CRUZSUR ENERGY CORP

(formerly PentaNova Energy Corp.)

ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and related financial information are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. They include certain amounts that are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this document is consistent with that contained in the consolidated financial statements.

In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies adopted by management. If alternate accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. Management has established systems of accounting and internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and produce reliable accounting records for the preparation of financial information. Policies and procedures are maintained to support the accounting and internal control systems.

The independent external auditors, Ernst & Young LLP, have conducted an examination of the consolidated financial statements on behalf of shareholders. The auditors have unrestricted access to the Company and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This Committee reviews the consolidated financial statements with management and the auditors, as well as recommends to the Board of Directors the external auditors to be appointed by the shareholders at each annual meeting. The Audit Committee meets at least quarterly to review and approve interim financial statements prior to their release and recommend their approval to the Board of Directors.

The Board of Directors on the recommendation of the Audit Committee has approved the consolidated financial statements and information as presented.

(signed)	*(signed)*
Dr. Ralph Gillcrist Chief Executive Officer	Chris Reid Chief Financial Officer

April 30, 2019
Calgary, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CruzSur Energy Corp.

Opinion

We have audited the consolidated financial statements of CruzSur Energy Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years 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 Company 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates the Company incurred a net loss of $61.32 million during the year ended December 31, 2018 and, as of that date, the Company's current assets exceeded its total current liabilities by $13.0 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of the matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

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, 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 Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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 the 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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.

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.

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

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Canada
April 30, 2019

CRUZSUR ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in U.S. Dollars)	**December 31, 2018**	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	**1,616,970**	8,962,371
Short term investments	**-**	402,016
Accounts receivable and prepaids (Note 10)	**2,251,162**	3,956,243
Inventory (Note 11)	**330,057**	966,818
Assets held for sale (Note 12)	**314,287**	683,539
Restricted cash (Note 13)	**2,782,368**	11,732,933
	7,294,844	26,703,920
Non-current Assets		
Exploration and evaluation assets (Note 14)	**19,928,304**	67,609,348
Property, plant and equipment (Note 15)	**2,755,774**	4,283,111
Total Assets	**29,978,922**	98,596,379
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 10)	**11,851,187**	16,585,780
Deferred Revenue (Note 16)	**75,141**	-
Cash calls assumed on acquisition (Note 9)	**8,369,461**	8,186,280
	20,295,789	24,772,060
Non-current Liabilities		
Deferred tax liability (Note 17)	**-**	3,831,850
Decommissioning obligation (Note 18)	**5,194,788**	4,935,874
Total Liabilities	**25,490,577**	33,539,784
Shareholders' Equity		
Share capital (Note 19)	**63,799,393**	63,799,393
Contributed surplus (Note 19)	**6,509,311**	5,900,862
Warrants (Note 19)	**10,201,910**	10,201,910
Deficit	**(75,769,236)**	(14,533,961)
Accumulated other comprehensive loss	**(253,033)**	(311,609)
Total Shareholders' Equity	**4,488,345**	65,056,595
Total Liabilities and Shareholders' Equity	**29,978,922**	98,596,379

Commitments (Note 25)

Subsequent Events (Note 28)

See accompanying notes to the consolidated financial statements.

CRUZSUR ENERGY CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31

(Expressed in U.S. Dollars)	**2018**	2017
Revenue:		
Oil and natural gas revenue (Note 16)	**5,257,366**	2,834,762
Net revenue on carried working interest (Note 16)	**998,705**	607,174
Royalty expense	**(1,007,799)**	(574,554)
	5,248,272	2,867,382
Expenses:		
Operating expenses	**3,364,116**	1,982,364
Inventory revaluation (Note 11)	**717,270**	205,302
General and administrative (Note 20)	**4,943,366**	4,093,672
Business development (Note 21)	**187,834**	5,000,345
Share based payments (Note 19)	**523,583**	5,472,151
Cost of acquisition (Note 8)	**-**	1,019,415
Gain on terminated farmout transaction (Note 9(b))	**(2,483,077)**	-
Depletion and depreciation (Note 15)	**1,537,549**	958,088
Impairment loss (Note 14)	**58,900,000**	-
Finance (Note 22)	**25,934**	136,440
Foreign exchange loss	**2,267,920**	575,642
Loss on revaluation of asset held for sale (Note 12)	**330,902**	489,658
	70,315,397	19,933,077
Loss before income taxes	**(65,067,125)**	(17,065,695)
Deferred income tax recovery (note 17)	**3,831,850**	1,313,001
Loss from continuing operations	**(61,235,275)**	(15,752,694)
Loss from discontinued operations (Note 12)	**-**	1,745,517
Net loss	**(61,235,275)**	(14,007,177)
Other comprehensive loss		
Foreign currency translation adjustment	**58,576**	(491,919)
Transfer of translation loss realized on disposal of foreign operations	**-**	180,310
	58,576	(311,609)
Comprehensive loss	**(61,176,699)**	(14,318,786)
Loss per share – basic and diluted (Note 19)	**(2.53)**	(0.74)
Weighted average number of common Shares outstanding	**24,220,160**	18,871,731

See accompanying notes to the consolidated financial statements.

CRUZSUR ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31

(Expressed in U.S. Dollars)	**2018**	2017
Operating Activities		
Net loss from continuing operations	**(61,235,275)**	(15,752,694)
Items not affecting cash:		
Impairment loss (Note 14)	**58,900,000**	-
Depletion and depreciation (Note 15)	**1,537,549**	958,088
Share based payments (Note 19)	**523,583**	5,472,151
Unrealized foreign exchange loss (gain)	**593,922**	528,784
Shares issued for services rendered (Note 19)	-	1,605,181
Cost of acquisition (Note 8)	-	1,019,415
Loss on revaluation of assets held for sale (Note 12)	**330,902**	489,658
Accretion on decommissioning obligations (Note 18)	**119,241**	31,294
Deferred income tax expense/(recovery) (Note 17)	**(3,831,850)**	(1,313,001)
Change in non-cash working capital (Note 27)	**470,297**	(199,219)
Continuing operations	**(2,591,631)**	(7,160,343)
Discontinued operations	-	(130,323)
Cash used in operating activities	**(2,591,631)**	(7,290,666)
Investing Activities		
Cash payments on Maria Conchita Acquisition, net of cash acquired (Note 9(a))	**(2,250,000)**	(1,098,295)
Cash payments on SN-9 Acquisition (Note 9(b))	-	(2,500,000)
Cash payments on Tiburon Acquisition (Note 9(c))	-	(250,000)
Exploration and evaluation asset additions (Note 14)	**(10,994,417)**	(4,276,208)
Property, plant and equipment additions (Note 15)	**(109,753)**	(914,495)
Acquisition of Bolivar, net of cash acquired (Note 9(e))	-	(48,929)
Acquisition of Alianza, net of cash acquired (Note 9(g))	-	(7,946,594)
Acquisition of Roch assets (Note 9(h))	-	(2,000,000)
Acquisition of KM-8 operatorship and assets, net of cash acquired (Note 9(i))	-	(2,000,000)
Short-term investments	**417,320**	-
Investment in Horizon (Note 12)	-	(1,176,000)
Change in restricted cash (Note 13)	**8,702,742**	(11,770,781)
Change in non-cash working capital (Note 27)	**(354,726)**	882,100
Cash used in investing activities	**(4,588,834)**	(33,599,202)
Financing Activities		
Shares issued, net of costs (Note 19)	-	38,658,169
Warrants issued, net of costs (Note 19)	-	3,648,285
Cash acquired on Transaction (Note 8)	-	8,188,819
Transaction costs	-	(396,820)
Change in non-cash working capital (Note 27)	-	(53,685)
Cash provided by financing activities	-	50,044,768
Net increase in cash	**(7,180,465)**	9,154,900
Foreign exchange gain on cash	**(164,936)**	(192,529)
Increase in cash	**(7,345,401)**	8,962,371
Cash, beginning of period	**8,962,371**	-
Cash, end of period	**1,616,970**	8,962,371

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

CRUZSUR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[1]	Total
Balance at December 31, 2016	**5,000**	**-**	**-**	**-**	**(526,784)**	**-**	**(526,784)**
Shares redeemed (Note 19)	(5,000)	-	-	-	-	-	-
Shares issued pursuant to private placement (Note 8)	16,044,156	29,615,178	-	-	-	-	29,615,178
Broker warrants issued pursuant to private placement (Note 19)	-	(308,866)	308,866	-	-	-	-
Shares issued to consultant (Note 19)	120,000	449,136	-	-	-	-	449,136
Shares issued in Transaction (Notes 7 & 15)	1,947,329	7,252,621	-	-	-	-	7,252,621
Costs incurred pursuant to Transaction (Note 19)	-	(396,820)	-	-	-	-	(396,820)
Shares issued for transaction costs (Notes 12 & 19)	160,000	595,903	(595,903)	-	-	-	-
Shares issued for Colombian assets (Note 9)	20,614	150,000	-	-	-	-	150,000
Shares issued pursuant to private placement (Note 8)	2,062,500	9,039,821	-	-	-	-	9,039,821
Warrants on private placement (Note 8)	-	-	-	3,648,285	-	-	3,648,285
Shares issued for Alianza acquisition (Note 9)	1,140,625	5,201,690	-	-	-	-	5,201,690
Warrants on acquistions (Note 9)	-	-	-	2,098,310	-	-	2,098,310
Shares issued as finders fees on Alianza Acqusition (Note 9)	46,875	187,500	-	-	-	-	187,500
Share issued for advances toward acquisitions (Note 19)	2,496,875	11,344,685	-	-	-	-	11,344,685
Warrants issued for advances toward acquisitions (Note 19)	-	-	-	4,455,315	-	-	4,455,315
Shares issued to for services rendered (Note 23)	74,686	242,545	-	-	-	-	242,545
Shares issued on acquisition success fee (Note 23)	106,500	426,000	-	-	-	-	426,000
Share based compensation (Note 19)	-	-	6,187,899	-	-	-	6,187,899
Loss from continuing operations	-	-	-	-	(15,752,694)	-	(15,752,694)
Income from discontinued operations (Note 12)	-	-	-	-	1,745,517	-	1,745,517
Foreign currency translation adjustment	-	-	-	-	-	(491,919)	(491,919)
Transfer of translation loss realized on disposal of foreign operations	-	-	-	-	-	180,310	180,310
Balance at December 31, 2017	**24,220,160**	**63,799,393**	**5,900,862**	**10,201,910**	**(14,533,961)**	**(311,609)**	**65,056,595**

	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[1]	Total
Balance at December 31, 2017	**24,220,160**	**63,799,393**	**5,900,862**	**10,201,910**	**(14,533,961)**	**(311,609)**	**65,056,595**
Loss from continuing operations	-	-	-	-	(61,235,275)	-	(61,235,275)
Loss from discontinued operations (Note 12)	-	-	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	58,576	58,576
Share based compensation (Note 19)	-	-	608,449	-	-	-	608,449
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**

(1) Accumulated other comprehensive loss

See accompanying notes to the 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”) and prior thereto operated under the name PMI Resources Ltd. (“PMI”). On April 4, 2017, the Company completed a transaction (the “Transaction”) whereby PMI acquired all of the outstanding shares of PentaNova Energy Corp., a private corporation registered under the laws of the territory of the British Virgin Islands (“PentaNova BVI”) with oil and gas assets in the country of Colombia. The Transaction constituted a reverse asset acquisition in accordance with IFRS, whereby the shareholders of PentaNova BVI took control of PMI (Note 7). Following the completion of the Transaction, the Company changed its name from PMI Resources Ltd. to PentaNova Energy Corp. on June 2, 2017. Subsequently, on September 4, 2018, the Company formally changed its name from PentaNova Energy Corp. to CruzSur Energy Corp. References within these financial statements to the “Company” for periods, dates and/or transactions prior to the Transaction are in reference to PentaNova BVI, as the corporate entity of interest pre-Transaction. Alternatively, references within these financial statements to the “Company” for periods, dates and/or transactions subsequent to the Transaction are in reference to CruzSur, as the corporate entity of interest post-Transaction. The comparative periods reflected in these financial statements are those of PentaNova BVI.

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 “PNO”.

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 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 year ended December 31, 2018, the Company incurred a loss from continuing operations of $61.2 million and used $2.6 million of cash flow in its operating activities. As at December 31, 2018 the Company had a working capital deficiency of $13.0 million which is not considered sufficient 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 25. 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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements have been approved and authorized for issuance by the Company's Board of Directors on April 30, 2019.

Basis of measurement

The 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.

Functional and presentation currency

Unless otherwise stated, these consolidated financial statements are presented in United States (US) dollars. The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has US dollar functional currency, which is the primary economic environment in which each subsidiary operates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Basis of consolidation

Subsidiaries

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The following table summarizes the Company’s subsidiaries, their country of incorporation, and the Company’s ownership interest.

Subsidiaries	Country of Incorporation	Ownership Interest
1129523 BC Ltd.	Canada	100%
PentaNova BVI Ltd.	British Virgin Islands	100%
Patogonia Oil Corp.	British Virgin Islands	100%
Bochica Investment Holdings Ltd.	British Virgin Islands	100%
San Jorge Oil & Gas Inc.	USA	100%
Bolivar Energy (Colombia) Inc.	Barbados	100%
MKMS Enerji A.S.	Turkey	100%
MKMS Enerji Sucursal Colombia	Colombia	100%
Bolivar Energy Colombia Inc. Sucursal Colombia	Colombia	100%
Alianza Petrolera Argentina S.A.	Argentina	100%
CRI Holding Inc. Sucursal Argentina	Argentina	100%

Jointly controlled operations and assets

Many of the Company’s oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company’s share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

The Company currently has concessions in Colombia and Argentina. The concessions in which the Company participated in Colombia are governed by a Joint Operating Agreement (“JOA”). The concessions in which the Company participates in Argentina are governed by a Union Transitoria de Empresas (“UTE”). In each case of a JOA or UTE, an agreement is entered into between two or more parties with the purpose of gathering human, technological and economic resources temporarily, in order to develop or execute a project, render a service or provide a specific supply. The parties to a JOA or UTE maintain at all times their legal and economic independence. No separate legal entity or entities are established by the parties of the JOA or UTE to conduct business on behalf of the parties. The Company has determined these agreements to result in joint operations, and accounts for these operations in accordance with its proportionate working interest (“WI”).

Transactions eliminated on consolidation
All intercompany balances and transactions are eliminated upon consolidation in preparing the financial statements.

b) Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments. CruzSur recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements of financial instruments into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

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

Classification and Measurement of Financial Assets
The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. There are three measurement categories into which the Company can classify its financial assets:

- Amortized Cost: Includes 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 represent solely payments of principal and interest;
- Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or
- Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss. This includes all derivative financial instruments.

On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. There is no subsequent reclassification of fair value changes to earnings following the derecognition of the investment. However, dividends that reflect a return on investment continue to be recognized in net earnings. This election is made on an investment-by-investment basis.

At initial recognition, the Company measures a financial asset at its fair value, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in net earnings.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Impairment of Financial Assets

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

As at December 31, 2018, all of the Company's sales receivables were outstanding for less than 90 days. The average expected credit loss on the Company’s sales accounts receivable was 0 percent at December 31, 2018.

Classification and Measurement of Financial Liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

Prior to the adoption of IFRS 9, Financial Instruments on January 1, 2018 the following accounting policy was in place: The Company initially measures financial instruments at estimated fair value. The Company's loans and receivables, comprised of cash and accounts receivables, are included in current assets due to their short-term nature. Financial liabilities are categorized as "other financial liabilities" consisting of accounts payable and accrued liabilities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of loss as a finance cost. Loans and receivables are comprised of cash and cash equivalents and accounts receivable in the consolidated statement of financial position.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash held at banks and short-term deposits with an original maturity of three months or less.

Short term investments
Short term investments are recorded at fair value through profit or loss on initial recognition. Subsequent measurement is recorded at fair value and changes therein are recognized in the consolidated statements of loss and comprehensive loss.

Other financial liabilities
Other financial liabilities are financial liabilities that are not quoted in an active market and with no intention of being traded. They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current liabilities. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective interest method. For accounts payable that have maturity dates of less than one year, the Company estimates their carrying value approximates their fair value due to their short-term nature.

c) Foreign currency

The Company's functional currency is the Canadian dollar while each of its subsidiaries with significant activity has a US dollar functional currency. Transactions in currencies other than each entity's functional currency are initially recorded at the exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate as at the date of the consolidated statement of financial position. All differences are recorded in net earnings or loss. Non-monetary items are translated using the historical exchange rates prevailing at the dates of the initial transactions.

The Company's financial statements are presented in US dollars. Management selected the US dollar as the presentation currency as it best facilitated comparability with industry peers. Assets and liabilities of entities with functional currencies other than US dollars are translated at the period end exchange rates, results of their operations are translated at average exchange rates for the period, and shareholders' equity is translated at the rate effective at the time of the transaction. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

d) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax
Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

e) Value added tax ("VAT")

VAT on purchases is applied against VAT on sales to reduce the amount paid to the applicable government. VAT is recorded as a receivable when it is expected that it will be recovered through future sales. VAT does not expire and may be carried forward indefinitely.

f) Exploration & evaluation assets

Capitalization
All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs, other direct costs of exploration (drilling, testing and evaluating the technical feasibility and commercial viability of extraction) and appraisal and including any directly attributable general and administration costs and share-based payments, are accumulated and capitalized as exploration and evaluation assets.

Certain costs incurred prior to acquiring the legal rights to explore are charged directly to net income (loss).

Depletion and depreciation
Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities. At the completion of appraisal activities, if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a property, plant and equipment asset into the cash-generating unit ("CGU") to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. Technical feasibility and commercial viability are considered to be demonstrable when proved or probable reserves are determined to exist and necessary infrastructure and markets are in place for sustainable operations of the asset. If it is determined that technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in net income (loss).

Expired land leases included as undeveloped land in exploration and evaluation assets are recognized in exploration and evaluation cost in net income (loss) upon expiry and are considered prior to expiry. Management considers upcoming land lease expiries and may recognize the costs in advance of expiry.

Impairment
Indicators of impairment of exploration and evaluation assets are assessed at each reporting date which can include upcoming land lease expiries, third party land valuations and other information. When there are such indications, an impairment test is carried out and any resulting impairment loss is written off to net income (loss). The recoverable amount is the greater of fair value, less costs of disposal, or value-in-use.

g) Property, plant, & equipment

The Company's property, plant and equipment is comprised of petroleum and natural gas assets and corporate assets.

Capitalization
Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, if any. Petroleum and natural gas assets consists of the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Petroleum and natural gas assets include developing and producing interests such as land acquisitions, geological and geophysical costs, facility and production equipment, including any directly attributable general and administration costs and share-based payments and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as developing and producing petroleum and natural gas interests when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves, and are accumulated on a field or geotechnical area basis. The cost of day-to-day servicing of an item of petroleum and natural gas assets is expensed in income or loss as incurred. Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise

from the continued use of the asset. Any gain or loss arising from the disposal of an asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in net income or loss.

Depletion and depreciation
The costs for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves.

Petroleum and natural gas assets are not depleted until production commences. This depletion calculation includes actual production in the period and total estimated proved and probable reserves attributable to the assets being depleted, taking into account total capitalized costs plus estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production (before royalties) are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Corporate assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance method so as to write off the cost of these assets, less estimated residual values, over their estimated useful lives.

Impairment
CruzSur's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. Estimates of future cash flows used in the calculation of the recoverable amount are based on reserve evaluation reports prepared by independent reservoir engineers.

The assessment for impairment entails the quarterly review of the CGU's for indicators of impairment. Indicators are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the CGU is estimated, being the higher of fair value, less costs of disposal, and value in use. Fair value, less costs of disposal, is derived by estimating the discounted after-tax future net cash flows, when no comparable market transactions are available. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate. The carrying value of the CGU is then compared with its recoverable amount. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

Impairments of property, plant and equipment are reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

h) Inventory

The Company recognizes crude oil inventory held in storage tanks, as well as supplies. They are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and relates to the direct cost of production on an actual basis. Oil inventories include expenditures incurred to produce, upgrade and transport the product to the storage facilities and include operating, depletion and depreciation expenses and cash royalties. Allocated to inventory is a relevant share of operating, royalty expense and depletion. Depending on inventory levels, this could increase or decrease inventory otherwise recorded.

i) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in net income (loss).

CruzSur determines whether a transaction or other event is a business combination by determining if the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs, as defined as follows:

- Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

- Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

If the assets acquired are not determined to be a business, the Company shall account for the transaction or other event as an asset acquisition.

j) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and reclamation requirements. Costs related to these abandonment activities are estimated by management in consultation with the Company's engineers based on risk-adjusted current costs which take into consideration current technology in accordance with existing legislation and industry practices.

Decommissioning obligations are measured at the present value of the best estimate of expenditures required to settle the obligations at the reporting date. When the fair value of the liability is initially measured, the estimated cost, discounted using a risk-free rate, is capitalized by increasing the carrying amount of the related petroleum and natural gas assets. The increase in the provision due to the passage of time, or accretion, is recognized as a finance expense. Increases and decreases due to revisions in the estimated future cash flows are recorded as adjustments to the carrying amount of the related petroleum and natural gas assets.

Actual costs incurred upon settlement of the liability are charged against the obligation to the extent that the obligation was previously established. The carrying amount capitalized in petroleum and natural gas assets is depleted in accordance with the Company's depletion policy. The Company reviews the obligation at each reporting date and revisions to the estimated timing of cash flows, discount rates and estimated costs will result in an increase or decrease to the obligations. Any difference between the actual costs incurred upon settlement of the obligation and recorded liability is recognized as an increase or reduction in income.

k) Revenue recognition

Revenue from the sale of commodities, which include oil and gas, is recognized when performance obligations are met and control has transferred from the Company to customers. The transfer of control of oil and natural gas usually occurs at a point in time and coincides with title passing to the customer and the customer taking physical possession. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred the significant risks and rewards of ownership to the buyer; and
- The Company has the present right to payment

Revenue is measured based on the consideration specified in the sales contracts with customers and is recorded on a net working interest basis for producing properties, of which CruzSur has a related ownership interest. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. Any variability in the transaction price is recognized in the same period which the related revenue is earned and recorded.

The Company does not have any contracts where the period between the transfer of promised goods and services to the customer and payment by the customer exceeds one year. As a result, CruzSur does not adjust its revenue transactions for the time value of money. The Company's revenue transactions do not contain significant financing components.

During the prior year ended December 31, 2017, revenue was accounted for under IAS 18. Revenue from the sale of oil and natural gas was recognized when the significant risks and rewards of ownership were transferred, which was, generally, when title passed to the customer.

l) Share-based compensation

Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of share-based compensation expense directly attributable to the exploration and development activities of exploration and evaluation assets and petroleum and natural gas assets, with a corresponding decrease to share-based compensation expense. At the time the stock options or warrants are exercised, the issuance of common shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

n) Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

o) Share capital

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

p) Use of estimates and judgements

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies
The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

i) *Identification of cash-generating units*
The Company's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

ii) *Impairment of property, plant and equipment and exploration and evaluation assets*
Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

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 in assessing economic and technical feasibility.

iv) *Income taxes*
Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Key sources of estimation uncertainty
The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) *Reserves and resource assessment*
The assessment of reported recoverable quantities of proved and probable reserves and prospective resource estimates include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves and prospective resources may change from period to period. Changes in reported reserves and prospective resources can impact the carrying values of the Company's petroleum and natural gas properties and exploration and evaluation assets and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially viable. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation tests. Prospective resource are determined using an externally prepared valuation report which reflects estimated prospective resources and external pricing and costs assumptions reflective of the current market. The Company's petroleum and gas reserves and prospective resources are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) *Decommissioning obligations*
The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

iii) *Business combinations*
In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

iv) *Share-based payments*
All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

v) *Tax provisions*
Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

5. ACCOUNTING STANDARDS ADOPTIONS AND PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2018 or later periods.

New Standards adopted on January 1, 2018

IFRS 9: Financial Instruments
On January 1, 2018, the Company adopted IFRS 9 "Financial Instruments", which includes a principle-based approach for classification and measurement of financial assets and a forward-looking 'expected

credit loss' model. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on 1) the business model in which a financial asset is managed and 2) its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Company's consolidated financial statements.

Impairment of financial assets under IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The application of the expected credit loss model to financial assets classified as amortized cost did not result in a material adjustment on transition.

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Cash and cash equivalents, and trade and other receivables which were previously classified as loans and receivables measured at amortized cost, are now classified as "amortized cost" under IFRS 9. Short-term investments which were previously measured at fair value through profit and loss ("FVTPL") are now classified as "FVPL" under IFRS 9. The Company's financial liabilities previously classified as "other financial liabilities" being trade and other payables and accrued liabilities continue to be measured at amortized cost and are now classified as "amortized cost". No financial instruments have been designated as FVOCI, nor does the Company use hedge accounting.

IFRS 15: Revenues from Contracts with Customers

The Company adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. The Company used the modified retrospective adoption approach to adopt the new standard. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. As part of the adoption of IFRS 15, the Company used the practical expedient to apply the standard retrospectively only to contracts that were not completed prior to January 1, 2018.

The application of the new standard had no material impact on the Company's net income and financial position resulting from this change. There was no effect to the opening deficit from the application of IFRS 15 as there were no revenue contracts in progress at January 1, 2018.

Recent Accounting Pronouncements

The following are new IFRS pronouncements that have been issued, although not yet effective and have not been early adopted and may have an impact on the financial statements in the future as discussed below.

IFRS 16: Leases

On January 1, 2019, the Company will be required to adopt 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. Interpretation of this new standard is currently in progress; the full impact on the financial statements will be determined upon completion of management's assessment.

6. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

a) Cash, accounts receivable, and accounts payable and accrued liabilities

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2018 and 2017 the fair value of these balances approximated their carrying value to their short-term maturity.

b) PP&E and E&E assets

The fair value of PP&E is based on market values. The market value of PP&E is the estimated amount for which PP&E could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The market value of oil and natural gas assets are generally estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of E&E assets is estimated with reference to the market values of current arm's length comparable transactions. The fair value measurement of PP&E and E&E have a fair value hierarchy of Level 3.

c) Share-based payments and Warrants

Share-based awards and equity instruments issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. Inputs into the Black-Scholes model are estimated as discussed in Note 4(p). Refer also to Note 19 for further details.

7. REVERSE TAKEOVER TRANSACTION

On April 4, 2017, the Company completed the acquisition of PentaNova BVI pursuant to a merger arrangement whereby the Company acquired all of the issued and outstanding shares of PentaNova BVI, being 16,164,156 common shares, in consideration for shares of the Company (then being known as PMI) on a one-for-one basis. PentaNova BVI also had 196,800 warrants outstanding which were exchanged for 196,800 warrants of the Company with an exercise price of $5.00 Canadian Dollars ("C$") per share and an expiry date of January 31, 2019. An additional 160,000 shares of the Company were issued as an advisory fee for the Transaction.

Due to the completion of this Transaction, PMI's 956,100 subscription receipts that were issued prior to the Transaction during the non-brokered private placement that closed in January 2017 (see Note 8) were converted into 956,100 shares and the associated funds of $3,565,143 (C$4,780,500) were released from escrow. After this share issuance, PMI had a total of 1,947,329 common shares outstanding.

The Company (then being PMI) did not meet the definition a "business" under IFRS guidelines, thus causing the Transaction to be treated as a reverse asset acquisition rather than a business combination, with PMI's main attribute being its public listing. Under this premise, as consideration for 100% of the outstanding shares of PMI by way of reverse acquisition, PentaNova issued 1,947,329 shares on a one for one basis to the shareholders of PMI. These shares were assigned a value of $3.72 (C$5.00) per share, the value of the recent financing realized through private placements, for total consideration of $7,252,621, which has been allocated first to the fair value of the net assets acquired, with any excess to a non-cash cost of acquisition as follows:

Consideration (1,947,329 shares at a value of $3.72 (C$5.00) per share)	**7,252,621**
Net assets of PMI	
Cash	8,188,819
Accounts receivable and prepaids	57,954
Accounts payable	(304,991)
Decommissioning obligation on assets	(1,708,576)
Total net assets acquired at fair value	**6,233,206**
Cost of acquisition	**1,019,415**

8. PRIVATE PLACEMENTS

In February 2017, the Company completed a non-brokered private placement issuing 4,764,156 common shares for gross proceeds of $18,306,778 (C$23,820,780) and closed a brokered private placement issuing 3,280,000 common shares for gross proceeds of $12,603,751 (C$16,400,000). This resulted in the Company having 16,164,156 common shares issued and outstanding as at March 31, 2017. In addition, PMI closed a non-brokered financing through the issuance of 956,100 subscription receipts of PMI for gross proceeds of $3,565,143 (C$4,780,500).

In August 2017, the Company completed a non-brokered private placement issuing 2,062,500 subscription receipts at $6.40 (C$8.00) per subscription receipt for proceeds of $12,688,106 (C$15,869,000), net of issuance costs. Each subscription receipt was automatically exchanged into a unit (the "Units") of the Company, concurrently with closing of the acquisition of the outstanding shares of Patagonia Oil Corp. Each Unit consisted of one common share and one share purchase warrant exercisable into one additional common share at a price of C$10.50 per share until July 31, 2022.

9. ACQUISITIONS

a) Maria Conchita Block (Bochica)

In January 2017, the Company executed a definitive agreement with third party sellers for the acquisition of an 80% beneficial working interest and operatorship of the Maria Conchita Block (the "Maria Conchita Acquisition") under the Exploration and Production ("E&P") Contract with the National Hydrocarbon Agency (the "ANH"). This acquisition was completed through the purchase of all of the issued and outstanding shares of the corporation Bochica Investment Holdings Ltd. ("Bochica") and certain other subsidiaries. The Company acquired the 40% working interest currently held through the Bochica subsidiary as well as the rights to acquire the other 60% beneficial working interest, as specified below. Under the definitive agreement, the Company agreed to the following terms:

a) pay cash consideration of $1 million to the sellers as a condition of the definitive agreement. Of the $1 million, $0.75 million was paid in 2017 and the remaining $0.25 million was paid in 2018 upon the spudding of the first well.
b) retention by the sellers of a 20% retained beneficial working interest and carry of the sellers' beneficial interest for costs incurred for the drilling of three new wells, the re-entry and workover of 2 existing wells, the construction and provision of a gas pipeline and connecting flowlines framework to connect block production fields to the Colombian transportation network, and the construction and provision of a gas plant to process the gas produced in the block to commercial conditions.
c) pay consideration of $1.5 million to the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the Maria Conchita Block.
d) assumption of all rights and obligations under the Master Sales and Purchase Agreement ("MSPA") with the Turkish Petroleum International Company ("TPIC "), whereby the seller was to acquire 100% beneficial working interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed by the Company under the MSPA included:

    i. present a letter of credit in favor of TPIC for $9.0 million as security for the performance of the first well under the MSPA.
    ii. acquire the TPIC 51% beneficial working interest and operatorship for $2.0 million. This amount was paid in the year ended December 31, 2018
    iii. acquire the 9% beneficial working interest and net profit interest held in the Maria Conchita Block from another third party contractual partner in the block for $0.5 million. This working interest was acquired and the consideration paid in 2017.
    iv. pay to TPIC certain operational expenses in the amount of $0.7 million. This amount was paid in 2017.
    v. acknowledge and comply with the existing overriding royalty agreements previously executed between TPIC, the seller, and other existing third-party partners in the Maria Conchita Block E&P Contract.

In February 2017, after direct negotiations with TPIC, the Company agreed to the deposit of $1.75 million in escrow to secure against any penalty imposed by the ANH if current phase commitments under the E&P Contract of the Maria Conchita Block are not fulfilled.

Amendment to MSPA

In October 2017, an amendment to the MSPA was completed between the Company and TPIC that outlines the following changes to the original terms of the MSPA:

a) the formalization of the terms of the aforementioned $1.75 million deposit into escrow to secure against any penalty imposed by the ANH for current phase commitment. These funds were to be released back to the Company when 1) the first well is drilled to fulfill current phase commitments and a second well is commenced, or 2) the Company obtains operator status of the Maria Conchita Block under the E&P Contract with the ANH. As mentioned previously, this amount was deposited into escrow in 2017. However, this deposit was subsequently released back to the Company in March 2018, as described further below.
b) the replacement of the aforementioned letter of credit for $9.0 million with the deposit of $9.0 million into escrow that will directly fund the drilling of the first well under the MSPA, which was to fulfill the current phase commitment. This amount was deposited into escrow in 2017. However, the majority of the balance of the account was released back to the Company in March 2018, as described further below.
c) the reduction of $0.6 million of payable amounts owed by one of Bochica's subsidiaries to TPIC prior to the acquisition of Bochica by the Company relating to past operations on the Maria Conchita Block. This reduction in payables is reflected as an adjustment in the allocation of consideration paid pursuant to this acquisition.
d) the establishment of one of the Company's subsidiaries as the contractor that will procure and coordinate services necessary for the drilling of the first well under the MSPA.

The results of this acquisition have been included in the accounts of the Company commencing January 30, 2017. The transaction was accounted for using the asset acquisition method of accounting, in accordance with IFRS 6. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Cash	1,705
Accounts receivable	51,109
Exploration and evaluation assets	2,765,115
Accounts payable	(1,817,929)
Total net assets acquired at fair value	**1,000,000**
Total cash consideration	**1,000,000**

In February 2018, the ANH approved the transfer of operatorship of the Maria Conchita block from TPIC to one of the subsidiaries of the Company. As a result, the aforementioned $1.75 million deposit in escrow held as a performance guarantee and the balance of the $9.0 million deposit in escrow to fund the drilling of the first well (less a balance of $0.6 million maintained in escrow while formalization of the transfer is completed) were released back to the Company in March 2018. As of December 31, 2018, a balance $0.1 million remains in escrow, which is classified as restricted cash.

b) SN-9 Block

In January 2017, the Company acquired an 80% beneficial working interest and operatorship of the SN-9 Block under the E&P Contract with the ANH (the "SN-9 Acquisition"). This acquisition was accounted for in exploration and evaluation assets (Note 14) as an asset acquisition. The Company agreed to the following terms with the sellers:

a) pay cash consideration of $2.5 million to the sellers within the first six months following the execution of the definitive agreement, which was paid to the seller in 2017.
b) reimburse $4 million of past costs to one of the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the SN-9 Block.
c) pay consideration of $2.5 million to one of the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the SN-9 Block.
d) grant an overriding royalty interest of 5% on the Company's net beneficial interest to the sellers on future commercial production on the SN-9 Block.

c) SN-9 Strategic Farm-out

In October 2017, CruzSur and American Oil and Gas ("AOG") entered into a Letter of Intent outlining the terms and conditions for the Farm-in by AOG on CruzSur´s beneficial working interest held in the SN-9 block, wherein AOG would farm-in for half of the Company´s 80% beneficial working interest. In April 2018, an Assignment Agreement between AOG and Latam Oil and Gas Corp. ("Latam") was signed and approved by CruzSur, wherein the two companies agreed to assign all rights and obligations as outlined in the LOI to Latam. The LOI was then reassigned to Latam's 100% owned subsidiary, Panacol Oil and Gas ("Panacol").

In June 2018, CruzSur and Panacol executed the SN-9 Farm-out Agreement, formalizing the terms of the farm-out from the Letter of Intent. Per the terms of the Farm-out Agreement, Panacol was to replace the $2.4 million USD guarantee (prior to any foreign exchange differences) required by the ANH license, which was completed in 2017 after the execution of the Letter of Intent and will be reimbursed to Panacol upon Panacol's fulfillment of their commitments under the Farm-out Agreement and when the guarantee is released by the ANH. Furthermore, Panacol would fully fund the Company's commitments for Phase I of the SN-9 Exploration and Production Contract for the amount of $22.3 million. Assignment of working interests for both parties would be subject to approval from the National Hydrocarbon Agency of Colombia. Under the terms of the Farm-out Agreement, Panacol would recover 50% of the funds invested from 70% of the proceeds of the Company's net production. Further capital commitments beyond the $22.3 million would be assumed proportionally by the partners. Additionally, the past costs due to the Sellers that are to be paid out of the Company's portion of net operating revenue would be split, with CruzSur paying half and Panacol paying the other half. The remaining 20% working interest on the block is held by other third-party partners.

As closing conditions to the Farm-out Agreement, within 30 days following the signing Panacol was required to place $3.0 million in escrow to fund near-term activities. In addition, Panacol was required to provide a standby letter of credit for $3.0 million to guarantee further payments into the escrow account and pay approximately $0.5 million in past costs. Despite a number of extensions, Panacol was unable to raise the funds required to be placed in the escrow account nor for the standby letter of credit. In August

2018, the Company terminated the SN-9 Farm-out Agreement due to Panacol's inability to fulfill the conditions of the Farm-out Agreement. The $2.4 million security placed by Panacol as guarantee in front of the ANH for the SN-9 license commitments will remain in place until the commitments are deemed complete by the ANH. Upon release of the $2.4 million guarantee by the ANH with the successful completion of the SN-9 license commitments, these funds will no longer be required to be reimbursed by the Company to Panacol given the termination of the Farm-out Agreement. Thus, resulting in a gain to CruzSur of $2.5 million (net of foreign exchange differences) recorded in the statement of loss and comprehensive loss.

d) Tiburon Block

In February 2017, the Company acquired a 60% beneficial working interest and operatorship of the Tiburon Block under the E&P Contract with the ANH. The acquisition was accounted for in exploration and evaluation assets (Note 14) as an asset acquisition. The Company agreed to the following terms with the seller:

a) pay cash consideration of $0.25 million to the seller following the execution of the definitive agreement. This amount was paid in 2017.
b) Upon commencement of commercial production, pay consideration of $8.54 million out of the Company's portion of net operating revenue on the Tiburon Block.
c) pay a success fee to the seller of $1.5 million upon reaching proven reserves of gas of 800 billion cubic feet ("bcf") and pay an additional $1.5 million for each increment of 500 bcf of proven reserves of natural gas beyond the initial 800 bcf of proven reserves that are assessed over the life of the E&P Contract. These reserves will be based on independent reserves reports by a qualified reserves evaluator, the first of which will be prepared within six months from first commercial production within the Tiburon Block.

e) Dispute on SN-9 and Tiburon Acquisitions

In August 2018, the Company received a letter from a seller party to the SN-9 Acquisition transaction under the SN-9 Purchase and Sale Agreement ('SN-9 PSA") alleging that the Company was in breach of certain obligations under the SN-9 PSA and that, as a consequence, the SN-9 PSA was immediately terminated. The Company also received an identical letter from a seller party to the Tiburon Acquisition transaction under the Tiburon Purchase and Sale Agreement ("Tiburon PSA") also alleging that the Company was in breach of certain obligations under the Tiburon PSA and that, as a consequence, the Tiburon PSA was immediately terminated.

The Company, in consultation with legal counsel, considers that the alleged breaches are without merit and that the unilateral termination by the counterparties in each respective acquisition transaction is not legally valid or enforceable. The Company has requested that the seller parties retract these letters and have advised of the consequences of failure to do so, but without success. The Company intends to take all legal measures necessary to ensure that the seller parties are fully aware of their inability to terminate each respective PSA, that the alleged breaches are without merit, and that each seller party will be held fully responsible for any and all damages arising from their actions. The Company continues discussions with the seller parties to find a solution that protects the beneficial working interest in the SN-9 and

Tiburon Block while avoiding a long and costly arbitration process to resolve the dispute. No adjustment has been made to the carrying value of these assets with regards to these matters.

f) Bolivar Energy

In January 2017, the Company acquired all of the issued and outstanding common shares of Bolivar Energy (Colombia) Inc., a company existing under the laws of Barbados ("Bolivar"). The Company also acquired the Colombian branch of Bolivar, with a headquarters established in Bogota, Colombia.

The results of this acquisition have been included in the accounts of the Company commencing February 1, 2017. The transaction was accounted for using the asset acquisition method of accounting. The fair values assigned to the net assets and liabilities and consideration paid are as follows:

Cash	1,071
Accounts receivable	2,879
Property, plant and equipment	52,080
Accounts payable	(6,030)
Total net assets acquired at fair value	**50,000**
Total cash consideration	**50,000**

g) Patagonia Oil Corp.

In August 2017, the Company successfully closed on the acquisition of Patagonia Oil Corp. ("Patagonia"), a corporation registered in the territory of the British Virgin Islands and subsidiary of Blue Pacific Assets Corp., by way of a plan of arrangement. Pursuant to the plan of arrangement, the Company acquired all of the issued and outstanding shares in the capital of Patagonia by (i) paying $10,000 to Blue Pacific Assets Corp. (the seller), (ii) reimbursing all documented reasonable expenses incurred by Patagonia in connection with the negotiations of the acquisition of oil and gas assets in Argentina; and (iii) assuming all liabilities and obligations of Patagonia in connection with the Argentina oil and gas assets acquisition. The amount of $10,000 was paid to the seller in 2017, and costs incurred by Patagonia as well as existing liabilities and obligations were accounted for in 2017.

In conjunction with the acquisition of Patagonia, 106,500 shares were issued with an associated value of $426,000 as payment for success fees. These shares were issued to third parties with common management and/or directors with the Company.

In connection with the acquisition of Patagonia, a certain director of the Company (who resigned as a director in July 2018) is also director and shareholder with a controlling interest in Blue Pacific Assets Corp.

Prior to Patagonia being acquired by the Company, Patagonia had successfully entered into binding agreements to acquire certain exploration, development and producing oil and gas assets in Argentina, as described below.

h) Alianza Petrolera Argentina S.A.

In August 2017, the Company's subsidiary, Patagonia, closed on the acquisition of Alianza Petrolera Argentina S.A. ("Alianza") for specified consideration of $25.3 million which included the assumption of $5.0 million in unpaid cash calls as represented to be owed to YPF S.A. (the "YPF Cash Calls"), the operator, in relation to Alianza's non-operated participating interest in the Llancanelo Asset (hereinafter referred to as the "Alianza Acquisition"). Patagonia agreed to the following terms with the seller:

a) Pay $1 million in cash consideration upon execution of the definitive agreement, which was paid by the Company in 2017.
b) Pay $2 million in cash consideration at the closing of the definitive agreement, which was released from escrow to the seller in 2017.
c) Assumption of the balance of the YPF Cash Calls, which has been represented to be $5.0 million. This amount was included in "Cash calls assumed on acquisition."
d) Pay $5.0 million in cash consideration at closing of the definitive agreement, to be adjusted accordingly based on the final assessed balance of the YPF Cash Calls, wherein the cash payment will be reduced or increased by any balance of the YPF Cash Calls that is greater than or less than $5.0 million, respectively. This amount was paid to the seller in 2017.
e) Issue 1,140,625 Units of the Company at a subscription price of $6.40 (C$8.00) that total to consideration of $7.3 million. Each Unit was comprised of one common share of CruzSur and one warrant to purchase one common share of CruzSur at a purchase price of C$10.50 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
f) Pay $0.5 million in cash consideration within thirty days following the closing of the definitive agreement, pending determination and finalization of purchase price adjustments. Such amount has been included in accounts payable as of December 31, 2017 and December 31, 2018 (see Note 10) with negotiations with the seller still ongoing.
g) Pay $4.5 million in cash consideration within four months following the closing of the definitive agreement, subject to any deductions or withholdings in connection with this transaction. Such amount has been included in accounts payable as of December 31, 2017 and December 31, 2018 (see Note 10) with negotiations with the seller still ongoing.

By way of the Alianza Acquisition, the Company acquired a 29% participating interest in the Llancanelo Asset as well as an 18% carried participating interest in the Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo Assets.

The results of this acquisition have been included in the accounts of the Company commencing July 31, 2017. The transaction was accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed were recorded at fair value, based on consideration of $25.3 million. No goodwill was recorded in conjunction with the acquisition.

The following table summarizes the net assets acquired pursuant to the acquisition:

Cash	53,406
Short term investments	393,621
Accounts receivable	2,182,418
Property, plant and equipment	3,786,047
Exploration and evaluation assets	25,521,585
Accounts payable	(311,708)
Deferred income tax liability	(5,144,851)
Decommissioning obligation	(1,180,518)
Total net assets acquired at fair value	**25,300,000**
Cash considersation paid	8,000,000
Consideration payable	5,000,000
Consideration issued in Units	7,300,000
Unpaid YPF Cash Calls related to purchase	5,000,000
Total consideration	**25,300,000**

The YPF Cash Calls represent certain outstanding cash call balances owed to the operator of the Llancanelo Asset, YPF S.A. ("YPF"), by Alianza as at the time of the Alianza Acquisition, which are payable on demand under the terms of the associated joint venture agreement. Subsequent to December 31, 2018, the Company reached a settlement agreement on the outstanding cash call balances as a result of the relinquishment of the Lancanelo asset. Refer to Note 9(l), Note 9(n), and Note 28 for further details. Due to this relinquishment, impairment of exploration and evaluation assets has been recorded as discussed in Note 14. As of December 31, 2018, the balance of the YPF Cash Calls is accounted for as a current liability.

Costs related to this transaction were comprised of finders fees, paid through the issuance of 46,875 shares with an associated value of $187,500 to advisors that assisted in the identification and communication of the potential transaction and negotiations of the terms with the seller.

i) Argentina Assets

In October 2017, the Company's subsidiary, Patagonia, closed on the previously-executed definitive agreement with Roch S.A., the seller, for the acquisition of certain oil and gas assets for total consideration of $10.5 million (the "Roch Acquisition"), before purchase price adjustments the finalization of which are ongoing with the seller. Patagonia agreed to the following final terms with Roch S.A.:

a) Pay $2 million in cash consideration upon completion of certain conditions by the seller. This amount was paid to the seller in 2017.
b) Assume $3 million in unpaid cash calls relating to operations on the Llancanelo Asset, with any amounts exceeding $3 million in unpaid cash calls to become the responsibility of Roch S.A. and compensated to Patagonia through the deduction of any outstanding payments owed on the Roch

Acquisition, up to a maximum of $0.5 million. This amount was included in “Cash calls assumed on acquisition” as of year end 2017 and is maintained as such as of December 31, 2018.

c) Issue 781,250 Units of the Company at a subscription price of $6.40 (C$8.00) that total to consideration of $5.0 million. Each unit is comprised of one common share of CruzSur and one warrant to purchase one common share of CruzSur at a purchase price of C$10.50 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
d) Pay $0.5 million in cash consideration upon the successful transfer of the Sur Río Deseado Este Production Asset and the Sur Río Deseado Este Exploration Asset. This amount was incorporated as part of the purchase price adjustments described below and is no longer owed.

By way of the Roch Acquisition, the Company acquires a 10% participating interest in the Llancanelo Asset. The Company also acquires a 54.14% participating interest in the Sur Río Deseado Este Production Asset, and a 7.92% participating interest in the Sur Río Deseado Este Exploration Asset.

Preliminary purchase price adjustments of $0.5 million have been recognized in relation to operating results of the participating interests acquired in the Llancanelo Asset and the Sur Rio Deseado Este Production Asset between the effective date and closing date of this acquisition, eliminating the remaining $0.5 million in cash consideration still owed, as previously described. A further $0.3 million balance in for of the Company was recognized for unpaid cash calls in excess of the $3.0 million balance to be assumed by the Company, which amount was settled between the seller and the Company, net of other post-close adjustments, as of December 31, 2018.

The transaction was accounted for using the asset acquisition method of accounting. Based on preliminary figures, the fair values assigned to the net assets and liabilities and consideration paid are as follows:

Property, plant and equipment	488,577
Exploration and evaluation assets	9,962,691
Crude oil inventory	33,711
Decommissioning obligation	(464,432)
Total net assets acquired at fair value	**10,020,547**
Initial consideration	10,500,000
Purchase price adjustments	(479,453)
Total consideration	**10,020,547**

j) KM8 Asset and Operator

In October 2017, the Company’s subsidiary, Patagonia, closed on the previously-executed definitive agreements for the acquisition of rights and operatorship of the KM8 Asset for total consideration of $12.5 million (the “KM8 Acquisition”). Patagonia agreed to the following terms with the sellers:

a) Acknowledgement of advanced cash payments of $0.9 million made to the sellers by Patagonia as part of the consideration price.

b) Pay $0.3 million in cash consideration within two business days following the finalization of the definitive agreement, which was paid by the Company in 2017.
c) Issue 1,640,625 Units of the Company at a subscription price of $6.40 (C$8.00) that total to consideration of $10.5 million. Each unit will comprise of one common share of CruzSur and one warrant to purchase one common share of CruzSur at a purchase price of C$10.50 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
d) Pay $0.8 million in cash consideration after the closing of the definitive agreement, which was paid by the Company in 2017.

By way of the KM8 Acquisition, the Company acquired 100% of the participating interest of the KM8 Asset and ownership of the operator entity of the KM8 Asset, San Jorge Oil & Gas Inc., pending the fulfillment of certain conditions.

The transaction was accounted for using the asset acquisition method of accounting. Based on preliminary figures, the fair values assigned to the net assets and liabilities and consideration paid are as follows:

Accounts receivable	684,107
Crude oil inventory	14,359
Exploration and evaluation assets	16,071,014
Accounts payable	(1,009,850)
Decommissioning obligation	(3,259,630)
Total net assets acquired at fair value	**12,500,000**
Total consideration	**12,500,000**

Costs related to this transaction were comprised of finders fees paid through the issuance of 75,000 shares with an associated value of $300,000 to a member of management that facilitated the KM8 Acquisition as the original buyer of the KM8 Asset (see Note 23). In 2017, the seller agreed to reimburse $0.3 million due to working capital deficiencies existing as at the closing of the KM8 Acquisition. This amount was previously reflected in the balance of accounts receivable, but has been subsequently written off as of December 31, 2018 due to the unlikelihood of collection.

k) YPF Farm-in Agreement

In November 2017, the Company's subsidiary, Patagonia, finalized negotiations for the farm-in on an additional 11% working interest in the Llancanelo Asset from YPF (the "YPF Farm-In"). Beyond the initial payment made of $0.5 million, the farm-in agreement required the Company to make an additional $2.5 million cash payment as well as to propose and finance a work program for $54 million over three years (the "Work Program"). At the conclusion of the $54 million work program, the Company would be required to make a further lump sum payment of $10 million to YPF to complete the terms of the farm-in. The agreement would also see the formation of a joint technical team to operate the Llancanelo field, while YPF would remain the operator of record.

Under the terms of the YPF Farm-In, the Company had until June 22, 2018 to fulfill the following terms:

a) Pay an additional $2.5 million cash payment beyond the initial $0.5 million payment already made. This amount has been included in accounts payable as of December 31, 2017 and December 31, 2018.
b) Provide YPF security over payment of consideration of $2.7 million in the form of a bank guarantee or a deposit in an escrow account.
c) Agree upon the details of a work program for $54 million over three years that the Company is to fully finance.

As of the deadline of June 22, 2018, the Company had not fulfilled the conditions outlined above. As a result, the YPF Farm-In agreement has been terminated. Refer to Note 9(m) below.

l) Relinquishment of Llancanelo Asset

In August 2018, the Company received formal notification from YPF advising that, pursuant to the provisions of the governing agreement of the Llancanelo joint venture project, the Company is to relinquish its 39% working interest in the Llancanelo Asset on account of failure to pay outstanding cash call balances currently owed by the Company's wholly-owned subsidiary Alianza. On the basis that Alianza is in default on payment of these cash call obligations, and has been unable to remedy the issue of non-compliance under the governing agreement, YPF has exercised their right as operator to assume control of Alianza's 39% beneficial working interest in the Llancanelo Asset effective immediately. Furthermore, the exercising of their right to assume Alianza's working interest does not preclude the operator's right to also pursue payment on the outstanding cash call balances. However, as described in Note 9(n) and Note 28, subsequent to December 31, 2018, the Company successfully negotiated a settlement of the outstanding cash call obligations with YPF on the Llancanelo Asset.

On account of this notification of relinquishment, an initial impairment loss of $25 million was recorded on exploration and evaluation assets attributed to the Llancanelo Asset was recognized during the six months ended June 30, 2018, prior to subsequent adjustments discussed further below.

m) Termination of YPF Farm-In Agreement

In August 2018, the Company also received formal notification from YPF advising that the YPF Farm-In was being terminated due to the Company's inability to fulfill the conditions precedent to the Farm-In Agreement. On account of the termination of the Farm-In Agreement, YPF retains the 11% working interest in the Llancanelo Asset that was to be assigned to the Company's subsidiary, Alianza. Furthermore, the $2.5 million cash payment that was to be paid as part of the YPF Farm-In is still owed by the Company per the terms of the Farm-In Agreement as of December 31, 2018. On account of the termination of the YPF Farm-In, an impairment loss on exploration and evaluation assets attributed to the Llancanelo Asset for previously capitalized costs incurred on this farm-in has been recognized for the year ended December 31, 2018.

n) Settlement and Assignment Agreement with YPF

In February 2019, the Company completed the Settlement and Assignment Agreement with YPF 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 agreed to release Alianza from all existing and future financial obligations related to Llancanelo Asset operations. Based on final valuations for carrying value of balances related to Llancanelo operations, a $1.9 million recovery was recognized on previously recorded impairment losses of $25 million recognized during the six months ended June 2018, resulting in net impairment losses of $23.1 million on the Llancanelo Asset for 2018. Refer to Note 14 for further details of impairment recorded. Further details of this settlement agreement with YPF are outlined in Note 28.

10. 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 December 31, 2018 and 2017.

	2018	2017
Value-added tax receivable	**1,129,943**	1,045,008
Prepaid expenses	**104,447**	493,613
Acquisitions receivable	**-**	634,695
Sales receivable	**696,571**	1,212,731
Other receivables	**320,201**	570,196
Accounts receivable and prepaid expenses	**2,251,162**	3,956,243
Trade accounts payable and accruals	**2,823,760**	3,393,394
Joint venture payables	**1,014,137**	769,553
Capital accruals	**513,290**	-
Consideration payable on Acquisitions	**7,500,000**	9,939,756
AOG Repayment of guarantee	**-**	2,483,077
Accounts payable and accrued liabilities	**11,851,187**	16,585,780

11. INVENTORY

Inventory consists of oil inventory from production on the KM8 and SRDE assets as well as drilling inventory held in Colombia. Balances of inventory as of December 31, 2018 and 2017 are as follows:

	2018	2017
Drilling inventory	**-**	742,357
Costs of oil inventory	**1,252,629**	429,763
Revaluation of oil inventory to net realizable value	**(922,572)**	(205,302)
Inventory	**330,057**	966,818

During 2018, a total of $717,270 revaluations of inventory was recorded in the year to write down inventory to the lower of cost and net realizable value. As a result, total cumulative revaluations to date was $922,572 as at December 31, 2018, as seen in the table above.

12. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

France

In February 2017, the Company executed a share purchase agreement with Horizon Petroleum Ltd. ("Horizon") for the disposition of certain oil and gas assets in the country of France. The Company held the Ledeuix and Ger Permits, located in the Aquitaine Basin of Southern France, which are valid until August 8, 2018 and April 16, 2018, respectively. Under the terms of the permits, the Company would have been required to spend 3 million Euros on the Ger Permit and 8 million Euros on the Ledeuix Permit prior to their expiries in order to retain the permits for another exploration period.

In August 2017, CruzSur closed the disposition of its oil and gas interests in France to Horizon for nominal consideration. The Company recorded a gain of $1,875,840 related to the disposition of liabilities associated with assets held for sale during the year ended December 31, 2017. The gain related to the disposition of the interests has been included in discontinued operations.

Operating results of the former French operations for the periods ended December 31, 2017 have been presented separately as discontinued operations due to the Company's decision to cease operations in this business segment.

Net income from discontinued operations is as follows:

For the years ended December 31	**2018**	2017
Gain on sale of disposed liabilities	-	1,875,840
Foreign exchange gain	-	765
General and administrative expenses	-	(131,088)
Net income relating to discontinued operations	-	1,745,517

Horizon Investment

Under the terms of the share purchase agreement executed with Horizon, the Company agreed to invest C$1,500,000 by way of a private placement in the capital of Horizon at C$0.12 per share, for which the Company received an aggregate of 12,500,000 common shares of Horizon ("Horizon Shares"). CruzSur assigned 250,000 of the Horizon Shares to a third party pursuant to an advisory agreement. A certain director of this third party is also a director of the Company.

The investment of Horizon Shares held by the Company have been classified as held for sale. At December 31, 2018, the fair market value of the 12,250,000 Horizon Shares was $314,287 (C$428,750) resulting in an unrealized loss on assets held for sale of $330,902 (C$428,750) representing the decline in share value for the year ended December 31, 2018 between the closing price as of December 31, 2017 of $0.056 (C$0.07) per share and the closing price as of December 31, 2018 of $0.026 (C$0.035) per share, net of foreign exchange.

13. RESTRICTED CASH

As of December 31, 2018, funds totaling $2,782,368 (December 31, 2017 - $11,732,933) comprised the balance represented in restricted cash. The composition of this amount is as follows:

	2018	2017
SN-9 ANH Guarantee Deposit	**2,387,518**	2,483,077
Tiburon ANH Guarantee Deposit	**343,377**	352,689
TPIC Maria Conchita Escrow	**-**	1,750,000
TPIC Escrow	**51,473**	7,147,167
Restricted cash	**2,782,368**	11,732,933

In 2017, a deposit of $1,750,000 was held in escrow in relation to the operations on the Maria Conchita Block (see Note 9(a)). This escrow amount was established in order to secure against any penalty imposed by the ANH if current phase commitments under the Maria Conchita E&P Contract are not fulfilled. This escrow deposit was released to the Company in March 2018.

Additionally, in 2017, term deposits of $2.4 million and $0.3 million were established to secure performance guarantees required by the 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 December 31, 2018, the balances of the SN-9 term deposit and Tiburon term deposit were $2,387,518 and $343,377, respectively.

As part of the of the Maria Conchita Acquisition MSPA, the Company was required to deposit $9.0 million into escrow that was to directly fund the drilling of the first well under the MSPA. The related costs to drill the first well were to be paid from the escrow account as they were incurred. As at December 31, 2017, the remaining balance in the escrow account was $7.1 million. The balance of the $9.0 million deposit in escrow (less a balance of $0.6 million maintained in escrow while formalization of the transfer is completed) was released back to the Company in March 2018 (see Note 9(a)). As of December 31, 2018, a balance of $51,473 remains in escrow.

14. EXPLORATION AND EVALUATION ASSETS

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

Balance as at December 31, 2016	**-**
Acquisitions	50,452,323
Additions	3,906,692
YPF Farm-In	3,000,000
Additional working interest acquired	9,165,071
Capitalized general and administrative	369,515
Share based compensation	715,747
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**

The Corporation's exploration and evaluation assets represent costs incurred in relation to three exploration blocks in Colombia and three exploration blocks in Argentina.

Impairment Test of Exploration and Evaluation Assets

During 2018, the Company completed an impairment review of its E&E assets. It was determined that impairment indicators exist 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 15, 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. However, impairment was recorded relating to E&E assets for carrying values greater than the recoverable value. This resulted in recognized impairments of $19.4 million on the Maria Conchita block, $0.6 million on the Tiburon block, $1.3 million on the SN-9 block, $2 million on the SRDE block, and $12.5 million on the KM8 block for total impairment of $35.8 million on these blocks. If the discount rate used in the calculation were to increase by 1%, this would result in additional impairment of $0.1 million to E&E assets.

Additionally, during the year ended December 31, 2018, the Company recognized an impairment relating to the Llancanelo Asset of $23.1 million. This impairment was the result of the difference between the E&E net book value and management's assessment of the recoverable amount of the Llancanelo Asset, on account of the formal notification received from YPF regarding the relinquishment of the Company's working interest in the Llancanelo Asset and the termination of the YPF Farm-In (see Note 9(k) to 9(n)). The recoverable amount was determined to be based on the equivalent amount of liabilities estimated to be settled from the relinquishment of this asset.

15. 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, 2016	-	-	-
Acquisitions	4,274,624	48,877	4,323,501
Additions	793,330	124,368	917,698
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**
Accumulated depletion and depreciation			
As at December 31, 2016	-	-	-
Additions	933,153	24,935	958,088
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**
Net book value			
As at December 31, 2016	-	-	-
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**

The Corporation'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

During 2018, the Company completed an impairment review of its PP&E assets. It was determined that impairment indicators exist at December 31, 2018 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.

The recoverable amount of PP&E for the Llancanelo asset is determined as the fair value less costs of disposal based on market transactions (level 3 inputs), on account of the formal notification received from YPF regarding the relinquishment of the Company's working interest in the Llancanelo Asset and the termination of the YPF Farm-In (see Note 9(k)-(n). The recoverable amount was determined based on the equivalent amount of liabilities estimated to be settled from the relinquishment of this asset. The carrying value approximates the recoverable amount, resulting in no impairment loss for this asset.

16. REVENUE

The following table presents the Company's oil and natural gas revenue disaggregated by product type for the years ended December 31, 2018 and December 31, 2017:

For years ended December 31	2018	2017
Production revenue:		
Oil and condensate sales	5,257,366	2,834,762
Total oil and natural gas production revenue	5,257,366	2,834,762
Net revenue on carried working interest	998,705	607,174
Total oil and natural gas revenue	**6,256,071**	**3,441,936**

The Company had one unfulfilled performance obligation relating to the realized sale of 1,417 bbl of crude inventory, which was not delivered to the customer as at December 31, 2018. As a result, the revenue associated with this contract has been recorded as deferred revenue for $75,141 (December 31, 2017 – nil). The performance obligation is expected to be fulfilled and deferred revenue realized within the first quarter of 2019.

As at December 31, 2018, receivables from contracts with customers, which are included in accounts receivable, were $696,571 (December 31, 2017 - $1,212,731).

17. INCOME TAXES

Tax expense (recovery) recognized in profit or loss

For the years ended December 31	2018	2017
Current tax expense		
Current year	-	-
Adjustment for prior years tax returns	-	-
	-	-
Deferrred tax expense		
Origination and reversal of temporary differences	(15,686,567)	89,872
Changes in tax rates[1]	1,937,294	(1,426,082)
Change in recognized deductible temporary differences	9,589,405	-
Adjustment for prior years tax returns	328,018	23,209
	(3,831,850)	(1,313,001)
Total income taxe expense (recovery)	**(3,831,850)**	**(1,313,001)**

1) During the fourth quarter of 2017 the Argentinian government enacted legislation to reduce the corporate tax rate. This reduction goes from 35% in 2017, to 30% in 2018 and 25% in 2020. As a result the Argentinian deferred tax liabilities were re-measured resulting in the recognition of deferred income tax recovery of $1.4 million in 2017. The deferred tax expense in 2018 is primarily driven from the difference in current tax calculated at 30% in 2018 but then reclassified to deferred tax at 25% as Argentina operations are not currently taxable and these temporary differences will not reverse until 2020 and beyond..

Reconciliation of effective tax rate

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada for the years ended December 31, 2018 and 2017 of 27% to income before income taxes. A reconciliation of this difference is presented below.

	2018	2017
Loss before income taxes	(65,067,125)	(17,065,695)
Tax Rate	**27.00%**	**27.00%**
Computed income taxes	(17,568,124)	(4,607,738)
Increase (decrease) in taxes:		
Effect of tax rates in foreign jurisdictions	(2,443,374)	1,062,595
Stock-based compensation	141,367	1,699,406
Other permanent differences	4,208,554	161,121
Changes in tax rates	1,937,296	(1,426,082)
Change in unrecognized tax assets and other	9,892,431	1,797,697
Total income tax expense (recovery)	**(3,831,850)**	**(1,313,001)**

Unrecognized Deferred Tax Assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Non-capital loss carryforwards	42,748,996	45,199,227
Capital loss carryforwards	25,802,643	25,802,643
Other deductible temporary differences net of taxable temporary difference:	32,222,643	(3,235,846)
	100,774,282	**67,766,024**

$11.3 million of the non-capital losses carryforwards as at December 31, 2018 are from Columbia ($7.1 million from 2017). These tax losses have no expiration period. $27.0 million of the non-capital loss carrryforwards as at December 31, 2018 are from Canada ($38.1 million from 2017). These losses expire between 2026 and 2038. $4.4 million of the non-capital losses carryforwards as at December 31, 2018 are from Argentina ($nil from 2017). The Capital loss carryforward presented above are all from Canada and have no expiry. The deductible temporary differences presented above do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Non-capital loss carry forwards	-	(878,026)	-	4,709,876	-	3,831,850
Capital assets	-	-	-	-	-	-
Net tax (assets) liabilities	**-**	**(878,026)**	**-**	**4,709,876**	**-**	**3,831,850**

Movement in deferred tax assets (liabilities) during the year:

	Net operating losses	Capital Assets	Total
At December 31, 2016	-	-	-
Adjustment to opening balance for RTO	(313,963)	5,458,814	5,144,851
Credited(charged) to the income statement	(564,063)	(748,938)	(1,313,001)
Credited(charged) to other comprehensive income	-	-	-
At December 31, 2017	**(878,026)**	**4,709,876**	**3,831,850**
Credited(charged) to the income statement	878,026	(4,709,876)	(3,831,850)
Credited(charged) to other comprehensive income	-	-	-
At December 31, 2018	-	-	-

18. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from ownership interests in oil and gas properties. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligation at December 31, 2018 to be $5.4 million (December 31, 2017 - $5.1 million) with the majority of the costs to be incurred between 2036 and 2037. The entire balance of decommissioning obligations are recorded as a non-current liability given that there are no anticipated obligation expected to be incurred by December 31, 2019. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability.

At December 31, 2018 an inflation rate of 2.4% (December 31, 2017 – 2.1%) was used. The risk-free rate used to discount the liability at December 31, 2018 was 2.8% (December 31, 2017 – 2.3%). Settlement of the obligations is anticipated to be invoiced in US dollars and settled in either Colombian pesos or Argentine pesos. As at December 31, 2018, no funds had been set aside to settle these obligations. Changes to decommissioning obligations for the year ended December 31, 2018 were as follows:

Balance as at December 31, 2016	-
Liabilities acquired	4,904,580
Accretion expense	31,294
Balance as at December 31, 2017	**4,935,874**
Liabilities incurred	296,008
Accretion expense	119,241
Change in estimate	(156,335)
Balance as at December 31, 2018	**5,194,788**

19. SHARE CAPITAL

Common shares

At December 31, 2018, 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. Outstanding common shares as of December 31, 2018 are as follows:

	Common shares	Amount ($)
Balance, January 1, 2017	5,000	-
Shares redeemed	(5,000)	-
Shares issued through private placement (net of share issuance costs)	16,044,156	29,306,312
Shares issued to consultant	120,000	449,136
Balance April 4, 2017	**16,164,156**	**29,755,448**
Shares issued in Transaction	1,947,329	7,252,621
Transaction costs		(396,820)
Shares issued for transaction costs	160,000	595,903
Shares issued for Colombian assets	20,614	150,000
Shares issued through private placement (net of share issuance costs)	2,062,500	9,039,821
Shares issued for Alianza Acquisition	1,140,625	5,201,690
Shares issued as finders fees for Alianza Acquisition	46,875	187,500
Share issued for Advances Toward Acquisitions	2,496,875	11,344,685
Shares issued on acquisition success fee	106,500	426,000
Shares issued for services rendered	74,686	242,545
Balance December 31, 2017 & December 31, 2018 (1)	**24,220,160**	**63,799,393**

1) There was no share capital activity during the year ended December 31, 2018

As at January 1, 2017 the Company had 5,000 common shares outstanding that had nominal value. In January 2017, the Company redeemed the 5,000 shares outstanding and issued 8,000,000 shares at C$0.01 per share for total gross proceeds of $61,481 (C$80,000). Of the shares issued, 3,335,000 shares were issued to Company officers, directors, and insiders which equates to $25,360 (C$33,350).

Also in January 2017, the Company completed a non-brokered private placement issuing 4,764,156 common shares for gross proceeds of $18,306,778 (C$23,820,780) and closed a brokered private placement issuing 3,280,000 common shares for gross proceeds of $12,603,751 (C$16,400,000). Of the common shares issued, 496,228 were issued to related officers, directors, and insiders which equates to $1,906,809 (C$2,481,140). Share issuance costs incurred in relation to the non-brokered and brokered private placements are $1,665,698, which includes $308,866 for the estimated fair value of warrants issued to brokers of the private placement, as described below. Furthermore, in March 2017, the Company issued 120,000 common shares to a consultant at a price of $3.72 (C$5.00) per share for services rendered in connection with the acquisition of the Company’s participating interest in the SN-9 Block.

As consideration for 100% of the outstanding shares of PMI, CruzSur issued 1,947,329 shares on a one for one basis to the shareholders of PMI. This consideration also covered those shares of PMI that were previously issued as a result of PMI's non-brokered financing for 956,100 subscription receipts, at a price of $3.72 (C$5.00) per subscription receipt, for gross proceeds of $3,565,143 (C$4,780,500). An additional 160,000 shares of the Company were issued as advisory fees for the Transaction which were valued at $3.72 (C$5.00) for a total value of $595,903 (C$800,000).

For the non-brokered private placement completed in August 2017, the Company issued 2,062,500 Units, each consisting of one common share and one share purchase warrant, as described in Note 9. This resulted in total proceeds of $12,688,106 (C$15,869,000), net of issuance costs. Of the total net proceeds, $9,039,821 (C$11,306,116) has been attributed to common shares and $3,648,285 (C$4,562,884) has been attributed to share purchase warrants. Of the Units issued, 4,782,500 were issued to related officers, directors, and insiders which equated to $2,942,130 (C$3,679,684).

As part of the consideration for the Alianza, Roch, and KM8 Acquisitions, the Company issued 1,140,625 Units, 781,250 Units and 1,640,625 Units, respectively, (each Unit consisting of one common share and one share purchase warrant) at the same time as the non-brokered private placement described above. The Units were valued at $6.40 (C$8.00) per Unit and were allocated towards the various acquisitions, as described in Note 9, as follows:

- Alianza Acquisition - $7,300,000 (C$9,500,000) unit value, with $5,201,690 (C$6,502,113) and $2,098,310 (C$2,622,887) allocated to the common shares and share purchase warrants, respectively. Additionally, 46,875 common shares were issued as finder's fees, which were valued at $187,500 (C$234,375).
- KM8 Acquisition - $10,500,000 (C$13,125,000) unit value, with $7,481,883 (C$9,352,354) and $3,018,117 (C$3,772,646) allocated to the common shares and share purchase warrants, respectively. Additionally, 75,000 common shares were issued as finder's fees, which were valued at $300,000 (C$375,000). These shares were issued to a related officer of the Company.
- Roch Acquisition - $5,000,000 (C$6,250,000) unit value, with $3,562,801 (C$4,453,502) and $1,437,199 (C$1,796,498) allocated to the common shares and share purchase warrants, respectively.

Success fees were paid in common shares upon closing of the Company's acquisition of Patagonia. A total of 106,500 common shares were issued to a third party who provided advisory services throughout the course of the transaction. These common shares were attributed a value of $426,000 (C$532,500). The advisory firm to which the common shares were issued has common directors with the Company.

To settle an outstanding payable of $242,545 (C$298,743), the Company issued an aggregate of 74,686 common shares.

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 December 31, 2018, a total of 1,542,100 (December 31, 2017 – 2,289,643) 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, January 1, 2017	99,083	8.07
Options issued	2,218,750	8.00
Options forfeited	(2,500)	8.00
Expired options	(25,690)	10.80
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	**1,542,100**	**6.76**

On August 8, 2017, the Company granted 2,218,750 options to acquire common shares to certain directors, officers, and consultants of the Company at a price of C$8.00 per common share. The options were for a ten-year term, expiring on August 8, 2027. Of the options granted, 2,050,000 vested immediately on the date of grant. The other 168,750 options vest on a basis of one-third on the date of grant, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant.

On January 1, 2018, the Company granted 100,000 options to acquire common shares to a consultant of the Company at a price of C$8.00 per common share. The options were for a ten-year term, expiring on January 1, 2028. Of the options granted, 50,000 vested immediately on the date of grant. The other 50,000 options vest on the first anniversary date from the date of grant.

On April 4, 2018, the Company granted 415,600 options to acquire common shares to new management members at a price of C$3.60 per common share. These options were for a ten-year term, expiring April 4, 2028. These options vest over a period of 2 years, with one-third vesting on grant date, one-third vesting in February 2019, and one-third vesting in February 2020.

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	9.27	138,533
6.10	41,500	7.65	41,500
8.00	1,085,000	8.65	985,000
	1,542,100	**8.79**	**1,165,033**

For the stock options issued during the year ended December 31, 2018 and the year ended December 31, 2017, the Black-Scholes option pricing model was used to estimate their fair value with the following assumptions:

	April 4, 2018	January 1, 2018	August 7, 2017
Share price	C$1.60	C$3.90	C$5.00
Exercise price	C$3.60	C$8.00	C$8.00
Expected stock price volatility	75%	75%	75%
Option life	10 years	10 years	10 years
Expected dividend yield	0%	0%	0%
Risk-free interest rate	2.17%	2.04%	1.65%
Fair value per option	C$1.10	C$2.73	C$3.64

The value of the stock options vesting in the year ended December 31, 2018 equated to $608,449. Of this amount $84,866 was capitalized and $523,583 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 are for a two-year term, exercisable immediately at a price of C$5.00 per share and expire January 31, 2019.

A fair value of $308,866 (C$402,453) was recognized for the issuance of these Broker Warrants, which was included in share issuance costs on the associated brokered private placement and was recorded as contributed surplus.

Purchase Warrants

Pursuant to the non-brokered private placement, the Alianza Acquisition, and the Advances Toward Acquisitions in August 2017, as described previously, 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"). As mentioned previously, a fair value of $10,201,910 (C$12,754,916), net of issue costs, was recognized for the issuance of the Purchase Warrants.

Outstanding Purchase Warrants as of December 31, 2018 are as follows:

	Purchase Warrants	Amount ($)
Issued on non-brokered private placement	2,062,500	3,648,285
Issued on Alianza Acquisition	1,140,625	2,098,310
Issued on Roch Acquisition	781,250	1,437,198
Issued on KM8 Acquisition	1,640,625	3,018,117
Balance December 31, 2017 & December 31, 2018 (1)	**5,625,000**	**10,201,910**

1) There was no warrant activity during the year ended December 31, 2018

The warrants were allocated a value using the Black-Scholes option pricing model to estimate the fair value with the following weighted average assumptions:

	Broker Warrants	Purchase Warrants
Risk-free interest rate	0.82%	1.65%
Expected dividend yield	0%	0%
Expected stock price volatility	75%	75%
Expected warrant lives	2 years	5 years
Fair value of warrant granted	C$2.04	C$2.30

In September 2017, the 5,625,000 Purchase Warrants became publicly listed for trading on the TSX-V.

Loss per share

For purposes of the loss per share calculations for the periods ended December 31, 2018 and 2017 there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended December 31, 2018, 1,542,100 stock options, 196,800 Broker Warrants, and 5,625,000 Purchase Warrants were excluded as their impact was anti-dilutive.

20. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

General and administrative ("G&A") expenses relate to day-to-day operations of the business, not directly attributable to the production of goods and services. The components of G&A expense are as follows:

For the years ended December 31	2018	2017
Professional Fees	**1,313,668**	1,468,497
Wages & Salaries	**2,548,892**	1,574,098
Fees, Rent, Investor Relations and Other	**1,080,806**	1,051,077
Total	**4,943,366**	4,093,672

21. BUSINESS DEVELOPMENT

Business development expenses relate to business initiatives towards the promotion, development, and growth of the Company's operations and assets outside the normal course of the Company's day-to-day endeavors. The components of business development expense are as follows:

For the years ended December 31	2018	2017
Legal Fees	85,751	2,274,264
Professional Fees	90,087	647,106
Travel	11,996	838,350
Finder Fees on Transactions	-	1,240,625
Total	**187,834**	**5,000,345**

22. FINANCE

The components of finance expenses/income are as follows:

For years ended December 31	2018	2017
Cash:		
Interest income	(217,878)	(196,542)
Interest expenses and bank charges	124,571	105,838
Debt related expenses	-	195,850
	(93,307)	105,146
Non-cash:		
Accretion on decommissioning obligation	119,241	31,294
	119,241	31,294
Total finance expenses (income)	**25,934**	**136,440**

23. RELATED PARTIES

During the years ended December 31, 2018 and 2017, there were separate related party transactions as follows:

I. 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. During the year ended December 31, 2017, success fees were paid upon closing of the private placements summarized in Note 8, which resulted in the Company paying C$450,000 to the firm. 1.6 million shares were issued to the firm in conjunction with the closing of the Transaction, which equated to $595,903 (C$800,000) based on the fair value of the shares at the time of issuance (Note 19). Also in the year ended December 31, 2017, in conjunction with certain acquisitions of assets in Argentina, the firm was issued 1,065,000 shares as a success fee for their advisory services. The shares were valued at $426,000 at the time of issuance. In relation to the disposal of the oil and gas assets in France, as outlined in Note 12, this firm was allocated 250,000 of the Horizon shares that CruzSur acquired.

II. In January 2017, the Company acquired 100% of the shares of Bochica (see Note 9(a)) and rights to an 80% participating interest in the Maria Conchita Block. The terms and conditions of the Maria Conchita Acquisition included that former shareholders of Bochica retained a 20% carried interest in the Maria Conchita Block. A certain member of the Company's management previously served as President and Director of Bochica until August 26, 2016, and as former shareholder of Bochica holds a minority indirect interest on the 20% carried interest, which amounts to approximately 1.2% of the total working interest on the Maria Conchita Block. This member is no longer employed by the Company.

III. Also, during the year ended December 31, 2018, a director of the Company, through affiliate entities, is the 50% beneficial owner of Dexton International Ltd. ("Dexton"). In February 2017, Patagonia and Dexton entered into an agreement wherein Dexton provided advisory services in connection with the acquisition of certain oil and gas assets located in Argentina by Patagonia. In consideration for its services, Patagonia granted to Dexton an overriding royalty interest equal to 2% of any net production of hydrocarbons attributable to Patagonia's participation interest in Argentina assets. For the year ended December 31, 2018 this royalty equated to $115,144 (December 31, 2017 - $59,313) in royalty expense to the Company. This director resigned from the Company in July 2018.

IV. During the year ended December 31, 2017, In connection with the acquisition of the KM8 Asset, a certain member of management (prior to becoming an employee of the Company) was also a director and shareholder with a controlling interest of the original buyer of the KM8 Asset and a party to the KM8 Acquisition transaction for total consideration of $12.5 million. This company, as the original buyer, assigned its rights and obligations under the KM8 Acquisition to Patagonia. Furthermore, this company received a finders fee of 75,000 common shares of CruzSur, which are included in the aforementioned 228,375 shares that were issued as finder fees as part of the acquisitions in Argentina. This member is no longer employed by the Company.

Compensation of Key Management

The Company considers its directors and officers to be key management personnel. Compensation expenses paid to key management personnel were as follows:

For the years ended December 31	2018	2017
Salaries, consulting fees, benefits and director fees	**1,039,267**	1,307,454
Director fees	**(177,042)**	315,881
Share based compensation	**250,989**	5,069,312
Total	**1,113,214**	6,692,647

In October 2018, the Board of Directors passed a resolution to waive all outstanding director fees. This resulted in a reversal of all unpaid director fees originally through 2017 and up to September 30, 2018.

24. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The carrying amount of cash and cash equivalents, short-term investments, accounts receivable and restricted cash represent the maximum credit exposure. As at December 31, 2018, the Company had $2,782,368 (December 31, 2017 - $11,732,933) in restricted cash towards development activity joint venture operations in Colombia and Argentina. The Company mitigates credit risk exposure related to restricted cash by ensuring that draw-downs on these accounts can not be performed without prior authorization by the Company.

As at December 31, 2018, the company had $2,251,162 (December 31, 2017 - $3,956,243) in accounts receivable and prepaids. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. In Argentina, the Company's oil production is sold principally to YPF. The Company does not consider any of its receivables past due.

The Company held cash and cash equivalents of $1,616,970 (December 31, 2017 - $8,962,371) and nil short-term investments as at December 31, 2018 (December 31, 2017 - $402,016). The Company manages the credit exposure related to cash and cash equivalents and short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash resources in order to finance operations, fund capital expenditures, and to repay debt and other liabilities of the Company as they come due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The Company's contractual obligations consist of accounts payable and accrued liabilities which are considered current in nature and due within one year.

Market risk

Market risk is the risk or uncertainty that changes in price, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net earnings and the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors. There were no financial derivative contracts or embedded derivatives outstanding at December 31, 2018 nor were there any in the previous year ended December 31, 2017.

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the United States dollar, but also by world economic events that dictate the levels of supply and demand.

The Company's oil revenue was primarily derived from oil production on the Llancanelo Asset up until the date of its relinquishment (see Note 9(l)). The Government of Argentina sets the benchmark (Medanito) price for oil. In January 2017, at the request of the Government, an agreement to converge the Medanito and Escalante oil prices with international Brent pricing over the coming months (the "Pricing Agreement") was signed by a majority of producers and refiners in Argentina. The Pricing Agreement stated that in case international Brent pricing reached and remained above the monthly Medanito floor price for 10 consecutive days, the Agreement would be suspended. And, in case that (1) international Brent pricing fell below $45 per bbl for 10 consecutive days or (2) the Argentinian peso depreciated more than 20%, the Pricing Agreement would be reviewed. Further, the Pricing Agreement provided that, should the Brent price remain higher than the monthly Medanito floor price less $1.00 for ten consecutive days, the Pricing Agreement would be suspended and the Brent price would be adopted. In October 2017, the Government suspended the Pricing Agreement and adopted the Brent price. Since August 2018, due to the Argentinean peso devaluation, domestic price is agreed upon between refiners and producers. Such a price considers the impact of the export withholding imposed by the government and the possibility to increase the fuel to the final consumers.

Under the terms of the Pricing Agreement and taking the discounts into account, the Company was able to realize an average selling price of $52.88/bbl on the Llancanelo concession ($44.93 – December 31, 2017), $62.62/bbl on the SRDE concession and $58.95/bbl on the KM8 concession for the year ended December 31, 2018. In the prior year ended December 31, 2017, no sales were realized in the SRDE concession or the KM8 concession.

Gas prices in Argentina are subject to seasonal demand and are negotiated between the producer and the buyer.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Some of the Company's business transactions and commitments occur in currencies other than US dollars. A portion of the Company's oil and natural gas activities in Colombia and Argentina transact in Colombian Peso (COP$) and Argentine Peso (ARS$). In addition, the majority of the Company's financing and a portion of the administrative costs will be based in Canadian dollars, COP$, or ARS$ and paid in Canadian dollars, COP$, or ARS$. Therefore, the Company is exposed to the risk of fluctuations in foreign exchange rates between US dollars, COP$, ARS$ and Canadian dollars. As at December 31, 2018, the Company had not entered into any foreign currency derivatives to manage its exposure to currency fluctuations nor were there any foreign currency derivatives as at the previous year ended December 31, 2017

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments that have a floating interest rate. Fluctuations of interest rates for the period ending December 31, 2018 would not have had a significant impact on the annual consolidated financial statements.

Fair value of financial instruments

The Company's financial instruments as at December 31, 2018, include cash and cash equivalents, accounts receivable, restricted cash, and accounts payable and accrued liabilities. These financial instruments are initially recognized at fair value and subsequently measured at amortized cost. The fair values of the current financial instruments approximate their carrying amounts due to their short terms to maturity.

Capital management

The Company's objectives when managing capital are to ensure the Company will have sufficient financial capacity, liquidity, and flexibility to fund the Company's operations, growth, and ongoing exploration and development commitment activities of its oil and gas assets. The Company is dependent upon funding these activities through a combination of available cash, debt and equity, which it considers to be the components of its capital structure as outlined below.

For the year ended December 31	**2018**	2017
Shareholders' equity	**4,488,345**	65,056,595
Cash	**1,616,970**	8,962,371
Working capital deficiency, excluding cash	**(14,617,915)**	(7,030,511)

The Company regularly monitors its capital structure and, as necessary, adjusts to changing economic circumstances and the underlying risk characteristics of its assets in order to meet current and upcoming obligations and investments by the Company. The Company frequently reviews alternate financing options and arrangements to meet its current and upcoming commitments and obligations.

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company's share capital is not subject to external restrictions.

25. COMMITMENTS

CruzSur drilled and evaluated Istanbul-1 in the first quarter of 2018, to fulfill its obligation with the ANH for Phase 2 of the exploration period of the Maria Conchita E&P Contract (for which the Company paid 100% of the costs under the terms of the Maria Conchita Acquisition agreement). The Company has received ANH acknowledgment that the commitment has been met.

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 2018. 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.

26. 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 years ended December 31, 2018 and 2017.

For the year ended December 31, 2018	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	5,257,366	-	-	5,257,366
Net revenue on carried working interest	998,705	-	-	998,705
Royalty expense	(1,007,799)	-	-	(1,007,799)
Net oil and natural gas revenue	**5,248,272**	**-**	**-**	**5,248,272**
Expenses:				
Operating expenses	3,364,116	-	-	3,364,116
Inventory revaluation	717,270	-	-	717,270
General and administrative	570,436	987,188	3,385,742	4,943,366
Business development	38,659	7,186	141,989	187,834
Cost of Acquisition	-	-	-	-
Share based payments	-	-	523,583	523,583
Gain on terminated farmout transaction	-	(2,483,077)	-	(2,483,077)
Depletion and depreciation	1,500,376	37,173	-	1,537,549
Impairment loss	37,600,000	21,300,000	-	58,900,000
Finance	106,209	(178,263)	97,988	25,934
Foreign exchange loss	2,376,307	460,062	(568,449)	2,267,920
Loss on revaluation of asset held for sale	-	-	330,902	330,902
	46,273,373	**20,130,269**	**3,911,755**	**70,315,397**
Loss from continuing operations	**(41,025,101)**	**(20,130,269)**	**(3,911,755)**	**(65,067,125)**
Assets, December 31, 2018	**18,816,075**	**7,179,421**	**3,983,426**	**29,978,922**
Liabilities, December 31, 2018	**22,528,117**	**598,231**	**2,364,229**	**25,490,577**

For the year ended December 31, 2017	**Argentina**	**Colombia**	**Corporate**	**Total**
Revenue:				
Oil and natural gas revenue	2,834,762	-	-	2,834,762
Net revenue on carried working interest	607,174	-	-	607,174
Royalty expense	(574,554)	-	-	(574,554)
Net oil and natural gas revenue	**2,867,382**	**-**	**-**	**2,867,382**
Expenses:				
Operating expenses	1,982,364	-	-	1,982,364
Inventory revaluation	205,302	-	-	205,302
General and administrative	458,126	1,054,563	2,580,983	4,093,672
Business development	5,389	7,186	4,987,770	5,000,345
Cost of Acquisition	-	-	1,019,415	1,019,415
Share based payments	-	-	5,472,151	5,472,151
Gain on terminated farmout transaction	-	-	-	-
Depletion and depreciation	934,595	23,493	-	958,088
Impairment loss	-	-	-	-
Finance	12,966	(98,107)	221,581	136,440
Foreign exchange loss	(247,232)	42,124	780,750	575,642
Loss on revaluation of asset held for sale	-	-	489,658	489,658
	3,351,510	**1,029,259**	**15,552,308**	**19,933,077**
Loss from continuing operations	**(484,128)**	**(1,029,259)**	**(15,552,308)**	**(17,065,695)**
Assets, December 31, 2017	**59,499,623**	**26,035,497**	**13,061,259**	**98,596,379**
Liabilities, December 31, 2017	**26,377,886**	**2,349,267**	**4,812,631**	**33,539,784**

27. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31	**2018**	**2017**
Accounts receivable	**1,705,081**	(3,956,243)
Inventory	**636,761**	(966,818)
Accounts payable and accrued liabilities	**(4,476,271)**	16,058,996
Woking capital adjustments for Bochica acquisition	**2,250,000**	(4,016,820)
Working capital adjusments for Bolivar acquisition	**-**	(3,151)
Working capital adjustments for Transaction	**-**	(247,037)
Working capital adjustments for Alianza acquisition	**-**	(3,129,290)
Working capital adjustments for KM8	**-**	(610,441)
Working capital adjustments for YPF Farm-In	**-**	(2,500,000)
Change in non-cash working capital	**115,571**	629,196
Relating to:		
Operating activities	**470,297**	(199,219)
Investing activities	**(354,726)**	882,100
Financing activities	**-**	(53,685)
Change in non-cash working capital	**115,571**	629,196

28. SUBSEQUENT EVENTS

Settlement Agreement with YPF

In February 2019, the Company finalized a settlement agreement with YPF whereby YPF will cancel the outstanding liabilities of the Company associated with the operations of the Llancanelo Asset with the Company’s agreement to return its 39% participating interest in the Llancanelo Asset. This will result in a reduction of approximately $13.4 million in Company liabilities including Llancanelo cash calls assumed on acquisition, consideration payable on acquisitions as related to Llancanelo, and associated decommissioning obligations.

YPF will assume 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.

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 will be comprised of one common share of the Company and one share purchase warrant. Each warrant will entitle 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 Venture Exchange approval.