



**CENTAURUS ENERGY INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2023**



## MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2023

*(Unless otherwise indicated, all dollar amounts are in United States dollars ("USD"))*

*This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is based on information available to May 30, 2023 and should be read in conjunction with Centaurus Energy Inc.'s ("Centaurus" or the "Company") unaudited condensed interim consolidated financial statements for the three months ended March 31, 2023 and the accompanying notes as well as the audited consolidated financial statements for the year ended December 31, 2022 and the accompanying notes. This MD&A contains forward-looking information about the Company's current expectations, estimates, projections and assumptions. See the Advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying the Company's forward-looking information. Centaurus's Management prepared the MD&A, while the Audit Committee of the Centaurus Board of Directors (the "Board") reviewed and recommended its approval by the Board. Additional information relevant to the Company's activities contained in its continuous disclosure documents, including quarterly condensed interim consolidated financial statements and the Annual Information Form ("AIF"), is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.ctaurus.com](http://www.ctaurus.com).*

### **Basis of Presentation**

*This MD&A and the unaudited condensed interim consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board applying IAS 34. Unless otherwise indicated, all dollar amounts are in United States dollars ("USD"). Sales volumes are presented on a before royalties basis.*

*The financial statements prepared and audited as of December 31, 2022 contained the consolidation of Madalena Energy Argentina SRL, a company that was sold in January 2023 (see note 15), which means that the comparative figures observed in these financial statements are not directly comparable with the balances as of March 2023.*

### **Non-GAAP Measures**

*Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as funds flow from (used in) operations, working capital and netbacks and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing the Company's ability to generate funds to finance its operations and information regarding its liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and/or reconciliation of each non-GAAP measure is presented in the Netbacks and Reconciliation of Cash Flow from (used in) Operating Activities and Funds Flow from (used in) Continuing Operations sections of this MD&A.*

*Funds flow from (used in) continuing operations per share is calculated using the same basic and diluted weighted average number of shares for the period, consistent with the calculations of loss per share.*

*The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*



## **Introduction**

Centaurus Energy Inc. ("Centaurus", or the "Corporation") is an independent, Canadian company that has been focused on Argentine upstream oil and gas with operations until January 2023. The Company is currently focused on managing the future proceeds from the PAE ORRI, totaling US\$16 million, which may include investment in new endeavors and/or capital returns.

Centaurus trades on the TSX Venture Exchange ("TSXV") under the symbol CTA and on the OTC Pink market under the symbol CTARF. Centaurus' Argentine upstream oil and gas operations as well as the corporate segment are discussed in the "Continuing Argentine Operations and Corporate Segments" section of this MD&A. Unless specifically noted, all current and comparative reporting periods' operating and financial disclosures and discussion are in reference to the continuing Argentine operations and corporate segments.

## **2022 Highlights**

### ***Shares consolidation***

On December 21, 2022 all of the issued and outstanding common shares of the Corporation were consolidated on a five-hundred to one (500:1) basis. Under the Consolidation, every 500 common shares held by a Shareholder, received one Common Share. Following the completion of the Consolidation, there are currently 1,093,156 common shares issued and outstanding in the share capital of the Corporation.

Due to the consolidation, the earnings / loss per share of 2023 are not comparable with those of 2022.

## **2023 Highlights**

### ***Sale of Madalena Energy Argentina SRL to Gasener***

On January 12, 2023, Centaurus closed an agreement with Gasener SRL ("Gasener"), a hydrocarbon trading company based in Argentina, whereby Gasener acquired Madalena Energy Argentina S.R.L, the Company's operating subsidiary based in Argentina. Pursuant to the Transaction, Gasener acquired MEA for a purchase price of US\$20,000 and assumed all liabilities with respect to MEA. Prior to the Transaction, Centaurus acquired MEA's interests in the PAE ORRI in exchange for assumption and extinguishment of the intercompany debt owed by MEA to Centaurus. In addition, as part of the Transaction, a debt obligation of approximately US\$260,000 owed by MEA to David D. Tawil was assumed by Centaurus. The effect of the Transaction is that the Company has transferred all its conventional oil and gas assets and related liabilities in Argentina, including sizable upcoming drilling commitments, to Gasener, while retaining the PAE ORRI.

### ***Impact of the Coronavirus COVID-19***

In March 2020, the World Health Organization declared COVID-19 a global pandemic. Since that time, the oil and gas industry has experienced significant volatility with commodity prices, and in particular oil prices, as a result of a decline in economic activity and lower demand for commodities in both Canada and around the world. In the second half of 2020 and into 2021, oil prices have partially recovered from the lows that occurred in the second quarter of 2020 as restrictions eased and vaccines started to be administered. In early 2021, full demand recovery remains uncertain as countries are at various stages of rolling-out vaccines while virus outbreaks continue to occur, mainly due to new variants which has resulted in activity restrictions.

Responses to the spread of COVID-19 have resulted in a significant increase in economic uncertainty in Argentina, with more volatile commodity prices, currency exchange rates and a marked decline in long-term interest rates. These



events have resulted in a volatile and challenging economic climate which has adversely affected the Company's operational results and financial position.

### Foreign Exchange Fluctuations

The table below provides various exchange rates that illustrate the quarterly foreign exchange fluctuations between the USD, the Argentine Peso (“ARS”), and the Canadian dollar (“CAD”). The table illustrates the impact of both the ARS and CAD changes relative to the USD in the three months ended March 31, 2023 compared to the three month ended March 31, 2022. Foreign exchange changes in CAD and ARS impact the unrealized foreign exchange gains and losses recorded in the condensed interim consolidated statements of income (loss).

(1)

USD	Three months ended		% Change <sup>(1)</sup>
	2023	2022	
Average CAD to USD	0.739	0.793	(3.50%)
Average ARS to USD	0.008	0.010	(28.27%)
Period end CAD to USD	0.738	0.789	(7.05%)
Period end ARS to USD	0.006	0.010	(32.98%)

(1) Differences calculated from the numbers within the table are due to rounding.

### Continuing Argentine Operations and Corporate Segments

#### Sales Volumes

	Three months ended	
	2023	2022
Crude oil and NGLs (bbls/d)	-	1,149
Natural gas (mcf/d)	-	736
Total daily sales (boe/d)	-	1,272
% oil	-	90%

Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has sales to report.

#### Average Realized Prices

	Three months ended
	March 31



USD	2023	2022
Crude oil and NGLs - \$/bbl	-	54.18
Natural gas - \$/mcf	-	3.07
Total - \$/boe	-	50.73

### Oil and Natural Gas Revenue

USD 000s, except boe	Three months ended March 31	
	2023	2022
Crude oil	-	5,063
Natural gas	-	203
	-	5,806
\$/boe	-	50.72

### Royalties

USD 000s, except boe	Three months ended September 30		Three months ended March 31	
	2023	2022	2023	2022
Royalties and Turnover taxes	-	819	-	14%
As % of revenue	-		-	7.15
\$/boe	-		-	

Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has royalties to report .

### Operating Costs

USD 000s, except boe	Three months ended March 31	
	2023	2022
Compensation costs	-	902
Transportation and processing	-	385
Maintenance, workovers and other	-	671
	-	1,958
\$/boe	-	17.11

Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has royalties to



report.

### Netbacks <sup>(1)</sup>

USD/boe	Three months ended March 31	
	2023	2022
Oil and gas revenue	-	50.72
Royalties	-	(7.15)
Operating expenses	-	(17.11)
<b>Netbacks</b>	<b>-</b>	<b>26.46</b>

- (1) The term “netback” is a non-GAAP measure and may not be comparable with the calculation of other entities. Netback is calculated as the average unit sales price, less royalties and operating expenses, and represents the cash margin for every barrel of oil equivalent sold. The Company uses this measure to analyze operating performance and considers netback a key measure, as it demonstrates its profitability relative to current commodity prices.

### General and Administration (“G&A”) Expenses

USD 000s	Three months ended March 31	
	2023	2022
<b>Argentina</b>		
Gross G&A		
Compensation costs	-	300
Other	-	6,248
	-	6,548
Capitalized	-	(50)
	-	6,498
<b>Corporate</b>		
Gross G&A		
Compensation costs	18	-
Other	4,434	135
	4,452	135
<b>Consolidated</b>		
Net G&A total	4,452	6,633

#### *Argentina*

Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has G&A in Argentina to report.

#### *Corporate*

Gross G&A expenses for the Quarter increased to \$4.4 millions compared to \$47 thousand in Q3-2021 due to interest forgiveness.



## Finance (Income) and Expenses

USD 000s	Three months ended March 31	
	2023	2022
<b>Argentina</b>		
Bank charges and fees	-	37
Foreign exchange (gain) loss – unrealized	-	304
Accretion of decommissioning obligations	-	31
Interest (income) and other expenses	-	(1,271)
	-	(899)
<b>Corporate</b>		
Foreign exchange loss – unrealized	29	(17)
Interest (Income) and other expenses	44	(5)
	73	(22)
<b>Consolidated</b>	73	(921)

### *Argentina*

Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has finance income and expenses in Argentina to report.

### *Corporate*

#### Foreign exchange loss (gain)

During the Quarter, the Company recorded an unrealized foreign exchange loss of \$29 thousand (Q1-2023 \$17 thousand).

## Share-based and Long-term Incentive Compensation

### Share-based Compensation

The Company has issued stock options as incentive programs that allow officers, directors, consultants and certain employees to purchase shares in the Company.

On January 8, 2021, 24,205,954 options (on a pre-consolidated basis) were granted to certain directors of the Company with exercise prices of USD \$0.04337 (CAD \$0.055) per share (2020 – nil). In addition, the Company and certain option holders agreed to cancel 2,700,000 options originally issued in April 2018 and 600,000 issued in January 2021.

As of May 30, 2023, the Company had 1.1 million shares and 0.1 million options outstanding.

## Depletion and Depreciation (“D&D”)

USD 000s	Three months ended March 31	
	2023	2022
<b>Argentina</b>		
\$/boe	-	180
	-	1.58



<b>Consolidated</b>	-	180
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Having sold its working interest in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has Depletion and Depreciation to report.

### Reconciliation of Cash Flow from (used in) Operating Activities and Funds Flow from (used in) Continuing Operations

As detailed previously in this MD&A, funds flow from (used in) operations is a term that does not have any standardized meaning under GAAP. Centaurus's method of calculating funds flow from (used in) continuing operations may differ from that of other companies, and accordingly, may not be comparable to measures used by other companies. Funds flow from (used in) continuing operations is calculated as cash flow from (used in) continuing operating activities before change in non-cash working capital, and change in other long-term assets and liabilities.

USD 000s	Three months ended March 31	
	2023	2022
Cash flow from (used in) operating activities	12,970	226
Change in non-cash working capital	(12,113)	37,992
Funds flow from (used in)	857	38,218

### Funds flow from (used in) Continuing Operations, Net Income (Loss) and Comprehensive Income (Loss) from Continuing Operations

USD 000s	Three months ended March 31	
	2023	2022
Funds flow from (used in)	857	38,218
Per share – basic and diluted	0.78	0.07
Net gain (loss)	828	37,714
Per share – basic and diluted	0.79	0.14
Comprehensive gain (loss)	828	37,714

Centaurus's funds flow from continuing operations for the Quarter was (\$0.8) million.

The net gain from continuing operations for the Quarter was \$0.8 million (Q1-2022 - \$37.7 million).

### Capital Expenditures

USD 000s	Three months ended March 31	
	2023	2022
<b>Argentina</b>		
Land and associated renewal fees	-	-
Geological and geophysical	-	-
Drilling and completions	-	-





Well equipment and facilities	-	-
Other	-	14
Argentina total	-	14
<b>Consolidated</b>	-	14

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

### Liquidity risk

USD 000s	March 31 2023	December 31 2022
Working capital (deficit) surplus		
Argentina	-	13,176
Canada	(3,685)	(3,578)
	(3,685)	9,599
Convertible loan – capital resource	(2444)	(2,462)
Working Capital loan	-	-
Short term loan	(612)	(543)
Pan American Energy (“PAE”) loan	-	-
Net financial position	(6,741)	6,594
Shareholders’ equity	10,905	10,077

On March 31, 2023, the consolidated working capital deficit of the Company (Canada) was (\$3.7 million) (December 31, 2022 -\$9.6 million surplus).

On March 27, 2020, the Company received a notice of default and reservation of rights from KD Energy and Hispania, alleging that the Corporation is in default of the terms of the Working Capital Loan Agreement and Amended and Restated Convertible Loan Agreement.

### Repatriation of Funds to Canada

Funds are required to enable the Company to maintain compliance and manage the regulatory, reporting, audit, legal and tax requirements of a company listed on the TSXV.

### Share Capital Issued, Options Granted and Long-term Incentive Plan

#### *Outstanding Share Capital*

No common shares were issued in the Quarter (Q1-2022 – nil).

On January 8, 2021, 24,205,954 options were granted to certain directors of the Company with exercise prices of USD \$0.04337 (CAD \$0.055) per share (2020 – nil). In addition, the Company and certain option holders have agreed to cancel 2,700,000 previously issued options originally issued in April 2018 and 600,000 issued in January 2021.

As of May 29, 2023, the Company had 1.1 million shares and 0.1 million options outstanding.

### Fair value of Financial Instruments

The Company’s financial instruments include cash and cash equivalents, trade and other receivables, certain items in other long-term assets and liabilities, current portion of long-term debt, trade and other payables, taxes payable, convertible debentures issued, the carrying values of which approximate their fair values due to their short-term nature with the exception of: (i) convertible debentures issued, which relates to the debt component of these instruments and



are accreted up to their principal value over the term of the debenture using the effective interest rate method and (ii) certain other long-term assets and liabilities whose calculated fair value approximates its carrying value.

### **Decommissioning Obligations**

Having sold its stake in Madalena Energy Argentina SRL, Centaurus Energy Inc no longer has decommissioning obligations to report..

### **Commitments and Contingencies**

#### **Other Commitments**

In November 2016, Centaurus sub-leased its former corporate office premises to the end of 2018, with the expectation of further renewals or alternative sub-lease arrangements to the end of the head lease term of September 2022. The difference between the head lease payments under the existing contract and the sub-lease contract income expected over the period of the lease term, results in an onerous contract and a liability has been recognized of approximately \$0.9 million (2022- \$0.7 million), recorded as part of Other long-term liabilities in the consolidated statements of financial position at March 31, 2023.

## **QUARTERLY FINANCIAL RESULTS**

### **Continuing Operations**

USD 000s, unless otherwise noted	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Oil and natural gas revenues	-	2,205	2,315	1,782
Net income (loss)	828	(9,016)	3,867	883
Shares outstanding – millions	1.1	1.1	544.1	544.1
Net income (loss) per share – basic and diluted	0.76	(8.25)	0.01	0.00

  

USD 000s, unless otherwise noted	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Oil and natural gas revenues	5,807	8,203	5,425	5,281
Net income (loss)	37,714	9,571	1,895	2,556
Shares outstanding – millions	544.1	544.1	544.1	544.1
Net income (loss) per share – basic and diluted	0.07	0.02	(0.00)	(0.00)

### ***Critical Accounting Judgments, Estimates and Accounting Policies***

For more details regarding the Company’s critical accounting judgments, estimates and accounting policies the following should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2022.

Management is required to make judgments, estimates and assumptions in the application of accounting policies that could have a significant impact on the Company’s financial results. Actual results may differ from those estimates and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. The Company’s critical accounting policies and estimates are reviewed annually by the Audit Committee of the Board. Further details on the basis of presentation and significant accounting policies can be found in the Company’s notes to the consolidated financial statements for the year ended December 31, 2022.



### **Critical accounting estimates**

Critical accounting estimates are those estimates that require Management to make particularly subjective or complex judgments about matters that are inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the period in which the estimates are revised. During the Quarter, there were no changes to the Company's key sources of estimation uncertainty. Further information on the Company's key sources of estimation uncertainty can be found in the notes to the consolidated financial statements for the year ended December 31, 2022.

### **Risk Management**

For a full understanding of the risks that impact the Company, the following discussion should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2022.

The Company is exposed to a number of risks through the pursuit of its strategic objectives. Some of these risks impact the oil and gas industry as a whole and others are unique to its operations and its involvement in Argentina. Actively managing these risks improves the Company's ability to effectively execute its business strategy. The factors that impact the Company's exposure to liquidity risk, safety risk, capital project execution and operating risk, reserves replacement risk, environmental risk and regulatory risk has not changed substantially since December 31, 2022. For a further and more in-depth discussion of the Company's risk management see the Company's Consolidated Financial Statements for the year ended December 31, 2022.

A description of the risk factors and uncertainties affecting the Company can be found in the Advisory and a full discussion of the material risk factors affecting the Company can be found in the Company's Annual Information Form for the year ended December 31, 2022.

### **Advisory**

#### **Forward Looking Statements**

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, expected depletion, depreciation and accretion expenses, expectations as to the taxability of the Company and planned capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, the outcome of the strategic review process, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the ability to repatriate funds from Argentina, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described can be profitably produced in the future.



The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward-looking statements.

### **Reserves and Other Oil and Gas Disclosure**

Any references in this MD&A to test rates, flow rates, initial and/or final raw test or production rates, early production, test volumes behind pipe and/or "flush" production rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily indicative of long-term performance or of ultimate recovery. Such rates may also include recovered "load" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Centaurus. In addition, the Vaca Muerta and Agrio shales are unconventional resource plays which may be subject to high initial decline rates.

### **Analogous Information**

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells, industry activity and/or operations that are in geographical proximity to or believed to be on-trend with lands held by Centaurus. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of Centaurus believes the information may be relevant to help define the reservoir characteristics within lands on which Centaurus holds an interest and such information has been presented to help demonstrate the basis for Centaurus's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and Centaurus is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Centaurus has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Centaurus and such information should not be construed as an estimate of future production levels or the actual characteristics and quality Centaurus's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by Centaurus and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by Centaurus may be in error and/or may not be analogous to such lands to be held by Centaurus.

### **Numerical Amounts**

The reporting and the measurement currency is the USD. Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

This MD&A uses the term "netback" which is a term that does not have standardized meanings under GAAP and this non-GAAP measurement may not be comparable with the calculation of other entities. The Company uses this measure to analyze operating performance.

The term "netback", which is calculated as the average unit sales price, less royalties and operating expenses, represents the cash margin for every barrel of oil equivalent sold. The Company considers this a key measure as it demonstrates its profitability relative to current commodity prices. This term does not have any standardized meaning prescribed by GAAP and, therefore, might not be comparable with the calculation of a similar measure for other companies.



## ABBREVIATIONS

The following is a summary of the abbreviations used in this MD&A:

### Oil and Natural Gas Liquids

bb1	barrel
bbls/d	barrels per day
NGLs	Natural gas liquids
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day

### Natural Gas

Mcf	thousand cubic feet
mmbtu	million British Thermal Units