



NEW STRATUS ENERGY ANNOUNCES SIGNIFICANT UPSTREAM AND MIDSTREAM POTENTIAL ACQUISITION IN ECUADOR

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News Release

Calgary, Alberta, October 20, 2020 – New Stratus Energy Inc. (TSX.V - NSE) (“New Stratus” or the “Corporation” or the “Purchaser”) is pleased to announce that it has entered into a letter of intent (the “LOI”) with certain affiliates of Repsol S.A (the “Sellers”) to potentially acquire certain upstream and midstream assets in Ecuador for the aggregate consideration defined in the LOI and described below (the “Potential Transaction”).

The consummation of the Potential Transaction is subject to, and contingent on, the receipt by the Purchaser and the Sellers of certain customary regulatory approvals, including (A) the prior authorization of the Potential Transaction by (i) the Ecuadorian Ministry of Energy and Non-Renewable Resources (*Ministerio de Energía y Recursos Naturales No Renovables*) and (ii) the Ecuadorian Antitrust Authority (*Superintendencia de Control del Poder de Mercado*), in each case, as required under applicable laws of Ecuador; and (B) customary TSX Venture Exchange approvals (collectively, the “Regulatory Approvals”). As of the date hereof, the parties have submitted their request for prior authorization of the Potential Transaction to the Ecuadorian Ministry of Energy and Non-Renewable Resources and New Stratus will submit the request to the Ecuadorian Antitrust Authority within the following seven (7) days.

Jose Francisco Arata, Chairman and Chief Executive Officer, commented: “This transaction is part of the Corporation’s strategy of consolidating its presence in the Sub-Andean geological basins targeting projects with existing production and exploratory potential. Featuring no upfront capital costs and stable dividend income from the pipeline assets, the unique structure of this acquisition has the potential to generate substantial value for our shareholders. After the completion of this acquisition, New Stratus will have access to and operate assets with production of approximately 18,000 barrels of oil per day (bopd) (2019 Production). This transaction would provide New Stratus increased scale and complement its capabilities while improving its positioning and access to additional opportunities, such as selective bids rounds and secondary flow of material size and quality. Cashflow from this transaction would provide a robust platform for the Corporation to sustain and grow as per its strategy in the Sub-Andean basins.”

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

Description of the Assets

Upstream Business: Blocks 16 and 67

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

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

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

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

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

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

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

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

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

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

Material Terms of Potential Transaction

Purchase Price and Other Consideration

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

Carve-Out Provision

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

Other Considerations

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

Advisors

Laurentian Bank Securities Inc. and Horizon Capital are serving as financial advisors on this transaction.

Conference Call

New Stratus today also announced that will host a conference call, on Wednesday, September 21, 2020. For more details please visit our website.

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Forward-Looking Information

Certain information set forth in this news release report contains “forward-looking statements”, and “forward-looking information under applicable securities laws. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements, which include expectations about the completion of the Potential Transaction and management’s expectations with respect to the Potential Transaction, and are based on the Corporation’s current internal expectations, estimates,

projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by the use of conditional or future tenses or by the use of such words such as “will”, “expects”, “may”, “should”, “estimates”, “anticipates”, “believes”, “projects”, “plans”, and similar expressions, including variations thereof and negative forms.

In respect of the forward-looking statements and information concerning the anticipated completion of the Potential Transaction and the anticipated timing for completion of the Potential Transaction, the Corporation has provided them in reliance on certain assumptions that it believes are reasonable at this time, including assumptions as to the ability of the Corporation to receive, in a timely manner, the Regulatory Approvals, the ability of the Corporation to satisfy, in a timely manner, the conditions to the closing of the Potential Transaction and the ability of the Corporation to obtain financing on satisfactory terms. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release concerning these times.

Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: risks and uncertainties relating to the completion of the transactions as described herein; the ability to successfully integrate operations and realize the anticipated benefits of the Potential Transaction; incorrect assessments of the value of the Potential Transaction; changes in commodity prices and exchange rates; currency and interest rate fluctuations; the ability to secure adequate financing; and management’s ability to anticipate and manage the foregoing factors and risks. There can be no assurance that forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. New Stratus undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change except as required by applicable securities laws.

The reader is cautioned not to place undue reliance on forward-looking statements. New Stratus disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by securities legislation.

New Stratus has included the above summary of assumptions and risks related to forward looking information provided in this news release in order to provide shareholders with a more complete perspective on the Potential Transaction and such information may not be appropriate for other purposes. Actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits may be derived there from.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.