**NEW STRATUS ENERGY INC.**

# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE NINE MONTHS ENDED DECEMBER 31, 2022

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of New Stratus Energy Inc. ("New Stratus", "NSE", "our", "we", or the "Company") for the nine months ended December 31, 2022.

This MD&A is dated May 1st, 2023, and should be read with the Company's consolidated financial statements for the nine months ended December 31, 2022. Additional information, including the Company's previous MD&A, and audited consolidated financial statements for the year ended March 31, 2022, is available on SEDAR at www.sedar.com. Information contained in the annual MD&A is not discussed in this MD&A if it remains substantially unchanged.

All dollar figures in this MD&A are expressed in Canadian dollars, unless otherwise stated.

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## 1. BUSINESS OVERVIEW

New Stratus is a publicly traded company domiciled in Canada. Its primary operations involve the acquisition, exploration, and development of oil and gas properties in two Latin American countries (Ecuador and Colombia) and, since January 14, 2022, the operation and production of oil and gas fields. The Company was incorporated on April 12, 2005, pursuant to the *Business Corporations Act* (Alberta) ("ABCA") and is a reporting issuer in Alberta, British Columbia, Ontario and Saskatchewan. The common shares of the Company are listed on the TSX Venture Exchange under the trading symbol "NSE".

The Company has changed its year end from March 31 to December 31 to align it with that of comparative companies and its subsidiary, which operates on a calendar fiscal year end in Ecuador, Spain, and Colombia. Accordingly, the current consolidated financial statements are prepared for 9 months from April 1 to December 31, 2022, and as a result, the comparative figures stated in the income statement, statement of changes in equity, cash flow statement and the related notes might not be comparable.

The Company's registered office is 1500, 850 2nd Street S.W., Calgary, Alberta, Canada, and its mailing address is 372 Bay Street, Suite 3100, Toronto, Ontario, M5H 2W9.

Additional information related to Company and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website at www.sedar.com.

## 2. CORPORATE STRATEGY

Management's objective is to increase production to approximately 50,000 boe/d within 3 to 5 years. This strategy involves the acquisition of production up to 15,000 boe/d and the utilization of management expertise to improve and grow organically acquired production.

NSE has been evaluating opportunities during this first quarter of 2023, focused mainly on Latin America, especially Colombia, Peru, Ecuador, Mexico, and Venezuela.

In Colombia, we are awaiting the decision of the ANH (National Hydrocarbons Agency) as requested by the Company and which consisted of not continuing with the drilling of the exploratory well in Block VMM-18 in accordance with the contract with the ANH, due to the environmental restrictions shown in the Environmental License received from the ANLA (National Agency for Environmental Licenses), make it impossible to drill and develop the well according with commitment in the contract with ANH.

Likewise, two other properties were evaluated in Colombia, one of them with two blocks located in Valle Medio del Magdalena and the other in the Catatumbo Basin in the vicinity of Venezuela, concluding that they are not of interest to NSE. The other block is located in the Llanos Orientales Basin and it is in the evaluation process and awaiting the results of an exploratory well that is currently being drilled by the operator.

NSE has expressed interest in analyzing the properties under PeruPetro (Peruvian National Agency) management and is awaiting their response. In addition, NSE was invited to a private process to evaluate two opportunities in northwestern Peru, near the border with Ecuador. According to the information provided by the investment bank, it is estimated that this process will be required to close in about two months.

The Corporation has been approved as a qualified operator by the Ministry of Energy and Mines in Ecuador, thus allowing the Corporation to participate in the bidding process for development and exploration blocks in the XIII Oil Round denominated" Intracampos II". The Corporation will evaluate these opportunities as an approved bidder while it continues to pursue its legal demand against the Government of Ecuador under International arbitration.

In addition, NSE has also been evaluating various opportunities in Ecuador, including Petroecuador's competitive process, in which six exploratory blocks towards the northern part of the Ecuadorian Eastern Basin are being offered, Petrolia, the operator controlled 100% by NSE was officially qualified by Ecuadorian Ministry of Energy to participate in the process. Similarly, NSE has carried out the evaluation of three opportunities in the Eastern Basin, concluding that there is no interest in continuing the negotiation of two of them, while the evaluation of the third block continues, hoping to complete it in about three weeks and depending on the results of the NSE evaluation, the negotiation with the current operator could begin.

Likewise, NSE has been evaluating opportunities in Mexico onshore and so far, the company has identified an operator with two neighboring producing blocks and with interest to associate for their operation. NSE should start the negotiation of the participation in the operating company of the same in one or two weeks.

Lastly, NSE has been analyzing various opportunities in Venezuela and is assessing the viability of pursuing such potential opportunities in light of current US and Canadian sanctions relevant to conducting business in the oil sector in Venezuela, including assessing recent developments and the prospects of future easing of US sanctions applicable to dealings with PDVSA and other relevant designated parties. Additionally, it is important to highlight the opportunities in Venezuela, the high level of its remaining reserves, which makes this country the most attractive in the region, while being mindful of full compliance with applicable sanctions and other business integrity risks such as anti-corruption.

To date, NSE has been evaluating numerous opportunities in Latin America and is confident that some of the ones currently being assessed will materialize in the short term.

## 3. CORPORATE HISTORY AND GENERAL DEVELOPMENT

On November 27, 2018, the Company entered into a farm-in agreement (the "Agreement") with Montajes JM ("JM") where NSE has the right to earn up to 100% interest in Montajes' 100% owned Block VMM-18 (the "Project"), located at Cuenca Valle Medio del Magdalena in Colombia. The Project encompasses the exploration and development of hydrocarbons in the above-mentioned area.

On January 14, 2022, the Company acquired 100% of the shares of Petrolia Ecuador S.A. (previously Repsol Ecuador S.A.), which through its Branch the Corporation held an indirect 35% in service contracts (the "Service Contracts") for Blocks 16 and 67 in Ecuador (the "Blocks").

The Service Contracts signed between Petrolia Ecuador S.A., the other companies making up the Consortium and the Ecuador Ministry of Energy is a Service Oil Contract ("SOC") where the Company was entitled to collect a fixed service tariff per each delivered barrel. The Company will receive the total service tariff when the Available Income is equal to or higher than the Tariff; otherwise, the Contractor is entitled to collect only the Available Income. In this case, this difference "*carryforward*", could be collected, depending on oil prices, until contract termination. See “Corporate Performance – Realized Prices “on page 4 for details”.

The Branch, is a branch of Petrolia Ecuador S.A., a Spanish incorporated company whose main activity is the production of hydrocarbons (crude oil, gas and other liquids) directly or through its participation in "associations or consortiums", through which it can manage in different locations one or several contractual areas within the territory of the Republic of Ecuador, with each "association or consortium" having the material and human resources (its own or third parties'). The Branch has been operating in the country since 2001, the year in which it signed the acquisition of the participation rights in the oil associations or consortiums for the management of Block 16 and Tivacuno Area.

The companies that signed a Joint operation agreement formed the Block 16 Oil Consortium and the Tivacuno Block Oil Consortium or Block 67 which are structured as follows: Petrolia Ecuador S.A. (35%); Overseas Petroleum and Investment Corp. (31%); Amodaimi – Oil Company, S.L. (20%); and CRS Resources Ecuador LDC. (14%).

On December 5, 2022, the Company announced that the Government of Ecuador informed the Corporation that it does not intend to fulfill its legal and contractual obligation to appoint the required negotiations committee for the extension and migration of the service contracts for Blocks 16 & 67.

As a direct result of the decision made by the Government of Ecuador, the Company has announced a formal claim through international arbitration under the terms contemplated in the service contract agreements.

Due to the event described above, on December 31, 2022, the Company transferred to the Ministry of Energy and Mines, at no cost and in good operational condition, all the facilities and infrastructure of Blocks 16 & 67, in accordance with the Hydrocarbons Law and regulations.

Subsequent to December 31, 2022, the Branch´s main objective is to manage remaining administrative functions related to the Consortium reversion process obligations.

## 4. CORPORATE PERFORMANCE

The Company’s operations involve the acquisition, exploration, and development of oil and gas properties, and, between January 14, 2022, and December 31, 2022, the operation and production of oil and gas deposits. These types of operations are subject to risks and challenges similar to companies in a comparable stage. These risks include, but are not limited to, the challenges of securing adequate capital; exploration, development and operational risks inherent in the oil and gas industry; changes in government policies and regulations; the ability to obtain the necessary environmental permitting; challenges in profitable production or, New Stratus’ ability to dispose of its interest on an advantageous basis; as well as global economic and commodity price volatility; all of which are uncertain.

***Ecuador Blocks 16 and 67***

On January 14, 2022, the Company acquired from Repsol 100% of the shares in Petrolia Ecuador S.A. (previously Repsol Ecuador S.A.), a Spanish incorporated company. Petrolia Ecuador S.A. operated until December 31, 2022, Blocks 16 and 67 Oil Consortiums under Service Contract agreements in Ecuador through its branch, Petrolia Ecuador S.A. (the "Branch").

As mentioned above, the Company transferred to the Ministry of Energy and Mines, at no cost and in good operational condition, all the facilities and infrastructure of Blocks 16 & 67, in accordance with the Hydrocarbons Law and regulations. Also, on the service contract termination date, the Company has concluded its contracts with all of its employees, paying their severance as per the labor law and terminated all suppliers' contracts.

The hydrocarbon regulations stipulate that a minute (the "Minute") shall be executed between the Ministry of Energy and the Company, reflecting the actual transfer of the operation of the Blocks and the delivery of all the facilities on the service contract termination date. This Minute shall also address the reversion process that was led by the hydrocarbons authorities and will summarize the activities carried out by five (5) commissions that were designated for technical, social - environmental, assets, legal and economic issues. All individual commissions have already signed off and no significant concern remains unsolved. However, the final Minute remains unsigned by the Ministry. The Company estimates the Minute will be executed in the first half of 2023.

The Company has concluded all the audits required for environmental purposes under the law and the service contracts, including a specific environmental reversion audit. None of these audits have indicated the existence of any environmental liability. The Company is working with the environmental authorities in order to close administrative requests that in no event will modify the audit reports conclusions.

During the entire calendar year 2022 the Company executed a portion of its Asset Retirement Obligation. As of December 31, 2022, some of these obligations and the associated activities remain outstanding which are being executed during 2023. The costs estimated for these remaining obligations have been fully reflected in the Company's balance sheet at December 31, 2022. The Company considers the provision recorded for is sufficient to comply with all the Ecuadorian hydrocarbons regulations and with the best industry good practices.

## Financial and Operating Results

### Revenue and Income

New Stratus Energy produced robust financial results for the nine months ended December 31, 2022 and fiscal year ended March 31, 2022. This was the result of the acquisition of 35% working interest in Blocks 16 and 67 in Ecuador on January 14, 2022. The average production for Blocks, including working interest partner production was 14,884 bbl/d and 15,407 bbl/d, respectively, of which Petrolia's share averaged 5,210 bbl/d, and 5,392 bbl/d respectively. As the acquisition of the Ecuadorian operation closed on January 14, 2022, the financial statements for the year ended March 31, 2022, includes production for less than 3 months.

| Periods ended, | | Nine months December 31, 2022 | | Twelve months March 31, 2022 | | Change |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Service revenue | **$** | **83,370,906** | $ | 24,832,270 | $ | 58,538,636 |
| Operator fees | | **688,272** | | 150,089 | | 538,183 |
| Other | | **9,245,666** | | 729,748 | | 8,515,918 |
| | **$** | **93,304,844** | $ | 25,712,107 | | 67,592,737 |
| **Operating costs and expenses:** | | | | | | |
| Consumption of inventories and purchases | **$** | **16,830,748** | | 2,331,566 | | 14,499,182 |
| Participation to the state social investments projects | | **(1,395,399)** | | - | | (1,395,399) |
| Employee benefits | | **13,643,800** | | 2,482,094 | | 11,161,706 |
| Services received, rental of machinery and vehicles | | **16,442,633** | | 2,013,779 | | 14,428,854 |
| Other operating expenses | | **7,860,793** | | 3,884,964 | | 3,975,829 |
| **Operating expenses** | | **53,382,575** | | 10,712,403 | | 42,670,172 |
| Amortization and depreciation | | **21,807,111** | | 7,750,320 | | 14,056,791 |
| **Gross profit** | | **18,115,158** | | 7,249,384 | | 10,865,774 |
| General and administrative | | **8,997,959** | | 4,215,798 | | 4,782,161 |
| Interest expense (income) | | **95,994** | | (167,621) | | 263,615 |
| Stock-based compensation | | **2,802,659** | | 767,899 | | 2,034,760 |
| Foreign exchange gain | | **(365,909)** | | (65,879) | | (300,030) |
| Acquisiton costs | | **-** | | 2,956,360 | | (2,956,360) |
| Gain on acquisition | | **-** | | (18,010,552) | | 18,010,552 |
| Contingent payment to Repsol | | **3,386,000** | | - | | 3,386,000 |
| Write-off of other receivables | | **5,296,387** | | - | | 5,296,387 |
| Write off Colombia capitalized expenses | | **2,240,368** | | - | | 2,240,368 |
| Other income | | **(1,136,533)** | | (268,942) | | (867,591) |
| **Net income before income tax** | **$** | **(3,201,767)** | $ | 17,822,321 | $ | (21,024,088) |
| Current income tax (recovery) | | **5,561,401** | | (2,983,560) | | 8,544,961 |
| **Net income** | **$** | **2,359,634** | $ | 14,838,761 | $ | (12,479,127) |

Service contract revenues increased from $24.8 million for the year ended March 31, 2022, to $83.4 million for the nine months ended December 31, 2022.

The Company generated net income of $2.4 million ($0.02/share) for the nine months ended December 31, 2022, compared with net income of $14.8 million ($0.17/share) for the year ended March 31, 2022.

The main items that explain the reduction in net income from the year ended March 31, 2022, to the nine-months period ended December 31, 2022, are:

- During the year ended March 31, 2022, the Company recorded a gain in acquisition of $18.0 million related to the purchase of Petrolia Ecuador S.A. The gain was mainly generated by the difference between the valuation of the oil reserves as of the acquisition date and the purchase price. This gain was allocated to property, plant and equipment and fully amortized by the end of the service contract (December 31, 2022).

- Operating expenses increased from $10.7 million to $53.3 million; the cause of the variance explained by (i) the months of production ended in March 31, 2022 (2 ½ months) versus the nine months ended December 31, 2022; and (ii) the additional expenses incurred by the Company to fulfill all the obligations related to the SOC termination.

## Operational Highlights

The main activity of Petrolia Ecuador S.A. until December 31, 2022, the production of hydrocarbons (crude oil, gas, and other liquids) directly or through its participation in "associations or consortiums", through which it can manage in different locations one or several contractual areas within the territory of the Republic of Ecuador, with each "association or consortium" having the material and human resources (its own or third parties).

*Key Operational Highlights – Petrolia Ecuador:*
The following schedule describes key production parameters for the nine months period ended December 31, 2022, and compares it to the previous year ended March 31, 2022. As the Company acquired it producing operations on January 14, 2022, some numbers might not be comparable.

| **Periods ended,** | | **Nine Months December 31, 2022** | Twelve Months March 31, 2022 | Change |
|---|---|---|---|---|
| **Operational Results** | | | | |
| Total Blocks heavy crude oil production | bbl/d | **14,884** | 15,407 | (523) |
| Gross heavy crude oil production | bbl/d | **5,210** | 5,392 | (182) |
| Sales production | bbl/d | **4,335** | 4,573 | (238) |
| Service Tariff (1) | $/boe | **51.34** | 48.4 | 2.9 |
| Carryforward recovery (2) | $/boe | **18.59** | 22.1 | (3.5) |
| Net revenue (3) | $/boe | **69.94** | 70.5 | (0.6) |
| Operational costs (4) | $/boe | **35.90** | 22.8 | 13.1 |
| Gross Margin | $/boe | **34.04** | 47.7 | (13.7) |

Note:

- The Total Blocks heavy crude oil production is the total production from the Blocks. The Gross heavy crude oil production pertains to the 35% share of Petrolia Ecuador S.A. The Sales production represents the heavy crude oil production after deducting internal consumption.
- "Bbl" refers to Barrels and "bbl/d" refers to barrels per day.

1. Weighted average for both Service Contracts
2. Recovery/increase of carryforward as per the Service Contract (SOC).
3. Tariff + Carryforward recovery per barrel of net heavy crude oil production,
4. Total Business Unit costs (Field & Quito)

***In thousand of Canadian dollars***

| **Periods ended,** | **Nine Months December 31, 2022** | Twelve Months March 31, 2022 | Change |
|---|---|---|---|
| Service Tariff | **61,205** | 17,045 | 44,160 |
| Carryforward recovery | **22,166** | 7,787 | 14,379 |
| Service revenue | **83,371** | 24,832 | 58,539 |
| Net Income | **29,414** | 13,779 | 15,635 |
| Operational costs | **51,434** | 9,481 | 41,953 |
| Operating EBITDA | **40,690** | 13,621 | 27,070 |
| Cash provided by operating activities | **17,527** | 2,099 | 15,428 |
| Capital expenditures | **1,522** | (248) | 1,770 |
| Cash and cash equivalents | **12,223** | 10,751 | 1,471 |

The above oil production generated $83.4 million and $24.8 million in production revenue for New Stratus Energy for the nine months period ended December 31, 2022, and the year ended March 31, 2022, respectively.

The SOC establishes that the Company will receive the full-Service Tariff when the Available Income is equal to or higher than the Tariff; otherwise, the Company is entitled to collect only the Available Income. If a deficit is generated (the "Carryforward" amount), it could be collected in the future, when the available income, depending on oil price, is greater than the Tariff, until contract termination.

The ***Available Income*** is calculated as follows:

Gross Income [(1)] – Sovereignty Margin[(2)] – Transportation Tariff[(3)] – Marketing Cost[(4)] – OCP fuel consumption[(5)]

1. Delivered production to the Pipeline Company multiplied by the Service Tariffs (Block 16: 49.52 $/bbl and Block 67: 37.50 $/bbl)
2. 25% on Gross Income.
3. $2.72/bbl. Cost assumed by the Ministry of Energy (a).
4. $0.19/bbl. Cost assumed by the Ministry of Energy (a)
5. $1.08/bbl. Cost assumed by the Ministry of Energy (a).

(a) The fee is deducted by the Ministry of Energy from the Gross Income and who remits it to the service provider.

Due to high oil prices, the Company was able to recover prior years carryforward balances on Block 16 Service Contract of $22.2 million (March 31, 2022 - $7.8 million). As of December 31, 2022, the carryforward balance, given the termination of the Service Contracts, has extinguished and there is no remaining obligation from the Ministry of Energy and Mines.

### *Operating Expenses – Ecuador*

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 | Change |
|---|---|---|---|
| Consumption of inventories and purchases | $ **16,830,748** | $ 2,331,566 | $ 14,499,182 |
| Participation to the state social investments projects | **(1,395,399)** | - | (1,395,399) |
| Employee benefits | **13,643,800** | 2,482,094 | 11,161,706 |
| Insurance premiun | **1,123,308** | 393,893 | 729,415 |
| Catering services | **751,997** | 191,115 | 560,882 |
| Cured oil treatment | **1,469,538** | 346,481 | 1,123,057 |
| Plants maintenance | **1,656,377** | 388,981 | 1,267,396 |
| Short-term leases | **170,528** | 1,326,158 | (1,155,630) |
| Taxes | **1,331,470** | 606,578 | 724,892 |
| Office and administration | **1,357,575** | 631,758 | 725,817 |
| Services received, rental of machinery and vehicles | **16,442,633** | 2,013,779 | 14,428,854 |
| **Total Operating Expenses** | $ **53,382,575** | $ 10,712,403 | $ 42,670,172 |

## Reserves and Exploration Update

### *Proved and probable oil reserves*

The Company received an independent certified reserves evaluation report ("Reserve Report") from Petrotech Engineering Ltd. for the interests of Petrolia Ecuador S.A., a subsidiary of New Stratus Energy Inc. in Blocks 16 and 67 in the Oriente Basin of Ecuador, with total proved and probable ("2P") net 2P reserves of 1.2 million barrels of heavy oil. This report was prepared as of March 31, 2022. As the Service Contract establishes the relinquishment of the Block 16 and 67 to the Ecuadorian government on December 31, 2022, all reserves were fully depleted in the books of the Company as that date.

The Reserve Report was prepared in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101.

### *Exploration activities: Colombia - Block VMM-18*

On November 27, 2018, the Company entered into a Farm-in Agreement with Montajes JM ("JM") where NSE has the right to earn up to 100% in Block VMM-18 (the "Project") owned by Montajes JM, the vendor will receive a 5% overriding royalty in the production in the block.

The VMM 18 is an E&P Contract with the Colombian National Hydrocarbons Agency ("ANH") it has a total area of 75,968 acres and is located in the Middle Magdalena Basin. The block is highly prospective for light and medium gravity oil, as are the surrounding oil fields. Management of the Company has identified several prospects and leads based on interpretation of the existing 2D and 3D seismic data. Analogous to nearby discoveries (Guaduas, Puli, and Toqui-Toqui), some of them in similar play-type, decreasing the risk of the prospects in the VMM-18 block, with nearby access to pipelines with extra capacity as well as a road transportation network to the export terminal.

The acquisition of the property requires the execution of an exploratory well, therefore an environmental study in the prospective area was required.

As part of these activities, the cartography of a large perforable structure was achieved, which is divided by side ramps into four compartments of NE-SW orientation (Northeast-Southwest). The company already placed on the maps the structure to be drilled in the first place, made the prognosis of the drilling of the same and made visits to the field to verify the routes of penetration to reach the site where the location would be built for the first well to be drilled in this large structure.

All activities that NSE committed were completed except for the drilling of the exploratory well.

The environmental license was granted by the ministry of environment, however due to stringent restrictions on the locations which drilling would be permitted, the project was determined to no longer be viable. The ANH is currently reevaluating the conditions imposed and the Company's application to enter into a mutually agreed contract termination.

The Company has written-off $2.2 million of the capitalized exploration expenditure from its books.

## 5. GROSS PROFIT

Gross profit for the nine months ended December 31, 2022, was $18.1 million. The Company considers Petrolia Ecuador S.A. (Branch) a profit center, accordingly all its general and administrative costs of the Ecuadorian operations are part of its operating cost.

Gross profit increased by $10.9 million principally due to operations (production) since the twelve months ended March 31, 2022, included only 2 ½ months of production while the period ended December 31, 2022 represented 9 months of operations (production).

Amortization and depreciation, included during the nine month period ended December 31, 2022, included, as mentioned above, the full amortization of the valuation of reserves determined at the time of acquisition.

## 6. OTHER EXPENSES AND INCOME

***Consolidated General and Administrative Expenses***

The following schedule describe New Stratus' general and administrative expenses for the nine months ended December 31, 2022, and year ended March 31, 2022:

| **Periods ended,** | **Nine months December 31, 2022** | Twelve Months March 31, 2022 | Change |
|---|---|---|---|
| Insurances | **$ 19,715** | $ 16,056 | $ 3,659 |
| Legal and accounting | **1,303,576** | 447,684 | 855,892 |
| Management fees | **1,821,100** | 1,938,377 | (117,277) |
| Professional fees | **3,273,538** | 1,367,448 | 1,906,090 |
| Office and administration | **1,931,749** | 328,292 | 1,603,457 |
| Shareholders information and investor relations | **648,281** | 117,941 | 530,340 |
| | **$ 8,997,959** | $ 4,215,798 | $ 4,782,161 |

***Contingent payments to Repsol***

Correspond to additional expenses incurred by the Company associated with the settlement of several balances outstanding with Repsol, regarding some recoverable taxes in Ecuador that originally were contingent payments to Repsol upon collection.

***Write-off of other receivables***

The Company's subsidiary in Ecuador wrote-off certain accounts receivables where collection was determined uncertain.

***Write-off of Colombian capitalized expenses***

As the Company has not been able to continue with its exploration program in Block VMM-18, particularly related to the approval by the Ministry of Environment of a much small area than the Company targeted, and, has requested the termination of the contract, management considered appropriate to write-off all exploration expenditures incurred as at December 31, 2022. See also "*Exploration activities: Colombia - Block VMM-18" on page 9.*

A list of other consolidated expenses and income items for the nine months ended December 31, 2022, and year ended March 31, 2022 is given below. These amounts are presented in accordance with IFRS accounting standards.

## 7. ASSETS AND LIABILITIES

| **Balances as of,** | **December 31, 2022** | March 31, 2022 | Change |
|---|---|---|---|
| Cash and cash equivalents | **$ 21,160,711** | $ 15,984,911 | $ 5,175,800 |
| Current Assets | **52,167,695** | 101,536,593 | (49,368,898) |
| Total Assets | **70,226,882** | 104,177,863 | (33,950,981) |
| Current Liabilities | **34,171,960** | 72,390,965 | (38,219,005) |
| Total Non-Current Liabilities | **335,154** | 3,497,794 | (3,162,640) |
| Total Liabilities | **34,507,114** | 75,888,759 | (41,381,645) |
| Adjusted working Capital (1) | **34,615,116** | 29,145,628 | 5,469,488 |

(1) Adjusted working capital non-GAAP measures. Additional information regarding these non-GAAP measures are provided in the Non-GAAP and Other Measures section of this MD&A.

Cash and cash equivalents (including restricted cash) position as at December 31, 2022, increased to $21.2 million, from $15.9 million at March 31, 2022. This was the result of cash flows generated from the operations in Ecuador for the nine-month period ended December 31, 2022, compared to the 2 ½ months from the acquisition to March 31, 2022.

Total assets ended at $70.2 million on December 31, 2022, a decrease from a $104.2 million at March 31, 202, mainly due to the following events in the Ecuadorian operations:

- Full depletion of oil and gas producing assets, which on March 31, 2022, was classified as a current asset.
- The write-off of inventories and certain accounts receivable due to SOC termination.
- The execution of the severance payments to all employees on December 31, 2022, and the related collection from consortium partners receivables; and
- The increase in recoverable taxes from the Ecuadorian operations.

Adjusted working capital, a non-GAAP measurement, as at December 31, 2022, was $34.6 million compared to $29.1 million at March 31, 2022. The increase is principally due to:

- The inclusion of $26.7 million in property plant and equipment as of March 31, 2022, which was classified as a short-term item due to the operating agreement conditions that stipulated the termination of the contract on December 31, 2022.
- The increase in recoverable taxes, mainly resulting from tax payment advances made to the Government of Spain and Ecuador for years where there are no income tax payables. The Company has classified in its financial statements $16.6 million as long-term recoverable taxes based on the expected timing of their recovery.
- The decrease in inventory to $nil as the Company was required to deliver all remaining inventory to the new operator on December 31, 2022.
- The decrease in receivables from oil delivery as of December 31, 2022.

***Stock-based Compensation***

The Company has a stock option plan for employees, officers, directors, and consultants. The Company uses Black-Scholes valuation methodology to value the stock options at the date of the award for accounting purposes. The maximum number of stock options reserved for issuance under the plan may not exceed 10 percent of the number of common shares issued and outstanding.

## 8. ENVIRONMENT, SOCIAL AND GOVERNANCE

NSE's Environmental, Social and Governance (ESG) performance includes information of its operations in Ecuador and how it helped to mitigate potential non-financial risks emanating from the oil fields.

The report complements information on our operations and financial performance above, in order to provide a holistic overview of our performance and priorities to ensure we had sustainable operation.

**Environmental**

The operation of Blocks 16 and 67 took place in an area of great environmental sensitivity, which partially coincides with the Yasuní National Park, located in the Amazon jungle of Ecuador.

NSE made improvements in the design and efficiency of the operational processes in Ecuador, with the goal to enhance environmental performance. We reviewed practices such as cluster drilling (multiple wells drilled per location), directional and horizontal drilling, centralized production facilities, injection wells for handling produced water, construction of centralized industrial facilities, roads and right of way with minimization of the use of areas, thus, the area occupied by industrial facilities, internal roads and right of way was only 0.26% (367 hectares) of the total concession area (138,800 hectares).

In addition, all produced gas was used for self-generation of electricity, which resulted in a zero-flaring operation. Throughout the years, a series of improvements had been introduced in the efficiency of power generation processes that resulted in the reduction of approximately 140,000 tons of $CO_2$ equivalent (eq) in the year. As in previous periods, all the gas produced in this year had used for electricity generation and, consequently, no gas was burned in flares (zero-flaring).

100% of water produced was re-injected into geological formations isolated from any body of water or freshwater aquifer. Hydrogeological studies carried out in 2022 had shown that after 28 years of operation, the injection of formation water did not affect any underground or surface freshwater resource and therefore have caused no effect to the environment or communities living in the area. Industrial effluents were treated and monitored before being discharged into the environment.

100% of the waste generated in the operation was collected, segregated and transferred outside the operating area to be treated, recycled and finally disposed of by an authorized agent complying with the best practices in the industry. Our operations had a waste management program (circular economy) in place, to reduce, reuse and recycle a significant part of the raw materials and spare parts used in the operation. 70% of generated waste is re-used and/or recycled.

Operations in Ecuador were subject to regular and frequent inspections, monitoring and audits, which were conducted by the Ministry of Environment. The preparation of environmental compliance audit reports for the 2022 period was completed, including from 2020-2021 by Petrolia Ecuador under its predecessor parent company. These reports were delivered in due time to the environmental authority (Ministry of the Environment) for its consideration and subsequent approval. None of these audits resulted in significant non-conformities or significant observations.

Certificates attesting to the non-existence of environmental liabilities resulting from the operations of blocks 16 and 67 were issued by independent environmental consultants that have carried out compliance audits in recent years. These independent auditing companies have completed their work following the guidelines of the Ministry of the Environment and are the ones who have carried out the follow-up compliance audits that have been delivered to Ministry of the Environment.

New Stratus, through the implementation of its HSE policy, maintained strict compliance with the Ecuadorian environmental legal framework, the World Bank's environmental performance practices and the best applicable environmental practices of the industry (iOGP and IPIECA). For the current quarter ending December 31, 2022, work has continued, to review the history of compliance of the obligations included in our Environmental Management Program and the requirements for environmental events occurred in the past, with the aim of ensuring that all regulatory and administrative aspects are closed before the end of the year. Compliance with all operational aspects related to environmental obligations and activities related to environmental events are up to date.

By the end of October, work began for the remediation of an accidental environmental event (loss of containment of 27 bbls of diesel) that occurred in July 2021 (at that time Blocks 16 and 67 were operated by REPSOL). This remediation work, which has been duly informed and coordinated with the Ministry of the Environment, will continue during 2023 until the total restoration of the area is achieved. The activities are duly planned for this purpose.

The reversion process for Blocks 16 and 67 initiated in December 2022, was carried out in conjunction with the Ministry of Energy, the Ministry of the Environment and Petroecuador. As part of this overall process, an environmental committee was formed. Several meetings were held as well as a field visit in December, which verified the adequate environmental management that has been carried out in Blocks 16 and 67 and the optimal state of the facilities and the environment. This work will conclude with the signing of an act and a report, which includes a list of administrative environmental obligations pending Petrolia`s attention, all of them within the legal deadline. This result will be a relevant achievement after 28 years of operations. As a result of the work of the environmental committee, it has also been agreed that Petrolia will attend the requirement of the Ministry of the Environment regarding environmental monitoring of various points within Blocks 16 and 67, as part of the normal and formal procedure for the reversion process. This activity is planned and in progress.

**Social**

Blocks 16 and 67 (Tivacuno) are located in the Waorani and Kichwa indigenous communities. To balance the opportunities that the communities have for a better quality of life, prior operators signed a collaboration agreement with N.A.W.E (Nacionalidad Waorani del Ecuador) in the Waorani community. The agreement focuses on four broad clusters: health, education, support to N.A.W.E. management and community leaders and, support to the development of communities.

For the year 2022, there was a budget assigned that is managed by Petrolia as operator for the Blocks 16 and 67 and indigenous communities N.A.W.E. and Kichwa, to ensure the goals planned are met. The resources given by Petrolia Ecuador S.A. and the Consortium partners promoted the community development and supply of several needs according to the Annual Operating Plan (POA) 2022. This plan was established in consensus with the Waorani Nationality of Ecuador (NA.W.E.) within the framework of the Mutual Cooperation Agreement "Waemo Kewingi" 2015 – 2022.

At the end of December 31, 2022, the work related to community management has been conducted exceeding the Annual Operation Plan by 128%. Below are the figures related to the execution of the Annual Plan as of December 31, that contains the figures on a Consortium basis, of which 35% is attributable to Petrolia’s working interest, and are expressed in US$:

| **Expressed in US$** | | **Budget** | | **Incurred** | **% Compliance** |
|---|---|---|---|---|---|
| ***Waorani communities:*** | | | | | |
| Health | $ | 36,500 | $ | 46,422 | 127% |
| Education | | 264,127 | | 256,067 | 97% |
| Support to N.A.W.E organization | | 169,200 | | 186,308 | 110% |
| Support to communities | | 394,056 | | 599,679 | 152% |
| | | 863,883 | | 1,088,476 | 126% |
| ***Kichwa community:*** | | | | | |
| Overall support | | 215,990 | | 297,089 | 138% |
| **Total all communities** | **$** | **1,079,873** | **$** | **1,385,565** | **128%** |

*Health Program:*

NSE through its Ecuadorian subsidiary and the consortium partners provided aid to the community's sick that included healthy diet, accommodation, medical supplies, and other expenses to meet their needs as part of the medical health assistance. Patients who could not reach immediate medical help, due to their territorial location, were transported by air. We also supported the community by providing dental health care.

*Education Program.*

NSE and the entire Consortium supported educational establishments in different communities, such as: Guiyero, Yarentaro, Gabaro, "Yanchana Inti" school and "Guardiana de la Lengua Dicaro" school. Teachers, provided by the operator, guide children and young people following the guidelines of Ministerio de Educación (Ministry of Education). They accompanied the students during classes and in their homes when it was necessary, giving them the tools to enhance their education.

During the nine months ended as of December 31, 2022 there were three productive projects (fish, chicken, and crops) which obtained economical support. In addition, students received support that includes food, accommodation, transportation, uniforms, and supplies.

*Support to N.A.W.E Organization:*

A monthly economic support for administrative, office lease and other expenses related to the organization management was given, as well as logistical expenses for community leaders.

In addition to the above, we provided a free bus transportation service for the communities.

For NSE, the conservation of the culture and traditions of Waorani people is important. This is the main reason that during the nine months ended as of December 31, 2022, food was delivered for the celebration of cultural and festive events, both in the Waorani communities located within Petrolia´s operations, as well as those that are not part of the area.

## 9. LIQUIDITY AND CAPITAL RESOURCES

The Company's principal liquidity and capital resource requirements include:

- Capital expenditures for exploration, production and development, including growth plans.
- Costs and expenses relating to operations, commitments and existing contingencies.
- M&A activities.

**Liquidity**

The Company funds its anticipated cash requirements and strategic objectives using current cash and working capital balances, cash flows from operations, and, if required, additional equity financing. In accordance with the Company's investment policy, available cash balances are held in current non-interest-bearing accounts and interest-bearing savings accounts. The Company regularly reviews its capital structure and liquidity sources with a focus on ensuring that capital resources will be sufficient to meet operational needs and other obligations.

***Operating Activities***

For the nine months ended December 31, 2022, cash generated from operating activities was $3.6 million, compared to $1.8 million used during the year ended March 31, 2022.

***Investing Activities***

During the nine months ended December 31, 2022, $1.1 million of cash was used in investment activities, principally in the acquisition of equipment. For the year ended March 31, 2022, cash generated by investment activities was $4.8 million, principally from a cash consideration received from the business combination for $6.2 million and offset by $1.1 million used in the investment in exploration assets.

***Financing activities:***

For the nine months ended December 31, 2022, New Stratus Energy generated $0.6 million from financing activities, by issuing common shares on the exercise of options and warrants for a total of $2.6 million, partially offset by the repurchase of 2,154,400 shares for $2.0 million. During the year ended March 31, 2022, the Company generated $12.3 million from the exercise of options, warrants and issuance of 30,953,053 common shares in a private placement.

**Common shares issued**

The authorized capital of the Company consists of an unlimited number of Common Shares.

No shares were issued under private placements during the nine months ended December 31, 2022 (year ended March 31, 2022: 30,953,053).

During the nine months ended December 31, 2022, the Company issued 18,500,000 shares on the exercise of warrants for gross proceeds of $2,275,438 and 3,225,000 shares for gross proceeds of $471,852.

***Available Sources of Liquidity***

The Company's cash and cash equivalents position increased to $20.7 million at December 31, 2022, compared to $15.5 million at March 31, 2022. This was because of higher cash flows from the operations in Ecuador.

The Company held $510,539 and $510,745 in restricted cash at December 31, 2022 and March 31, 2022, respectively, on letters of credit associated with project warranties and corporate credit cards.

*Non-Cash Working Capital*

| Periods ended, | | Nine Months December 31, 2022 | | Twelve Months March 31, 2022 | | Change |
|---|---|---|---|---|---|---|
| Trade and other receivables | $ | **(5,564,490)** | $ | 2,450,942 | $ | (8,015,432) |
| Accounts receivable from consortium partners | | **30,393,068** | | (20,149,819) | | 50,542,887 |
| Recoverable taxes | | **(22,695,106)** | | (4,202,494) | | (18,492,612) |
| Inventory | | **2,921,023** | | (19,878) | | 2,940,901 |
| Advances to suppliers and others | | **922,398** | | (1,119,573) | | 2,041,971 |
| Other asset | | **(14,048)** | | (399,752) | | 385,704 |
| Trade and other payables | | **(6,464,988)** | | 14,764,006 | | (21,228,994) |
| Taxes payables | | **1,766,130** | | 1,340,422 | | 425,708 |
| Employee benefit obligations | | **8,131,975** | | 476,400 | | 7,655,575 |
| Due to related parties | | **-** | | (138,640) | | 138,640 |
| Other liability | | **(163,031)** | | 498,185 | | (661,216) |
| Defined benefit obligations | | **3,157,500** | | (164,219) | | 3,321,719 |
| Decommissioning obligations | | **(178,381)** | | (6,638) | | (171,743) |
| **Total net change in non-cash working capital** | **$** | **12,212,050** | **$** | **(6,671,058)** | **$** | **18,883,108** |

*Capital Management*

The Company's objective when managing capital is to maintain its ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of issued capital stock, warrants, contributed surplus and deficit, in the definition of capital.
NSE’s primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended December 31, 2022.

## 10. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Common Shares.

As of December 31, 2022, New Stratus had 122,913,523 common shares issued and outstanding valued at $31,227,085.

**Warrants**

As part of the July 30, 2021 financing, the Company issued 16,095,376 warrants valued at $186,776. Each warrant will entitle the holder to purchase one common share at an exercise price of $0.45 until the second anniversary of the issuance of the warrant. TheCompany uses a Black-Scholes valuation methodology to value the warrants at the date of issuance for accounting purposes. The significant inputs into the model were share price of $0.32, exercise price of $0.45, volatility of 70%, dividend yield of 0%, an expected warrant life of two year and an annual risk-free interest rate of 0.45%. Volatility was estimated based on average volatility of a sample of peer companies with public pricing data available.

During the nine months ended December 31, 2022, 21,411,449 warrants were exercised and 1,637,500 expired unexercised.

As of December 31, 2022, and the date of this report there are 14,050,355 warrants outstanding at an average exercise price of $0.46.

**Stock based compensation**

The Company has a stock option plan for employees, officers, directors, and consultants. The Company uses a Black-Scholes valuation methodology to value the stock options at the date of award for accounting purposes. The maximum number of stock options reserved for issuance under the plan may not exceed 10 percent of the number of common shares issued and outstanding.

During the nine months ended December 31, 2022, and year ended on March 31, 2022, the Company granted 5,890,000 and 5,290,000, respectively, to employees and consultants of the Company.

During the nine months ended December 31, 2022 3,225,000 options were exercised for proceeds of $471,853

As of December 31, 2022, and the date of this report there are 12,055,000 stock options outstanding at an average exercise price of $0.42.

**Fully diluted shares information:**

As at the date of this report there were:

| | |
|---|---:|
| Common shares | 122,913,523 |
| Stock based compensation | 8,505,000 |
| Warrants | 15,687,855 |
| **Fully diluted number of shares** | **147,224,878** |

## 11. NON-GAAP AND OTHER FINANCIAL MEASUREMENTS

This MD&A uses various “non-GAAP financial measures” and “non-GAAP ratios” (as defined in NI 52-112), which are described in further detail below. Such measures are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of New Stratus Energy’s performance.

These measures facilitate management's comparisons to the Company's historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and gas industry to evaluate the Company's performance. Further, management believes that such financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Company's principal business activities. Below is a description of each of these measures used in this MD&A.

***Adjusted EBITDA***

Adjusted EBITDA is a non-GAAP measure. It is most comparable to net income before taxes as reported in the primary financial statements. For Management and Investors, adjusted EBITDA represents the operating results of the Company's primary business, excluding the following items: restructuring, severance and other costs, certain non-cash items (such as impairments, foreign exchange, costs under terminated pipeline contracts and share-based compensation) and gains or losses arising from the disposal of capital assets. In addition, other unusual or non-recurring items are excluded from adjusted EBITDA, as they are not indicative of the underlying core operating performance of the Company.

The following table provides a reconciliation of net income to adjusted EBITDA for the nine- and twelve-months periods ended December 31, 2022, and March 31, 2022, respectively:

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 |
|---|---|---|
| **Net Income Before Income Taxes** | **$ (3,201,767)** | $ 17,822,321 |
| Add (deduct) | | |
| Other income | **(1,136,533)** | (268,942) |
| Acquisition cost | **-** | 2,956,360 |
| Gain on acquisition | **-** | (18,010,552) |
| Contingent payments to Repsol | **3,386,000** | - |
| Write-off of Ecuadorian receivables | **5,296,387** | - |
| Write-off of capitalized exploration expenditures | **2,240,368** | - |
| Foreign exchange gain | **(365,909)** | (65,879) |
| Stock-based compensation | **2,802,659** | 767,899 |
| Financial income | **95,994** | (167,621) |
| Depletion & Depreciation | **21,807,111** | 7,750,320 |
| **Adjusted EBITDA** | **$ 30,924,310** | $ 10,783,906 |
| **Basic operating EBITDA income per share *** | **$ 0.26** | $ 0.13 |
| **Fully diluted operating EBITDA income per share *** | **$ 0.26** | $ 0.10 |

* Basic and diluted adjusted EBITDA per share is a non-GAAP ratio. It is calculated by dividing adjusted EBITDA by the weighted average number of basic and diluted shares outstanding.

***Adjusted Working Capital***

Adjusted working capital is a non-GAAP financial measure, where the Company reclassifies high liquid receivables from long-term to short term.

| Periods ended, | December 31, 2022 | March 31, 2022 |
|---|---|---|
| Working capital | $ 17,995,735 | $ 29,145,628 |
| Income taxes recoverable | 16,619,381 | - |
| Adjusted working capital (1) | $ 34,615,116 | $ 29,145,628 |

(1) Adjusted working capital is a non-GAAP measure.

### *Funds Flow Provided by Operations*

Funds flow provided by operations is a non-GAAP financial measure. It is most comparable to cash from operating activities. Funds flow provided by operations is a measure of the Company's ability to finance its capital investment plans and meet its financial obligations. This measure is defined as cash from (used in) operating activities excluding settlement of asset retirement obligations and net change in non-cash working capital items.

Funds flow provided by operations is not a standardized financial measure under the reporting framework used to prepare our financial statements and may not be comparable to similar financial measures disclosed by other issuers.

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 |
|---|---|---|
| **Cash provided (used) by operating activities** | $ 3,639,527 | $ (1,804,606) |
| Add (deduct): | | |
| Settlement of Defined benefit obligations | 33,625,579 | - |
| Net change in non-cash working capital | (12,212,050) | 6,671,058 |
| **Funds flow provided by operations** | $ 25,053,056 | $ 4,866,452 |
| **Funds flow provided by operations (per share basic)** | $ 0.21 | $ 0.06 |
| **Funds flow provided by operations (per share diluted)** | $ 0.21 | $ 0.06 |

### *Capital Investment*

Capital investment is a non-GAAP financial measure which the Company uses to describe its total capital costs associated with exploration activities as well as the acquisition of other equipment. The measure includes expenditures for Property, Plant and Equipment ("PPE") and expenditures for exploration, production and development, including growth plans and can be found on the Company's cash flow statement for the period.

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 |
|---|---|---|
| Property, plant and equipment expenditure | $ 1,098,008 | $ 78,531 |
| Exploration and evaluation asset expenditures | - | 1,124,717 |
| **Total Capital Investment [1]** | $ 1,098,008 | $ 1,203,248 |

(1) Capital Investment non-GAAP measure.

***Free Funds Flow***

Free Funds Flow is a non-GAAP financial measure. It is most comparable to cash from operating activities as reported in the primary financial statements. Free funds flow assists the Company in measuring its available funds after financing its capital programs. It is defined as operating activities excluding the settlement of asset retirement obligations and net change in non-cash working capital less capital investment. It demonstrates the Company's ability to fund its return of capital, such as dividend payments or a normal-course issuer bid without accessing outside funds.

Free funds flow is not a standardized financial measure under the reporting framework used to prepare our financial statements and may not be comparable to similar financial measures disclosed by other issuers.

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 |
|---|---|---|
| **Cash provided (used) by operating activities** | **$ 3,639,527** | $ (1,804,606) |
| (Add) deduct: | | |
| Settlement of Defined benefit obligations | **33,625,579** | - |
| Net change in non-cash working capital | **(12,212,050)** | 6,671,058 |
| **Funds flow provided by operations[1]** | **$ 25,053,056** | 4,866,452 |
| Capital Investment | **(1,098,008)** | (1,203,248) |
| **Free funds flow[1]** | **$ 23,955,048** | $ 3,663,204 |

(1) Funds flow provided by operations and Free funds flow are non-GAAP measures. Additional information regarding these non-GAAP measures are provided in the Non-GAAP and Other Measures section of this MD&A.

## 12. QUARTERLY INFORMATION

*The schedule below highlights selected quarterly information for the Company's last eight fiscal quarters of operations.*

**2022**

| Three month-periods ended | December 31, | September 30, | June 30, | March 31, |
|---|---|---|---|---|
| Revenue | $ 30,586,045 | $ 29,492,399 | $ 33,226,400 | $ 25,712,107 |
| Gross Profit | $ 1,151,635 | $ 4,415,835 | $ 12,547,688 | $ 7,249,384 |
| Net income / (loss) | $ (7,896,009) | $ (3,756,711) | $ 14,012,354 | $ 18,117,270 |
| Basic income / (Loss) per share | $ (0.06) | $ (0.03) | $ 0.12 | $ 0.18 |
| Basic weighted average number of shares | 122,904,436 | 119,439,730 | 112,749,344 | 61,105,445 |
| Total assets | 70,226,882 | $ 113,178,928 | $ 113,386,768 | $ 104,177,863 |

**2021**

| Three month-periods ended | December 31, | September 30, | June 30, | March 31, |
|---|---|---|---|---|
| Revenue | **$** - | **$** - | **$** - | **$** - |
| Gross Profit | **$** - | **$** - | **$** - | **$** - |
| Net income / (loss) | $ (1,848,213) | $ (916,003) | $ (514,293) | $ (500,069) |
| Basic income / (Loss) per share | $ (0.02) | $ (0.01) | $ (0.01) | $ (0.01) |
| Basic weighted average number of shares | 80,214,054 | 73,515,313 | 61,105,445 | 54,090,519 |
| Total assets | $ 7,902,532 | $ 9,216,244 | $ 1,700,380 | $ 2,055,703 |

## 13. LAST QUARTER

The following information evaluates financial information for the three months ended December 31, 2022, to the three months ended March 31, 2022:

| **Three months ended,** | **December 31, 2022** | March 31, 2022 | Change |
|---|---|---|---|
| **Income** | | | |
| Service revenue | **$ 23,212,170** | $ 24,832,270 | $ (1,620,100) |
| Operator fees | **440,554** | 150,089 | 290,465 |
| Other | **6,933,321** | 729,748 | 6,203,573 |
| | **30,586,045** | 25,712,107 | 4,873,938 |
| **Operating costs and expenses:** | | | |
| Consumption of inventories and purchases | **10,717,211** | 2,331,566 | 8,385,645 |
| Participation to the state social investments projects | **(1,800,609)** | - | (1,800,609) |
| Employee benefits | **6,652,798** | 2,482,094 | 4,170,704 |
| Services received, rental of machinery and vehicles | **9,908,358** | 2,013,779 | 7,894,579 |
| Other operating expenses | **269,215** | 3,884,964 | (3,615,749) |
| **Operating expenses** | **25,746,973** | 10,712,403 | 15,034,570 |
| Amortization and depreciation | **3,687,437** | 7,750,320 | (4,062,883) |
| **Gross profit** | **1,151,635** | 7,249,384 | (6,097,749) |
| General and administrative | **4,085,360** | 1,647,286 | 2,438,074 |
| Interest expense (income) | **(318,099)** | (167,436) | (150,663) |
| Stock-based compensation | **1,824,440** | 36,825 | 1,787,615 |
| Foreign exchange gain | **(1,614,452)** | (44,987) | (1,569,465) |
| Acquisiton costs | **-** | 2,956,360 | (2,956,360) |
| Gain on acquisition | **-** | (18,010,552) | 18,010,552 |
| Contingent payment to Repsol | **3,386,000** | - | |
| Write-off of other receivables | **5,296,387** | - | |
| Write off Colombia capitalized expenses | **288,010** | - | 288,010 |
| Other income | **(101,982)** | (173,389) | 71,407 |
| **Net income before income tax** | **$ (11,132,044)** | $ 21,100,830 | $ (23,550,487) |
| Current income tax (recovery) | **3,236,035** | (2,983,560) | 6,219,595 |
| **Net income** | **$ (7,896,009)** | 18,117,270 | (26,013,279) |

## Quarter ended December 31 and March 31, 2022 - adjusted EBITDA

The following table provides a reconciliation of net income to operating EBITDA for the three months ending on December 31, 2022, and March 31, 2022:

| Three months ended, | December 31, 2022 | March 31, 2022 | Change |
|---|---|---|---|
| **Net Income Before Income Taxes** | **$ (11,132,044)** | **$ 21,100,830** | $ (32,232,874) |
| Add (deduct) | | | |
| Other income | **(101,982)** | (173,389) | 71,407 |
| Acquisition cost | **-** | 2,956,360 | (2,956,360) |
| Gain on acquisition | **-** | (18,010,552) | 18,010,552 |
| Contingent payments to Repsol | **3,386,000** | - | 3,386,000 |
| Write-off of Ecuadorian receivables | **5,296,387** | - | 5,296,387 |
| Write-off of capitalized exploration expenditures | **288,010** | - | 288,010 |
| Foreign exchange gain | **(1,614,452)** | (44,987) | (1,569,465) |
| Stock-based compensation | **1,824,440** | 36,825 | 1,787,615 |
| Financial income | **(318,099)** | (167,436) | (150,663) |
| Discount rate gain | **(561,985)** | (95,553) | (466,432) |
| Depletion & Depreciation | **3,687,437** | 7,750,320 | (4,062,883) |
| **Adjusted EBITDA** | **$ (2,263,629)** | **$ 20,927,441** | (23,191,070) |
| **Basic adjusted EBITDA income per share** | **($0.02)** | $0.21 | ($0.23) |
| **Fully diluted adjusted EBITDA income per share** | **($0.02)** | $0.17 | ($0.19) |

## Consolidated General and administration expenses:

The following schedule details the general and administrative expenses incurred during the three months ended December 31, 2022, and March 31, 2022, and the detailed changes for the period:

| Three months ended, | December 31, 2022 | March 31, 2022 | Change |
|---|---|---|---|
| Insurances | **$ 14,149** | $ 2,500 | $ 11,649 |
| Legal and accounting | **696,214** | (292,940) | 989,154 |
| Management fees | **934,846** | 991,791 | (56,945) |
| Professional fees | **1,768,856** | 732,304 | 1,036,552 |
| Office and administration | **600,628** | 191,837 | 408,791 |
| Shareholders information and investor relations | **70,671** | 21,794 | 48,877 |
| | **$ 4,085,364** | $ 1,647,286 | $ 2,438,078 |

## 14. OUTLOOK

Subsequent to the closing of the acquisition of Petrolia Ecuador S.A. (previously Repsol Ecuador S.A.) that took place on January 14, 2022, the Ecuadorian Government decided not to extend the SOC to Petrolia, the Company executed the transfer of Blocks 16 and 67 (Tivacuno) to the Ministry of Energy and Mines on December 31, 2022. During 2023, the Company will continue to execute remaining activities derived from the Asset Retirement Obligation. In addition, Management continues to evaluate opportunities in Ecuador through the participation in new bidding processes in other Ecuadorian projects.

New Stratus has been evaluating different projects in the Sub-Andean Basins and will continue with these evaluations during the current year 2023 and has initiated the evaluation of opportunities in Brazil, Mexico and Peru.

Among the countries in which the sub-Andean basins are found, NSE's primary targets are in Colombia, Ecuador, Brazil, Peru and Mexico, which have very attractive contractual conditions in the region, noting that Ecuador is migrating from a legislation which establishes contracts with the government based on service contracts, to a new form where the old contracts are being migrated to a profit-sharing partnership scheme; the conditions now being very similar for the countries mentioned.

These countries have a significant production history, extensive oil reserves and established infrastructure, as well as the presence of important service companies for the management of hydrocarbon exploration, production and transportation operations.

Under this approach, NSE continues with the evaluation of projects with 2P reserves (proven and probable), as well as with an exploratory upside, in order to maximize the investments to be made by the Company and the return to its shareholders.

The Company also continued area discussions with the Colombian ministry of Energy for its VMM-18 block, after concluding its seismic data reprocessing, as well as environmental work.

## 15. RISKS AND UNCERTAINTIES

The Company's business consists of the exploration, evaluation and development of its properties and is subject to certain risks. The risks described below are not the only risks facing the Company and other risks now unknown to the Company may arise or risks now thought to be immaterial may become material. No guarantee is provided that other factors will not affect the Company in the future. Many of these risks are beyond the control of the Company.

An investment in the Common Shares involves a number of risks. In addition to the other information contained in this MD&A, investors should give careful consideration to the following, factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. If any of the following events described as risks or uncertainties actually occurs, the business, prospects, financial condition and operating results of the Company would likely suffer, possibly materially. In that event, the market price of the Common Shares could decline, and investors could lose all or part of their investment. Additional risks and uncertainties presently unknown, or that are not believed to be material at this time, may also impair or have a material adverse effect on the Company's operations. In addition to the risks described elsewhere and the other information contained in this MD&A, prospective investors should carefully consider each of and the cumulative effect of all of the following risk factors. References in the below Risk Factors to "we", "our" or "us" refer to the management of the Company.

*Limited History of Operations*

The Company has had a limited operating history upon which an evaluation of the Company, its current business and its prospects can be based. An investor should consider any purchase of the Company's securities considering the risks, expenses and problems frequently encountered by all companies in the early stages of their corporate development.

*Future Financing Requirements*

The Company may need additional financing to continue in business and there can be no assurance that such financing will be available or, if available, will be on reasonable terms. To the extent financing is not available, business opportunities and potential acquisitions could be lost for the Company.

*Dilution and Future Sales of Common Shares*

The Company may issue additional shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series and shareholders will have no pre-emptive rights in connection with further issuances. The Directors of the Company have the discretion to determine the provisions attaching to any series of Preferred Shares and the price and terms of further issuances of Common Shares, subject to compliance with applicable corporate and securities laws and stock exchange regulations.

*Risks Inherent in Acquisitions and Dispositions*

It is part of the Company's corporate strategy to actively pursue the acquisition of exploration, development and production assets consistent with its acquisition and growth strategy. From time to time, the Company may also acquire securities of or other interests in companies with respect to which it may enter into acquisitions or other transactions. Acquisition transactions involve inherent risks, including but not limited to:

- Accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates.
- Ability to achieve identified and anticipated operating and financial synergies.
- Unanticipated costs.
- Diversion of management attention from existing business.
- Potential loss of the Company's key employees or key employees of any business acquired.
- Unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition; and
- Decline in the value of acquired properties, companies or securities.

Any one or more of these factors or other risks could cause the Company not to realize the anticipated benefits of an acquisition of properties or companies and could have a material adverse effect on its financial condition.

In addition, non-core assets may be periodically disposed of so the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company may realize less on disposition than their carrying value on the financial statements of the Company.

*Exploration and Development of Oil and Gas Properties*

New Stratus is engaged in oil and natural gas exploration, which is a high-risk venture with uncertain prospects for success and for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration or development activities by New Stratus will result in discoveries of oil or natural gas that are commercially or economically possible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling. Even if commercial quantities of petroleum or natural gas are discovered, there is no assurance that production therefrom or development thereof will occur or be profitable. Natural resource prices fluctuate widely and are affected by numerous factors such as inflation, interest rates, demand, global or regional political and economic crisis and production costs in major producing regions. The aggregate effect of these factors, all of which are beyond New Stratus' control, is impossible to predict. No assurance can be given that commercial accumulations of oil and natural gas will be discovered as a result of the efforts of New Stratus and prospective investors must rely upon the ability, expertise, judgment, discretion, integrity, and good faith of the management of New Stratus.

The future value of New Stratus is dependent on the success or otherwise of New Stratus' activities which are directed toward the exploration, appraisal and development of its assets. Exploration, appraisal and development of oil and gas reserves are speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which New Stratus holds rights will lead to a commercial discovery or, if there is commercial discovery, that New Stratus will be able to realize such reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage New Stratus is precluded from pursuing the exploration or development of its assets, New Stratus' business, financial condition and/or results of operations and, accordingly, the trading price of the common shares, is likely to be materially adversely affected.

*Management of Growth*

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurance that the Company will be able to manage growth successfully. An inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may expand its operations through the acquisition of additional assets, businesses, products or technologies that it believes will complement its current or future business. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional assets or businesses or successfully integrate any acquired assets, businesses, products or technologies into the Company without substantial expenses, delays or other operational or financial problems. If a strategy of growth through acquisition is pursued, the failure of the Company to manage this strategy successfully could have a material adverse effect on the Company's business, results of operations and financial condition.

*Uninsured Risks Exist and May Affect Certain Values*

The Company maintains insurance to cover normal business risks. In the course of exploration and development of its properties, certain risks, and in particular, unexpected or unusual geological operating conditions may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the Common Shares.

*Key-Man and Liability Insurance Factors Should be Considered*

The success of the Company will be largely dependent upon the performance of its key officers. The Company has not, as yet, purchased any "key-man" insurance with respect to any of its directors, officers, key employees and has no current plans to do so.

Although the Company may obtain liability insurance in an amount which management considers adequate, the nature of the risks for oil and gas companies is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

*Ability to Attract and Retain Qualified Personnel*

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of its properties is limited and competition for such persons is intense. As the Company's business activity grows, they will require additional key financial, administrative and operations personnel. If the Company is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

*Factors Beyond Company's Control*

The exploration and development of the Company's assets will be affected by numerous factors beyond the control of the Company. These factors include government regulation, high levels of volatility in market prices, availability of markets, availability of adequate transportation and processing facilities and the imposition of new or amendments to existing taxes and royalties. The effect of these factors cannot be accurately predicted.

*Government Regulation*

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase the Company's costs and have a material adverse effect on the Company.

*Environmental Risks and Hazards*

The Company's activities are subject to extensive national, provincial, and local laws and regulations governing environmental protection and employee health and safety. The Company is required to obtain governmental permits and provide bonding requirements under environmental laws. All phases of the Company's operations are subject to environmental regulation. These regulations include limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner, which will require stricter standards and enforcement, increased fines and penalties for non-compliance, and more stringent environmental assessments of proposed projects. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Environmental laws and regulations are complex and have tended to become more stringent over time. These laws are continuously evolving. The Company is not able to predict the impact of any future changes in environmental laws and regulations on its future financial position due to the uncertainty surrounding the ultimate form such changes may take.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted.

*Share Price Fluctuations*

The market price of securities of many companies, particularly development stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance or the underlying asset values of prospects of such companies.  There can be no assurance that fluctuations in the Company's share price will not occur.

*Price Volatility of Publicly Traded Securities*

Securities of natural resource companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in commodity prices or in the Company's financial condition or results of operations as reflected in quarterly earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of the Company's shares include the following:

- the extent of analyst coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow its securities;
- limited trading volumes and general market interest in the Company's securities may affect an investor's ability to trade the Company's shares; and

- the relatively small number of publicly held shares may limit the ability of some institutions to invest in the Company's securities.

As a result of any of these factors, the market price of the Company's shares at any given point in time may not accurately reflect the Company's long-term value.

*Conflicts of Interest*

There are potential conflicts of interest which the directors and officers of the Company may be subject in connection with the operations of the Company. Some of the directors and officers of the Company may be, or may become, engaged in the oil and gas industry, and situations may arise where directors, officers and promoters will be in direct conflict with the Company. Such conflicts must be disclosed in accordance with and are subject to such other procedures and remedies as apply under, the ABCA and the applicable statutes of the jurisdictions of in Company of the Company.

## 16. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements at December 31, 2022, or March 31, 2022, nor have any such arrangements been entered into by the Company as of the date of this MD&A.

## 17. TRANSACTIONS WITH RELATED PARTIES

The Company's key management personnel include its directors and officers. Key management personnel were compensated as follows:

| Periods ended, | Nine Months December 31, 2022 | Twelve Months March 31, 2022 |
|---|---|---|
| Officers and management fees | **$ 1,381,917** | $ 1,719,996 |
| Consulting fees paid to a director | **118,623** | - |
| Share based payments | **1,754,693** | 509,411 |
| **Total** | **$ 3,255,233** | $ 2,229,407 |

All the above transactions are in the normal course of operation and are measured at fair value which is the price agreed to by the related parties.

## 18. CRITICAL ACCOUNTING ESTIMATES

This MD&A should be read in conjunction with the Company's audited consolidated financial statements and related note 3 for the nine months ended December 31, 2022, wherein a more detailed discussion of accounting estimates is presented.

## 19. COMMITMENTS AND CONTINGENCIES

**Block VMM-18**

Pursuant to the terms of the agreement executed in respect of the VMM-18 E&P contract, New Stratus should fund an exploration commitment for the second phase of the VMM 18 E&P Contract. As per the contract and a recent extension by ANH, NSE has to drill an exploration well valued at $4,063,200 (US$3,000,000). The Company is awaiting a response from the ANH with respect to the Company's request to enter into a mutual agreement among the parties to terminate the E&P Contract for Block VMM-18 as well as the reassessment by the ANH of the area restrictions imposed during the environmental assessment by the ANLA. (See also the Company's December 31, 2022 Audited Financial Statements Note 10 - Exploration and Evaluation Assets) and avoid the potential liability related with the Company's obligation to drill an exploration well.

**Consulting agreements**

The Company is obligated under a consulting agreement in the amount of $6,772 (US$5,000) per month until May 31, 2026. Also, the Company is obligated to pay $677,200 (US$500,000) in three equal installments ($225,733 on closing date, and 6 and 12 months after the closing for $225,733 each).

**Executive compensation**

On July 1, 2021, the Company entered into employment agreements with its senior executives which contain clauses requiring additional payments up to $2,700,000 to be made upon the occurrence of certain events such as change of control. As the triggering event has not occurred, the contingent payment has not been provided for in the audited financial statements.

## 20. SUBSEQUENT EVENTS

**Repsol renegotiation:**

On January 14, 2023, the company paid the first installment of the Purchase price of $3,386,000 (USD 2,500,000).

On February 23, 2023, the Company enters into an agreement with Repsol to settle certain matters and differences in connection with the Purchase Agreement of the Shares of Petrolia Ecuador S.A. The Company agreed to:

a) Pay a cash equivalent amount of $5,227,984 (USD 3,860,000) by March 31, 2023. Cash equivalents refer to some recoverable taxes in Ecuador that originally were contingent payments to Repsol upon collection. With this agreement NSE has assumed the obligation to pay for those cash equivalents.
b) Perform a Benefit Payment of $1,911,058 (USD 1,411,000) by May 31, 2023.
c) Pay the second installment of the Purchase price of $3,386,000 (USD 2,500,000), which was previously due January 14, 2024, by May 31, 2023.

The conditions of this agreement have been recognized or updated in the financial statements as of December 31, 2022, and recorded in a current Trade and other payables.

## 21. ADVISORY ON FORWARD-LOOKING STATEMENTS

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward-looking statements while considering the risks set forth below.

Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to future acquisitions; the extension of the term of the Blocks and entering into a production sharing contract with the Government of Ecuador in respect of the Blocks instead of the Service Operating Contracts; the potential of the Company's properties; the future of commodity prices; success of exploration activities; cost and timing of future exploration and development; requirements for additional capital; and other statements relating to the financial and business prospects of the Company.

Generally, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, “believes”, or variations of such words and phrases. Forward-looking information may also be identified in statements where certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made.

Forward-looking information is inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: the timing and progress of oil and gas exploration; future acquisitions; the government regulation of operations; permits and authorizations; expectations regarding the Company's ability to raise capital; expenditures to be made by the Company to meet certain work commitments; environmental risks; and potential title disputes or claims and limitations on insurance coverage.

In addition, the Company has also made certain assumptions that the Company believes are reasonable. These assumptions include but are not limited to the legislative and regulatory environment; the impact of increasing competition; the success and timely completion of planned exploration and development projects; that general business and economic conditions will not change in a materially adverse manner; anticipated results of exploration, development and production activities; and the Company's ability to obtain additional financing on satisfactory terms.

Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, other factors could also cause materially different results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

## 22. GLOSSARY

| Term/Abbreviation | Definition |
|---|---|
| ANH | Colombian National Hydrocarbons Agency |
| ANLA | National Authority for Environmental Licenses |
| boe/d | Barrel of oil equivalent per day |
| bbl/d | Barrel of oil per day |
| E&P | Exploration and production |
| Farm-in agreement | An agreement between two operators, one of which owns the interest in a piece of land where oil or gas has been discovered |
| OCP | The OCP crude oil pipeline is Ecuador's second largest pipeline |
| PSC | Production Sharing Contract |
| SOC | Service Contract |
| WTI | West Texas Intermediate |
| US$ | United States Dollars |