



# ReconAfrica Ltd.

(RECO-V, RECAF-OTCQX, OXD – Frankfurt)

SECTOR: Energy

STOCK PRICE \$3.51  
 RATING BUY  
 TARGET PRICE ↑ \$10.00  
 Previous \$7.00

## COMPANY UPDATE

### 6-2 Well Leads to Hydrocarbon Discovery

**Our Take: Very Positive.** Late Wednesday night, ReconAfrica reported that preliminary results from the first Kavango Basin exploration well (6-2) in Namibia provided strong evidence of a working conventional petroleum system. This announcement comes as a positive surprise as most expected results to be disseminated only after all three exploration wells were completed and results interpreted (late summer timeframe). What we like about this is that, to us, it says that the Company has gathered and analyzed enough data from the first well to confidently establish it has discovered a new conventional petroleum system.

The strong statement was confirmed after initial well log data indicated the well encountered a clastics and carbonate package over 660 ft thick across 3x unique intervals. With the Company now 1 of 1 on exploration targets thus far, it will now look to evaluate the system discovered with the second well (6-1) that will test the thickest part of the petroleum system. Despite the fact we expect the stock to be up significantly following this update, we encourage investors to add to or initiate new positions in ReconAfrica after this release. Given results to date, and a more than qualified team, we believe ReconAfrica is in the early innings of building a major hydrocarbon producer in a very supportive jurisdiction.

#### KEY HIGHLIGHTS

- ◆ **6-2 Exploration Results – Confirms active conventional hydrocarbon system.** ReconAfrica announced overnight that it has completed drilling, coring, and logging operations on its first of three exploration wells in the Kavango Basin, with initial well sample log data indicating the well is hydrocarbon charged. The 6-2 well encountered over 660 ft of carbonate and sands across three unique intervals in a stacked pay sequence which could potentially serve as a multiplier for future drilling locations and ultimate resource value/size.
- ◆ **Highly porous, permeable, migrated, marine source rock suggests potential for a homogenous basin across a large portion of the 8.5 MM acres in the Kavango.** Although additional appraisal drilling is required to determine the true aerial extent of the petroleum system, the determination from in-house petroleum chemist, Dan Jarvie, that the hydrocarbon shows have migrated, is a critical process of a working petroleum system. Moreover, the intervals encountered were deemed to be highly porous and permeable, which is indicative of an effective reservoir rock, while the fact the Company believes it has encountered marine source rock suggests the rock could be homogenous across the entire Kavango Basin. Bottom Line is this could be big!
- ◆ **Second exploration well (6-1) up next.** The drilling rig is now being mobilized to the 6-1 well site, located 16 kms north of the first exploration well with an expected spud date before the end of April. The success of the 6-2 well is particularly encouraging for the 6-1 well which will target the thickest part of the discovered system, which if successful, would unlock significant additional value for shareholders in the near-term, which when combined with the first well, would further de-risk the basin and open-up the door to potential farm-in/JV negotiations in the back half of the year.

#### RECOMMENDED ACTION

**Encourage investors to add to or initiate new positions ahead of a catalyst rich 2021**

- ◆ **Excellent news from ReconAfrica overnight; Raising our target to \$10 (from \$7) and reiterate Buy rating and Top Pick status.** New target is based on an increased chance of commercialization which reflects a higher chance of commercial discovery. The outlook for 2021 remains catalyst rich with at least two additional exploration wells anticipated before the end of summer, which could lead to significant partnering potential in a jurisdiction that is very supportive of environmentally safe energy development.

#### CATALYSTS

1. **Q2/21:** 2D seismic acquisition and interpretation
2. **Q3/21:** 6-1 well (evaluation) and results
3. **H2/21:** Potential JV discussions

#### PROJECTED RETURN

185%

#### RISK FACTOR

Very High

#### SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$3.51	\$10.00
↓100%		↑185%

#### KEY STATISTICS AND METRICS

52-Week High/Low	\$5.08/\$0.26
YTD Performance	58%
Dividend Yield	N/A
Shares O/S	153.9 MM (basic)
Market Capitalization	\$467MM
Cash (Q1/21E)	\$56MM
Enterprise Value	\$411 MM
Daily Volume (3 mos.)	1,100,000
Currency	C\$ unless noted

#### HAYWOOD ESTIMATES (CAD)

	2020E	2021E
Production (boe/d)	0	0
% Oil	nm	nm
CAPEX - E&D (MM)	\$8	\$15
Cash Flow (MM)	nm	nm
CFPS (fd)	nm	nm
D/CF	nm	nm
EV/DACF	nm	nm
EV/BOE/D	nm	nm

#### VALUATION

**RECO trades at 0.35x our heavily risked NAV of \$10.00/share with an unrisksed upside ~\$24/share at a modest field discovery of 500 mmbbls.**

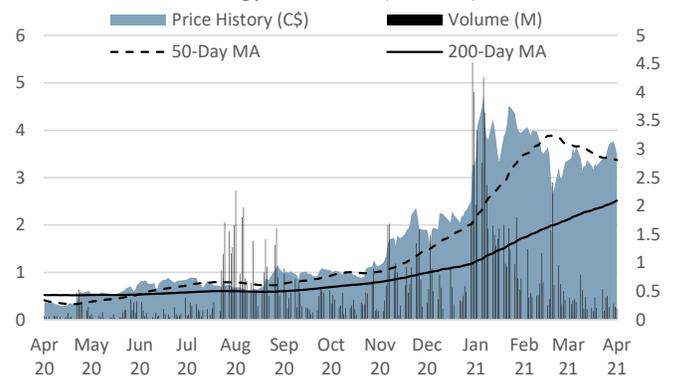
## INVESTMENT THESIS

Our investment drivers are as follows:

- ◆ **The Kavango Basin – This Could Be Big:** RECO holds a 90% interest (NAMCOR holds 10%) in 6.3MM acres in northeast Namibia and 100% (50% WI if farm-out option exercised) in an additional 2.22MM acres in adjacent Botswana. An early 2020 assessment from Sproule underlined the potential with 1,044 mmbbls of oil and 44.9 Tcf of working interest best estimate prospective resource gas. More recently, noted source rock expert Dan Jarvie has estimated that the basin is capable of generating 100 Billion+ barrels of oil. In our view, the team is positioning themselves as leaders of understanding the basin, and on success, given the scale of the Kavango Basin, we believe RECO could have plenty of opportunities to enter strategic joint-ventures (farm-outs) which could sanction further de-risking of the basin without dilution to existing shareholders.
- ◆ **Early Stage, but All the Necessary Ingredients:** The Company has all the ingredients to establish the existence of a working hydrocarbon system (in a relatively short cycle time) and subsequently evaluate and exploit the potential of the Kavango Basin. These include a fully funded three well program, nearly 100% working interest in acreage across a vast, relatively straight forward land access, an owned drilling rig, a committed and capable management and technical team, stable governments with attractive fiscal terms and proven commitment to responsible development, and finally a strong social licence and access to water. The initial 400 km of 2D seismic will be acquired in Q2/21 to tie to the first well. All of these factors increase the chance of development should a commercial discovery be made.
- ◆ **High-Risk/High-Reward Opportunity.** We believe that at current levels and considering major potential catalysts on the horizon, the stock represents an attractive high-risk/high-reward investment opportunity. We outline examples in the report where an initial oil discovery during the exploration phase delivered between 380-1,000% upside. With an initial discovery, ReconAfrica could experience rapid value accretion. It is in this phase; share price growth can be rapid on success and/or anticipation of success.

## SCENARIO ANALYSIS

### Reconnaissance Energy Africa Ltd. (RECO-V)



Source: Capital IQ, and Haywood Securities

### TARGET PRICE

ReconAfrica is an early-stage resource exploration resource play. As such, we focus on our total risked NAV, which includes our upside estimate of the best prospective resource potential in the Kavango Basin. In arriving at our 12-month target price of \$10.00/share, we have risked this upside potential by an ~73% chance of commercialization.

### DOWNSIDE CASE

Should exploration drilling be unsuccessful, we estimate the downside to the stock could be nil (\$0.00/share) as a negative outcome would make securing or finding a JV partner to carry further appraisal drilling challenging. Should the team, however, be successful in proving the presence of oil and economic viability of its resource, we think that the stock could be worth multiples of its current valuation.

*Our downside scenario price is a theoretical case based on notional valuation metrics and market assumptions. The downside price is solely intended for demonstrative purposes and is not to be regarded as a reflection of all market possibilities. It is not a guarantee that this company's share price will not drop below this price level and hence should not be taken as such.*

### KEY RISKS

- **Liquidity risk.** Early-stage companies face liquidity challenges in maintaining sufficient capital to meet working capital and government commitment obligations and may require outside capital (debt/equity) to meet any shortfall.
- **Exploration/Commerciality risk.** A sole driver of our resource value is attributable to the prospective resource potential of the Company's newly discovered Kavango Basin. The exploration and appraisal of this resource is at an early stage and will require substantial amounts of capital and resources to develop and move to commercialization. Failure to prove the presence of hydrocarbons or commerciality could very likely result in significant share price deterioration.
- **Delays:** Any delay or cost increases at the upcoming appraisal drilling campaign would be considered to be negative by investors and may cause concerns about the company's funding.

### Company Profile

**ReconAfrica Ltd.** is a junior oil and gas explorer with rights to mineral licenses across 8.5MM acres in NE Namibia and NW Botswana with the goal of proving the presence of a working hydrocarbon system and eventual commercialization of large quantities of hydrocarbons. The company is set (and funded) to drill three back-to-back exploration wells beginning in December 2020, that on success could unlock a material resource and shareholder value.

### Company Website

[www.ReconAfrica.com](http://www.ReconAfrica.com)



## Valuation: Material Upside as Kavango Play is De-risked

ReconAfrica is an early-stage resource exploration resource play. As a result, we focus on our total risked NAV for RECO, which includes full value for the prospective recoverable resource potential in the Kavango Basin in NE Namibia and NW Botswana as reported by a NI 51-101 compliant resource report prepared by Sproule, which shows a total net un-risked mean prospective resource of 1,256 MMbbls of oil. In arriving at our 12-month target price of \$10.00/share, we have risked this upside potential by ~73%.

Figure 1: RECO Net Asset Value

	Prospective Recoverable Resource (P50)						
	Field Interest <sup>1</sup>	Oil mmbbl <sup>2</sup>	Unrisked \$/boe	Unrisked US\$MM <sup>3</sup>	Risk Factor CoC % <sup>4</sup>	Riskd US\$MM	Riskd C\$/share <sup>5</sup>
<b>Exploration Assets</b>							
Kavango Basin							
Namibia - aggregate working interest	90%	831					
Botswana - aggregate working interest	50%	212					
<b>Total net mmbbl</b>		<b>1,044</b>	<b>\$5.03</b>	<b>\$5,251</b>	<b>27%</b>	<b>\$1,418</b>	<b>\$10.00</b>

(1) On June 10, 2020, RECO entered into a farmout option with Renaissance Oil, whereby Renaissance has the option to acquire a 50% working interest in the Botswana lands

(2) Based on net unrisked prospective resource potential from a NI 51-101 compliant resource report prepared by Sproule

(3) PV12.5% on long-term Brent price of US\$55/bbl

(4) Chance of commerciality is a product of the risk of a successful commercial S20discovery and risk of development; CoC = CoSD\*CoD, or 45%\*60%=27%

(5) Calculated on a fully diluted share count of 178.1MM shares and USD/CAD exchange rate of \$0.75

Source: Haywood Securities Inc.

**Sensitivity to Chance of Commercial Success:** The chance of commerciality (CoC) is the product of chance of commercial discovery and chance of development. Prospective resources carry material risk related to geological chance of success (chance of discovery), as well as chance of development, should a discovery be made. Should the reader wish to test our risked NAV/share, we provide a sensitivity table below for prospective resource levels ranging from 10-1,200 MMbbls and varying risk factors (CoC).

Figure 2: Chance of Commerciality Sensitivity

Recoverable Resources (mmbbls)	Chance of Commerciality																			
	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
10	\$0.02	\$0.03	\$0.05	\$0.06	\$0.08	\$0.09	\$0.11	\$0.12	\$0.14	\$0.15	\$0.17	\$0.18	\$0.20	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	\$0.29	\$0.31
50	\$0.07	\$0.14	\$0.22	\$0.29	\$0.36	\$0.43	\$0.50	\$0.58	\$0.65	\$0.72	\$0.79	\$0.86	\$0.94	\$1.01	\$1.08	\$1.15	\$1.22	\$1.30	\$1.37	\$1.44
100	\$0.21	\$0.41	\$0.62	\$0.83	\$1.03	\$1.24	\$1.45	\$1.65	\$1.86	\$2.07	\$2.27	\$2.48	\$2.69	\$2.89	\$3.10	\$3.30	\$3.51	\$3.72	\$3.92	\$4.13
250	\$0.42	\$0.84	\$1.26	\$1.68	\$2.10	\$2.53	\$2.95	\$3.37	\$3.79	\$4.21	\$4.63	\$5.05	\$5.47	\$5.89	\$6.31	\$6.73	\$7.16	\$7.58	\$8.00	\$8.42
500	\$1.19	\$2.38	\$3.57	\$4.75	\$5.94	\$7.13	\$8.32	\$9.51	\$10.70	\$11.89	\$13.08	\$14.26	\$15.45	\$16.64	\$17.83	\$19.02	\$20.21	\$21.40	\$22.58	\$23.77
700	\$1.38	\$2.77	\$4.15	\$5.54	\$6.92	\$8.31	\$9.69	\$11.08	\$12.46	\$13.85	\$15.23	\$16.62	\$18.00	\$19.39	\$20.77	\$22.16	\$23.54	\$24.93	\$26.31	\$27.70
925	\$1.54	\$3.08	\$4.62	\$6.16	\$7.69	\$9.23	\$10.77	\$12.31	\$13.85	\$15.39	\$16.93	\$18.47	\$20.01	\$21.55	\$23.08	\$24.62	\$26.16	\$27.70	\$29.24	\$30.78
1,050	\$1.97	\$3.93	\$5.90	\$7.86	\$9.83	\$11.79	\$13.76	\$15.72	\$17.69	\$19.66	\$21.62	\$23.59	\$25.55	\$27.52	\$29.48	\$31.45	\$33.41	\$35.38	\$37.35	\$39.31
1,200	\$2.33	\$4.65	\$6.98	\$9.31	\$11.63	\$13.96	\$16.29	\$18.61	\$20.94	\$23.27	\$25.59	\$27.92	\$30.25	\$32.57	\$34.90	\$37.23	\$39.55	\$41.88	\$44.20	\$46.53

Source: Haywood Securities Inc.



## Investment Risks

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While this is not an exhaustive list, we view the following risks as being noteworthy to investors in ReconAfrica Ltd.

**Liquidity risk.** Early-stage companies face liquidity challenges in maintaining sufficient capital to meet working capital and government commitment obligations and may require outside capital (debt/equity) to meet any shortfall. The company has significantly mitigated this risk with the recent exercise of warrants which has brought in an additional \$33 MM of cash into the coffers.

**Commerciality risk.** A sole driver of our resource value is attributable to the prospective resource potential of the Company's newly discovered Kavango Basin. The exploration and appraisal of this resource is at an early stage and will require substantial amounts of capital and resources to develop and move to commercialization. Failure to prove commerciality could very likely result in significant share price deterioration.

**Delays.** Any delay or cost increases at the upcoming appraisal drilling campaign would be considered to be negative by investors and may cause concerns about the company's funding.



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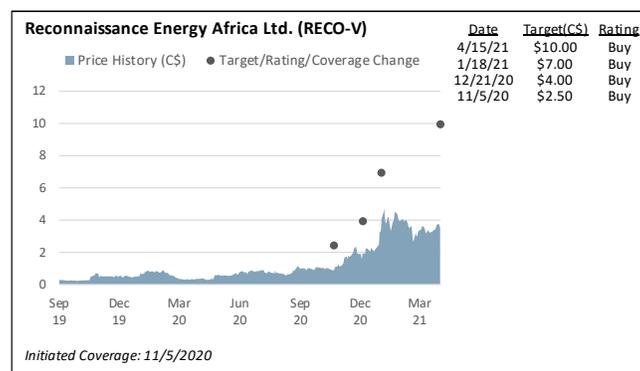
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### Distribution of Ratings (as of April 15, 2021)

	%	#	IB Clients (TTM)
<b>Buy</b>	82.1%	78	91.4%
<b>Hold</b>	7.4%	7	8.6%
<b>Sell</b>	0.0%	0	0.0%
<b>Tender</b>	1.1%	1	0.0%
<b>UR (Buy)</b>	0.0%	0	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	9.5%	9	0.0%

### Price Chart, Rating and Target Price History (as of April 15, 2021)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities

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