



ReconAfrica Ltd.

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

STOCK PRICE \$2.31
RATING **BUY**
TARGET PRICE \$4.00

COMPANY UPDATE

Buckle Your Seat Belts; High-Impact Exploration Drilling has Commenced

OUR TAKE – POSITIVE: ReconAfrica announced the first well (6-2) of a planned three exploration well program is drilling ahead to a total vertical depth (TVD) of 12,500 ft. According to the team, the 6-2 well is anticipated to take up to 45 days to reach TVD and will form a detailed assessment of multiple Permian-aged potential petroleum systems, which will be applied to identify the pay zone which will direct efforts towards the eventuality of producing commercial rates of oil, should a discovery be made. The latter of which would provide abundant opportunities for further exploratory and appraisal drilling. We continue to see RECO as a special situational stock that is positioned to deliver on a high-impact exploration program over the first half of 2021 that will substantially de-risk a material resource and drive significant share price appreciation on positive results. We recommend building a position in the name ahead of exploration results on all three wells expected in late spring.

KEY HIGHLIGHTS

- ◆ **First exploration well drilling underway.** RECO has commenced drilling of the 6-2 exploration well. Drilling operations are expected to take 45 days, after which retrieved core samples will be sent to Houston to be analyzed by an in-house technical team led by source rock expert Daniel Jarvie.
- ◆ **The 6-2 well is very high impact.** The purpose of the exploration well is to evaluate the presence of hydrocarbons in the Kavango Basin in northeast Namibia. Sidewall core samples and well logs will be taken downhole from a depth of between 1,000-4,800 ft to identify conventional targets, at which point, intermediate casing will be set at ~4,800 ft. The second section of the well is designed to reach the intermediate and lower Permian sections to an ultimate depth of ~12,500 ft.
- ◆ **Pin-pointing the ‘pay-zone’.** While drilling the lower sections, the Company will take visual inspections of core samples brought to the surface as well as wireline logging to provide real time information about the properties of the formation being penetrated by the wellbore. The Company will use water-based drilling fluid which is an advantage when attempting to ascertain ‘pay-zones’ in a previously undiscovered basin.
- ◆ **Community engagement and support for responsible development projects is strong.** The team continues to work diligently to build strong relationships with local and regional stakeholders, and along with hiring local labourers, the Company’s formal plan to support the communities that surround exploration activity is to provide residents with access to fresh water. After successfully drilling the first community water well, RECO is planning to drill three additional water wells, and is in the process of identifying those locations. Finally, with the help of many local residents, RECO has initiated a series of columns outlining the positive effect the Company already has had on the community. The first chapter can be found [here](#).

RECOMMENDED ACTION

Buy Ahead of drilling/evaluating new flows in H1/2021

- ◆ With such a large potential, coupled with the early stage nature of the Company, any success from the current program could be a significant catalyst for the stock. As such, we recommend building a position ahead of what is anticipated to be several months of high-impact catalysts, as it is in this phase that share price growth can be rapid on success and/or anticipation of success.

CATALYSTS

1. **Q1/21:** 2D seismic acquisition and interpretation
2. **Q1/21:** 6-2 well (evaluation) and drilling/evaluating of two other back-to-back wells
3. **H2/21:** Potential JV discussions

PROJECTED RETURN

73%

RISK FACTOR

Very High

SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$2.31	4.00
↓100%		↑73%

KEY STATISTICS AND METRICS

52-Week High/Low	\$2.45/\$0.26
YTD Performance	4.1%
Dividend Yield	N/A
Shares O/S	106.9MM (basic)
Market Capitalization	\$247 MM
Cash	\$17 MM
Enterprise Value	\$230 MM
Daily Volume (3 mos.)	548,000
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 0.49x our heavily risked NAV of \$4.00/share with an unrisksed upside ~\$24/share at a modest field discovery of 500 mmbbls.

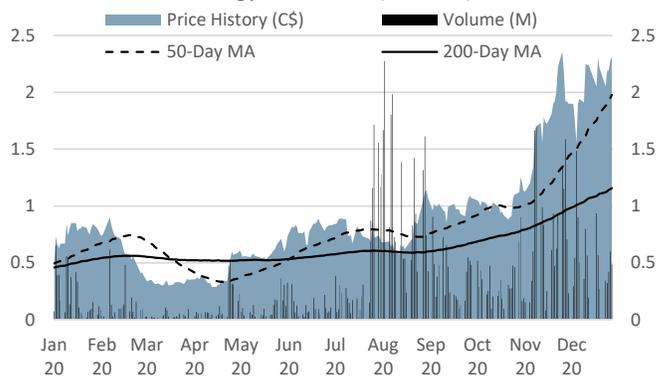
INVESTMENT THESIS

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 2.45MM acres in adjacent Botswana. An early 2020 assessment from Sproule underlined the potential with 1,044 mmbbls and 44.9 Tcf of working interest best estimate prospective resource. 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 Q1/21 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 \$4.00/share, we have risked this upside potential by a 10% 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 8.75MM 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 MMBbbls of oil. In arriving at our 12-month target price of \$4.00/share, we have risked this upside potential by 10%.

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 - Unconventional-oil only							
Namibia - aggregate working interest	90%	831					
Botswana - aggregate working interest	50%	212					
Total net mmbbl		1,044	\$5.03	\$5,251	10%	\$535	\$4.00

(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 discovery and risk of development; CoC = CoSD*CoD, or 20%*51%=10%

(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 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 10-1,050 MMBbbls and varying risk factors (CoC).

Figure 2: Chance of Commerciality Sensitivity

Recoverable Resources (mmbbl)	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.
- ◆ **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

This report is intended for institutional investors and may only be distributed to non-institutional US clients in the following states: Connecticut, Delaware, Illinois, Louisiana, Maryland, Missouri, New York, Pennsylvania, Tennessee, Virginia, and Wisconsin. Otherwise, this report may only be distributed into those states with an institutional buyer state securities registration exemption.

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

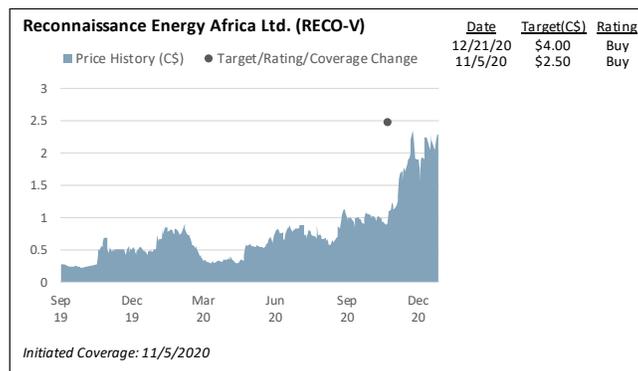
Of the companies included in the report the following Important Disclosures apply:

- ◆ 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).
- ◆ 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 January 11, 2021)

	%	#	IB Clients (TTM)
Buy	74.8%	77	87.1%
Hold	5.8%	6	3.2%
Sell	0.0%	0	0.0%
Tender	1.0%	1	0.0%
UR (Buy)	1.0%	1	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	17.5%	18	9.7%

Price Chart, Rating and Target Price History (as of January 11, 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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