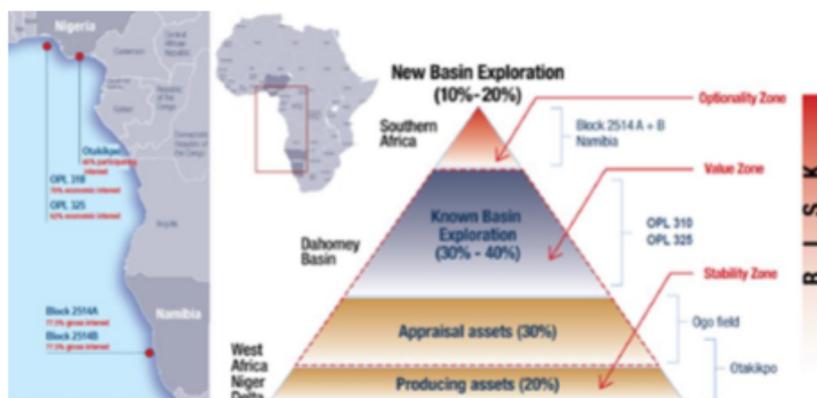


LEKOIL - CAPITAL NETWORK: FLASH REPORT

Lekoil is an AIM-listed indigenous Nigerian oil producer with assets in the onshore and offshore Niger Delta as well as a non-core position in Namibia. Production from its Otakikpo marginal field has now started at a rate of 5,000bbl/d and management is guiding for an exit rate of 10,000bopd for this year. The share price has risen +70% in the past 12 months in anticipation of this achievement. However, the company seems confident to be able to pursue the appraisal of the Ogo discovery during 2017, which we believe could be taken positively by the market. We note that reserves and resources upgrades for Otakikpo are also possible when a new CPR is issued later this year. We value Lekoil at 36p per share on a risked basis.

The current portfolio is focussed on western and southwestern Africa. Management's strategy is to have a balanced portfolio where producing/appraisal assets and exploration assets in known/unknown basins are broadly equally represented in order to balance the risk of exploration with the relatively safe funding option provided by production cash flows. The current portfolio is weighted towards exploration; management believes that this situation will redress itself when production increases in the near/medium term (Figure 1).

Figure 1: Portfolio strategy



Source: Lekoil

STRATEGY

Lekoil's key assets are its interest in the Otakikpo marginal field in the eastern Niger Delta and in the OPL 310 licence in offshore Nigeria. We consider that OPL 325 and the Namibian asset as non-core and of marginal value at this stage.

The Otakikpo marginal field is situated in the eastern part of the Niger Delta in OML 11 close to the shoreline. Lekoil has a 40% working interest and an 88% economic interest in the field, whilst

ENERGY PRODUCERS

20/02/2017

SHARE PRICE	52 WEEK LOW
▲ 25.25P	▲ 12.6P
MARKET CAP	52 WEEK HIGH
▲ £135.5M	▲ 29.4P
NAV	NET DEBT
▲ \$193.4M	▲ \$36.6M

MAJOR SHAREHOLDERS

- 1) Olalekan Akinyanmi - 11.5%
- 2) Gregory Eckersley - 0.6%
- 3) Samuel Adegboyegab - nominal

Shares in Issue	536.53m
Avg Volume	757,218
Primary index	AIM
EPIC	LEK.L
Next Key Announcement	-
Sector	Energy Producers

SHARE PRICE CHART



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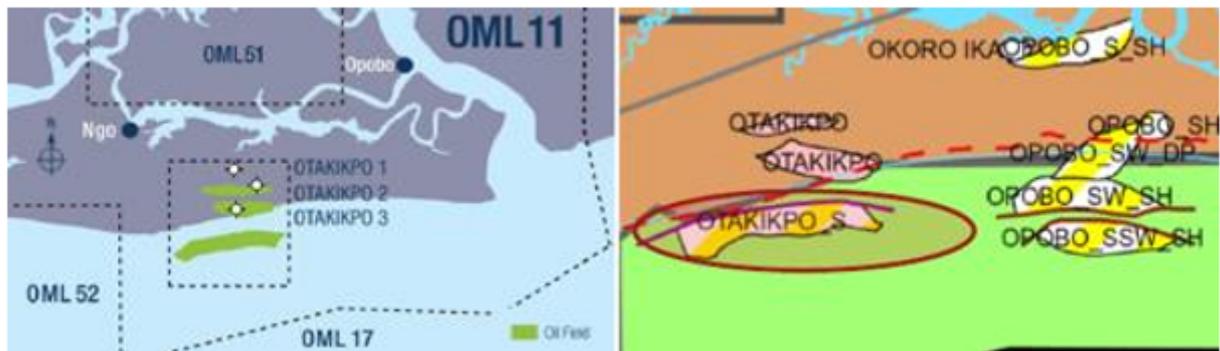
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partner Green Energy has the remaining interest.

According to Lekoil, Otakikpo has aggregate gross 2P reserves and 2C resources of 56.6MMbbl, equivalent of 20.4MMbbl net to Lekoil. Management reckon that additional potential resides onshore with an estimated gross STOIP of 163MMbbl, as well as offshore. Lekoil has identified a number of prospects such as Otakikpo South as well as four prospects to the east of the current field with attractive potential (Figure 2).

Figure 2: Otakikpo location map



Source: Lekoil

The start of commercial production was announced on 20 February 2017, later than originally planned due to logistical difficulties linked to the swamp location and teething problems encountered at the start of the operations. However, the field has lived up to its potential and flow tests results have been better than expected by the initial CPR evaluation. Production started at 5,000bbl/d and management expects it to ramp up to 10,000bopd by the end of this year. Management also intends to issue a revised CPR to provide updated estimates of reserves and resources before year-end.

The economics of the field are robust with a breakeven below \$25/bbl according to management estimates. Further investment to ramp-up production beyond 10,000bbl/d is under consideration and a decision should be taken later this year. The better than initially anticipated flow rates achieved in existing wells seem to indicate that expansion capex could be lower than previously thought.

OPL 310 AND OPL 325

The other key asset in Lekoil's portfolio is its 40% working interest and 70% economic interest in OPL 310 which contains the Ogo discovery, the largest oil discovery in sub-Saharan Africa in 2013. Lekoil is partnered with Optimum in OPL 310. Management estimates gross prospective resources of 774MMboe or 542MMboe net with a hydrocarbon phase mix that c.50% of gas and 50% of oil, to be confirmed and pending further confirmation by an independent competent person's report (CPR).

Lekoil also recently farmed-in OPL 325, acquiring an indirect controlling interest in a licence located c.100km south of OPL 31, offshore Nigeria. The initial consideration of \$16.08m and a further \$24.12m

payable in instalments of \$12.06m each is contingent upon OML conversion after discovery and start of production. Other licence partners are NPDC with 20% and a Local Content Vehicle with 10%. Management believes that, whilst OPL 310 is located in a more proximal position with respect to the paleo-shelf of the Dahomey Basin where structural traps dominate hydrocarbon plays, OPL 325 is in a more distal position where sand deposition could have happened as large turbidites, hence where Jubilee-type plays could be present.

Management relies on an extensive in-house study of the Dahomey basin to inform its exploration strategy in the region (Figure 3).

Figure 3: OPL 310 and OPL 325 location map



VALUATION

Management intends to pursue non-dilutive financing options in order to fund the appraisal of the Ogo discovery and is confident to finalise a commercial agreement by the end of this year. However, the company has no immediate plans for OPL 325, which remains more of an asset play at this stage.

We value Lekoil at 36p per share on a risked basis. We estimate a Core value of 24p based on the producing asset adjusted for financial items and corporate costs (Figure 4).

Figure 4: Valuation summary

	risked (m\$)	/ share (p)	PoS %	NAV \$/bbl	Net risked MMboe	Net unrisked Oil (MMbo)	Gas (Bcf)	Interest %
Otakikpo	158	20	100	7.7	20	20	0	36.0%
Corporate costs	(18)	(2)						
Debt	(40)	(5)						
Surplus Cash	24	3						
Core value	124	24		15.1	20	20	0	
OPL310 (Ogo)	93	12	25	1.4	68	271	0	70.0%
Risked Equity Value	217	36		2.5	88	291	0	

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