# NG ENERGY INTERNATIONAL CORP.

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2022

# NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *(Unaudited, expressed in U.S. Dollars)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **1,953,148** | 5,848,957 |
| Deposit in escrow (Note 9) | **647,214** | - |
| Accounts receivable and prepaids | **1,058,549** | 682,799 |
| | **3,658,911** | 6,531,756 |
| Non-current Assets | | |
| Restricted cash (Note 4) | **2,078,227** | 2,340,244 |
| VAT receivable | **2,560,970** | 2,284,965 |
| Exploration and evaluation assets (Note 5) | **22,931,579** | 11,980,739 |
| Property, plant and equipment (Note 6) | **30,111** | 8,129 |
| Right of use assets (Note 7) | **19,972,902** | - |
| **Total Assets** | **51,232,700** | 23,145,833 |
| | | |
| **Liabilities** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **4,896,125** | 2,615,205 |
| Current portion of lease liabilities (Note 7) | **2,185,086** | - |
| Current portion of debt (Note 8) | **-** | 2,990,801 |
| | **7,081,211** | 5,606,006 |
| Non-current Liabilities | | |
| Liability component of convertible debentures (Note 9) | **8,534,639** | - |
| Lease liabilities (Note 7) | **17,698,225** | - |
| Decommissioning obligation | **1,573,063** | 806,830 |
| **Total Liabilities** | **34,887,138** | 6,412,836 |
| | | |
| **Shareholders' Equity** | | |
| Share capital (Note 10a) | **104,875,640** | 103,572,805 |
| Contributed surplus | **22,407,580** | 10,349,516 |
| Warrants (Note 10c) | **6,619,299** | 14,669,362 |
| Equity component of convertible debentures (Note 9) | **220,960** | - |
| Deficit | **(117,517,642)** | (111,018,304) |
| Accumulated other comprehensive loss | **(260,275)** | (840,382) |
| **Total Shareholders' Equity** | **16,345,562** | 16,732,997 |
| **Total Liabilities and Shareholders' Equity** | **51,232,700** | 23,145,833 |

*Going concern (Note 2)*
*Related parties (Note 12)*
*Commitments (Note 14)*
*Subsequent events (Note 17)*

*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 and nine months ended September 30

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| *(Unaudited, expressed in U.S. Dollars)* | **2022** | 2021 | **2022** | 2021 |
| **Expenses:** | | | | |
| General and administrative | **806,611** | 620,996 | **2,722,357** | 2,170,591 |
| Share-based compensation (Note 10b) | **1,860,743** | 1,298,396 | **1,860,743** | 1,298,396 |
| Exploration and evaluation expense (Note 5) | **52,671** | - | **210,797** | - |
| Depletion and depreciation (Note 6 and 7) | **67,159** | 1,727 | **75,226** | 4,972 |
| Net finance expense (Note 11) | **462,954** | 164,268 | **820,139** | 493,176 |
| Gain on disposition (Note 16) | **(280,863)** | - | **(280,863)** | - |
| Foreign exchange loss (gain) | **875,142** | 265,416 | **1,470,060** | 618,832 |
| | **3,844,417** | 2,350,803 | **6,878,459** | 4,585,967 |
| Loss before income taxes | **(3,844,417)** | (2,350,803) | **(6,878,459)** | (4,585,967) |
| Deferred income tax recovery (Note 9) | **-** | - | **379,121** | - |
| **Net loss** | **(3,844,417)** | (2,350,803) | **(6,499,338)** | (4,585,967) |
| **Other comprehensive income** | | | | |
| Foreign currency translation adjustment | **482,388** | 119,668 | **580,107** | 174,838 |
| **Comprehensive Loss** | **(3,362,029)** | (2,231,135) | **(5,919,231)** | (4,411,129) |
| Loss per share - basic and diluted (Note 10e) | **(0.03)** | (0.02) | **(0.05)** | (0.04) |
| Weighted average number of common shares outstanding | **125,109,229** | 106,839,679 | **123,565,061** | 103,388,971 |

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

## NG ENERGY INTERNATIONAL CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30

| *(Unaudited, expressed in U.S. Dollars)* | **For the three months ended** **2022** | 2021 | **For the nine months ended** **2022** | 2021 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net loss | **(3,844,417)** | (2,350,803) | **(6,499,338)** | (4,585,967) |
| Items not affecting cash: | | | | |
| Depletion and depreciation (Note 6 and 7) | **67,159** | 1,727 | **75,226** | 4,972 |
| Share-based compensation (Note 10b) | **1,860,743** | 1,298,396 | **1,860,743** | 1,298,396 |
| Unrealized foreign exchange loss | **196,289** | 174,438 | **537,193** | 637,053 |
| Net finance expense (Note 11) | **462,954** | 164,268 | **820,139** | 493,176 |
| Gain on disposition (Note 16) | **(280,863)** | - | **(280,863)** | - |
| Current income tax recovery | **-** | - | **(379,121)** | - |
| Change in non-cash working capital (Note 15) | **164,744** | (781,629) | **(65,984)** | (997,744) |
| **Cash used in operating activities** | **(1,373,391)** | (1,493,603) | **(3,932,005)** | (3,150,114) |
| **Investing Activities** | | | | |
| Exploration and evaluation asset additions (Note 5) | **(6,906,370)** | (495,927) | **(13,430,845)** | (5,047,416) |
| Property, plant and equipment additions (Note 6) | **(14,226)** | (621) | **(33,221)** | (2,959) |
| Change in restricted cash (Note 4) | **(12,779)** | (10) | **(25,013)** | (3,565) |
| Change in non-cash working capital (Note 15) | **404,712** | (278,975) | **1,695,149** | (157,219) |
| **Cash used in investing activities** | **(6,528,663)** | (775,533) | **(11,793,930)** | (5,211,159) |
| **Financing Activities** | | | | |
| Proceeds on convertible debentures, net of costs (Note 9) | **-** | - | **12,069,444** | - |
| Proceeds on debt issuance, net of costs | **-** | - | **-** | 800,000 |
| Proceeds on private placement, net of costs | **-** | - | **-** | 6,992,748 |
| Proceeds on warrant exercises | **-** | 513,898 | **1,002,644** | 1,037,870 |
| Proceeds on option exercises | **-** | 17,904 | **6,519** | 43,809 |
| Proceeds released from (put into) escrow (Note 9) | **251,202** | - | **(696,018)** | - |
| Proceeds on disposition (Note 16) | **280,863** | - | **280,863** | - |
| Purchase of shares cancelled under normal course issuer bid | **(106,279)** | - | **(106,279)** | - |
| Net finance received (paid) | **(212,983)** | 5,538 | **(304,828)** | 15,809 |
| Lease payments, principal and interest | **(216,312)** | - | **(216,312)** | - |
| **Cash provided by financing activities** | **(3,509)** | 537,340 | **12,036,033** | 8,890,236 |
| **Net increase (decrease) in cash** | **(7,905,563)** | (1,731,796) | **(3,689,902)** | 528,963 |
| Foreign exchange loss on cash | **(5,094)** | (7,660) | **(205,907)** | (47,065) |
| **Increase (decrease) in cash** | **(7,910,657)** | (1,739,456) | **(3,895,809)** | 481,898 |
| Cash, beginning of period | **9,863,805** | 3,430,119 | **5,848,957** | 1,208,765 |
| **Cash, end of period** | **1,953,148** | 1,690,663 | **1,953,148** | 1,690,663 |

*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, 2021 | 119,930,155 | 103,572,805 | 10,349,516 | 14,669,362 | - | (111,018,304) | (840,382) | 16,732,997 |
| Net loss | - | - | - | - | - | (6,499,338) | - | (6,499,338) |
| Shares issued through warrant exercise | 5,011,111 | 1,205,561 | - | (202,917) | - | - | - | 1,002,644 |
| Shares issued through option exercise | 30,000 | 11,108 | (4,589) | - | - | - | - | 6,519 |
| Issuance of convertible debentures | - | - | - | 2,354,764 | 225,564 | - | - | 2,580,328 |
| Debenture conversion | 291,666 | 192,445 | - | - | (4,604) | - | - | 187,841 |
| Warrants expired | - | - | 10,201,910 | (10,201,910) | | - | - | - |
| Shared cancelled through share buyback | (140,800) | (106,279) | - | - | - | - | - | (106,279) |
| Foreign currency translation adjustment | - | - | - | - | - | - | 580,107 | 580,107 |
| Share-based compensation | - | - | 1,860,743 | - | - | - | - | 1,860,743 |
| **Balance at September 30, 2022** | **125,122,132** | **104,875,640** | **22,407,580** | **6,619,299** | **220,960** | **(117,517,642)** | **(260,275)** | **16,345,562** |
| | | | | | | | | |
| Balance at December 31, 2020 | 89,597,033 | 89,676,395 | 10,179,700 | 11,954,739 | - | (104,303,857) | (845,886) | 6,661,091 |
| Net loss | - | - | - | - | - | (4,585,967) | - | (4,585,967) |
| Shares issued through private placement | 8,939,300 | 5,633,876 | - | - | - | - | - | 5,633,876 |
| Warrants issued through private placement | - | - | - | 1,347,331 | - | - | - | 1,347,331 |
| Shares issued to service provider | 4,000,000 | 1,099,592 | (1,099,592) | - | - | - | - | - |
| Warrants issued to broker | - | - | - | 399,993 | - | - | - | 399,993 |
| Shares issued through warrant exercise | 6,467,232 | 2,116,569 | - | (1,078,699) | - | - | - | 1,037,870 |
| Shares issued through option exercise | 170,000 | 72,797 | (28,988) | - | - | - | - | 43,809 |
| Foreign currency translation adjustment | - | - | - | - | - | - | 174,838 | 174,838 |
| Share-based compensation | - | - | 1,298,396 | - | - | - | - | 1,298,396 |
| **Balance at September 30, 2021** | **109,173,565** | **98,599,229** | **10,349,516** | **12,623,364** | **-** | **(108,889,824)** | **(671,048)** | **12,011,237** |

*(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 nine months ended September 30, 2022, the Company recognized a net loss of $6.5 million and cash used in operating activities of $3.9 million. As of September 30, 2022, the Company had a working capital deficit of $3.4 million. For 2022, the Company has contractually committed exploration and development amounts of $25.3 million as outlined in Note 14, with a large portion of those contractual commitments being fulfilled through the current SN-9 drilling program. The need to obtain capital to fund the Company's ongoing operations, and capital commitments, and the ultimate development of the Company's exploration and evaluation assets give rise to a material uncertainty that creates significant doubt on the Company's ability to continue as a going concern.

In May 2022, the Company closed the offering of convertible debentures for aggregate gross proceeds of $13.4 million. In February 2021 and October 2021, the Company closed separate private placements for aggregate gross proceeds of $7.7 million and $6.5 million, respectively. The Company also received proceeds of $1.0 million on the exercise of purchase warrants through the second quarter of 2022 (see Note 10c). For the year ended December 31, 2021, the Company received proceeds of $1.7 million on the exercise of purchase warrants. These proceeds are and continue to be used to fund general working capital needs and capital work programs as well as to settle outstanding liabilities, however, as indicated above are not sufficient to fund the Company's ongoing operational and capital commitments. The Company will require additional sources of capital to fund ongoing operational requirements and capital commitments which may not be available when needed.

Due to the conditions noted above, there remains a material uncertainty surrounding the Company's ability to obtain sufficient financing to meet its operational requirements and capital 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 capital commitments as well its other potential capital 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, 2021, 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, 2021. These Financial Statements were authorized for issuance by the Company's Board of Directors on November 24, 2022.

### 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, 2021 annual consolidated financial statements.

The ongoing impact of COVID-19 on the Company's operations and future financial performance is uncertain. The continued impact of COVID-19 will depend on future developments that are uncertain and unpredictable, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge COVID-19 continues to present uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

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, with the exception of 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, 2021. With the exception of the below, there were no material changes in the Company's significant accounting policies from those disclosed in the 2021 annual audited financial statements.

**Right-of-use assets and Lease obligations**

Right-of-use asset ("ROU asset") and a corresponding lease obligation are recognized on the consolidated statements of financial position on the lease commencement date. Interest associated with the lease obligation is recognized over the lease period with a corresponding increase in the underlying lease obligation. ROU assets are depreciated on a straight-line basis over the lease term.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments and payments to exercise an extension or termination option if applicable, if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

ROU assets and lease obligations are remeasured when there is a change in the future lease payments arising from a change in an index or rate or term, or if there is a change in the assessment on whether the Company will exercise an extension or termination option.

Short-term leases and leases of low-value assets are not recognized on the consolidated statements of financial position and lease payments are instead recognized in the financial statements as incurred.

## 4. RESTRICTED CASH

As of September 30, 2022, funds totaling $2,078,227 (December 31, 2021 - $2,340,244) comprised the balance represented in restricted cash. The composition of this amount is as follows:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| SN-9 ANH Guarantee | 1,803,781 | 2,039,321 |
| Tiburon ANH Guarantee | 274,446 | 300,923 |
| | **2,078,227** | **2,340,244** |

Term deposits of $2.4 million and $0.3 million were established to secure performance guarantees required by the Colombian National Hydrocarbon Agency ("ANH") under the E&P Contracts for the SN-9 and Tiburon Block. The SN-9 and Tiburon deposits 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. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed. As of September 30, 2022, the balances of the SN-9 term deposit and Tiburon term deposit were $1,803,781 and $274,446 respectively.

## 5. EXPLORATION AND EVALUATION ASSETS

Exploration and Evaluation ("E&E") assets consists of the following amounts:

| | |
|---|---|
| Balance, December 31, 2020 | 8,398,358 |
| Additions | 5,488,568 |
| MC reduction from Aruchara loan conversion to royalty (Note 8) | (2,080,000) |
| Revision of asset retirement estimate | 173,813 |
| Balance, December 31, 2021 | 11,980,739 |
| Additions | 13,430,845 |
| SN9 reduction from SN9 loan conversion to royalty (Note 8) | (3,232,880) |
| Asset retirement cost addition | 703,634 |
| Revision of asset retirement estimate | 49,241 |
| **Balance, September 30, 2022** | **22,931,579** |

The Company incurred ongoing maintenance costs of $210,797 for the Tiburon CGU from the third-party operator for the nine months ended September 30, 2022, 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 components of the Company's property, plant and equipment ("PP&E") consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interest in any developed natural gas properties. The components of the Company's assets are as follows:

| **Cost** | **D&P** | **Corporate** | **Total** |
|---|---|---|---|
| Balance, December 31, 2020 | - | 232,101 | 232,101 |
| Capital additions | - | 3,096 | 3,096 |
| Balance, December 31, 2021 | - | 235,197 | 235,197 |
| Capital additions | - | 33,221 | 33,221 |
| **Balance, September 30, 2022** | **-** | **268,418** | **268,418** |
| | | | |
| **Accumulated depletion, depreciation and impairment** | | | |
| Balance, December 31, 2020 | - | 220,300 | 220,300 |
| Additions | - | 6,768 | 6,768 |
| Balance, December 31, 2021 | - | 227,068 | 227,068 |
| Additions | - | 11,239 | 11,239 |
| **Balance, September 30, 2022** | **-** | **238,307** | **238,307** |
| | | | |
| **Net book value** | | | |
| Balance, December 31,2021 | - | 8,129 | 8,129 |
| **Balance, September 30, 2022** | **-** | **30,111** | **30,111** |

## 7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

As at September 30, 2022, the Company had service contracts and agreements in Colombia. The Company recognized right-of-use assets and corresponding lease liabilities relating to the BOOMT agreement with GTX International Corp. (see Note 14 for “Contractual Commitments”). The presented lease liability has a discount rate of 16.33%. A continuity of right-of-use assets and lease liabilities is presented below.

| **Right-of-use assets** | |
|---|---|
| Balance, December 31, 2021 | - |
| Additions | 20,036,889 |
| Depreciation | (63,987) |
| **Balance, September 30, 2022** | **19,972,902** |

| **Lease liabilities** | |
|---|---|
| Balance, December 31, 2021 | - |
| Additions | 20,036,889 |
| Interest expense | 62,734 |
| Lease payments | (216,312) |
| **Balance, September 30, 2022** | **19,883,311** |

| | |
|---|---|
| Current portion | 2,185,086 |
| Non-current portion | 17,698,225 |
| **Total** | **19,883,311** |

Future lease payments as at September 30, 2022 are as follows:

| | **Year 1** | **Years 2-3** | **Thereafter** | **Total** |
|---|---|---|---|---|
| Future lease payments | 5,039,688 | 10,526,400 | 15,782,400 | 31,348,488 |

## 8. DEBT AND DEBT ISSUANCE COSTS

The Company's debt as of September 30, 2022, consists of the following:

| | Aruchara | Maria Conchita | SN-9 | Total |
|---|---|---|---|---|
| Balance, December 31, 2020 | 1,641,763 | 380,060 | 1,985,941 | 4,007,764 |
| Utilized portion of drawdown facility | 200,000 | - | 600,000 | 800,000 |
| Accrued interest expense | 219,834 | 7,924 | 330,250 | 558,008 |
| Accrued commitment fees | 2,833 | - | 44,750 | 47,583 |
| Amortization of transaction costs | 15,570 | 468 | 29,860 | 45,898 |
| Loan repayment | - | (388,452) | - | (388,452) |
| Conversion to Royalty Interest | (2,080,000) | - | - | (2,080,000) |
| Balance, December 31, 2021 | - | - | 2,990,801 | 2,990,801 |
| Accrued interest expense | - | - | 221,874 | 221,874 |
| Amortization of transaction costs | - | - | 20,205 | 20,205 |
| Conversion to Royalty Interest | - | - | (3,232,880) | (3,232,880) |
| **Balance, September 30, 2022** | - | - | - | - |

### SN-9 Loan

In August 2020, the Company entered into a loan in the amount of $2.5 million, secured by the assets of the Company. The loan was denominated in US dollars, was to mature in August 2022, and bore interest at the rate of 15% per annum. The proceeds of the loan were utilized for the costs of exploratory activities in the SN-9 block. Under the terms of the loan agreement, the lenders were also granted a 3% overriding royalty on NG's working interest in the gross production of the SN-9 block. Total interest and principal was payable at the maturity date, although the lenders had an option to convert the loan principal and interest into another 3% overriding royalty on NG's working interest in the gross production of the SN-9 block at the lenders' discretion at any point prior to the maturity date.

In August 2022, debtholders of the SN-9 loan exercised the option to convert the loan principal and cumulative interest payable to the additional 3.0% overriding royalty on NG's working interest in the gross production of the SN-9 block. Due to the conversion, the Company no longer has an outstanding balance owed to the SN-9 loan debtholders.

## 9. CONVERTIBLE DEBENTURES

In May 2022, the Company completed a prospectus offering of convertible debentures for aggregate proceeds of $13.4 million (C$17.1 million). Each debenture unit is denominated in Canadian dollars and consists of: (i) one 8% convertible unsecured debenture in the principal amount of $1,000 (each a "Convertible Debenture") 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 of 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.

As the debenture has a conversion feature, the equity and debt components must be bifurcated with value assigned to each as well as to warrants issued as part of the offering. The value assigned to the liability on the date of issuance was the present value of the contractually determined stream of future cash flows discounted at 15%, being the estimated rate that the market would apply to an instrument with comparable credit status and provide substantially the same cash flows, on the same terms, but without the conversion option. From the date of issuance, the liability component accretes up to its principal value using the effective interest method, with the charge recorded in finance (income) expenses in the consolidated statement of loss. The fair value assigned to the warrants on the date of issuance was based on the Black-Scholes option pricing model. Finally, the residual balance of proceeds on the offering was assigned to the conversion feature. On account of a temporary difference between the tax basis and the accounting basis of the Convertible Debentures due to the bifurcation of the book values between liability and equity components, a deferred income tax recovery of $379,121 was recognized on the consolidated statement of loss for the nine months ended September 30, 2022, with an offsetting reduction to the equity component of the Convertible Debentures in accordance with IFRS.

The components of the Company's convertible debentures as of September 30, 2022 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 | - | (379,121) | - | (379,121) |
| Accretion | 197,140 | - | - | 197,140 |
| Conversion of debentures | (187,841) | (4,604) | - | (192,445) |
| Impact of foreign exchange | (584,655) | - | - | (584,655) |
| **Balance, September 30, 2022** | **8,534,639** | **220,960** | **2,354,764** | **11,110,363** |

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 on a monthly basis. Interest thereafter shall be paid out of the Company's cash flow. As of September 30, 2022, total balance of deposit in escrow was $647,214.

In August 2022, certain debenture holders elected to convert C$350,000 face value of their debentures to shares of the Company at the conversion price of C$1.20 per share, resulting in the issuance of 291,666 common shares.

## 10. SHARE CAPITAL

### a) Common shares

As at September 30, 2022, 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 of September 30, 2022, are as follows:

| | Common shares | Amount ($) |
|---|---|---|
| Balance, December 31, 2020 | 89,597,033 | 89,676,395 |
| Shares issued through private placements (net of costs) | 17,080,900 | 9,800,062 |
| Shares issued to service provider | 4,000,000 | 1,099,592 |
| Shares issued through warrant exercise | 9,082,222 | 2,923,959 |
| Shares issued through option exercise | 170,000 | 72,797 |
| 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 | 192,445 |
| Shares cancelled through share buyback | (140,800) | (106,279) |
| **Balance, September 30, 2022** | **125,122,132** | **104,875,640** |

### 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 September 30, 2022, a total of 12,526,293 (December 31, 2021 – 9,915,400) 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, 2020 | 7,912,600 | 1.01 |
| Options issued | 2,250,000 | 0.91 |
| Options exercised | (170,000) | 0.33 |
| Options forfeited | (77,200) | 7.95 |
| Options amended (old price) | (125,000) | 8.00 |
| Options amended (new price) | 125,000 | 0.91 |
| Balance, December 31, 2021 | 9,915,400 | 0.85 |
| Options exercised | (30,000) | 0.275 |
| Options issued | 2,640,893 | 1.14 |
| **Balance, September 30, 2022** | **12,526,293** | **0.91** |

The value of the stock options vesting in the nine months ended September 30, 2022, equated to $1,860,743 (September 30, 2021 - $1,298,476), which was expensed as share-based payments.

In August 2022, the Company granted 2,640,893 stock options to directors, officers, employees, and consultants of the Company. The options vested immediately and are exercisable at a price of C$1.14 per share for a period of 10 years. Options granted were allocated an estimated fair value of C$0.905 per option using the Black Scholes option pricing model based on weighted average assumptions of expected forfeiture rate of 0%, risk-free interest rate of 2.68%, expected dividend yield of 0%, expected stock price volatility of 75%, and expected option life of 10 years.

The following summarizes information about stock options outstanding as at September 30, 2022:

| **Exercise prices (C$)** | **Number of options outstanding** | **Weighted average term to expiry (years)** | **Number of options exercisable** |
|---|---|---|---|
| 0.275 | 1,346,000 | 7.73 | 1,346,000 |
| 0.45 | 2,125,000 | 6.76 | 2,125,000 |
| 0.91 | 2,375,000 | 8.58 | 2,375,000 |
| 1.00 | 3,900,000 | 8.15 | 3,900,000 |
| 1.14 | 2,640,893 | 9.86 | 2,640,893 |
| 6.10 | 29,400 | 3.89 | 29,400 |
| 8.00 | 110,000 | 4.86 | 110,000 |
| | **12,526,293** | **8.27** | **12,526,293** |

### c) Warrants

As at September 30, 2022, a total of 21,712,062 (December 31, 2021 – 25,489,373) 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, 2020 | 21,449,745 | 3.03 |
| Warrants issued on private placement | 12,469,650 | 1.40 |
| Broker warrants issued on private placement | 652,200 | 1.16 |
| Warrants exercised | (9,082,222) | 0.23 |
| Balance, December 31, 2021 | 25,489,373 | 3.18 |
| Warrants issued with convertible debentures | 6,858,800 | 1.40 |
| Warrants expired | (5,625,000) | 10.50 |
| Warrants exercised | (5,011,111) | 0.26 |
| **Balance, September 30, 2022** | **21,712,062** | **1.40** |

The following summarizes information about total purchase warrants outstanding as at September 30, 2022:

| Exercise prices (C$) | Number of warrants outstanding | Weighted average term to expiry (years) | Number of warrants exercisable |
|---|---|---|---|
| 1.15 | 475,600 | 1.36 | 475,600 |
| 1.20 | 8,141,600 | 1.06 | 8,141,600 |
| 1.40 | 6,858,800 | 4.64 | 6,858,800 |
| 1.50 | 2,036,412 | 1.25 | 2,036,412 |
| 1.75 | 4,199,650 | 1.36 | 4,199,650 |
| | **21,712,062** | **2.27** | **21,712,062** |

For the warrants issued during the nine months ended September 30, 2022 related to the offering of convertible debentures (Note 9), the Black-Scholes option pricing model along with other qualitative factors was used to estimate their fair value with the following assumptions:

| | |
|---|---|
| Share price | C$0.98 |
| Exercise price | C$1.40 |
| Expected stock price volatility | 75% |
| Term | 5 years |
| Expected dividend yield | 0% |
| Risk-free interest rate | 2.70% |
| Fair value warrant price | C$0.54 |

On July 31, 2022, 5,625,000 warrants at an exercise price of C$10.50 expired, reducing the balance of outstanding warrants to 21,712,062.

**d) Share buyback**

On July 12, 2022, the Company announced its intention to proceed with a share buyback with the ability to repurchase up to 6,248,563 common shares over the course of the next 12 months. In August 2022, a total of 140,800 common shares were repurchased at prevailing market prices for $106,279. The shares were then subsequently returned to the Treasury and cancelled.

**e) Loss per share**

For the purposes of the loss per share calculations for the periods ended September 30, 2022 and 2021, there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended September 30, 2022, potential effects of outstanding Convertible Debentures, stock options and 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.

## 11. FINANCE INCOME AND EXPENSE

The components of net finance expense/income for the three and nine months ended September 30, 2022 and 2021, are as follows:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Interest income | (84,183) | (18,319) | (168,657) | (59,770) |
| Interest expenses and bank charges | 332,582 | 169,281 | 695,359 | 466,593 |
| Commitment fees | - | - | - | 47,583 |
| Accretion on decommissioning obligations | 6,498 | 1,380 | 13,358 | 4,130 |
| Accretion on liability component of convertible debentures | 141,961 | - | 197,140 | - |
| Interest expense on lease liabilities | 62,734 | - | 62,734 | - |
| Amortization of transaction costs on loans | 3,362 | 11,926 | 20,205 | 34,640 |
| **Total net finance expense** | **462,954** | **164,268** | **820,139** | **493,176** |

## 12. RELATED PARTIES

During the periods ended September 30, 2022 and 2021, 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 Energy. As per the consulting agreement, NG Energy paid the firm $77,175 and $79,118 for the nine months ended September 30, 2022 and 2021, respectively. Furthermore, additional fees are paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services. Administrative success fees of $133,661 were paid upon closing of the 2022 convertible debenture offering and $81,017 upon closing of the 2021 private placements through units for the nine months ended September 30, 2022 and 2021, respectively. As at September 30, 2022, there were no outstanding payables owed to the firm.

II. The Company incurred professional fees for general corporate services as well as technical services related to exploration activities in Colombia of $871,729 and $269,103 for the nine months ended September 30, 2022 and 2021, respectively. Such services were provided by a contracted service provider affiliated with a certain director of the Company. As at September 30, 2022, there were no outstanding payables owed to the service provider.

III. The Company incurred office rental costs in Colombia expenditures of $58,989 and $31,728 for the nine months ended September 30, 2022 and 2021, respectively. The related office space was rented from an entity affiliated with a certain director of the Company. As at September 30, 2022, there were no outstanding payables owed to the lessor entity.

IV. 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.

V. 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 (see Note 8). Of the original loan proceeds of $2,500,000, approximately $1,512,500 were provided by directors of the Company.

VI. In August 2022, the Company entered into a BOOMT agreement with GTX for installation and operation of production facilities and pipeline in the Company's Maria Conchita field for a ten-year period (see Note 14 under "Contractual Commitments"). Of the ownership of GTX, 26% is held by directors or affiliates of directors of the Company.

VII. In October 2021, the Company completed a non-brokered private placement through units for proceeds of $6,474,063 before issue costs. Of the total proceeds, approximately $50,579 were from subscriptions by directors or by investors related to directors of the Company.

VIII. In February 2021, the Company completed a non-brokered private placement offering of 429,300 units on the same terms as those issued pursuant to the February 2021 bought deal financing, for a deemed value of $388,452. The issuance of the non-brokered private placement through units was completed as repayment for the outstanding balance of the Maria Conchita Loan of $350,000 plus accrued interest. Of the units issued, 253,000 units were issued to the Company's directors.

## 13. 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 September 30, 2022, the Company had $2,078,227 (December 31, 2021 - $2,340,244) in restricted cash towards development activity and joint operations in Colombia.

As at September 30, 2022, the Company had $1,058,549 (December 31, 2021 - $682,799) in accounts receivable and prepaids. The majority of which related to prepaid expenses. The Company does not consider any of its receivables past due.

The Company maintained a VAT receivable balance of $2,560,970 as of September 30, 2022 (December 31, 2021 - $2,284,965), 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.

The Company held cash and cash equivalents of $1,953,148 (December 31, 2021 - $5,848,957) and deposits in escrow of $647,214 (December 31, 2021 - $nil) as at September 30, 2022. The Company manages the credit exposure related to cash and cash equivalents and deposits in escrow by ensuring counter parties (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 September 30, 2022:

| | Year 1 | Years 2-3 | Thereafter | Total |
|---|---|---|---|---|
| Trade accounts payable | 2,113,551 | - | - | 2,113,551 |
| Capital payables | 2,782,574 | - | - | 2,782,574 |
| Lease obligations (undiscounted) | 5,039,688 | 10,526,400 | 15,782,400 | 31,348,488 |
| Convertible debentures (undiscounted) | - | - | 12,254,323 | 12,254,323 |
| | **9,935,813** | **10,526,400** | **28,036,723** | **48,498,936** |

**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 September 30, 2022, nor were there any in the previous year ended December 31, 2021.

***Commodity price risk***

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and 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 currently has no production revenue as of September 30, 2022.

***Foreign currency risk***

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result 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$). In addition, the majority of the Company's financing and a portion of the administrative costs will be based and paid in Canadian dollars and COP$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP$ and Canadian dollars.

As at September 30, 2022, the Company had not entered into 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, 2021.

***Interest rate risk***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. Fluctuations of interest rates for the periods ended September 30, 2022 and 2021, 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. In order 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.

| | **September 30, 2022** | **December 31, 2021** |
|---|---|---|
| Convertible debentures (8%) | 12,254,323 | - |
| SN-9 loan (15%) | - | 3,012,500 |
| Lease obligations | 31,348,488 | - |
| Total debt | 43,602,811 | 3,012,500 |
| Working capital (deficit)[(1)] | (1,237,214) | 3,916,551 |
| **Net debt (net surplus)** | **44,840,025** | **(904,051)** |

1) Calculation of working capital excludes current portion of lease liabilities 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 September 30, 2022, include cash and cash equivalents, deposits in escrow, 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.

## 14. COMMITMENTS

### Capital Commitments

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

| Block | 2022 | 2023 | 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 aforementioned 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 commenced in September 2022. With the completion of the Brujo-1 well, the Company will seek 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.

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 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") 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 field in Colombia to existing national infrastructure. The BOOMT outlines the take-or-pay arrangement ( "ToP") pursuant to which NG will agree 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, commencing from the time of commercial production begins to be delivered to the market. The Company's Guaranteed Commitment will convert after six years into payment for only the capacity that is used at the same tariff rate. The ToP arrangement will have a term of 10 years, after which ownership of the Pipeline Facilities will transfer to the Company.

*Natural Gas Compression Services*
In November 2021, the Company entered into 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 in order to provide daily natural gas compression services for a capacity of 16 million cubic

feet per day ("MMcf/d") of natural gas production for a term of six years from the commencement of commercial natural gas production within the Maria Conchita Block. For these services, the Company has committed to pay a monthly service fee of $96,240 to Surenergy over the six-year term of the service contract. The monthly service fee is to be paid to Surenergy each month regardless of whether the Company fully utilizes the daily stipulated gas compression capacity made available by Surenergy under the terms of the service contract. Future amendments to the service contract may be made upon mutual agreement of both parties. The Company may unilaterally terminate the service contract prior to the completion of the six-year term with 30 days notices, but a final fee equal to 20% of the monthly service fee for the remaining life of the service contract would be assessed and paid by the Company. As of the date hereof, commercial natural gas production has not commenced within the Maria Conchita Block.

There are no other significant commitments outstanding as of September 30, 2022.

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

Information regarding changes in non-cash working capital for the periods ended September 30, 2022 and 2021 is as follows:

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Accounts receivable and prepaids | 165,308 | (443,295) | (375,750) | (509,087) |
| VAT receivable | 16,732 | (39,147) | (276,005) | (510,675) |
| Accounts payable and accrued liabilities | 387,416 | (578,162) | 2,280,920 | (135,201) |
| **Change in non-cash working capital** | **569,456** | **(1,060,604)** | **1,629,165** | **(1,154,963)** |
| Relating to: | | | | |
| Operating activities | 164,744 | (781,629) | (65,984) | (997,744) |
| Investing activities | 404,712 | (278,975) | 1,695,149 | (157,219) |
| **Change in non-cash working capital** | **569,456** | **(1,060,604)** | **1,629,165** | **(1,154,963)** |

## 16. GAIN ON DISPOSITION

The Company held 12,250,000 common shares of Horizon Petroleum Ltd. ("Horizon Shares"). As of December 31, 2019, it was determined that a disposition of the investment in Horizon Shares in the next 12 months was not highly probably and was deemed to have no recoverable value as Horizon Petroleum Ltd. was delisted from the TSX-V, resulting in a devaluation to a balance of $nil. During the three months ended September 30, 2022, the Horizon Shares were re-listed and consequently sold for total proceeds of $280,863, net of transaction costs.

## 17. SUBSEQUENT EVENTS

### Bridge loan received

In October 2022, the Company obtained a bridge loan from a certain officer and director of the Company in the amount of $2,000,000 at a rate of 10% per annum and matures on the second anniversary from the closing date. If the Company is to complete a financing of convertible debentures prior to the maturity date, the principal and interest payable of the bridge loan is to be paid in convertible debenture units under that financing. If no convertible debenture units are issued, the loan principal and interest is to be paid back in cash on the maturity date.

**Convertible debenture offering**

In November 2022, the Company is finalizing a non-brokered private placement offering for the issuance and sale of up to 35,000 convertible senior secured debenture units at an issuance price of $1,000 per debenture unit, for aggregate total gross proceeds of up to $35,000,000 (the "Debenture Offering"). Each debenture unit will consist of: (i) one 10.0% convertible senior secured debenture with a principal amount of $1,000 maturing three (3) years from the closing of the Debenture Offering (the "Maturity Date"); 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 equal to $1.08 for a period of three (3) years from the closing date.

The principal amount of each convertible debenture will be convertible, for no additional consideration, at the option of the holder, in whole or in part, at any time and from time to time, into common shares prior to the earlier of: (i) the close of business on the Maturity Date; and (ii) the business day immediately preceding the date specified by the Company for redemption of the convertible debentures upon a change of control (as defined in the indenture that will govern the convertible debentures) at a conversion price equal to $0.90 per share. In connection with the Debenture Offering, the Company may pay a finder's fee. Such finders' fees may be paid in cash or Units, or any combination of cash or Units.

Completion of the Debenture Offering is contingent upon approval of the TSX-V, compliance with applicable Canadian securities laws, and completion of satisfactory due diligence by the investor group. The Debenture Offering is expected to close on or about November 30, 2022.