

NG Energy International Corp. (GASX-V)

Q2	Results	In-line;	Watching	For
App	orovals			

August 26, 2021 Kirk Wilson, CFA (403) 819-5280 kwilson@beaconsecurities.ca

Event: GASX released its Q2/21 results that were limited as the company remains pre-production. The net loss for the quarter was as forecast at -US\$0.9MM. The most pertinent result is the company's level of net debt, which stood at US\$1.9 million at the end of the quarter. That is a change Q/Q from US\$3.4 million of net cash as GASX had US\$4 million of capex related mainly to the Istanbul-1 re-entry and testing.

The next steps for GASX relates to moving forward with activity on its Maria Conchita and Sinu-9 Blocks, which have both experienced delays from Covid restrictions and social unrest.

At its Maria Conchita Block, the environmental approvals and completion of the facilities and pipeline construction should come by the end of Q3/21, which will allow the Aruchara-1 and Istanbul-1 wells to commence production. This would be a major milestone for GASX. We continue to expect production from this 80% WI block to begin in early Q4/21 at 15-20 mmcf/d gross.

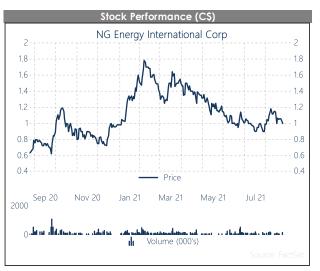
GASX is also waiting for environmental approvals at its high impact Sinu-9 Block, which we expect to be received soon. Once that box is checked, GASX can begin its exploration drilling. Each of the four wells in the initial drilling phase at Sinu-9 has the potential for 15-30 mmcf/d gross (72% WI).

Conclusion & Recommendation: We maintain our \$2.80 target price as we await news on both the Maria Conchita and Sinu-9 Blocks. We maintain our Buy rating.

Q2/21 Results							
BUY (unch)		\$2.80	(unch)				
Recent price				\$1.00			
12-month Target Price				\$2.80			
Potential Return				180%			
52 Week Price Range			\$0	.61 - \$1.88			
FYE				Dec 31			
Assumptions	2019A	2020A	2021E	2022E			
Brent (US\$/bbl)	\$64.45	\$43.04	\$67.63	\$70.00			
HHUB (US\$/mcf)	\$2.55	\$2.13	\$3.01	\$2.90			
US\$/CDN\$	\$0.75	\$0.75	\$0.80	\$0.80			
Production							
Crude oil & Liquids (bbl/d)	31	-	-	-			
Natural Gas (mmcf/d)	-	-	2.8	61.2			
Total Production (boe/d)	31	-	462	10,200			
Financial (US\$MM, exce	pt Per Sha	re item)					
FFO	(\$3.9)	(\$1.3)	(\$2.2)	\$52.5			
CAPEX	\$1.4	\$4.5	\$31.1	\$60.0			
YE Net Debt	\$0.7	\$2.8	\$28.7	\$33.6			
Net Debt/CF	-0.2x	-2.1x	-13.1x	0.6x			
FFOPS - Fully Diluted	(\$0.32)	(\$0.03)	(\$0.02)	\$0.45			
EPS - Fully Diluted	\$0.09	(\$0.49)	(\$0.04)	\$0.10			
	Valuatio	on					
P/CF			-47.6x	2.2x			
EV/DACF			-169.5x	2.3x			
ev/boepd	Charle Da	.l	\$292,170	\$13,711			
Shares Outstanding, Basic	Stock Do	IIQ		106.3			
Shares Outstanding, Dilute	. ,			139.3			
Insider Holdings, Basic				34%			
Market Capitalization (MM	u.			\$106.3			
Enterprise value (MM)	·)			\$108.6			
	out the Co	mpany		φ100.0			

About the Company

NG Energy is engaged in natural gas acquisition, exploration and production in Colombia. Head office is in Bogota, Colombia.





Operating & Financial Summary

NG ENERGY INTER	NATION	AL CORI	.		Recommendation:	BUY	Target price:		\$2.80
SHARE INFORMATION					VALUATION		2020A	2021E	2022E
Price				\$1.00	EV/DACF			-169.5x	2.3×
Shares O/S – basic (mm)				106.3	P/CF (diluted)			-47.6x	2.2>
Shares O/S – float (mm)				56.6	P/E			neg	9.6×
Shares O/S – f.d. (mm)				139.3	EV/production (\$/boe/d)			\$307,707	\$15,710
Market cap (C\$mm)				\$106					
Enterprise value (C\$mm)				\$109	Price/ PDP NAV		179%		
52-week range			\$1.	88 - \$0.61	Price/ 1P NAV		149%		
Total projected return				180%	Price/ 2P NAV		102%		
COMMODITY PRICES	2019A	2020A	2021E	2022E	NETBACKS (US\$/boe)	2019A	2020A	2021E	20228
Brent (US\$/bbl)	\$64.45	\$43.04	\$67.63	\$70.00	Revenue (incl. hedging)	\$116.41	-	\$30.00	\$31.50
HHUB (US\$/mcf)	\$2.55	\$2.13	\$3.01	\$2.90	Royalties	(\$8.99)	-	(\$4.80)	(\$5.04)
Fx (C\$/US\$)	\$0.75	\$0.75	\$0.80	\$0.80	Operating & Trans	<u>(\$33.81)</u>	=	<u>(\$9.00)</u>	<u>(\$9.00)</u>
					Operating Netback	\$73.60	-	\$16.20	\$17.46
PRODUCTION	2019A	2020A	2021E	2022E	G&A	(\$353.37)	-	(\$18.07)	(\$0.81)
Oil & Liquids (bbl/d)	31	0	0	0	Interest	(\$6.27)	-	(\$11.95)	(\$1.21)
Natural Gas (mmcf/d)	<u>0.0</u>	0.0	<u>2.8</u>	<u>61.2</u>	Other	<u>(\$39.29)</u>	Ξ	<u>\$1.22</u>	(\$1.31
boe/d (6:1)	31	0	462	10,200	Cash Flow Netback	(\$325.32)	-	(\$12.61)	\$14.13
% Liquids	0%	n.a.	100%	100%	DD&A	(\$45.18)	-	(\$10.02)	(\$10.00)
					Stock based compensation	\$8.80	-	(\$0.59)	(\$0.05)
Production Growth		-100%	n.a.	2107%	Other non-cash	\$465.42	-	(\$3.29)	(\$0.11)
Prod Growth Per Share	-88%	-100%	n.a.	1882%	Deferred tax	<u>\$0.00</u>	=	\$0.49	(\$0.68
					Earnings Netback	\$93.13	-	(\$26.38)	\$3.26
FINANCIAL (US\$mm)	2019A	2020A	2021E	2022E					
Revenue	1.3	0.5	5.1	117.3	RESERVES (mmboe)	2018A	2019A	2020A	
Royalties	(0.1)	(0.0)	(0.8)	(18.8)	PDP	-	-	-	
Operating & Trans	(0.4)	(0.1)	(1.5)	(33.5)	Proved (1P)	-	-	2.0	
G&A	<u>(4.0)</u>	<u>(1.9)</u>	<u>(3.0)</u>	<u>(3.0)</u>	Proved + Probable (2P)	-	-	4.3	
EBITDA	(3.2)	(1.6)	(0.3)	62.0					
Interest	(0.1)	(0.4)	(2.0)	(4.5)	PDP NAV BT (US\$/Share)	-	-	\$0.56	
DD&A	(0.5)	(0.3)	(1.7)	(37.2)	1P NAV BT (US\$/Share)	-	-	\$0.67	
Taxes	0.0	0.0	0.3	(7.4)	2P NAV BT (US\$/Share)	-	-	\$0.98	
Other	4.9	(21.2)	<u>(0.7)</u>	<u>(0.6)</u>					
Net Income	\$1.1	(\$23.7)	(\$4.4)	\$12.1	CAPITAL EFFICIENCIES	2018A	2019A	2020A	3-yr WAvg
					PDP FD&A (US\$/boe)	-	-	n.a.	\$0.00
FFO (mm)	(\$3.9)	(\$1.3)	(\$2.2)	\$52.5	PDP Op. Recycle Ratio	-	-	n.a.	0.0x
FFOPS (basic)	(\$0.32)	(\$0.03)	(\$0.02)	\$0.45	PDP CF Recycle Ratio	-	-	n.a.	0.0x
FFOPS (diluted)	(\$0.32)	(\$0.03)	(\$0.02)	\$0.45					
	()	(1	(1.5.5.7	•	2P FD&A (US\$/boe)	-	-	\$1.92	\$8.19
EPS Fully Diluted	\$0.09	(\$0.49)	(\$0.04)	\$0.10	2P Op. Recycle Ratio	-	-	n.a.	2.4x
	4 0.07	(+••••)	(+0.0.)	40110	2P CF Recycle Ratio	_	_	n.a.	-0.8x
Net Debt	\$0.7	(\$2.1)	\$28.7	\$33.6				n.a.	0.0/
D/CF - trailing	NA	NA	NA	0.6x	2021 QUARTERLY FORECASTS	Q1	Q2	Q3E	Q4E
D/CF - forward	NA	NA	0.5x		Liquids (bbl/d)	0	0	0	C
Debt capacity (mm)					Natural Gas (mmcf/d)	0.0	0.0	0.0	11.0
					Total (boe/d)	0.0	0.0	0.0	1.833
CAPITAL PROGRAM	2019A	2020A	2021E	2022E		0	0	0	1,000
			\$31	\$60		¢0 0	¢∩ 0	¢∩ 0	\$0.0
Total Capex (US\$mm)	\$1	\$5	•		EBITDA (US\$MM)	-\$0.8	-\$0.8	-\$0.8	\$2.0
% of cash flow	-37%	-341%	-1420%	114%	FD FFO FD EPS	-\$0.01 -\$0.01	-\$0.01 -\$0.01	-\$0.01 -\$0.02	\$0.01 -\$0.01

Source: Company reports, Beacon Securities Limited



Risks

- **Commodity Price Fluctuations** The company has direct exposure to Colombian natural gas prices. Downward movements in this commodity can adversely affect the financial performance of the company. To offset this risk, the company may enter into derivative risk management contracts to manage its exposure to commodity price fluctuations.
- **Financing** Exploring and developing for hydrocarbons may require a combination of debt and equity capital. We do not forecast additional equity; however, our models incorporate fluctuations in net debt. There is no certainty that the company can raise equity capital or that its bank lines will remain static or increase.
- Foreign exchange & Interest Rates Any movement in either of these rates has the potential to adversely affect the company's financial performance.
- **Cost Overruns** Unexpected drilling, completion and/or operational cost overruns can mitigate the operational and financial performance of the company.
- **Country risk** A change in government may lead to policies or laws that are detrimental to the industry or company, which may impact results. As Colombia is a democratically-elected government that ranks within the top-100 on the 2019 Corruption Perceptions Index, this risk is muted.
- Weather and Seasonal Factors Extreme weather conditions may influence results.
- Change in Fiscal Regime A change in the royalty or tax rates as they relate to oil and gas production may adversely affect cash flows.
- Well Performance The company may have a higher than normal amount of risk associated with its wells or plays due to the early-stage nature of its asset base. Lower production volumes, higher decline rates and/or dry holes can adversely affect the results of the company, particularly from a potential negative reserve revision perspective. Past performance may not be indicative of future execution.



Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? 🗌 Yes 🛛 No
Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities? 🗌 Yes 🛛 No
Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months? Yes No
Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? 🛛 Yes 🗌 No
Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? 🗌 Yes 🛛 No
Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? 🗌 Yes 🛛 No
Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? 🗌 Yes 🛛 No
Is Beacon Securities a market maker in the equity of the issuer? \square Yes \blacksquare No
This report makes reference to a recent analyst visit to the head office of the issuer or a site visit to an issuer's operation(s). 🗌 Yes 🛛 No

Did the issuer pay for or reimburse the analyst for the travel expenses? U Yes 🛛 No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

#Stocks	Distribution	
70	74.5%	BUY
20	21.3%	Speculative Buy
2	2.1%	Hold
0	0.0%	Sell
1	1.1%	Under Review
1	1.1%	Tender
94	100%	1
	70 20 2 0 1 1	70 74.5% 20 21.3% 2 2.1% 0 0.0% 1 1.1% 1 1.1%

Total 12-month return expected to be > 15% Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss Total 12-month return is expected to be between 0% and 15% Total 12-month return is expected to be negative

Clients are advised to tender their shares to a takeover bid or similar offer

Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on <u>www.beaconsecurities.ca</u> via login and password.

Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.