



ReconAfrica Ltd.

(RECO-V, RECAF-OTCQX, OXD – Frankfurt)
SECTOR: Energy

STOCK PRICE	\$6.88
RATING	BUY
TARGET PRICE	\$10.00
RISK	Very High

COMPANY UPDATE

Spud Date Set for 2nd Vertical Exploration Well; 6-2 Temporarily Capped

OUR TAKE: ReconAfrica published an update overnight stating the first exploration well (6-2) was temporarily capped on April 19. With that, the drilling rig has mobilized to the second well site (6-1) about 16 kms north of site #1. Drilling operations on the second vertical exploration well are anticipated to begin before the end of the month and is designed to test the thickest section of the recently discovered petroleum system in the Kavango Basin. As mentioned previously, the success of the 6-2 exploration well is particularly encouraging for the 6-1 well, which should help begin to quantify the volume of hydrocarbons in place. While commercial flow rates still need to be established, exploration activity to date has been very encouraging and we look forward to further appraisal activity over the summer to provide further indication of potential resource size.

OTHER HIGHLIGHTS

- ◆ **Spud date set for second vertical exploration well; First well temporarily capped.** There were a few interesting nuggets contained in the brief update. The Company stated it has “temporarily capped” the first exploration well, which would imply the team has left the door open to re-enter the well at some future date to perform a flow test. This would not only drive incremental cost savings, relative to drilling/testing another well, but by potentially re-using the location, the Company also minimizes its environmental footprint. With drilling operations on 6-2 anticipated to commence by end of the month, total vertical depth is expected to be reached by the end of June, with initial results expected sometime in the summer.
- ◆ **Key corporate appointments.** Diana McQueen, previously Senior Policy Advisor, has seen her role expand to Senior Vice President of Corporate Communications & Stakeholder Relations. Ms. McQueen will be responsible for leading ReconAfrica’s stakeholder engagement strategies and will provide a more surgical approach towards managing and achieving a consistent message with various stakeholders, including the public, the media, and other community partners. Concurrently, with the new role of Ms. McQueen, ReconAfrica also announced the hiring of Grayson Anderson to fill the role of Manager of Investor Relations. Mr. Anderson has over 22 years of oil and gas and capital markets experience, almost half of which have been spent in the UK as a specialist salesperson with Macquarie Capital, Simmons & Company and Credit Suisse. Prior to joining the company, Mr. Anderson held similar roles with Frontera Energy (TSX:FEC), GeoPark (NYSE: GPRK), and Canadian Natural Resources (TSX:CNQ). He will help with ongoing initiatives including 1) preparing and executing the company’s investor relations plans; 2) executing investor meetings and road shows; 3) increasing communication with the investment community, and 4) providing general advisory services regarding market execution and peer group analysis activities.

RECOMMENDED ACTION

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

- ◆ Following the April 14, 2021 announcement confirming the existence of an active petroleum system in the Kavango Basin, ReconAfrica has, in our view, significantly enhanced the risk/reward profile, even after the rally in the share price. The investment proposition remains, as we see it, one of the most interesting and compelling opportunities in the energy sector and includes 1) a well-funded investment case with ~\$30 MM in cash (1Q21E); 2) a potentially massive resource at play; and 3) visible high-impact near-term catalysts. A powerful combination for investors!
- ◆ 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 ~70% chance of commercialization.

KEY STATISTICS AND METRICS

52-Week High/Low	\$10.40/\$0.26
YTD Performance	209.9%
Dividend Yield	N/A
Shares O/S	133.1 MM (basic)
Market Capitalization	\$916 MM
Net Debt (Q1/21E)	-\$29 MM
Enterprise Value	\$886 MM
Daily Volume (3 mos.)	942,000
Currency	C\$ unless noted

HAYWOOD ESTIMATES (USD)

	2020A	2021E	2022E
Production (boe/d)	0	0	0
% Gas	nm	nm	nm
CAPEX (MM)	\$16.8	\$22.7	\$25.0
Cash Flow (MM)	nm	nm	nm
CFPS (fd)	nm	nm	nm
D/CF	nm	nm	nm
EV/DACF	nm	nm	nm
EV/BOE/D	nm	nm	nm

VALUATION

RECO trades at 0.70x our heavily risked NAV of \$10.00/share with an unrisks upside ~\$24/share at a modest field discovery of 500 mmbbls.

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 ¹	Oil mmbbl ²	Unrisked \$/boe	Unrisked US\$MM ³	Risk Factor CoC % ⁴	Risked US\$MM	Risked C\$/share ⁵
Exploration Assets							
Kavango Basin							
Namibia - aggregate working interest	90%	831					
Botswana - aggregate working interest	50%	212					
Total net mmbbl		1,044	\$5.03	\$5,251	27%	\$1,418	\$10.00

(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.



Important Information and Legal Disclosures

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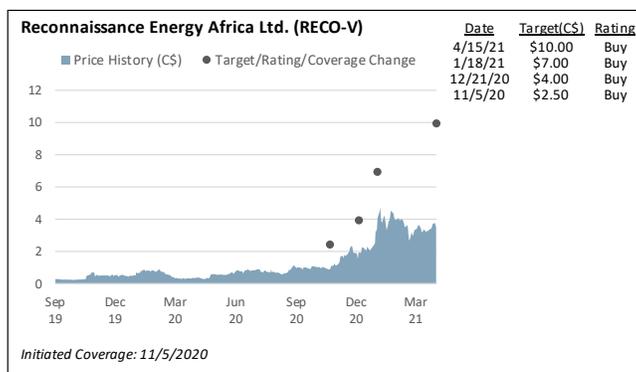
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Distribution of Ratings (as of April 26, 2021)

	%	#	IB Clients (TTM)
Buy	84.9%	79	91.9%
Hold	6.5%	6	8.1%
Sell	0.0%	0	0.0%
Tender	2.2%	2	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	6.5%	6	0.0%

Price Chart, Rating and Target Price History (as of April 26, 2021)



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

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