

23 December 2021

Lekoil Limited

("LEKOIL" or the "Company")

Offer from Lekoil Nigeria

LEKOIL (AIM: LEK), the oil and gas exploration and production company with a focus on Nigeria and West Africa, notes the offer made to shareholder of the Company by Lekoil Nigeria Limited to purchase ordinary shares in the Company ("Shares") at a cash price of 1.9 pence per share or an exchange for Class B ordinary shares in Lekoil Nigeria Limited ("Offer").

The Board unanimously **recommends** that you **DO NOT** accept the Offer for the following reasons:

- The Offer materially undervalues the Company
- The Offer does not have certainty of funding
- There is a significant risk associated with transferring your Shares prior to receiving payment for the Shares
- Lekoil Nigeria wants to use cash already belonging to the Group and its shareholders to purchase the Shares
- The Offer does not take into account the value obtained by Lekoil Nigeria if it cancels the circa US\$350m of intercompany debt owing to the Company

The Board **recommends** that you **take no action** at this time.

Further details related to the Board recommendation are set out below. The Company notes that it is willing to work with Lekoil Nigeria to address these issues and will update shareholders should it make progress in this regard.

The Company notes, post its Annual General Meeting, that some shareholders have expressed a desire to participate in an extension to the Convertible Facility Agreement, as announced on 3 September 2021. The Company is willing to engage with shareholders in this regard and would welcome any shareholders who wished to register their interest to contact it via info@lekoilplc.com.¹ The Company notes that absent an open offer, previously planned for Q4 2021, and given that Lekoil Nigeria no longer funds the Company's costs, the entry into a convertible facility agreement is the most practical way for the Company to finance its day to day operations. By way of guidance, the Company expects that it will issue circa 20 million Shares in early 2022 to satisfy obligations under the Contractor Shares Arrangement incurred during 2021 and, if required pursuant to the Convertible Facility Agreement, a further 40 million Shares in Q1 2022.

Separately, the Company notes that it will continue to work with its Nominated Advisor and Lekoil Nigeria to have trading in the Company's shares unsuspended, noting that the Company would welcome the appointment to the Board of Lekoil Nigeria of the three Company nominees in accordance with the shareholders agreement.

The Company also notes that it expects to update shareholder in early 2022 as to the status of the recovery of the CEO loan and the US Action commenced by its previous CEO, Mr. Akinyanmi.

The Board **recommends** that shareholders **DO NOT** accept the Offer and **take no action** at this time.

1. This RNS and the registering of an interest is not an offer to purchase securities in any jurisdiction. Full details of any convertible facility agreement and/or any offer will be subject to the relevant legal documentation.

The Offer materially undervalues the Company

The Offer values the Company at £10.2 million/USD\$13.4 million.

This is substantially less than value of the intercompany loans due to the Company from the Lekoil Nigeria group.

As at 30 June 2021, the amounts owing from Lekoil Nigeria and Lekoil Oil & Gas Investments (i.e., Otakikpo) were circa US\$41.6m and US\$19.8m respectively. Further amounts were owing from other subsidiaries but with a greater level of uncertainty as to ultimate recoverability.

The Board believes that the Offer also undervalues the value of the Otakikpo asset, especially given the current oil price.

Lack of certainty of funding and uncertainty of Offer mechanics

The Offer proposes that you legally transfer your Shares and all your rights associated with the shares (including voting rights) prior to payment for those Shares. Contrary to the requirements of the Takeover Code as it operates in the United Kingdom, there is no requirement for Lekoil Nigeria to provide proof of funds. As such, there is no guarantee that there are funds available to pay for the Shares tendered under the Offer and the Company cannot recommend that Shareholders accept the Offer with that level of uncertainty.

The Company would expect that any offer recommended by the Company would provide for certainty of finance, certainty of payment and an orderly offer/acceptance procedure.

The Company believes that the current structure, whereby shareholders are expected to transfer their shares without certainty of payment and whereby shareholders are treated differently depending on their date of acceptance of the Offer, is designed to allow Lekoil Nigeria to build a blocking stake in the Company.

The Offer does not compensate shareholders for the windfall to be gained by Lekoil Nigeria in cancelling US\$350m of intercompany debt owing to the Company.

Lekoil Nigeria have stated their intention to gain 100% control of Lekoil Cayman, using section 88 of the Cayman Companies Act to acquire compulsorily any outstanding shares. Lekoil Nigeria have stated that they may also invoke certain provisions of the Articles (as amended) to compulsorily acquire certain shares after the expiry of the Offers.

Upon gaining control of the Company, a newly constituted board put in place by Lekoil Nigeria would be in a position to cancel or amend the terms of the intercompany debt due to the Company. As at 30 June 2021, this intercompany debt was circa US\$350m.

The Company has noted, in its 2020 Annual Report 2020, that it is highly likely there will be the need to impair a number of those intercompany loans related to the entities holding the exploration assets (e.g., OPL 310 and OPL 325). Despite this, the value of the intercompany loans to Lekoil Nigeria (circa US\$41m) and Lekoil Oil & Gas Investments (circa US\$19m) is substantial and of real value to Lekoil Nigeria that is not reflected in the offer.

Using Group cash to purchase the shares

The cash used to purchase the shares is Group cash to which the shareholders should have an entitlement to. In the event of any dividend being declared by Lekoil Nigeria, the Company's

shareholders would be entitled to 90% of the cash amount. Instead, Lekoil Nigeria proposes to use Group cash to purchase your Shares.

The Board **recommends** that shareholders **DO NOT** accept the Offer and **take no action** at this time.

For further information, please visit www.lekoilplc.com or contact:

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