

(formerly Lund Enterprises Corp.)

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

### Introductory Comment and Overview

Reconnaissance Energy Africa Ltd. (formerly Lund Enterprises Corp.) (“RECO” or the “Company”) is a junior oil & gas exploration company listed on the TSX Venture Exchange under the trading symbol “RECO”. This MD&A document is filed in respect of the Company’s audited financial statements as at June 30, 2019 and for the year then ended (“Audited Financial Statements”). However, it is fundamental that readers of this document be aware that subsequent to the financial statement date June 30, 2019, effective August 30, 2019 the Company underwent a reverse takeover transaction (the “RTO”) as set out in Note 10 to the Audited Financial Statements. The RTO resulted in numerous highly material changes to the Company’s business, including changing its name from Lund Enterprises Corp. (“Lund”) and acquiring all the shares of 1163631 BC Ltd. (“116”) an arm’s length private company holding as its principal asset an oil & gas exploration licence (the “Licence”) in the Republic of Namibia in southern Africa.

The Audited Financial Statements to which this MD&A document relates are essentially those of Lund for its most recently concluded fiscal year and do not reflect any aspects of the business of 116, which was acquired subsequently. During that fiscal year Lund was largely an inactive “shell company” holding a largely inactive mining exploration project in northern Ontario, certain details of which are set out in Notes 3 and 10(b).

This MD&A is dated October 28, 2019 and discloses specified information up to that date. RECO is classified as a “venture issuer” for the purposes of National Instrument 51-102. Unless otherwise cited, references to dollar amounts are Canadian dollars. Throughout this report we refer from time to time to “RECO”, “Lund”, “the Company”, “we”, “us”, “our” or “its”. All these terms are used in respect of Reconnaissance Energy Africa Ltd. which is the reporting issuer in this document. ***We recommend that readers consult the “Cautionary Statements” on the last page of this report.*** Additional information related to RECO is available for view on SEDAR at [www.sedar.com](http://www.sedar.com). Readers are in particular referred to the SEDAR posting dated February 28, 2019 of a management information circular (the “Circular”) under the SEDAR heading “Proxy Circular”. The Circular provides extensive information about the RTO.

#### *Future financial statement reporting*

As a consequence of the RTO, 116 will become the parent company of the group for accounting purposes, and RECO will adopt the fiscal year of 116 which has a December 31 year-end. The next set of financial statements for RECO and subsidiaries to be filed on SEDAR will be interim statements dated September 30, 2019 representing RECO’s third fiscal quarter of its 2019 fiscal (and calendar) year. It can be reliably predicted that those financial statements will bear very little resemblance to the Audited Financial Statements which are the subject of this MD&A document. Further, there will be no ongoing SEDAR filing of financial statements, interim or annual, related to Lund as it existed up to August 30, 2019 the date of the RTO.

### Overall Performance

Virtually the entire activity of the Company dating from August 2018, early in the fiscal year being reported on, has been negotiating, documenting and bringing to a conclusion the RTO. This transaction was successfully completed on August 30, 2019 and resulted in the Company being funded to pursue the exploration activities in Namibia set out in the Circular. Those activities are just now under way, and we look forward to reporting developments to the marketplace as they progress.

### Selected Annual Information

The following table provides a brief summary of RECO’s financial operations for the most recent three fiscal years. For more detailed information, refer to the Audited Financial Statements.

	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017
Total revenues	nil	nil	nil
Net loss	\$462,235	\$171,342	\$118,396
Basic and diluted loss per share	(0.08)	(0.04)	(0.03)
Total assets	560,848	207,853	162,164

There were no long-term financial liabilities or cash dividends declared in any of these years. Loss per share amounts have been retroactively adjusted for the share consolidation of August 30, 2019.

### Discussion of annual financial statement components

During the fiscal year ended June 30, 2019, total assets increased to \$0.561 million from \$0.208 million as at June 30, 2018, primarily due to the \$50,000 in share issue proceeds and \$553,000 in August 2019 share subscriptions funded in advance set out in Note 5(b) offset in part by the \$253,000 cash consumed by operations as set out in the statement of cash flows.

During the fiscal year ended June 30, 2018, total assets increased to \$0.208 million from \$0.162 million as at June 30, 2017, primarily due to the \$167,000 financing proceeds set out in Note 5(b) offset in part by the cash consumed by operations as set out in the statement of cash flows.

The increase in net loss during the year ended June 30, 2019 compared to the year ended June 30, 2018 was approximately \$291,000 or 170%. The increase in loss is primarily attributed to the following:

- An increase of approximately \$157,000 in salaries and benefits, principally related to i) increases in CFO compensation of \$74,000 and support staff compensation of \$5,000, which arose from increased hourly billings associated with the RTO transaction, and ii) a bonus of \$75,000 declared to the CEO associated with the RTO transaction. As set out in Note 10, amounts approximating the increases to the CEO and CFO were waived by them upon the closing of the RTO.
- A new cost centre *Consulting* of approximately \$68,000 also arising from the RTO transaction.
- An increase in legal expense of approximately \$29,000 also arising from the RTO transaction.

The increase in net loss during the year ended June 30, 2018 compared to the year ended June 30, 2017 was approximately \$53,000 or 45%. The increase in loss is primarily attributed to the following:

- An increase of approximately \$18,000 in salaries and benefits, principally related to increases in CFO compensation \$9,700 and support staff compensation \$6,700, which arose from increased levels of corporate activity.
- An increase of approximately \$15,000 in office and general expenses, primarily arising from increases in IT and network services \$7,700 and in executives' communication and office supplies cost \$6,900.
- \$10,000 exploration cost incurred in the year ended June 30, 2018, compared to Nil in the prior year – this is the 2018 fiscal year portion of tenure update work on the Black Fox project.

### Summary of Quarterly Results

	Three Months Ended June 30, 2019 \$	Three Months Ended March 31, 2019 \$	Three Months Ended December 31, 2018 \$	Three Months Ended September 30, 2018 \$	Three Months Ended June 30, 2018 \$	Three Months Ended March 31, 2018 \$	Three Months Ended December 31, 2017 \$	Three Months Ended September 30, 2017 \$
Total assets	560,848	12,296	44,389	186,108	207,853	76,361	106,412	145,355
Exploration and evaluation assets	nil	nil	nil	nil	nil	nil	nil	nil
Working capital (deficiency)	232,507	(253,410)	(170,823)	57,616	91,407	(14,888)	20,469	62,341
Shareholders' equity (deficiency)	232,507	(253,410)	(170,823)	57,616	91,407	(14,888)	20,469	62,341
Revenues	nil	nil	nil	nil	nil	nil	nil	nil
Net loss	(67,418)	(82,587)	(228,439)	(83,791)	(60,705)	(35,357)	(41,872)	(33,408)
Per share	(0.01)	(0.01)	(0.04)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)

[Per share amounts for all periods shown have been retroactively adjusted for the share consolidation of August 30, 2019.]

### **Discussion of loss for the periods**

The preceding schedule shows quarterly costs averaging approximately \$43,000 in the prior 2017-2018 fiscal year and averaging approximately \$116,000 in the more recent 2018-2019 fiscal year. The RTO transaction was initiated in August 2018 and very substantial cost increases then arose as set out on the preceding page under *Discussion of annual financial statement components*.

### **Discussion of cash flows**

The statement of cash flows portrays ongoing drawdowns of cash attributable to operations, diminished in part by the build-up of accrued liabilities, principally owing to the related party CEO and CFO. In May 2018 we completed a private placement financing of \$167,000 and in August 2018 a further tranche of \$50,000 was completed. During the period April 2019 to the year end in June 2019 we received \$553,335 in subscriptions towards the financing associated with the RTO, a financing which closed August 30, 2019 in the final total of gross proceeds of \$3,410,656 set out in Note 10; the final gross proceeds included the \$553,335 received up to June 30<sup>th</sup> in the 2018-2019 fiscal year.

### **Liquidity**

The Company's cash position at the year-end was \$553,713 and current liabilities were \$328,341; the net working capital position was \$232,507. Subsequent to the year end, as set out in Note 10 this working capital position was augmented by i) the receipt of additional gross proceeds of \$2,857,321 (\$3,410,656 less \$553,335) and ii) the waiver of an aggregate \$149,750 of accrued compensation by the CEO and the CFO. Notwithstanding that cash finders' fees totaling \$80,670 were deducted from gross proceeds, at the date of this report we consider that the Company has sufficient cash resources to fund its 2019 fiscal year currently under way.

### **Capital Resources**

The Company has total commitments in respect of the Licence of \$2,250,845. (These are set out in the Circular under the heading *Available Funds and Principal Purposes*). The components of this commitment amount are an Initial Work Program \$2,060,900; a Licensed Property Annual Fee \$144,445; and Annual Training and Educational Payments \$45,500. Because of the net financing proceeds set out in Note 10 and described in the preceding section, management believes the Company does not require additional financing during its current fiscal year. Exploration success if and when attained will required highly material additional funding, for which the Company's expected source would be equity issued on the capital markets. While the Company has been successful in obtaining equity funding throughout its existence dating from 1978 there can be no assurance that funding could be obtained on acceptable terms, or at all.

### **Related Party Transactions**

During the year ended June 30, 2019 the Company accrued directors' fees of \$6,000 to each of our directors Vivian Danielson, Derek Bartlett and Chet Idziszek. The Company paid or accrued salaries and benefits of \$104,500 to Ian Brown, its Chief Financial Officer, of which \$18,750 was paid during the fiscal year and \$85,750 was accrued and unpaid at the fiscal year-end. The Company paid or accrued bonuses, salaries and benefits of \$77,500 to Chet Idziszek, its Chief Executive Officer, of which \$2,500 was paid during the fiscal year and \$75,000 was accrued and unpaid at the fiscal year-end. Directors' fees and the CEO's and the CFO's compensation have been recorded as salaries and benefits expense in the statement of comprehensive loss. As set out in Note 10, upon the closing of the RTO Mr. Idziszek waived a \$75,000 bonus awarded in October 2018 and Mr. Brown waived a total of \$74,750 in prior compensation

During the year ended June 30, 2018 the Company accrued directors' fees of \$6,000 to each of our directors Vivian Danielson, Derek Bartlett and Chet Idziszek. The Company paid or accrued salaries and benefits of \$30,600 to Ian Brown, its Chief Financial Officer, of which \$8,550 was paid during the fiscal year and \$22,050 was accrued and unpaid. No payments were made by way of salary amounts to Mr. Idziszek for his service as Chief Executive Officer. Directors' fees and the CFO's compensation have been recorded as salaries and benefits expense in the statement of comprehensive loss.

### **Discussion and Analysis of Fourth Quarter**

Losses by quarter this fiscal year were \$83,791 in Q1, \$228,439 in Q2, \$82,587 in Q3 and \$67,418 in Q4 for a total of \$462,235. Excluding Q2 the average quarterly loss was approximately \$78,000 and each of Q1, Q3 and Q4 fell broadly close to this average. Q2 was exceptionally high principally due to ramp-up costs associated with the RTO, and the bonus award to the CEO.

## Financial Instruments

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, foreign currency or credit risks arising from these financial instruments. Because these items have short maturities, the fair values of these financial instruments are approximately equal to their carrying values, unless otherwise noted.

## Risk Factors

The Company and its operations are subject to a significant number of risk factors, in respect of which an adverse development in any one risk factor or any combination of risk factors could result in material adverse outcomes to the Company's undertakings and to the interests of stakeholders in the Company including its investors. Readers are cautioned to take into account the risk factors to which the Company and its operations are exposed. The following description of risk factors is not exhaustive and is provided to alert users of this management discussion and analysis to examples of the nature and types of risk factors inherent in the Company's existence and operations.

### *Exploration risks*

The Company will, going forward, be seeking hydrocarbon deposits on exploration projects where there are not yet established commercial quantities. There can be no assurance that economic concentrations of hydrocarbons will be determined to exist on the Company's property holdings within existing investors' investment horizons or at all. The failure to establish such economic concentrations could have a material adverse outcome for the Company and its securities. The Company's planned programs and budgets for exploration work are subject to revision at any time to take into account results to date. The revision, reduction or curtailment of exploration programs and budgets could have a material adverse outcome for the Company and its securities.

### *Market risks*

The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change, both in short term time horizons and longer term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome for the Company and its securities.

### *Financing risk*

Exploration and development of hydrocarbon deposits is an expensive process, and frequently the greater the level of interim stage success the more expensive it can become. The Company has no producing properties and generates no operating revenues; therefore, for the foreseeable future, it will be dependent upon selling equity in the capital markets to provide financing for any future substantial exploration budgets. Although we were successful in obtaining substantial financing in August 2019, there can be no assurance that the capital markets will be favorable in the future, and/or that the Company will be able to raise the financing needed to continue its exploration programs on favorable terms, or at all. Restrictions on the Company's ability to finance could have a material adverse outcome for the Company and its securities.

### *Foreign exchange risk*

Prior to the completion of the RTO the Company's activities were on a single hard-rock mineral project in Ontario, Canada. During that time we had no exposure to foreign exchange (FX) risk. Going forward we will be operating in the oil & gas industry, in which many inputs and outputs are priced in US dollars, and in the Republic of Namibia in southern Africa with a local currency and significant ties to the US dollar and the South African Rand. Accordingly, we anticipate considerable exposure to FX risks. The Company is in the process of developing risk management processes for its FX exposures, and the topic is part of general management's and the Board's agendas.

## Other Required Disclosure

### *Environmental matters*

The Company does not believe in the short run planning horizon that it faces significant issues arising from environmental concerns. The project on the Licence area in Namibia is an early stage exploration project and our exploration activities to date have not resulted in any meaningful disturbances on the project lands; therefore, there is not a basis on which to estimate any reclamation and remediation provision. We also do not believe there are any meaningful issues arising from climate change matters.

### *Additional Disclosure for Venture Issuers without Significant Revenue*

Our operating expenses for the 2018-2019 fiscal year compared to our 2017-18 fiscal year increased by 170% from \$171,000 to \$462,000. The principal determinants of this variance are described on pages 2 and 3 in the sections *Discussion of annual financial statement components* and *Discussion of loss for the periods*.

### *Disclosure of Outstanding Share Data*

The authorized share capital of the Company consisted at June 30, 2019 of an unlimited number of common shares without par value of which 5,571,804 were outstanding, after giving retroactive effect to the share consolidation which was a component of the RTO and took place on August 30, 2019. As a result of the RTO and as set out in Note 10, as of August 30, 2019 and the date of this report there are 61,337,499 shares outstanding. As set out in Note 5, as at June 30, 2019 the Company had no stock options or share purchase warrants outstanding. Subsequently the Company issued a total of 17,053,280 share purchase warrants to subscribers to the RTO private placement, exercisable at the price of \$0.50 for a five-year term, and a total of 403,350 finders' warrants exercisable at \$0.20 until August 30, 2021. Also subsequently, the Company granted a total of 5,350,000 incentive stock options exercisable at the price of \$0.25 for a period of up to five years.

### *New accounting standards expected to be adopted*

Note 2(N) sets out that the Company expects to adopt new accounting standard IFRS 16 *Leases*. The expected adoption date based on the Company's fiscal year end of June 30<sup>th</sup> is July 1, 2019. Note 2(N) also briefly describes the new standard and the Company's judgment that its adoption will not have significant effects, if any, on its financial statements.

Vancouver, British Columbia



October 28, 2019

We recommend that readers refer to the Cautionary Statements following.

### **Cautionary Statements**

This document contains “forward-looking statements” within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration results and plans, and our other future plans and objectives, are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, our estimates of exploration investment, the scope of our exploration programs, and our expectations of ongoing administrative costs. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change, except as required by law. Forward-looking statements are subject to risks, uncertainties and other factors, including risks associated with oil & gas exploration, price volatility in the commodities we seek, and operational and political risks. Readers are cautioned not to place undue reliance on forward-looking statements.