



NG ENERGY

NG ENERGY INTERNATIONAL CORP

**ANNUAL AUDITED CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management and have been prepared in accordance with IFRS Accounting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The independent external auditors, PricewaterhouseCoopers LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim consolidated financial statements prior to their release and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

(signed)

Brian Paes-Braga
Chief Executive Officer

(signed)

Jorge Fonseca
Chief Financial Officer

April 26, 2024
Calgary, Canada



Independent auditor's report

To the Shareholders of NG Energy International Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of NG Energy International Corp. and its subsidiaries (together, the Company) as at December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2023;
- the consolidated statement of loss and comprehensive loss for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
Suncor Energy Centre, 111 5th Avenue South West, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T.: +1 403 509 7500, F.: +1 403 781 1825, Fax to mail: ca_calgary_main_fax@pwc.com



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Impact of proved plus probable natural gas reserves on net development and production (D&P) assets within property, plant and equipment</p> <p><i>Refer to note 3 – Basis of presentation, note 4 – Summary of material accounting policies and note 10 – Property, plant, and equipment to the consolidated financial statements.</i></p> <p>The Company has \$28 million of net D&P assets as at December 31, 2023. Depletion expense was \$2.7 million for the year then ended.</p> <p>D&P assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable natural gas reserves, taking into account forecasted future development costs. This depletion expense calculation includes actual production in the period and total estimated proved plus probable natural gas reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. The proved plus probable natural gas reserves are estimated using the Company's independent third party reserve evaluators' (management's experts) reports.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested how management determined the proved plus probable natural gas reserves, which included the following:<ul style="list-style-type: none">– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved plus probable natural gas reserves used to determine the depletion expense. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.– Evaluated the reasonableness of the key assumptions, including:<ul style="list-style-type: none">○ Forecasted production volumes, operating costs, royalty costs, and future development costs by considering the past performance of the Company, and whether these assumptions were consistent with



Key assumptions developed by management and used to determine the proved plus probable natural gas reserves include the forecasted production volumes, forecasted natural gas commodity prices, operating costs, royalty costs, and future development costs.

We considered this a key audit matter due to (i) the significant judgment made by management, including the use of management's experts, when estimating the proved plus probable natural gas reserves, and (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the key assumptions.

evidence obtained in other areas of the audit, as applicable.

- Forecasted natural gas commodity prices by comparing those forecasts with relevant contract terms and the historic natural gas prices as published by the government authority.
- Recalculated the depletion expense.

Comparative information

The consolidated financial statements of the Company for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 30, 2023.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management



determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to



the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ryan Lundeen.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 26, 2024

NG ENERGY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)

December 31, 2023

December 31, 2022

Assets

Current Assets

Cash and cash equivalents	1,294,422	6,962,228
Deposit in escrow (Note 11)	1,584,608	2,788,368
Accounts receivable (Note 7)	3,545,419	426,670
Prepays	845,064	494,277
Inventory	343,663	-

7,613,176 10,671,543

Non-current Assets

Restricted cash (Note 8)	8,011,108	1,968,873
VAT receivable (Note 22)	3,129,360	2,354,633
Deferred Transaction Costs	205,966	
Exploration and evaluation assets (Note 9)	35,988,224	26,721,884
Property, plant and equipment (Note 10)	51,909,141	41,429,727

Total Assets

106,856,975 83,146,660

Liabilities

Current Liabilities

Accounts payable and accrued liabilities (Note 7)	12,112,608	9,685,106
Current portion of lease obligations (Note 13)	7,308,590	2,776,384
Promissory notes (Note 12)	1,004,500	-

20,425,698 12,461,490

Non-current Liabilities

Liability component of convertible debentures (Note 11)	57,346,141	31,172,380
Lease obligations (Note 13)	16,524,880	21,480,395
Decommissioning obligations (Note 14)	2,468,904	2,525,858

Total Liabilities

96,765,623 67,640,123

Shareholders' Equity

Share capital (Note 15a)	114,641,544	104,881,440
Contributed surplus	25,792,259	22,407,580
Warrants (Note 15c)	6,459,578	7,783,794
Equity component of convertible debentures (Note 11)	2,454,288	1,885,600
Deficit	(137,664,038)	(120,986,462)
Accumulated other comprehensive loss	(1,592,279)	(465,415)

Total Shareholders' Equity

10,091,352 15,506,537

Total Liabilities and Shareholders' Equity

106,856,975 83,146,660

Going concern (Note 2)

Related parties (Note 21)

Commitments (Note 23)

Subsequent events (Note 26)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

(signed)

Serafino Iacono
Co-Chairman of the Board of Directors

(signed)

Don Sewell
Chairman of the Audit Committee

NG ENERGY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31

<i>(Expressed in U.S. Dollars)</i>	2023	2022
Revenue:		
Natural gas and LNG sales	12,041,546	1,766,325
Royalty expense	(1,973,953)	(315,289)
Revenues, net of royalties	10,067,593	1,451,036
Expenses:		
Operating expenses	3,842,474	511,248
General and administrative (Note 18)	5,499,991	3,936,244
Business development	373,463	-
Share-based compensation (Note 15b)	1,841,859	1,860,743
Exploration and evaluation expense (Note 9)	199,503	263,159
Depletion and depreciation (Note 10)	5,530,711	1,020,569
Net finance expense (Note 19)	10,093,920	2,321,028
Gain on disposition	-	(280,863)
Foreign exchange (gain) loss	(784,183)	2,386,415
	26,597,738	12,018,543
Loss before income taxes	(16,530,145)	(10,567,507)
Current income tax expense	(364,506)	-
Deferred income tax recovery	217,075	599,349
Net loss	(16,677,576)	(9,968,158)
Other comprehensive loss		
Foreign currency translation adjustment	(1,126,864)	374,967
Comprehensive Loss	(17,804,440)	(9,593,191)
Loss per share – basic and diluted (Note 15d)	(0.13)	(0.08)
Weighted average number of common shares outstanding	129,575,805	123,957,528

See accompanying notes to the consolidated financial statements.

NG ENERGY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(Expressed in U.S. Dollars)

	2023	2022
Operating Activities		
Net loss	(16,677,576)	(9,968,158)
Items not affecting cash:		
Depletion and depreciation (Note 10)	5,530,711	1,020,569
Share-based compensation (Note 15b)	1,841,859	1,860,743
Unrealized foreign exchange (gain) loss	(1,880,420)	866,465
Net finance expense (Note 19)	10,093,920	2,321,028
Gain on disposition	-	(280,863)
Deferred income tax recovery	(217,075)	(599,349)
Change in non-cash working capital (Note 25)	(2,236,525)	1,191,239
Cash used in operating activities	(3,545,106)	(3,588,326)
Investing Activities		
Exploration and evaluation asset additions (Note 9)	(5,672,149)	(30,605,990)
Property, plant and equipment additions (Note 10)	(13,254,715)	(3,239,865)
Change in restricted cash (Note 8)	(4,943,569)	(36,139)
Change in non-cash working capital (Note 25)	76,101	5,570,846
Cash used in investing activities	(23,794,332)	(28,311,148)
Financing Activities		
Proceeds on convertible debentures (Note 11)	26,561,500	39,276,659
Transaction costs paid on convertible debentures (Note 11)	(407,560)	(1,789,234)
Proceeds from short-term loans (Note 12)	1,000,000	-
Proceeds on option exercises (Note 15b)	154,138	6,519
Proceeds on warrant exercises (Note 15c)	4,017,009	1,002,644
Proceeds released from (put into) escrow (Note 11)	1,245,315	(2,846,472)
Proceeds on disposition	-	280,863
Purchase of shares cancelled under normal course issuer bid	-	(106,279)
Interest income	773,399	-
Interest expense paid	(5,009,366)	(779,241)
Lease payments, principal and interest	(6,746,188)	(1,483,400)
Transaction costs paid on future financing	(205,966)	-
Change in non-cash working capital (Note 25)	4,500	-
Cash provided by financing activities	21,386,781	33,562,059
Net increase (decrease) in cash	(5,952,657)	1,662,585
Foreign exchange gain (loss) on cash	284,851	(549,314)
Increase (decrease) in cash	(5,667,806)	1,113,271
Cash, beginning of year	6,962,228	5,848,957
Cash, end of year	1,294,422	6,962,228

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

NG ENERGY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Expressed in U.S. Dollars)</i>	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	-	-	-	-	-	(16,677,576)	-	(16,677,576)
Shares issued through acquisition (Note 4)	6,592,000	4,002,135	-	-	-	-	-	4,002,135
Shares issued through warrant exercise	4,625,500	5,177,634	-	(1,160,625)	-	-	-	4,017,009
Shares issued through option exercise	600,000	261,474	(107,336)	-	-	-	-	154,138
Issuance of convertible debentures (Note 8)	-	-	-	1,486,565	586,908	-	-	2,073,473
Debenture conversion	511,110	318,861	-	-	(18,220)	-	-	300,641
Warrants expired	-	-	1,650,156	(1,650,156)	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	(1,126,864)	(1,126,864)
Share-based compensation	-	-	1,841,859	-	-	-	-	1,841,859
Balance at December 31, 2023	137,450,742	114,641,544	25,792,259	6,459,578	2,454,288	(137,664,038)	(1,592,279)	10,091,352
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	-	-	-	-	-	(9,968,158)	-	(9,968,158)
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	-	-	-	3,519,259	1,896,004	-	-	5,415,263
Debenture conversions	291,666	198,245	-	-	(10,404)	-	-	187,841
Warrants expired	-	-	10,201,910	(10,201,910)	-	-	-	-
Shares cancelled through share buyback	(140,800)	(106,279)	-	-	-	-	-	(106,279)
Foreign currency translation adjustment	-	-	-	-	-	-	374,967	374,967
Share-based compensation	-	-	1,860,743	-	-	-	-	1,860,743
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

(1) Equity component of convertible debentures

(2) Accumulated other comprehensive loss

See accompanying notes to the consolidated financial statements.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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 consolidated 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 year ended December 31, 2023, the Company recognized a net loss of \$16.7 million and cash used in operating activities of \$3.5 million. As of December 31, 2023, the Company had a working capital deficit of \$12.8 million, including cash and cash equivalents of \$1.3 million. For 2024, the Company has contractually committed exploration and development amounts of \$12.4 million remaining out of \$34.7 million (as outlined in Note 23) and \$7.3 million for lease obligations as outlined in Note 13. While the Company continued during 2023 to increase 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 continues to need additional capital to fund the Company’s ongoing operations, and commitments, and the continued development of the Company’s exploration and evaluation assets.

In July 2023, the Company closed a convertible debenture offering for aggregate gross proceeds of \$26.7 million (see Note 11). For the year ended December 31, 2023, the Company also received proceeds of \$4.2 million on the exercise of purchase warrants and stock options. In March 2024, the Company announced the Macquarie Financing for \$100 million in additional committed proceeds (see Note 26). These proceeds are to be used to fund general working capital needs and capital work programs as well as to settle outstanding liabilities. However, as indicated above, these proceeds combined with cash flows from early-stage gas production on the Maria Conchita block are not sufficient to fund the Company’s ongoing operations and commitments, which include 2024 committed exploration and development amounts and lease obligations as outlined above. The Company may require additional sources of capital to fund ongoing operations and commitments. There is no assurance the Company will be able to secure funding from debt or equity financing when required.

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 consolidated 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 and development commitments. Should the going concern assumption not be appropriate and the Company is not able to

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

realize its assets and settle its liabilities, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be material.

3. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements were prepared by management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

These consolidated financial statements have been approved and authorized for issuance by the Company’s Board of Directors on April 26, 2024.

Basis of measurement

These consolidated 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.

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

Functional and presentation currency

These consolidated 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.

Use of estimates and judgments

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Significant judgments in applying accounting policies

The following are the significant judgments that management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

i) Identification of cash-generating units

Natural gas assets and processing facilities are grouped into cash generating units (“CGUs”) identified as having largely independent cash inflows and are geographically integrated. The determination of the CGUs was based on management’s interpretation and judgment. The recoverability of development and production (“D&P”) asset carrying values is assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

ii) Depletion, depreciation and reserves

Depletion is based on the Proved plus Probable natural gas reserves as evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities (“NI 51-101”) and incorporating the estimated future cost of developing and extracting those. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, forecasted natural gas prices and future development costs. As circumstances change and additional data becomes available, reserve estimates may also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions of reserve estimates are often required due to changes in well performance, prices, economic conditions and governmental regulations.

Although every reasonable effort is made to determine that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end natural gas prices and reservoir performance. Such revisions can be either positive or negative. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion.

iii) Impairment of property, plant and equipment and exploration and evaluation assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land, transaction values and other relevant assumptions.

iv) Exploration and evaluation assets

The application of the Company’s accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

v) *Income taxes*

The Company conducts business internationally and therefore is required to comply with tax laws and regulations in various tax jurisdictions. Significant judgment, such as the interpretation of tax laws and regulations in each tax jurisdiction are required by management in determining the income tax balances and disclosures. The Company engages independent third party tax specialists to assist with the interpretation of international tax laws and regulations.

Additionally, judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

vi) *VAT recoverability*

Judgment is required by management in evaluating the likelihood of whether or not value added tax ("VAT") on purchases is recoverable from the Colombian government.

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) *Going concern*

Management is required to assess the Company's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management assesses all available information about the future, considering the possible outcomes of events and changes in conditions and the realistically possible responses that are available to such events and conditions. Such available information may include updates to Company forecasts and relevant sensitivities, as considered appropriate, taking into account the risk factors identified and the different possible outcomes. Management also assesses its plans to mitigate events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Ultimately, this requires assumptions that the Company's assessment concludes that its plans are achievable and realistic based on the information available at the time.

ii) *Reserves and resource assessment*

The assessment of reported recoverable quantities of Proved plus Probable natural gas reserves and prospective resource estimates include estimates regarding forecasted production volumes, forecasted natural gas commodity prices, operating costs, royalty costs, and future development costs. Additional estimates are made in relation to geological and geophysical models in anticipated recoveries. The economical, geological, and technical factors used to estimate Proved plus Probable natural gas reserves and prospective resources may change from period to period. Changes in reported Proved plus Probable natural gas reserves and prospective resources can affect the carrying values of the Company's natural gas properties and exploration and evaluation assets, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

The Company's Proved plus Probable natural gas reserves, if any, represent the estimated quantities of natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially viable. Such Proved plus Probable natural gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Proved plus Probable natural gas reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation tests. Prospective resources are determined using an externally prepared valuation report which reflects estimated prospective resources and external pricing and cost assumptions reflective of the current market. The Company's Proved plus Probable natural gas reserves and prospective resources are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

The Company uses estimated Proved plus Probable natural gas reserves to deplete its natural gas assets included in PP&E, to assess for indicators of impairment on the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGUs and to assess E&E costs for impairment when transferred to PP&E.

iii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

iv) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of such equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, and estimated forfeitures at the initial grant date. Share-based payments to non-employees are measured at the date when goods and services are received. Where the fair value of goods and services received cannot be reliably measured, the measure of the goods and services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted, measured at the date goods are obtained or services rendered. Assessing the fair value based on services rendered are subject to measurement uncertainty given that it is dependent upon obtaining reasonable data as to the value of services rendered or goods obtained based on readily available market metrics.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

v) *Convertible debentures*

The fair value of the liability component of the convertible debentures utilizes observable market data, including interest rates. As a result of changes in key assumptions, actual amounts may vary significantly from estimated amounts.

vi) *Tax provisions*

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the period of the change and future periods. In periods of rate change, the Company estimates the period of anticipated reversal of the associated deferred income tax liability to determine the appropriate tax rate to apply to temporary differences. Deferred income tax assets are recognized to the extent future recovery is probable in management's judgment. Deferred income tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered. Deferred income tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and reassessments and changes in facts, circumstances and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Impact of climate change and environmental initiative regulations

In Colombia there is currently no specific regulation that obliges companies to specifically monitor and report greenhouse gas ("GHG") emissions. Climate change regulation in Colombia has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Colombia. Such regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impact of climate change and environmental laws and regulations on the Company, as the Company is unable to predict additional legislation or amendments that the Colombian government may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and cash flow.

4. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

a) Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

The following table summarizes the Company's subsidiaries, their country of incorporation, and the Company's ownership interest.

Subsidiaries	Country of Incorporation	Ownership Interest	
		2023	2022
1129523 BC Ltd.	Canada	100%	100%
PentaNova BVI Ltd.	British Virgin Islands	100%	100%
Patagonia Oil Corp.	British Virgin Islands	100%	100%
Bochica Investment Holdings Ltd.	British Virgin Islands	100%	100%
MKMS Enerji A.S.	British Virgin Islands	100%	100%
Bolivar Energy (Colombia) Inc.	Barbados	100%	100%
MKMS Enerji Sucursal Colombia	Colombia	100%	100%
Bolivar Energy Colombia Inc. Sucursal Colombia	Colombia	100%	100%

Jointly controlled operations and assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue, operating expenses, operating cost and capital costs.

The Company currently has concessions in Colombia. The concessions in which the Company participates are governed by a Joint Operating Agreement ("JOA"). In the case of a JOA, an agreement is entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, to develop or execute a project, render a service or provide a specific supply. The parties to a JOA maintain their legal and economic independence. The Company has determined these agreements to result in joint operations, and accounts for these operations in accordance with its proportionate working interest ("WI").

Transactions eliminated on consolidation

All intercompany balances and transactions are eliminated upon consolidation in preparing the consolidated financial statements.

b) Financial instruments

The Company recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the assets or liabilities either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Classification and measurement of financial assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company can classify its financial assets:

- Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

At initial recognition, the Company measures a financial asset at its fair value, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Loans

Loans are recorded at amortized cost, net of directly attributable transaction costs. Subsequent to initial recognition, the directly attributable transaction costs are amortized into the carry value using the effective interest method over the term of the debt facility through the consolidated statements of operations and comprehensive income or capitalized as part of a qualifying asset, as applicable. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less.

Restricted Cash

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company.

Short term investments

Short term investments are recorded at fair value through profit or loss on initial recognition. Subsequent measurement is recorded at fair value and changes therein are recognized in the consolidated statements of loss and comprehensive loss.

Receivables and payables

Other financial instruments such as trade and other receivables, trade and other payables, and dividend payable, are measured at amortized cost, less any impairment losses.

Other financial liabilities

Other financial liabilities are financial liabilities that are not quoted in an active market and with no intention of being traded. They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

interest method. For accounts payable that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature.

Convertible debentures

For convertible debentures, the Company determines whether the financial instrument is a compound instrument or a hybrid instrument. In a compound instrument, the fair value of the liability component is determined by discounting the contractual future cash flows using a market rate for a non-convertible instrument with similar terms. In a hybrid instrument, the fair value of the liability component is the residual value of the proceeds after the equity conversion option derivative fair value is determined unless the entire convertible financial instrument is designated as a financial liability at FVTPL, in which case, the entire convertible financial instrument is measured at fair value.

Subsequent to initial recognition, the Company measures the debt component of both a compound and a hybrid financial instrument at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. The equity conversion option of a hybrid financial instrument is marked to market at the reporting date and changes to fair value are charged or credited in net loss.

Derivative financial instruments

Derivative financial instruments are classified at FVTPL and are measured at fair value. The resulting gain or loss is recognized immediately in net (loss) income.

c) Foreign currency

The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has a US dollar functional currency. Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates prevailing at the dates of the initial transactions.

The Company's consolidated financial statements are presented in US dollars. Management selected the US dollar as the presentation currency as it best facilitated comparability with industry peers. Assets and liabilities of entities with functional currencies other than US dollars are translated at the period end exchange rates, results of their operations are translated at average exchange rates for the period, and shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

d) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities and assets are not recognized for temporary differences arising on:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination, at the time of the transaction, affects neither accounting net earnings nor taxable earnings, and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

e) Exploration and evaluation assets

All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as exploration and evaluation assets. Gains and losses are not recognized on the disposition of exploration and evaluation assets. Proceeds on disposition are charged against the net book value.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income (loss).

Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the cash-generating unit ("CGU") to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable generally when proved or probable natural gas reserves are determined to exist and necessary infrastructure and markets are in place for sustainable operations of the asset. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income (loss) upon expiry and are considered prior to expiry. Management considers upcoming land lease expiries and may recognize the costs in advance of expiry.

Indicators of impairment of exploration and evaluation assets are assessed at each reporting date which can include upcoming land lease expiries, third party land valuations and other information. When there are such indications, an impairment test is carried out and any resulting impairment loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs of disposal, or value-in-use. In addition, an assessment is carried out to evaluate whether impairment losses recognized in prior periods may no longer exist or may have decreased based on internal and external information with a favourable effect on the Company. If any such indication exists, the recoverable amount shall be estimated.

f) Property, plant, and equipment

The Company's property, plant and equipment is comprised of D&P assets, corporate fixed assets, and right-of-use leased assets.

Natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Natural gas assets consist of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Natural gas assets include D&P interests such as land acquisitions, geological and geophysical costs, facility and production equipment, including any directly attributable general and administration costs and share-based payments and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized D&P interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized natural gas interests generally represent costs incurred in developing proved and/or probable natural gas reserves and are accumulated on a field or geotechnical area basis. The cost of day-to-day servicing of an item of natural gas assets is expensed in income or loss as incurred. Natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in net income or loss.

The Company depletes its natural gas assets using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable natural gas reserves, taking into account forecasted future development costs.

Natural gas assets are not depleted until production commences. This depletion calculation includes actual production in the period and total estimated proved plus probable natural gas reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of proved plus probable natural gas reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Proved plus probable natural gas reserves are estimated using independent third party reserve evaluators reports and represent the estimated quantities of natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method to write off the cost of these assets, less estimated residual values, over their estimated useful lives.

The Company's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent third party reserve evaluators.

The assessment for impairment entails the review of the CGUs for indicators of impairment at the end of each reporting period. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated, being the higher of fair value, less costs of disposal, and value in use. Fair value, less costs of disposal, is derived by estimating the discounted after-tax future net cash flows, when no comparable market transactions are available. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the proved plus probable natural gas reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate. The carrying value of the CGU is then compared with its recoverable amount. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

Impairment of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been net of accumulated depletion had no impairment been recognized.

g) Right-of-use assets and lease obligations

A contract is, or contains, a lease if the contract provides the right to control the use of an identified asset for a period of time in exchange for consideration. A Right-of-use ("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

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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 consolidated financial statements as incurred.

h) Inventory

Inventory consists of natural gas and natural gas liquids in transit, in pipelines or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company's engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a risk-free rate, is capitalized by increasing the carrying amount of the related natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related natural gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in natural gas assets is depleted in accordance with the Company's depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase or reduction in income.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

j) Revenue from natural gas sales

Revenue from the sale of natural gas is recognized when performance obligations are met and control has transferred from the Company to customers. The transfer of control of oil and natural gas usually occurs at a point in time and coincides with title passing to the customer and the customer taking physical possession. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred the significant risks and rewards of ownership to the buyer; and
- The Company has the present right to payment

Revenue is measured based on the consideration specified in the sales contracts with customers and is recorded on a net working interest basis for producing properties, of which the Company has a related ownership interest. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location, and other factors. Any variability in the transaction price is recognized in the same period which the related revenue is earned and recorded.

The Company does not have any contracts where the period between the transfer of promised goods and services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. The Company's revenue transactions do not contain significant financing components.

k) Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Transactions with non-employees are measured at the date when goods and services are received. Where the fair value of goods and services received cannot be reliably measured, the measure of the goods and services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted, measured at the date goods are obtained or services rendered. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. At the time the stock options or warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

l) Long-term incentive compensation

The grant date fair value of equity-settled restricted share units ("RSUs"), restricted share units with performance criteria ("PSUs") and deferred share units ("DSUs") granted to officers, employees and directors is recognized as an expense with a corresponding increase in contributed surplus on a graded vesting basis over the vesting period. The PSUs are subject to certain non-market performance conditions, of which, the impact is estimated at the grant date. The units are expected to be settled through the issuance of common shares of the Company.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Common shares, stock options and warrants are classified as equity instruments.

n) Per share amounts, basic and diluted

The Company presents basic and diluted earnings (loss) per share. Basic earnings (loss) per share is calculated by dividing the net profit or loss by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the net profit or loss and the weighted average number of shares outstanding, for all dilutive potential shares, which comprises warrants, convertible debt and options issued. Items with an anti-dilutive impact are excluded from the calculation.

o) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

i) Cash and cash equivalents, accounts receivable, VAT receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

ii) Convertible debentures: Embedded derivatives

The liability and equity (when applicable) components of convertible debentures are presented separately on the consolidated statement of financial position, starting from initial recognition. The Company determines the fair value of the financial instrument using the Black Scholes Model. This is invariably split between the liability, equity and warrants. The carrying amount of warrants, is obtained by deducting the equity component carrying amount. This embedded derivative is carried at fair value through profit or loss (FVTPL) with changes impacting the consolidated statement of loss and comprehensive loss.

5. ACCOUNTING STANDARDS ADOPTIONS & PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2023 or later periods.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

i) Amendments to IAS 8 Changes in Estimates vs Changes in Accounting Policies

On January 1, 2023, the Company adopted Changes in Estimates vs Changes in Accounting Policies, which made amendments to IAS 8 Changes in Estimates vs Changes in Accounting Policies. The amendments help to distinguish changes in accounting estimates from changes in accounting policies. There was not a material impact to the Company's financial statements.

ii) Amendments to IAS 12 Income Taxes

On January 1, 2023, the Company adopted issued amendments to IAS 12 Income Taxes, which made amendments to IAS 12 Income Taxes. The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. There was not a material impact to the Company's financial statements. The Company has adopted the amendment to IAS 12 International Tax Reform - Pillar Two Model Rules. As a result, the Company has applied the exception to not recognize and disclose information about deferred tax assets and liabilities related to Pillar Two incomes taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were reported.

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2024. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the financial statements.

i) Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective on January 1, 2024. The Company will continue to monitor and assess for impacts from the amendment of IAS 1. The Company does not anticipate any material impacts from these amendments on the consolidated financial statements as a result of the initial application.

ii) IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued ii) IFRS 18 Presentation and Disclosure in Financial Statements to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses. This will be effective on January 1, 2027. The Company will assess the impacts of this new standard prior to adoption.

6. VMM39 BLOCK OPTION ACQUISITION

In August 2023, the Company signed a joint operating agreement with an option to acquire a 25% working interest in the VMM39 Block. The option is exercisable by the Company, in its sole discretion and for no additional consideration, upon participating in the drilling and completion of the San Diego-1X exploration

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

well, for which \$5.5 million was placed into escrow for fulfillment of these exploration activities. Acquisition of the option in the VMM39 Block was purchased through an issuance of 6,592,000 common shares in the Company for a determined value at issuance of \$4,002,135. The value of the issued common shares as well as disbursements from the aforementioned escrow funds are treated as additions to exploration and evaluation assets (see Note 9).

7. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

The table below represents the composition of the accounts receivable and accounts payable balances as at December 31, 2023 and 2022. See Note 21 for accounts receivable and accounts payable relating to related parties.

	2023	2022
Trade receivable	2,657,467	197,328
Other receivables	887,952	229,342
Accounts receivable	3,545,419	426,670
Trade accounts payable and accruals	3,992,109	2,842,701
Royalties payable	1,379,078	365,942
Capital accruals	6,741,421	6,476,463
Accounts payable and accrued liabilities	12,112,608	9,685,106

8. RESTRICTED CASH

	2023	2022
SN-9 ANH Guarantee Deposit	2,651,358	1,704,618
Tiburon ANH Guarantee Deposit	351,935	264,255
VMM39 Escrow	2,797,923	-
INFRAES Construction Contract Letter of Credit	2,209,892	-
Restricted cash	8,011,108	1,968,873

Term deposits are 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.

Under the terms of the VMM39 Block option agreement (see Note 6), NG placed \$5.5 million into escrow for direct utilization in the drilling and completion of the San Diego-1X exploration well. Funds are disbursed from this escrow account as exploration activities are completed, until such funds are fully employed. As of December 31, 2023, approximately \$2.7 million of escrowed funds had been disbursed from the escrow account towards exploration expenditures, leaving a balance of \$2.8 million.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

In November 2023, the Company entered into definitive agreements with third parties to complete the construction of the surface infrastructure required to start commercial production in the SN-9 Block. Among those agreements, INFRAES S.A.S E.S.P. (“INFRAES”) was contracted to construct a pipeline to connect SN-9 facilities to the Colombian transportation network. Under the terms of the INFRAES construction agreement, the Company was required to provide an initial letter of credit of approximately \$2.0 million denominated in Colombian pesos, which will remain in place until certain milestones of the construction project are completed.

9. EXPLORATION AND EVALUATION ASSETS

Exploration and Evaluation (“E&E”) assets consists of the following amounts as at December 31, 2023 and 2022:

	2023	2022
Balance, January 1	26,721,884	11,980,739
Additions	9,674,284	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	(407,944)	568,066
Transfer of E&E assets to D&P assets (Note 7)	-	(14,315,751)
Balance, December 31	35,988,224	26,721,884

As at December 31, 2022 and 2023, it was determined that no impairment indicators exist for the CGUs within E&E assets. The Company incurs ongoing maintenance costs for the Tiburon CGU from the third party operator, which are expensed as E&E expenses. Beyond maintenance costs, no further capital activity has occurred in the Tiburon block in the year.

10. PROPERTY, PLANT, AND EQUIPMENT

The Company’s property, plant and equipment (“PP&E”) consist of D&P assets, corporate fixed assets and right-of-use leased assets (“ROU”). 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:

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Cost	D&P	Corporate	ROU	Total
Balance, December 31, 2021	-	235,197	-	235,197
Transfer of E&E assets to D&P (Note 9)	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
Balance, December 31, 2022	17,522,065	268,748	24,886,551	42,677,364
Capital additions	13,246,753	7,962	-	13,254,715
Asset retirement cost addition	648,117	-	-	648,117
Revision of right-of-use assets	-	-	2,503,412	2,503,412
Revision of asset retirement estimate	(396,119)	-	-	(396,119)
Balance December 31, 2023	31,020,816	276,710	27,389,963	58,687,489
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
Balance, December 31, 2022	405,337	247,934	594,366	1,247,637
Depletion and depreciation	2,713,066	11,905	2,805,740	5,530,711
Balance December 31, 2023	3,118,403	259,839	3,400,106	6,778,348
Net book value				
Balance, December 31, 2022	17,116,728	20,814	24,292,185	41,429,727
Balance December 31, 2023	27,902,413	16,871	23,989,857	51,909,141

As at December 31, 2023, the balance of D&P consisted of those oil and gas properties of the Maria Conchita CGU that were reclassified from E&E in 2022. Future development costs in the amount of \$32.9 million were included in depletion calculated for the year ended December 31, 2023 (\$32.7 million for the year ended December 31, 2022). As at December 31, 2022 and 2023, the Company completed an impairment review of its PP&E assets. It was determined that no impairment indicators existed.

11. CONVERTIBLE DEBENTURES

July 2023 Offering

In July 2023, the Company completed a private placement offering of convertible debentures for aggregate proceeds of \$26.6 million (C\$35 million). Each convertible debenture unit is denominated in Canadian dollars and consisted of: (i) one 10% senior secured convertible debenture in the principal amount of \$1,000 maturing on July 31, 2026; 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\$0.90 per share for a period of three years ending July 31, 2026. The debentures are secured by a first priority lien over all the assets of the Company. 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\$0.70 per share.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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

	Liability Component	Equity Component	Warrants	Total
On date of issuances, net of transaction costs	23,863,392	803,983	1,486,565	26,153,940
Deferred income tax recovery	-	(217,075)	-	(217,075)
Accretion	301,769	-	-	301,769
Impact of foreign exchange	(81,290)	-	-	(81,290)
Balance, December 31, 2023	24,083,871	586,908	1,486,565	26,157,344

Interest on the debentures is payable monthly in arrears on the last day of each month, commencing August 31, 2023. 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 December 31, 2023, the total balance of deposit in escrow was \$1,584,608.

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. The debentures are secured by a first priority lien over all the assets of the Company. 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 December 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	1,034,954	-	-	1,034,954
Exercise of Debentures	(300,641)	(18,220)	-	(318,861)
Impact of foreign exchange	529,443	-	-	529,443
Balance, December 31, 2023	23,664,307	1,368,060	1,164,495	26,196,862

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 December 31, 2023, the total balance of deposit in escrow was \$nil.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

During the year ended December 31, 2023, certain debenture holders elected to convert C\$460,000 face value of debentures units to common shares of the Company at the conversion price of C\$0.90 per share, resulting in the issuance of 511,110 common shares.

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 December 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	602,771	-	-	602,771
Impact of foreign exchange	223,363	-	-	223,363
Balance, December 31, 2023	9,597,963	499,320	2,354,764	12,452,047

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 December 31, 2023, the total balance of deposit in escrow was \$nil.

12. DEBT

In December 2023, the Company entered simple promissory notes for total proceeds of \$1,000,000 with certain lenders. In accordance with the terms of the promissory notes, the full value of the \$1,000,000 will be repaid in full plus accrued interest at a rate of 12% per annum on the earlier of February 29, 2024, or the date on which initial funding of the Macquarie Financing (see Note 25) is received by the Company. Subsequently, amendments executed in February 2024 to each promissory note revised the

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

aforementioned maturity date from February 29, 2024, to August 28, 2024, with all other terms remaining unchanged. As of December 31, 2023, total balance outstanding of principal plus accrued interest for the promissory notes was \$1,004,500. See Note 21 for promissory notes from related parties.

In August 2022, debtholders of the SN-9 loan entered into in August 2020 exercised the option to convert the loan principal and cumulative interest payable to the additional 3% overriding royalty on NG's working interest in the gross production of the SN-9 block. Due to the conversion, the Company no longer had an outstanding balance owed to the SN-9 loan debtholders.

13. LEASE OBLIGATIONS

As at December 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 construction, ownership, maintenance, and transfer agreement ("BOOMT Agreement") with GTX International Corp. ("GTX") and the take-or-pay service contract with Surenergy SAS ESP ("Surenergy") (see Note 23 for "Contractual Commitments"). The presented lease obligations have a discount rate of 16.33%. A continuity of lease obligations is presented below.

	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
Adjustment to lease terms	2,044,572	458,840	2,503,412
Interest expense	3,107,576	711,891	3,819,467
Lease payments	(5,436,066)	(1,310,122)	(6,746,188)
Balance, December 31, 2023	19,150,569	4,682,901	23,833,470
Current portion	5,872,807	1,435,783	7,308,590
Non-current portion	13,277,762	3,247,118	16,524,880
Total	19,150,569	4,682,901	23,833,470

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

	Less than 1 year	2-3 years	Thereafter	Total
GTX	5,872,807	11,713,522	10,269,389	27,855,718
Surenergy	1,435,783	2,871,566	2,576,433	6,883,782
Total	7,308,590	14,585,088	12,845,822	34,739,500

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

14. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from ownership interests in oil and gas properties. The Company estimates the total uninflated, undiscounted amount of cash flows required to settle its decommissioning obligation at December 31, 2023 to be \$2.4 million (December 31, 2022 - \$1.9 million) with the cost projected to be incurred after 2029. The entire balance of decommissioning obligations are recorded as a non-current liability given that there is no anticipated obligation expected to be incurred by December 31, 2024. The decommissioning obligations have been estimated using existing technology at current prices.

At December 31, 2023 a US inflation rate of 4.1% (December 31, 2022 – 6.5%) and a US risk-free rate of 3.95% (December 31, 2022 – 3.83%) were used in the valuation of the liabilities. Settlement of the obligations is anticipated to be invoiced in US dollars and settled in Colombian pesos. As at December 31, 2023, no funds had been set aside to settle these obligations. Changes to decommissioning obligations for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Balance, January 1	2,525,858	806,830
Additions	648,117	703,634
Accretion expense	98,992	35,242
Change in estimate	(804,063)	980,152
Balance, December 31	2,468,904	2,525,858

15. SHARE CAPITAL

a) Common Shares

The Company is 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 December 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	125,122,132	104,881,440
Shares issued through warrant exercise	4,625,500	5,177,634
Shares issued through option exercise	600,000	261,474
Shares issued on VMM39 Block option acquisition (Note 6)	6,592,000	4,002,135
Conversion of debentures	511,110	318,861
Balance, December 31, 2023	137,450,742	114,641,544

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Debenture Conversions

During the year ended December 31, 2023, certain debenture holders from the November 2022 Offering elected to convert C\$460,000 face value of debentures units to common shares of the Company at the conversion price of C\$0.90 per share, resulting in the issuance of 511,110 common shares.

During the year ended December 31, 2022, certain debenture holders of the May 2022 Offering 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.

Normal Course Issuer Bid

In July 2022, the Company announced its intention to proceed with a normal course issuer bid (“NCIB”) for up to 6,248,563 common shares over the course of the next 12 months, at which time, represented 5% of the total issued and outstanding common shares. In August 2022, the Company purchased a total of 140,800 common shares under the NCIB at prevailing market prices for \$106,279 through the facilities of the TSXV. The shares were then subsequently returned to the treasury and cancelled. The NCIB expired in July 2023.

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 vesting to one-fourth vesting on each anniversary date over four years. The options’ maximum term is ten years.

As at December 31, 2023, a total of 12,801,893 (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 issued	2,850,000	1.18
Options exercised	(600,000)	0.33
Options forfeited	(1,974,400)	1.43
Balance, December 31, 2023	12,801,893	0.92

In September 2023, the Company granted 2,850,000 options to acquire common shares to certain directors, officers, employees and consultants of the Company at an exercise price of C\$1.18 per common

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

share. The options are for a five-year term, expiring on September 29, 2028. All options vest over a period of four years, with one-fourth of total options vesting on each subsequent grant anniversary date.

For the stock options issued, the Black-Scholes option pricing model was used to estimate their fair value based on the assumptions of expected stock price volatility of 86%, risk-free interest rate of 4.25%, expected dividend yield of 0%, and an expected option life of 5 years, resulting in an assessed fair value per option of C\$0.82.

In August 2022, the Company granted 2,640,893 options to acquire common shares to certain directors, officers, employees and consultants of the Company at an exercise price of C\$1.14 per common share. The options are for a ten-year term, expiring on August 8, 2032. All options granted vested immediately on the date of grant.

For the stock options issued, the Black-Scholes option pricing model was used to estimate their fair value based on the assumptions of expected stock price volatility of 75%, risk-free interest rate of 2.68%, expected dividend yield of 0%, and an expected option life of 10 years, resulting in an assessed fair value per option of C\$0.91.

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

Exercise prices (C\$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.275	971,000	5.36	971,000
0.45	1,860,000	4.74	1,860,000
0.91	2,000,000	5.24	2,000,000
1.00	2,850,000	5.79	2,850,000
1.14	2,260,893	6.80	2,260,893
1.18	2,850,000	4.75	-
8.00	10,000	3.61	10,000
	12,801,893	5.46	9,951,893

The value of the stock options vesting in the year ended December 31, 2023, equaled \$222,980 (December 31, 2022 - \$1,860,743), which was expensed as share-based payments.

c) Warrants

As at December 31, 2023, a total of 80,634,050 (December 31, 2022 – 56,712,062) warrants were issued and outstanding. A summary of the change in total warrants is presented below:

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

	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	56,712,062	1.20
Warrants issued with convertible debentures	35,000,000	0.90
Warrants expired	(6,452,512)	1.29
Warrants exercised	(4,625,500)	1.18
Balance, December 31, 2023	80,634,050	1.06

Warrants issued with Convertible Debentures

Pursuant to the convertible debenture offering in July 2023 (see above) the Company issued 35,000 units, each unit consisted of one 10% senior secured convertible debenture and 1,000 purchase warrants of the Company. Each full warrant can be exercised to purchase one additional common share at a price of C\$0.90 until July 31, 2026.

Pursuant to the convertible debenture offering in November 2022 (see above) the Company issued 35,000 units, each unit consisted of one 10% senior secured convertible debenture and 1,000 purchase warrants of the Company. Each full warrant can be exercised to purchase one additional common share at a price of C\$1.08 until November 30, 2025.

Pursuant to the convertible debenture offering in May 2022 (see above) the Company issued 17,147 units, each consisting of one 8% unsecured convertible debenture and 400 purchase warrants of the Company. Each full warrant can be exercised to purchase one additional common share at a price of C\$1.40 until May 20, 2027.

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

Exercise prices (C\$)	Number of warrants outstanding	Weighted average term to expiry (years)	Number of warrants exercisable
0.90	35,000,000	2.58	35,000,000
1.08	34,100,000	1.92	34,100,000
1.15	475,600	0.11	475,600
1.40	6,858,800	3.39	6,858,800
1.75	4,199,650	0.11	4,199,650
	80,634,050	2.23	80,634,050

For the warrants issued during the years ended December 31, 2022 and 2023, the Black-Scholes option pricing model was used to estimate their fair value with the following assumptions:

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

	May 2022	November 2022	July 2023
Share price	C\$0.98	C\$0.98	C\$0.67
Exercise price	C\$1.40	C\$1.08	C\$0.90
Expected stock price volatility	75%	75%	86%
Term	5 years	3 years	3 years
Expected dividend yield	0%	0%	0%
Risk-free interest rate	2.70%	3.64%	4.41%
Fair value warrant price	C\$0.54	C\$0.48	C\$0.34

d) Loss per share

For the purposes of the loss per share calculations for the years ended December 31, 2023 and 2022, there is no difference between the basic loss per share and the diluted loss per share amounts. For the year ended December 31, 2023, 12,801,893 stock options and 80,634,050 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.

16. LONG TERM INCENTIVE COMPENSATION

The long-term incentive compensation includes RSUs, PSUs and DSUs. Each of these compensation units are expected to be settled by way of the issuance of NG common shares when settled. As such, they are recognized as contributed surplus on a graded vesting basis over the vesting term of each grant. Stock-based compensation relating to RSUs, PSUs and DSUs of \$1,618,879 (2022 - \$nil) was expensed during the year ended December 31, 2023.

The number of outstanding RSUs, PSUs and DSUs as at December 31, 2023 were as follows:

	RSUs	PSUs	DSUs	Total
Balance, December 31, 2022	-	-	-	-
Granted	2,525,000	2,635,000	4,540,000	9,700,000
Balance, December 31, 2023	2,525,000	2,635,000	4,540,000	9,700,000

Deferred Share Units

On September 29, 2023, the Company granted a total of 4,540,000 DSUs to directors of the Company. The DSUs vest in two equal tranches over two years from the grant date and are expected to be settled in common shares of the Company. For the year ended December 31, 2023, no DSUs were settled by the Company.

Restricted Share Units

On September 29, 2023, the Company granted a total of 2,525,000 RSUs to officers, employees, and consultants of the Company. The RSUs vest in two equal tranches over two years from the grant date and

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

are expected to be settled in common shares of the Company. For the year ended December 31, 2023, no RSUs were settled by the Company.

Restricted Share Units with Performance Criteria

On September 29, 2023, the Company granted a total of 2,635,000 PSUs to officers and employees of the Company. The PSUs vest in three equal tranches with the vesting conditions of each tranche related to the successful realization of specific operational milestones that the Company expects to be achieved over the foreseeable future. At a minimum, each tranche can only vest after a minimum of one year has transpired since the date of grant. For the year ended December 31, 2023, no PSUs were settled by the Company.

17. REVENUE

The following table presents the Company's sale revenue disaggregated by product type for the year ended December 31, 2023 and 2022:

	2023	2022
Natural gas sales	11,894,322	1,766,325
Natural gas liquid sales	147,224	-
Total sales revenue	12,041,546	1,766,325

As at December 31, 2023, receivables from contracts with customers, which are included in accounts receivable, were \$2,657,467 (December 31, 2022 - \$197,328). For the year ended December 31, 2023, the Company had two external customers that each constituted more than 10% of commodity sales from production.

18. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

General and administrative ("G&A") expenses relate to day-to-day operations of the business, not directly attributable to the production of goods and services. See Note 21 for details of general and administrative expenses to related parties. The components of G&A expense for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Wages & Salaries	2,248,924	900,285
Professional Fees	2,353,363	1,538,052
Fees, Rent, Investor Relations and Other	897,704	1,497,907
Total general and administrative expense	5,499,991	3,936,244

19. NET FINANCE EXPENSE

The components of net finance expense for the years ended December 31, 2023 and 2022, from continuing operations, are as follows:

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

	2023	2022
Interest income	(773,399)	(273,892)
Interest expenses and bank charges	5,009,366	1,275,007
Accretion on decommissioning obligations	98,992	35,242
Accretion on liability component of convertible debentures	1,939,494	410,838
Accretion on lease obligations	3,819,467	853,628
Amortization of transaction costs on loans	-	20,205
Total net finance expense	10,093,920	2,321,028

20. INCOME TAXES

Reconciliation of effective tax rate

The Company conducts business internationally and therefore is required to comply with tax laws and regulations in various tax jurisdictions. The Company has prepared the following reconciliation that presents how income tax expense varies from the amounts that would be computed by applying the expected basic federal and provincial income tax rates for Canada for the years ended December 31, 2023 and 2022, to income before income taxes, and includes the impacts of the various tax jurisdictions.

Actual income tax expense differs from the expected income tax expense that would have been computed by applying the statutory income tax rates as follows:

	2023	2022
Loss before income taxes	(16,530,145)	(10,567,507)
Tax Rate	27.00%	27.00%
Computed income taxes	(4,463,139)	(2,853,227)
Increase (decrease) in taxes:		
Effect of tax rates in foreign jurisdictions	116,698	(292,662)
Non-deductible foreign exchange	1,019,373	3,516,383
Debt conversion	-	311,278
Stock-based compensation	497,302	502,401
Non deductible expenses and other permanent differences	(79,109)	509,628
Change in unrecognized tax assets and other	3,056,306	(2,293,150)
Provision for income taxes	147,431	(599,349)
Current tax expense	364,506	-
Deferred tax recovery	(217,075)	(599,349)
Provision for income taxes	147,431	(599,349)

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

Components of deferred tax asset or liability

Deferred tax assets (liabilities) relate to estimated deductible (taxable) temporary differences between the carrying values and tax bases of certain assets. The movement in deferred income tax assets (liabilities) during the year is as follows:

Deferred tax assets (liabilities)	Non-capital losses	Convertible debt	Total
As at January 1, 2023	599,349	(599,349)	-
Current period recovery (expense)	217,075	-	217,075
Recognized in equity	-	(217,075)	(217,075)
As at December 31, 2023	816,424	(816,424)	-
As at January 1, 2022	-	-	-
Current period recovery (expense)	599,349	-	599,349
Recognized in equity	-	(599,349)	(599,349)
As at December 31, 2022	599,349	(599,349)	-

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2023	2022
Non-capital loss carryforwards	32,105,951	15,799,584
Capital loss carryforwards	26,782,331	26,639,822
ARO	2,468,904	2,525,858
Share and debt issuance costs	2,098,413	1,948,347
PPE and other	13,365,237	8,525,116
	76,820,836	55,438,727

In December 2022 the Colombia government enacted a new tax reform bill which is effective January 1, 2023 (the "2022 Tax Reform"). The reform includes significant changes to the income tax regime applicable to oil companies, including an increase in the capital gain tax rate to 15% (from 10%), increase in the dividend tax rate to 20% (from 10%); the elimination of the tax deductibility of royalties paid-in cash and cost associated to royalties paid-in kind in the calculation of taxable income; and the introduction of a surcharge to the current 35% tax rate. The surcharge will be determined by comparing the average inflation-adjusted Brent price during the taxation year to the monthly inflation-adjusted Brent price during the prior 120 months. When the Brent price during the taxation year exceeds the 30th percentile of the historical price range a 5% surtax is applied. It increases to 10% and 15% when the Brent price during the taxation year exceeds the 45th and 60th percentiles, respectively. Based on current gas operations the Company expects the 2024 surtax to be nil for aggregated income tax rate of 35%. This may change in the future depending on future operating activities.

As at December 31, 2023, \$12.0 million of the non-capital losses carryforwards are from Colombia (\$9.8 million from 2022). As a result of the 2016 Colombian Tax Reform, Colombian losses can be carried forward for a period of 12 years, and not indefinitely as under the previous tax regime. There is a

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

grandfathering rule for losses incurred prior to 2017, which may continue to be carried forward indefinitely. Colombian losses of \$3.8 million can be carried forward indefinitely and \$8.2 million are entitled to a carryforward period of 12 years. \$20.1 million of the non-capital loss carry forwards as at December 31, 2023 are from Canada (\$9.2 million from 2022). These losses expire between 2038 and 2042. The capital loss carryforward presented above are all from Canada and have no expiry. The other deductible temporary differences presented above do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Colombia Minimum Tax

The 2022 Tax Reform in Colombia also established a minimum tax of 15% of a corporation’s accounting profits (“Adjusted Income”), referred to as “Adjusted Income Taxes”. The tax reform establishes certain factors to be considered in calculating the Adjusted Tax Rate, but can be no lower than a minimum tax rate of 15%.

Based on the above, the calculated Adjusted Income Taxes on Adjusted Income for the year ended December 31, 2023, are as follow:

Colombia accounting profit before taxes	1,759,899
Add: permanent differences established by Colombia tax law	670,141
Total Adjusted Income	2,430,040
Adjusted Tax Rate	15.00%
Computed Adjusted Income Taxes	364,506

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

21. RELATED PARTIES

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

- a) In July 2023, the Company completed a non-brokered private placement of convertible debentures of 35,000 debenture units at C\$1,000 per unit, with 1,000 common share purchase warrants issued per unit. Of the units issued, 6,100 units were issued for subscriptions by directors and key personnel of the Company.
- b) In June 2023, the Company entered into a simple agreement for future equity (“SAFE”) with an investor related to a certain director of the Company for total proceeds of C\$5,000,000. In accordance with the terms of the SAFE, the full value of C\$5,000,000 was converted into 5,000 senior secured convertible debenture units of the Company in accordance with the terms and upon the closing of the July 2023 Offering.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

- c) In December 2023, the Company entered into certain promissory notes for total proceeds of \$1,000,000 (see Note 13). Of proceeds received, \$500,000 was provided by a certain director of the Company.
- d) The Company paid a monthly advisory fee to a firm affiliated with a former director of NG. The relationship between the firm and NG ended in August 2023 with the director's departure. As per the consulting agreement, NG paid the firm \$65,398 (C\$88,000) and \$102,244 (C\$133,050) for the years ended December 31, 2023 and 2022, respectively. Furthermore, additional fees were paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services. Administrative success fees were paid upon closing of the 2022 financing transactions summarized in Note 11 which resulted in the Company paying \$133,661 (C\$171,470) to the firm for the year ended December 31, 2022. For the years ended December 31, 2022, the Company issued 75,000, respectively, to members of the firm. The Black-Scholes fair value recognized in the form of the expense associated with the vesting of these options was \$52,845 (C\$67,942). As at December 31, 2023, there were no outstanding payables owed to the firm.
- e) For the year ended December 31, 2023 and 2022, the Company incurred expenditures of \$570,236 and \$76,617, respectively, in royalties paid to service providers and firms that are affiliated with directors and former directors of NG as well as payments directly to a former director of NG who departed from the Company in August 2023.
- f) For the years ended December 31, 2023 and 2022, the Company incurred expenditures of \$33,214 and \$69,792, 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 December 31, 2023, there were no outstanding payables owed to the lessor entity.
- g) For the year ended December 31, 2022, the Company incurred expenditures of \$1,869,704 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, whose affiliation ceased in December 2022. For the years ended December 31, 2022, the Company issued 356,000 stock options to members of the service provider. The Black-Scholes fair value recognized in the form of the expense associated with the vesting of these options was \$250,837 (C\$322,497).
- h) 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, 11,554 units were issued for subscriptions by directors and former directors of the Company or investors related to directors of the Company.
- i) In November 2022, the Company entered into certain SAFEs with certain directors for total proceeds of C\$5,250,000. In accordance with the terms of the SAFEs, C\$5,000,000 was converted into 5,000 senior secured convertible debenture units of the Company in accordance with the terms and upon the closing of the November 2022 Offering. The remaining balance of C\$250,000 was returned to a certain director.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

- j) 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 and former directors of the Company or investors related to directors of the Company.
- k) 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 and former directors of the Company.
- l) In August 2022, the Company entered into the BOOMT Agreement with GTX (see Note 22). Of the ownership of GTX, 26% is held by directors, former directors, or affiliates of directors of the Company.

Compensation of Key Management

The Company considers its directors and officers to be key management personnel. Compensation expenses paid to key management personnel were as follows:

	2023	2022
Salaries, consulting fees, benefits	954,996	379,785
Director fees	284,910	247,261
Share-based compensation	1,394,163	1,155,545
Total	2,634,069	1,782,591

22. 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 December 31, 2023, the Company had

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

\$8,011,108 (December 31, 2022 - \$1,968,873) in restricted cash towards development activity and joint operations in Colombia (see Note 8).

As at December 31, 2023, the Company had \$3,545,419 (December 31, 2022 - \$426,670) in accounts receivable (see Note 7). The Company does not consider any of its receivables past due.

The Company maintained a VAT receivable balance of \$3,129,360 as of December 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 December 31, 2023, the Company held cash and cash equivalents of \$1,294,422 (December 31, 2022 - \$6,962,228) and deposits in escrow of \$1,584,608 (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 December 31, 2023:

	Less than 1 year	Years 2-3	Thereafter	Total
Trade accounts payable	3,992,109	-	-	3,992,109
Royalties payable	1,379,078	-	-	1,379,078
Capital payables	6,741,421	-	-	6,741,421
Promissory Notes	1,004,500	-	-	1,004,500
Lease obligation payments	7,308,590	14,585,088	12,845,822	34,739,500
Convertible debentures - interest	6,273,824	8,615,873	395,111	15,284,808
Convertible debentures - principal	-	-	65,278,240	65,278,240
	26,699,522	23,200,961	78,519,173	128,419,656

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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 December 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 as a result 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 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.

The impact to the net loss and comprehensive loss for the year ended December 31, 2023, had the US dollar to Canadian dollar exchange rate changed by 1%, would amount to approximately \$22,000 (\$71,000 – December 31, 2022), and the impact to the net loss and comprehensive loss for the year had the US dollar to COP\$ exchange rate changed by 1% would amount to approximately \$70,000 (\$21,000 – December 31, 2022).

As at December 31, 2023, 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, 2022.

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 years ended December 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.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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. 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 forecasted 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.

	December 31, 2023	December 31, 2022
Convertible debentures (8% May 2022)	12,699,985	12,401,802
Convertible debentures (10% Nov 2022)	26,115,228	25,841,701
Convertible debentures (10% Jul 2023)	26,463,027	-
Lease obligations	34,739,500	37,784,781
Total debt	100,017,740	76,028,284
Working capital ⁽¹⁾	(5,503,932)	986,437
Net debt	105,521,672	75,041,847

1) Calculation of working capital excludes current portion of lease obligations and advances on future financing 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 December 31, 2023, include cash and cash equivalents, accounts receivable, VAT receivable, restricted cash, and accounts payable, 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.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

23. COMMITMENTS

Capital commitments

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

Block	2024	2025	Total
SN-9 Block ⁽¹⁾	26.7	-	26.7
Tiburón Block ⁽²⁾	3.0	-	3.0
Maria Conchita Block ⁽³⁾	-	5.0	5.0
Total	29.7	5.0	34.7

- 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) for an estimated cost of \$22.3 million 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. 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 this Phase 1 exploration commitment has been fulfilled. A further ANH commitment to acquire, process, and interpret 60 km² of 3D seismic for an estimated cost of \$4.4 million has been assumed by the Company as part of an 18-month extension request granted by the ANH under the current phase of the contractual exploration program. The current deadline for completion of the seismic program is July 2024.
- 2) Relates to NG's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 69.75 km² 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 2024 if the dispute is resolved by the Colombian Ministry of the Interior.
- 3) New ANH commitment to drill one exploration well for an estimated cost of \$5.0 million. This new commitment was assumed by the Company as part of an 18-month extension request granted by the ANH under the current phase of the contractual evaluation program. The current deadline for completion of the drilling program is August 2025.

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 an initial tariff of \$0.90/Mcf of gas, annually adjusted to the Consumer Price Index, 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

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

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 10 and 13.

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 10 and 13.

24. SEGMENTED INFORMATION

The Company is engaged in the exploration and development of natural gas. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Colombia as a separate reporting segment having distinct economic characteristics and regulatory environment. The following balances are attributed to the Colombia operating segment:

	December 31, 2023	December 31, 2022
Total sales revenue	12,041,546	1,766,325
Non-current assets	99,037,832	72,475,117

For the year ended December 31, 2023, natural gas sales recognized in the Colombia operating segment included two external customers that each constituted more than 10% of those sales.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

25. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2023	2022
Accounts receivable and prepaids	(3,469,536)	(238,148)
Inventory	(343,663)	-
VAT receivable	(774,727)	(69,668)
Accounts payable and accrued liabilities	2,427,502	7,069,901
Interest payables on promissory notes	4,500	-
Change in non-cash working capital	(2,155,924)	6,762,085
Relating to:		
Operating activities	(2,236,525)	1,191,239
Investing activities	76,101	5,570,846
Financing activities	4,500	-
Change in non-cash working capital	(2,155,924)	6,762,085

Reconciliation of the movements from financial liabilities to cash generated from (used in) financing activities for the years ended December 31, 2023 and 2022:

	Promissory Notes	Lease Obligations	Liability component of convertible debentures
As at January 1, 2023	-	24,256,779	31,172,380
Lease payments	-	(6,746,188)	-
Proceeds from convertible debentures	-	-	26,561,433
Transaction costs paid on convertible debentures	-	-	(407,493)
Interest payments	-	-	(4,660,398)
Proceeds from promissory notes	1,000,000	-	-
Cash provided from (used in) financing activities	1,000,000	(6,746,188)	21,493,542
Lease adjustments	-	2,503,412	-
Interest expense	4,500	3,819,467	4,660,398
Allocation of net proceeds to equity component of convertible debenture and warrants	-	-	(2,290,548)
Accretion expense on convertible debentures	-	-	1,939,494
Exercise of debentures	-	-	(300,641)
Foreign exchange	-	-	671,516
As at December 31, 2023	1,004,500	23,833,470	57,346,141

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

	Lease Obligations	Liability component of convertible debentures
As at January 1, 2022	-	-
Lease payments	(1,483,400)	-
Proceeds from convertible debentures	-	39,276,659
Transaction costs paid on convertible debentures	-	(1,789,234)
Interest payments	-	(862,499)
Cash provided from (used in) financing activities	(1,483,400)	36,624,926
Lease adjustments	24,886,551	-
Interest expense	853,628	862,499
Allocation of net proceeds to equity component of convertible debenture and warrants	-	(6,014,612)
Accretion expense on convertible debentures	-	410,838
Exercise of debentures	-	(187,841)
Foreign exchange	-	(523,430)
As at December 31, 2022	24,256,779	31,172,380

26. SUBSEQUENT EVENTS

Promissory Note

In January 2024, the Company entered a simple promissory note for total proceeds of \$1,000,000 with a certain lender. In accordance with the terms of the promissory note, the full value of the \$1,000,000 will be repaid in full plus accrued interest at a rate of 12% per annum on the earlier of February 29, 2024, or the date on which initial funding of the Macquarie Financing (see Note 25) was received by the Company. Subsequently, amendments executed in February 2024 to the promissory note revised the aforementioned maturity date from February 29, 2024, to August 28, 2024, with all other terms remaining unchanged.

Shares for Debt Settlement with Plus+

In March 2024, the Company announced that it completed a shares for debt settlement with Plus+ SAS ESP ("Plus+"), whereby the Company issued 2,000,000 common shares to Plus+ at a deemed issuance price of C\$1.00 per common share in satisfaction of \$1,502,000 owing to Plus+ pursuant to the terms of a termination agreement entered into between the Company and Plus+ in relation to the termination of the existing natural gas supply contract between the parties.

Macquarie Financing

In February 2024, the Company announced that it had entered into a definitive credit and guarantee agreement (the "Credit Agreement") with Macquarie Group ("Macquarie") for a financing of up to \$100 million of which \$50 million is committed funding (the "Macquarie Financing"). The Macquarie Financing is secured by a first priority lien over all the assets of the Company, its wholly owned subsidiaries and a trust formed in Colombia and matures on December 29, 2028.

NG ENERGY INTERNATIONAL CORP
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022

In March 2024, the Company received an initial advance of \$40 million pursuant to the terms of the Macquarie Financing, with the remaining \$10 million in committed funding to be advanced to the Company on a date to be determined pursuant to the terms of the Credit Agreement. The additional \$50 million in uncommitted funding will be made available to the Company by Macquarie under an accordion feature.

In addition, the Company obtained an uncommitted letter of credit facility from Macquarie of up to an additional \$13.6 million (the "LC Facility"). The Company intends to use the net proceeds of the LC Facility to guarantee work commitments under the Company's contracts with midstream partners and with the ANH.

In connection with the Macquarie Financing, the Company issued 20,742,857 common share purchase warrants to Macquarie (the "Bonus Warrants"). Each Bonus Warrant entitles Macquarie to purchase one Common Share at an exercise price equal to C\$1.00 until December 29, 2028.

Conversion and Redemption of Outstanding Convertible Debentures

In March 2024, in connection with the Macquarie Financing, 100% of the holders (the "Debentureholders") of the Company's debentures issued on November 30, 2022, and July 31, 2023 (the "Debentures"), elected to convert or redeem their Debentures in accordance with their terms. Debentureholders of C\$2.4 million face value of Debentures chose to redeem, resulting in payment of C\$3.0 million in principal, interest and redemption premium per the Debenture terms. Debentureholders of the remaining C\$67.2 million face value of Debentures chose to convert, resulting in the issuance of 85,731,098 common shares and payment C\$30.3 million in interest and conversion premium per the Debenture terms. Upon completion of the conversion and redemption of the Debentures, the remaining balance of \$1.2 million of existing deposits in escrow (see Note 11) was released to the Company.