.1	77.0
	15%	46.7	53.7	60.7	67.5	74.1

Source: Company data, Renaissance Capital estimates

Marginal fields have preferential fiscal terms, relative to the standard tax and royalty terms in Nigeria. Production-based government royalty ranges from 2.5-18.5% (vs the 20% standard), but there is also an additional overriding royalty (ORRI) paid to the owners of the licence (SPDC). Petroleum Profits Tax (PPT) is 65.75% until 2022 and 85% thereafter. In addition, a 30% corporate income tax (CITA) is payable on RSA income (50% of field profit); 75% of which is attributable to the JV. Decklar pays 25% on a sole basis. The RSA fee is tax deductible for the purposes of PPT, with the tax shield offering a valuation uplift.

Figure 11: Oza field royalties

Oil production, kbopd	Government royalty	Overriding royalty
0 to 2	2.5%	2.5%
2-5	2.5%	3.0%
5-10	7.5%	5.5%
10-15	12.5%	7.5%
>15	18.50%	negotiated

Source: Company data

Under the terms of the RSA, Decklar Petroleum funds 100% of capex and is then entitled to 80% of distributable funds (funds post debt repayment) until it has fully recovered its costs. Post cost recovery, the profit oil is shared based on the following sliding scale:

Figure 12: Decklar share of profit oil, post cost recovery

Cumulative production, mmbbl	Decklar %
Less than 2.5	80.0
Between 2.5 and 5	70.0
Between 5 and 7.5	60.0
Between 7.5 and 10	50.0
Over 10	40.0

Note: 1mmbbl produced to date

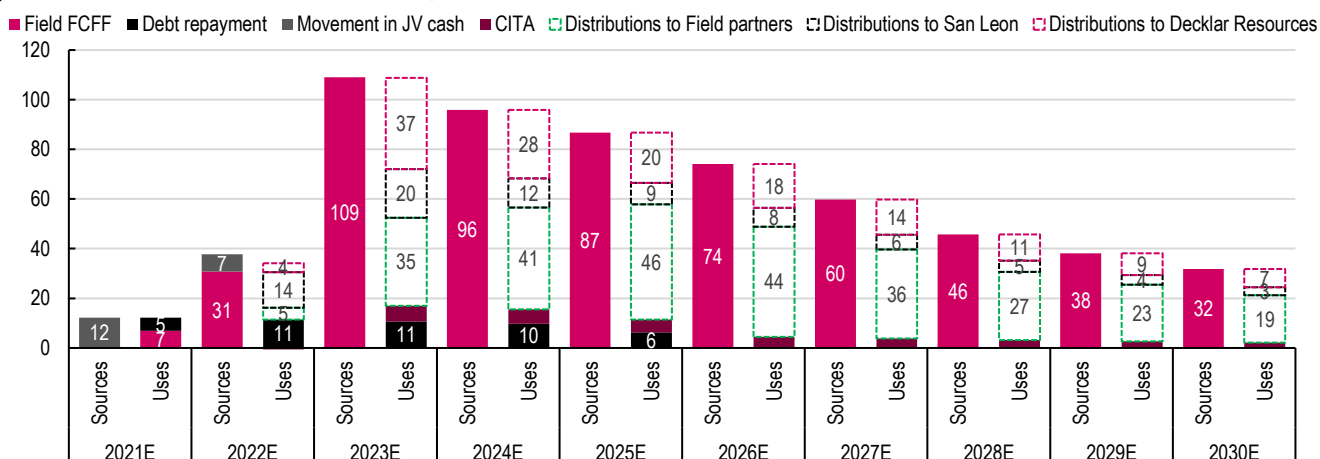
Source: Company data

Assuming San Leon exercises its option for 30% of Decklar Petroleum, the cash-flow priority of the latter's distributions is as follows:

- 100% of cash flow to service the first \$7.5mn tranche of the San Leon loan until repayment.
- 50% of cash flow to service the first \$7.5mn tranche of the San Leon loan until repayment.
- The remaining cash flow to be shared on a 70/30 basis between Decklar Resources and San Leon Energy.

The following figures shows how the field's FCFF is split between stakeholders, at \$70/bbl Brent. The majority of the FCFF goes to Decklar Petroleum until cost recovery, but the field partners capture a larger share in subsequent years. From the FCF Decklar Petroleum receives, San Leon takes the majority until it recovers its costs, after which Decklar Resources will receive the higher share.

Figure 13: Oza FCF and distributions at \$70/bbl Brent, \$mn



Source: Company data, Renaissance Capital estimates

## PIA fiscal terms boost?

Marginal fields pay both a government and over-riding royalty (please refer to the previous page for Oza's fiscal terms) but this is less than the 20% royalty other onshore fields pay. The PPT for marginal fields was, in the past, proposed to be lowered from the current 85% but the proposal was never voted into law.

The newly passed PIA improves both the PPT and royalty rates as per below, although at this time Decklar's management has not advised as to whether the Oza field JV will choose to convert to the new fiscal terms or not, and our current assumptions do not factor in potential fiscal upside.

- **Royalties:** Fields under 10kbopd, including marginal fields, will pay a 5% royalty, up to 5kbopd of production and 7.5% for the incremental production over 5kbopd. In addition, there is an oil price royalty of 0.1% for each \$/bbl Brent over \$50/bbl, ie, at \$75/bbl, there is an additional 2.5% royalty.
- **Tax:** PPT will be eliminated and fields will pay a 30% CITA and an additional hydrocarbon tax of 30% (onshore) or 15% (shallow offshore).

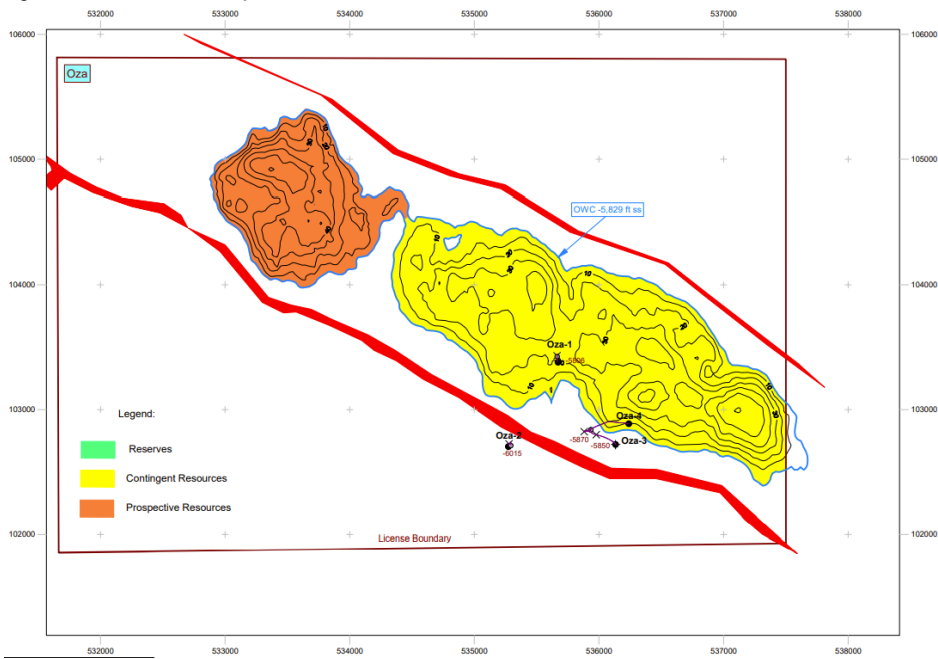
The Oza field is covered by 3D seismic covering approximately 140 square kilometres including the Oza field area. The quality of the seismic is considered to be fair to good. The depth-converted surfaces were tied to well tops and were used for structural mapping.

The Oza field structure is a faulted anticline formed by a number of growth faults. There are two main fault sets running in the northwest to southeast direction which limit the structure from north and south. These faults have a V-shaped profile in a north to south direction and the anticline gets narrower with depth. The crestal part of the anticline structure is approximately half the distance between these faults. Most of the hydrocarbon accumulations were penetrated by wells within this anticlinal structure. The well, Oza-2, penetrated two small oil accumulations in a faulted block south from the main anticline.

These oil pools are related to a small three-way faulted anticline truncated by a northeast fault. The log data of the Oza Field suggests that the entire reservoir section can be divided into three units, referred to as the lower, middle and upper units. The lower unit consists of the M5000 Sand, the middle unit comprises the L7000 to M2100 sands, and the upper unit comprises sands from K7000 to the L3000. The structural shape is slightly different for each of these units. Reservoirs in the Oza field were formed within a widespread channel system environment under changing sea level conditions. The depositional environment of sedimentary cycles comprises several facies, which range from estuarine to shoreface and lagoonal.

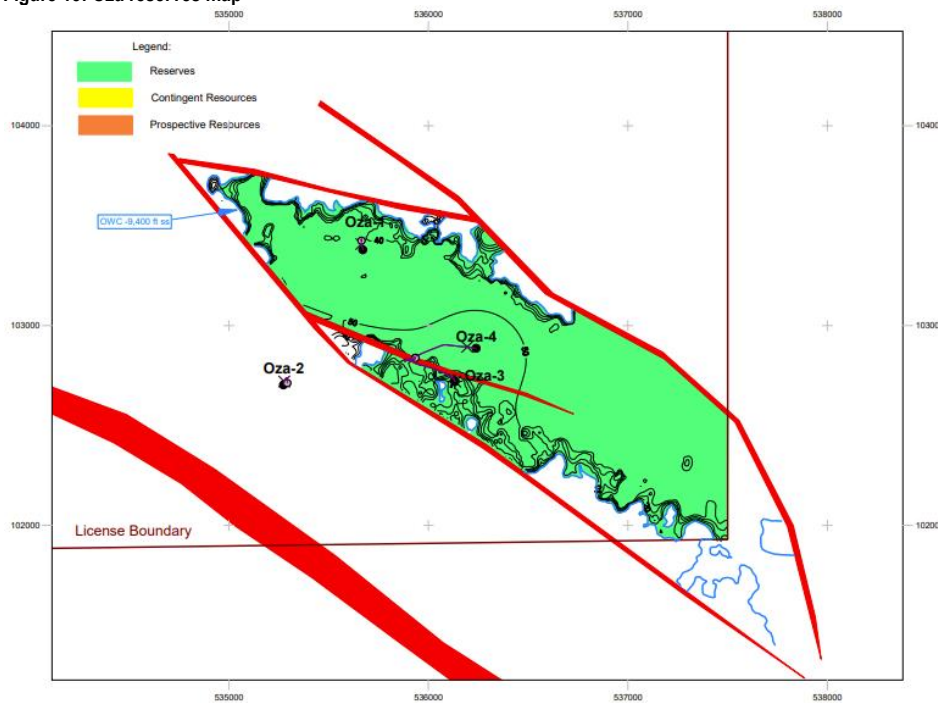
The trapping mechanism for most of the zones is a combination of structural closure and fault sealing depending on the horizon. Hydrocarbons were interpreted in nine reservoirs, but only three reservoirs M2100, L9000 and M5000 were tested and produced oil. Most of the fields in the area contain both 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 and this has been factored into the assessment.

Figure 14: Oza resources map



Source: Company data

Figure 15: Oza reserves map



Source: Company data



## Asaramatoru

Following its acquisition of Purion earlier this year (transaction yet to close), Decklar has an RSA agreement with Prime, for 51% of the Asaramatoru field. Purion, according to Decklar's management, is also seeking to enter into an RSA with Suffolk (49% of Asaramatoru), which is what we include in our modelling assumptions. Financing the development of the asset is, at present, what we consider the biggest uncertainty around the asset, which is heavily risked at 50% in our \$27-45mn valuation.

Figure 16: Asaramatoru field overview

Asaramatoru overview			
Asset name	Asaramatoru	Reserves 1P, 2P, 3P (mmbbl)	9.91, 17.47, 27.25
Operator	Prime Oil and Gas	Resources 1C, 2C, 3C (mmbbl)	-
Fiscal framework	Tax and royalty and RSA	Oil as a % of 2P/2C resources	100%
Partners	Prime (51%), Suffolk (49%)	NPV10-15 (gross)*, \$mn	118-234
RSA partners	100% Decklar Resources	NPV10-15 (100% RSA)**, \$mn	54-90

\*Assumes \$50-70/bbl (real) range.

\*\*Assumes 100% RSA, unrisks and funded via Decklar's balance sheet.

Source: Company data, Renaissance Capital estimates

Asaramatoru is a marginal field in the swamp of OML11 [Prime (operator, 51% WI), Suffolk Petroleum (49%)]. The field's 2P reserves, according to McDaniel, are 17.47mmbbls, with no material contingent resource. The field was producing from two wells, until 2018, when they were shut in due to lower oil prices and logistics connected with barging and export activities, and limited storage facilities at the well locations.

In July 2021, Decklar agreed to acquire Purion, which had signed an RSA with Prime and is separately seeking to enter into an RSA with Suffolk. Decklar and Prime's next planned stages for the development of Asaramatoru involve re-entering the two existing wells and recompiling these into optimal zones. This will be followed by additional development drilling according to an updated field development programme. The full field development plan will include the expansion of the processing facilities and initiation of production through a barging solution, followed by an optimised evacuation programme based on production characteristics and infrastructure availability.

For our modelling assumptions, we assume that Decklar will be successful in increasing its RSA to 100% of the field, but considering the funding requirements we heavily risk it at 50% in our \$27-45mn valuation.

Figure 17: Asaramatoru gross valuation, \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	141	165	188	211	234
	11%	136	159	181	204	226
	12%	131	153	175	196	218
	13%	127	148	169	189	210
	14%	122	143	163	183	203
	15%	118	138	157	177	196

Source: Company data, Renaissance Capital estimates

Figure 18: Asaramatoru valuation net to Decklar Resources (unrisks), \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	63	78	89	101	90
	11%	61	76	86	97	87
	12%	59	73	84	94	84
	13%	57	71	81	91	81
	14%	55	69	78	88	79
	15%	54	66	76	86	77

Source: Company data, Renaissance Capital estimates

**Fiscal terms:** The RSA provides Purion with the majority share of production and associated cash flow from Asaramatoru in exchange for funding and technical assistance to restart commercial production and full field development. Under the terms of the RSA, Purion is responsible for funding all capex and is entitled to a minimum 85% of distributable funds until all capital investment has been recovered, plus at least a 35% uplift to invested funds. After cost recovery is achieved, Purion's share is 30% of net available profit from existing wells, and 40% of net available profit from new wells.

Based on our standard bottom-up SoTP methodology, we value Decklar Resources at a rounded CAD1.05-1.75/share, implying 3-72% upside potential from current share price levels.

## Methodology

Our standard approach to valuing international E&Ps is a bottom-up SoTP valuation of a company's assets, net debt and other corporate items. We use a DCF to value each asset individually, typically using 10-15% discount rates. Our valuation is typically based on unrisks producing assets (usually 2P/P50), and commercially-risked discoveries and developments (2P/2C). Our NAV or TNAV does not include any upside from exploration. Risked exploration NAV (RENAV) includes commercially- and geologically-risked exploration. RenCap's oil price forecast is \$68/bbl for 2021, \$60/bbl for 2022 and \$50/bbl (real) from 2023+.

- **Discount rate:** Our benchmark rate is 12% and we use a 10-15% range for sensitivities.
- **Oil price forecast:** Renaissance Capital's oil price forecast is \$68/bbl for 2021, \$60/bbl for 2022 and \$50/bbl real from 2023 onwards, which is what we assume as a benchmark for Decklar. We use \$50-70/bbl LT oil price sensitivities.
- **Oza:** We value Oza at \$47-90mn or CAD0.54-1.04/share, net to Decklar Resources (assuming 70% of Decklar Petroleum), assuming an unrisks 2P+2C resource recovery but excluding L2.4 sands previously reported 2C resources in the CPR (~4mmbbl gross).
- **Asaramatoru:** We value Asaramatoru, based on its 2P reserves and commercially risked at 50%, at \$27-45mn, or CAD0.31-0.52/share.
- **Corporate items and other:** We deduct two years of G&A from our valuation (\$3mn), Decklar's net cash (\$3mn) and adjust for post 1Q21 results equity raises, San Leon Energy receipts and future dilutive instruments (\$18.2mn).

Figure 19: Decklar Resources valuation sensitivity, \$mn

		LT oil price, \$/bbl				
		50	55	60	65	70
Discount rate	10%	107.4	123.2	137.1	150.9	153.4
	11%	103.9	119.1	132.6	145.9	148.3
	12%	100.6	115.4	128.3	141.2	143.5
	13%	97.5	111.8	124.3	136.8	139.0
	14%	94.6	108.4	120.5	132.6	134.7
	15%	91.8	105.2	116.9	128.6	130.6

Source: Company data, Renaissance Capital estimates

Figure 20: 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

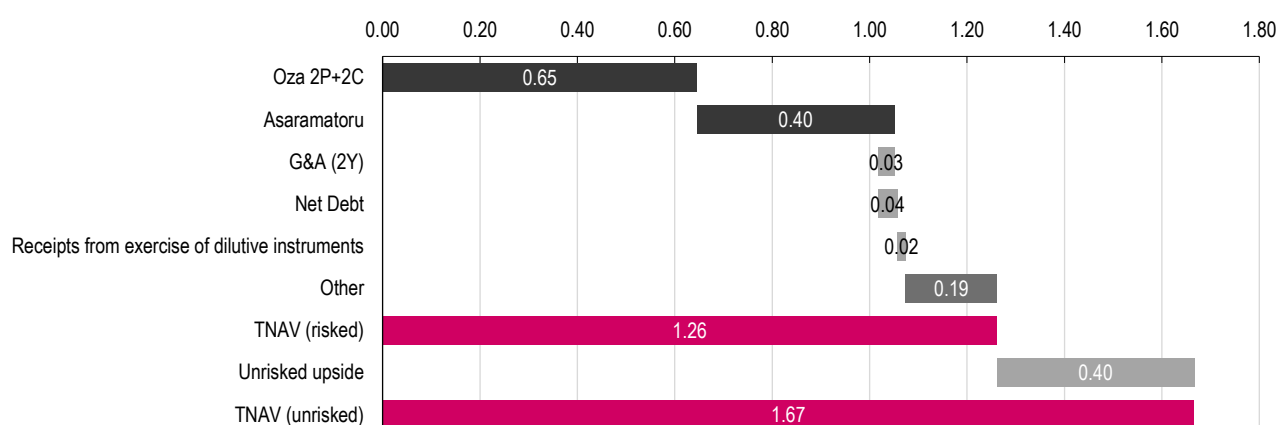
Figure 21: Decklar valuation summary

Asset	Country	Status	Gross resource (geo. risked) mmboe	WI*	Net resource (geo. risked) mmboe	Commercial risking	NPV/boe (unrisked) \$/boe	NPV/\$mn (risked) \$mn	NPV/\$mn (unrisked) \$mn	NPV/sh (risked) CAD/sh	NPV/sh (unrisked) CAD/sh
<b>Producing</b>											
<b>Total producing</b>											
<b>Development and discoveries</b>											
Oza 2P+2C	Nigeria	2P+2C	21.8	47%	10.2	100%	5.5	56	56	0.65	0.65
Asaramatoru	Nigeria	2P+2C	17.4	61%	10.6	50%	6.6	35	70	0.40	0.81
<b>Total development</b>			<b>39.2</b>		<b>20.8</b>		<b>6.1</b>	<b>91</b>	<b>126</b>	<b>1.05</b>	<b>1.46</b>
<b>Prospective resources</b>											
<b>Total prospective</b>											
<b>Valuation summary</b>											
Total producing assets			0.0		0.0		0.0	0	0	0.00	0.00
Total development assets			39.2		20.8		6.1	91	126	1.05	1.46
NPDC receivables										0.00	0.00
G&A (2Y)								-3	-3	-0.03	-0.03
Net debt								3	3	0.04	0.04
Receipts from exercise of dilutive instruments								2	2	0.02	0.02
Other								16.2	16.2	0.19	0.19
<b>Tangible NAV (TNAV)</b>			<b>39.2</b>		<b>20.8</b>			<b>109</b>	<b>144</b>	<b>1.26</b>	<b>1.67</b>
Exploration upside			0.0		0.0		0.0	0	0	0.00	0.00
<b>RENAV</b>			<b>39.2</b>		<b>20.8</b>			<b>109</b>	<b>144</b>	<b>1.26</b>	<b>1.67</b>
Share price	CAD/sh	1.02								<b>TNAV upside</b>	<b>23%</b>
Number of shares	mn	109.86								<b>RENAV upside</b>	<b>62%</b>
Market value	\$mn	75.1								<b>Discount to TNAV</b>	<b>-19%</b>
EV	\$mn	71.7									<b>-38%</b>

Note: Assumes a long-run Brent price of \$50/bbl (real). CAD/USD exchange rate assumed at 0.80.  
\*WI is economic interest and RenCap's deck.

Source: Company data, Renaissance Capital estimates

Figure 22: Decklar valuation breakdown assuming 12% WACC and \$50/bbl (real) Brent price, CAD/share



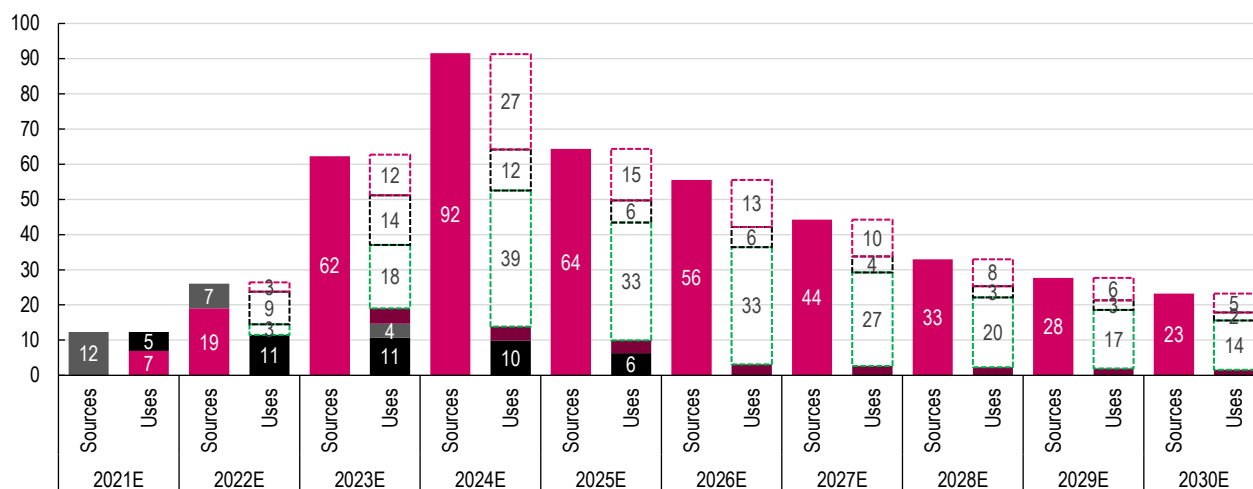
Source: Company data, Renaissance Capital estimates

## Financial outlook

Prior to first oil and Asaramatoru funding updates, we model our FCF outlook for Decklar based on Oza and do not project financial statements. The projections below are based on RenCap's Brent price forecasts of \$68/bbl in 2021, \$60/bbl in 2022 and \$50/bbl (real) from 2023+ onwards, and (Figure 24) on an oil price of \$70/bbl.

Figure 23: Oza FCFF and distributions at RenCap's oil price deck, \$mn

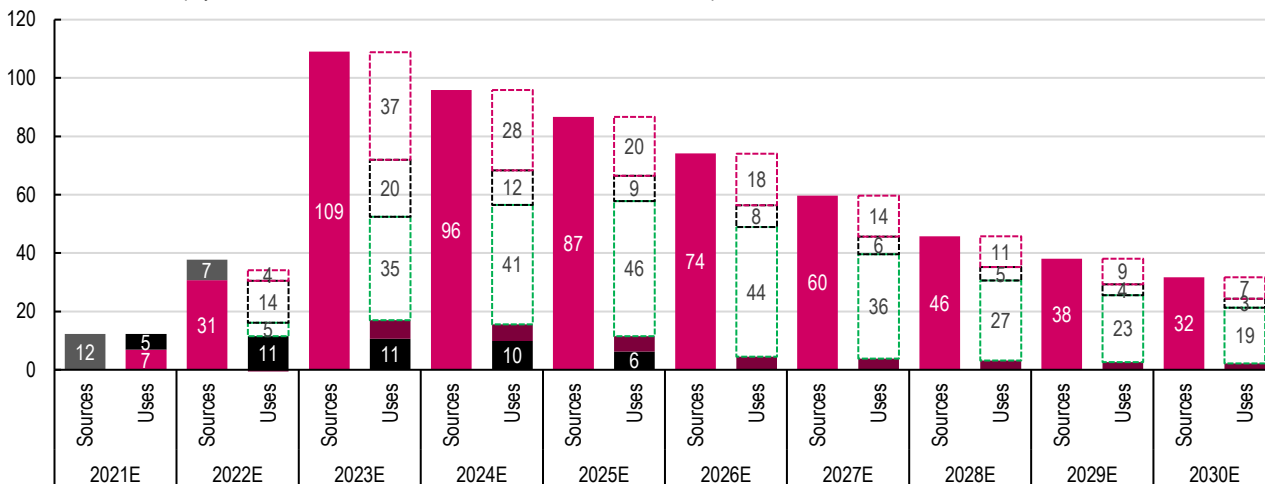
■ Field FCFF ■ Debt repayment ■ Movement in JV cash ■ CITA □ Distributions to Field partners □ Distributions to San Leon □ Distributions to Decklar Resources



Source: Company data, Renaissance Capital estimates

Figure 24: Oza FCFF and distributions at \$70/bbl Brent, \$mn

■ Field FCFF ■ Debt repayment ■ Movement in JV cash ■ CITA □ Distributions to Field partners □ Distributions to San Leon □ Distributions to Decklar Resources



Source: Company data, Renaissance Capital estimates

## Dilutive instruments and funding risk

Decklar is currently fully funded for well re-entry at Oza. Financing sources for the full development plan could potentially include ECM, San Leon, crude trader offtake agreements and bank debt.

To date, Decklar's main source of funding has been from ECM. Once Oza is onstream, Decklar should be less dependent on ECM for funding. Nevertheless, we still expect the company to remain active in the ECM space, in order to continue acquisitions and development activity.

Decklar has a material number of dilutive instruments, mostly in the form of warrants and options associated with equity raises and stock-based compensation. At the current share price of CAD1.02, we estimate that ~9.82mn shares are in the money, bringing the diluted number of shares to ~108mn, we estimate. Our estimates assume 5.5mn shares to be issued for the acquisition of Purion and 8mn shares potentially issued as a milestone payment if Oza produces >1kbopd (gross) by March 2022.

Figure 25: Dilutive instruments

Dilutive instrument	Dilution impact scenarios		
	1.02	1.50	2.50
Share price, CAD/share	1.02	1.50	2.50
CAD/USD	1.27	1.27	1.27
Warrants, mn	4.8	4.8	4.8
Strike price, CAD/share	0.10	0.10	0.10
Dilution	4.8	4.8	4.8
Warrants, mn	10.3	10.3	10.3
Strike price, CAD/share	1.50	1.50	1.50
Dilution	0.0	10.3	10.3
Stock options, mn	5.0	5.0	5.0
Strike price, CAD/share	0.28	0.28	0.28
Dilution	5.0	5.0	5.0
Stock options, mn	0.1	0.1	0.1
Strike price, CAD/share	10.00	10.00	10.00
Dilution	0.0	0.0	0.0
Stock options, mn	0.1	0.1	0.1
Strike price, CAD/share	15.00	15.00	15.00
Dilution	0.0	0.0	0.0
Stock options, mn	0.1	0.1	0.1
Strike price, CAD/share	20.00	20.00	20.00
Dilution	0.0	0.0	0.0
Stock options, mn	1.7	1.7	1.7
Strike price, CAD/share	1.00	1.00	1.00
Dilution	0.0	1.7	1.7
<b>Total dilution, mn</b>	<b>9.82</b>	<b>21.78</b>	<b>21.78</b>
<b>Receipts, CADmn</b>	<b>1.9</b>	<b>19.0</b>	<b>19.0</b>
<b>Receipts, \$mn</b>	<b>1.5</b>	<b>15.0</b>	<b>15.0</b>

Source: Company data, Renaissance Capital estimates

**Duncan T. Blount, CEO.** Prior to his current position at Decklar Resources, Mr Blount was head of EM&FM Commodities at RWC Partners, where he was responsible for developing its commodity and natural resources portfolio strategy. He held similar roles at Baobab Investment Management and Everest Capital. Throughout his career, Mr Blount has been an early investor (pre-IPO or IPO) in numerous public and private West African oil & gas companies. He holds an MBA from the Thunderbird School of Global Management.

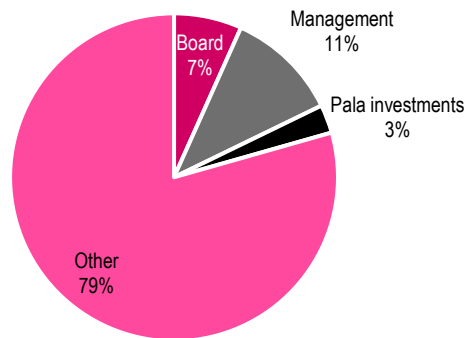
**David Halpin, CFO.** Mr Halpin has over 25 years of experience in management and as a finance and accounting consultant for public and private Canadian and international resource companies. His previous roles include CFO of Mart Resources Inc, a TSX-listed company with oil production in Nigeria and directorships of O&G companies operating in Canada. Mr Halpin is a Certified Management Accountant (CMA).

**Sanmi Famuyide, MD.** Mr Famuyide has over 20 years of experience focused on structuring natural resources (oil, gas and mining) and infrastructure transactions in West Africa. Prior to joining Decklar, Mr Famuyide was the Head of Business Development at Lekoil. He was also the Head of Oil & Gas – Marginal Fields and Upstream Independents at GT Bank in Lagos, where he arranged the financing of many Nigerian independents. Famuyide has also held executive positions at FBN Capital and MineQore Resources. He has a BSc in Chemical Engineering from the University of Lagos and an MSc in Applied Environmental Economics from Imperial College London.

**Zack Malone, VP of operations.** Mr Malone has over 25 years of experience working and managing drilling rig operations, with the past 15 years working in Nigeria. His prior experience includes working as rig manager for Precision Drilling Canada and other rig contractors. His certification includes Second Line 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, completion manager.** 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, Software applications in Pumping, Quality Assurance, Core Value Awareness, HS&E Management and Strategic Selling. He has an MBA and a B.Sc. Petroleum Engineering from the University of Ibadan.

Figure 26: Current shareholders



Source: Company data

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