# NEW STRATUS ENERGY INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE THREE MONTHS ENDED JUNE 30, 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 three months ended June 30, 2022.

This MD&A is dated August 29, 2022, and should be read with the Company's unaudited interim consolidated financial statements for the three months ended June 30, 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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## 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 deposits. 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'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.

## 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.

Among the countries in which the sub-Andean basins are found, NSE primary targets are in Colombia, Ecuador, Brazil and Mexico, which offer attractive contractual conditions.

These four 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. 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.

Under this approach, NSE continues with the evaluation of projects with proven and probable reserves (2P reserves), 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.

In addition to the proposed activities to be conducted by the Company in its VMM-18 block in Colombia, management is focused on the following specific targets in the above-mentioned countries:

**Colombia**

- Acquire production operators/assets
- Farm-in
- Bidding rounds
- Direct negotiations with national producers and regulators.

**Ecuador**

While the existing Service Contracts for Blocks 16 and 67 are set to expire in December 2022, significant production potential remains and the Company has announced plans to spend approximately US$200 million in 2023 and 2024, in drilling and workovers operations, increasing surface facilities and water disposal capacity following negotiations with the Government of Ecuador to extend rights to the Blocks.

Moreover, NSE plans to continue evaluating new opportunities and expanding its participation in additional production blocks.

**Brazil**

- Current government has continued the liberalization of the Brazilian economy in general, and of the O&G industry
- Acquisition of existing operators with upside potential and environmental permits
- Farm-in on existing ready to drill or producing blocks
- Participate in bid rounds from the ANP

**Mexico**

- The country 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
- Acquisition of existing operators with upside potential and environmental permits
- Participate in onshore bid rounds from the CNH

## QUARTERLY RESULTS OVERVIEW

### Financial and Operating Highlights

| For the three months ended June 30, | **2022** | 2021 |
|---|---|---|
| Revenues | **33,226,400** | - |
| Cash flow provided (used) by operating activities | **9,151,256** | (371,682) |
| Funds flow provided by operations[1] | **20,781,579** | (335,866) |
| Per share – basic [2,4] | **$0.18** | ($0.02) |
| Per share – diluted [2,4] | **$0.16** | ($0.02) |
| Net income | **14,012,354** | (514,293) |
| Per share – basic[4] | **0.12** | (0.01) |
| Per share – diluted[4] | **0.11** | (0.01) |
| Adjusted EBITDA[1] | **19,682,227** | (344,410) |
| Per share – basic[2,4] | **0.17** | (0.01) |
| Per share – diluted[2,4] | **0.15** | (0.01) |
| Capital investment[1] | **986,047** | 386,984 |
| Free funds flow[1] | **19,795,532** | (233,066) |
| | | |
| Weighted average shares outstanding (end of period) | | |
| Basic | **112,749,344** | 61,105,445 |
| Diluted | **127,209,694** | 61,105,445 |
| Total assets (end of period) [5] | **113,386,768** | 104,177,863 |
| Net non-cash working capital (end of period) | **(11,421,766)** | (35,816) |
| Total liabilities (end of period) [5] | **70,873,712** | 75,888,759 |

(1) Non-GAAP financial measure (as defined in NI 52-112), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See Non-GAAP and Other Financial Measures for the composition of such measure, and explanation of how such a measure provides useful information to a reader and the additional purposes for which management uses such measure, and a reconciliation of such financial measure to the most directly comparable IFRS measure disclosed in the Company's financial statements.

(2) Non-GAAP ratio. See Non-GAAP and Other Financial Measures.

(3) Supplementary Financial Measure (as defined in NI 52-112) see Non-GAAP and Other Financial Measures for the measure composition.

(4) Per share amounts are based on weighted average common shares. `

(5) Comparative figure is as at March 31, 2022.

# FINANCIAL AND OPERATING RESULTS

## Financial Results

***Consolidated Revenue, Gross Profit and Net Income***

| Three months ended June 30, | 2022 | 2021 |
|---|---|---|
| **Income** | | |
| Provision of services | $ 32,192,190 | $ - |
| Operators fees | 108,116 | - |
| Other (1) | 926,094 | - |
| **Total Revenue** | **33,226,400** | - |
| Operating Expenses | 11,540,381 | - |
| Depletion & Depreciation | 9,138,331 | - |
| **Gross Profit** | **12,547,688** | - |
| General and administrative | 2,003,782 | 344,410 |
| Financial (income) cost, net | 116,292 | - |
| Stock-based compensation | 262,968 | 178,427 |
| Foreign exchange loss (gain) | 531,744 | (8,544) |
| Other income, net | (129,570) | - |
| **Income (loss) before tax** | **9,762,472** | **(514,293)** |
| Current income tax recovery | 4,249,882 | - |
| Net income (loss) | **$ 14,012,354** | **$ (514,293)** |
| **Basic net income (loss) per sha** | **$0.12** | **($0.01)** |
| **Fully diluted income (loss) per** | **$0.11** | **($0.01)** |

(1) Income for services rendered by the Block 16 Consortium to the Block 67 Consortium to execute exploration and exploitation of hydrocarbons activities

New Stratus' revenue growth for the three months ended June 30, 2022 was mainly due to the acquisition of 35% working interest in Blocks 16 and 67 in Ecuador on January 14, 2022.

The total production of Blocks in Ecuador, including partner's working interest was 15,369 bbl/d for the first quarter of fiscal 2023, of which Petrolia's share averaged 5,379 bbl/d, compared to nil for the same period in 2022.

Oil production, net from auto consumption, generated $32.2 million in revenue for New Stratus for the three months ended June 30, 2022, compared to $nil for the same period in 2021.

The Company generated net income of $14.1 million ($0.12/share) for the three months ended June 30, 2022, compared with a net loss of $0.5 million ($0.01/share) for the same period 2021.

## Operational Highlights

### Petrolia Ecuador S.A.

The main activity of Petrolia Ecuador S.A. 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).

*Key Operational Highlights – Petrolia Ecuador:*
The following schedule describe key production parameters for the three months periods ended June 30, 2022 and compares it to the previous quarter ended March 31, 2022 and compares to the fourth quarter of fiscal 2022. As the Company acquired it producing operations on January 14, 2022, there are no comparative numbers for the three months ended June 30, 2021.

| Key operational Highlights | | Q1 F2023 | Q4 F2022 | Change |
|---|---|---|---|---|
| Total Blocks heavy crude oil production | bbl/d | **15,369** | **15,157** | **212.2** |
| Gross heavy crude oil production | bbl/d | **5,379** | **5,305** | **74.3** |
| Sales production | bbl/d | **4,438** | **4,573** | **(134.7)** |
| Service Tariff (1) | $/boe | **49.55** | **48.41** | **1.1** |
| Carryforward recovery (2) | $/boe | **34.58** | **17.08** | **17.5** |
| Net revenue (3) | $/boe | **84.13** | **65.49** | **18.6** |
| Operational costs | $/boe | **23.57** | **22.85** | **0.7** |
| Gross Margin | $/boe | **60.56** | **42.64** | **17.9** |

(1) Weighted average Service Tariffs (Block 16: 49,62 $/bbl and Block 67: 37,58 $/bbl). A final adjustment to 2022 tariffs was informed by the Ministry.
(2) Recovery/accumulation of carryforward as per the Service Contract. As of Jun 30, 2022, the carryforward balance is $401M ($140M net NSE) only for Block 16.
(3) Effectively collected by Petrolia (Tariff + Carryforward).

| Financial Results - Production - in thousand of dollars | Q1 2023 | Q4 2022 | Change |
|---|---|---|---|
| Service Tariff | **20,013** | **17,045** | 2,968 |
| Carryforward recovery | **13,967** | **6,013** | 7,954 |
| Net revenue | **33,980** | **23,058** | 10,922 |
| Net Income | **21,697** | **14,838** | 6,859 |
| Operational costs | **11,540** | **9,487** | 2,053 |
| Operating EBITDA | **22,423** | **13,612** | 8,811 |
| Cash provided by operating activities | **11,243** | **2,206** | 9,037 |
| Capital expenditures | **36** | **(245)** | 281 |
| Cash and cash equivalents | **21,866** | **11,905** | 9,961 |

Total oil production from the Blocks, including working interest partner production, was 15,369 bbl/d in the three months ended June 30, 2022, of which Petrolia's share averaged 5,379 bbl/d compared to 5,305 bbl/d for the three months ended March 31, 2022.

During the first quarter of fiscal 2023, the Company's gross heavy crude oil production increased marginally by approximately 1.4% from the fourth quarter of fiscal 2022 resulting from higher delivery of crude oil that was stored in tanks in December 2021.

The Company made important efforts to maintain the natural decline of the wells (workover jobs and fluid management). New Stratus was able to maintain production levels even though the country experienced a national strike of 18 days in June 2022, where most oil producers reduced their output.

The carryforward recovery increased by $17,50/bbl from $17,08/bbl in the fourth quarter of fiscal 2022 to $34,58/bbl in the first quarter of fiscal 2023 due to a higher West Texas Intermediate (WTI) price (US$ 97.89/Bbl in the fourth quarter of 2022 vs US$108.83/Bbl in the first quarter of 2023).

The higher WTI and service tariffs adjustments also contributed to a higher net revenue of $84,13/bbl in the first quarter of fiscal 2023 compared to $65,49/bbl in the fourth quarter of fiscal 2022 as well as a $17,92/bbl increase in gross margin from $42,64/bbl in the fourth quarter of fiscal 2022 to $60,56/bbl in the first quarter of fiscal 2023.

The Ministry of Energy in Ecuador announced the final tariff for 2022, which was higher than the provisional tariff and consequently led to an increase in the service tariff from $48,41/bbl in the fourth quarter of fiscal 2022 to $49,55/bbl in the first quarter of fiscal 2023.

The Service Contract (SOC) establishes that the Company will receive the Full Service Tariff when the Available Income is equal 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.

## 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 net 2P reserves of 1.2 million barrels of heavy oil. This report was prepared as of March 31, 2022. As the current SOC will expire on December 31, 2022, and a new operating contract has not been finalized, the reserve report was prepared assuming the termination of the operation on such 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.

Based on the rights granted to the Company in the SOC, NSE is in the process of negotiating with Ecuadorian authorities the extension of the contract and its conversion from a Service Contract (SOC) into a Production Sharing Contract (PSC).

### *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. Montajes is the current operator of Block VMM-18. New Stratus will become the operator when the environmental license is granted by the National Authority for Environmental Licenses ("ANLA").

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 has to be done. The Company is waiting for an approval of the License by the ANLA.

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 the visit to the field to verify the routes of penetration to reach the site where the location will be built for this first well to be drilled in this large structure.

*__Exploratory commitments of the VMM-18 contract__*

| Phase | Duration | Exploratory Commitment | Investment Agreed |
|---|---|---|---|
| 1 | 36 Months | Acquisition, reprocessing and interpretation of 60km2 of 3D seismic | USD$3,840,000 |
| 1A | | Reprocessing and interpretation of 400km of 2D seismic | USD$40,000 |
| | | Surface Geology | USD$160,000 |
| | | Structural modeling | USD$100,000 |
| | | Geochemical modeling | USD$100,000 |
| 2 | 48 Months | Reprocessing of 963km of 2D seismic and 60km2 of 3D seismic | USD$250,000 |
| | | Drilling of an exploratory well A3 and return of 50% of the area | USD$3,000,000 |
| | | | **USD$7,490,000** |

The impact of the COVID-19 pandemic affected NSE's ability to continue with its work commitments within the originally established timelines as many of its tasks have been delayed. The Company 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.

On February 8, 2021, the Company received an extension from the 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 was then February 22, 2022, after giving effect to a six-months extension granted by the ANH in July 2021.

On December 12, 2021, the ANH informed the Company of an extension of additional 86 calendar days, hence May 19, 2022, was established as the revised end date of Phase 2.

On April 12, 2022, the Company requested from the ANH the extension of Phase 2 for a period of additional 113 calendar days. The ANH has confirmed 27 of these 113 requested days and the Company is awaiting a response from ANH on the remaining 109 additional days requested. If the Company does not receive the requested extension from the ANH, it will write-off all its capitalized amount of $2.2 million.

On July 28, 2022, ANH informed the Company that it has not accepted an application for the extension. Management has sent further communications to the ANH informing that certain work performed has not being considered in their evaluation. Management is confident, considering that all its exploration obligations have been met, that an extension will be granted by the ANH.

On August 24, 2022, the Company received confirmation from the ANLA (Environmental National Agency) the acceptance of the environmental license.

A description of all the activities performed at Block VMM-18 are listed below:

***Completed Activities***

*Seismic Data Reprocessing:*

As part of its commitments, the Company needed to complete 963 Km2 of 2D seismic and 60 Km2 of 3D seismic of which:
On May 18, 2022, the support documentation for the testing of 803 km of 2D seismic and 60 km2 of 3D seismic was submitted to the ANH, including documentation related to USD251,416 invested on, to prove compliance with the obligations of the Mandatory Exploratory Program for Phase 2 of the E&P VMM-18 Contract.

*Environmental Impact Study:*

In November 2020, the Company contracted ASI S.A.S to prepare an Environmental Impact Study ("EIA") which started in December 2020.

The field activities required for the preparation and presentation of the Environmental Impact Study have been carried out in compliance with the schedule presented to the ANH. On April 4, 2022, the ANLA requested additional information which the Company sent that on May 10, 2022, fulfilling all ANLA requirements. New Stratus received the approval of the Environmental Impact Study on August 24, and the corresponding issuance of the Environmental License by the ANLA.

All activities that NSE committed to are now completed except for the drilling of the exploratory well.

## OTHER EXPENSES AND INCOME

A list of other consolidated expenses and income items for the first quarter of fiscal 2023 is given below. These amounts are presented in accordance with IFRS accounting standards.

***Operating Expenses - Ecuador***

| For the three montha ended June 30, | | 2022 | | 2021 | | Change |
|---|---|---|---|---|---|---|
| Consumption of inventories & purchases | $ | 2,660,721 | $ | - | $ | 2,660,721 |
| Participation to the state social investments projects | | (93,321) | | - | | (93,321) |
| Employee benefits | | 3,584,822 | | - | | 3,584,822 |
| Insurance premium | | 336,594 | | - | | 336,594 |
| Catering services | | 278,027 | | - | | 278,027 |
| Cured oil treatment | | 446,410 | | - | | 446,410 |
| Plants maintenance | | 529,964 | | - | | 529,964 |
| Taxes | | 774,539 | | - | | 774,539 |
| Office and administration | | 833,101 | | - | | 833,101 |
| Services received, rental of machinery & vehicles | | 2,189,524 | | - | | 2,189,524 |
| **Total** | **$** | **11,540,381** | **$** | **-** | **$** | **11,540,381** |

As all operating expenses are related to Petrolia Ecuador operations and such operation was acquired on January 14, 2022, there are no comparative figures.

***Gross Profit***

Gross profit for the three months ended June 30, 2022 was $12.5 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.

***General and Administrative***

The following schedule describe New Stratus' general and administrative expenses for the three months ended June 30, 2022 and 2021:

| **Three months ended June 30,** | **2022** | **2021** | **Change** |
|---|---|---|---|
| Insurances | **$ 200** | $ 3,767 | $ (3,567) |
| Legal and accounting | **406,755** | 74,861 | 331,894 |
| Management fees | **445,129** | 151,050 | 294,079 |
| Professional fees | **699,386** | 89,123 | 610,263 |
| Office and administration | **371,887** | 10,044 | 361,843 |
| Shareholders information and investor relations | **80,425** | 15,565 | 64,860 |
| | **$ 2,003,782** | $ 344,410 | $ 1,659,372 |

***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.

## ENVIRONMENT, SOCIAL AND GOVERNANCE

NSE's Environmental, Social and Governance (ESG) performance includes information of its operations in Ecuador and how it is helping 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 are sustainable.

**Environmental**

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

NSE continues making improvements in the design and efficiency of the operational processes in Ecuador, with the goal to enhance environmental performance. We are reviewing 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 (reduction of deforestation) incorporated from the beginning. Thus, the area occupied by industrial facilities, internal roads and right of way is only 0.26% (367 hectares) of the total concession area (138,800 hectares).

In addition, all produced gas is used for self-generation of electricity, which means a zero-flaring operation. Throughout the years, a series of improvements have been introduced in the efficiency of power generation processes that have resulted in the reduction of approximately 140,000 tons of $CO_2$ equivalent (eq) per year, since 2014. We continue looking for more efficiency ways to reduce $CO_2$.

Since the start up of operations, 100% of water produced has been re-injected into geological formations isolated from any body of water or freshwater aquifer. Hydrogeological studies carried out in 2022 have shown that after 28 years of operation, the injection of formation water has not affected any underground or surface freshwater resource and therefore has not affected the environment or communities living in the area of influence. Industrial effluents are treated and monitored before being discharged into the environment.

100% of the waste generated in the operation is 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 of the industry. Our operations have 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.

Current operations in Ecuador are subject to regular and frequent inspections, monitoring and audits, which are conducted by the Ministry of Environment. No environmental liabilities have been identified in the concession area.

Future projects consider, very prominently, the interconnection of blocks 16 & 67 with the interconnected electrical system of Ecuador (which is based on 85% of renewable hydroelectric sources), this will result in a reduction of approximately 70% (350,000 ton $CO_2$ eq.) of current emissions, becoming one of the projects with the greatest contribution in Ecuador and in the Region in the reduction of greenhouse gases and contribution to climate change as part of the NSE ESG strategy.

The remaining emissions (approximately 200,000 tons of $CO_2$ eq.) will be managed through an annual reduction and compensation program, which includes participation in own emission neutralization projects and participation in similar initiatives promoted by the Ministry of the Environment in Ecuador. (Zero Carbon Program).

New projects for the development of Blocks 16 and 67 do not consider the opening of new areas in the jungle and other interconnection projects with adjacent blocks will have a very small impact in this regard, it is estimated that the deforested area in the concession area will remain below 0.3%.

New Stratus, through the implementation of its HSE policy, maintains 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). In this way, it contributes to the fulfillment of the United Nations 2030 Sustainable Development Goals.

## 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 year 2022, there is 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.

In the first quarter of fiscal 2023 the work related to community management has been conducted according to the Annual Operation Plan, and the figures are as follows:

| Initiatives and actions | Budget | Total used | Balance | |
|---|---|---|---|---|
| Support to Waorani communities | 863,882.72 | 415,228.09 | 448,654.63 | 48.07% |
| Health | 36,500.00 | 18,595.25 | 17,904.75 | 50.95% |
| Education | 264,126.72 | 102,728.77 | 161,397.95 | 38.89% |
| Support to NAWE Organisation | 169,200.00 | 82,568.87 | 86,631.13 | 48.80% |
| Support to communities | 394,056.00 | 211,335.20 | 182,720.80 | 53.63% |
| Support to Kichwa communities | **215,989.56** | 109,382.36 | 106,607.20 | 50.64% |

*Health Program:*

NSE through its Ecuadorian subsidiary 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 support dental health care to the community.

Petrolia continues to support a medical dispensary facility to assure the best medical aid is available to the Waorani community.

*Education Program.*

NSE supports 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 first quarter of fiscal 2023 there were seventeen students from the communities who obtained economical support for them to study in different institutions. This support includes diet, 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 provide a free bus transportation 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 first quarter of fiscal 2023, food was delivered for the celebration of cultural and festive events, both in the Waorani communities located in Petrolia´s operations, as well as those that are not part of the area.

## 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 three months ended June 30, 2022, cash generated from operating activities was $9.2 million, compared to $0.4 million used during the comparative period. The Company's working capital position increased from $29.1 million on March 31, 2022 to $43.2 million on June 30, 2022. The main reason for the increase in working capital is the incorporation of Petrolia Ecuador, a revenue producing operation that has contributed to improving NSE's current asset position.

#### *Investing Activities*

Investing activities for the first three months of fiscal 2023 were $1.0 million, compared to $0.4 million used during the three months ended June 30, 2021. Investing activities for the first quarter of fiscal 2023 were principally composed property plant and equipment for approximately $0.7 million and $0.3 million in exploration and evaluation expenditure. The increase in investing activities of $788,847, when compared to the three months ended June 30, 2021 is due to an increase in purchases of property plan and equipment of approximately $690,000 and a decrease in exploration activities, which are capitalized, in Block VMM-18 of approximately $98,000.

***Financing activities:***

For the three months ended June 30, 2022, New Stratus Energy generated $2.3 million from financing activities, from the issuance of common shares on the exercise of options and warrants, compared to $Nil during the comparative period.

The capital transactions incurred were:

- On July 30, 2021, NSE announced the closing of a brokered private placement announced on June 3, 2021. The Company issued a total of 30,953,053 units at $0.30 for gross proceeds of $9,285,916. Each unit is composed by one common share of the Company and half a warrant. Each warrant is exercisable for a period of 24 months at a price of $0.45. The Company incurred $785,405 in costs associated with this financing, including 1,237,698 commission units, valued at $371,309.

- During the first quarter of fiscal 2023, 3,225,000 options were exercised for net proceeds of $322,500 and 13,926,240 warrants were exercised for net proceeds of $2,014,060.

***Available Sources of Liquidity***

The Company's cash and cash equivalents position as at June 30, 2022 increased to $26.4 million compared to $15.5 million during the comparative period. This was as a result of higher cash flows from the operations in Ecuador.

In addition, the Company held $510,539 and $510,745 in restricted cash at June 30, 2022 and March 31, 2022, respectively on letters of credit associated with project warranties and corporate credit cards.

***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.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| Property, plant, and equipment expenditures | **$ 690,393** | $ - |
| Exploration and evaluation asset expenditures | **295,654** | 197,200 |
| **Total capital investment** | **$ 986,047** | $ 197,200 |

(1) Capital investment is a non-GAAP measure. Additional information regarding this non-GAAP measure is provided in the Non-GAAP and Other Measures section of this MD&A.

See also "Investing Activities section above for an analysis of changes.

### *Funds Flow*

Funds flow provided by operations and free funds flow are new metrics effective June 30, 2022. Funds flow provided by operations is a non-GAAP financial measure. Management considers this metric to be a measure of the Company's ability to finance its capital programs and meet its financial obligations. It is defined as cash from (used in) operating activities excluding the settlement of asset retirement obligations and net changes in non-cash working capital.

Free funds flow is a non-GAAP financial measure. In management's view, this metric assists the Company in measuring its available funds after financing its capital programs. It is defined as funds flow provided by operations less capital investment and demonstrates the Company's ability to fund its return of capital, such as dividend payments or a non-course issuer bid without accessing outside funds.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Cash provided (used) by operating activities** | **$ 9,151,256** | $ (371,682) |
| (Add) deduct: | | |
| Settlement of asset retirement obligations | **(208,557)** | **-** |
| Net change in non-cash working capital | **(11,421,766)** | (35,816) |
| **Funds flow provided by operations[1]** | **20,781,579** | (335,866) |
| Capital Investment | **986,047** | 197,200 |
| **Free funds flow[1]** | **$ 19,795,532** | **$ 533,066** |

(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.

### *Non-Cash Working Capital*

| **Three months ended June 30,** | **2022** | **2021** | **Change** |
|---|---|---|---|
| Trade and other receivable | **$(12,173,851)** | $ 31,933 | $ (12,205,784) |
| Accounts receivable from consortium partners | **11,697,028** | - | 11,697,028 |
| Recoverable taxes | **(5,702,345)** | - | (5,702,345) |
| Inventory | **(254,651)** | - | (254,651) |
| Advances to suppliers and others | **32,520** | - | 32,520 |
| Other asset | **(5,419)** | (5,936) | 517 |
| Trade and other payables | **(3,594,109)** | (64,671) | (3,529,438) |
| Taxes payables | **(705,171)** | - | (705,171) |
| Employee benefit obligation | **571,770** | - | 571,770 |
| Due to related parties | **-** | 2,858 | (2,858) |
| Other liability | **15,548** | - | 15,548 |
| Defined benefit obligations | **(1,335,328)** | - | (1,335,328) |
| Decommissioning obligation | 32,242 | - | 32,242 |
| Total net change in non-cash working capital | **$(11,421,766)** | $ (35,816) | $ (11,385,950) |

Total net change in working capital was principally affected by the incorporation of Petrolia Ecuador on January 14, 2014, which affected working capital at all levels. The most significant impact can be seen at trade and other receivables, where an increase of $12.2 million occurred from the incorporation of Petrolia

Ecuador and its trade receivables in the consolidated balance sheets, as well as trade and other payables increased by $3.5 million for the same reason.

Other items that impacted the working capital increased, and for the same reason, were accounts receivables from consortium partners, representing funds receivables from cash calls to consortium partners and deferred benefits obligations, representing deferred employment obligations that Petrolia Ecuador has to its employees.

***Capital Management***

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order 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 June 30, 2022.

## SHARE CAPITAL

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

As of June 30, 2022, New Stratus had 120,493,505 common shares issued and outstanding valued at $32,414,868.

**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 first quarter of fiscal 2023, 13,926,240 common shares were issued on the exercise of warrants out of which 6,011,718 were paid by cancelling 1,113,282 warrants exercisable at $0.10 each, and 7,752,022 were exercised for cash proceeds of $1,965,410.

Subsequent to June 30, 2022, 188,999 common shares were issued on the exercise of warrants exercisable at $0.45 each, for cash proceeds of $85,050.

### Stock based compensation

On April 13, 2021, the Company granted incentive stock options to acquire a total of 1,290,000 common shares of the Corporation, valued at $178,427, to various directors, officers and consultants of the Corporation pursuant to the Corporation's stock option plan. Each stock option, vests immediately and is exercisable at a price of $0.24 per share for a period of five years from the grant date.

On August 11, 2021, 200,000 options exercisable at $0.10 and expiring June 7, 2022, were exercised and 60,000 options of this same denomination were cancelled.

On October 1, 2021, the Company granted an aggregate of 3,500,000 stock options to consultants of the Company, pursuant to the Company's Plan. The options vested on granting and are exercisable at $0.30 for a five-years period.

On December 6, 2021, the Company granted an aggregate of 50,000 stock options to a consultant of the Company, pursuant to the Company's Plan. The options are vested over a year from the grant date and are exercisable at $0.56 for a five-years period. The fair value of all these options was estimated at $16,278.

On April 28, 2022, the Company granted an aggregate of 2,340,000 stock options to employees, directors and consultant of the Company, pursuant to the Company's Plan. The options are vested over a year from the grant date and are exercisable at $0.65 for a five-years period. The fair value of all these options was estimated at $904,568.

During the first quarter of fiscal 2023, 3,225,000 options were exercised for net proceeds of $322,500.

### Fully diluted shares information

As at the date of this report there were:

| | |
|---|---|
| Common shares | 120,577,671 |
| Warrants | 21,945,783 |
| Stock based compensation | 8,505,000 |
| | 151,028,454 |

## INTERIM MD&A QUARTERLY INFORMATION

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

| | Fiscal 2023 | Fiscal 2022 | | | | Fiscal 2021 | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue | $ 33,226,400 | $ 25,712,107 | $ - | $ - | $ - | $ - | $ - | $ - |
| Gross Profit | $ 12,547,688 | $ 7,249,384 | $ - | $ - | $ - | $ - | $ - | $ - |
| Net income / (loss) | $ 14,012,354 | $ 18,117,270 | $ (1,848,213) | $ (916,003) | $ (514,293) | $ (500,069) | $ (316,479) | $ (249,180) |
| Basic income / (Loss) per share | $ 0.12 | $ 0.18 | $ (0.02) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.00) |
| Basic weighted average number of shares | 112,749,344 | 61,105,445 | 80,214,054 | 73,515,313 | 61,105,445 | 54,090,519 | 51,794,998 | 48,464,090 |
| Total assets | $ 113,386,768 | $ 104,177,863 | $ 7,902,532 | $ 9,216,244 | $ 1,700,380 | $ 2,055,703 | $ 2,661,500 | $ 1,479,922 |

## OUTLOOK

During the year ended March 31, 2022, the Company finalized the acquisition of Petrolia Ecuador S.A. (previously Repsol Ecuador S.A.). Management continues its negotiations with the Ecuadorian Ministry of Energy to extend the Service Oil Contract rights to the blocks, and its conversion into a Production Sharing Contract (PSC).

The Company also continued the evaluation of the VMM-18 block in Colombia, concluding its seismic data reprocessing, as well as environmental work including community and social program discussions.

New Stratus has been evaluating different projects in the Sub-Andean Basins and will continue with these evaluations during the current year 2022 and has initiated the evaluation of opportunities in Brazil.

## RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended June 30, 2022 to the risks and uncertainties as identified in the MD&A for the year ended March 31, 2022.

## NON-GAAP AND OTHER FINANCIAL MEASURES

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.

### Non-GAAP Measures

#### *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.

Adjusted EBITDA 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.

The following table provides a reconciliation of net income before taxes to adjusted EBITDA for the three months ended June 30, 2022 and 2021:

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Net income before income taxes** | **$ 9,762,462** | $ (514,293) |
| Add (deduct): | | |
| Other income | **(129,570)** | - |
| Foreign exchange loss (gain) | **531,744** | (8,544) |
| Stock-based compensation[1] | **262,968** | 178,427 |
| Financial cost | **116,292** | - |
| Depletion & Depreciation | **9,138,331** | - |
| **Adjusted EBITDA** | **$ 19,682,227** | $ (344,410) |

[1] The stock-based compensation are expenses incurred towards stock option plan for employees, officers, directors and consultants.

***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.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Cash provided (used) by operating activities** | **9,151,256** | (371,682) |
| Add (deduct): | | |
| Settlement of asset retirement obligations | **208,557** | - |
| Net change in non-cash working capital | **11,421,766** | 35,816 |
| **Funds flow provided by operations** | **20,781,579** | (335,866) |

***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 non-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.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Cash provided (used) by operating activities** | **$ 9,151,256** | $ (371,682) |
| Add (deduct): | | |
| Settlement of asset retirement obligations | **208,557** | - |
| Net change in non-cash working capital | **11,421,766** | 35,816 |
| Funds flow provided by operations | **20,781,579** | (35,866) |
| Capital Investment | **986,047** | 197,200 |
| **Free funds flow** | **$ 19,795,532** | **$ (233,066)** |

*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 and expenditures for exploration, production, and development, including growth plans and can be found on the Company's cash flow statement for the period.

Capital investment 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.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| Property, plant, and equipment expenditures | **$ 690,393** | $ - |
| Exploration and evaluation asset expenditures | **295,654** | 197,200 |
| **Total capital investment** | **$ 986,047** | $ 197,200 |

## Non-GAAP Ratios

### *Adjusted EBITDA per share (basic and diluted)*

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.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Net income before income taxes** | **9,762,472** | (514,293) |
| Add (deduct): | | |
| Other income | **(129,570)** | - |
| Foreign exchange loss (gain) | **531,744** | (8,544) |
| Stock-based compensation[1] | **262,968** | 178,427 |
| Financial cost | **116,292** | - |
| Depletion & Depreciation | **9,138,331** | - |
| Adjusted EBITDA | **19,682,227** | **(344,410)** |
| **Basic operating EBITDA income (loss per share)** | **$0.17** | ($0.01) |
| **Fully diluted operating EBITDA income (loss) per share** | **$0.15** | ($0.01) |

[1] The stock-based compensation are expenses incurred towards stock option plan for employees, officers, directors, and consultants.

### *Funds flow provided by operations per share (basic and diluted)*

Basic and diluted funds flow provided by operations per share is a non-GAAP ratio. It is calculated by dividing funds flow provided by operations by the weighted average number of basic and diluted shares outstanding. The Company presents basic and diluted funds flow provided by operations per share using the weighted-average shares outstanding to calculate per share amounts, consistent with the calculation of earnings per share.

| **For the three months ended June 30,** | **2022** | 2021 |
|---|---|---|
| **Cash provided (used) by operating activities** | **$ 9,151,256** | $ (371,682) |
| Add (deduct): | | |
| Settlement of asset retirement obligations | **208,557** | - |
| Net change in non-cash working capital | **11,421,766** | 35,816 |
| Funds flow provided by operations | **$ 20,781,579** | $ (335,866) |
| **Funds flow provided by operations (per share basic)** | **$0.18** | ($0.01) |
| **Funds flow provided by operations (per share diluted)** | **$0.16** | ($0.01) |

# OTHER FINANCIAL INFORMATION

## Critical Accounting Estimates

This MD&A should be read in conjunction with the Company's consolidated financial statements and related note 2 for the quarter ended June 30, 2022, wherein a more detailed discussion of accounting estimates is presented.

## Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2022, and ended on June 30, 2022, that materially affected or was reasonably likely to materially affect the Company's internal control over financial reporting.

## Change in Accounting Policy

The following are future accounting pronouncements issued and not yet effective as at June 30, 2022. The Company intends to adopt these standards as they become effective and is evaluating the impacts, if any, on the consolidated financial statements and does not expect a significant impact.

IAS 1 – Presentation of Financial Statements
Effective January 1, 2023, amendments to the classification of liabilities as non-current include the requirement that a right to defer settlement must have substance and exist at the end of the reporting period.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
Effective January 1, 2023, amendments to IAS 8 include additional clarification on the determination of changes in accounting policies from changes in accounting estimates. The development of accounting estimates includes selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique.

IAS 16 – Property, plant, and equipment
Effective January 1, 2022, proceeds from selling items before property, plant and equipment is available for use is recognized in profit or loss, together with the cost of producing those items.

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Effective January 1, 2022, IAS 37 requires the recognition of onerous contracts when the unavoidable costs of meeting obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation of penalties arising from the failure to fulfill it. Amendments include clarification on incremental costs and the allocation of other direct costs as costs included of fulfilling a contract.

## Off Balance Sheet Arrangements

There are no off-balance sheet arrangements at June 30, 2022, nor have any such arrangements been entered into by the Company as of the date of this MD&A.

## Transactions With Related Parties

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

| For the three months ended June 30, | 2022 | 2021 |
|---|---|---|
| Salaries and management fees | **$ 424,104** | $ 150,050 |
| Director fees | **38,393** | - |
| Share based payments | **125,634** | 76,065 |
| **Total** | **$ 588,131** | $ 227,115 |

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.

## 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 perform seismic reprocessing valued at USD $250,000 and drill an exploration well valued at USD $3 Million. The ANH had confirmed the extension until June 18, 2022 and the Company is waiting for a reply on the additional extension segment requested.

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").

### *Consulting agreements*

The Company is obligated under a consulting agreement in the amount of USD 5,000 per month until May 31, 2026. Also, the Company is obligated to paid $500,000 in three equal installments ($166,667 on closing date, and 6 and 12 months after the closing $166,667 each one) subject to the success of the closing of the transaction with Repsol.

### *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.

### *COVID-19 Pandemic Considerations*

In early 2020, the world was impacted by COVID-19, which was declared a pandemic by the World Health Organization. The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes. The continued spread of COVID-19 nationally and globally could have an adverse impact on the Company's business, operations and financial results, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on the Company's business, operations or financial results, including the Company's ability to secure financing; however, the impact could be material.

**Subsequent Events**

***Warrants exercised***

Subsequent to June 30, 2022, 188,999 common shares were issued on the exercise of warrants exercisable at $0.45 each, for cash proceeds of $85,050.

## 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.

## 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 |