CRUZSUR ENERGY CORP

(formerly PentaNova Energy Corp.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in U.S. Dollars)	**March 31, 2019**	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	**1,508,485**	1,616,970
Accounts receivable and prepaids (Note 5)	**1,712,976**	2,251,162
Inventory	**307,044**	330,057
Assets held for sale (Note 12)	**412,520**	314,287
Restricted cash (Note 6)	**2,832,672**	2,782,368
	6,773,697	7,294,844
Non-current Assets		
Exploration and evaluation assets (Note 7)	**7,372,900**	19,928,304
Property, plant and equipment (Note 8)	**1,578,141**	2,755,774
Total Assets	**15,724,738**	29,978,922
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 5)	**8,503,899**	11,851,187
Deferred Revenue	**-**	75,141
Cash calls assumed on acquisition (Note 4a)	**-**	8,369,461
	8,503,899	20,295,789
Non-current Liabilities		
Decommissioning obligation	**3,518,763**	5,194,788
Total Liabilities	**12,022,662**	25,490,577
Shareholders' Equity		
Share capital (Note 10)	**63,799,393**	63,799,393
Contributed surplus (Note 10)	**6,576,750**	6,509,311
Warrants (Note 10)	**10,201,910**	10,201,910
Deficit	**(76,598,774)**	(75,769,236)
Accumulated other comprehensive loss	**(277,203)**	(253,033)
Total Shareholders' Equity	**3,702,076**	4,488,345
Total Liabilities and Shareholders' Equity	**15,724,738**	29,978,922

Commitments (Note 14)

Subsequent Events (Note 17)

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three months ended March 31

(Unaudited, expressed in U.S. Dollars)	**2019**	2018
Revenue:		
Oil and natural gas revenue (Note 16)	**171,889**	2,270,243
Net revenue on carried working interest (Note 16)	**215,608**	351,606
Royalty expense	**(20,154)**	(446,478)
	367,343	2,175,371
Expenses:		
Operating expenses	**151,858**	1,400,808
Inventory revaluation	**290,598**	186,729
General and administrative	**680,963**	1,721,671
Business development	**7,935**	89,803
Share based payments (Note 10)	**67,439**	160,284
Depletion and depreciation (Note 8)	**141,647**	642,430
Finance (Note 11)	**(12,594)**	47,842
Foreign exchange gain	**(38,825)**	(99,629)
Loss (gain) on revaluation of asset held for sale (Note 12)	**(92,140)**	96,895
	1,196,881	4,246,833
Loss before income taxes	**(829,538)**	(2,071,462)
Deferred income tax recovery	**-**	96,064
Net loss	**(829,538)**	(1,975,398)
Other comprehensive loss		
Foreign currency translation adjustment	**(24,170)**	(47,508)
Comprehensive loss	**(853,708)**	(2,022,906)
Loss per share – basic and diluted (Note 10)	**(0.03)**	(0.08)
Weighted average number of common Shares outstanding	**24,220,160**	24,220,160

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31

(Unaudited, expressed in U.S. Dollars)	**2019**	2018
Operating Activities		
Net loss from continuing operations	**(829,538)**	(1,959,562)
Items not affecting cash:		
Depletion and depreciation (Note 8)	**141,647**	642,430
Share based payments (Note 10)	**67,439**	160,284
Unrealized foreign exchange loss (gain)	**(102,319)**	138,203
Loss on revaluation of assets held for sale (Note 12)	**(92,140)**	96,895
Accretion on decommissioning obligations (Note 11)	**24,604**	28,345
Deferred income tax expense/(recovery)	**-**	(96,064)
Change in non-cash working capital (Note 16)	**579,478**	578,626
Cash used in operating activities	**(210,829)**	(410,843)
Investing Activities		
Cash payments on Maria Conchita Acquisition	**-**	(2,125,000)
Exploration and evaluation asset recovery (additions)	**86,301**	(9,111,099)
Property, plant and equipment additions	**-**	(30,680)
Change in restricted cash	**13,729**	7,309,493
Change in non-cash working capital (Note 16)	**(8,337)**	5,793,067
Cash used in investing activities	**91,693**	1,835,781
Net increase in cash	**(119,136)**	1,424,938
Foreign exchange gain on cash	**10,651**	319
Increase in cash	**(108,485)**	1,425,257
Cash, beginning of period	**1,616,970**	8,962,371
Cash, end of period	**1,508,485**	10,387,628

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, expressed in U.S. Dollars)	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[(1)]	Total
Balance at December 31, 2017	242,201,602	63,799,393	5,900,862	10,201,910	(14,533,961)	(311,609)	65,056,595
Loss from continuing operations	-	-	-	-	(1,975,398)	-	(1,975,398)
Foreign currency translation adjustment	-	-	-	-	-	(47,508)	(47,508)
Share based compensation	-	-	184,211	-	-	-	184,211
Balance at March 31, 2018	**242,201,602**	**63,799,393**	**6,085,073**	**10,201,910**	**(16,509,359)**	**(359,117)**	**63,217,900**

	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[(1)]	Total
Balance at December 31, 2018	24,220,160	63,799,393	6,509,311	10,201,910	(75,769,236)	(253,033)	4,488,345
Loss from continuing operations	-	-	-	-	(829,538)	-	(829,538)
Foreign currency translation adjustment	-	-	-	-	-	(24,170)	(24,170)
Share based compensation (Note 10)	-	-	67,439	-	-	-	67,439
Balance at March 31, 2019	**24,220,160**	**63,799,393**	**6,576,750**	**10,201,910**	**(76,598,774)**	**(277,203)**	**3,702,076**

(1) Accumulated other comprehensive loss

See accompanying notes to the interim condensed consolidated financial statements.

1. REPORTING ENTITY

CruzSur Energy Corp. ("CruzSur") is an oil and gas company incorporated in Canada which formerly operated under the name PentaNova Energy Corp ("PentaNova"). The Company is engaged in exploration and development activities in Colombia and Argentina. The Company's registered address is 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. CruzSur's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "CZR".

Share consolidation

On September 4, 2018, the Company completed a share consolidation in which one post-consolidation common share replaced ten pre-consolidation common shares. As a result, the outstanding common shares of the Company were reduced to 24,220,160 common shares. All information relating to the weighted average number of common shares outstanding, issued and outstanding common shares, warrants, stock options and per share amounts have been adjusted retroactively to reflect the impact of the ten for one share consolidation in these interim condensed consolidated financial statements.

2. GOING CONCERN

These interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to discharge its obligations and realize its assets in the normal course of operations for the foreseeable future.

During the period ended March 31, 2019, the Company incurred a loss from operations of $0.8 million and used $0.2 million of cash flow in its operating activities. As at March 31, 2019 the Company had a working capital deficiency of $1.7 million making it unfeasible to fund administrative budget and capital commitment amounts that exist for the upcoming year and beyond. As the Company will continue to utilize its financial resources to fund existing administrative budgets and capital commitments for the foreseeable future, there is material uncertainty as to the future operating ability of the Company as it will be contingent upon the Company's ability to successfully identify and procure necessary capital. Furthermore, the Company has contractually committed exploration and development amounts as outlined in Note 14. These commitments could leave the Company potentially cash deficient depending on the outcome of the Company's ongoing operations. As a result, these conditions give rise to a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Management believes that the going concern assumption is appropriate for these interim condensed consolidated financial statements and that the Company will be able to meet its budgeted capital and administrative costs as well as its other potential capital commitments during the upcoming year and beyond. There is no guarantee that the Company will be successful in its endeavors and no certainty as to the timing of the Company's impending exploration commitments. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. BASIS OF PRESENTATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2018, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018.

These interim condensed consolidated financial statements have been prepared on a historical basis except financial instruments, which include marketable securities, are measured at fair value through profit or loss. Unless otherwise stated, these interim condensed consolidated financial statements are presented in United States (US) dollars, and were authorized for issue by the Board of Directors on May 29, 2019.

Significant accounting policies

The Company's significant accounting policies can be read in Note 4 to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2018.

New standards adopted on January 1, 2019

IFRS 16: Leases

On January 1, 2019, the Company adopted IFRS 16 "Leases" to replace the existing guidance of IAS 17 "Leases". The standard establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease. Under IFRS 16, lease arrangements previously classified as operating leases under IAS 17, are recognized on the consolidated statement of financial position as a right-of-use asset and corresponding lease obligation. IAS 17 criteria recognized a lease arrangement as a finance lease when substantially all of the risks and rewards of ownership of the underlying asset are transferred to the lessor, whereas IFRS 16 recognizes a finance lease based on the right to control and the use of an identified asset. The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial adoption is recognized as at January 1, 2019 and does not impact comparative figures or retained earnings. The Company has also elected going forward not to recognize right-of-use assets and lease obligations for low-value assets or short-term lease arrangements. Given that the Company currently has no lease arrangements, no adjustments were required from the adoption of this standard.

The details of the changes in accounting policy are disclosed below.

The lease arrangements are assessed based on whether they meet the following definition of a lease under IFRS 16:

a) Identified asset - The Company has access to the use of a physically distinct asset and the counterparty does not hold the right to substitute an alternative asset for use;
b) Right to direct the use of an asset - The Company has relevant operational decision-making rights for the use and purpose of the underlying asset; and
c) Substantially all of the economic rights and benefits - The Company obtains sole benefit from the use of the asset throughout the duration of the lease term.

Lease arrangements which meet the criteria of a lease are recognized as right-of-use assets and lease obligations at the lease commencement date.

The right-of-use asset is initially measured at cost. Subsequently it is measured at cost less accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease obligation. The lease obligation is measured at the present value of the lease payments outstanding at the commencement date, discounted using the implicit rate, and when not determinable, the Company's incremental borrowing rate. The Company has elected to include both lease and non-lease components in the total estimated lease payments outstanding.

The lease obligation is re-measured when there is a change in estimated future payments arising from a change in a lease term, index or rate, residual guarantee or purchase option.

The Company has applied judgment and estimates when determining the estimated lease payments including the lease term. The assessment of whether a renewal, extension, termination or purchase option is reasonably certain to exercise was considered, based on facts and circumstances, and has the potential to significantly impact the amount of right-of-use asset and lease obligation recognized.

4. TRANSACTIONS

Settlement and Assignment Agreement with YPF

In February 2019, the Company completed the Settlement and Assignment Agreement with YPF SA, the operator of the Llancanelo Asset, wherein both parties have agreed upon terms of assignment of Alianza's 39% participating interest in the Llancanelo Asset to YPF. In return, YPF has released Alianza from all existing and future financial obligations related to Llancanelo Asset operations. This has resulted in the elimination of approximately $12.4 million of exploration and evaluation assets, $1.0 million of property, plant and equipment assets, $1.0 million of joint venture payables, $8.4 million in liabilities for cash calls assumed on acquisitions, $2.5 million in liabilities for considerations payable on acquisitions, and $1.6 million in decommissioning liabilities. No impairment loss or recovery resulted on account of this transaction for the three months ended March 31, 2019 given that impairments on the carrying value of assets associated with the Llancanelo Asset were previously recognized during the year ended December 31, 2018, reducing the net book value to the assessed recoverable amount, being the equivalent amount of the liabilities that were eliminated on account of this settlement.

YPF assumes all rights and obligations relating to the 39% participating interest which the Company purchased through two transactions that occurred in 2017. The YPF Farm-In that the Company entered into with YPF to earn an additional 11% participating interest, in which the Company was to contribute $54 million in capital expenditures and make cash payments of $12.5 million to YPF, has been cancelled as part of the settlement. YPF will release and hold harmless the Company from any and all commitments, damages or penalties related with this cancelation.

5. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable may include certain amounts identified as joint venture receivables, which are comprised of funds advanced to operating partners with respect to exploration and development activities in blocks in which the Company is a non-operating partner. As these funds are expended by the operating partner, recognition of these expenditures is realized as they are booked to exploration and evaluation assets.

Conversely, joint venture payables are amounts due to partners on account of capital activities in blocks that exceed funds advanced by the Company to date to operating partners. The amounts are included in accounts payable when they exist at the end of a reporting period. The table below represents the composition of the accounts receivable and accounts payable balances as at March 31, 2019 and December 31, 2018.

	2019	2018
Value-added tax receivable	**1,131,105**	1,129,943
Prepaid expenses	**46,119**	104,447
Sales receivable	**240,226**	696,571
Other receivables	**295,526**	320,201
Accounts receivable and prepaid expenses	**1,712,976**	2,251,162
Trade accounts payable and accruals (1)	**2,917,180**	2,823,760
Joint venture payables	**76,719**	1,014,137
Capital accruals	**510,000**	513,290
Consideration payable on Acquisitions (1)	**5,000,000**	7,500,000
Accounts payable and accrued liabilities	**8,503,899**	11,851,187

1) Amounts of approximately $1.8 million in trade accounts payable and $5.0 million in consideration payable on acquisitions are currently being negotiated by Company management with the respective counterparties.

6. RESTRICTED CASH

As of March 31, 2019, funds totaling $2,832,672 (December 31, 2018 - $2,782,368) comprised the balance represented in restricted cash. The composition of this amount is as follows:

	2019	2018
SN-9 ANH Guarantee Deposit	**2,476,069**	2,387,518
Tiburon ANH Guarantee Deposit	**356,603**	343,377
TPIC Escrow	**-**	51,473
Restricted cash	**2,832,672**	2,782,368

Term deposits of $2.4 million and $0.3 million were established to secure performance guarantees required by the Colombian National Hydrocarbon Agency ("ANH") under the E&P Contracts for the SN-9 and Tiburon Block. The SN-9 and Tiburon deposits amounts are defined in US dollars by the ANH but are held in Colombian pesos with Colombian banks and are subject to foreign currency fluctuation risks in relation to the US dollar. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed. As of March 31, 2019, the balances of the SN-9 term deposit and Tiburon term deposit were $2,476,069 and $356,603, respectively.

As part of the of the acquisition of the Maria Conchita Block, the Company was required to deposit $9.0 million into escrow that was to directly fund the drilling of the first well under the purchase agreement. The related costs to drill the first well were paid from the escrow account as they were incurred. The remaining balance in the escrow account of $51,473 existing as of December 31, 2018 was released to the former operator of Maria Conchita Block, TPIC, in March 2019 as part of the final transfer of operatorship and liquidation of former joint venture operations (see Note 7). As of March 31, 2019, no balance remains in escrow.

7. EXPLORATION AND EVALUATION ASSETS

Exploration and Evaluation ("E&E") assets consists of the following amounts:

Balance as at December 31, 2017	**67,609,348**
Additions	10,632,369
Acquisition purchase price adjustments	(46,988)
Capitalized general and administrative	409,037
Asset retirement cost addition	296,007
Revision of asset retirement estimate	(156,335)
Capitalized share-based compensation	84,866
Impairment loss	(58,900,000)
Balance as at December 31, 2018	**19,928,304**
Additions	90,000
Recovery from TPIC liquidation	(176,301)
Revision of asset retirement estimate	(106,858)
Reduction from YPF settlement	(12,362,245)
Balance as at March 31, 2019	**7,372,900**

The Company's exploration and evaluation assets represent costs incurred in relation to three exploration blocks in Colombia and three exploration blocks in Argentina. During the three months ended March 31, 2019, the Company completed the transfer of operatorship and liquidation of former joint venture operations relating to the Maria Conchita Block with the former operator, TPIC. Liquidation terms agreed upon included the release of the remaining balance of escrow funds to TPIC of $51,273 (after bank fees), with an offset liquidation of the remaining joint venture funds resulting in payment to the Company of $227,574. The net result of these terms was a net recovery of $176,301, which was recognized as a reduction of former exploration and evaluation expenditures on the Maria Conchita Block.

As previously discussed, during the three months ended March 31, 2019, the Company completed the Settlement and Assignment Agreement with YPF wherein both parties agreed upon terms of assignment of Alianza's participating interest in the Llancanelo Asset to YPF. As a result of this settlement agreement, the remaining balance of $12.4 million related to the Llancanelo Asset was eliminated from the E&E assets balance.

Impairment Test of Exploration and Evaluation Assets

As of March 31,2019, the Company completed an impairment review of its E&E assets. It was determined that impairment indicators exist as of March 31, 2019 due to the carrying amount of E&E assets unlikely to be recovered in full from successful development or by sale.

As a result, an impairment calculation was performed by comparing the E&E assets carrying amount for each CGU to the recoverable amount. The recoverable amount was estimated using fair value less costs of disposal based on market transactions for the purchase of all oil and gas properties, including both E&E and PP&E assets. A portion of the estimated recoverable amount was calculated using a 20% discount rate (level 3 input) on financial instruments included as consideration within the market transactions. As described in Note 8, impairment from this calculation resulted in no impairment recognized for PP&E assets as the discounted cash flow model associated with PP&E assets revealed the recoverable value was greater than the carrying value. Furthermore, the calculated recoverable value attributable to E&E assets was assessed to be greater than the carrying value, resulting in no impairment being recorded for the three months ended March 31, 2019.

8. PROPERTY, PLANT, AND EQUIPMENT

The components of the Company's property, plant and equipment ("PP&E") assets are as follows:

Cost	**Oil and natural gas assets**	**Corporate**	**Total**
As at December 31, 2017	5,067,954	173,245	5,241,199
Capital additions	(29,635)	139,388	109,753
Disposals	-	(99,541)	(99,541)
As at December 31, 2018	5,038,319	213,092	5,251,411
Reduction from YPF settlement	(1,035,986)	-	(1,035,986)
As at March 31, 2019	**4,002,333**	**213,092**	**4,215,425**
Accumulated depletion and depreciation			
As at December 31, 2017	933,153	24,935	958,088
Additions	1,438,565	98,984	1,537,549
As at December 31, 2018	2,371,718	123,919	2,495,637
Additions	120,420	21,227	141,647
As at March 31, 2019	**2,492,138**	**145,146**	**2,637,284**
Net book value			
As at December 31, 2017	4,134,801	148,310	4,283,111
As at December 31, 2018	2,666,601	89,173	2,755,774
As at March 31, 2019	**1,510,195**	**67,946**	**1,578,141**

The Company's property, plant and equipment assets represent costs incurred in relation to two blocks in Argentina as well as certain corporate fixed assets held in Colombia and Argentina.

Impairment Test of PP&E Assets

As of March 31, 2019, the Company completed an impairment review of its PP&E assets. It was determined that impairment indicators exist at March 31, 2019 as the net assets were greater than the Company's market capitalization.

The recoverable amount of PP&E for the Mariposa asset is determined as the fair value less costs of disposal using a discounted cash flow method (level 3 inputs). Using a discount rate of 20%, an impairment test was performed, which did not result in an impairment loss being recorded in the statement of loss and comprehensive loss. If the discount rate was one percent higher, this would result in no additional impairment. If cash flows were five percent lower, still no additional impairment would be required.

As previously discussed, during the three months ended March 31, 2019, the Company completed the Settlement and Assignment Agreement with YPF wherein both parties agreed upon terms of assignment of Alianza's participating interest in the Llancanelo Asset to YPF. As a result of this settlement agreement, the remaining balance of $1.0 million related to the Llancanelo Asset was eliminated from the PP&E assets balance. As such, no further impairment analysis is required regarding the Llancanelo Asset.

9. REVENUE

The following table presents the Company's oil and natural gas revenue disaggregated by product type for the three months ended March 31, 2019 and 2018:

	2019	2018
Production revenue:		
Oil and condensate sales	171,889	2,270,243
Total oil and natural gas production revenue	171,889	2,270,243
Net revenue on carried working interest	215,608	351,606
Total oil and natural gas revenue	**387,497**	**2,621,849**

As at March 31, 2019, receivables from contracts with customers, which are included in accounts receivable, were $240,226 (December 31, 2018 - $696,571).

10. SHARE CAPITAL

Common shares

As at March 31, 2019, the Company was authorized to issue an unlimited number of common shares, with no par value, with holders of common shares entitled to one vote per share and to dividends, if declared. As of March 31, 2019 and December 31, 2018 and 2017, the Company had 24,220,160 common shares outstanding for a share capital balance of $63,799,393.

Stock Options

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities and consultants, who are all considered related parties to the Company. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.
As at March 31, 2019, a total of 1,542,100 (December 31, 2018 – 1,542,100) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

A summary of the changes in stock options is presented below:

	Stock options	Weighted average exercise price (C$)
Balance, December 31, 2017	2,289,643	7.97
Options issued	515,600	4.45
Options forfeited	(673,393)	8.18
Expired options	(589,750)	7.82
Balance, December 31, 2018 and March 31, 2019	**1,542,100**	**6.76**

The following summarizes information about stock options outstanding as at December 31, 2018:

Exercise prices (C$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
3.60	415,600	9.02	277,067
6.10	41,500	7.40	41,500
8.00	1,085,000	8.40	1,035,000
	1,542,100	**8.54**	**1,353,567**

No stock options were issued during the three months ended March 31, 2019. The value of the stock options vesting in the three months ended March 31, 2019 equated to $67,439, which was expensed as share-based payments.

Warrants

Broker Warrants

Pursuant to the brokered private placement of common shares in February 2017, the Company issued 196,800 warrants to brokers of the private placement based on the terms of the agency agreement (the “Broker Warrants”). These Broker Warrants were for a two-year term, which expired on January 31, 2019.

Purchase Warrants

Pursuant to various transactions in 2017, the Company issued a total of 5,625,000 Units, each consisting of one common share and one share purchase warrant, each exercisable into one additional common share at a price of C$10.50 per share until July 31, 2022 (the “Purchase Warrants”). A fair value of $10,201,910 (C$12,754,916), net of issue costs, was recognized at the time of the issuance of the Purchase Warrants.

The 5,625,000 Purchase Warrants are publicly listed for trading on the TSX-V under the symbol “CZR.WT”.

Loss per share

For purposes of the loss per share calculations for the periods ended March 31, 2019 and 2018 there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended March 31, 2019, 1,542,100 stock options and 5,625,000 Purchase Warrants were excluded as their impact was anti-dilutive.

11. FINANCE

The components of finance expenses/income are as follows:

For three months ended March 31	2019	2018
Cash:		
Interest income	(45,180)	(77,985)
Interest expenses and bank charges	7,982	97,482
	(37,198)	19,497
Non-cash:		
Accretion on decommissioning obligation	24,604	28,345
	24,604	28,345
Total finance expenses (income)	**(12,594)**	**47,842**

12. ASSETS HELD FOR SALE

Horizon Investment

The investment of the shares of Horizon Petroleum Ltd. held by the Company have been classified as held for sale. At March 31, 2019, the fair market value of the 12,250,000 Horizon Shares was $412,520 (C$551,250) resulting in an unrealized gain on assets held for sale of $92,140 (C$122,500) representing the increase in share value for the three months ended March 31, 2019 between the closing price as of December 31, 2018 of $0.0257 (C$0.035) per share and the closing price as of March 31, 2019 of $0.0337 (C$0.045) per share, net of foreign exchange.

13. RELATED PARTIES

During the period ended March 31, 2018, the Company paid a monthly advisory fee to a firm affiliated with a director of CruzSur. As per the consulting agreement with this firm, CruzSur pays a monthly fee of C$10,000 plus reimbursable expenses. Furthermore, additional fees are to be paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services.

14. COMMITMENTS

A summary of the Company's estimated capital commitments (in millions of dollars) are as follows:

Block	2019	2020	2021	Total
SN-9 Block (1)	-	22.3	-	**22.3**
Tiburon Block (2)	3.0	-	-	**3.0**
Total	**3.0**	**22.3**	**-**	**25.3**

1) CruzSur's ANH commitment to carry out the minimum requirement to process and interpret 204.4 km of 2D seismic and drill one exploration well (for which the Company will pay 100% of the costs on the terms of the SN-9 Acquisition) according to Phase 1 of the contractual exploration program, which must be fulfilled by mid-year 2020.
2) Relates to CruzSur's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 69.75 km^2 of 3D seismic instead according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to disputes in the region, with current ANH deadline of 2019 with extensions if disputes were resolved in 2019. The commencement date for seismic acquisition is unknown at this time. The Company assumes that operations will commence in 2019.

The expenditures provided in the above table only represent the Company's estimated cost to satisfy contract requirements. Actual expenditures to satisfy these commitments, initiate production or create reserves may differ from these estimates. The expenditures in the above table are based on the latest possible date required per contract and may be incurred at an earlier date.

15. SEGMENTED INFORMATION

The Company is engaged in the exploration and development of oil and gas. Management has defined the operating segments of the Company based on geographical areas, identifying operations held in Argentina and Colombia as separate reporting segments. The Corporate segment reflects balances and expenses related to all Company operations outside of Argentina and Colombia, which collectively represent the corporate operations of the Company. Management finds that each of the defined reporting segments have distinct economic characteristics and regulatory environments.

The following tables show information regarding the Company's segments for periods ended March 31, 2019 and 2018.

For the three months ended March 31, 2019	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	171,889	-	-	171,889
Net revenue on carried working interest	215,608	-	-	215,608
Royalty expense	(20,154)	-	-	(20,154)
Net oil and natural gas revenue	**367,343**	**-**	**-**	**367,343**
Expenses:				
Operating expenses	151,858	-	-	151,858
Inventory revaluation	290,598	-	-	290,598
General and administrative	221,422	221,865	237,676	680,963
Business development	-	-	7,935	7,935
Share based payments	-	-	67,439	67,439
Depletion and depreciation	134,315	7,332	-	141,647
Finance	21,257	(34,279)	428	(12,594)
Foreign exchange loss	176,961	(102,250)	(113,536)	(38,825)
Loss on revaluation of asset held for sale	-	-	(92,140)	(92,140)
	996,411	**92,668**	**107,802**	**1,196,881**
Loss before income taxes	**(629,068)**	**(92,668)**	**(107,802)**	**(829,538)**
Assets, March 31, 2019	**8,040,721**	**7,051,215**	**632,802**	**15,724,738**
Liabilities, March 31, 2019	**8,982,238**	**673,444**	**2,366,980**	**12,022,662**

For the three months ended March 31, 2018	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	2,270,243	-	-	2,270,243
Net revenue on carried working interest	351,606	-	-	351,606
Royalty expense	(446,478)	-	-	(446,478)
Net oil and natural gas revenue	**2,175,371**	**-**	**-**	**2,175,371**
Expenses:				
Operating expenses	1,400,808	-	-	1,400,808
Inventory revaluation	186,729	-	-	186,729
General and administrative	60,609	310,659	1,334,567	1,705,835
Business development	25,760	7,186	56,857	89,803
Share based payments	-	-	160,284	160,284
Depletion and depreciation	632,531	9,899	-	642,430
Finance	42,554	(62,734)	68,022	47,842
Foreign exchange loss/(gain)	213,047	(230,043)	(82,633)	(99,629)
Loss on revaluation of asset held for sale			96,895	96,895
	2,562,038	**34,967**	**1,633,992**	**4,230,997**
Loss before income taxes	**(386,667)**	**(34,967)**	**(1,633,992)**	**(2,055,626)**
Assets, March 31, 2018	**58,450,061**	**26,815,049**	**14,987,862**	**100,252,972**
Liabilities, March 31, 2018	**25,658,101**	**6,211,984**	**5,164,987**	**37,035,072**

16. SUPPLEMENTAL CASH FLOW INFORMATION

For periods ended March 31	2019	2018
Accounts receivable	**538,186**	143,775
Inventory	**23,013**	619,190
Accounts payable and accrued liabilities	**(11,791,890)**	3,483,728
Woking capital adjustments for Bochica acquisition	**-**	2,125,000
Working capital adjustments for YPF settlement	**11,801,832**	-
Change in non-cash working capital	**571,141**	6,371,693
Relating to:		
Operating activities	**579,478**	578,626
Investing activities	**(8,337)**	5,793,067
Change in non-cash working capital	**571,141**	6,371,693

17. SUBSEQUENT EVENTS

a) Convertible Debenture Financing

In April 2019, the Company arranged a non-brokered private placement of secured convertible debentures for aggregate proceeds of $2.5 million. The debentures will mature five years from the date of issuance, will bear interest at the rate of 10% per annum and will be secured by a general security agreement on the assets of the Company. Under the terms of the debentures, the lenders may, at any time prior to the maturity date convert any or all of the principal amount of the debentures into units of the Company at a conversion price of C$0.15 per unit. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of C$0.15 for a period of five years. At the option of the Company, accrued interest may be paid in cash or converted into common shares of the Company at the then market price of the Company's common shares, subject to TSX-V approval.

b) Resolution of Dispute Affecting SN-9 Block

In May 2019, the Company reached a resolution with Clean Energy Resources S.A.S ("Clean") to the Company's original acquisition of economic beneficial interest in the SN-9 Block. The terms of the resolution are as follows:

- Clean's participation in the SN-9 Block will increase from a 5% to a 13% interest reducing the Company's share from 80% to 72%, which will comprise two components:
- First component - the original carried working interest will increase by 3%, from 5% to 8%
- Second component - Clean will acquire an additional 5% by one of two options:
    - Option 1 - payment of $1.2 million to the Company if Clean chooses to only participate in the first phase of the exploration program.
    - Option 2 - payment of $2.9 million to the Company if Clean chooses to participate in both phases of the exploration program.

  Payment to the Company for either option will be received through the sale of 62.5% of Clean's production on the SN-9 Block corresponding to this 5% interest. Furthermore, the share of Net

Profit Interest and Overriding Royalties (as defined in the SN-9 PSA and discussed further below) related to this additional 5% working interest will be the obligation of Clean and not carried by the Company.

c) Resolution of Dispute Affecting Tiburon Block

In May 2019, the Company reached a resolution with ColPan Oil & Gas Limited ("ColPan"), to the Company's original acquisition of economic beneficial interest in the Tiburon Block. The terms of the resolution are as follows:

- CruzSur will earn its economic beneficial interest based on the executed work program as follows:
  - 10% working interest on the completion of the Phase 3 3D seismic commitment
  - An additional 15% working interest on the drilling and testing of one exploration well
  - A further 15% working interest on the drilling and testing of a second exploration well
- After completing the 3D seismic commitment, CruzSur is not obligated to drill any of the exploration wells and can exit the contract with no further commitments, but will lose the original $0.3 million performance guarantee currently held in deposit with the ANH (see Note 6); alternatively, CruzSur may elect to stay in the license with a 10% working interest.
- CruzSur will cover, in the form of a loan, unpaid management fees of $120,000 arising from the dispute period. This money will be returned to CruzSur if the Company is still participating in the block when the ANH performance guarantee is returned at the end of the Phase 3 commitment.
- In the event that CruzSur does not fulfill the Phase 3 commitment, except for reasons beyond its control, CruzSur will cede a 1.5% carried working interest in the SN-9 Block to Clean, and forfeit the aforementioned $120,000 loan.

d) Non-Binding Letter of Intent for Farmout of the SN-9 Block to Panacol

In May 2019, in parallel with resolving the above-mentioned disputes, the Company has also negotiated terms for a farmout agreement with Panacol Oil & Gas ("Panacol") on the SN-9 Block through a non-binding letter of intent, the details of which are as follows:

- Panacol is to finance the ANH Phase 1 minimum exploration commitment of $22.3 million through the provision of services at market rates.
- CruzSur will reimburse Panacol for its portion of these costs ("SN-9 Investment Costs") out of 60% of its share of any commercial production realized from the SN-9 Block, after deduction of costs, royalties and Net Profit Interest.
- Panacol will share equally in the revised terms required to resolve the SN-9 dispute with Clean.
- Panacol will acquire a participating interest of 36% upon completion of the ANH Phase 1 commitments.
- Additionally, Panacol will finance the acquisition of 70km^2 of 3D seismic on the Tiburon block through services up to a value of $5 million and, upon completion of the commitment, will receive an additional 1.5% working interest in the SN-9 Block coming from CruzSur's 36% working interest. The seismic acquisition costs are to be paid by CruzSur out of 60% of its commercial production from the SN-9 Block after costs, royalties and Net Profit Interest.

- Panacol will be entitled to receive the $2.4 million performance guarantee currently held in deposit with the ANH (see Note 6) when returned by the ANH upon completion of the Phase 1 commitments.
- Panacol will recognize past costs of $600,000 which are to be deducted from the SN-9 Investment Costs to be repaid by CruzSur out of commercial production.
- Panacol and CruzSur will share the SN-9 PSA commitments proportionally relative to their respective working interests, and will include:
    - Carry of Clean for Phase 1 exploration commitments as defined in the ANH contract.
    - Should the parties elect to proceed to Phase 2, carry of Clean for the Phase 2 exploration commitments as defined in the ANH contract.
    - Net Profit Interest of $6.5 million to be paid out of 60% of production share.
    - Overriding Royalty of 6% to be paid to Clean.
- Expenditures outside of the minimum work commitment will be divided between the parties in proportion to their participating interest.
- Upon acceptance of the non-binding letter of intent, the Parties will complete a definitive Farmout Agreement.