

NG Energy International Corp. (GASX-V)

So Far, So Good At Istanbul-1 Well

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Event: This morning, GASX reported that the Istanbul-1 well was successfully re-entered and the wellbore was repaired. Natural gas has effectively been proven as per the impressive size of the flare during testing (see Exhibit 2 on the next page). At this time, testing data is still being reviewed and we expect an update in that regard in a month or so.

The well was originally drilled in 2018 and steady state gas flow was never achieved, which we understand was due to the reservoir damage that occurred during drilling. The current GASX team has repaired the reservoir and natural gas is evident in multiple zones.

Of note is that Covid has had a huge impact on various operations in Colombia. The restrictions due to the recent wave of Covid cases has delayed access to services and equipment, although construction of processing facilities and the pipeline for the Maria Conchita Block are moving forward. As such, we now estimate that the Aruchara-1 and Istanbul-1 wells will begin production in Q3/21 (think August) rather than this quarter. Revisions to our forecasts are shown in Exhibit 1 on the following page.

Conclusion & Recommendation: The preliminary results from Istanbul underscore a couple of points. First, the technical acumen of the GASX team appears to be superior. Second, 2P reserves for the Maria Conchita Block (34.6 bcf, gross) could be materially augmented if one of the zones proves to be an extension of the Aruchara well. We maintain our \$3.00 target price and our Buy rating.

Istanbul-1

BUY (unch)	\$3.00 (unch)
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Recent price	\$1.30
12-month Target Price	\$3.00
Potential Return	131%
52 Week Price Range	\$0.20 - \$1.88
FYE	Dec 31

Assumptions	2019A	2020E	2021E	2022E
Brent (US\$/bbl)	\$64.45	\$43.04	\$57.26	\$70.00
HHUB (US\$/mcf)	\$2.55	\$2.13	\$2.78	\$2.82
US\$/CDN\$	\$0.75	\$0.75	\$0.78	\$0.79

Production				
Crude oil & Liquids (bbl/d)	31	-	-	-
Natural Gas (mmcf/d)	-	-	12.1	61.5
Total Production (boe/d)	31	-	2,016	10,244

Financial (US\$MM, except Per Share item)				
FFO	(\$3.9)	(\$1.6)	\$7.1	\$52.7
CAPEX	\$1.4	\$2.2	\$33.0	\$60.0
YE Net Debt	\$0.7	(\$4.1)	\$12.2	\$16.8
Net Debt/CF	-0.2x	2.6x	1.7x	0.3x
FFOPS - Fully Diluted	(\$0.32)	(\$0.03)	\$0.07	\$0.46
EPS - Fully Diluted	\$0.09	(\$0.11)	(\$0.01)	\$0.11

Valuation		
P/CF	18.7x	2.8x
EV/DACF	13.6x	2.4x
EV/BOEPD	\$73,984	\$15,012

Stock Data	
Shares Outstanding, Basic (MM)	105.4
Shares Outstanding, Diluted (MM)	136.9
Insider Holdings, Basic	36%
Market Capitalization (MM)	\$137.0
Enterprise value (MM)	\$122.3

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

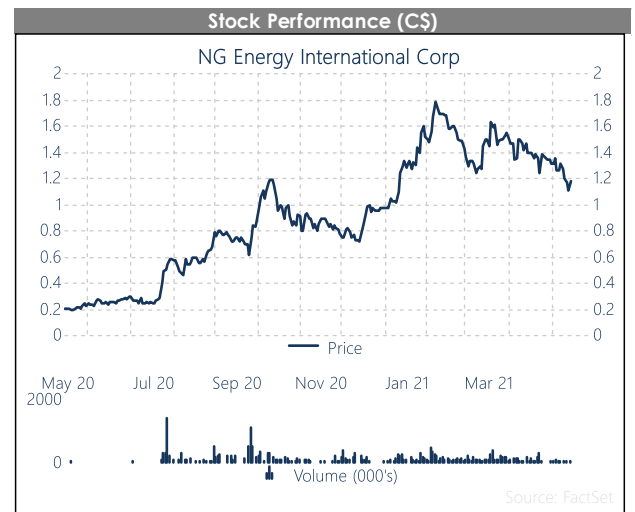


Exhibit 1: Forecast Revisions

	Previous	2021E New	% chg	Previous	2022E New	% chg
Liquids (bbl/d)	0	0	0%	0	0	0%
Natural gas (mmcf/d)	17.1	12.1	-29%	61.5	61.5	0%
Total (boe/d)	2,853	2,016	-29%	10,244	10,244	0%
% Liquids	0%	0%	0%	0%	0%	0%
boe/d per mm shares	28	20	-29%	89	89	0%
Revenue (US\$)	31.2	22.1	-29%	117.8	117.8	0%
FFO (US\$)	11.6	7.1	-39%	52.7	52.7	0%
Net income (US\$)	0.4	-0.9	-342%	12.2	12.2	0%
Capital expenditures (US\$)	33.0	33.0	0%	60.0	60.0	0%
Net debt (US\$)	7.6	12.2	60%	12.2	16.8	37%
Diluted FFOPS	\$0.11	\$0.07	-39%	\$0.46	\$0.46	0%
Diluted EPS	\$0.00	(\$0.01)	n.m.	\$0.11	\$0.11	0%
Revenue per boe	\$30.00	\$30.00	0%	\$31.50	\$31.50	0%
Cash costs per boe	\$13.95	\$15.45	11%	\$12.32	\$12.32	0%
Operating netback per boe	\$16.20	\$16.20	0%	\$17.46	\$17.46	0%
FFO per boe	\$11.14	\$9.59	-14%	\$14.11	\$14.11	0%
Earnings per boe	\$0.37	(\$1.25)	n.m.	\$3.26	\$3.26	0%

Source: Company reports, Beacon Securities Limited

Exhibit 2: Istanbul-1 Flare Stack


Source: Company Reports

Operating & Financial Summary

NG ENERGY INTERNATIONAL CORP.

Recommendation: **BUY** Target price: **\$3.00**

SHARE INFORMATION					VALUATION				
Price				\$1.30	EV/DACF			13.6x	2.4x
Shares O/S – basic (mm)				105.4	P/CF (diluted)			18.7x	2.8x
Shares O/S – float (mm)				56.6	P/E			neg	12.3x
Shares O/S – f.d. (mm)				136.9	EV/production (\$/boe/d)			\$75,685	\$16,969
Market cap (C\$mm)				\$137	Price/ PDP NAV	n.a.			
Enterprise value (C\$mm)				\$122	Price/ 1P NAV	n.a.			
52-week range				\$1.88 - \$0.20	Price/ 2P NAV	n.a.			
Total projected return				131%					
COMMODITY PRICES					NETBACKS (US\$/boe)				
Brent (US\$/bbl)	\$64.45	\$43.04	\$57.26	\$70.00	Revenue (incl. hedging)	\$116.41	-	\$30.00	\$31.50
HHUB (US\$/mcf)	\$2.55	\$2.13	\$2.78	\$2.82	Royalties	(\$8.99)	-	(\$4.80)	(\$5.04)
Fx (C\$/US\$)	\$0.75	\$0.75	\$0.78	\$0.79	Operating & Trans	(\$33.81)	-	(\$9.00)	(\$9.00)
					Operating Netback	\$73.60	-	\$16.20	\$17.46
					G&A	(\$353.37)	-	(\$3.26)	(\$0.80)
					Interest	(\$6.27)	-	(\$3.06)	(\$1.20)
					Other	(\$39.29)	-	(\$0.13)	(\$1.32)
					Cash Flow Netback	(\$325.32)	-	\$9.75	\$14.14
					DD&A	(\$45.18)	-	(\$10.00)	(\$10.00)
					Stock based compensation	\$8.80	-	(\$0.27)	(\$0.05)
					Other non-cash	\$465.42	-	(\$0.54)	(\$0.11)
					Deferred tax	\$0.00	-	(\$0.02)	(\$0.68)
					Earnings Netback	\$93.13	-	(\$1.25)	\$3.26
PRODUCTION					RESERVES (mmboe)				
Oil & Liquids (bbl/d)	31	0	0	0	PDP	-	-	-	-
Natural Gas (mmcf/d)	0.0	0.0	12.1	61.5	Proved (1P)	-	-	2.0	-
boe/d (6:1)	31	0	2,016	10,244	Proved + Probable (2P)	-	-	4.3	-
% Liquids	0%	n.a.	100%	100%					
					PDP NAV BT (US\$/Share)	-	-	\$0.08	-
					1P NAV BT (US\$/Share)	-	-	\$0.20	-
					2P NAV BT (US\$/Share)	-	-	\$0.53	-
Production Growth		-100%	n.a.	408%					
Prod Growth Per Share	-88%	-100%	n.a.	357%					
FINANCIAL (US\$mm)					CAPITAL EFFICIENCIES				
Revenue	1.3	0.5	22.1	117.8	PDP FD&A (US\$/boe)	-	-	n.a.	\$1,486.99
Royalties	(0.1)	(0.0)	(3.5)	(18.8)	PDP Op. Recycle Ratio	-	-	n.a.	0.0x
Operating & Trans	(0.4)	(0.1)	(6.6)	(33.7)	PDP CF Recycle Ratio	-	-	n.a.	0.0x
G&A	(4.0)	(2.1)	(2.4)	(3.0)					
EBITDA	(3.2)	(1.8)	9.5	62.3	2P FD&A (US\$/boe)	-	-	\$0.91	\$7.18
Interest	(0.1)	(0.5)	(2.3)	(4.5)	2P Op. Recycle Ratio	-	-	n.a.	2.8x
DD&A	(0.5)	(0.3)	(7.4)	(37.4)	2P CF Recycle Ratio	-	-	n.a.	-0.9x
Taxes	0.0	0.0	(0.1)	(7.5)					
Other	4.2	(2.6)	(0.6)	(0.6)					
Net Income	\$1.1	(\$5.3)	(\$0.9)	\$12.2					
FFO (mm)	(\$3.9)	(\$1.6)	\$7.1	\$52.7					
FFOPS (basic)	(\$0.32)	(\$0.03)	\$0.07	\$0.46					
FFOPS (diluted)	(\$0.32)	(\$0.03)	\$0.07	\$0.46					
EPS Fully Diluted	\$0.09	(\$0.11)	(\$0.01)	\$0.11					
Net Debt	\$0.7	(\$4.1)	\$12.2	\$16.8					
D/CF - trailing	NA	NA	1.7x	0.3x					
D/CF - forward	NA	NA	0.2x						
Debt capacity (mm)									
CAPITAL PROGRAM					2021 QUARTERLY FORECASTS				
Total Capex (US\$mm)	\$1	\$2	\$33	\$60	Liquids (bbl/d)	0	0	0	0
% of cash flow	-37%	-133%	468%	114%	Natural Gas (mmcf/d)	0.0	0.0	15.0	33.0
					Total (boe/d)	0	0	2,500	5,500
					EBITDA (US\$MM)	-\$0.6	-\$0.6	\$3.1	\$7.6
					FD FFO	-\$0.01	-\$0.01	\$0.02	\$0.06
					FD EPS	-\$0.01	-\$0.01	\$0.00	\$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.

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As at April 30th, 2021	#Stocks	Distribution
BUY	67	76.1%
Speculative Buy	19	21.6%
Hold	1	1.1%
Sell	0	0.0%
Under Review	1	1.1%
Tender	0	0.0%
Total	88	100%

BUY Total 12-month return expected to be > 15%
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
 Hold Total 12-month return is expected to be between 0% and 15%
 Sell Total 12-month return is expected to be negative
 Under Review
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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