NEW STRATUS ENERGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023 AND NINE MONTHS ENDED DECEMBER 31, 2022

NEW STRATUS ENERGY INC.

Table of Contents

Page 1-3	**Audit Report**
Page 4	**Consolidated Statements of Financial Position**
Page 5	**Consolidated Statements of Operations and Comprehensive Income (Loss)**
Page 6	**Consolidated Statements of Changes in Equity**
Page 7	**Consolidated Statements of Cash Flows**
Pages 8-33	**Notes to the Consolidated Financial Statements**

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Independent Auditor's Report

To the Shareholders of New Stratus Energy Inc.

Opinion

We have audited the consolidated financial statements of New Stratus Energy Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of operations and comprehensive loss, changes in equity and cash flow for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2023, and its financial performance and cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 31 of the consolidated financial statements, which explains that certain comparative information presented:

- for the nine months ended December 31, 2022 has been restated.
- As at April 1, 2022 has been derived from the statement of financial position as at March 31, 2022 (not presented herein).

Our opinion is not modified in respect of this matter.

The consolidated financial statements for the nine months ended December 31, 2022 and the year ended March 31, 2022 (not presented herein but from which the comparative information as at April 1, 2022 has been derived), excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 1, 2023.

As part of our audit of the consolidated financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information:

- for the nine months ended December 31, 2022
- as at April 1, 2022

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements:

- for the nine months ended December 31, 2022
- as at April 1, 2022

Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Completeness of Other Liabilities

Description of the key audit matter

We refer to Notes 3 and 16 of the consolidated financial statements whereby the Group recognizes $19.4 million resulting from a final and definitive ruling by the National Court of Justice of Ecuador concerning previous years' tax claims. This ruling granted the Group the right to a previously waived tax credit which was collected by the Group in fiscal 2023.

The accounting for other liabilities requires significant judgment to determine both the likelihood and the timing of potential future outflows. This judgment involves interpreting past waivers, legal agreements, and tax laws, and assessing potential economic events that could impact the Group. The complexity and significance of the judgments involved make this a key audit matter.

How the matter was addressed in the audit

We performed the following procedures:

- We obtained an understanding of management's processes and controls surrounding the recognition and measurement of liabilities, and we tested the design and implementation of these controls.
- We inspected signed copies of past waivers and the calculations of the provision for other liabilities related to taxes, as collected from the Tax Authorities in Ecuador.
- We engaged in discussions with management to understand their rationale and supporting documentation for the liability recognition and corroborated their explanations with responses from the Group's legal counsel.
- We assessed the appropriateness of the accounting treatment of these liabilities as of December 31, 2023, to ensure compliance with applicable accounting standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis for the year ended December 31, 2023.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Justin Friesen.

Chartered Professional Accountants

BDO Canada LLP

Calgary, Alberta
April 29, 2024

NEW STRATUS ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	Note	December 31, 2023	December 31, 2022 (Restated Note 31)	April 01, 2022 (Restated Note 31)
ASSETS				
Current assets				
Cash and cash equivalents	5	**$ 33,114,273**	$ 20,650,172	$15,474,166
Restricted cash	5	**510,539**	510,539	510,745
Trade and other receivables	6	**20,631**	9,332,452	9,064,348
Accounts receivable from consortium partners		**-**	6,892,209	37,285,277
Recoverable taxes	8	**7,434,764**	13,039,665	6,963,940
Inventory		**-**	-	2,921,023
Prepaid and advances payments	9	**6,941,808**	442,658	1,365,056
Property, plant, and equipment		**-**	-	26,652,038
		48,022,015	50,867,695	$100,236,593
Non-current assets				
Property, plant, and equipment	10	**629,306**	1,024,856	-
Recoverable taxes		**-**	16,619,381	2,240,368
Other assets		**7,057**	414,950	400,902
		636,363	18,059,187	2,641,270
Total assets		**$ 48,658,378**	$ 68,926,882	$102,877,863
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	12	**2,374,147**	24,237,373	27,702,752
Taxes payable		**121,149**	3,106,552	1,340,422
Employee benefit obligation	13	**483,446**	1,076,723	2,031,940
Defined benefit obligations	14	**854,911**	-	30,468,079
Asset retirement obligation	15	**102,392**	5,751,312	10,847,772
		3,936,045	34,171,960	72,390,965
Non-current liabilities				
Trade and other liabilites	-	**-**	-	2,999,609
Other liabilities	16	**22,662,562**	335,154	498,185
		22,662,562	335,154	3,497,794
Total liabilities		**26,598,607**	34,507,114	75,888,759
Shareholders' equity				
Share capital	17	**31,828,122**	31,227,085	29,153,448
Warrants	17	**1,142,388**	1,260,010	2,789,704
Contributed surplus		**4,316,215**	4,316,215	1,476,133
Cumulative translation adjustment		**(177,408)**	1,315,932	(371,073)
Deficit		**(15,049,546)**	(3,699,474)	(6,059,108)
Total equity		**22,059,771**	34,419,768	26,989,104
Total liabilities and equity		**$ 48,658,378**	$ 68,926,882	$102,877,863

Commitments and Contingencies (Note 29) and Subsequent Events (Note 32)

Approved by the Board of Directors

See accompanying notes to the consolidated financial statements.

NEW STRATUS ENERGY INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in Canadian dollars)

	Note	**For the year ended December 31, 2023**	For the nine months ended December 31, 2022
Revenue			
Services Revenue	18	$ -	$ 83,370,906
Operator fees		-	688,272
Technical Services		-	9,245,666
		-	93,304,844
Operating cost and expenses:			
Operating expenses	19	-	53,382,575
Depletion and depreciation	10	-	21,807,111
Gross profit		-	18,115,158
General and administrative	20	**17,108,396**	8,997,959
Financial (income) cost, net	21	**727,127**	95,995
Foreign exchange gain		**(152,374)**	(365,910)
Stock-based compensation	17	-	2,802,659
Contingent payment to Repsol	12	-	3,386,000
Write off receivables and deposits	7,9	**670,005**	5,296,387
Write off capitalized exploration expenditure	11	-	2,240,368
Other income	22	**(7,006,965)**	(1,136,533)
Net (loss) income before income taxes		**(11,346,189)**	(3,201,767)
Income tax (expense) recovery	23	(3,883)	5,561,401
Net (loss) income		**$ (11,350,072)**	$ 2,359,634
Other comprehensive income (loss):			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of the companies' subsidiaries.		**(1,493,341)**	1,687,005
Net (loss) income and comprehensive (loss) income		**$ (12,843,413)**	$ 4,046,639
Net income (loss) per share			
Basic	24	**$(0.09)**	$0.02
Diluted	24	**$(0.09)**	$0.02

See accompanying notes to the consolidated financial statements.

NEW STRATUS ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in Canadian dollars)

	Note	**For the year ended December 31, 2023**	For the nine months ended December 31, 2022
Share capital			
Balance, beginning of the year		**$ 31,227,085**	$ 29,153,448
Shares repurchase	17	**-**	(2,016,571)
Shares issued on exercise of warrants	17	**593,837**	3,618,356
Shares issued on exercise of options	17	**7,200**	471,852
Balance, end of the year		**31,828,122**	31,227,085
Warrants			
Balance, beginning of the year		**1,260,010**	2,789,704
Fair value of warrants exercised	17	**(117,622)**	(1,342,918)
Warrants expired	17	**-**	(186,776)
Balance, end of the year		**1,142,388**	1,260,010
Contributed surplus			
Balance, beginning of the year		**4,316,215**	1,476,133
Warrants expired	17	**-**	186,776
Fair value of options exercised	17	**-**	(149,353)
Stock-based compensation	17	**-**	2,802,659
Balance, end of the year		**4,316,215**	4,316,215
Cumulative translation adjustment			
Balance, beginning of the year		**1,315,932**	(371,073)
Translation reserve		**(1,493,340)**	1,687,005
Balance, end of the year		**(177,408)**	1,315,932
Accumulated deficit (Restated – Note 31)			
Balance, beginning of the year		**(3,699,474)**	(6,059,108)
Net income (loss) for the year		**(11,350,072)**	2,359,634
Balance, end of the year		**(15,049,546)**	(3,699,474)
Total shareholders' equity		**$ 22,059,771**	$ 34,419,768

See accompanying notes to the consolidated financial statements.

NEW STRATUS ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

	Note	For the year ended December 31, 2023	For the nine months ended December 31, 2022
Operating activities			
Net (loss) income		**$ (11,350,072)**	$ 2,359,634
Adjustment for non-cash items:			
Depletion and depreciation	10	**504,352**	21,807,111
Change in estimate of asset retirement obligation	15	**(5,204,913)**	-
Write off accounts receivable		**670,005**	5,296,387
Foreign currency exchange		**(152,374)**	(365,910)
Stock based compensation	17	**-**	2,802,659
Write off capitalized exploration expenditure	11	**-**	2,240,368
Payments of employee benefit obligations	13	**(1,358,194)**	(9,087,192)
Payments of defined benefit obligations	14	**-**	(33,625,579)
Payments of asset retirement obligation	15	**(413,478)**	-
Tax credit refund	16	**19,399,222**	-
Net change in non-cash working capital items	27	**25,356,099**	12,212,050
		27,450,647	3,639,528
Investing activities			
Purchase of property, plant, and equipment	10	**(112,186)**	(1,098,008)
Purchase price consideration paid for business combination	4	**(6,772,000)**	-
Payments to Repsol	12	**(7,139,042)**	-
		(14,023,228)	(1,098,008)
Financing activities			
Warrants exercised	17	**476,215**	2,275,438
Stock based compensation exercised	17	**7,200**	322,500
Repurchase of shares	17	**-**	(2,016,571)
		483,415	581,367
Net change in cash and restricted cash		**13,910,834**	3,122,887
Impact of foreign exchange on foreign currency-denominated cash balances		**(1,446,733)**	2,052,914
Cash and restricted cash, beginning of the year		**21,160,711**	15,984,911
Cash and restricted cash, end of the year		**$ 33,624,812**	$21,160,712

See accompanying notes to the consolidated financial statements.

NOTE 1 – REPORTING ENTITY

New Stratus Energy Inc. ("**New Stratus**" or the "**Company**" or the **"Corporation"**), is a publicly traded company domiciled in Canada. The Company was incorporated on April 12, 2015, pursuant to the Business Corporations' Act (Alberta). The Company's registered office is 1500, 850 2nd Street S.W., Calgary, Alberta, Canada.

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

On January 14, 2022, the Company acquired 100% of the shares in Petrolia Ecuador S.A. (Spain) (previously Repsol Ecuador S.A.), a Spanish incorporated company (see Note 4). Petrolia Ecuador S.A. operated Blocks 16 and 67 Oil Consortiums under Service Contract agreements in Ecuador through its branch, Petrolia Ecuador S.A. (the "Branch").

During the three months ended December 31, 2023, the Company acquired two special purpose companies to hold its future operations in Mexico and Venezuela.

NOTE 2 - BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB") as at and for the year ended December 31, 2023 and the nine months ended December 31, 2022 and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 below. These consolidated financial statements were approved by the Board of Directors on April 29, 2024.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for where the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on financial instruments accounting policy. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The financial statements consolidate the accounts of New Stratus Energy Inc. and its subsidiaries. Subsidiaries are those entities (including special purpose entities) which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by New Stratus and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

The consolidated financial statements of the Company on December 31, 2023, include the Company and its subsidiaries, Petrolia SARL, New Stratus Minerals Inc., Petrolia Ecuador, S.A. and its Branch, New Stratus Latin America, and New Stratus Power Inc and Operadora NSE Mexico. The Company is primarily in the business of acquiring, exploring, and developing oil and gas properties, for the purpose of producing oil and gas, principally in South America.

Change in year-end

The fiscal year end of the Company was changed from March 31 to December 31 in order to align the Company's year-end with that of comparative companies and its subsidiaries, which operate on a calendar fiscal year end. Accordingly, the current consolidated financial statements are prepared for the year ended December 31, 2023, and compared to the nine months ended December 31, 2022.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. The items in the Company's financial statements are expressed, unless otherwise indicated, in Canadian dollars.

Transactions in foreign currencies are translated into the functional currency using the exchange rates in effect at the dates of the transactions. Exchange gains and losses resulting from the settlement of such transactions are recognized in the statement of income, except when they are deferred in equity in transactions that qualify as cash flow hedges.

Going Concern

The Company's consolidated financial statements for the year ended December 31, 2023, have been prepared on a going concern basis, which assumes that the Company have adequate resources to continue in operational existence for the foreseeable future.

Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgments

i. Functional currency: The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events, and conditions relevant to each entity.

ii. Impairment: Judgments are required to assess when impairment indicators are evident and impairment testing is required.

iii. Exploration and evaluation assets: The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

iv. Business combinations: Also require judgements, estimates and assumptions in regard to contingent consideration, and fair value estimates on assets purchased and liabilities assumed. If determined to be a business combination the Company applies the acquisition method to account for the recognition and measurement of identifiable assets acquired, the liabilities assumed, any non controlling interest and, if applicable, goodwill or a gain on the transaction. Significant changes could occur which could materially impact the assumptions and estimates made in these consolidated financial statements. The business combinations of the Company are discussed in Note 4.

v. Contingencies : By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Key sources of estimation uncertainty

i. Crude oil reserves: Proved and probable reserves are estimated quantities of crude oil determined based on studies performed by independent professionals. Proved plus probable developed reserves are those that can be recovered through existing wells with existing equipment and operating methods. Estimates of oil reserves are not exact and are subject to future revision. Accordingly, financial accounting estimates (such as the standard estimate of discounted cash flows and amortization of exploration and production assets) that are based on proved and probable reserves and proved, and probable developed reserves are also subject to change. The estimation of reserves is a key decision-making process for the Company. Changes in reserve volumes could have a significant impact on the Company's results.

ii. Decommissioning provision: Amounts recorded for the Company's decommissioning provision require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third-party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

iii. Income taxes: Management evaluates tax positions, annually or when circumstances require, which involves judgment and could be subject to differing interpretations of applicable tax legislation. The company recognizes a tax provision when a payment to tax authorities is considered probable. However, the results of audits and reassessments and changes in the interpretations of standards may result in changes to those positions and, potentially, a material increase or decrease in the company's assets, liabilities and net earnings.

Adoption of amended accounting standards

The Company adopted the following amendments to IFRS Accounting Standards that are mandatorily effective for accounting periods beginning on or after January 1, 2023. Their adoption has not had a material impact on disclosures or amounts reported in these consolidated financial statements.

i. IAS 1 Presentation of Financial Statements: Amendments to IAS 1 require that companies disclose their material accounting policies rather than their significant accounting policies and explain how a company identifies its material accounting policies.

ii. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments to IAS 8 replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error.

iii. IAS 12 Income Taxes: Amendments to IAS 12 relate to deferred tax assets and liabilities arising from a single transaction and clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

New and Revised IFRS Accounting Standards Issued but not yet Effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective and had not yet been adopted by the Company:

- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 Non-current Liabilities with Covenants
- IFRS 18 Presentation and Disclosure in Financial Statements

The Company do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods

NOTE 3 – **SUMMARY OF MATERIAL ACCOUNTING POLICIES**

An accounting policy is considered material to the Company if it provides information to facilitate the understanding of other material information reported and disclosed in the Company’s consolidated financial statements. Accounting policy information may be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. The Company’s material accounting policies are as follows:

Business Combination

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Parent. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognized in the consolidated statement of income immediately. Transaction costs are expenses as incurred, except if related to the issue of debt or equity securities.

Fair value

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurement for invested assets are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Levels 1, 2 or 3). The three levels are defined based on the observability of significant inputs to the measurement, as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as “active” if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Company uses valuation techniques that maximizethe use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Financial Instruments

The Company classifies its financial instruments in the following measurement categories:

a) subsequently measured at fair value (either through profit or loss ("FVTPL") or other comprehensive income ("FVOCI"); and
b) subsequently measured at amortized cost.

The classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, other non-current assets, restricted cash, trade and other payables, contingent consideration liability. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in profit or loss.

Subsequent to initial recognition, the Company's non-derivative financial instruments are measured as described below

a) Financial assets

The classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

i) Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
ii) Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
iii) Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.
iv) Financial assets are initially recognized at fair value and subsequently measured at amortized cost: Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Cash, Restricted cash, Trade and other receivables, Recoverable taxes, Prepaid and advances payments and Other assets have been classified as amortized cost.

b) Financial liabilities

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

i) Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of income (loss) and comprehensive loss. Trade and other payables, Employee and benefit obligation, Taxes payable, Other liabilities have been classified as amortized cost.
ii) Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the consolidated statement of income (loss) and comprehensive loss and the total gain or loss attributed to the change of the Company's credit risk, recorded in the consolidated statement of other comprehensive income (loss). Defined benefit obligation and Asset retirement obligation have been classified at fair value through profit or loss
iii) Financial liabilities are derecognized when the obligation in discharged, cancelled, or expired.
iv) A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of income (loss) and comprehensive income (loss).

c) Modification/Extinguishment

The impact of amendments to terms of financial instruments such as loans payable are assessed to determine if the change is a modification or an extinguishment. The Company reviews both quantitative and qualitative factors in determining whether the changes in terms are substantial and extinguishment accounting is required.

Qualitative factors involve assessing whether the amendments represent a significant change in the terms and conditions of the instruments, including changes in conversion price, settlement options or introducing variability in such terms such that the accounting treatment of the instrument changes. A gain or a loss is recorded in the consolidated statement of income (loss) and comprehensive income related to the modification or extinguishment. Under extinguishment accounting, the old instrument is derecognized, and the amended instruments are recognized at the estimated fair value of the date the amendment was substantially effective.

Impairment of financial assets carried at amortized cost - expected credit loss allowances

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired under the expected credit loss ("ECL") model. Loss allowances are measured based on (i) ECLs that result from possible default events within the 12 months after the reporting date ("12-month ECL"), or (ii) ECLs that result from all possible default events over the expected life of a financial instrument ("lifetime ECLs"). On December 31, 2022, the Company assessed its financial assets for impairment and recorded an ECL of $232,000

The amortized cost of the financial asset is reduced by impairment losses at an amount equal to the lifetime expected credit losses. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statements of income (loss) and comprehensive income (loss). When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The Company does not have any other non-financial assets.

Cash and cash equivalents and restricted cash

Includes cash on hand, demand deposits in banks, other highly liquid equivalents, and bank overdrafts. The fair value of cash and cash equivalents approximated their carrying value due to their liquidity and relatively short terms to maturity, respectively**.**

Shares in net assets and results of the joint operation

In Ecuador, the Company's interest in the net assets and results of the joint operation of Oil Consortium Block 16 and Oil Consortium Block 67 is accounted for using the proportional consolidation method. Under this method, the Company's interest in the revenues, costs and expenses, assets, liabilities, and cash flows derived from the joint operation of such Consortium are recognized line by line in the Company's financial statements.

Property, plant, and equipment

The Company classifies its property, plant, and equipment in the following categories: "Oil and gas production investments" and "other assets". Management determines the aforementioned classification at the date of initial recognition and its allocation depends on the function for which it was acquired, considering that it is probable that future economic benefits will be derived from these costs and the cost of the items can be measured reliably.

The main characteristics by category are described below:

Oil and gas production investments

Exploration and production operations are recorded using accounting policies based mainly on the successful efforts method. In accordance with these policies, the accounting treatment of the different costs incurred is as follows:

a. Costs originated in the acquisition of interests in areas with proved reserves are capitalized when incurred.
b. Drilling costs for wells that have resulted in a positive discovery of commercially exploitable reserves are capitalized.
c. Wells qualify as "commercially exploitable" only if they are expected to generate a volume of reserves that justifies their commercial development considering the conditions existing at the time of recognition.
d. Development costs incurred to extract proved reserves and for treatment, transportation and storage of crude oil are capitalized.
e. The costs related to the retirement of assets originate from Management's best estimate of the costs at present value to be incurred to restore at the end of the contracts and the operating and/or environmental conditions that may have been caused in the Blocks during the development of hydrocarbon exploitation activities. This estimate is reviewed

periodically and is amortized by units of production following the guidelines established for exploration and production investments.

Investments capitalized according to the above criteria are amortized in accordance with the following methods

Investments corresponding to the acquisition of total proved and probable reserves are amortized over the estimated commercial life of the field based on the relationship between the production of the period and the total proved and probable reserves of the field at the beginning of the amortization period certified by the Ministry of Energy and an independent professional.

Investments in productive wells are amortized over the estimated commercial life of the field based on the relationship between production for the period and the proved developed and probable reserves updated at the beginning of each quarter. Investments in facilities (platforms, transportation facilities, separation, measurement, and storage plants, among others) are amortized over the estimated commercial life of the field based on the relationship between production for the period and the total proved reserves of the field at the beginning of the amortization period. Changes in reserve estimates are updated quarterly for the amortization calculation.

The unit of production criterion used for the calculation of amortization and for the evaluation of the recoverability of investments, considers the total amount of reserves expected to be produced with the investments made (proved plus probable reserves or proved plus probable developed reserves). Management believes that this amortization ratio provides a better reflection of the pattern of consumption of the economic benefits of this asset class.

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the acquisition date fair value of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as exploration and evaluation ("E&E") assets. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the consolidated statements of operations and comprehensive loss.

Acquisition costs, including general and administrative costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Where the Company's exploration commitments for an oil and gas property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the property to the extent costs are incurred. The excess, if any, is recorded to the statement of loss.

Impairment

E&E assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Industry specific indicators for an impairment review arise typically when one of the following circumstances applies:

- Substantive expenditure on further E&E activities is neither budgeted nor planned.
- Title to the asset is compromised.
- Adverse changes in the taxation and regulatory environment; and
- Adverse changes in variations in commodity prices and markets.

Once the technical feasibility and commercial viability of the extraction of mineral resources and oil and gas properties in an area of interest are demonstrable, E&E assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas property and development assets within property and equipment. To date, none of the Company's oil and gas properties has demonstrated technical feasibility and commercial viability.

The recoverability of the carrying amount of any E&E assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Fixed assets

Fixed assets are recorded at historical cost, less accumulated depreciation, and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition or construction of the asset. Post- purchase or post-acquisition expenditures are capitalized only when it is probable that future economic benefits associated with the investment will flow to the operation and the costs can be reasonably measured.

Other subsequent expenditures for repairs or maintenance are expensed as incurred. Depreciation of fixed assets is calculated on a straight-line basis based on the estimated useful lives of the assets or significant identifiable components that have different useful lives and does not consider residual values, since it is estimated that the realizable value of its fixed assets at the end of their useful lives will be immaterial. Estimates of useful lives and residual values of property, plant and equipment are reviewed and adjusted, if necessary, at each balance sheet date.

The estimated useful lives of fixed assets are as follows:

Asset	Method	Depreciation Period
Vehicles	Straight-line	5 years
Furniture's and equipment	Straight-line	10 years
Office equipment	Straight-line	10 years
Computer equipment	Straight-line	3 years

Stock options and warrants

The fair values of stock options and warrants are measured based on a Level 2 fair value measurement using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, forfeiture rate, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

Impairment indicators and calculation of impairment

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that there are indicators of impairment in the property, plant, and equipment as well as in exploration and evaluation assets. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or increases in estimates of costs required to reach technical feasibility and related estimates of proved and probable reserves.

Asset retirement obligation

In accordance with the provisions of the Service Contracts in Ecuador and the Cost Accounting Regulations applicable to Service Contracts, the Contractors must make the necessary provisions for the closure, termination or partial or total abandonment of operations and for the environmental remediation of the areas affected by the hydrocarbon activity.

The present value of the costs for these obligations is capitalized together with the assets that gave rise to them (exploration and production investments) and amortized in the same manner. The liability is recognized based on management estimates, substantiated by studies carried out by internal technical specialists. The liability will decrease to the extent that the costs are incurred, until the date of termination of the contracts. If an adjustment to the estimate results in the accumulated amortization exceeding the asset, the difference is charged to the productive asset that generated the provision.

Based on technological changes and variations in the recovery costs necessary to protect the environment, the operation periodically reassess the future costs of the asset retirement obligation.

Employee benefits - Ecuador

Current benefits: These are recorded under employee benefits in the consolidated statement of financial position and correspond mainly to:

- Additional salaries (denominated 13th and 14th salaries) and reserve funds are provided for and paid in accordance with current Ecuadorian legislation.
- Liabilities related to management achievement bonuses are recognized based on human resources models that measure accountability, development, and achievements. Performance is evaluated annually based on unit objectives and individual achievements.

Non-current benefits - Ecuador

Obligation for defined benefits: Includes bonus for termination, bonus for severance, and employer retirement pension, all of them regulated and required by Ecuadorian labor laws.

Termination of employment initiated by either the employer or the worker, the employee will receive as compensation, the equivalent of twenty-five percent of the last month remuneration for each year of service provided by the employee to the company. The bonus for severance applies when the Branch ends the labor contract with no cause, paying the equivalent of one month of salary for each year of services.

Finally, the employer retirement pension is a reserve created for those employees who had completed 25 years of service with the Branch.

These reserves are determined annually based on actuarial studies carried out by an independent professional and are reserved against the comprehensive results of the year, applying the Projected Unit Credit Costing method and represent the present value of the obligations at the date of the statement of financial position, which is obtained by discounting the cash outflows at a rate of 5.84% in 2023 and 0.95% for 2022, which was determined by applying the rate of high-quality US corporate bonds, which are denominated in the same currency in which the benefits will be paid and have terms that approximate the terms of the pension obligations until maturity.

The actuarial hypotheses include variables such as, in addition to the discount rate, mortality rate, age, gender, years of service, remuneration, future increases in remuneration, turnover rate, among others.

Actuarial gains and losses arising from adjustments based on experience and changes in actuarial assumptions are charged to equity as other comprehensive income in the period in which they arise.

Other liabilities

The Company records provisions when: (i) it has a present obligation, whether legal or implicit, as a result of past events, (ii) it is probable that an outflow of resources will be necessary to settle the obligation and, the amount has been reliably estimated.

The amounts recognized as a provision are management's best estimate at the closing date of the financial statements, of the disbursements necessary to settle the obligation.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Revenue recognition

Revenue is recognized when the amount can be measured reliably, it is probable that future economic benefits will flow to the Company and the specific criteria for each type of revenue are met, as described below. The amount of revenue cannot be measured reliably until all contingencies related to the provision of the service have been resolved. The Company bases its estimates on historical results, considering the type of client, transaction, and specific conditions of each agreement.

Stock based compensation

As the fair value of the services rendered cannot be estimated reliably, the Black-Scholes option valuation model has been used to estimate the fair value of equity instruments granted. The grant date fair value of options granted to employees, warrants, and non-employees is recognized as compensation expense, within general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

(in Canadian dollars except as otherwise noted)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net income (loss) per share amounts

The Company presents basic and diluted earnings per share data for its common shares. Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of common shares outstanding.

Diluted earnings per share is determined by adjusting the net earnings attributable to equity holders of the Company and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares. The calculation of diluted earnings per share assumes that outstanding options which are dilutive to earnings per share are exercised and the proceeds are used to repurchase

shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share.

Segment reporting

As of December 31, 2023, the Company operated in three reportable operating segments – the exploration and evaluation of oil and gas properties in Ecuador, Colombia and the third being the corporate administration office in Canada responsible for oversight and financing for the group. Operating segments are defined as components of an enterprise for which separate financial information is available. Such financial information is evaluated regularly by the Chief Executive Officer, who is responsible for deciding how to allocate resources and in assessing performance.

NOTE 4 – BUSINESS COMBINATION

Petrolia Ecuador S.A.

On January 14, 2022, the Company acquired 100 percent of the shares of Petrolia Ecuador S.A. for $7.2 million (USD $5.0 million) (the "Petrolia Acquisition"), comprised of a $6.2 million (USD $5.0 million) purchase price, initially payable in two equal instalments of $3.1 million (USD $2.5 million) on the first and second anniversary dates of the closing of the transactions, respectively, and a preliminary closing adjustment of $1.0 million (USD $0.8 million.) This purchase price obligation has been discounted in the consolidated financial statements to its net present value.

Acquisition costs incurred for the Petrolia Acquisition were $3.0 million during the year ended March 31, 2022. The Petrolia Acquisition resulted in a bargain purchase gain of $18.0 million that is mainly attributed to an increase in the valuation of proven and probable oil reserves from the closing of the transaction compared to those established in an independent reserves valuation effective November 30, 2021.

The Petrolia Acquisition has been accounted for as a business combination under IFRS, using the acquisition method based on net asset and liability fair values as follows using discount rates based on what a market participant would have paid. The purchase price allocation was:

	January 14, 2022
Cash purchase price consideration as per purchase and sale agreement (USD $5 million)	6,166,000
Closing adjustments (USD $765K)	959,692
	7,125,692
Fair value of net identifiable assets acquired:	
Cash	6,975,087
Working capital	25,324,038
Property, plant, and equipment (Note 10)	34,323,827
Asset retirement obligations (Note 15)	(10,854,410)
Defined benefit obligation (Note 14)	(30,632,298)
	25,136,244
Bargain purchase gain	(18,010,552)
Total	**7,125,692**

(in Canadian dollars except as otherwise noted)

(1) Purchase Price consideration has been discounted to its net present value considering a 1.13% and 1.15% discount rate for the installments due 12 and 24 months from closing, respectively.

(2) Working capital mainly included inventory, trade receivable and other, recoverable taxes, offsetting by trade and other payables, employee benefit obligation payable, taxes payable among others.

(3) As a result of the Petrolia Acquisition the Company performed an analysis on the fair value of the Property, Plant and Equipment. The Company evaluated the cash flows to be generated by Block 16 and Block 67 until December 31, 2022, as this represented the end of the contractual period. The Company considered for this analysis: the reserves to be extracted from Block 16 and 67; a Sproule Price WTI Forecast @12/31 of $73/bbl. a discount factor of 20.0%; and an estimation of operational costs and taxes to be incurred in 2022.

Petrolia Acquistion amendment

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

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

Service contracts and Joint operation agreement

Service contracts agreements for two oil production blocks in Ecuador identified as Block 16 and Block 67 (the "Service Contracts"), were signed between Petrolia Ecuador S.A. (formerly known as Repsol Ecuador S.A.), and other companies making up the consortiums for each block (the "Consortiums"), and the Ecuador Ministry of Energy. These Service Contracts are a service oil contract where the Consortiums were entitled to collect a fixed service tariff for each delivered barrel. The Consortiums received the total service tariff when the available income was equal or higher than the tariff; otherwise, the consortiums were entitled to collect only the available income. In this case, this difference denominanted "Carry Forward", could be collected, depending on oil prices, until contract termination. See Note 18.

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). Petrolia Ecuador S.A. has been operating in the country since 2001.

Currently, after several assignments of rights and obligations, the companies that signed the Service Contracts, among them Petrolia Ecuador S.A. (then Repsol Ecuador S.A.), formed the Block 16 Oil Consortium and the Tivacuno Block Oil Consortium or Block 67, which are structured as follows

	Shares of Stock
Petrolia Ecuador S.A.	35%
Overseas Petroleum and Investment Corp.	31%
Amodaimi – Oil Company, S.L.	20%
CRS Resources Ecuador LDC.	14%

By means of a joint operating agreement, the members of the Consortiums have appointed Petrolia Ecuador S.A. as operator for the exploration and exploitation of Block 16 and Block 67.

This agreement establishes that the members of the Consortiums maintain the right over the assets, the obligation over the liabilities, the benefit of the revenues and the responsibility for the costs and expenses of the joint operation in accordance with their portion of participating interest

Extension of service contract agreement – Blocks 16 and 67 – Ecuador

On December 5, 2022, the Company announced that following a meeting in Quito, Ecuador among the Corporation and the President of Ecuador and Minister of Energy, the Government of Ecuador informed the Corporation that it does not intend to extend nor migrate the service contracts for Blocks 16 & 67. Government of Ecuador decided that Company shall revert the blocks to the Ministry of Energy and Mines without starting any negotiation with the Company.

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

(in Canadian dollars except as otherwise noted)

Termination of the Service Contracts

Due to the event described above, on December 31, 2022, the Company transferred to the Ministry of Energy and Mines, at no cost and in good operational conditions, all the facilities and infrastructure of Blocks 16 & 67, in accordance with the Hydrocarbons Law and regulations. On the service contract termination date, the Company has terminated its contracts with all its employees, paying their severance as per the labor law and terminated all suppliers' contracts.

The hydrocarbon regulations stipulate that a minute (the "Minute") shall be executed between the Ministry of Energy and the Company, reflecting the actual transfer of the operation of the Blocks and the delivery of all the facilities on the service contract termination date. This Minute shall also address the reversion process that was led by the hydrocarbons authorities and summarizes the activities carried out by five commissions covering technical, social - environmental, assets, legal and economic issues. All individual commissions have signed off and no significant concern remains unsolved. The final minute was signed on July 26, 2023.

The Company has concluded most of the required environmental audits, as established by local law and the service contracts, including a specific environmental reversion audit. None of these audits have indicated the existence of any material environmental liability. The Company is working with the environmental authorities in order to conclude some minor outstanding items.

As the execution of the Minute on July 26, 2023, defined Petrolia's remaining wind-up responsibilities Petrolia has adjusted accordingly its Assets Retirement Obligations ("ARO") liability accordingly during 2023 (see Note 15).

NOTE 5 – CASH AND CASH EQUIVALENTS

Balance, December 31,	**2023**	2022
Cash and banks	**$ 33,114,273**	$ 20,135,513
Short-term investments (1)	**-**	514,659
	$ 33,114,273	$ 20,650,172

(1) As at december 31, 2023 the short-term investments held in financial institutions is $nil, these investments are accessible to the company within 12 months (December 31, 2022 - $514,659)

Restricted Cash

Restricted cash balance of $0.5 million (December 31, 2022, $0.5 million) is composed of $0.4 million Letter of Credit issued to warrantee Block VMM-18 obligations performance and a $0.1 million deposit on corporate credit card.

NOTE 6 – TRADE AND OTHER RECEIVABLES

Balance, December 31,	**2023**	2022
Trade receivables (1)	**$ -**	$ 9,125,873
Other receivables	**20,631**	206,579
	$ 20,631	$ 9,332,452

(2) Trade receivables consist of receivables for services rendered to the Ministry of Energy and Non-Renewable Natural Resources of $Nil (December 31, 2022 - $2,831,733), and accruals for services not yet invoiced $Nil (December 31, 2022 - $6,294,140). During the year ended December 31, 2023, the total amount of $9.3 million was collected.

NOTE 7 – ACCOUNTS RECEIVABLE FROM CONSORTIUM PARTNERS

Balance, December 31,	**2023**	2022
Block 16 & Block 67 Consortiums (1)	**$ -**	$ 829,514
Technical assistance Block 16 Consortium (2)	**-**	6,062,695
	$ -	$ 6,892,209

(1) Corresponds mainly to reimbursable expenses from the Consortia, and provisions for Employee Benefits. During the year ended

(in Canadian dollars except as otherwise noted)

December 31, 2023, $0.6 million was recovered and the remaining balance of $0.2 million was written off as certain expenses were not recognized by the Consortium.

As part of the termination of the Service Contract, on December 31, 2023, all outstanding accounts with the Consortium were reconciled and closed.

(2) Receivables for technical assistance and managerial support. During the year ended December 31, 2023, $5.8 million (USD 4.4 million) was collected in relation to the Service Agreement. The remaining balance of $0.2 million was wrote off as part of the termination agreement reconciliation of accounts.

Balances receivable from and payable to consortium partners do not accrue interest and do not have defined collection and/or payment terms.

NOTE 8 – RECOVERABLE TAXES

Balance, December 31,		**2023**		2022
Current portion (1)	**$**	**7,434,764**	$	13,039,665
Non-current portion (2)		**-**		16,619,381
	$	**7,434,764**	$	29,659,046

(1) As at December 31, 2023, the current portion of recoverable taxes include $7.4 million related to Income Tax Withheld by the Government of Ecuador (December 31, 2022, $7.6M of Ecuadorian VAT tax credit and $5.3M of Ecuadorian Withholding Income Tax for fiscal year 2021). During the year ended December 31, 2023, $7.6 million related to the Ecuadorian VAT tax credit and $4.5 million related to was Ecuadorian Withholding Income Tax for fiscal year 2021were refunded.

(2) As at December 31, 2023, the non-current portion of recoverable taxes $Nil. (December 31, 2022, non-current recoverable taxes include $6.6M of Ecuadorian Withholding Income Tax for fiscal year 2022 and $9.9M Spanish Income Tax credit for 2022 which were recoverable from Spanish Tax administration). During the year ended December 31, 2023 $9.9 million related to the Spanish Income Tax credit for 2022 were refunded.

NOTE 9 – PREPAID AND ADVANCES PAYMENTS

Balance, December 31,		**2023**		2022
Prepaid expenses	**$**	**156,827**	$	50,482
Advances and deposits (1) – (Restated – Note 31)		**6,784,981**		392,176
	$	**6,941,808**	$	442,658

(1) As of December 31, 2023, the advances include:
- $5.5 million (US$4.1 million), corresponding to payments made to Seasif Holding as part of the Indirect Interest in GoldPillar International Fund SPC Ltd agreement and;
- $1.3million (US$ 1.0 million) corresponding to advance to Sucre Gas Iberoamerica (“Sucre”), as part of a gas supply agreement entered between Sucre and NSE, where, subject to the satisfaction of certain conditions, Sucre and Ypergas will supply natural gas to NSE for further liquification and export.

As of December 31, 2022, advances include $0.3 million issued as security deposit related to CORPEI. As per foreign commerce regulations in Ecuador, Petrolia was required to contribute to a semi public institution (CORPEI) for each oil crude export, in exchange CORPEI issued a 10-year non interest certificate, which matured in 2022. Petrolia has made several collection attempts with no positive result as of December 31, 2023. The advance of 0.3 million was written off during the year ended December 31, 2023, as a result of new information obtained determining that the likelihood of recovery in these cases is remote.

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment includes the Company’s Oil and Gas production investments such as machinery, processing facilities, equipment, vehicles, office equipment, and furnishings, among other things:

(in Canadian dollars except as otherwise noted)

	Oil and gas production investments	Other Assets	Total
Cost			
Balance, March 31, 2022	$ 34,341,677	$ 60,681	$ 34,402,358
Additions	-	1,098,008	1,098,008
Asset Retirement Obligation (Note 14)	(4,918,079)	-	(4,918,079)
Balance, December 31, 2022	$ 29,423,598	$ 1,158,689	$ 30,582,287
Additions	-	112,186	112,186
Effect of change in exchange rates	-	(12,827)	(12,827)
Balance, December 31, 2023	**$ 29,423,598**	**$ 1,258,048**	**$ 30,681,646**
Accumulated depletion and depreciation			
Balance, March 31, 2022	$ (7,750,093)	$ (227)	$ (7,750,320)
Depletion and depreciation	(21,673,505)	(133,606)	(21,807,111)
Balance, December 31, 2022	$ (29,423,598)	$ (133,833)	$ (29,557,431)
Depletion and depreciation	-	(504,352)	(504,352)
Effect of change in exchange rates	-	9,443	9,443
Balance, December 31, 2023	**$ (29,423,598)**	**$ (628,742)**	**$ (30,052,340)**
Net carrying amounts as at:			
December 31, 2022	$ -	$ 1,024,856	$ 1,024,856
December 31, 2023	**$ -**	**$ 629,306**	**$ 629,306**

As of December 31, 2022, the date on which the Service Contract was terminated, all the oil and gas production investments were fully depleted and depreciated, except for Other Equipment representing information systems that remained with the Company. As a result, there are no depleted and depreciated assets to be assessed for impairment at either December 31, 2022, or December 31, 2023.

NOTE 11 – EXPLORATION AND EVALUATION ASSETS

Block VMM-18:

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

The Agreement contemplated the completion of Phase II by August 21, 2019, which was originally deferred due to the delay on the granting of the environmental license by the Agencia Nacional de Hidrocarburos ("ANH"), the Colombian National Hydrocarbons Agency, 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, now concluded, and drill an exploration well valued at USD $3 Million by August 21, 2020, as a work commitment under the contract.

Phase II of the exploration program contemplates: 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 and, the Drilling one exploratory well. The initiation of exploratory well work was subject to the ANH's approval of the environmental license. Once the license is received from the ANH, NSE will become the operator and would earn-up a 100% interest in the Project.

New Stratus received the approval of the Environmental Impact Study on August 24, 2022, and the corresponding issuance of the Environmental License by the ANLA, however with stringent limits in the exploration area, which considered that 97.53% of the project occurs in a highly sensitive geographical area and 2.47% in a sensitive area. The results therefore limited the Company to such a small area of exploration that continuing with the project would not be technically or economically viable.

As highlighted above, all activities that NSE committed were completed except for the drilling of the exploratory well.

As the exploration area granted to the Company limits materially the feasibility of the project, both financially and operational, on September 26, 2022, the Company presented to ANH a request to enter into a mutual agreement among the parties to terminate the E&P Contract for Block VMM-18. Following this communication, the ANH has requested confirmation of the restrictions imposed by ANLA, to which the Company had provided detailed documentation on March 9, 2023. The Company is currently awaiting a reply from the ANH on its application. (See also Note 26 - Commitments and Contingencies).

(in Canadian dollars except as otherwise noted)

As of December 31, 2022, the Company wrote off the total amount of $2,240,368.

NOTE 12 – TRADE AND OTHER PAYABLES

Trade and other payable includes the following:

	Trade Payable	Purchase price Obligations (1)	Provisions (2)	Others	Total
Balance, March 31, 2022	$ 11,508,526	$ 7,030,139	$ 11,081,988	$ 1,081,708	$ 30,702,361
Increases	7,554,141	95,553	3,721,793	-	11,371,487
Payments	(9,087,192)	(959,693)	(7,680,812)	(1,081,708)	(18,809,405)
Effect of change in exchange rates		606,001	366,929	-	972,930
Balance, December 31, 2022	$ 9,975,475	$ 6,772,000	$ 7,489,898	$ -	$ 24,237,373
Increases	1,909,927	-	464,220	-	2,374,147
Payments	(9,975,475)	(6,772,000)	(7,474,835)	-	(24,222,310)
Effect of change in exchange rates	-	-	(15,063)	-	(15,063)
Balance, December 31, 2023	**$ 1,909,927**	**$ -**	**$ 464,220**	**$ -**	**$ 2,374,147**

(1) As per the Agreement with REPSOL, executed on February 23, 2023 (see Note 4), the Company paid the two installments of the purchase price by January 14, 2023, and May 31, 2023, respectively.

(2) As per the Agreement with REPSOL executed on February 23, 2023 (see Note 4), provisions as at December 31, 2022 included:
   a. $5,227,984 (US$3,860,000) related to some recoverable taxes in Ecuador
   b. $1,911,058 (US$1,411,000) related to taxes paid due to changes in tax laws during the execution of the Service Contracts in Ecuador, that originally were contingent payments to Repsol upon collection.

The above provisions were originally contemplated as contingent payments to REPSOL upon collection by Petrolia. On February 23, 2023, the Company entered into an agreement with REPSOL to settle certain matters and differences in connection with the Purchase Agreement of Petrolia Ecuador S.A. As part of this agreement, the Company agreed to pay these amounts by March 31, 2023, and May 31, 2023, respectively. All these amounts have been paid by the stipulated dates.

NOTE 13 – EMPLOYEE BENEFIT OBLIGATION

Balance, March 31, 2022	$ 2,031,940
Increases	8,131,975
Payments	(9,087,192)
Balance, December 31, 2022	$ 1,076,723
Increases	776,253
Payments	(1,358,194)
Effect of change in exchange rates	(11,336)
Balances on December 31, 2023	**$ 483,446**

As at December 31, 2023, the employee benefits includes mainly obligations payable to employees for vacations, thirteenth and fourteenth salary, reserved fund, and variable bonuses for goals achievement.

NOTE 14 – DEFINED BENEFIT OBLIGATION

Balance, March 31, 2022	$ 30,468,079
Increases	3,157,500
Payments	(33,625,579)
Balance, December 31, 2022	$ -
Increases	854,911
Payments	-
Effect of change in exchange rates	-
Balances, December 31, 2023	**$ 854,911**

(in Canadian dollars except as otherwise noted)

As of December 31, 2022, Petrolia Ecuador S.A. terminated all binding employee agreements under the pension plan, paying $33.6 million extinguishing the obligation related to the employer's retirement pension, severance bonus, and compensation for untimely dismissal.

During 2023, Petrolia Ecuador S.A. hired some employees who were employees of Petrolia on December 31, 2022 (and terminated, on such date). As required by Government employment regulations, the termination and immediate rehiring of an employee requires the continuance of the original employee right pension, severance bonus, and compensation. Accordingly, the Company has recorded under this concept an additional provision of $0.9 million.

NOTE 15 – ASSET RETIREMENT OBLIGATION

Balance, March 31, 2022	$ 10,847,772
Change in estimate	(4,918,079)
Payments/uses	(544,901)
Other	366,520
Balance, December 31, 2022	$ 5,751,312
Change in estimate	(5,204,913)
Liabilities settled	(413,478)
Effect of change in exchange rates	(30,529)
Balances on December 31, 2023	**$ 102,392**

During the year ended December 31, 2023, the Company reduced its estimate ARO provision recognizing $5.2 million income through the comprehensive loss. For the nine months ended December 31, 2022, the Company reduced its ARO provision by $4.9 million, recognized within Properties, Plant, and Equipment (Note 10). The 2023 change in estimate, results from the execution of the Minute (see Note 4- Termination of the service contracts) between the Company and Ministry of Energy, which addresses and identifies the main activities to be carried out in the reversion process.

NOTE 16 – OTHER LIABILITIES

Balance, March 31, 2022	$	498,185
Increases		-
Payments		-
Effect of change in exchange rates		(163,031)
Balance, December 31, 2022 (1)	$	335,154
2007 Income Tax credit (2)		19,378,709
Interest accrued		1,190,700
Provision Solidarity Contribution Tax trial (3)		2,160,439
Payments		(335,154)
Effect of change in exchange rates		(67,286)
Balances on December 31, 2023	**$**	**22,662,562**

(1) Correspond to advances received from Oil Consortium Block 16 and Oil Consortium Block Tivacuno partners.

(2) On July 12, 2023, the Company announced that the Consortium Block 16 had been notified of a final and definitive ruling by the National Court of Justice of Ecuador, regarding a previous year tax claim, which granted the Consortium the right to obtain a tax credit for $19.4 million (US$14.6 million). As a result of agreements and covenants entered by the Company during past years related to this income tax credit, the Company recognized a reserve for contractual responsibilities in the same amount refunded. As of December 31, 2023, the balance of the provision related with this reserve is $ 19.4 million (US$14.6 million). During the year ended December 31, 2023, Petrolia accrued interests related to this provision recognized through comprehensive loss for $1.2 million (US$0.9 million). As described in Note 4, the Company has announced a formal arbitration claim under the terms contemplated in the service contract agreements; however, the Company, during the period of negotiations with the Ministry of Energy, aims to reach an amicable settlement on all the outstanding issues derived from the service contracts, including this fiscal year refund.

(3) In December 2023, the company established a $2.2 million provision, recognized through comprehensive loss, related to the 2016 Solidarity Contribution Tax trial.

(in Canadian dollars except as otherwise noted)

NOTE 17– SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares.

Issued and Outstanding

	Number	Amount
Balance, March 31, 2022	103,342,265	$ 29,153,448
Stock based compensation exercised	3,225,000	471,852
Warrants exercised	18,500,658	2,275,438
Warrants exercised FV allocation	-	1,342,918
Shares repurchase	(2,154,400)	(2,016,571)
Balance, December 31, 2022	122,913,523	$ 31,227,085
Stock based compensation exercised	30,000	7,200
Warrants exercised	1,058,255	476,215
Warrants exercised FV allocation	-	117,622
Balance, December 31, 2023	**124,001,778**	**$ 31,828,122**

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. The Company uses 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 years 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.

	Exercise price	Number of warrants	Fair value
Balance, March 31, 2022	$ 0.35	37,099,304	$ 2,789,704
Warrants exercised	0.30 – 0.45	(21,411,449)	(1,342,918)
Warrants expired	0.55	(1,637,500)	(186,776)
Balance, December 31, 2022	$ 0.45	14,050,355	$ 1,260,010
Warrants exercise	0.45	(1,058,255)	(117,622)
Balance, December 31, 2023	**$ 0.45**	**12,992,100**	**$ 1,142,388**

On May 30, 2023, a total of 14,050,355 warrants expiring on July 21, 2023, and exercisable at $0.45 were extended by an additional year to July 22, 2024. All other terms remain unchanged.
Subsequent to year end, between January and March 2024, 695,000 warrants were exercised at $0.45

Stock based compensation:

The Company has a stock option plan for employees, officers, directors and consultants (the "Plan"). 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.

On April 28, 2022, the Company granted an aggregate of 2,340,000 stock options to employees of its subsidiaries, pursuant to the Company's Plan. The options vested on granting and are exercisable at $0.65 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 2.66%; and an expected average life of 5 years. The fair value of all these options was estimated at $904,568.

On October 4, 2022, the Company granted an aggregate of 3,550,000 stock options to employees of its subsidiaries, pursuant to the Company's Plan. The options are exercisable at a price of $0.85 for a five-years period and fully vested on the issuance dated. 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 3.38%; and an expected average life of 5 years. The fair value of all these options was estimated at $1,788,845

(in Canadian dollars except as otherwise noted)

During the year ended December 31, 2023, no stock options were granted by the Company.

	Number of Stock Options	Exercise price	Fair value
Balance, March 31, 2022	9,390,000	$ 0.21	$ 1,065,948
Option granted	2,340,000	0.65	904,568
Options granted	3,550,000	0.85	1,788,845
Options cancelled	(3,225,000)	0.10	(149,353)
Balance, December 31, 2022	12,055,000	$ 0.51	$ 3,610,008
Options cancelled	(490,000)	0.01	(183,795)
Options exercised	(30,000)	0.24	(4,149)
Balance, December 31, 2023	**11,535,000**	**$ 0.51**	**$ 3,422,064**

During the year ended December 31, 2023, and nine months ended December 31, 2022, $nil and $2,802,659, respectively, were charged as stock-based compensation in the consolidated statements of operations and comprehensive (loss) income.

The following schedules describe the stock options available and their remaining contractual life on December 31, 2023, and December 31, 2022:

	Number of Stock Options	Remaining life (yrs.)	Exercise Price
Granted on July 7, 2020	800,000	1.52	$ 0.05
Granted on April 13, 2021	1,260,000	2.28	0.24
Granted on October 1, 2021	3,500,000	2.75	0.30
Granted on December 6, 2021	50,000	2.93	0.56
Granted on January 13, 2022	330,000	3.04	0.50
Granted on April 28, 2022	2,195,000	3.33	0.65
Granted on October 4, 2022	3,400,000	3.76	0.50
Balance, December 31, 2023	**11,535,000**	**3.03**	**0.51**

	Number of Stock Options	Remaining life (yrs.)	Exercise Price
Granted on July 7, 2020	800,000	2.52	$ 0.05
Granted on November 16, 2020	75,000	0.79	0.47
Granted on April 13, 2021	1,290,000	3.28	0.24
Granted on October 1, 2021	3,500,000	3.75	0.30
Granted on December 6, 2021	50,000	3.93	0.56
Granted on January 13, 2022	450,000	4.04	0.50
Granted on April 28, 2022	2,340,000	4.33	0.65
Granted on October 4, 2022	3,550,000	4.76	0.85
Balance, December 31, 2022	**12,055,000**	**3.42**	**0.51**

NOTE 18 – REVENUE

The following schedule describes the revenues obtained during the year and nine months ended December 31, 2023, and 2022:

December 31,	**Twelve months 2023**	Nine months 2022
Services revenue (1)	$ -	$61,205,324
Carry forward recovery (2)	-	22,165,582
	$ -	$83,370,906

(in Canadian dollars except as otherwise noted)

(1) As the Service Contract expired on December 31, 2022, there is no revenue recognized during 2023. During the nine months ended December 31, 2022, the Company has recognized as revenue the entire tariffs related to the execution of the Service Contracts, for each barrel of net crude oil extracted and delivered to the inspection and delivery center. Service Contract tariffs are adjusted annually, considering an operating cost inflation factor established in the Service contracts. For the calendar year 2022, the approved crude oil tariffs were established at $50.03/bbl. for Block 16 and $37.88 $ /bbl. for Block 67

Service revenue: Available income to cover the Service Contract tariffs was determined as follows: of the income from the audited production corresponding to the area covered by the contract, the Ecuadorian State reserves 25% as a sovereignty margin. From the remaining value, the transportation and commercialization costs incurred by the State and the taxes corresponding to the Institute for the Ecodevelopment of the Amazon Region and Esmeraldas (ECORAE) and the Law for the Creation of Substitute Income for the provinces of Napo, Esmeraldas and Sucumbíos will be covered. Once these deductions have been made, the fee for the provision of services will be covered.

(2) As the Service Contract expired on December 31, 2022, the carry forward has extinguished and there is no remaining obligation from the Ministry of Energy.

NOTE 19 - OPERATING EXPENSES

The following schedule describes the revenues obtained during the year and nine months ended December 31, 2023, and 2022:

December 31,	Twelve months 2023	Nine months 2022
Consumption of inventories and purchases	$ -	$ 16,830,748
Employee benefits	-	13,643,800
Insurance premium	-	1,123,308
Catering services	-	751,997
Cured oil treatment	-	1,469,538
Plant maintenance	-	1,656,377
Short-term leases	-	170,528
Contribution and other taxes	-	1,331,470
Office and administration	-	1,357,575
Participation to the state social investment projects	-	(1,395,399)
Services received, rental of machinery and vehicles	-	16,442,633
	$ -	$ 53,382,575

NOTE 20 – GENERAL AND ADMINISTRATIVE

The following schedule describes the revenues obtained during the year and nine months ended December 31, 2023, and 2022:

December 31,	Twelve months 2023	Nine months 2022
Insurances	$ 58,358	$ 19,715
Legal and accounting	1,394,038	1,303,576
Management fees	4,799,738	1,821,100
Professional fees	4,007,666	3,273,538
Office and administration	3,990,478	1,931,749
Shareholders information and investor relations	193,327	648,281
Amortization and depreciation	504,352	-
Accrual for Solidarity contribution tax trial (2016)	2,160,439	-
	$ 17,108,396	$ 8,997,959

(in Canadian dollars except as otherwise noted)

NOTE 21 – FINANCIAL (INCOME) COST, NET

The following schedule describes the revenues obtained during the year ended December 31, 2023, and nine months ended December 31,2022:

December 31,	Twelve months 2023	Nine months 2022
Financial update on asset retirement	$ -	$ 153,826
Interest on Solidarity Contribution provision	1,190,700	-
Other	(463,573)	(57,831)
	$ 727,127	$ 95,995

NOTE 22 – OTHER INCOME, NET

The following schedule describes the revenues obtained during the year and nine months ended December 31, 2023, and 2022:

December 31,	Twelve months 2023	Nine months 2022
Trading operations	$ (171,665)	$ (1,136,533)
Operator´s fee income	(489,723)	-
Settlement of 2022 service contract tariff	(1,131,363)	-
Change in estimate of asset retirement obligation	(5,204,913)	-
Other income	(9,301)	-
	$ (7,006,965)	$ (1,136,533)

NOTE 23 – INCOME TAX

Current Income tax

The determination of the current income tax for the year ended December 31, 2023, and nine months ended December 31, 2022, is detailed as follows:

For the years ended December 31,	2023	2022
Net (loss) before income taxes	$ (11,346,189)	$ (3,201,767)
Expected income tax expense	(3,063,471)	(864,477)
Change in statutory, foreign tax, foreign exchange rates and other	(1,433,387)	(2,824,811)
Permanent differences	21,741	(6,537,911)
Share issue cost	-	(14,541)
Change in unrecognized deductible temporary differences	4,479,000	4,680,000
Total income tax expense (recovery)	$ 3,883	$ (5,561,401)

The estimated tax expense for the year ended December 31, 2023, is 3,883 (Tax recovery, December 31, 2022 - $5,561,401) attributable mainly to New Stratus latin america sucursal Colombia, (December 31, 2022 -Petrolia Ecuador S.A). The enacted tax rate for the year ended December 31, 2023, is 27%.

On at December 31, 2022, the Company had unrecognized non-capital losses in Canada of approximately $ 22,023,657 (December 31, 2022 - $24,725,536) which are available under certain circumstances to reduce future taxable income. These losses expire between 2029 and 2042. A full valuation allowance has been taken on all unrecognized losses.

NOTE 24 – NET INCOME (LOSS) PER SHARE

The following schedule describes the revenues obtained during the year and nine months ended December 31, 2023, and 2022:

December 31,	Twelve months 2023	Nine months 2022
Net (loss) income	**$ (11,350,072)**	$ 2,359,634
Weighted-average common share adjustments:		
Weighted-average common shares outstanding, basic	**122,995,414**	117,493,197
Effect of stock options & warrants	**-**	577,778
Weighted-average common shares outstanding, diluted	**122,995,414**	118,070,975
Basic and diluted (loss) income per share	**$ (0.09)**	$ 0.02
Fully diluted (loss) income per share	**$ (0.09)**	$ 0.02

For the year ended December 31, 2023, stock options and warrants were anti-dilutive due to the net loss. For the nine months ended December 31, 2022, stock options and warrants were dilutive.

NOTE 25 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying values and respective fair values of cash, other receivables and trade and other payables approximate their fair values on December 31, 2023, and 2022, given the short-term nature of these financial instruments.

The Company's financial instruments have been assessed on the fair value hierarchy described under Note 3. Cash is classified as Level 1.

There has been no reclassification of financial instruments into or out of each fair value hierarchy during the years ended December 31, 2023, or 2022. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices and foreign exchange rates will affect the Company's cash flows, profit or loss, liquidity, or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures were considered appropriate and maximize returns.

a. Commodity Price Risk
   Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Company's ability to raise capital. Commodity prices for crude oil is impacted by world economic events that dictate the levels of supply and demand. From time to time the Company may attempt to mitigate commodity price risk by the use of financial derivatives.

   The Company had no commodity contracts in place during the years ended December 31, 2023, and 2022. The Company has not generated revenue for the year ended December 31, 2023, since the termination of its Service contract on December 31, 2022 (See Note 4 Business Combination – Petrolia Ecuador S.A.).

b. Foreign Currency Risk
   Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and US dollars. As of December 31, 2023, the United States dollar to Canadian dollar exchange rate was 0.7561:1 (December 31, 2022 – 0.7383:1). Cash held in US dollars on December 31, 2023, was USD $24 million and a change of 1% in the exchange rate would have impacted the Canadian dollar equivalent by +/- CAD $0.3 million The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2023. Accounts payable in USD balance as of December 31, 2023, was $0.6 million and a change of 1% in the exchange rate would have impacted the Canadian dollar equivalent by +/- CAD $0.3 million

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Company's business objectives.
As of December 31, 2023, the Company had $33.1 million in cash (excluding restricted cash) and taxes recoverable of approximately $7.4 million, which were collected during the first quarter of 2024. Current liabilities at the same date amounted to $3.9 million.

(in Canadian dollars except as otherwise noted)

NOTE 25 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2023, and 2022, the transaction paid for services provided to directors and officers were as follow:

December 31,	Twelve months 2023	Nine months 2022
Officers and management fees	**$ 1,769,123**	$ 1,381,917
Consulting fees paid to a director	**173,106**	118,623
Share based payments	**160,317**	1,754,693
	$ 2,102,546	$ 3,255,233

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.

On August 23, 2023, the Company and its Chief Midstream and Downstream officer entered into an agreement to terminate the original Officer's contract, signed on February 1st. 2022. As compensation for bridging the original agreement, NSE agreed to indemnify the departing officer the amount of US$151,500, payable in twelve equal quarterly installments of $12,625. The departing officer will continue to act as an independent business development consultant for a monthly fee of $4,500.

NOTE 26 – CAPITAL MANAGEMENT

The Company's objective when managing capital is to ensure that it has sufficient cash resources to maintain financial liquidity and flexibility in order to provide returns for shareholders and benefits for other stakeholders and deploy capital to further exploration on its properties.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may, from time to time, issue new shares, issue new debt (secured, unsecured, convertible and/or other types of debt instruments), acquire or dispose of assets or adjust its capital spending to manage its ability to continue as a going concern.

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 year ended December 31, 2023.

NOTE 27 – SUPLEMENTAL CASH FLOW INFORMATON

Change in non-cash working capital are as follows:

December 31,	Twelve months 2023	Nine months 2022
Trade and other receivable	**$ 7,341,816**	$ (5,564,490)
Accounts receivable from consortium partners	**6,892,209**	30,393,068
Recoverable taxes	**2,825,060**	(22,695,106)
Inventory	**-**	2,921,023
Advances to suppliers and others	**(5,199,150)**	922,398
Other assets	**407,893**	(14,048)
Trade and other payables	**(7,952,184)**	(6,464,988)
Taxes payables	**(2,985,403)**	1,766,130
Employee benefit obligation	**776,253**	8,131,975
Defined benefit obligation	**854,911**	-
Other liability	**22,394,694**	(163,031)
Defined benefit obligations	**-**	3,157,500
Decommissioning obligation	**-**	(178,381)
	$ 25,356,099	$ 12,212,050

NOTE 29 – COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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 must perform and drill an exploration well valued at $4,063,200 (US$3,000,000). The Company is awaiting a response from the ANH with respect to the Company's request to enter into a mutual agreement among the parties to terminate the E&P Contract for Block VMM-18 as well as the reassessment by the ANH of the area restrictions imposed during the environmental assessment by the ANLA (See also Note 10 - Exploration and Evaluation Assets) and avoid the potential liability related with the company's obligation to drill an exploration well.

Consulting agreements
The Company is obligated under a consulting agreement in the amount of US$5,000 per month until May 31, 2026. Also on October 1, 2021, the Company entered into an agreement with an external consultant where the Company agreed to pay, subject to the successful closing of the Repsol transaction, a fee of US$500,000 in three equal installments due at closing, six months after and twelve months after such closing. As the Repsol transaction successfully closed on January 14, 2022, the Company paid the consultant USD 166,666 on January, 2022 the amount of $212,631 (USD 166,666) , on July 2022, $214,697 (USD 166,666) and on March 2023 the amount of $226,629 (USD 166,666).

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 these consolidated financial statements.

CONTINGENCIES

State Oil Company of Ecuador Petroecuador EP

Shushufindi Agreement: As recommended by the Comptroller General's Office, within the special examination of the contracting process and development of the cooperation agreement with Petroproduccion to increase crude oil production and reserves in the Shushufindi field, EP Petroecuador issued invoices for $4,066,669 (US$3,013,240) and initiated an enforceable by law collection process, proceeding to seize the invoiced amount. The Branch has challenged the procedures initiated by Petroproducción. The Company has recorded a provision for this matter.

Law 122: Petroecuador is requesting the payment of $22,417,859 (US$16,610,743) to Consortium Block 67 (Tivacuno) where the Company has a 35% interest. On august 14, 2023, a payment request was issued based on a unilateral liquidation perfomed by Petroecuador to the former Service Contract which ended in 2010, stating that Petroecuador has not withheld the entire tariff of the tax contemplated in Law 122. The Company has challenged such payment request before the Tax Court, stating that the statute of limitations to request such payment has been largely exceeded. The Company has not recorded any provision in the financial statements.

Auca Process, Yulebra, Culebra: EP Petroecuador claims payment of $1,379,336 (US$1,022,033) for information provided to Repsol YPF Ecuador S.A. within a failed bidding process called by EP Petroecuador. Repsol YPF Ecuador S.A. paid the cost of the bidding conditions, which included access to the "data room" and all the information available for this purpose. After several judicial resolutions (both from the Superior Court and the National Court of Justice), the process must be sent to the District Court of Administrative Disputes in the Metropolitan District of Quito for resolution. However, the request was denied. The Company has filed an extraordinary protection action before the Constitutional Court, which has not been admitted yet. As of December 31, 2022, the balance of Prepaid and advances payments (Note 9) included $1.4 million for the security deposit issued as part of this lawsuit. This amount was written off during the year ended December 31, 2023.

Special Examination Reports of the Comptroller General's Office

Friction Reduction Chemicals: On May 31, 2005, the Office of the Comptroller General of the State issued audit assessments against the Contractor of the Block 16 Participation Contract for $3,480,095 (US$2,578,612) ($1,218,033 (US$902,514) corresponds to the Company) for the purchase and use of friction reducing chemicals. On November 23, 2006, the Branch, on behalf of the Contractor of the Participation Contract of Block 16, filed a challenge before the Contentious Administrative Court.

Solidarity Contribution tax trial

On October 7, 2019, the Internal Revenue Service of Ecuador requested two additional payments on the denominated solidarity contribution on profits, created by the Organic Law of Solidarity and Citizen Co-responsibility. The Internal Revenue Service requested two additional payment totalizing $2,160,439 (US$1,600,681), including principal, interest and penalties.The company has challenged such payment requests and currently the matter is being discussed at the Tax Court and at the National Court of Justice in Ecuador.

(in Canadian dollars except as otherwise noted)

The Company has recorded a provision for the above mentioned matter (see Note 16)

GoldPillar acquisition

As part of the GoldPillar transaction announced on January 2, 2024 (see Subsequent Even – Note 31), the Company had signed on October 25, 2023, a shareholder's agreement that stipulate the administrative and corporate structure of the venturers that would participate in the agreement entered with Vencupet, among them GoldPillar. The final transfer of GoldPillar shares to NSE remained outstanding at the date of this report.

NOTE 30 – SEGMENTED INFORMATION

The Company has three reportable operating segments: Ecuador, Colombia, and Canada. The Company, through its operating segments, is engaged primarily in oil exploration, development and production, and the acquisition of oil and gas properties. The Canadian segment is also considered the corporate segment. The following tables show information regarding the Company's segments for the years ended December 31, 2023, and December 31, 2022:

Year ended December 31, 2023	**Ecuador**	**Colombia**	**Canada**	**Total**
Revenue	**$ -**	**$ -**	**$ -**	**$ -**
Gross profit (loss)	**$ -**	**$ -**	**$ -**	**$ -**
Net income (loss)	**$ 1,554,174**	**$ (2,109,875)**	**$ (10,794,371)**	**$ (11,350,072)**
As of December 31, 2022				
Current asset	**$ 39,454,840**	**$ 345,376**	**$ 8,221,799**	**$ 48,022,015**
Non-current asset	**7,057**	**120,777**	**508,529**	**636,363**
Total assets	**$ 39,461,897**	**$ 466,153**	**$ 8,730,328**	**$ 48,658,378**
Current liabilities	**$ 2,704,018**	**$ 246,238**	**$ 985,789**	**$ 3,936,045**
Non-current liabilities	**22,662,562**	**-**	**-**	**22,662,562**
Total labilities	**$ 25,366,580**	**$ 246,238**	**$ 985,789**	**$ 26,598,607**

Nine months ended December 31, 2022	Ecuador	Colombia	Canada	Total
Revenue	$ 88,193,632	$ -	$ 5,111,212	$ 93,304,844
Gross profit (loss)	$ 37,058,588	$ (2,398,987)	$ (16,544,443)	$ 18,115,158
Net income (loss)	$ 44,086,453	$ (61,068)	$ (41,665,751)	$ 2,359,634
As of December 31, 2022				
Current asset	$ 37,757,626	$ 372,415	$ 14,037,654	$ 52,167,695
Non-current asset	17,029,280	262,063	767,844	18,059,187
Total assets	$ 54,786,906	$ 634,478	$ 14,805,498	$ 70,226,882
Current liabilities	$ 18,903,612	$ 375,362	$ 14,892,986	$ 34,171,960
Non-current liabilities	335,154	-	-	335,154
Total labilities	$ 19,238,766	$ 375,362	$ 14,892,986	$ 34,507,114

(in Canadian dollars except as otherwise noted)

NOTE 31 - RESTATEMENT

During the year ended December 31, 2023, management has made certain adjustments to the prior year financial statements. The impact of those adjustments on the statement of financial position as well as the nature of those adjustments are explained below:

Management has revisited the accounting treatment of the January 14, 2022 purchase price allocation (Note 4). It was determined that an asset included in the purchase price allocation met the criteria of contingent asset. Collection of the contingent asset is not virtually certain at the time of acquisition and there has been not changes since that date. Thus, it should not be recognized. The financial statements of the Company for the period ended December 31, 2022 have therefore been restated.

The effects of this adjustment have no impact on the statement of income, and therefore, there is no EPS adjustment. Additionally, this is a non-cash item, so there is no adjustment to the statement of cash flows. However, the effects on the statement of financial position are as follows:

As at April 1, 2022	As previously stated	Adjustment	Restated
Prepaid and advances payments	2,665,056	(1,300,000)	1,365,056
Deficit	$(4,759,108)	(1,300,000)	$(6,059,108)

As at December 31, 2022	As previously stated	Adjustment	Restated
Prepaid and advances payments	1,742,658	(1,300,000)	442,658
Deficit	$(2,399,474)	(1,300,000)	$(3,699,474)

NOTE 32 - SUBSEQUENT EVENTS

On January 2, 2024 New Stratus announced the acquisition (the "Acquisition") of a 50% indirect interest in GoldPillar International Fund SPC Ltd. ("GoldPillar"), a private entity organized and existing under laws of the British Virgin Islands, which has acquired a 40% equity participation (the "Equity Subscription") in a joint venture company, Petrolera Vencupet, S.A. ("Vencupet"), which holds the oil production rights for the fields named "Adas", "Lido", "Limon", "Leona", "Oficina Norte" and "Oficina Central", all located onshore in the Anzoategui and Monagas States in Eastern Venezuela (the "Fields").Petroleos de Venezuela S.A. ("PDVSA"), the Venezuelan national oil company, through its subsidiary Corporacion Venezolana de Petroleo S.A. ("CVP"), owns the remaining 60% of the share capital of Vencupet.

As consideration for securing and presenting this opportunity to New Stratus, a finder's fee is payable to Mr. Franco Favilla ("Favilla"), an Italian national and the beneficial owner of 100% of the share capital of GoldPillar, in the amount of US$8.5 million, with US$4 million paid at closing and US$4.5 million payable in installments over 24 months from closing. The Company is finalising this corporate documentation in order to streamline the organization operating and administrative structure (see also Note 29 – "Contingencies").

As of December 31, 2023, the Company has advanced $5.5 million (US$4.1 million), corresponding to payments made to Seasif Holding as part of the Indirect Interest in GoldPillar International Fund SPC Ltd. (See Note 9).

New Stratus expects that its indirect maximum capital exposure under the facility at any point in time will be approximately US$25 million.