# NG ENERGY INTERNATIONAL CORP

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## MARCH 31, 2023

**NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim condensed consolidated financial statements of NG Energy International Corp. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

## NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *(Unaudited, expressed in U.S. Dollars)* | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **1,836,852** | 6,962,228 |
| Deposit in escrow (Note 7) | **1,919,396** | 2,788,368 |
| Accounts receivable and prepaids | **1,731,779** | 920,947 |
| | **5,488,027** | 10,671,543 |
| Non-current Assets | | |
| Restricted cash (Note 4) | **2,150,697** | 1,968,873 |
| VAT receivable | **2,550,174** | 2,354,633 |
| Exploration and evaluation assets (Note 5) | **28,064,577** | 26,721,884 |
| Property, plant and equipment (Note 6) | **40,344,725** | 41,429,727 |
| **Total Assets** | **78,598,200** | 83,146,660 |
| **Liabilities** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **8,382,589** | 9,685,106 |
| Current portion of lease obligations (Note 8) | **2,874,150** | 2,776,384 |
| Advances on future financing (Note 15) | **738,934** | - |
| | **11,995,673** | 12,461,490 |
| Non-current Liabilities | | |
| Liability component of convertible debentures (Note 7) | **31,554,559** | 31,172,380 |
| Lease obligations (Note 8) | **20,734,877** | 21,480,395 |
| Decommissioning obligations | **2,921,403** | 2,525,858 |
| **Total Liabilities** | **67,206,512** | 67,640,123 |
| **Shareholders' Equity** | | |
| Share capital (Note 9a) | **104,881,440** | 104,881,440 |
| Contributed surplus | **22,407,580** | 22,407,580 |
| Warrants (Note 9c) | **7,783,794** | 7,783,794 |
| Equity component of convertible debentures (Note 7) | **1,885,600** | 1,885,600 |
| Deficit | **(125,153,170)** | (120,986,462) |
| Accumulated other comprehensive loss | **(413,556)** | (465,415) |
| **Total Shareholders' Equity** | **11,391,688** | 15,506,537 |
| **Total Liabilities and Shareholders' Equity** | **78,598,200** | 83,146,660 |

*Going concern (Note 2)*
*Related parties (Note 11)*
*Commitments (Note 13)*

*See accompanying notes to the interim condensed consolidated financial statements.*

## NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31

| *(Unaudited, expressed in U.S. Dollars)* | **2023** | 2022 |
|---|---|---|
| **Revenue:** | | |
| Natural gas revenue | **2,096,853** | - |
| Royalty expense | **(393,342)** | - |
| **Natural gas revenues, net of royalties** | **1,703,511** | - |
| | | |
| **Expenses:** | | |
| Operating expenses | **566,605** | - |
| General and administrative | **1,395,729** | 1,048,561 |
| Exploration and evaluation expense (Note 5) | **48,895** | 48,162 |
| Depletion and depreciation (Note 6) | **1,262,589** | 1,905 |
| Net finance expense (Note 10) | **2,558,552** | 102,377 |
| Gain on disposition (Note ) | **-** | - |
| Foreign exchange loss (gain) | **37,849** | (402,750) |
| | **5,870,219** | 798,255 |
| **Net loss** | **(4,166,708)** | (798,255) |
| | | |
| **Other comprehensive income** | | |
| Foreign currency translation adjustment | **51,859** | (28,023) |
| **Comprehensive Loss** | **(4,114,849)** | (826,278) |
| | | |
| Loss per share – basic and diluted (Note 9d) | **(0.03)** | (0.01) |
| | | |
| Weighted average number of common shares outstanding | **125,122,132** | 121,822,155 |

*See accompanying notes to the interim condensed consolidated financial statements.*

## NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31

| *(Unaudited, expressed in U.S. Dollars)* | **2023** | 2022 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | **(4,166,708)** | (798,255) |
| Items not affecting cash: | | |
| Depletion and depreciation (Note 6) | **1,262,589** | 1,905 |
| Unrealized foreign exchange gain | **(67,423)** | (246,791) |
| Net finance expense (Note 10) | **2,558,552** | 102,377 |
| Change in non-cash working capital (Note 14) | **(45,645)** | (187,644) |
| **Cash used in operating activities** | **(458,635)** | (1,128,408) |
| **Investing Activities** | | |
| Exploration and evaluation asset additions (Note 5) | **(1,342,693)** | (608,320) |
| Property, plant and equipment additions (Note 6) | **(177,587)** | (7,903) |
| Change in restricted cash (Note 4) | **(106,135)** | (1,395) |
| Change in non-cash working capital (Note 14) | **(2,263,245)** | (1,247,566) |
| **Cash used in investing activities** | **(3,889,660)** | (1,865,184) |
| **Financing Activities** | | |
| Advances received toward future financing (Note 15) | **738,934** | - |
| Proceeds released from escrow | **871,729** | - |
| Proceeds on warrant exercises | **-** | 586,938 |
| Proceeds on option exercises | **-** | 6,519 |
| Net finance received (paid) | **(812,452)** | 2,514 |
| Lease payments, principal and interest | **(1,620,897)** | - |
| **Cash provided by financing activities** | **(822,686)** | 595,971 |
| **Net decrease in cash** | **(5,170,981)** | (2,397,621) |
| Foreign exchange loss on cash | **45,605** | 73,221 |
| **Decrease in cash** | **(5,125,376)** | (2,324,400) |
| Cash, beginning of period | **6,962,228** | 5,848,957 |
| **Cash, end of period** | **1,836,852** | 3,524,557 |

*Cash is defined as cash and cash equivalents.*

*See accompanying notes to the interim condensed consolidated financial statements.*

# NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *(Unaudited, expressed in U.S. Dollars)* | Number of Common Shares | Share Capital | Contributed Surplus | Warrants | ECCD[1] | Deficit | AOCL[2] | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2022 | 125,122,132 | 104,881,440 | 22,407,580 | 7,783,794 | 1,885,600 | (120,986,462) | (465,415) | 15,506,537 |
| Net loss | - | - | - | - | - | (4,166,708) | - | (4,166,708) |
| Foreign currency translation adjustment | - | - | - | - | - | - | 51,859 | 51,859 |
| **Balance at March 31, 2023** | **125,122,132** | **104,881,440** | **22,407,580** | **7,783,794** | **1,885,600** | **(125,153,170)** | **(413,556)** | **11,391,688** |
| | | | | | | | | |
| Balance at December 31, 2021 | 119,930,155 | 103,572,805 | 10,349,516 | 14,669,362 | - | (111,018,304) | (840,382) | 16,732,997 |
| Net loss | - | - | - | - | - | (798,255) | - | (798,255) |
| Shares issued through warrant exercise | 2,633,333 | 705,369 | - | (118,431) | - | - | - | 586,938 |
| Shares issued through option exercise | 30,000 | 11,108 | (4,589) | - | - | - | - | 6,519 |
| Foreign currency translation adjustment | - | - | - | - | - | - | (28,023) | (28,023) |
| **Balance at March 31, 2022** | **122,593,488** | **104,289,282** | **10,344,927** | **14,550,931** | **-** | **(111,816,559)** | **(868,405)** | **16,500,176** |

*(1) Equity component of convertible debentures*

*(2) Accumulated other comprehensive loss*

*See accompanying notes to the interim condensed consolidated financial statements.*

## 1. REPORTING ENTITY

NG Energy International Corp. ("NG" or the "Company") is an oil and gas company incorporated in Canada and is engaged in exploration and development activities in Colombia. The Company's registered address is 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. NG's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "GASX".

## 2. GOING CONCERN

These interim condensed consolidated financial statements ("Financial Statements") have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

During the three months ended March 31, 2023, the Company recognized a net loss of $4.1 million and cash used in operating activities of $0.5 million. As of March 31, 2023, the Company had a working capital deficit of $6.5 million, including cash and cash equivalents of $1.9 million. For 2023, the Company has contractually committed exploration and development amounts of $3.0 million as outlined in Note 13 and $6.6 million for lease obligations as outlined in Note 8. Although in 2022, the Company commenced early-stage gas production on the Maria Conchita Block, current production volumes are still below expectations such that the Company is anticipating that cash will continue to be used in operations. As such, the Company will need to obtain capital to fund the Company's ongoing operations, and commitments, and the continued development of the Company's exploration and evaluation assets.

As such, there remains a material uncertainty surrounding the Company's ability to obtain sufficient capital to meet its operational requirements and commitments. These conditions noted above indicate a material uncertainty exists that may cast significant doubt with respect to the Company's ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these Financial Statements and that the Company will be able to meet its operational requirements and commitments during the upcoming year and beyond. There is no guarantee that the Company will be successful in its endeavors and no certainty as to the timing of the Company's impending exploration commitments. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these Financial Statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

## 3. BASIS OF PRESENTATION

### Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These Financial Statements follow the same accounting policies and method of computation as the Company's annual consolidated financial statements for the year ended December 31, 2022, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These Financial Statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022. These Financial Statements have been approved and authorized for issuance by the Company's Board of Directors on June 30, 2023.

**Basis of measurement**

These Financial Statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2022 annual consolidated financial statements.

Estimates and judgments made by management in the preparation of these Financial Statements are subject to a higher degree of measurement uncertainty during this volatile period.

**Functional and presentation currency**

These Financial Statements are presented in United States (US) dollars, except for Canadian dollar unit prices ("C$") where indicated. The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

**Significant accounting policies**

The Company's significant accounting policies can be read in Note 4 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2022. There were no material changes in the Company's significant accounting policies from those disclosed in the 2022 annual audited financial statements.

## 4. RESTRICTED CASH

| | **2023** | **2022** |
|---|---|---|
| SN-9 ANH Guarantee Deposit | 1,777,338 | 1,704,618 |
| Tiburon ANH Guarantee Deposit | 373,359 | 264,255 |
| **Restricted cash** | **2,150,697** | **1,968,873** |

Term deposits of $2.4 million and $0.3 million were originally established to secure performance guarantees required by the Colombian National Hydrocarbon Agency ("ANH") under the Exploration and Production ("E&P") Contracts for the SN-9 and Tiburon Block. The SN-9 and Tiburon deposit amounts were defined in US dollars by the ANH but are held in Colombian pesos with Colombian banks and are subject to foreign currency fluctuation risks in relation to the US dollar, which may result in additional funding towards these term deposits from time to time at the discretion of the ANH. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed. As at March 31, 2023, the balances of the SN-9 term deposit and Tiburon term deposit were $1,777,338 and $373,359, respectively.

## 5. EXPLORATION AND EVALUATION ASSETS

Exploration and Evaluation ("E&E") assets consist of the following amounts, as at December 31, 2022, and March 31, 2023:

| | 2023 | 2022 |
|---|---|---|
| **Balance as at January 1** | **26,721,884** | **11,980,739** |
| Additions | 1,342,693 | 31,018,076 |
| E&E reduction from loan conversion to royalty | - | (3,232,880) |
| Asset retirement cost addition | - | 703,634 |
| Revision of asset retirement estimate | - | 568,066 |
| Transfer of E&E assets to D&P assets (Note 6) | - | (14,315,751) |
| **Balance as at end of period** | **28,064,577** | **26,721,884** |

As at March 31, 2023, it was determined that no impairment indicators exist for the Tiburon and SN-9 cash generating units ("CGUs"). The Company incurs ongoing maintenance costs for the Tiburon CGU from the third-party operator, which are expensed as E&E expenses. No further capital activity has occurred in the Tiburon Block in the period.

## 6. PROPERTY, PLANT, AND EQUIPMENT

The Company's property, plant, and equipment ("PP&E") consist of development and production ("D&P") assets, corporate fixed assets and right-of-use leased ("ROU") assets. D&P assets include the Company's interests in any developed natural gas properties. The components of the Company's PP&E assets are as follows:

| **Cost** | **D&P** | **Corporate** | **ROU** | **Total** |
|---|---|---|---|---|
| As at December 31, 2021 | - | 235,197 | - | 235,197 |
| Transfer of E&E assets to D&P (Note 5) | 14,315,751 | - | - | 14,315,751 |
| Capital additions | 2,794,228 | 33,551 | 24,886,551 | 27,714,330 |
| Revision of asset retirement estimate | 412,086 | - | - | 412,086 |
| As at December 31, 2022 | 17,522,065 | 268,748 | 24,886,551 | 42,677,364 |
| Capital additions | 175,935 | 1,652 | - | 177,587 |
| **As at March 31, 2023** | **17,698,000** | **270,400** | **24,886,551** | **42,854,951** |
| | | | | |
| **Accumulated depletion, depreciation and impairment** | | | | |
| As at December 31, 2021 | - | 227,068 | - | 227,068 |
| Depletion and depreciation | 405,337 | 20,866 | 594,366 | 1,020,569 |
| As at December 31, 2022 | 405,337 | 247,934 | 594,366 | 1,247,637 |
| Depletion and depreciation | 560,082 | 2,484 | 700,023 | 1,262,589 |
| **As at March 31, 2023** | **965,419** | **250,418** | **1,294,389** | **2,510,226** |
| | | | | |
| **Net book value** | | | | |
| As at December 31, 2022 | 17,116,728 | 20,814 | 24,292,185 | 41,429,727 |
| **As at March 31, 2023** | **16,732,581** | **19,982** | **23,592,162** | **40,344,725** |

As at March 31, 2023, the balance of PP&E consisted of those oil and gas properties of the March Conchita CGU that were reclassified from E&E in 2022 along with capital additions of $175,935 in the Maria Conchita CGU. Future development costs in the amount of $32.7 million were included in depletion calculated for the three months ended March 31, 2023. As at March 31, 2023, the Company completed an impairment review of its PP&E assets. It was determined that no impairment indicators existed.

## 7. CONVERTIBLE DEBENTURES

### *May 2022 Offering*

In May 2022, the Company completed a prospectus offering of convertible debenture units for aggregate proceeds of $13.4 million (C$17.1 million). Each convertible debenture unit is denominated in Canadian dollars and consisted of: (i) one 8% convertible unsecured debenture in the principal amount of $1,000 maturing on May 20, 2027; and (ii) 400 common share purchase warrants of the Company, with each warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of C$1.40 per share for a period of five years ending May 20, 2027. Under the terms of the debentures, the lenders may at any time prior to the maturity date convert any or all the principal amount of the debentures into shares of the Company at a conversion price of C$1.20 per share.

The Company is entitled to force the exercise, at any time after May 20, 2024, of all but not less than all of the then outstanding warrants on not more than 60 days' and not less than 30 days' notice, if the volume weighted average trading price of the common shares on the TSX-V is greater than C$2.00 for the ten consecutive trading days preceding the notice.

The components of the Company's convertible debentures as of March 31, 2023 are as follows:

| | Liability Component | Equity Component | Warrants | Total |
|---|---|---|---|---|
| On date of issuances, net of transaction costs | 9,109,995 | 604,685 | 2,354,764 | 12,069,444 |
| Deferred income tax recovery | - | (94,961) | - | (94,961) |
| Accretion | 334,315 | - | - | 334,315 |
| Conversion of debentures | (187,841) | (10,404) | - | (198,245) |
| Impact of foreign exchange | (484,640) | - | - | (484,640) |
| Balance, December 31, 2022 | 8,771,829 | 499,320 | 2,354,764 | 11,625,913 |
| Accretion | 140,687 | - | - | 140,687 |
| Impact of foreign exchange | 7,047 | - | - | 7,047 |
| **Balance, March 31, 2023** | **8,919,563** | **499,320** | **2,354,764** | **11,773,647** |

Interest on the debentures is payable monthly in arrears on the last day of each month, commencing June 30, 2022. An amount equal to the interest payable under the debentures from the closing date of the offering until the first anniversary of the offering was placed in escrow upon closing of the offering and shall be paid out to holders of debentures monthly. Interest thereafter shall be paid out of the Company's cash flow. As of March 31, 2023, the total balance of deposit in escrow was $166,876.

***November 2022 Offering***

In November 2022, the Company completed a private placement offering of convertible debentures for aggregate proceeds of $25.9 million (C$35 million). Each convertible debenture unit is denominated in Canadian dollars and consisted of: (i) one 10% convertible unsecured debenture in the principal amount of $1,000 maturing on November 30, 2025; and (ii) 1,000 common share purchase warrants of the Company, with each warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of C$1.08 per share for a period of three years ending November 30, 2025. Under the terms of the debentures, the lenders may at any time prior to the maturity date convert any or all the principal amount of the debentures into shares of the Company at a conversion price of C$0.90 per share.

The components of the Company's convertible debentures as of March 31, 2023 are as follows:

| | **Liability Component** | **Equity Component** | **Warrants** | **Total** |
|---|---|---|---|---|
| On date of issuances, net of transaction costs | 22,362,818 | 1,890,668 | 1,164,495 | 25,417,981 |
| Deferred income tax recovery | - | (504,388) | - | (504,388) |
| Accretion | 76,523 | - | - | 76,523 |
| Impact of foreign exchange | (38,790) | - | - | (38,790) |
| Balance, December 31, 2022 | 22,400,551 | 1,386,280 | 1,164,495 | 24,951,326 |
| Accretion | 236,727 | - | - | 236,727 |
| Impact of foreign exchange | (2,282) | - | - | (2,282) |
| **Balance, March 31, 2023** | **22,634,996** | **1,386,280** | **1,164,495** | **25,185,771** |

Interest on the debentures is payable monthly in arrears on the last day of each month, commencing December 31, 2022. An amount equal to the interest payable under the debentures from the closing date of the offering until the first anniversary of the offering was placed in escrow upon closing of the offering and shall be paid out to holders of debentures monthly. Interest thereafter shall be paid out of the Company's cash flow. As of March 31, 2023, the total balance of deposit in escrow was $1,752,520.

## 8. LEASE OBLIGATIONS

As at March 31, 2023, the Company had service contracts and agreements in Colombia. The Company recognized right-of-use assets and corresponding lease obligations relating to the BOOMT Agreement with GTX International Corp. ("GTX") and the take-or-pay service contract with Surenergy SAS ESP ("Surenergy") (see Note 13 for "Contractual Commitments"). The presented lease obligations have a discount rate of 16.33%. A continuity of lease obligations is presented below.

| **Lease obligations** | **GTX** | **Surenergy** | **Total** |
|---|---|---|---|
| Balance, December 31, 2021 | - | - | - |
| Additions | 20,036,889 | 4,849,662 | 24,886,551 |
| Interest expense | 808,799 | 44,829 | 853,628 |
| Lease payments | (1,411,201) | (72,199) | (1,483,400) |
| Balance, December 31, 2022 | 19,434,487 | 4,822,292 | 24,256,779 |
| Interest expense | 779,528 | 193,617 | 973,145 |
| Lease payments | (1,296,000) | (324,897) | (1,620,897) |
| **Balance, March 31, 2023** | **18,918,015** | **4,691,012** | **23,609,027** |
| | | | |
| Current portion | 2,326,387 | 547,763 | 2,874,150 |
| Non-current portion | 16,591,628 | 4,143,249 | 20,734,877 |
| **Total** | **18,918,015** | **4,691,012** | **23,609,027** |

Future lease payments as at March 31, 2023 are as follows:

| **Future lease payments** | **Less than 1 year** | **1-3 years** | **Thereafter** | **Total** |
|---|---|---|---|---|
| GTX International Corp. | 5,270,400 | 10,512,000 | 13,176,000 | 28,958,400 |
| Surenergy SAS ESP | 1,299,586 | 2,599,173 | 3,306,726 | 7,205,485 |
| **Total** | 6,569,986 | 13,111,173 | 16,482,726 | 36,163,885 |

## 9. SHARE CAPITAL

### a) Common Shares

As at March 31, 2023, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared. Outstanding common shares as at March 31, 2023, are as follows:

| | **Common shares** | **Amount ($)** |
|---|---|---|
| Balance, December 31, 2021 | 119,930,155 | 103,572,805 |
| Shares issued through warrant exercise | 5,011,111 | 1,205,561 |
| Shares issued through option exercise | 30,000 | 11,108 |
| Conversion of debentures | 291,666 | 198,245 |
| Shares cancelled through share buyback | (140,800) | (106,279) |
| **Balance, December 31, 2022 and March 31, 2023** | **125,122,132** | **104,881,440** |

### b) Stock Options

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities, and consultants. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.

As at March 31, 2023, a total of 12,461,293 (December 31, 2022 – 12,526,293) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

A summary of the changes in stock options is presented below:

| | Stock options | Weighted average exercise price (C$) |
|---|---|---|
| Balance, December 31, 2021 | 9,915,400 | 0.85 |
| Options issued | 2,640,893 | 1.14 |
| Options exercised | (30,000) | 0.275 |
| Balance, December 31, 2022 | 12,526,293 | 0.91 |
| Options forfeited | (65,000) | 0.62 |
| **Balance, March 31, 2023** | **12,461,293** | **0.92** |

The following summarizes information about stock options outstanding as at March 31, 2023:

| Exercise prices (C$) | Number of options outstanding | Weighted average term to expiry (years) | Number of options exercisable |
|---|---|---|---|
| 0.275 | 1,331,000 | 7.23 | 1,331,000 |
| 0.45 | 2,100,000 | 6.26 | 2,100,000 |
| 0.91 | 2,375,000 | 8.08 | 2,375,000 |
| 1.00 | 3,875,000 | 7.65 | 3,875,000 |
| 1.14 | 2,640,893 | 9.36 | 2,640,893 |
| 6.10 | 29,400 | 3.39 | 29,400 |
| 8.00 | 110,000 | 4.36 | 110,000 |
| | **12,461,293** | **7.78** | **12,461,293** |

**c) Warrants**

As at March 31, 2023, a total of 56,712,062 (December 31, 2022 – 56,712,062) warrants were issued and outstanding. A summary of the change in total warrants is presented below:

| | Warrants | Weighted average exercise price (C$) |
|---|---|---|
| Balance, December 31, 2021 | 25,489,373 | 3.18 |
| Warrants issued with convertible debentures | 41,858,800 | 1.13 |
| Warrants expired | (5,625,000) | 10.50 |
| Warrants exercised | (5,011,111) | 0.26 |
| **Balance, December 31, 2022 and March 31, 2023** | **56,712,062** | **1.20** |

The following summarizes information about total purchase warrants outstanding as at March 31, 2023:

| Exercise prices (C$) | Number of warrants outstanding | Weighted average term to expiry (years) | Number of warrants exercisable |
|---|---|---|---|
| 1.08 | 35,000,000 | 2.67 | 35,000,000 |
| 1.15 | 475,600 | 0.86 | 475,600 |
| 1.20 | 8,141,600 | 0.56 | 8,141,600 |
| 1.40 | 6,858,800 | 4.14 | 6,858,800 |
| 1.50 | 2,036,412 | 0.75 | 2,036,412 |
| 1.75 | 4,199,650 | 0.89 | 4,199,650 |
| | **56,712,062** | **2.32** | **56,712,062** |

### d) Loss per share

For the purposes of the loss per share calculations for the periods ended March 31, 2023 and 2022, there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended March 31, 2023, 12,461,293 stock options and 56,712,062 purchase warrants were excluded as either i) their impact was anti-dilutive for the periods when the Company had a net loss; or ii) the average market price of the common shares of the Company was less than the exercise price of existing stock options and purchase warrants.

## 10. FINANCE INCOME AND EXPENSE

The components of net finance expense/income for the three months ended March 31, 2023 and 2022, from continuing operations, are as follows:

| | **2023** | **2022** |
|---|---|---|
| Interest income | (138,300) | (24,715) |
| Interest expenses and bank charges | 950,752 | 115,951 |
| Accretion on decommissioning obligations | 395,545 | 2,849 |
| Accretion on liability component of convertible debentures | 377,410 | - |
| Accretion on lease obligations | 973,145 | - |
| Amortization of transaction costs on loans | - | 8,292 |
| **Total net finance expense** | **2,558,552** | **102,377** |

## 11. RELATED PARTIES

During the periods ended March 31, 2023 and 2022, there were separate related party transactions as follows:

I. The Company paid a monthly advisory fee to a firm affiliated with a director of NG. As per the consulting agreement, NG paid the firm $24,400 (C$33,000) and $26,062 (C$33,000) for the three months ended March 31, 2023 and 2022, respectively. As at March 31, 2023, there were no outstanding payables owed to the firm.

II. For the three months ended March 31, 2023, the Company incurred expenditures of $133,077 (March 31, 2022 - $nil) in royalty payments paid to service providers and firms that are affiliated with directors of NG as well as payments to a director of NG.

III. For the three months ended March 31, 2022, the Company incurred expenditures of $153,165 in professional fees for general corporate services as well as technical services related to exploration activities in Colombia. Such services were provided by a contracted service provider formerly affiliated with a certain director of the Company, which affiliation ended in December 2022.

IV. For the three months ended March 31, 2023 and 2022, the Company incurred expenditures of $7,418 and $19,684, respectively, in office rental costs in Colombia. The related office space was rented from an entity affiliated with a certain director of the Company. As at March 31, 2023, a payables balance of $9,538 was owed to the lessor entity.

V. In November 2022, the Company completed a non-brokered private placement of convertible debentures of 35,000 debenture units at $1,000 per unit, with 1,000 common share purchase warrants issued per unit. Of the units issued, 3,250 units were issued for subscriptions by directors of the Company or investors related to directors of the Company.

VI. In May 2022, the Company completed a prospectus offering of convertible debentures of 17,147 debenture units at $1,000 per unit, with 400 common share purchase warrants issued per unit. Of the units issued, 7,135 units were issued for subscriptions by directors of the Company or investors related to directors of the Company.

VII. In August 2022, debt holders of the SN-9 loan exercised the conversion option to convert the loan principal and cumulative interest payable to the additional 3.0% overriding royalty on NG Energy's working interest in the gross production of the SN-9 Block. Of the original loan proceeds of $2,500,000, approximately $1,512,500 were provided by directors of the Company.

VIII. In August 2022, the Company entered the BOOMT Agreement with GTX (see Note 13). Of the ownership of GTX, 26% is owned by directors or affiliates of directors of the Company.

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies, and processes for measuring and managing these risks, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

**Credit risk**

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The carrying amount of cash and cash equivalents, deposits in escrow, accounts receivable, VAT receivable and restricted cash represent the maximum credit exposure. As at March 31, 2023, the Company had $2,150,697 (December 31, 2022 - $1,968,873) in restricted cash towards development activity and joint operations in Colombia.

As at March 31, 2023, the Company had $1,731,780 (December 31, 2022 - $920,947) in accounts receivable and prepaids. The Company does not consider any of its receivables past due.

The Company maintained a VAT receivable balance of $2,550,174 as of March 31, 2023 (December 31, 2022 - $2,354,633), which is classified as a non-current asset. The Company considers these VAT balances to be collectible in the future as such VAT amounts will be utilized to offset future VAT charged on sales realized by the Company on future oil and gas production that would otherwise be required to be paid to the Colombian tax authorities.

As at March 31, 2023, the Company held cash and cash equivalents of $1,836,852 (December 31, 2022 - $6,962,228) and deposits in escrow of $1,919,396 (December 31, 2022 - $2,788,368). The Company manages the credit exposure related to cash and cash equivalents and deposits in escrow by ensuring counterparties (e.g., banks) maintain satisfactory credit ratings and monitors all investments to ensure a stable return.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating, and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes (See also note 2). The budgets are updated when required as conditions change.

The following table outlines the contractual maturities of the Company's financial liabilities at March 31, 2023:

| | **Less than 1 year** | **1-3 years** | **Thereafter** | **Total** |
|---|---|---|---|---|
| Trade accounts payable | 3,617,169 | - | - | 3,617,169 |
| Capital payables | 4,310,030 | - | - | 4,310,030 |
| Lease obligation payments | 6,569,986 | 13,111,173 | 16,482,726 | 36,163,885 |
| Convertible debentures - principal | - | - | 38,274,588 | 38,274,588 |
| | **14,497,185** | **13,111,173** | **54,757,314** | **82,365,672** |

**Market risk**

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial derivative contracts or embedded derivatives outstanding at March 31, 2023, nor were there any in the previous year ended December 31, 2022.

***Commodity price risk***

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate because of changes in commodity prices. Commodity prices for natural gas are affected not only by the United States dollar, but also by world economic events that dictate the levels of supply and demand.

The Company's natural gas revenue is derived from natural gas production on the Maria Conchita Block.

***Foreign currency risk***

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. A portion of the Company's oil and natural gas activities in Colombia transact in Colombian Peso (COP$). In addition, most of the Company's financing and a portion of the administrative costs will be based and paid in Canadian dollars and COP$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP$ and Canadian dollars.

As at March 31, 2023, the Company had not entered any foreign currency derivatives to manage its exposure to currency fluctuations, nor were there any foreign currency derivatives as at the previous year ended December 31, 2022.

***Interest rate risk***

Interest rate risk is the risk that future cash flows will fluctuate because of changes in prevailing market interest rates. Fluctuations of interest rates for the three months ended March 31, 2023 and 2022, would not have had a significant impact on cash and cash equivalents and short-term investments. Furthermore, the Company is not currently exposed to interest rate risk on its interest-bearing loans given these debt instruments are all subject to fixed interest rates.

**Capital management**

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt, and equity, which it considers to be the components of its capital structure as outlined below. To maintain or adjust the capital structure, from time to time the Company may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

The Company monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding debt less working capital, as defined above. To facilitate the management of its net debt, the Company prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

| | **March 31, 2023** | **December 31, 2022** |
|---|---|---|
| Convertible debentures (8%) | 12,411,882 | 12,401,802 |
| Convertible debentures (10%) | 25,862,706 | 25,841,701 |
| Lease obligations | 36,163,885 | 37,784,781 |
| Total debt | 74,438,473 | 76,028,284 |
| Working capital (deficit)[1] | (2,894,562) | 1,069,224 |
| **Net debt** | **77,333,035** | **74,959,060** |

1) Calculation of working capital excludes current portion of debt as presented on the consolidated statement of financial position.

The Company regularly monitors its capital structure and, as necessary, adjusts to changing economic circumstances and the underlying risk characteristics of its assets to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

**Fair value of financial instruments**

The Company's financial instruments as at March 31, 2023, include cash and cash equivalents, accounts receivable, VAT receivable, restricted cash, accounts payable and accrued liabilities, and debt. These financial instruments are initially recognized at fair value and subsequently measured at amortized cost. The fair values of the current financial instruments approximate their carrying amounts due to their short terms to maturity.

## 13. COMMITMENTS

**Capital Commitments**

A summary of the Company's estimated capital commitments (in millions of dollars) are as follows:

| **Block** | **2023** | **2024** | **Total** |
|---|---|---|---|
| SN-9 Block [1] | 22.3 | - | **22.3** |
| Tiburon Block [2] | 3.0 | - | **3.0** |
| **Total** | **25.3** | **-** | **25.3** |

1) NG's ANH commitment to carry out the minimum requirement to drill two exploration wells (for which the Company will pay 100% of the costs under the terms of the SN-9 Acquisition) according to Phase 1 of the contractual exploration program. The ANH commitment was approved by the ANH in May 2022 to replace the previous minimum requirement to process and interpret 204.4 km of 2D seismic and drill one exploration well, with an extension up to January 2023 for the completion of the Phase 1 exploration program. The first exploration well (Magico-1) was completed in August 2022 and drilling of the second exploration well (Brujo-1) was completed in November 2022. With the completion of the Brujo-1 well, the Company has sought confirmation from the ANH that the Phase 1 exploration commitments have been fulfilled.

2) Relates to NG's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 69.75 $km^2$ of 3D seismic according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to community disputes in the region, with 148 days to fulfil the commitment after the local disputes are resolved and the activities carried out in the previously proposed area. The Company assumes that activities related to the permits for the new seismic survey will commence in 2023 if the dispute is resolved by the Colombian Ministry of the Interior.

The expenditures provided in the above table only represent the Company's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create proved plus probable natural gas reserves may differ from these estimates. The expenditures in the above table are based on the latest possible date required per contract and may be incurred at an earlier date.

**Contractual Commitments**

*Natural Gas Transportation Services*
In August 2022, the Company entered into a Build-Own-Operate-Maintain-Transfer agreement (the "BOOMT Agreement") with GTX International Corp. ("GTX") pursuant to which GTX has built and will operate production facilities and pipeline (the "Pipeline Facilities") with capacity of 20 million cubic feet per day ("MMcf/d") that will extend from the Company's Maria Conchita Block in Colombia to existing national infrastructure. The BOOMT Agreement outlines the take-or-pay arrangement ("ToP") pursuant to which NG has agreed to transport, or pay for, 16 MMcf/d through the Pipeline Facilities for a period of six years (the "Guaranteed Commitment") at a tariff of $0.90/Mcf of gas, which commenced on September 23, 2022. Following the end of the term of the Guaranteed Commitment, the Company will no longer be required to pay for the full capacity of 16 MMcf/d but rather will only pay for that capacity which is used. The BOOMT Agreement has a term of ten years, after which ownership of the Pipeline Facilities will transfer to the Company. The BOOMT Agreement was reviewed as per guidelines in IFRS 16 to determine if it was for financial reporting purposes considered a right-of-use asset and lease liability. It was determined that the agreement met the criteria to be accounted for as a right-of-use asset and lease liability and has been disclosed as such in Notes 6 and 8.

*Natural Gas Compression Services*
In November 2021, the Company entered a take-or-pay service contract with Surenergy SAS ESP ("Surenergy") for the compression of natural gas production derived from the Maria Conchita Block. Under the terms of the contract, Surenergy will install and maintain necessary infrastructure and equipment required to provide daily natural gas compression services for a natural gas production capacity of 20 MMcf/d, for a period of six years from the commencement of commercial natural gas production within the Maria Conchita Block. For these services, the Company will pay Surenergy a monthly service fee of $96,240 plus tax, annually adjusted to the Consumer Price Index, regardless of whether the Company fully utilizes the daily stipulated natural gas compression capacity. In December 2022, Surenergy completed the delivery of the third gas compressor, thereby satisfying the last outstanding condition required to turn the Surenergy Agreement into a binding obligation on the Company. The agreement with Surenergy was reviewed as per guidelines in IFRS 16 to determine if it was for financial reporting purposes considered a right-of-use asset and lease liability. It was determined that the agreement met the criteria

to be accounted for as a right-of-use asset and lease liability and has been disclosed as such in Notes 6 and 8.

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

Information regarding changes in non-cash working capital for the periods ended March 31, 2023 and 2022 is as follows:

| **Continuing Operations** | **2023** | 2022 |
|---|---|---|
| Accounts receivable and prepaids | **(810,832)** | (918,802) |
| VAT receivable | **(195,541)** | (253,560) |
| Accounts payable and accrued liabilities | **(1,302,517)** | (262,848) |
| **Change in non-cash working capital** | **(2,308,890)** | (1,435,210) |
| Relating to: | | |
| Operating activities | **(45,645)** | (187,644) |
| Investing activities | **(2,263,245)** | (1,247,566) |
| **Change in non-cash working capital** | **(2,308,890)** | (1,435,210) |

## 15. ADVANCES ON FUTURE FINANCING

Between March and June 2023, the Company entered into simple agreements for future equity (“SAFE”), for total proceeds of C$11,000,000, of which C$1,000,000 was with a third-party fund to which a certain director and officer of the Company provides investment recommendations. In accordance with the terms of the SAFE agreements, the full value of the C$11,000,000 will be converted into securities of the Company in accordance with the terms and upon the closing of a future finance offering of the Company, with said offering to be finalized by August 31, 2023. In the event that an offering is not finalized, proceeds received will be constituted as a promissory note for future repayment, bearing annual interest of 10%. As of March 31, 2023, C$1,000,000 ($738,934) of proceeds had been received, with the additional C$10,000,000 of proceeds being received subsequent to March 31, 2023.