

# Torridon E-mail Research Alert



*as of July 15, 2020*

**Company:** **Reconnaissance Energy Africa Ltd.**  
**ReconAfrica Ltd.**

**Analyst:** **Rába Zoltán Tamás**  
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commodities, economics and monetary policy  
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**Country&Currency:** Canada, CAD

**Ticker/Exchange:** RECO:CN / TSX-V

**at the Helm:** **Jay Park QC**, CEO and Director

**Business line(s):** exploring: oil&gas

**on the Net:** <https://reconafrika.com/>

**Rating:** strong **BUY**

**Outlook:** positive

**Last contact:** July 14, 2020; via ZOOM meeting

*Dear Subscribers & Clients,*

# **The next white elephant in Africa: ReconAfrica boosts conventional oil play on increased acreage with heavily improved fundamentals.**

## **Summary of our most recent Analyst Call**

The call targeted the clarification of recent developments regarding the conventional part of the hydrocarbon potential. The most recent news release that we reflected on was the July 7<sup>th</sup> release (see the section for the full story) discussing the completion of the technical evaluation of the conventional structures throughout the entire Kavango Basin in RECO's holdings in both Namibia and Botswana (see the 2020 June 11<sup>th</sup> release). This subsurface evaluation was necessary to finally delineate those large blocks of potential hydrocarbon-bearing structure that RECO will eventually probe in its proposed Q4 2020 three well drill programme.

The objective of that programme is to confirm and provide a first estimate as to the extent of a thick and active, extractable petroleum system throughout the deep Kavango basin. We have also heard that a third Sproule resource estimate technical report is just on its way and can land anytime on the corporate website. Amongst many improvements in the estimate the most important one is that the conventional resource (mid-expectation) in Botswana probably will increase by 1.1 Billion barrels from 5.0 to 6.1 Billion barrels.

This makes the already very bright picture that we have been communicating to you since mid-June even brighter. The most recent (July 7<sup>th</sup>) company presentation (see link later) shows the below potential resource base (next page):

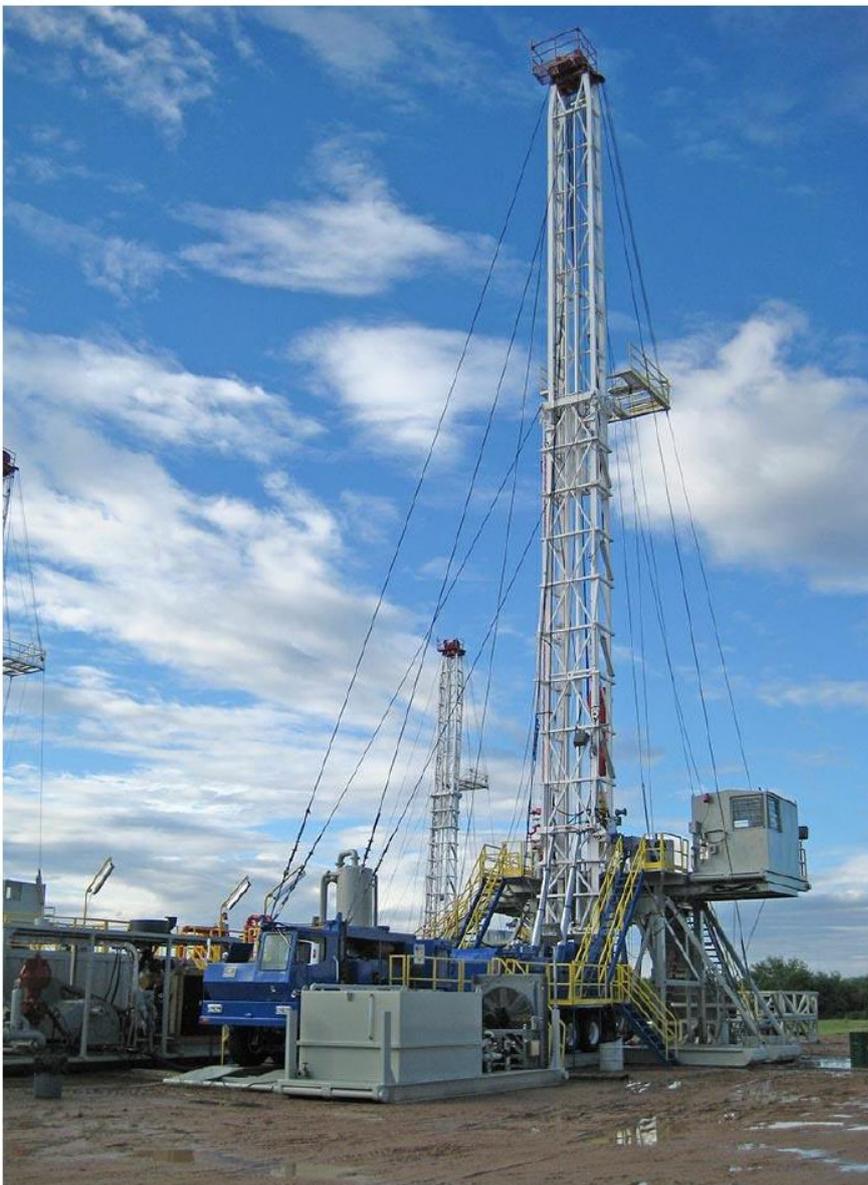
	Namibia Sproule 2018	Namibia New2020 (ReconAfrica)	Botswana New2020 (ReconAfrica)
Un-Conventional	12 BBO in Place	12 BBO in Place	5.0 BBO in Place
Conventional	Work in Progress	10.3 BBO in Place	3.7 BBO in Place
Total Resource	Work in Progress	22.3BBO in Place	8.7 BBO in Place

Now this latest call improved this already shiny picture even more The 5.0 BBO un-conventional Botswana resource estimate seems to have increased to 6.1 BBO. We will send you a note on that asap and it is available next week, probably bundled with other corporate news. Given that the total underlying number combined for both methods and both locations can improve to as high as a tad above 32 Billion barrel of oil in place.

This improvement in the conventional economic base has great significance. In case of a setback in the oil price RECO now has sizeable (14 BBO) conventional resource to serve as an economic puffer as its cost structure is better than that of the unconventional play. Thus it creates a certain safety net for the going concern oil extraction operations planned here.

If the oil price, say for a year, drops to 30 USD, and the AISC of the unconventional reserve is close to that in the upper 20-ies, RECO just scales back on the unconventional part and in turn increases production in the conventional wells. Thus it can fine-tune its cost-mix of crude production to maintain a certain profit margin. Not many oil producers have that pricing advantage. Beyond that the conventional resource is more profitable and more stable to run extraction operations.

We also discussed the planned drill campaign in Q4 of 2020. RECO is in discussion with multiple drill contractors and can reach competitive pricing. Beyond that it also has its own world-class drill rig. It is the Crown 750 drilling rig, a top in the industry machine. What is more: it has never been used yet. Ownership of this rig alone will reduce overall drilling costs by a whopping 60%. We learned that upgrades to the rig are currently being made in Houston. The works got a bit of a beating in terms of time schedule due to the Covid-19 situation. But are still on budget. The shipping to Namibia deadline of end of September can be kept – assured us the company technical team. It is the right rig for the Kavango Basin. It is big enough but still mobile and can drill 12K vertical feet. More than enough here. See the rig below:



Even before the main drill programme begins, this rig can drill initial wells for a couple of hundred feet, the so called “conductors”. Then drilling starts in early November and is scheduled to complete by end of year. In case the drilling proves an active and large petroleum system, the next step is to enter into negotiations into global oil majors active in the region (Exxon, Shell, and Total) in order to eventually form a JV structure with one of them. Then with such backing a heavy drill programme would commence in 2021 that eventually would result in the start of oil and gas extraction in the Basin. So RECO would become a fully matured global oil and gas producer.

Such an outcome, for which we already see an at least 75% probability, would swing the share price to the multi-dollar domain, potentially close or even into the double-digit range. An exactly this high-probability eventuality is the core reason why we recommend to You all to invest and stay in RECO. As it is still well below the 1 CAD mark. Actually still below (early trading on July 15) 90 cents. **So grab this unique opportunity, the next low-cost and quantity global oil producer before it will be priced to fair value. Now it is cheap. Buy it now.**

## **the July 7 news release on the completion of technical evaluation of the Conventional Structures**

July 7, 2020 - Vancouver, BC – Reconnaissance Energy Africa Ltd. (the “Company” or “ReconAfrica”) (TSX-V: RECO) (OTC: RECAF) (Frankfurt: OXD) is pleased to announce the Company has completed a comprehensive subsurface evaluation delineating large scale, prospective conventional hydrocarbon bearing structures, throughout the entire Kavango Basin.

The primary objective of ReconAfrica’s initial three well drilling program, scheduled for Q4 of 2020,

is to confirm a thick, active, petroleum system throughout the deep Kavango basin.

Specifically,

the wells are designed to test organic rich shales and more shallow conventional structures throughout the sedimentary basin.

With support of a new extended, high density Aero-Mag survey and Halliburton’s advanced LithoTect® technology, and other new ancillary data, the Company’s technical team has generated a thorough understanding of how this deep Permian rift basin developed.

Specifically,

the Company has been able to identify the faulting system throughout the basin, responsible for

developing potential conventional fault and stratigraphic hydrocarbon bearing structures.

This

work builds on the unconventional potential previously identified for Kavango Basin. A full documentation of this recent work, including regional maps and more specific play maps, are now available on the Company's website [www.ReconAfrica.com](http://www.ReconAfrica.com). ReconAfrica is a junior oil and gas company engaged in the opening of the newly discovered deep Kavango Sedimentary Basin, in northeastern Namibia and northwestern Botswana where the Company holds petroleum licenses comprising approximately 8.75 million contiguous acres.

## Repository of useful links for the Intelligent Investor

See the **2020 July 07<sup>th</sup> news** release on this link below:

<https://reconafrika.com/wp-content/uploads/ReconAfrica-Press-Release-070720.pdf>

A very detailed and technically-oriented research paper (July, 2020) on ReconAfrica for the ultimate savvy investor (by Mark Heim, CFA):

<https://reconafrika.com/wp-content/uploads/ReconAfrica-Research-Report-July-2020.pdf>

See the **oil project** in the greater **Kavango Basin** in **Namibia** and **Botswana**:

<https://reconafrika.com/operations/kavango-basin/>

The most recent (July 7 updated, 2020) **presentation** on the company that already includes the Botswana expansion and the conventional play:

<https://reconafrika.com/wp-content/uploads/ReconAfrica-Investor-Presentation-070720.pdf>

Academic papers on exploration for oil in Africa:

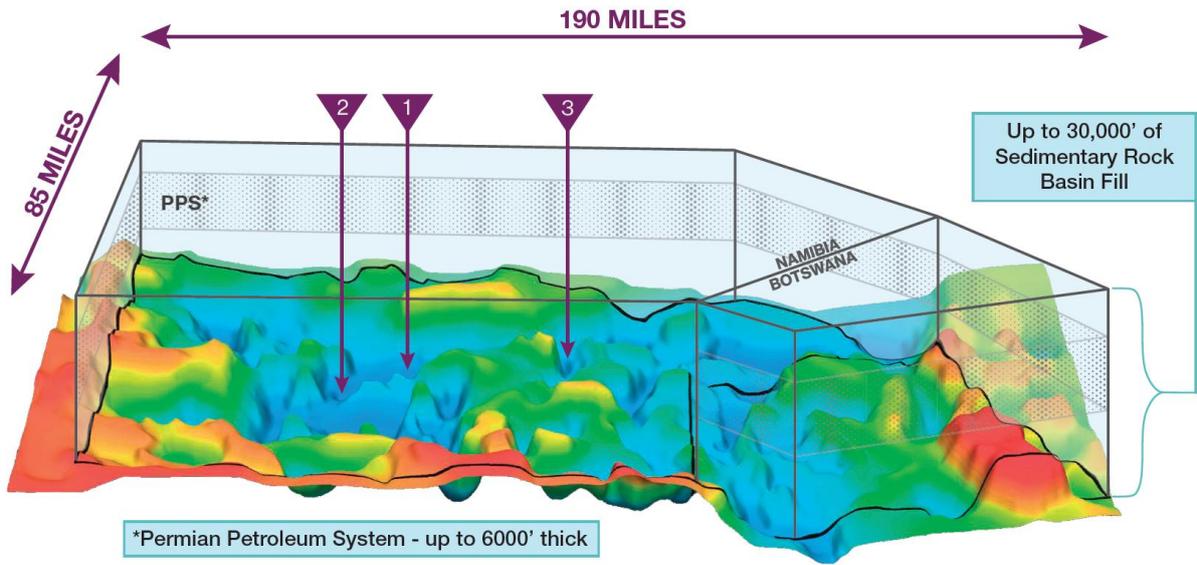
<https://reconafrika.com/operations/academic-reports/>

Technical brief, 5-page PDF:

<https://reconafrika.com/wp-content/uploads/ReconAfrica-Technical-Brief-V21.pdf>

**the wider Kavango Basin isometrics:**

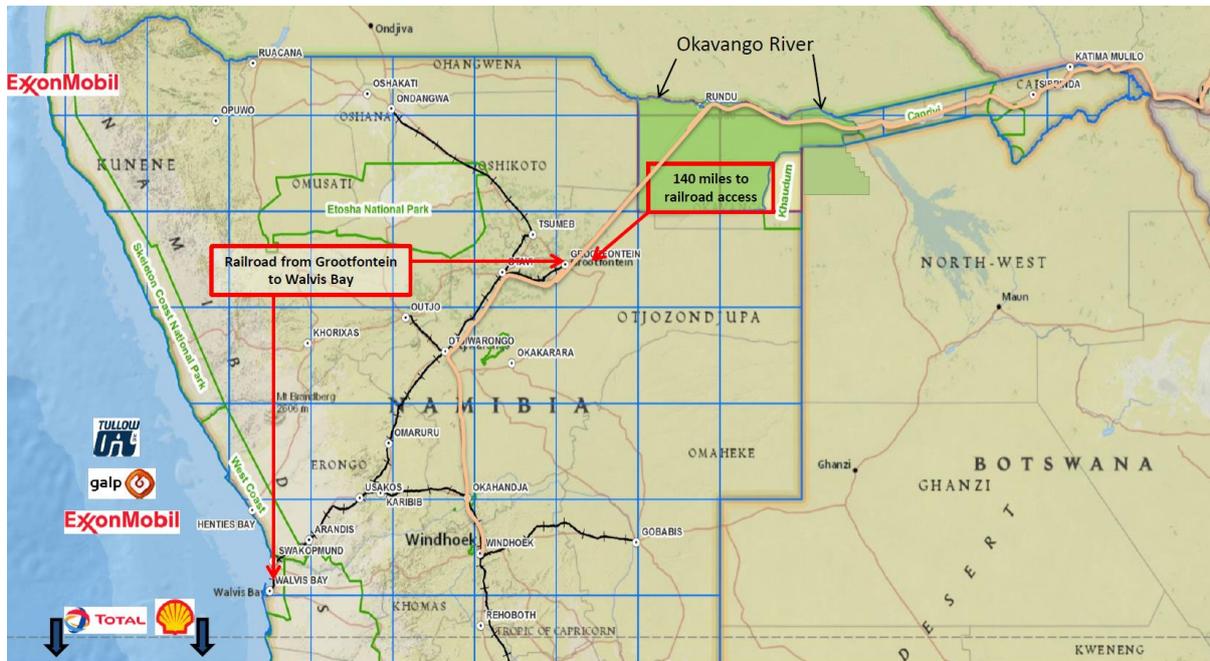
# KAVANGO BASIN



ReconAfrica's Drilling Campaign begins 2020. The main objective is to confirm organic rich shales and conventional opportunities in Namibia and Botswana. ReconAfrica owns 2.45 million acres in Botswana\*, and 6.3 million acres in Namibia, for a total property of 8.75 million acres in the deep Kavango Basin.

\*The Botswana 2.45 million acre permit is subject to a 50% farmout option.

## ReconAfrica's oil exploration concession area in the wider regional and infrastructural setting:



Paved highway runs through License Area to Windhoek

ReconAfrica License Area

## Torridon's house-view

improved from our previous publication of June 29, 2020

The **ReconAfrica** value proposition is absolutely an **above-average investment case** both in the wider resources space and the more specific oil&gas segment. The **business plan** is **solid** and execution is **consistent**. **Management** is very **strong** and all committed. Even more than that: we would risk saying that **any global major**, like Exxon, Shell, Total, etc., **would be** absolutely **delighted** to have such an outstanding management and technical team **RECO** has.

An extra point in my evaluation is the **simplicity of their approach** to a rather complex commodity problem mix. Finding oil deep under the surface and extracting it at a favourable cost-curve. The great Austrian economist, Schumpeter paraphrased: *"simple is beautiful"*. For this and other reasons, the **ReconAfrica** story is a rare beautiful one to me and the entire Commodity Desk at Torridon and beyond.

Possibly the greatest economist ever lived, J. M. Keynes said something like that: *"one may be right on the long-term fundamentally, but dead in the short-term financially"*. That is a piece of fine wisdom about the importance of proper liquidity and financial management. We agree with that so much so that indeed, this mentality is one of the cornerstones in our way of thinking about both our own and other peoples' business. Business that we constantly analyse as a day-today activity as part of our own business.

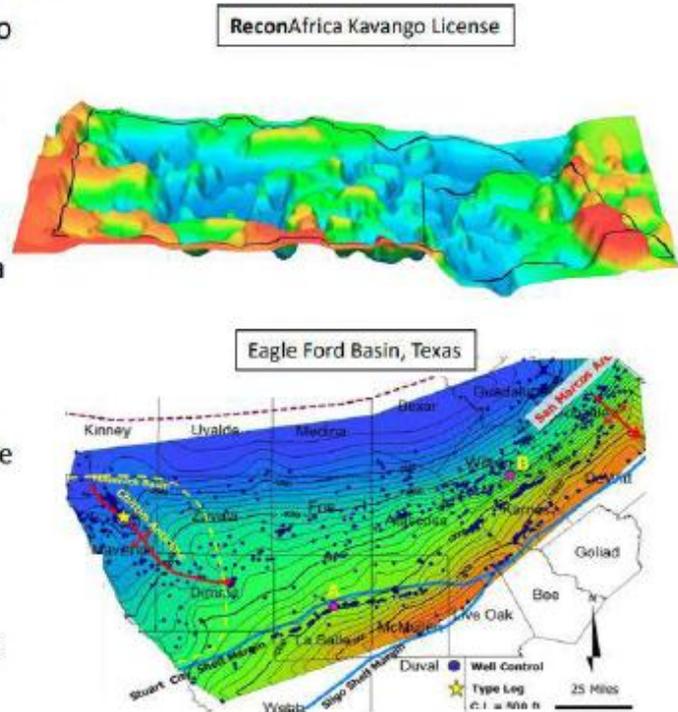
And that is why we give another positive point to **RECO** in our overall evaluation. Their **financial management** is just so **professional**, sensible and consistent. The company **keeps finances** and **processes** in proper **check**. We see so many, anyway great commodity stories, go astray for the lack of such a financial discipline and tradecraft.

**ReconAfrica** also acted in a smart fashion and in mid-June extended its Namibia-based petrochemical holdings in the Kavango Basin further into their natural extension across the border into Botswana. This extension created an combined conventional and shale potential comparable to the area of the world-renowned Eagle Ford shale oil basin in Texas, US and far exceeding it in deposit and thus profit potential:

## Exhibit 21. Kavango vs Eagle Ford

- **ReconAfrica** holds entire Kavango Basin in Namibia with 6.3 MM acres, 25,000 km<sup>2</sup> and 2.45 MM acres, 10,000 km<sup>2</sup> in Botswana
  - Areally larger than the entire Eagle Ford shale (6.9 MM acres)
- Sproule estimate for **ReconAfrica** Kavango rights (Namibia and shale only):
  - OOIP: 12 Billion Barrels, or
  - OGIP: 119 TCF
  - Technically recoverable: yet to be determined
- EIA estimate for Eagle Ford shales:
  - Technically recoverable: 50 TCF gas, 2.4 Billion Barrels oil

OOIP = Original Oil in Place  
OGIP = Original Gas in Place



Source: ReconAfrica

(from the July 2020 edition of "the Elephant in Namibia" research paper by Mark Heim, CFA)

Thus they have more of the already sweet cake. That prompted our further improvement on the corporate value proposition. **ReconAfrica** is thus even more a corporate story that deserves extra and increasing attention on the global emerging commodity scene. It is just that: a quality company that also commands an increasing deposit of quantity. It also sports a dedicated and internationally first-class management and technical team.

They intend to **pull** the **same** business **success** in Namibia and Botswana (the two best states in Africa to do business in, where the rule law and order is a given) with its rich shale oil deposit that similar companies successfully have done in the **US shale scene**. However, Namibia and Botswana are cheaper to operate in, thus opex relative to a barrel can be lower than in the US. Also, more net revenue from a unit of gross stays in the company coffers given the favourable royalty regimes respectively. So, there are **many advantages supporting** the **economics** of the case.

## about the Company

ReconAfrica is a junior oil and gas company engaged in the exploration and development of oil and gas in NE Namibia and NW Botswana—the Kavango Basin. ReconAfrica holds a 90% interest in a petroleum exploration licence in northeast Namibia which covers the entire Kavango sedimentary basin. The exploration licence covers an area of approximately 25,341.33 sq km (6.3 million acres), and based on commercial success, it entitles ReconAfrica to obtain a 25-year production licence. The Kavango Basin offers both large scale conventional and non-conventional play types.

ReconAfrica holds a 100% interest in all petroleum rights in northwest Botswana. This covers an area of approximately 9,921 sq km (2.45 million acres) on a 25-year production licence.

ReconAfrica acquired a high-resolution geomagnetic survey of the licence area and conducted a detailed analysis of the resulting data and other available data, including reprocessing and reinterpretation of all existing geological and geophysical data. The survey and analysis confirm that the Kavango Basin reaches depths of up to 30,000 feet, under optimal conditions to preserve a thick interval of organic rich marine shales and is anticipated to hold an active petroleum system.



## Contact

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