



ReconAfrica Ltd.

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

STOCK PRICE \$4.08
RATING **BUY**
TARGET PRICE ↑ \$7.00
Previous \$4.00

COMPANY UPDATE

Second Catalyst Delivered in as Many Weeks; Increasing Target to \$7.

OUR TAKE – POSITIVE: Sunday evening, ReconAfrica issued an operations update in which the Company confirmed it has contracted Polaris Natural Resources Inc. to execute 450 sq km of 2D seismic in NE Namibia. Polaris is a Canadian seismic company with more than 1,000 projects completed since 1996. The Company's patented Polaris Explorer 860 has been used repeatably since January 2004. The total cost of the program is anticipated to cost ~\$2 MM and will tie in with RECO's current fully funded three exploration well program along with future wells to develop a better interpretation of the formations and help reduce exploration risk going forward.

KEY HIGHLIGHTS

- ◆ **450 sq km of 2D seismic acquisition underway.** RECO has engaged the services of Polaris Natural Resources Inc. to complete 450 sq km 2D seismic survey in NE Namibia. The proposed seismic survey will be conducted along existing right of ways as to minimize the impact to the environment. Currently in the Environmental Impact Assessment stage, results of the program should be available in early Summer.
- ◆ **All the ingredients to establish and exploit the potential of the Kavango Basin.** In our view, the Company has all the ingredients to establish the presence of an active petroleum system in the Kavango Basin. These include 1) a fully funded three well program; 2) high working interest in acreage across a vast previously undiscovered basin; 3) straight forward land access; 4) a committed/capable management and technical team; 5) stable governments with attractive fiscal terms; 6) a strong social licence, and finally 7) forthcoming 2D seismic coverage.

In addition to the above elements, the Company has 32.8 MM warrants priced at \$1 that are subject to an acceleration clause of the expiry date to a date 30 calendar days following notice to holders should the 20-day VWAP equal or exceed \$3 a share, which would usher in ~\$33 MM in proceeds. We believe all these factors emphasizes the team's ability to relatively quickly de-risk the basin. On exploration success the scale of the opportunity should attract further industry interest in H2/21, potentially bringing forward shareholder value while minimizing dilution.

RECOMMENDED ACTION

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

- ◆ We view the initial acquisition and subsequent processing of 2D seismic as a key catalyst for the stock, and despite the recent run in the share price since the Company announced that drilling has started (see our January 11/20 note [here](#)), we would still be buyers at these levels. With that, we are increasing our target price to \$7.00 (from \$4.00) which reflects strong visibility to more fully funded exploration drilling which drives an improvement in our heavily risked NAV estimate.

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

72%

RISK FACTOR

Very High

SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$4.08	7.00
↓100%		↑72%

KEY STATISTICS AND METRICS

52-Week High/Low	\$4.13/\$0.26
YTD Performance	83.8%
Dividend Yield	N/A
Shares O/S	106.9MM (basic)
Market Capitalization	\$436 MM
Cash	\$17 MM
Enterprise Value	\$419 MM
Daily Volume (3 mos.)	766,000
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 \$7.00/share with an unrisksed upside ~\$24/share at a modest field discovery of 500 mmbbls.

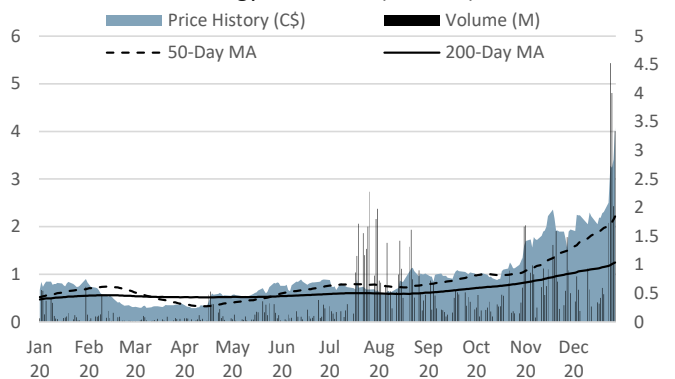
INVESTMENT THESIS

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 \$7.00/share, we have risked this upside potential by an 82% 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 MMbbls of oil. In arriving at our 12-month target price of \$7.00/share, we have risked this upside potential by 82%.

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	18%	\$945	\$7.00

(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 un-risked 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 30% * 60% = 18%

(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 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.

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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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

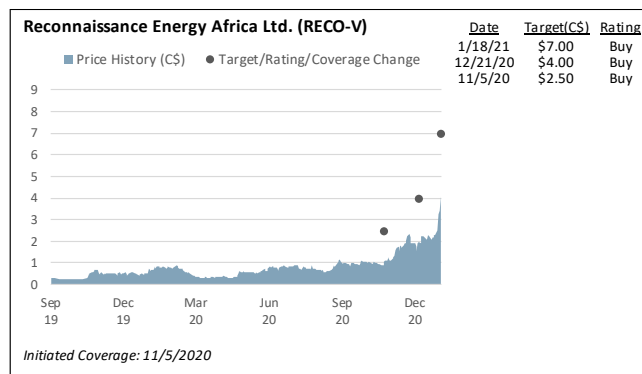
Of the companies included in the report the following Important Disclosures apply:

- ◆ 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 18, 2021)

	%	#	IB Clients (TTM)
Buy	74.8%	77	84.8%
Hold	5.8%	6	6.1%
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	9.1%

Price Chart, Rating and Target Price History (as of January 18, 2021)



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

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