



Decklar Resources Inc.

16 March 2021

Oil & Gas

Start of production by midyear



Key Data

Listing:	TSX.V
Ticker:	DKL
Shares Outstanding:	71.6m
Share Price:	C\$0.50
Market Cap:	C\$35.8m
Cash Balance:	C\$4.7m
Estimated Valuation:	C\$88.1m
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

Since our initiation of coverage on 28 October 2020, Decklar Resources Inc. ("DKL") has made good progress in preparation for the re-entry of the Oza-1 well and we believe that the start of production should be achieved before the end of Q2 2021.

DKL closed a private placing of C\$4.7 million on 8 March 2021, providing the funds to complete the re-entry of and start of production from the well, while definitive loan documents are being finalised to unlock development capital from the trading subsidiary of a large multinational oil company active in Nigeria and San Leon Energy.

Civil works required for the Oza-1 wellsite are now complete, and a drilling rig located near the field has been contracted. We expect the rig to be on site within weeks and production to start by the end of Q2 2021, just short of a year since acquiring its interest in the Oza Oil Field located in OML 11, onshore in the Eastern Niger Delta.

DKL has set itself up as 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; and management delivering on its promises has translated into a 79% increase in share price since our initiation.

Valuation

We value DKL at C\$0.92 per share, up from C\$0.50 previously, from our NAV based on DKL's estimates of reserves and resources and marked-to-market oil price assumptions. We see potential for NAV to reach C\$1.65 within 6-12 months, and despite strong recent performance, we believe the current share price represents an attractive entry opportunity into a cash flow yield equity story with material upside.

Analyst

Lionel Therond CFA

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Newsflow update

Since our initiation of coverage on 28 October 2020, Decklar Resources Inc. (DKL) has made good progress towards the re-entry of the Oza-1 well, which is the first step to the redevelopment of the Oza Oil Field.

- A private placing of C\$4.7 million has been completed on 8 March 2021, providing DKL with the funds to complete a re-entry of the well and start production.
- Civil works required for the Oza-1 wellsite are now complete, including rebuilding of the access road, construction of a concrete drilling pad, a concrete mud pit, buildings, and other facilities required for well re-entry and drilling operations and management.
- A drilling rig located near the field has been contracted and will be moved to the Oza-1 wellsite within a month from now, and operations to perform the planned re-entry of the Oza-1 well will begin shortly thereafter.

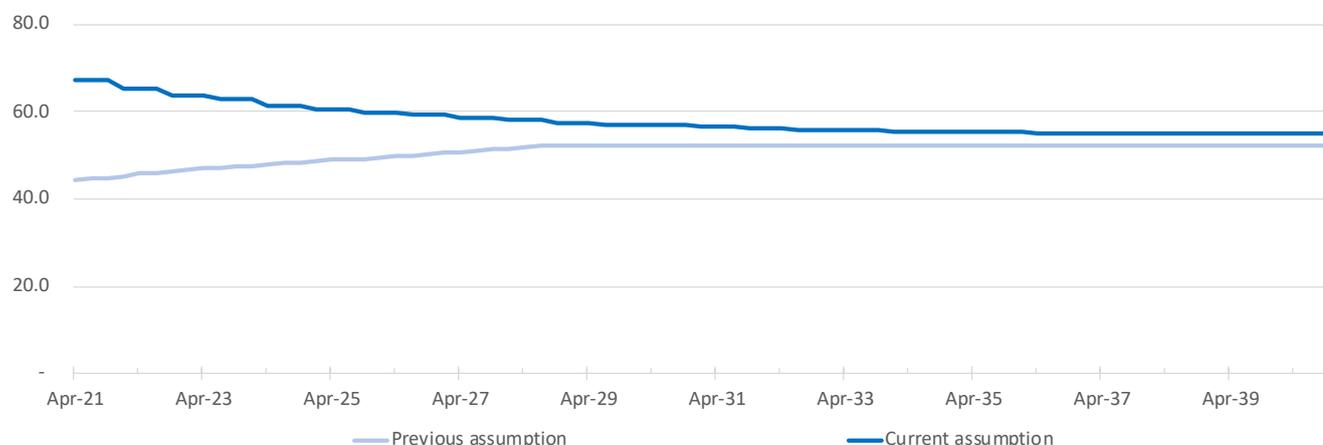
DKL expects the drilling and completion operations to last about a month, meaning that, allowing for operational delays, oil production should start before the end of the first half of this year. This in itself would be a major achievement for a company that completed the acquisition of an economic interest in the Oza Oil Field on 17 July 2020.

As previously reported, an export pipeline that ties the Oza Oil Field production into the Trans Niger Pipeline and continues on to the Bonny Export Terminal, operated by Shell Production Development Company is already in place. Infrastructure also in place at the Oza Oil Field includes a lease automatic custody transfer (LACT) unit fiscal metering system, infield flow-lines, manifolds, and a rental 6,000 bbl/d early production facility. These production and pipeline facilities are intended to ensure that oil tested from the Oza-1 well re-entry and early production will be immediately delivered and sold on an expedited basis.

Meanwhile, the due diligence required to finalise the term debt arranged with a Nigerian bank and the trading subsidiary of a large multinational oil company active in Nigeria has progressed, and we understand the definitive loan documents are being finalised. The funds for the subscription agreement with San Leon Energy Plc remains in escrow until the debt financing is completed.

In the following, we provide an updated valuation for DKL that takes into account these positive developments, as well as marked-to-market oil prices (**Exhibit 1**).

EXHIBIT 1: BRENT FUTURE PRICES



Source: Bloomberg

Valuation

NAV Estimate

For hydrocarbon reserves and resources, we relied on DKL's estimates of 2.55 MMbbl gross 2P reserves for the Oza Oil 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 use a DCF valuation of current 2P reserves and 2C resources estimates to derive a unit value (NPV12) of US\$2.73 per barrel, up from US\$1.75 previously due to revised oil price assumptions. We apply this unit value to risked reserves and resources to calculate a Net Asset Value (NAV) estimate of C\$0.92 per share, after adjusting for capitalised corporate costs and net debt (**Exhibit 2**).

EXHIBIT 2: NET ASSET VALUES

Item	Gross volume (MMboe)	Unit value (US\$/boe)	Risk (%)	Value (US\$M)
2P reserves	2.55	2.73	0%	7.0
2C resources	23.31	2.73	20%	51.0
Prospective resources	9.60	2.73	66%	8.8
Enterprise value	35.46			66.8
Corporate costs				(6.0)
Cash				4.0
Debt				-
NAV				64.8
NAV per share (C\$)				0.92
NAV (6-12 months)				
2P reserves	27.04	2.73	0%	73.9
2C resources	16.11	2.73	20%	35.2
Prospective resources	9.60	2.73	66%	8.8
Enterprise value	52.75			118.0
Corporate costs				(6.0)
Cash				4.0
Debt				-
NAV				116.0
NAV per share				1.65

Source: FDC

We also estimate what level of NAV could be achieved at a horizon of 6-12 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\$1.65 as a result.

Indeed, DKL's management reckons that positive re-entry and drilling results, from development plan activities within the next 6-12 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, and
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.

Peer Group Valuation

Based on 2P+2C reserves and resources and before potential reserves and resources reclassification, DKL currently trades at a multiple of US\$1.7/bbl, at a premium to the median multiple of US\$1.5/boe for a peer group of publicly listed companies with assets in Nigeria.

After taking into account the potential reclassification of reserves and resources resulting from positive development activities in the next 6-12 months, the EV multiple decreases to US\$1.1/bbl which represent a discount to peers.

Applying a multiple of US\$3.4/boe, in the top quartile of the peer group range, results in a value for DKL of C\$0.92 per share before reclassification and C\$1.55 after reclassification, both values being broadly in-line with our NAV estimates (**Exhibit 3**).

EXHIBIT 3: PEER GROUP VALUATION

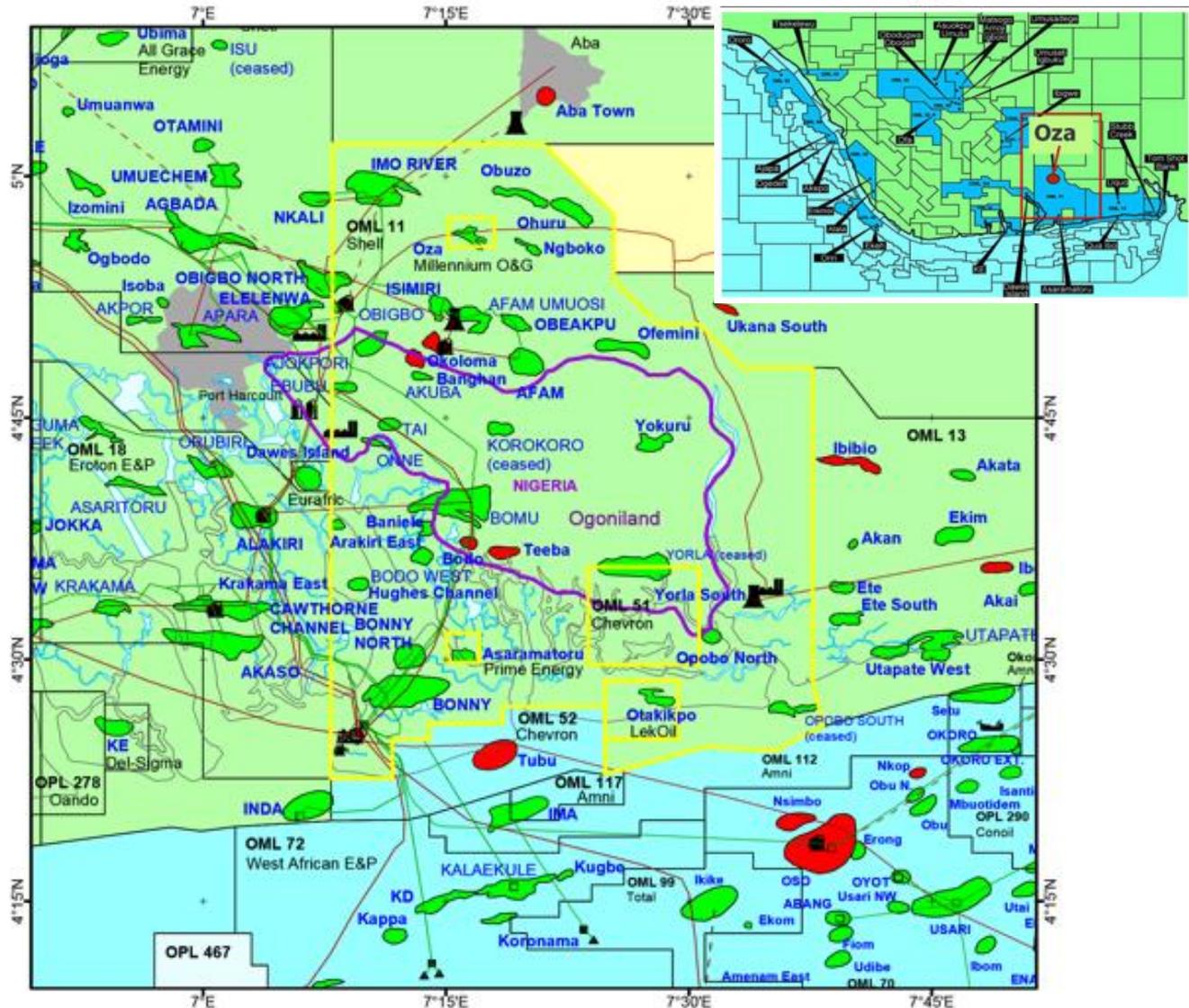
Name	Price (local)	FX	EV (US\$M)	2P (MMboe)	EV/2P (US\$/boe)
Africa Oil	1.22	CAD	301.9	80.6	3.7
ADM Energy PLC	4.15	GBP	5.7	8.9	0.6
Lekoil	2.53	GBP	18.9	22.7	0.8
Oando PLC	2.97	NGN	645.4	479.8	1.3
San Leon Energy	35.3	GBP	195.6	124	1.6
Seplat	84.6	GBP	1,042.0	481.0	2.2
Median					1.5
<i>Based on 2P+2C (before reclassification)</i>					
DKL	0.50	GBP	20.1	12.1	1.7
DKL (top quartile multiple)	0.99	GBP	40.6	12.1	3.4
<i>Based on 2P+2C (after reclassification)</i>					
DKL	0.50	GBP	20.1	19.1	1.1
DKL (at top of the mutiple range)	1.55	GBP	64.1	19.1	3.4

Source: FDC

Background

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

EXHIBIT 4: OZA OIL FIELD LOCATION MAP



Source: Decklar Resources

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

Images of Oza-1 site development work

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

EXHIBIT 5: ACCESS ROAD AND BUILDINGS



Oza-1 water holding tanks



Construction of on-site staff housing



Access road cleared for rig mobilization



Completed foundation / walls of site office

Source: Bloomberg

EXHIBIT 6: OZA-1 WELL SITE



Foundation for Oza-1 drilling pad



Foundation aggregates for Oza-1 drilling pad



Foundation for Oza-1 drilling pad



Completed foundation for Oza-1 drilling pad

Source: Bloomberg

Capital Structure and Main Shareholders

Following a private placement financing of C\$4.7 million closed on 8 March 2021, at a unit price of C\$0.28, an additional 16.9 million shares were issued, raising the total number of shares issued to 71.6 million. The C\$0.28 unit price is broadly in-line with the price of the shares issued for the initial acquisition of Decklar Petroleum Limited by Decklar Resources Inc.

There are 8 million shares to be issued as part of this initial acquisition and to be payable contingent on the Oza Field achieving a minimum production rate within 12 months of closing.

After taking into account a number of warrants and options, unchanged since our initiation of coverage on 28 October 2020, the fully diluted number of shares is 88.1 million as follows (**Exhibit 7**).

EXHIBIT 7: CAPITAL STRUCTURE

Number of Shares Issued	71,575,487
Warrants	3,133,331
Options	5,400,000
Fully diluted Share Capital	80,108,818

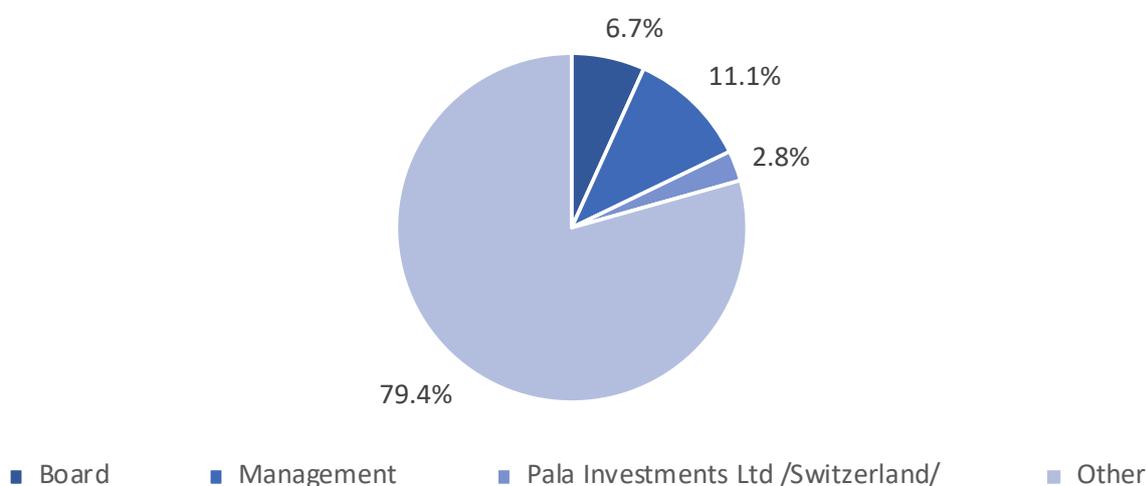
Potential Milestone Payment

Number of Shares on Milestone of 1,000 boe/d	8,000,000
Fully diluted Share Capital (incl. Milestone Payment)	88,108,818

Source: DKL

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

EXHIBIT 8: MAIN SHAREHOLDERS



Source: Bloomberg

Research Disclosures

Lionel Therond CFA

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

Until 2016, Lionel was Head of Oil & Gas Equity and Commodity Research and a Managing Director at Standard Bank, focusing on the financing of mid-size Oil & Gas companies in Emerging and Frontier Markets, in particular sub-Saharan Africa. Lionel joined Standard Bank from Fox-Davies Capital where he was Head of Oil & Gas Research. Prior to that, Lionel was an equity fund manager and buy-side 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 16 March 2021

Company Name	Disclosure
Decklar Resources Inc.	2, 7

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