



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

STOCK PRICE \$7.62
 RATING BUY
 TARGET PRICE \$10.00

COMPANY UPDATE

Consolidating Eastern Kavango Basin with Proposed Acquisition of Renaissance Oil

Our Take: Positive. Overnight Sunday, ReconAfrica announced it has entered into a non-binding, letter of intent (LOI) with Renaissance Oil Corp (ROE-V, Buy, \$0.25 Tgt), whereby ReconAfrica will purchase all of the issued and outstanding shares and convertible securities of Renaissance in an at market, all-stock transaction valued at \$155 MM.

In our view, the deal has strong merit given Renaissance's option to acquire a 50% working interest position in 2.22 MM acres in the eastern part of the Kavango Basin (Botswana), currently 100% controlled by ReconAfrica ([press release link](#)). Consolidating respective interests into one vehicle will see ReconAfrica move forward with an undiluted position in a newly discovered petroleum basin that is believed to extend east into northwest Botswana. Management have also been open about their intent to pursue potential partnerships and consolidating ownership should benefit any future discussions to execute joint-venture arrangements on a portion of its acreage in the Kavango Basin, which could pull forward asset and share value, without further dilution.

Given the performance of both companies share prices following last week's announcement of a petroleum discovery in the Kavango Basin (see our note [here](#)), we suspect the non-binding agreement came together relatively quickly and would expect a definite agreement to be announced shortly given major shareholders of both entities have already provided intention to vote in favour of the arrangement, as such, we see minimal deal risk and believe a competing bidder for Renaissance is unlikely to materialize.

We continue to view ReconAfrica as one of the most interesting and appealing risk/reward propositions in the entire energy sector. 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.

KEY HIGHLIGHTS

- ◆ **At market deal.** ReconAfrica and Renaissance Oil have entered into a non-binding agreement to combine their businesses in an at market (using 16 April closing price) all-stock transaction. For each ROE common share, shareholders will receive ~0.05 RECO common shares, valuing the transaction at ~\$155 MM million, including net debt of ~\$4.0 MM at 3Q20. On a pro-forma basis, ROE shareholders will own ~20.3 MM shares, equivalent to 11.4% of the issued and outstanding shares of ReconAfrica.
- ◆ **Transaction has strong merit given shared interests in Botswana and stands to strengthen ReconAfrica's negotiation position in future potential JV partners.** We view the proposed arrangement as favourable to ReconAfrica shareholders as it will allow the business to retain full ownership of 8.5 MM acres, which covers the entire sedimentary basin, where resource value has recently been de-risked following last week's announcement of a newly discovered petroleum basin that the Company believes extends east into northwest Botswana. According to the release, ReconAfrica will explore strategic alternatives for Renaissance's Mexican assets, which will likely be finding a buyer or relinquishing the assets, maintaining ReconAfrica as a Kavango Basin pure play.

RECOMMENDED ACTION

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

- ◆ **Maintaining our target at \$10/sh and reiterate Buy rating and Top Pick status.** Although see limited deal risk and likelihood of a competing deal as low, the Renaissance transaction is not included in our official estimates as the arrangement is not binding and has yet to receive the necessary shareholder and regulatory approvals. However, we do see this as being ultimately accretive to our NAV and view the proposed transaction with Renaissance Oil as attractive.

PROJECTED RETURN

31%

RISK FACTOR

Very High

SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$7.62	\$10.00
↓100%		↑31%

KEY STATISTICS AND METRICS

52-Week High/Low	\$7.93/\$0.26
YTD Performance	243%
Dividend Yield	N/A
Shares O/S	179 MM (f.d)
Market Capitalization	\$1,369MM
Cash (Q1/21E)	\$44MM
Enterprise Value	\$1,320MM
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 0.80x our heavily risked NAV of \$10.00/share with an unrisksed upside ~\$24/share at a modest field discovery of 500 mmbbls.

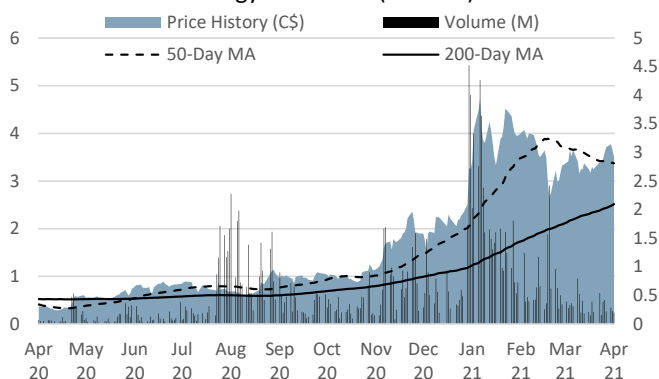
INVESTMENT THESIS

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



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.



Investment Risks

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.



Important Information and Legal Disclosures

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Analyst Certification

I, Christopher Jones, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

Important Disclosures

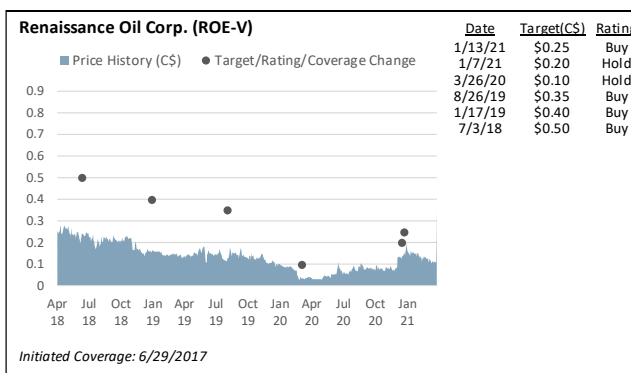
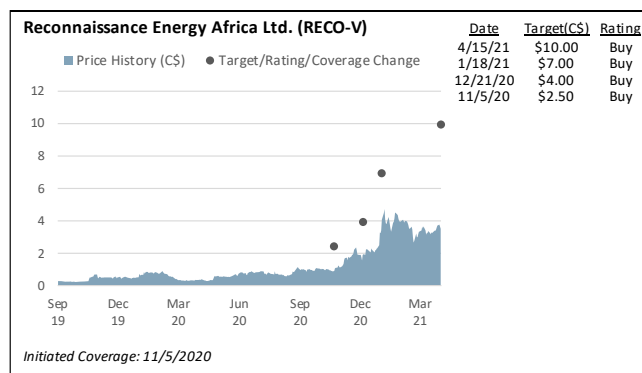
Of the companies included in the report the following Important Disclosures apply:

- ◆ The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in ReconAfrica (RECO-V).
- ◆ As of the end of the month immediately preceding this publication either Haywood Securities, Inc., one of its subsidiaries, its officers or directors beneficially owned 1% or more of ReconAfrica (RECO-V) and Renaissance Oil Corp. (ROE-V).
- ◆ Haywood Securities Inc. or one of its subsidiaries has managed or co-managed or participated as selling group in a public offering of securities for ReconAfrica (RECO-V) in the last 12 months.
- ◆ Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from ReconAfrica (RECO-V) in the past 12 months.

Distribution of Ratings (as of April 19, 2021)

	%	#	IB Clients (TTM)
Buy	82.1%	78	91.4%
Hold	7.4%	7	8.6%
Sell	0.0%	0	0.0%
Tender	1.1%	1	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)	9.5%	9	0.0%

Price Chart, Rating and Target Price History (as of April 19, 2021)



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

Link to Research Policy: <http://haywood.com/what-we-offer/research/research-policy>

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