



# ReconAfrica Ltd.

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

STOCK PRICE \$0.91  
RATING **BUY**  
TARGET PRICE \$2.50

## INITIATING COVERAGE

### Chasing a Giant Oil Resource in Onshore Namibia

**INVESTMENT BRIEF:** We are initiating coverage of ReconAfrica (RECO-V) with a Buy rating and \$2.50/share target price. Our target price is NAV based and includes our net risked upside estimate of the resource potential across the Kavango Basin. ReconAfrica is set and funded to de-risk a potentially material resource play onshore Namibia and Botswana with 1,348 mmbbls/58.1 Tcf best estimate prospective recoverable resource (gross). We recommend accumulating a position ahead of drilling/evaluation news flow in H1/21 aimed at proving up the presence of a working hydrocarbon system, which if confirmed, should provide abundant opportunities for further exploration and appraisal drilling. On a successful discovery, attractive fiscal terms should help to facilitate development of the basin, thereby increasing the chance commercialization and shareholder value.

#### KEY HIGHLIGHTS

- ◆ **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.

#### RECOMMENDED ACTION

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

- ◆ ReconAfrica is on a short list of E&Ps that offers wildcat exploration torque in this market. We believe investors need to pay attention to ReconAfrica as the company is moving from early concept phase to exploration, which if successful, could help derisk material resource value.

#### CATALYSTS

1. **Mid November 2020:** Rig mobilization to Namibia
2. **Late December 2020:** 6-2 well spud
3. **Q1/21:** 2D seismic acquisition and interpretation
4. **Q1/21:** 6-2 well (evaluation) and drilling/evaluating of two other back-to-back wells
5. **H2/21:** Potential JV discussions

#### PROJECTED RETURN

175%

#### RISK FACTOR

Very High

#### SCENARIO ANALYSIS

Downside Scenario	Current Price	Price Target
\$0.00	\$0.91	2.50
↓100%		↑175%

#### KEY STATISTICS AND METRICS

52-Week High/Low	\$1.23/\$0.26
YTD Performance	93.6%
Dividend Yield	N/A
Shares O/S	106.9MM (basic)
Market Capitalization	\$96 MM
Cash	\$23 MM
Enterprise Value	\$75 MM
Daily Volume (3 mos.)	649,000
Currency	C\$ unless noted

#### HAYWOOD ESTIMATES (CAD)

	2020E	2021E
Production (boe/d)	0	0
% Oil	nm	nm
CAPEX - E&D (MM)	\$8	\$14
Cash Flow (MM)	nm	nm
CFPS (fd)	nm	nm
D/CF	nm	nm
EV/DACF	nm	nm
EV/BOE/D	nm	nm

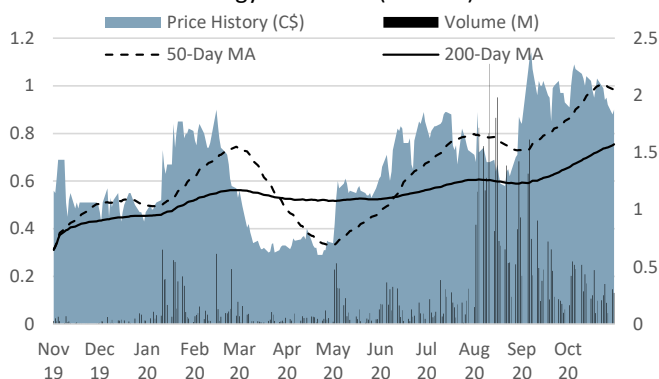
## INVESTMENT THESIS

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 \$2.50/share, we have risked this upside potential by a 6% 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](http://www.ReconAfrica.com)



## Key Questions to Management

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**1. Do you typically see a company of ReconAfrica's size control such a large piece of acreage and potentially large resource?**

No this is rather unusual, normally the majors are the only ones able to get control of a new basin like the Kavango. ReconAfrica was able to do this as they were the first mover in onshore Namibia after the new hydrocarbon laws were put in place, and the first to interpret the large regional Aero-magnetic survey.

**2. What opportunity is there to add a JV partner to accelerate exploration and development of the Company's acreage?**

After the Company drills the first three wells, it will be in a good position to enter discussions with potential JV (farm-out) partners, such that the structure of partnership would create value for RECO shareholders while minimizing the effects of future dilution.

**3. What is your view of the development potential of the Kavango basin?**

The development potential of the basin is huge, ReconAfrica has now identified numerous play types. The infrastructure is there, the royalties are low, and the government is very supportive. The Company is solely focused on the conventional resources.

**4. What do you hope to learn from the first well, and depending on what you find, how could it influence the ensuing test wells?**

The goal of the Company's first well is to establish the Permian hydrocarbon system and is both a stratigraphic and structural test. The plan is to drill the second well in the deepest part of the basin to test the very thickest part of the Permian section. The third will be a conventional trap test. At is stands, ReconAfrica has 12+ locations permitted and ready to drill, so the results from the first well may alter locations of the following two wells, but the strategy will remain the same.

**5. The Kavango Basin is expected to hold both conventional and unconventional potential. Why is ReconAfrica targeting the conventional reservoirs first, and can you speak to what you are seeing on the potential of a conventional play?**

The source rock potential was recognized first based on the offset ST1 well which interested ~600' of Permian shale. ReconAfrica believes the deeper Kavango Basin should see a significant thickening of the Karoo Super Group which was observed in the ST-1 well, which would be depositional similar to Shell's organic-rich Whitehill Permian shale play in South Africa. As in other Permian plays worldwide, the Lower Permian is a time of higher sea level and deep marine and lacustrine shale deposition. This section is followed by an overall coarsening upward sequence, resulting in reservoir rock deposition in the upper Permian and Triassic. An example would Permian Basin in the US, Lower Permian Wolfcamp Shale grading into the Spraberry clastics.

**6. What do you think the timeframe will be for the first monetization opportunity for ReconAfrica investors?**

After the initial drilling program which is expected to be completed in Q1/21.

**7. Is it reasonable to expect the Company to market itself after a certain level of development?**

Given the large amount of acreage which the Company controls over the Kavango Basin, ReconAfrica will be careful not to "market itself" too early. In the near-term, shareholders will be best served by the Company focusing on a strategy of establishing reserves.



## Investment Thesis and Capital Markets Profile

ReconAfrica is a junior oil and natural gas company engaged in the acquisition, testing, and eventual monetization of oil and natural gas leases in Namibia and Botswana. A predecessor private company led by Craig Steinke was granted a 90% interest in a Petroleum Exploration License 73 (PEL) which covers 6.3 MM contiguous acres in northeast Namibia. With no prior seismic or drilling across the concession, RECO acquired high resolution geomagnetic data of the entire licensed area and after thorough analysis by the Company's strong technical team, along with additional learnings from a previously drilled well (ST-1/1964) that was drilled to the west of RECO's block, it was established that the licensed area contained a very deep (30,000 ft) sedimentary column across 25,000 square miles with numerous play types. In June 2020, the Company was granted an adjacent petroleum license in northwestern Botswana for 2.45MM acres, taking the total licensed area to 8.75MM acres.

The Company's shares began trading on the TSX Venture Exchange on September 13, 2019, trading at \$0.20/share initially. Post the August financing, RECO has 58.7MM warrants exercisable at a weighted average price of \$0.82/share. In addition to the warrants, there are 12.6MM options exercisable at a weighted average price of \$0.56/share, for an aggregate of 68.5MM dilutive securities, representing ~67% dilution if fully exercised, compared to a common share count of 106.9 MM. In total, management and founders own roughly ~16% of fully diluted shares. For a fulsome review of insider ownership see Figure 10.

**Figure 1: Summary of Capital Structure**

ReconAfrica Ltd.	TSXV	RECO
Share Price	\$/sh.	\$0.92
Shares Outstanding (basic)	MM	106.9
Dilutives August 2020	MM	71.3
Shares Outstanding (diluted)	MM	178
Working Capital Balance (cash)	\$MM	\$22
Insider Ownership (basic)	%	20%
Insider Ownership (diluted)	%	18%

Note: Insider ownership percentage includes founders

Source: Company Reports, and Haywood Securities Inc.

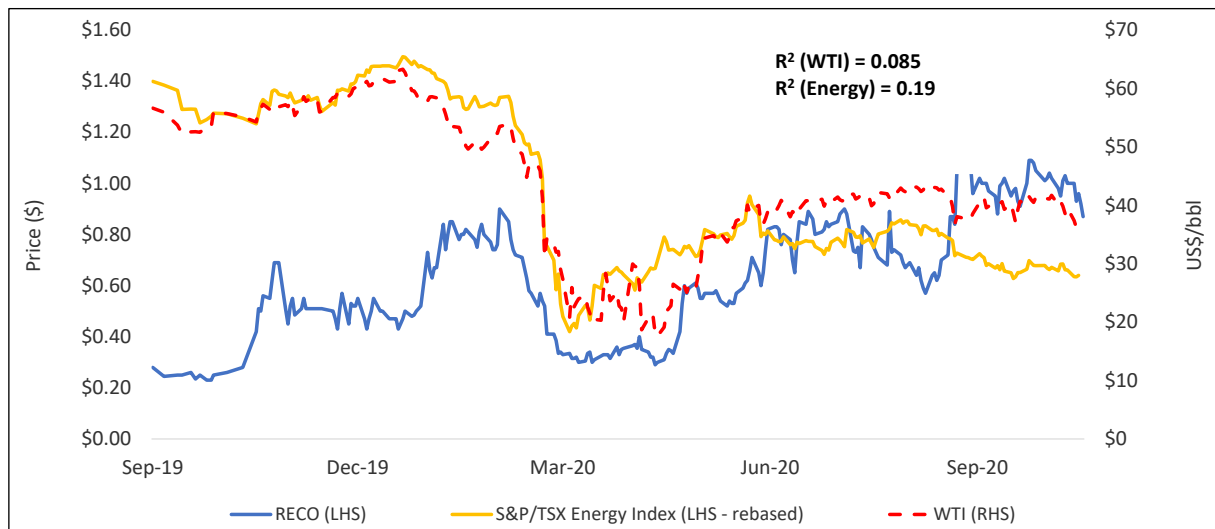
**Initiating on ReconAfrica with a \$2.50/share target:** We recommend taking a position ahead of appraisal news flow in H1/21 that has the potential to significantly de-risk a material resource. We caution that a lot of drilling and capital is required to prove up this resource and there are several variables, with a high degree of uncertainty. That being said, the Company has taken several critical steps to help reduce the uncertainties associated with de-risking the basin, including interpreting high-density aero-mag surveys (defining the basin), completion of extensive regional structural and stratigraphic studies, and establishing well control (ST-1 well) indicating the presence of a source rock (a critical element of a working hydrocarbon system).

Please see our full Valuation NAV summary and sensitivity tables on page 7.

As shown in Figure 2, RECO's trading activity has been quite volatile and largely disconnected from commodity prices and the overall energy index. The stock has experienced large price swings in response to operational updates given materiality threshold is generally quite low for early stage exploration companies like ReconAfrica. We expect this trend to continue particularly around the release of corporate updates beginning in the near-term surrounding rig mobilization, site-preparation work and subsequent exploration drilling and ensuing analysis and interpretation of gathered data over the next 6 months.



Figure 2: RECO Trading History



Source: Haywood Securities Inc

**Recent financing demonstrates strong investor appetite:** Having announced a \$6-\$10MM equity raise in August to partially fund the Company's upcoming exploration program in northeast Namibia, the subsequent increase in size of the financing to \$23MM illustrates strong investor sponsorship absent from other oil and gas producers and appears to be an outlier in the current environment. The availability of capital provides RECO with the funding in place to drill three upcoming exploration wells in the Kavango Basin in NE Namibia as well as the acquisition of 400 km of 2D seismic data, which in addition to helping define the full exploration and development program in 2021, will also better define the conventional potential of the basin, for which management is growing increasingly confident and encouraged about. Should the Company's upcoming exploration campaign be marked as a success (establishing good source rock), further delineation and appraisal drilling would likely be carried by a JV partner or partners. Farm-out opportunities should present themselves with RECO controlling ~8.75MM acres.

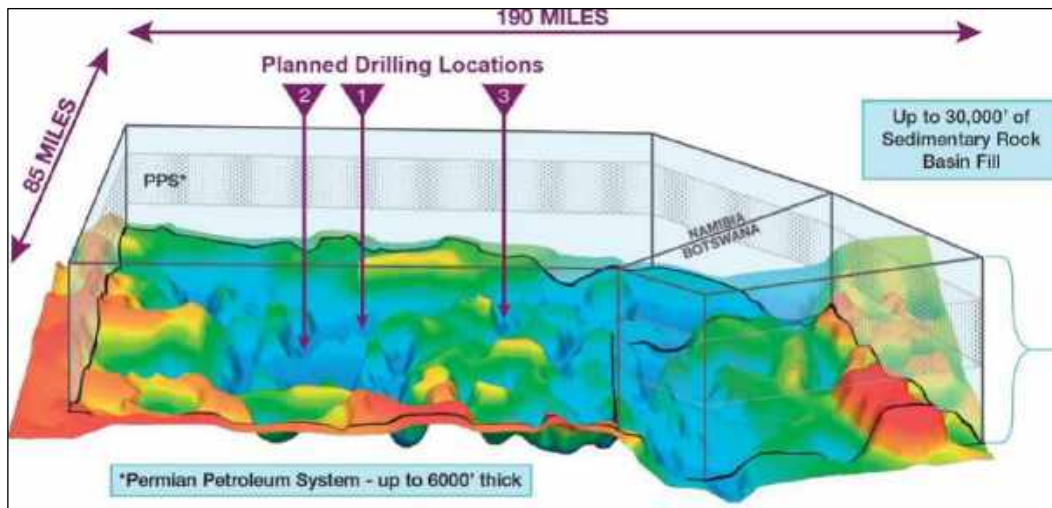
**Early Stage, but All the Necessary Ingredients:** The Company has all the ingredients to establish the existence of a working hydrocarbon system (in a relatively short cycle time) and subsequently evaluate and exploit the potential of the Kavango Basin. These include a fully funded three well program, 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. In our view, the most notable endorsement to date is from Bill Cathay, CEO of Earthfield Technologies, who completed the entire survey interpretation of the Kavango Basin (PEL 73) and stated *"Nowhere in the world is there a sedimentary basin this deep that does not produce commercial hydrocarbons"*. That said, a significant amount of work lies ahead to demonstrate resource potential (or well-deliverability), well design and to establish type curve expectations before the project can move into early production and full-scale development.

**Buy Ahead of Important Near-Term News Flow:** ReconAfrica is set and funded to deliver important news flow over the next 6 months with the goal to initially de-risk the material resource potential of its license in the Kavango Basin. This starts with the drilling of three back-to-back wells. The aim of the drilling campaign is to establish a working hydrocarbon system as well as conventional play types and prospect types throughout the basin. RECO has received government approvals and permits covering the entire Namibian property authorizing the Company to drill numerous wells, to unrestricted depths, until August 2022.





Figure 3: ReconAfrica's Kavango Basin Drilling Locations

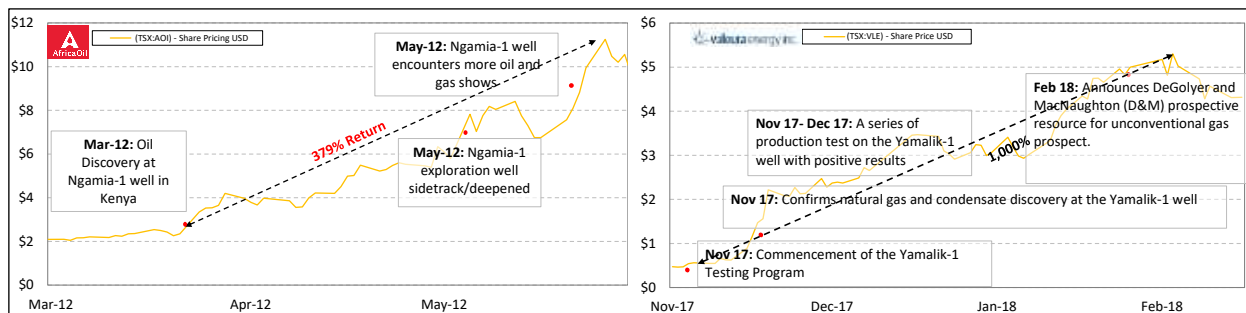


Source: Earthfield Technologies Inc, and Haywood Securities Inc

With support from new extended, high density aero-magnetic survey and Halliburton's advanced LithoTech® structural modeling technology, the Company has grown increasingly more confident about the conventional potential of the basin. On success, results should be reflected in subsequent resource assessments with growth not only in prospective but, commercially more viable, contingent and reserves.

**Value Creation Through Material Exploration Success:** ReconAfrica has the opportunity to significantly de-risk the play in a short period at a minimal cost. High risk/reward exploration plays can surprise the market with sharp share price reactions on discovery success or the anticipation of success. We outline examples below where an initial oil discovery during the exploration phase delivered between 380-1,000% upside. While RECO's stock has performed well since the summer (following equity financing and increased market profile), we believe the upcoming exploration program and results has the potential for material near term upside.

Figure 4. Value Creation Through Material Exploration Success



Source: Company Reports, and Haywood Securities Inc

**Takeout Potential.** Although the Company's value is not predicated on a liquidity event and this is not the path that management has set forth for the Company, we believe on further de-risking, the scale of the Kavango Basin has the potential to attract big company interest, and positions the Company as a strong takeout candidate.



## 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 \$2.50/share, we have risked this upside potential by 6%, compared to the 3.3% chance of commerciality set out in the 2020 Sproule report. More recently, noted source rock expert Dan Jarvie has estimated that the basin is capable of generating 100 Billion+ barrels of oil.

Figure 5: 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>	Risked US\$MM	Risked C\$/share <sup>5</sup>	
<b>Exploration Assets</b>								
Kavango Basin - Unconventional-oil only								
	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>6%</b>	<b>\$334</b>	<b>\$2.50</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 discovery and risk of development; CoC = CoSD\*CoD, or 14%\*45%=6%  
(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 6: 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	\$0.13	\$0.14	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	\$0.30	\$0.32
50	\$0.07	\$0.15	\$0.22	\$0.30	\$0.37	\$0.45	\$0.52	\$0.59	\$0.67	\$0.74	\$0.82	\$0.89	\$0.97	\$1.04	\$1.12	\$1.19	\$1.26	\$1.34	\$1.41	\$1.49
100	\$0.21	\$0.43	\$0.64	\$0.85	\$1.07	\$1.28	\$1.49	\$1.71	\$1.92	\$2.13	\$2.35	\$2.56	\$2.77	\$2.99	\$3.20	\$3.41	\$3.63	\$3.84	\$4.05	\$4.27
250	\$0.43	\$0.87	\$1.30	\$1.74	\$2.17	\$2.61	\$3.04	\$3.48	\$3.91	\$4.35	\$4.78	\$5.22	\$5.65	\$6.08	\$6.52	\$6.95	\$7.39	\$7.82	\$8.26	\$8.69
500	\$1.08	\$2.15	\$3.23	\$4.31	\$5.39	\$6.46	\$7.54	\$8.62	\$9.70	\$10.77	\$11.85	\$12.93	\$14.01	\$15.08	\$16.16	\$17.24	\$18.32	\$19.39	\$20.47	\$21.55
700	\$1.43	\$2.86	\$4.29	\$5.72	\$7.15	\$8.58	\$10.01	\$11.44	\$12.87	\$14.30	\$15.73	\$17.16	\$18.59	\$20.02	\$21.45	\$22.88	\$24.31	\$25.74	\$27.17	\$28.60
925	\$1.59	\$3.18	\$4.77	\$6.36	\$7.94	\$9.53	\$11.12	\$12.71	\$14.30	\$15.89	\$17.48	\$19.07	\$20.66	\$22.24	\$23.83	\$25.42	\$27.01	\$28.60	\$30.19	\$31.78
1,050	\$2.03	\$4.06	\$6.09	\$8.12	\$10.15	\$12.18	\$14.21	\$16.24	\$18.26	\$20.29	\$22.32	\$24.35	\$26.38	\$28.41	\$30.44	\$32.47	\$34.50	\$36.53	\$38.56	\$40.59
1,200	\$2.40	\$4.80	\$7.21	\$9.61	\$12.01	\$14.41	\$16.81	\$19.22	\$21.62	\$24.02	\$26.42	\$28.83	\$31.23	\$33.63	\$36.03	\$38.43	\$40.84	\$43.24	\$45.64	\$48.04

Source: Haywood Securities Inc.



## Near Term Catalysts for the Stock

ReconAfrica is moving into a phase of significant news flows that includes test results of three back-to-back explorations wells in mid H1/2021. The first well (6-2) is intended to establish the presence of a working hydrocarbon system, with an expected spud date of late December 2020. The second well is intended to test the deeper part of the formation, while the third well of the program will test shallower conventional traps. The team plans to announce results of the three well program in a single press release in late March (early April). Although this could slow news flow as each well is drilled and evaluated, we view this approach as logical given each well is designed to test conventional play types, providing the Company and the market with a balanced set of data. In the near term, the Company is on target to mobilize its rig (Jarvie-1) to Namibia in the next couple of weeks, which overlaps with an important and very well attended American Petroleum Institute (API) Energy conference on November 10. Looking ahead, with the team positioning themselves as leaders in understanding the basin, and on success, Given the scale of the 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, with discussions expected to begin in late Q2/21.

Figure 7: Upcoming New Flow

	2020E		2021E		
	Q3/20	Q4/20	Q1/21	Q2/21	H2/21
Completed					
Ongoing					
Planned					
\$23 MM Financing					
American Petroleum Institute Conference					
Rig Completion/Mobilization					
400 km 2D Seismic					
6-2 Well			Drill/Evaluated		
Drill #2			Drill/Evaluated		
Drill #3				Drill/Evaluated	
JV/Farm-out Opportunities					JV/Farm-out Discussions

Source: Company Reports, Haywood Securities Inc.





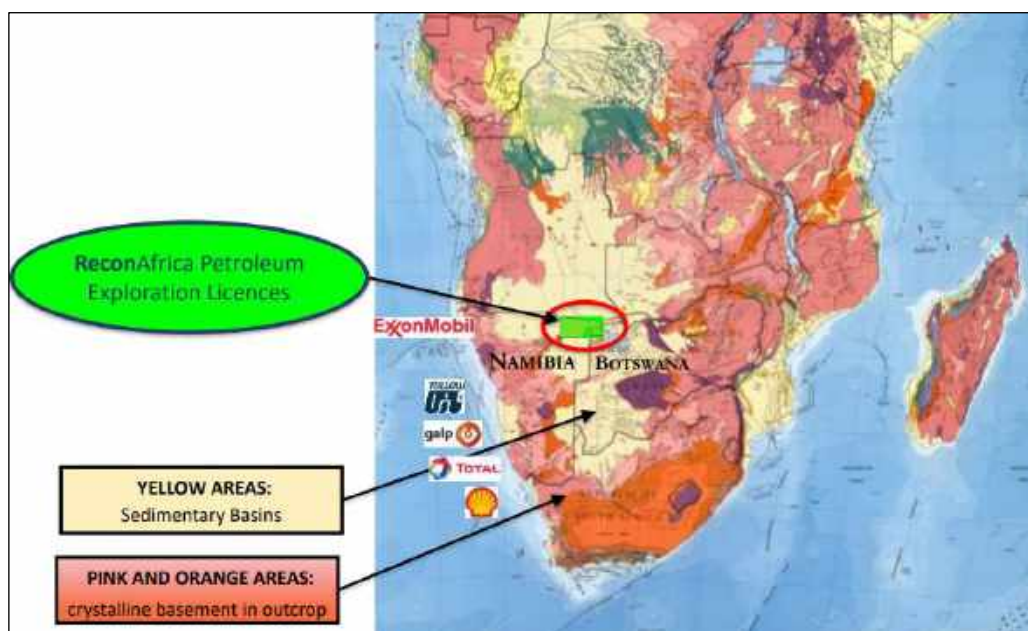
## Company Overview – Small Company with a Large Footprint

The Company was largely assembled (both people and mineral rights) by Craig Steinke back in 2013, after under the umbrella of his predecessor company, Reconnaissance Energy Corp (REN) was granted a 90% interest in exploration rights covering 6.3 mm acres in the northeastern portion of Namibia. The events leading up to receiving the grants can be summed up as nothing short of serendipities. Looking for his next venture, Craig Steinke purchased an IHS Markit worldwide shale study with the goal of identifying prolific source rock, with the help of Daniel Jarvie and four other international geologists, and uninhibited by geography, they landed on northeast Namibia.

Based on a previously drilled stratigraphic well (ST-1) drilled by Etosha Petroleum in 1964, and the acquisition and subsequent interpretation of high-resolution aeromagnetic data, ReconAfrica identified the Kavango Basin, and quickly snapped up the mineral rights to the entire basin covering 6.3MM acres (similar size of the Eagle Ford) in 2014.

With global crude prices selling off in 2015-2017 and the closure of capital markets and access to capital drying up, the project was shelved until 2019 when the Company went public under a reverse takeover transaction with Lund Enterprises Ltd, and shareholders of 1163631 BC Ltd, and subsequent name change to Reconnaissance Energy Africa Ltd., or ReconAfrica in August 2019. In June 2020, the Company was granted an adjacent petroleum license in northwestern Botswana for 2.45MM acres, taking the total licensed area to 8.75MM acres.

Figure 8: ReconAfrica's Kavango Basin Location



Source: Company Reports, and Haywood Securities Inc.



### Seasoned Executive and Technical Team

From prior experience of unlocking and creating value in other entities, ReconAfrica has assembled a management and technical team with over 150 years of combined experience developing both conventional and unconventional plays around the world, with ~40 years of direct experience in Africa.

Based on SEDI filings, management and the board of directors own ~4.14 MM common shares, equating to ~4% of the Company's total common shares outstanding. Founders and early investors own 17.32 MM common shares (16% of total common shares outstanding), and 3.39 MM dilutives, which equates to ~5% warrants/options, or ~12% of total dilutive shares outstanding. Below we highlight members of the management and board, with full biographies of the technical team in the Appendix.

**Figure 9: ReconAfrica: Insider Ownership Summary**

MANAGEMENT					
Name	Position	Background	Share Ownership	Warrant/Options	Total
Scot Evans	CEO	Mr. Evans has over 35 years of experience in the energy industry. He has previously worked with Exxon, Landmark Graphics and most recently Halliburton's which he served as Vice President for.	76,595	1,176,595	1,253,190
Carlos Escribano	CFO	Mr. Escribano has over 14 years of experience in senior-level financial management to which he formerly served as CFO for a publicly traded, multi national corporation in the resource sector.	100,000	600,000	700,000
Nick Steinsberger	SVP, Drilling & Completions	Mr. Steinsberger brings over 32 years of experience in petroleum engineering, drilling and completions, production and surface facilities. Previously, he held positions at Mitchell Energy and Steinsberger Gas Consulting.	200,000	1,200,000	1,400,000
Doug Allen	SVP, Investor Relations	Mr. Allen has over 38 years of experience in the investment industry. Most recently, he has focused his skills to the natural resource development industry to which he acts as the primary liaison between broker-dealer and asset management industries.	752,000	1,252,000	2,004,000
Anna Tudela	Corporate Secretary & CCO	Ms. Tudela has over 30 years of experience working with public companies in the securities and corporate finance industry, both in Canada and the United States. She was formerly Vice President and Corporate Secretary of Goldcorp.	14,706	314,706	329,412
<b>Management Total Ownership</b>			<b>1,143,301</b>	<b>4,543,301</b>	<b>5,686,602</b>
<b>Management Total as a %</b>			<b>1%</b>	<b>6%</b>	<b>3%</b>
BOARD OF DIRECTORS					
Name	Position	Background	Share Ownership	Warrant/Options	Total
Jay Park	Chairman & Director	Mr. Park has over 35 years of experience in advising on oil and gas projects. He has advised oil companies, governments, state oil companies and investors on upstream oil and gas transactions, contracts, laws and regulations in over 50 countries.	3,000,271	1,450,000	4,450,271
Shiraz Dhanani	Director	Mr. Dhanani has over 40 years of experience in working with major oil companies, including BP and ExxonMobil.	0	350,000	350,000
James Granath	Director	Mr. Granath spent 18 years with Conoco Inc. providing research in international exploration and new ventures. Subsequently he has advised companies on structural geology and tectonics.	0	550,000	550,000
<b>Board Total Ownership</b>			<b>3,000,271</b>	<b>2,350,000</b>	<b>5,350,271</b>
<b>Board Total as a %</b>			<b>3%</b>	<b>3%</b>	<b>3%</b>
<b>Company Total Outstanding</b>			<b>4,143,572</b>	<b>6,893,301</b>	<b>11,036,873</b>
<b>Total Insider Ownership as a % <sup>1</sup></b>			<b>4%</b>	<b>10%</b>	<b>6%</b>
MAJOR SHAREHOLDERS					
Name			Share Ownership	Warrant/Options	Total
Craig Steinke	Founder of ReconAfrica. Presently CEO, and Director of Renaissance Oil Corp		9,986,229	2,200,000	12,186,229
<b>Total as a %</b>			<b>9%</b>	<b>3%</b>	<b>7%</b>
David Elliot	Early shareholder of ReconAfrica		7,338,916	1,189,975	8,528,891
<b>Total as a %</b>			<b>7%</b>	<b>2%</b>	<b>5%</b>
<b>Company Total Outstanding</b>			<b>17,325,145</b>	<b>3,389,975</b>	<b>20,715,120</b>
<b>Total Insider Ownership as a %</b>			<b>16%</b>	<b>5%</b>	<b>12%</b>

Source: Company Reports, Haywood Securities Inc.

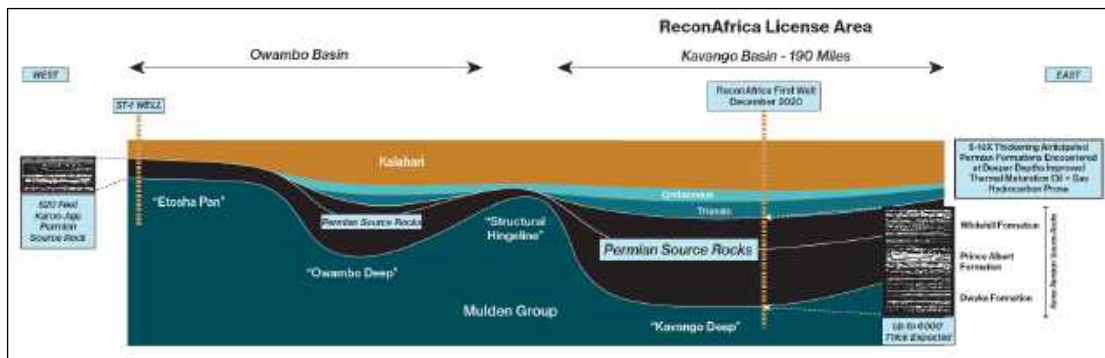


## The Asset: Proving-up the Kavango Basin – This Could be Big

With no previous drilling on the Company’s property or seismic survey data, the team relied on learnings from the aforementioned ST-1, which was drilled ~375 km west of the Company’s property. The well was drilled in the Owambo Basin and intersected similar deposits to the Permian Whitehill formation in the Main Karoo Basin in South Africa (Shell operated, not producing) and logs document the presence of ~620 ft of Permian aged source rock, but thermally immature given the relatively shallow depths 1,500-meter (5,000 ft).

ReconAfrica’s geologic interpretation of the ST-1 well, in addition to the interpretation of acquired aeromagnetic data shot across the Company’s licenced area, the immediate observation was the Kavango Basin should see a significant thickening in the Permian sequence, setting up numerous play types. Due to the thermal maturity, the Company believes it has discovered a very deep, ~9,100-meter (~30,000 ft) oil prone basin with up to ~1,800 meters (~6,000 ft) of Permian sequence.

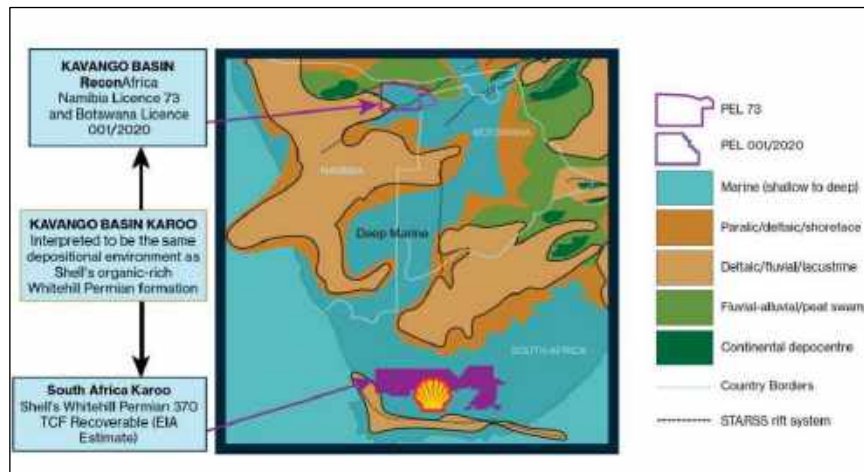
Figure 10: Mapping of the Owambo and Cross-section of ReconAfrica’s Kavango Basin



Source: Company Reports, Haywood Securities Inc.

ReconAfrica is targeting equivalent source rock to the hydrocarbon prone unconventional deposits within the Karoo Group of the Main Karoo Basin in South Africa. The main producing zones within the Karoo Basin are the Prince Albert, Whitehill and Collingham, and all the Lower Permian Ecca Group. Currently the Permian Whitehill formation is expected to be the most favourable target given its high total organic content (TOC) of up to 14% and EIA estimates of recoverable gas of 370 Tcf.

Figure 11: Regional Karoo Permian Seaway (ReconAfrica geological interpretation)

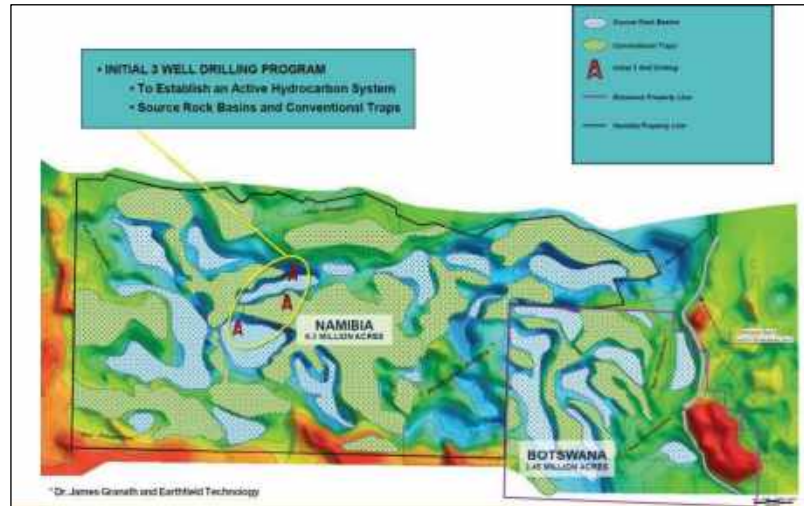


Source: Company Reports, Haywood Securities Inc.



**Conventional Traps:** With regional work completed, the technical team has been able to identify and confirm reservoir elements (rift faulting, dept and floor) that are responsible for development potential conventional traps. This work builds on the source rock potential previously identified, and following conversations with the team, should they be successful the basin will likely evolve in a similar way to other major global basins, specifically, exploitation of conventional opportunities will be prioritized. The potential conventional accumulation will be further defined and tested with the upcoming exploration wells.

Figure 12: Play Concept Map



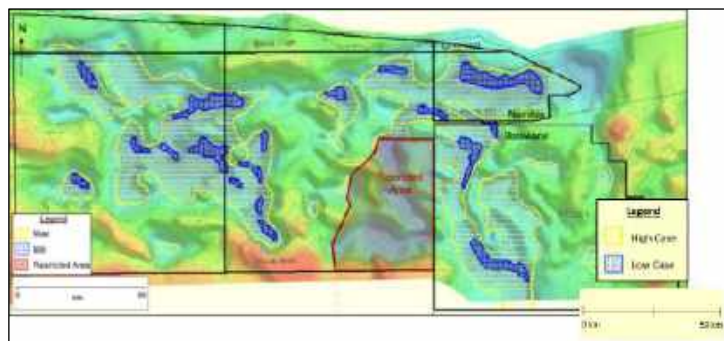
Source: Company Reports, Haywood Securities Inc.

### Sproule Resource Assessment

In 2018, ReconAfrica engaged Sproule to provide an NI 51-101 compliant resource report that underlined the estimate of the prospective resource potential within the Company’s assets in northeast Namibia (PEL 73). Given the Kavango Basin is in the early conceptual stage of maturity and preciously untested, Sproule relied on analogue data obtained from different sources, including using RECO’s interpretation of aeromagnetic data, as well as relying on strip logs from the ST-1 well. In late July 2020, Sproule built on the results and conclusions from the 2018 report by including estimates of the prospective resource in Botswana.

Using the Company’s interpretation of the aeromagnetic data, Sproule estimated the area ranges seen in Figure 13 below. The deepest parts of the basin (dark blue colour) were assumed to be the low case, and the yellow outline regions represents the high case. It’s worth noting, the low case (P90) only surveyed ~224 km<sup>2</sup>, while the high estimate (P10) covered an area of 7,030 km<sup>2</sup> (~20% of the licensed area), and the best case (P50) covered an area of ~2,742 km<sup>2</sup> (~8% of the licenced area), with recovery factors ranging from 2%, 7%, and 14% on a P90, P50, and P10 basis respectively.

Figure 13: High and Low Case for Area Size Estimates for Namibia and Botswana Licence Area



Source: Sproule, and Haywood Securities Inc.



Sproule determined based on a range of reservoir parameters (gross reservoir thickness, porosity, gas-to-oil saturation, and recovery factor) that the gross un-risked prospective resource to be on the low end at ~14.5 mmbbls to ~2.4 Bn bbls on the high end, including 0.9 Tcf of gas on the low end and 110 Tcf of gas on the high end. The net best estimate (P50) prospective recoverable resource was underlined with potential of ~1.3 Bn barrels and ~54 Tcf of gas within the area ranges assumed above (net).

The bottom line here is the potential of the Kavango Basin in Namibia as assessed by Sproule is large and in similar size to the Eagle Ford, both in terms of size and recoverable resource. However, unlike the Eagle Ford which has scores of producers, the Kavango Basin in Namibia is controlled by just ReconAfrica, leading to potential to generate significant value and material production should a discovery be made.

**Figure 14: Unrisked Prospective Recoverable Resource (net)**

Area	Fluid Type		Low (P90)	Mean (P50)	High (P10)
Namibia Blocks	Light Oil	mmbbl	8.1	831.2	1,539.8
	Gas	Tcf	0.5	35.8	71.2
Botswana Block	Light Oil	mmbbl	6.4	424.8	858.9
	Gas	Tcf	0.4	18.4	39.1
Total	Light Oil	mmbbl	14.5	1,256.0	2,398.7
	Gas	Tcf	0.9	54.1	110.3

Note: The company's interest in the Botswana block are shown at 100%, representing the working interest as of June 30, 2020. On June 10, 2020, RECO entered into a farmout option with ROE, whereby ROE has the option to acquire a 50% working interest in the Botswana lands. If this option is exercised it would reduce RECO's working interest to 50%.

Source: Sproule, Haywood Securities Inc.





## Namibia 101 – A Great Place to Explore for Oil & Gas

Namibia is largely a desert region with a long coastline on the South Atlantic, bordering South Africa, Botswana, and OPEC member Angola (productive capacity of 1.45 MMbbl/d) to the north. The country's mineral resource and small population of about 2.5MM (2019) have shaped an upper-middle income country. Although, the country is ranked as the driest in sub-Saharan Africa, receiving just ~17 inches of rainfall annually since 2007, the Kavango Basin is a region of the country that contains high-yielding, very productive aquifers.

The country's economy is heavily dependent on the tax revenue generated primarily from exporting commodities in a few vital sectors, including minerals, especially diamonds, and to a smaller extent, livestock, and fish. Namibia's top energy sources are petroleum and hydro, with the country's own internal sources supplying less than one-third of its needed requirements. While there is currently no hydrocarbon production in the country, oil and gas development is an area that the government is actively courting. According to the Ministry of Mines and Energy (MEM) finding oil and gas and the creation of a flourishing oil and gas industry will result in important tax revenue and help change the economic landscape of Namibia, while creating well-paying local employment.

Shortly after gaining its independence from South Africa in 1990, Namibia passed the Petroleum (Exploration and Production) act in 1991 which paved the way for exploration licenses to be granted. Initially adopting a system of licensing rounds in 1991 and 1995, the government moved to an open round system allowing interested parties to bid for mineral licenses at any time. This led to successfully attracting a score of smaller exploration companies which has benefited the sectors available data through conducting seismic surveys, as well as rapidly improving technology, which has reduced exploration risk. The country has been able to attract several major international oil companies like BP, Exxon, Shell, Total, and Tullow, which have been active in the country's offshore exploration licenses.

Political stability and a developed financial and banking system and BB+ credit rating (Fitch) help make Namibia a relatively benign market for foreign investors. In addition, the country has a well-developed framework for governing the oil and gas upstream sector. The industry is primarily regulated by the Petroleum (Exploration and Production) Act and administered by the Minister of Energy and Mines (MEM). The government has a main policy objective of 1) promoting of petroleum activities in the country; 2) creating a favourable investment climate and to ensure that petroleum security of supply is achieved; 3) to ensure the sustainable development of oil and gas; and 4) to promote investment in the oil and gas sector at all levels; and 5) encourage collaboration between existing license holders to carry out JV exploration programs; and 6) facilitate private sector investments, and support the development of necessary expertise in the exploration and development of the country's oil and gas resources.

**The Kudu offshore gas discovery:** The most well-known discovery is the Kudu gas field discovered offshore Namibia in 1974. Over the years, the license has been held by a number of companies including Shell, Chevron, Tullow, and Energy Africa. In 2017, BW Kudu (subsidiary of BW Offshore) entered into a Farm-Out agreement for 56% with Namcor holding the remaining 44% stake. Options to commercialize the field have primarily centered around a gas-to-power project which has long been delayed as a result of failing to secure offtake agreement with buyers. The project was seen as a central part of the country's plans to reduce dependence on imported electricity, which accounts for ~70% of energy consumed in the country. In late 2019, project proponents confirmed that they were still committed to the development of the project, noting the upstream costs required to develop the project have declined due to technological advancements. Still, the project is shelved until a new private investor are unearthed.

### Attractive Fiscal Terms

Due to the proven and prospective resources base in Namibia, the upstream sector could have the potential to make significant contributions to the country's GDP. With oil and gas of strategic importance to the nation, particularly with regard to potential revenues that accompany development, and given the relatively early stage of Namibia's resource development, the MEM has established very favourable fiscal terms to attract foreign investment and to be fiscally competitive in the face of US\$40/bbl oil.

**Tax & Royalty concession:** In Namibia, should ReconAfrica's exploratory program results in a commercial discovery of oil or gas, the Company is entitled to obtain a 25-year production license, which should be granted 6 months after the date of application. Under the terms of the license agreement, there is a 5% royalty on gross revenues, along with a corporate income tax rate of 35%, with an additional profits tax payable after the Company's after-tax IRR exceeds 15%, 20%, and 25%.







The Petroleum Act in Namibia stipulates that the MEM may grant petroleum licenses having a duration comprised of three periods, namely 1) initial period of 4-years, 2) First renewal period of 2-years, 3) Second renewal period of 2-years, with each renewal period eligible to be extended by the company for an additional year.

Similar to Namibia, the fiscal regime in Botswana is globally competitive. The licensing process in the country is administered by the Botswana Petroleum Act and similar to Namibia moves through an initial 4-year exploration period with up to three renewal period for an additional 10-years. Should a commercial discovery be made, RECO holds the right to enter into a production licence with an initial term of 25-years with the potential for a 20-year extension depending upon the expected work program and resource life of the field. So, there is potential for over 40 years of production life. Royalties are subject to negotiation but are expected to range from 3% - 10% of top line revenue, which is subject to a single flat corporate tax rate 22%.

### Work Commitments for PEL 73

Last December, ReconAfrica announced that the MEM had approved the license for its first renewal period, which continues to January 25, 2022, which can be extended to January 29, 2023. Under the terms of the agreement, a minimum work commitment comprised of the drilling and exploration of stratigraphic wells and 250 km of 2D seismic, with a total capital expenditure of US\$10MM plus an additional US\$50 k in social programs for the education and training of Namibians. The Company’s H1/21 program will largely fulfill this commitment.

A second renewal exploration period can be applied for which stipulates a similar work and social program to the first renewal period. This would extend the Company’s exploration by two years (January 29, 2024), which can be extended by application for an additional year.

Under the terms of the agreement with the National Petroleum Corporation of Namibia (NAMCOR), the NOC’s 10% interest is carried during the exploration phase, but it will contribute fully from the development phase onward. It is our view, should a discovery be made, the long-term development of the project is likely to be carried out by a larger company, with RECO potentially taken out before this point is reached.

### Local Markets and Infrastructure

Currently Namibia does not yet produce any oil and there is no refining capacity and therefore imports all of the countries refined products from South Africa through the Port of Walvis Bay, although that could change with a planned oil storage facility and refining capacity at the port city, which will become the primary delivery point for commercial crude. First oil will be initially trucked ~225 km (~140 km) to a rail loading terminal in Grootfontein, where rail access to Walvis Bay is available.

Figure 18: Local Markets and Infrastructure



Source: Company Reports, Haywood Securities Inc.

As highlighted from the picture 1 below, which shows the drill location 6-2 being prepared for a late December spud, the topography of the Kalahari Dessert is relatively flat with only scattered drought-tolerant shrubs and short grasses. Planned drilling under PEL 73 is not located along the banks of the Okavango River in the north, which is protected from oil and gas exploration. The other pictures (2,3) highlight highway conditions that show a combination of good gravel and paved road leading right up to the Company’s licensed area, so there should not be any significant issues in bringing in the rig or vehicles that are required to support drilling crews.



Figure 19: Ideal Conditions for Exploitation



Source: Company Reports, 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.

**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.



## Appendix 1: Technical Team Biographies

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### Daniel Jarvie

Mr. Jarvie is a leading analytical and interpretive organic geochemist, evaluating petroleum systems around the world. Most notably, he worked with Mitchell Energy completing geochemical analysis in the development of the Barnett formation of the Fort Worth Basin, in Texas. Mr. Jarvie is also a retired Chief Geochemist from EOG Resources and is the current President of Worldwide Geochemistry, LLC, currently working as a consultant to the industry.

### Bill Cathey

Mr. Cathey has over 25 years of potential fields interpretation experience and is the current President and Chief Geoscientist of Earthfield Technology. His clients include Chevron, ExxonMobil, ConocoPhillips and other major and large independent oil and gas companies. Most recently, Mr. Cathey performed the entire magnetic survey interpretation of the Kavango Basin for ReconAfrica.

### Dale Mitiska

Mr. Mitiska has over 30 years of experience in the diversified geological and operational industry and he is devoted to the prospecting and development of oil and gas reserves throughout Canada and the United States. Mr. Mitiska has an extensive background in the evaluation and description of horizontal source rock oil resources plays throughout North America, which include the Williston Basin/Bakken, the San Juan, the DJ Basins, the Niobrara, and the Barnett Fields.

### Ansgar Wanke

Dr. Wanke has over 20 years of experience in regional mapping, geochemistry, hydro and engineering geology, sedimentology and seismic stratigraphy. In 2008 he joined the University of Namibia's geology department, which he reviewed and designed geology curriculum and headed the department from 2012 to 2015.

### James Granath

Dr. Granath is a Director of ReconAfrica and a member of the company's technical team. His expertise lies in seismic interpretation and integration with structural analysis, fracture analysis, regional synthesis, and prospect and play evaluation.

### Shiraz Dhanani

Mr. Dhanani is a Director of ReconAfrica and his 40 years of experience with major oil companies, include BP and ExxonMobil, and is concentrated in new country access with a strong focus in Africa.



## Appendix 2: Kavango Basin Review

As part of the teams overall understanding of the Kavango Basin, the Company recently engaged Wood MacKenzie to show how analogous basins have evolved from exploration to development. In doing so, the study provides a useful tool to evaluate what the Kavango Basin evolution may look like, should a commercial discovery be made. From characteristics identified in the Kavango Basin, Wood MacKenzie identified three basins, including the Permian Midland Basin in Texas, the Southern North Sea Basin in the Netherlands/UK, and the Doba Basin in Chad.

Key Takeaways from the report include.

- In line with the team putting emphasis on the conventional resource first, all of the aforementioned basins exploited conventional resource initially, and it is only the Midland Basin where commercial production has more recently occurred from unconventional sources.
- Availability of infrastructure has been the key trigger to the realization of commercial production from the basins, once exploration has proved the potential for commercially viable hydrocarbon accumulations.
- Should the petroleum system in the Kavango Basin mirror that of any of the analogue basins the potential exists to generate significant value and material production.

Figure 19: Summary of Selected Analogous Basins

Basin	Summary of Basin	Factors Analogous to the Kavango Basin	Peak Production (mboe/d) and Year in Brackets	Estimated Overall Development Value (US \$bn) <sup>1</sup>
<b>US - Midland Basin (Permian)</b> "Focus Basin"	The Midland Basin is located in the mature oil producing Permian basin in Texas. This basin has been a prolific production area, with first production commencing in the 1930s from conventional reservoirs. The basin's production first peaked in 1972. Recently, the basin has been at the forefront of the unconventional production the United States.	The development of the basin during the Permian period is analogous to the formation of the Kavango Basin, with a number of sub-basins and intrabasinal highs. The basins also have similar maximum depths to basement at ~30,000 ft.	2 mboe/d (1972) Conventional  3.8 mboe/d (2035) Unconventional	US \$540 bn <sup>3</sup> (oil only)
<b>Netherlands/UK Southern North Sea Basin<sup>3</sup></b>	The southern North Sea Basin is one of the most prolific gas producing areas in the world, with the main phase of its exploration starting in the 1960s. The basin extends from the UK to the Netherlands and the majority of its production comes from the Permian age sandstones.	Rift and shear elements along with the tilted fault blocks seen in the extensional regime in the North Sea are anticipated in the Kavango Basin. In addition to these structural similarities there are further similarities in the age of the basin formation and sedimentary deposition.	2.4 mboe/d (1977)	US \$234 bn
<b>Chad Doba Basin</b>	The Doba Basin is located in the south of Chad and is part of the Cretaceous age Central African Rift Basin. This basin was first explored in the 1970s with commercial production commencing in 2003 once the Chad-Cameroon Pipeline was completed.	There have been similarities noted between the Central African Shear Zone and the Southern Trans African Rift and Shear System, important elements in the formation of the Doba and Kavango Basins, respectively. The Central African Rift Basin is filled by up to 7,500 meters of clastic, similarly to the depth to basement of the Kavango Basin.	0.2 mboe/d (2005)	US \$14 bn

Notes:

(1) Money of the day: historical cashflows as incurred: future cashflows using Wood Mackenzie's assumptions at a \$50/bbl long-term Brent oil price.

(2) Refers to estimated oil value only. Midland Basin historical crude oil production derived as a proportion of total Texas crude oil production. Historical operator margin based upon Wood Mackenzie's current assumption of operator margin.

(3)The basin expands into neighbouring geographies, but the majority of hydrocarbon accumulations are in the Netherlands and Up.





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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.

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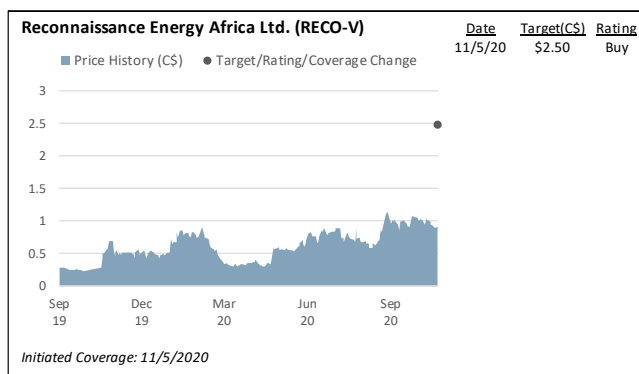
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### Distribution of Ratings (as of November 5, 2020)

	%	#	IB Clients (TTM)
<b>Buy</b>	75.2%	79	90.5%
<b>Hold</b>	4.8%	5	0.0%
<b>Sell</b>	0.0%	0	0.0%
<b>Tender</b>	0.0%	0	0.0%
<b>UR (Buy)</b>	1.0%	1	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	19.0%	20	9.5%

### Price Chart, Rating and Target Price History (as of November 5, 2020)



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

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