

NEW STRATUS ENERGY INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2020**





FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2020

The following management discussion and analysis ("MD&A") of the financial position of New Stratus Energy Inc. (the "**Company**" or "**New Stratus**") should be read in conjunction with the Company's unaudited condensed financial statements for the six months ended September 30, 2020.

This MD&A is effective as of November 30, 2020.

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

FORWARD-LOOKING INFORMATION

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.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

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 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.

NEW STRATUS BUSINESS

The Company's sole business to date has been to identify, evaluate and acquire mineral and oil and gas properties and to conduct exploration and development operations on such properties. The Company has no commercial production, and accordingly has realized no material revenues to date. See "Outlook".

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.

CORPORATE HISTORY, BACKGROUND AND GENERAL DEVELOPMENT

The Company was incorporated as "Alex Lee Syndicate Inc." under the *Business Corporations Act* (Alberta) ("**ABCA**") on April 12, 2005. On November 18, 2005, the Company changed its name to "Red Rock Energy Inc." and on August 15, 2017, the Company changed its name to "New Stratus Energy Inc."

The Company's head office is located at Suite 301, 372 – Bay Street, Toronto, Ontario and its registered and records office is located at Suite 301, 372 Bay Street, Toronto, Ontario M5H 2W9.

The Company is a reporting issuer in Alberta, British Columbia, Ontario and Saskatchewan. The common shares of the Company are listed on the TSX-V under the trading symbol "NSE".

On October 3, 2017, the Company acquired 100% of the common shares of Petrolia SARL for USD \$1.00. The Subsidiary is a Luxembourg company incorporated on February 22, 2016.

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% owe 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 October 20, 2020, New Stratus Energy Inc. announced that it has entered into a letter of intent with certain affiliates of Repsol S.A. to potentially acquire certain upstream and midstream assets in Ecuador.

OUTLOOK

During the six months ended September 30, 2020, the Company continued evaluation of the VMM 18 block in Colombia, focusing in the terms of reference of the seismic process to be conducted as well as the community and social program.

The VMM 18 E&P Contract is highly prospective for light and medium gravity oil and is located in the Middle Magdalena Basin of Colombia covering a total area of 75,968 acres. Management of the Company has identified a number of prospects and leads based on the existing 2D and 3D seismic coverage on the block. Analogous nearby discoveries (Guaduas, Puli, Rio Seco, Toqui-Toqui) some of them in similar play-type, decreases the risk of the prospects in the VMM-18 block. The block is located with nearby access to pipelines with extra capacity as well as a road transportation network to the export terminal.

Pursuant to the terms of the agreement executed in respect of this acquisition, New Stratus acquired a 100% working interest in the VMM 18 E&P Contract in consideration for agreeing to fund the vendor's exploration commitments for the second phase of the VMM 18 E&P Contract. As per the contract and recent extensions granted by ANH, NSE has to perform seismic reprocessing valued at USD \$250,000 and drill an exploration well valued at USD \$3 Million by August 21, 2021 as a work commitment under the contract.

The vendor also received a 5% overriding royalty in the production of the VMM 18 E&P Contract. The acquisition is subject to the National Agency of Hydrocarbons of Colombia formal approval. The Company is currently working on a private placement to fund the VMM18 work program.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

Overall Strategy:

Management 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 organically grow acquired production.

The following are specific targets that management has for the above-mentioned countries:

Colombia:

- Acquire production operators/assets
- Farm-in
- Bidding rounds
- Direct negotiations with national producers and regulators (Ecopetrol and ANH)



Ecuador:

- Fee/bbl contracts
- Negotiating PSC's contracts
- Farm-in and joint ventures
- Participate in the Intracampos II bid round

Peru:

- Acquisition of existing operators with upside potential and environmental permits
- Farm-in on existing ready to drill blocks
- Participate in bid rounds

As part of this strategy, on October 19, 2020 the Company signed a letter of intent (the “**LOI**”) with certain affiliates of Repsol S.A (the “**Sellers**”) to potentially acquire certain upstream and midstream assets in Ecuador for the aggregate consideration defined in the LOI and described below, under “Overall Performance”. This transaction is part of the Corporation’s strategy of consolidating its presence in the Sub-Andean geological basins targeting projects with existing production and exploratory potential. Featuring no upfront capital costs and stable dividend income from the pipeline assets, the unique structure of this acquisition has the potential to generate substantial value for our shareholders.

After the completion of this acquisition, New Stratus would have access to and operate assets with production of approximately 18,000 barrels of oil per day (bopd) (2019 Production). This transaction would provide New Stratus increased scale and complement its capabilities while improving its positioning and access to additional opportunities, such as selective bids rounds and secondary flow of material size and quality. Cashflow from this transaction would provide a robust platform for the Corporation to sustain and grow as per its strategy in the Sub-Andean basins.

OVERALL PERFORMANCE

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% interest in Montajes’ 100% owe 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.

The Agreement contemplated the completion of Phase II by August 21, 2019, which has been deferred due to the delay on the granting of the environmental license by the ANH until August 21, 2020. As a condition of the extension of the Agreement, NSE has committed to perform seismic reprocessing valued at USD \$250,000 and drill an exploration well valued at USD \$3 Million by August 21, 2020 as a work commitment under the contract.

The significant impact of the COVID-19 pandemic, as described under the Outlook section above, event and instabilities in the supply side of the oil industry has affected NSE ability to obtain appropriate financing and continue with its work commitments. Accordingly, the Company’s operator applied on June 26, 2020 for a one-year time extension for its work commitments invoking Article 2 issued on April 7, 2020 by the Colombian Government related to the state of emergency arising from the COVID 19 pandemic. Subsequently, on August 18, 2020 the Company received an extension from the Agencia Nacional de



Hydrocarburos (“ANH”) for Phase 2 of the exploration period of the E&P Contract of Block VMM-18 for 12 months. The extended deadline of completion of this phase is now August 21st, 2021.

As part of Phase II of the Project, NSE has agreed to finance the exploratory, including all decommissioning costs and payments due to the Colombian National Hydrocarbons Association (“ANH”).

NSE will also pay to JM a 5% royalty on production revenue after deducting government royalties, adjusted at wellhead.

As part of Phase II of the exploration program NSE should fund:

- The reprocessing of 963 kms. of two-dimensional seismic data;
- The reprocessing of 60 square kilometers of three-dimensional seismic data
- The seismic inversion of the 2D and 3D on top of the exploratory prospects
- Drilling one exploratory well.

The initiation of exploratory well work is subject to the ANH’s approval by the ANH of the environmental license, which is currently outstanding as the Company is required to complete its environmental report in accordance to ANH standards.

Subsequent to quarter end, on October 8, 2020, the Company announced that the Corporation has engaged Info-Geosciences Technology Services to initiate a project of seismic reprocessing, seismic inversion, and modelling of the 2D and 3D data from the VMM 18 block. With this seismic project, the New Stratus continues with the technical evaluation of the block, previous to drill the exploration well, which are both commitments with the ANH for the VMM 18 block in Colombia.

As of September 30, 2020, JM has incurred \$658,687 in exploration expenditures out of which \$427,724 had been already funded by NSE. The following schedule breaks down the principal expenditures incurred during Phase II of the exploration program:

| | CAD\$ | USD\$ |
|----------------------------|------------|------------|
| Environmental assessment | \$ 27,914 | \$ 20,945 |
| Financial charges | 48,143 | 36,084 |
| General and administration | 278,302 | 208,596 |
| Permits and licenses | 298,005 | 223,359 |
| Professional fees | 6,323 | 4,739 |
| | \$ 658,687 | \$ 493,723 |

Ecuador – Blocks 16- Bock 67 and Oleoducto de Crudos Pesados Ecuador S.A.:

The Company remains active pursuing oil and gas assets in South America with the objective of acquiring assets in the area. On October 20, 2020, New Stratus Energy Inc. announced that it has entered into a letter of intent (the “LOI”) with certain affiliates of Repsol S.A (the “Sellers”) to potentially acquire certain upstream and midstream assets in Ecuador for the aggregate consideration defined in the LOI and described below (the “Potential Transaction”).



The consummation of the Potential Transaction is subject to, and contingent on, the receipt by the Purchaser and the Sellers of certain customary regulatory approvals. The parties have submitted their request for prior authorization of the Potential Transaction to the Ecuadorian Ministry of Energy and Non-Renewable Resources.

Upon completion of the Potential Transaction, the Corporation will hold an indirect 35% operated working interest in service contracts (the “**Service Contracts**”) for Blocks 16 and 67 in Ecuador (the “**Blocks**”) as well as an indirect 29.66% participation in Oleoducto de Crudos Pesados Ecuador S.A. (“**OCP**”). The closing of the Potential Transaction (the “**Closing**”), is dependent on receipt by the parties of the Regulatory Approvals and the satisfaction of customary conditions to closing. The Potential Transaction will become effective and will be published after the Closing. The 35% commitment and related costs for Blocks 16 and 67 are secured within the terms of the LOI signed with the Sellers.

On October 29, 2020, the Sellers were notified by the Ministry of its denial of the requested approval for the Potential Transaction on the basis that the application did not satisfy the requirements of Decree 1363 on transfers of Hydrocarbons contracts since, from the filed documents, as it could not confirm that with the Potential Transaction there would not be “a deterioration of the financial solvency and operational capabilities of the contractor”, which is the threshold for approval of transactions such as the Potential Transaction.

New Stratus believes that the Potential Transaction meets the requirements of applicable regulations for approval by the Ministry since such transaction will not alter any of the financial situation and operational capabilities of the contractor of the Blocks, which is a consortium where the Sellers only hold a 35% working interest through a local company that has been the operator of the Blocks for many years and where no mandatory investments are pending. The Corporation is still committed to invest in the energy sector in Ecuador and is actively working with the Ecuadorean authorities and the Sellers to agree on a structure for the Potential Transaction that may be satisfactory to all parties.

Description of the Assets

Upstream Business: Blocks 16 and 67

The Blocks are located in the Orellana Province in the prolific Oriente Basin in Ecuador. The Blocks have a long history of production, with a total of 256 wells drilled, and excellent seismic coverage. This has contributed to substantial knowledge of the area’s characteristics, properties, distribution of reservoirs, production mechanisms, and additional exploration opportunities.

The Blocks are comprised of 13 fields, with production of 17,800 bopd (6,200 bopd net to New Stratus) at an average gravity of 14.2 API. Production in Block 16 peaked in July 2006 at 63,000 bopd while Block 67 production reached a maximum of 12,000 bopd in October 2007. As of December 2019, the Blocks had accumulated primary production of 362 MMBBL.

Existing infrastructure includes two oil and water processing centers with a capacity of 75,000 bopd and 900,000 BWPD, with all the water production being reinjected into 30 wells. Additional area infrastructure includes electricity generation plants and a topping plant which produces diesel used to power operations.

The oil produced in the fields is moved by a 16-inch pipeline to Lago Agrio, where it is loaded into the OCP pipeline and transported to a port on the Pacific Ocean.



Tariffs are governed by the Service Contracts and a portion of such tariffs are indexed to US CPI/PPI. While the existing Service Contracts expire on December 2022, significant production potential remains in the event the term of the Service Contracts are extended. The extension of the Service Contracts would benefit the interests of the stakeholders and is in line with precedents set by the Ecuadorian authorities with respect to the Service Contracts (in 2013, the term of the Service Contracts was extended from 2018 to 2022).

The Blocks include commitments to minimize the environmental impact of operations, to maintain high standards of safety, and to undertake long-term investments for the benefit of local communities.

Midstream Business: Oleoducto de Crudos Pesados Ecuador S.A. (“OCP”)

Transporting approximately 30% of the country’s oil and possessing capacity of 450,000 bopd, the pipeline that is owned and operated by OCP (the “**Pipeline**”) is Ecuador’s second major pipeline and is the only privately owned pipeline in the country. Built at a total cost of US\$1.5 Billion, the Pipeline is 485 Kilometres in length and runs from the Oriente Basin to the port of Ballao. In 2019 the Pipeline transported ~190,000 bopd of which 14,000 bopd was from Colombia.

Possessing a 24”/36” inch diameter, the Pipeline moves heavy crude with an average API gravity of 19. OCP has oil transportation contracts with Ecuadorian state entities, international traders, and Colombian oil producing companies. The Pipeline has four pump stations plus two pressure reduction stations to transport crude over the Andes. It also features a maritime terminal with both onshore and offshore delivery systems and possesses a storage capacity of 3.75 MMBBL.

After the consummation of the Potential Transaction, New Stratus will hold a 29.7% ownership interest in OCP’s parent company, Oleoducto de Crudos Pesados (OCP) LTD. (“**OCP LTD**”). A BOOT (Build Own Operate Transfer) concession granted by the government to OCP expires on November 11, 2023, at which time, ownership of the Pipeline will be transferred to the government.

Material Terms of Potential Transaction

1) Purchase Price and Other Consideration

2) The aggregate consideration for the Potential Transaction is structured as a guaranteed cash payment of US\$5 Million (subject to customary adjustments) to be paid in two (2) equal installments and additional contingent payments linked to the following conditions and/or occurrence of events: (i) the extension of the term of the Service Contracts with a maximum payment by the Purchaser to the Sellers of US\$12 Million, (ii) the average Brent price during the 2021 and 2022 calendar years, (iii) the actual collection of the “carry forward” generated under the Service Contracts and (iv) a percentage of the dividends or distributions paid by OCP LTD above a certain amount.

Carve-Out Provision

Upon the occurrence of certain conditions agreed to by the parties, the Sellers have the right to carve-out the sale of the Midstream Business and their shares in OCP LTD from the perimeter of the Potential Transaction.



Other Considerations

In the event the Sellers do not exercise the carve-out right described above, upon the Closing, the Corporation will assume certain reversion costs associated with the Blocks in an amount corresponding to the Corporation's participation interest in the Blocks.

SELECTED QUARTERLY INFORMATION

The summary below highlights selected quarterly information:

| | Fiscal 2021 | | Fiscal 2020 | | | | Fiscal 2019 | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Interest and other income | | | | | - | | | |
| Net income (loss) | 249,180 | (25,260) | (300,158) | (300,158) | (454,506) | (184,801) | (823,640) | 147,510 |
| General & administrative expenses | 257,228 | 63,571 | 414,673 | 197,524 | 412,218 | (2,077,513) | 832,813 | 304,933 |
| Exploration and evaluation balance | 658,687 | 658,687 | 658,687 | - | 427,724 | 399,810 | - | - |
| Loss per share (basic and fully diluted) | (0.01) | (0.00) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) | (0.00) |
| Total assets | \$1,479,922 | \$767,044 | \$943,165 | \$2,492,915 | 2,541,100 | 714,655 | 461,815 | 95,227 |
| Working capital (deficit) | 34,474 | (1,645,773) | (1,621,930) | (3,244,365) | (2,940,244) | (2,457,823) | (2,277,507) | (1,065,687) |
| Total long-term liabilities | - | - | - | - | - | - | - | - |

RESULTS OF OPERATIONS

The Company is evaluating surface exploration and drilling programs with respect to the VMM 18 E&P Contract.

During the year ended March 31, 2020, the Company incurred in its VMM 18 E&P program \$658,687 out of which 100% has been capitalized. No significant expenditures were incurred during the first quarter of fiscal 2021.

For the three and six month-periods ended September 30, 2020, the Company recorded \$42,930 and \$92,737, respectively, in foreign exchange gains (September 30, 2019: \$5,500).

The following schedule describes the general and administrative expenses incurred by NSE during the three months ended September 30, 2019 and 2020:

| Three months ended September 30, | 2020 | 2019 | Change |
|---|------------|------------|-------------|
| Insurances | \$ 2,201 | \$ 2,000 | \$ 201 |
| Legal and accounting | 67,923 | 152,624 | (84,701) |
| Management fees | 19,060 | 82,500 | (63,440) |
| Professional fees | 142,445 | 135,953 | 6,492 |
| Office and administration | 5,045 | 34,433 | (29,388) |
| Shareholders information and investor relations | 20,554 | 4,706 | 15,848 |
| | \$ 257,228 | \$ 412,216 | \$(154,988) |

G&A expenses decreased significantly during the three months ended September 30, 2020, when compared to the same period of 2019. The decrease is primarily due to:

- A reductions legal expenses resulting from lower costs associated with corporate transactions;



- A reduction in management fees, as part of the temporary reduction in certain executive compensations;
- The reduction in office and administration is principally due to a reduction in travel expenses of approximately \$21,000 and a reduction in rental fees of approximately \$11,000, all offset by an increase in information technology related expenses of approximately \$3,000.

The following schedule describes the general and administrative expenses incurred by NSE during the six months ended September 30, 2019 and 2020:

| Six months ended September 30, | 2020 | 2019 | Change |
|---|------------|------------|--------------|
| Insurances | \$ 4,267 | \$ 5,338 | \$ (1,071) |
| Legal and accounting | 77,253 | 137,551 | (60,298) |
| Management fees | 41,760 | 105,000 | (63,240) |
| Professional fees | 163,703 | 290,071 | (126,368) |
| Office and administration | 10,249 | 48,897 | (38,648) |
| Shareholders information and investor relations | 23,567 | 4,706 | 18,861 |
| | \$ 320,799 | \$ 591,563 | \$ (270,764) |

The decrease in general and administrative expenses for this period is mainly the result of:

- A decrease in legal expenses resulting from lower costs associated with corporate transactions;
- The reduction in management fees, as part of the temporary reduction in certain executive compensation;
- The decrease in professional fees which includes engineering consultancy for evaluating and negotiating potential acquisitions of international oil and gas assets;
- The reduction in office and administration is principally due to a reduction in travel expenses of approximately \$21,000 and a reduction in rental fees of approximately \$19,000, all offset by an increase in information technology related expenses of approximately \$4,000.

EXPLORATION AND EVALUATION ACTIVITIES

The Company capitalized exploration and evaluation costs of \$658,687 during the year ended March 31, 2020. No significant exploration and evaluation activities took place during the first two quarter of fiscal 2021, reflecting a reduction in operations as a result of the impact of COVID – 19, that has reduced financial and operational activities.

LIQUIDITY AND CAPITAL RESOURCE

The Company is in the development stage and therefore has no regular cash flow. As at September 30,2020, the Company had a working capital of \$34,474.

On September 21, 2020, the Corporation completed a non-brokered private placement of 9,566,428 units (“Units”) at a price of \$0.20 per Unit for gross proceeds of \$1,913,286 (the “Offering”). Each Unit issued pursuant to the Offering was comprised of one Common Share and one warrant, with each warrant entitling



the holder to acquire one Common Share at a price of \$0.30 per Common Share until September 21, 2022. Finders acting in connection with the Offering received finder's fees in the aggregate amount of \$53,724, which were paid in Common Shares at a price of \$0.20 per Common Share for an aggregate of 268,618 Common Shares.

Short-term loan:

As of March 31, 2020, the short-term loan balance was USD \$78,916. During the six months ended September 30, 2020 the Company accrued interests of \$6,133 (USD \$4,603). On September 25, 2020 AZX settled all the outstanding balance of the Short-term loan, including accrued interest totaling \$111,278 (USD \$ 83,519). The foreign exchange impact on the loan, reducing the liability paid in Canadian dollars, was approximately \$6,718.

d) Due to shareholders:

During the six months ended September 30, 2020 the Company accrued approximately \$16,305 (USD \$12,238) in interest related to these loans that carried an annual interest of 6%. On September 25, 2020, the Company repaid all outstanding balances due to shareholders totaling \$575,336 (USD \$431,817). The foreign exchange impact on the loan, reducing the liability paid in Canadian dollars, was approximately \$35,723.

During the six months ended September 30, 2020 there was no significant investing activities, compared with the six months ended September 30, 2019 when \$427,724 were incurred in investment and exploration assets evaluation.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements as at September 30, 2020, nor have any such arrangements been entered into by the Company as of the date of this MD&A.

TRANSACTIONS WITH RELATED PARTIES

In addition to the transactions with shareholders described under Liquidity and Capital Resources section, the following transactions arise during the six months ended September 30, 2020 and 2019 with directors and shareholders:

A company controlled by an officer of the Company provided financial management services to the Company. During the three and six months ended September 30, 2020, fees incurred for amounts due to this officer totaled \$19,950 and \$42,650, respectively (2019 – \$Nil). As of September 30, 2020, \$Nil (2019 – \$Nil) was outstanding in accounts payable.

A company controlled by an officer and director of the Company provided financial management services to the Company. During the three and six months ended September 30, 2019 fees and disbursements incurred for amounts due to this officer totaled \$22,500 and 45,000, respectively. As September 30, 2019, \$97,500 was outstanding in account payable.

A company controlled by a shareholder and director provided CEO services to the Company. During the three and six months ended September 30, 2019 fees and disbursements incurred for amounts due to this



director totaled \$30,000 and \$30,000, respectively. As of September 30, 2019, \$130,000 was outstanding in accounts payable.

The Company’s key management personnel include its directors and officers.

Key management personnel were compensated as follows:

| Periods ended September 30, | Three months | | Six months | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Management fees | \$ 19,950 | \$ 52,500 | 42,650 | 75,000 |
| Share based payments | 5,708 | - | 5,708 | 3,595 |
| Total | \$ 25,658 | \$ 52,500 | \$ 48,358 | \$ 78,595 |

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

SHARE DATA

Share Capital:

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

On September 21, 2020, the Corporation completed a non-brokered private placement of 9,566,428 units (“Units”) at a price of \$0.20 per Unit for gross proceeds of \$1,913,286 (the “Offering”). Each Unit issued pursuant to the Offering was comprised of one Common Share and one warrant, with each warrant entitling the holder to acquire one Common Share at a price of \$0.30 per Common Share until September 21, 2022. Finders acting in connection with the Offering received finder’s fees in the aggregate amount of \$53,724, which were paid in Common Shares at a price of \$0.20 per Common Share for an aggregate of 268,618 Common Shares.

As at September 30, 2020 and the date of this report there were 57,815,445 Common Shares issued and outstanding.

Warrants:

On April 22, 2020 the Company announced that it has applied to the TSX Venture Exchange (“TSXV”) for an extension of the expiry date of 10,000,000 common share purchase warrants (the “Warrants”) exercisable at \$0.10 and issued on May 3, 2017. The application seeks TSXV approval of the extension of the expiry date from May 3, 2020 to May 3, 2022.

As part of the September 21, 2020, financing the Company issued 9,566,428 warrants valued at \$331,092. Each warrant, will entitle the holder to purchase one common share at an exercise price of \$0.30 until the second anniversary of the issuance of the warrant. The Company 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 \$0.16, exercise price of \$0.30, volatility of 70%, dividend yield of 0%, an expected warrant life of two year and an annual risk-free interest rate of 2.6%. Volatility was estimated based on average volatility of a sample of peer companies with public pricing data available.



As at September 30, 2020 and the date of this report there were 30,522,497 warrants outstanding.

Stock based compensation:

On July 7, 2020 the Company granted an aggregate of 800,000 stock options to consultants of the Company, pursuant to the Company's Plan. The options vested on granting and are exercisable at \$0.05 for a five-years period. The fair value of each option was estimated on the date of the grant using the Black-Scholes option pricing model, with the following assumptions: expected dividend yield of 0%, expected volatility of 70%; risk-free interest rate of 0.43%; and an expected average life of 5 years. The fair value of all these options was estimated at \$22,832.

As at September 30, 2020 there were 4,300,000 stock options outstanding.

Fully diluted shares information:

As at September 30, 2020 and the date of this report there were:

| | |
|--------------------------|-------------------|
| Common shares | 57,815,445 |
| Warrants | 30,522,497 |
| Stock based compensation | 4,300,000 |
| | <u>92,637,942</u> |

CRITICAL ACCOUNTING ESTIMATES

This MD&A should be read in conjunction with the Company's unaudited condensed financial statements and related notes for the three months ended September 30, 2020 wherein a more detailed discussion of accounting estimates is presented.

SUBSEQUENT EVENTS

As described above under "*Overall Performance - Ecuador – Blocks 16- Bock 67 and Oleoducto de Crudos Pesados Ecuador S.A.*", on October 20, 2020 – New Stratus Energy Inc. announced that it has entered into a letter of intent (the "LOI") with certain affiliates of Repsol S.A (the "Sellers") to potentially acquire certain upstream and midstream assets in Ecuador for the aggregate consideration defined in the LOI.

The consummation of the Potential Transaction is subject to, and contingent on, the receipt by the Purchaser and the Sellers of certain customary regulatory approvals, including (A) the prior authorization of the Potential Transaction by (i) the Ecuadorian Ministry of Energy and Non-Renewable Resources (*Ministerio de Energia y Recursos Naturales No Renovables*) and (ii) the Ecuadorian Antitrust Authority (*Superintendencia de Control del Poder de Mercado*), in each case, as required under applicable laws of Ecuador; and (B) customary TSX Venture Exchange approvals (collectively, the "Regulatory Approvals").

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 in light of the risks, expenses and problems frequently encountered by all companies in the early stages of their corporate development.

Future Financing Requirements

The Company will 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 is in the exploration stage of its corporate development; it owns no producing properties and, consequently has no current operating income or cash flow from the properties it holds, nor has it had any income from operations in the past three financial years. As a consequence, operations of the Company are primarily funded by equity subscriptions. 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 affect 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 mining 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 Corporation'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's subsidiaries.