

# Reconnaissance Energy Africa Ltd. (formerly Lund Enterprises Corp.)

Condensed Interim Consolidated Financial Statements

September 30, 2019

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of Reconnaissance Energy Africa Ltd. (formerly Lund Enterprises Corp.) (the “Company”) have been prepared by and are the responsibility of Company’s management.

The Company’s independent auditors have not performed a review of these financial statements.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,635,256	\$ -
Receivables	12,064	-
Prepaid expense	<u>14,277</u>	<u>-</u>
<b>Total Current Assets</b>	<u>2,661,597</u>	<u>-</u>
Exploration and evaluation asset [note 7]	5,586,509	-
Deferred acquisition costs [note 7]	-	208,835
Loan receivable from related parties [note 8]	<u>-</u>	<u>581,754</u>
	<u>5,586,509</u>	<u>790,589</u>
<b>Total Assets</b>	<u>\$ 8,248,106</u>	<u>\$ 790,589</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 313,140	\$ 239,799
Accrued liabilities	204,127	84,545
Promissory notes payable [note 9]	<u>407,270</u>	<u>-</u>
<b>Total Current Liabilities</b>	<u>924,537</u>	<u>324,344</u>
<b>Shareholders' Equity</b>		
Share capital [note 10]	9,184,157	620,185
Warrants reserve	24,348	-
Deficit	(1,890,365)	(153,940)
Accumulated other comprehensive loss	<u>5,429</u>	<u>-</u>
<b>Total Shareholders' Equity</b>	<u>7,323,569</u>	<u>466,245</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 8,248,106</u>	<u>\$ 790,589</u>

**Commitments** [note 11]

**Subsequent events** [note 12]

These financial statements are authorized for issue by the Board of Directors on November 29, 2019.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Period from May 10, 2018 [inception] to September 30, 2018
<b>EXPENSES</b>				
Compensation	\$ 32,548	\$ -	\$ 32,548	\$ -
Listing expense [note 3]	1,095,506	-	1,095,506	2,625
Office and general	5,390	-	5,390	-
Professional fees	122,181	18,189	224,818	18,189
Transaction costs	340,031	-	340,031	-
Loss before the following Other expenses	1,595,656	18,189	1,698,293	20,814
Interest expense	10,120	-	15,423	-
Exchange loss	4,442	2,650	22,709	3,019
	14,562	2,650	38,132	3,019
<b>Loss and comprehensive loss for the period</b>	<b>\$ 1,610,218</b>	<b>\$ 20,839</b>	<b>\$ 1,736,425</b>	<b>\$ 23,833</b>
<b>Basic and diluted loss per common share</b>	<b>\$ 0.06</b>	<b>\$ 0.00</b>	<b>\$ 0.13</b>	<b>\$ 0.00</b>
<b>Weighted average number of common shares outstanding</b>	<b>27,909,600</b>	<b>6,299,997</b>	<b>13,582,400</b>	<b>5,816,084</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

	<u>Share capital</u>		Deficit	Warrant reserve	AOCI <sup>1</sup>	Total share-holders' equity
	Number of shares	Amount				
<b>Balance at May 10, 2018</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of shares	6,299,997	630,000	-	-	-	630,000
Share issue costs	-	(9,815)	-	-	-	(9,815)
Net loss for the period	-	-	(23,833)	-	-	(23,833)
<b>Balance at September 30, 2018</b>	<b>6,299,997</b>	<b>\$ 620,185</b>	<b>\$ (23,833)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 596,352</b>
<b>Balance at January 1, 2019</b>	6,299,997	\$ 620,185	\$ (153,940)	\$ -	\$ -	\$ 466,245
Issuance of shares				-	-	
on reorganization [Note 2]	32,412,418	4,537,739	-	-	-	4,537,739
Issuance of shares on RTO	5,571,804	780,055	-	-	-	780,055
Issuance of shares for cash	17,053,280	3,404,656	-	-	-	3,404,656
Share issue costs – cash	-	(134,130)	-	-	-	(134,130)
Share issue costs – warrants	-	(24,348)	-	-	-	-
Net loss for the period	-	-	(1,736,425)	-	-	(1,736,425)
Accumulated other comprehensive income	-	-	-	-	5,429	5,429
<b>Balance at September 30, 2019</b>	<b>61,337,499</b>	<b>\$ 9,184,157</b>	<b>\$ (1,890,365)</b>	<b>\$ 24,348</b>	<b>\$ 5,429</b>	<b>\$ 7,323,569</b>

Note 1: AOCI stands for Accumulated other comprehensive income.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018

(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

	Nine Months Ended September 30, 2019	Period from May 10, 2018 [inception] to September 30, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$(1,736,425)	\$ (23,833)
Items not involving cash		
Listing expense	1,095,506	-
Interest expense	15,423	-
Changes in non-cash working capital items:		
Receivables	(1,698)	-
Prepaid expenses	11,690	-
Accounts payable	(84,557)	22,925
Accrued liabilities	22,725	18,189
Net cash provided by (used in) operating activities	<u>(677,336)</u>	<u>17,281</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash acquired in RTO	2,442	-
Acquisition of the Reconnaissance subsidiaries	<u>27,209</u>	<u>-</u>
Net cash provided by investing activities	<u>29,651</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	3,404,656	630,000
Share issue costs	(134,130)	(9,815)
Loan to related party company	-	(434,217)
Deferred restructuring costs	<u>-</u>	<u>(17,110)</u>
Net cash provided by financing activities	<u>3,270,526</u>	<u>168,858</u>
Impact of exchange rate changes on cash	12,415	-
<b>Change in cash during the period</b>	<b>2,635,256</b>	<b>186,139</b>
<b>Cash, beginning of period</b>	<u>-</u>	<u>-</u>
<b>Cash, end of period</b>	<u><b>\$2,635,256</b></u>	<u><b>\$ 186,139</b></u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## **RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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#### **1. Nature and continuance of operations**

Reconnaissance Energy Africa Ltd. (formerly Lund Enterprises Corp.) (the “Company”) was incorporated on June 22, 1978 under the provisions of the Company Act of British Columbia. The Company is in the business of exploring mineral properties. The address of the Company’s corporate office and principal place of business is Suite 300, Guinness Tower, 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

1163631 B.C. Ltd. (“Reconnaissance”), a junior oil and natural gas company with a focus on exploration and development in Namibia, was incorporated under the laws of British Columbia on May 10, 2018. On August 30, 2019 the Company completed the acquisition (the “Acquisition”) of Reconnaissance pursuant to a share exchange agreement dated February 28, 2019 (the “Agreement”). The Acquisition constituted a reverse takeover (“RTO”) (note 3). Upon completion of the Acquisition, the Company changed its name from Lund Enterprises Corp. to Reconnaissance Energy Africa Ltd.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The Company incurred a net loss of \$1,736,425 during the period from January 1, 2019 to September 30, 2019. As set out in Note 3 the Company completed a financing as part of the RTO for gross cash proceeds of \$3,404,656 and as at September 30, 2019 the Company had working capital of \$1,737,060 and a cash balance of \$2,635,256. As set out in Note 12(b), at the issue date of these condensed consolidated interim financial statements the Company is conducting a financing to raise additional cash resources. These elements provide the Company with sufficient resources to conduct planned activities through the next twelve months.

#### **2. Acquisition of Reconnaissance Subsidiaries**

On August 30, 2019 the Company completed the Acquisition of Reconnaissance pursuant to the share exchange agreement dated February 28, 2019. Immediately prior to the Acquisition, Reconnaissance completed a restructuring (the “Corporate Restructuring”) with a group of related companies (“Reconnaissance Subsidiaries”). The Reconnaissance Subsidiaries comprise of 0408861 BC Ltd. (formerly, Reconnaissance Energy Corp) (“040 BC Ltd.”); Reconnaissance Energy International Corp. (“REI”); Reconnaissance Oil & Gas Corporation (“ROG”); and Reconnaissance Energy Namibia Pty Ltd. (“REN”).

Pursuant to the Corporate Restructuring, Reconnaissance the following transactions occurred:

- Reconnaissance consolidated its shares on a 2 to 1 basis, decreasing its issued and outstanding shares from 12,600,001 to 6,299,997;
- The shareholder of 040 BC Ltd. transferred his 040 BC Ltd. shares to Reconnaissance for 7,510,253 shares of Reconnaissance;
- REI shareholders (other than 040 BC Ltd.) transferred their shares in REI to Reconnaissance, for 19,074,063 shares of Reconnaissance; and
- The Company shareholders (other than REI and Reconnaissance) transferred their shares in the Company to Reconnaissance, for 5,828,102 shares of Reconnaissance.

Commensurate with the reorganization, Reconnaissance became the 100% parent of the Reconnaissance Subsidiaries, and has 38,712,415 shares outstanding.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018

(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

**2. Acquisition of Reconnaissance Subsidiaries (cont'd)**

The impact of the Corporate Restructuring on Reconnaissance's statement of financial position was as follows:

<b>Corporate Restructuring</b>	
<b>Net assets acquired</b>	
Cash	\$ 27,209
Prepaid expenses	23,269
Exploration & evaluation asset	5,586,509
Accounts payable	(449,934)
Accrued liabilities	(74,545)
Loan payable to related party	(574,769)
	<u>4,537,739</u>
<b>Consideration paid</b>	
Fair value of common shares issued	4,537,739
	<u>\$ 4,537,739</u>

**3. Reverse take-over**

On August 30, 2019, the Company completed the acquisition of Reconnaissance by way of an RTO transaction.

In connection with the RTO, the following transactions occurred:

- Prior to closing the Transaction, the Company consolidated its issued and outstanding common shares on the basis of one new post-consolidated common share for every two pre-consolidated common shares.
- The Company acquired all of the issued and outstanding shares of Reconnaissance and ultimately issued an aggregate of 38,712,415 post-consolidated common shares to the shareholders of Reconnaissance. There were no issued and outstanding stock options or warrants on the date of the Acquisition.
- As a condition of completing the RTO, the Company completed a financing by way of private placement (the "Concurrent Financing") of 17,053,280 units of its post-consolidated share capital at the price of \$0.20 per unit for total gross proceeds of \$3,404,656. Each unit consisted of one share and one share purchase warrant, each warrant entitling the holder to acquire one additional share at the price of \$0.50 for a five-year term.
- The Company paid finders' fees in respect of subscribers introduced to the Company, which consisted of cash payments in the aggregate amount of \$134,130 and the issuance of 403,350 common share broker warrants (the "Broker Warrants") with a fair value of \$24,348. Each Broker Warrant is exercisable into one common share of the Company at an exercise price of \$0.20 per share until August 30, 2021.

As a result of the Acquisition, Reconnaissance controls the Company and is considered to have acquired the Company. The Company did not meet the definition of a business pursuant to IFRS 3 – *Business Combinations*, and the Acquisition was accounted for as the purchase of the Company's net assets by Reconnaissance. The net purchase price was determined as an equity settled share-based payment, under IFRS 2 - *Share-based Payments*, at the fair value of the equity instruments of the Company retained by the shareholders of the Company, based on the fair value of the Company's common shares issued in the concurrent financing.

The aggregate of the fair value of the consideration paid less the net assets acquired has been recognized as a listing expense in the statements of loss and comprehensive loss. These consolidated financial statements reflect the assets, liabilities and operations of Reconnaissance since its incorporation and of the Company from August 30, 2019.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
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**3. Reverse take-over (cont'd)**

The fair value of the consideration paid and the net assets (liabilities) of the Company as at the date of the Acquisition was as follows:

<b>Purchase price - consideration paid</b>	
Common shares issued	<b>\$ 780,055</b>
<b>Net assets acquired</b>	
Cash	2,442
Prepaid expense	2,698
Receivables	10,366
Accounts payable	(224,100)
Accrued liabilities	(106,857)
	<b>(315,451)</b>
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<b>Listing expense</b>	<b>\$ 1,095,506</b>

**4. Basis of preparation****Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim financial statements do not include all the information and note disclosures required for full annual financial statements.

**Basis of measurement**

These condensed consolidated interim financial statements have been prepared on an accruals basis and are based on historical costs, except for certain financial instruments classified as financial instruments at fair value through profit or loss. These condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

**Principles of consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated upon consolidation.

**Functional currency**

The functional currency and presentation currency of the Company is the Canadian dollar. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates [the "functional currency"]. Determination of the functional currency was conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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**4. Basis of preparation (cont'd)**

**Capital Management**

The Company considers its capital structure to include common share capital, shareholder loans and net working capital (defined as cash, loans receivable less accounts payable and accrued liabilities). The Company's objective when managing capital is to ensure it has the appropriate capital structure to execute its business plan while not creating risk to its ability to operate as a going concern. The Company manages its capital structure and makes adjustments to it based upon the level of funds required to support related entities ROG and REN. To date, external financing has included issuing common shares. Financing by issuing common shares will continue to be considered as the principal future financing option depending upon the related terms and conditions. If market conditions are not believed to be positive for raising equity, and if and when additional outside sources of funding are needed, adjustments may be made to the timing of planned capital expenditures and operating costs may be reduced to the extent possible until those market conditions become acceptable. Management reviews its capital management approach on an ongoing basis.

There were no restrictions on the Company's approach to capital management during the period.

**Use of estimates and judgments**

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates:

[a] Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are the following:

*Share-based payments*

The assumptions used in determining the fair value of share options and finders' warrants granted include judgments in respect of length of service together with share price volatility, dividend, interest yields and exercise patterns. The Company estimates the fair value using the Black-Scholes option pricing model but recognizes that other valuation models could provide differing results. Management believes that the current model provides a fair valuation measure.

*Impairment of exploration and evaluation properties*

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

## **RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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#### **4. Basis of preparation (cont'd)**

##### *Deferred income tax*

Management is required to make estimations regarding the tax basis of assets and liabilities and related deferred income tax assets and liabilities, the measurement of income tax expense, and indirect taxes. A number of these estimates require management to make estimates of future taxable profit, and if actual results are significantly different than estimates, the ability to realize the deferred tax assets recorded on the statement of financial position could be impacted. The Company is subject to assessments by tax authorities who may interpret tax law differently. These factors may affect the final amount or the timing of tax payments.

##### *Functional currency*

The Company's functional currency has been assessed by management with consideration given to the currency and economic factors that mainly influence the Company's business. Specifically, the Company considers the currencies in which its expenses are settled by the Company, as well as the currency in which the Company may receive or raise financing. Changes to these factors may have an impact on the judgment applied in the determination of the Company's functional currency.

#### **5. Summary of significant accounting policies**

The following is a summary of the significant accounting policies followed by the Company in the preparation of these condensed consolidated interim financial statements:

##### **Financial assets and liabilities**

The Company adopted all of the requirements of IFRS 9 – Financial Instruments (“IFRS 9”) as of July 1, 2019. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

##### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018

(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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**5. Summary of significant accounting policies (cont'd)**

(ii) Measurement

*Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and are subsequently carried at amortized cost less any impairment.

*Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

*Debt investments at FVTOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity investments at FVTOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

*Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

*Financial liabilities*

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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**5. Summary of significant accounting policies (cont'd)****Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and each of its subsidiaries is the Canadian dollar, except for ROG and REI which have a functional currency of the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gain and losses are included in profit or loss.

**Exploration and evaluation assets**

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized on a property by property basis. The Company capitalizes the costs of acquiring, maintaining its interest in, exploring and evaluating oil and gas and mineral properties until such time as the lease expires, it is abandoned, sold or considered impaired in value. Exploration and evaluation properties are not amortized during the exploration and evaluation stage. At each reporting date the carrying amounts of the Company's exploration and evaluation assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. The exploration and evaluation phase of a particular project is completed when both the technical feasibility and commercial viability of extracting oil or gas are demonstrable for the project or there is no prospect of a positive outcome for the project. Exploration and evaluation assets with commercial reserves will be reclassified to development and production assets and the carrying amounts will be assessed for impairment and adjusted (if appropriate) to their estimated recoverable amounts. If commercial reserves are not discovered or the project is abandoned, the exploration and evaluation asset is written off in the consolidated statement of loss and comprehensive loss.

**Restoration and rehabilitation provision**

A provision for restoration and rehabilitation is recognized when there is a present legal or constructive obligation; as a result of exploration, development, or production activities undertaken; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas. The restoration and rehabilitation provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed at least annually and any changes in the estimate are reflected in the present value of the restoration and rehabilitation provision at each reporting date. To date the Company does not have any significant restoration obligations.

**RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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**5. Summary of significant accounting policies (cont'd)****Impairment of non-financial assets**

At each financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, each resource property is considered a cash-generating unit and assets are allocated to each cash-generating unit to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Loans and borrowings and trade and other payables**

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss and other comprehensive income when the liabilities are derecognized, as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss and other comprehensive income.

**Share-based payments**

Share-based payments to employees are measured at the fair value of the instruments issued and each tranche is recognized on a straight-line basis over the vesting period. An individual is classified as an employee when the individual is an employee for legal or tax purposes ("direct employee") or provides services similar to those performed by a direct employee. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. Fair value of the equity instruments issued is determined using the Black-Scholes option pricing model. The offset to the recorded cost is to a share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. The Company estimates the number of equity instruments that are expected to vest and then, at each reporting date, makes adjustments to the actual number that vest unless forfeitures are due to market-based conditions.

**Warrants issued in equity financing transactions**

Equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are valued based on the residual value method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

## **RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
(Unaudited - Expressed in Canadian Dollars, unless otherwise stated)

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#### **5. Summary of significant accounting policies (cont'd)**

##### **Share issuance costs**

Professional, consulting, regulatory fees and other costs that are directly attributable to the issuance of shares are recognized as a deduction from equity.

##### **Loss per common share**

The Company computes the dilutive effect of options, warrants and similar instruments whereby the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. The Company assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive. Basic and diluted loss per share is calculated using the weighted average number of common shares outstanding during the year.

##### **Income taxes**

Income tax expenses comprises current and deferred tax. Current and deferred tax are recognized in net income or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date. Deferred tax is provided for based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred taxes are not recognized for temporary differences related to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit nor investments in subsidiaries, associates and interests in joint ventures to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner and expected date of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable amounts will be available against which the asset can be utilized.

##### **Segment reporting**

The Company operates in a single reportable operating segment – the acquisition, and exploration and evaluation of exploration and evaluation assets.

##### **New accounting policies:**

##### **Leases**

In January 2016, the IASB issued IFRS 16, Leases, which would replace IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company adopted this standard on January 1, 2019, the date of initial application. The adoption of IFRS 16 did not have an impact on the Company's condensed consolidated interim financial statements.

## **RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

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#### **6. Financial instruments and risk management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

##### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is keeping its cash in financial institutions. The Company manages that risk by using major banks that are high credit quality financial institutions as determined by rating agencies.

##### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

##### **Foreign exchange risk**

Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company has a non-material direct exposure to foreign exchange risk arising from certain accounts payable, accrued liabilities and property maintenance commitments [note 7] measured in foreign currencies, principally the US dollar. The Company has a policy of settling items denominated in foreign currencies at the spot rate in place at the time of settlement.

##### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any significant interest rate risk.

##### **Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity obligations, net of cash.

There were no restrictions on the Company's approach to capital management during the period.

##### **Fair value**

The fair value of the Company's financial assets and liabilities approximates the carrying amount with the exception of the loan receivables from related parties which are held at amortized cost.

## **RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)**

### **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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#### **7. Exploration and evaluation asset**

Through its wholly-owned subsidiary REN, the Company holds a 90% interest in certain oil & gas exploration properties located in northeastern Namibia through petroleum Exploration Licence 0073 granted by the Ministry of Mines and Energy of the Republic of Namibia on January 29, 2015 (the "Licence"). The Licence covers an area of 25,341.33 km<sup>2</sup> and entitles Reconnaissance to apply for and receive, subject to Namibian government approval, a twenty-five year production licence upon successful discovery. The Company's interest in the related Petroleum Agreement and the Licence is Reconnaissance's only exploration asset. At September 30, 2019 the Company's investment in the Licence is recorded as \$5,586,509 (December 31, 2018 – nil). The material terms of the Company's obligations in respect of the Licence are set out in Note 11 – *Commitments*.

Deferred acquisition costs of \$208,835 as at December 31, 2018 were reclassified as exploration and evaluation asset costs as a part of the RTO.

#### **8. Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Prior and subsequent to the RTO the Company's principal related parties are its directors, senior officers and promoters. During the period prior to the RTO the Company paid no compensation to those parties. Subsequent to the RTO the Company accrued or paid \$26,000 to a senior officer and US \$10,000 to its promoter.

A loan receivable from a corporate related party as at December 31, 2018 was eliminated as a consequence of the RTO when that related party became wholly-owned subsidiary of the Company.

#### **9. Promissory notes payable**

The Company is a party to two promissory notes entered into with a professional services provider, each bearing interest at 10% and payable at maturity or earlier with no penalty for prepayment. The first promissory note was entered into January 31, 2019 with a principal amount \$264,410 due with accrued interest on or before April 1, 2020. Interest to the due date would be \$30,776. The second promissory note was entered into September 19, 2019 with a principal amount \$125,000 due with accrued interest on or before December 15, 2019. Interest to the due date would be \$2,979. As at September 30, 2019 total accrued interest was 17,860 and is included in the total \$407,270 set out on the balance sheet.

#### **10. Share capital**

**Authorized:** Unlimited common shares without par value

##### **Issued common shares**

A summary of changes in share capital and reserves is contained in the statement of changes in shareholders' equity for the periods ended September 30, 2019 and 2018. As set out in that statement, there are currently 61,337,499 shares issued.

##### **Issued share purchase warrants**

The Company has issued 17,053,280 investor warrants exercisable at the price of \$0.50 per share for a five year term and 403,350 finders' warrants exercisable at the price of \$0.20 per share for a two year term as set out in Note 3.

See also Note 12(b).

## RECONNAISSANCE ENERGY AFRICA LTD. (FORMERLY LUND ENTERPRISES CORP.)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2019 and period from May 10, 2018 [inception] to September 30, 2018  
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#### 11. Commitments

##### (a) *Commitments related to the Licence* [Note 7]

The Petroleum Agreement and Licence set out in Note 7 specify an eight year exploration work program commencing January 29, 2015 and accompanying minimum expenditures on the Licensed Property related thereto. As of the date of issue of these financial statements, the Company has the following commitments.

Under an initial exploration period, the Company's obligations will be deemed to have been satisfied provided that, by January 29, 2020, Reconnaissance drills one stratigraphic test well. This well has an estimated cost of \$2,060,900.

Under a first renewal exploration period, the Company is obliged to expend by January 29, 2022 an additional US\$10,000,000 plus an additional US\$50,000 per year (benchmarked to inflation) for the purposes of funding the education and training of Namibians, of which US\$35,000 is to be paid to the Namibian Petroleum Training and Educational Fund and US\$15,000 is to be paid in connection with the in-house training of Namibian citizens in the field of oil and gas exploration.

Under a second renewal exploration period, the Company is obliged to expend by January 29, 2024 an additional US\$10,000,000 plus an additional US\$50,000 per year (benchmarked to inflation) for the purposes of funding the education and training of Namibians, of which US\$35,000 is to be paid to the Namibian Petroleum Training and Educational Fund and US\$15,000 is to be paid in connection with the in-house training of Namibian citizens in the field of oil and gas exploration.

In addition to the aforementioned minimum exploration expenditure, Reconnaissance is required to pay to the Government of Namibia an annual licensing fee ranging from \$60 to \$150 Namibian dollars per square kilometer of Licensed Property, depending on the applicable stage of exploration. Should the Namibian Minister of Energy and Mines grant a production license over any part of the property covered by the Licence, the annual licensing fee will increase to \$1,500 Namibian dollars per square kilometer to which such production license relates. The exchange rate of Namibian dollars to the Canadian dollar as of the date of this financial statement is NAD\$1.00 to CAD\$0.09.

In accordance with the Petroleum Agreement, as adjusted by the February 25, 2019 adjustment letter, Reconnaissance must relinquish at least 50% of the exploration area covered by the Licence no later than either (i) 60 days following the completion of the drilling of the second stratigraphic test well; or (ii) at the end of the first renewal exploration period, as determined by the Ministry at its discretion. A further 25% of the exploration area covered by the Licence must also be relinquished by Reconnaissance no later than 30 days before the end of the first renewal exploration period following the grant of the Licence. In determining the relinquished area, any areas of the Licensed Property that have been identified as potentially productive are excluded from the relinquishment requirements.

##### (b) *Commitments related to the promissory notes* [Note 9]

As set out in Note 9 the Company is committed to repay promissory notes of (i) \$125,000 plus accrued interest on or before December 15, 2019, and (ii) \$264,410 plus accrued interest on or before April 1, 2020.

#### 12. Subsequent events

Subsequent to September 30, 2019

[a] On October 7, 2019, the Company granted stock options to eligible parties covering a total of 5,350,000 shares, exercisable at the price of \$0.25 per share for a period of up to five years.

[b] On October 31, 2019 as amended November 14, 2019 the Company announced its intention to offer a private placement of up to 4,411,765 units of the Company's equity at the price of \$0.34 per unit, for total gross cash proceeds of \$1,500,000, each unit consisting of one common share and one warrant for the purchase of an additional common share at the price of \$0.50 for a term of five years after closing of the offer. As of the issue date of these financial statements this offer remains subject to completion and customary closing conditions including regulatory acceptance.