CRUZSUR ENERGY CORP.

(formerly PentaNova Energy Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The following is management's discussion and analysis ("MD&A") of the operating and financial results of CruzSur Energy Corp. ("CruzSur" or the "Company") for the three and year ended December 31, 2018, as well as information and expectations concerning CruzSur's outlook based on currently available information.

This MD&A should be read in conjunction with CruzSur's audited consolidated financial statements for the year ended December 31, 2018 (the "Financial Statements") prepared in accordance with IFRS (as defined below), together with the accompanying notes.

This MD&A contains forward-looking information about our current expectations, estimates, projections and assumptions. See the reader advisory for information on the risk factors that could cause actual results to differ materially and the assumptions underlying our forward-looking information. Additional information on the Company, its financial statements, this MD&A and other factors that could affect CruzSur's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

All dollar values are expressed in US dollars, unless otherwise indicated, and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

This MD&A is prepared as of April 30, 2019.

Non-GAAP Measures

Certain financial measures in this document do not have a standardized meaning as prescribed by IFRS, such as cash flow from operations, and therefore are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in order to provide shareholders and potential investors with additional measures for analyzing our ability to generate funds to finance our operations and information regarding our liquidity. The additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-GAAP measure is presented in the Operating Results, Financial Results and Liquidity and Capital Resources sections of this MD&A.

CORPORATE OVERVIEW AND UPDATE

CruzSur Energy Corp. is an oil and gas company incorporated in Canada, which formerly operated under the names PMI Resources Ltd. ("PMI") and subsequently PentaNova Energy Corp. ("PentaNova"). CruzSur's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "CZR".

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. 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. ("CruzSur"). References within this MD&A 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 this MD&A 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.

CruzSur is engaged in the acquisition, exploration, development, and exploitation of oil and natural gas assets in South America, particularly in the countries of Colombia and Argentina. The Company's current asset portfolio is comprised of one appraisal and two exploration natural gas assets in Colombia and three mature assets in Argentina; one heavy oil, one medium oil and one natural gas.

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 within this MD&A.

Management and Director Appointments

In February 2018, the Company's Board of Directors made several key senior management appointments, which are as follows:

- The Company appointed Dr. Ralph Gillcrist as Chief Executive Officer & President. Dr. Gillcrist was also appointed to the Board of Directors
- Alan Aitchison was appointed as Chief Operating Officer
- Rafael Orunesu was appointed as Vice President, Business Development and Country Manager, Argentina

In conjunction with these new management appointments, Mr. Gregg Vernon resigned as President, and was appointed as Vice President, Assets. Mr. Warren Levy resigned as President, Argentina Operations and Mr. Luciano Biondi resigned as Chief Executive Officer of the Company. Estimated severance amounts relating to Mr. Levy and Mr. Biondi's resignations are approximately $0.5 million. In addition, Mr. Serafino Iacono stepped down as Executive Chairman of the Company. Mr. Jeffrey Scott was appointed as non-executive Chairman.

In July 2018, the Board of Directors was reorganized with the resignations of Mr. Serafino Iacono, Mr. Francisco Sole, Mr. Hernan Martinez and Mr. Jaime Perez Branger, who all joined the Board of Directors in 2017. Following their departure, the Company's Board of Directors comprises Frank Giustra, Jeffrey Scott, Ralph Gillcrist and Gordon Keep. In October 2018, Mr. Vernon resigned as Vice

President, Assets. Estimated severance amounts relating to Mr. Vernon's resignation are approximately $0.3 million.

OIL AND NATURAL GAS PROPERTIES AND OUTLOOK

Colombia

CruzSur has an 80% working interest in the Maria Conchita Block, an 80% working interest in the SN-9 Block and a 60% working interest in the Tiburon Block. Below is a detailed description of each block:

Maria Conchita Block (80% working interest)

The Maria Conchita Block covers an area of approximately 60,076 acres in the Department of Guajira, Colombia. The E&P Contract for the Maria Conchita Block (the "Maria Conchita E&P Contract") is a 2009 contract between the Agencia Nacional de Hidrocarburos ("ANH") of Colombia and MKMS ENERJI SA, a wholly owned subsidiary of CruzSur, for the exploration and production of conventional hydrocarbons in the Maria Conchita area.

The Maria Conchita E&P Contract has an initial exploration term consisting of 6 one-year exploration phases, that are followed by a 24-year production period from the date when commerciality is declared. Exploration phases may be longer as a result of extensions and/or temporary suspensions by the ANH following satisfaction of certain requirements set out in the Maria Conchita E&P Contract, as has been the case with Maria Conchita. Phase 1 was completed with the acquiring, processing and interpretation of 120 km^2 of 3-D seismic. The Phase 2 commitment was fulfilled with the drilling of the Istanbul-1 well. CruzSur has decided not to proceed with the remaining exploration phases, which is discussed hereafter.

There have been two wells drilled by Texaco (Aruchara-1 in 1980 and Aruchara-2 in 1982), and two wells drilled by Ecopetrol, S.A. (Almirante-1 in 1988 and Tinka-1 in 1988). The Aruchara-1 well tested gas in the Upper and Middle Miocene. The Tinka-1 well tested gas in the Upper Miocene. 3-D seismic has been acquired over both discoveries, and the Environmental Impact Assessment permit has been granted. Maria Conchita is close to both of Colombia's gas trunk lines. The Maria Conchita Block neighbors the Chuchupa Block to its north, which is one of Colombia's largest gas fields with an initial 900 MMBoe in place and currently accounts for approximately 40% of Colombia's daily natural gas output. The Chuchupa Block has been under production for over 35 years, and it is currently operated by Chevron in association with Ecopetrol, S.A.

The Company commenced drilling of the Istanbul-1 well on February 27, 2018 and reached a total depth of 8,740 feet measured depth ("MD") on March 21. When drilling through the Jimol formation indications of gas were seen and open hole logs revealed 88.5 feet of low resistivity, potential gas bearing sands with good reservoir properties.

Based on the interpretation of the open hole logs and mud log, 12 separate intervals covering a total thickness of 62.4 feet were selected and perforated for testing between 7,912 feet MD and 8,608 feet MD.

From April 6 to April 10, 2018, the well was tested with gas and water produced to surface. Although steady state conditions were never achieved, the well was flowed for a period of 7 hours at an average rate of 350,000 cubic feet of gas per day and 2,100 barrels of water per day. A production log ("PLT") was subsequently run, confirming that the majority of water and gas production was coming from 26 feet of perforations in the upper sand package. The PLT also confirmed that the other potential gas bearing zones (eight zones with 36.4 feet of perforations) were not contributing materially to the observed flow, being impeded by the weight of the water column in the wellbore, which severely limited the ability to achieve sufficient drawdown to initiate gas flow from these zones.

Given the PLT results, which indicate that eight potential gas zones were not properly flow tested, the Company is evaluating the option to secure a workover rig and/or coiled tubing, with the intent of isolating the water producing intervals and to flow test the other potential gas bearing zones independently.

On July 17, 2018 CruzSur filed a technical discovery notice for Istanbul-1, and on September 3, 2018 an Evaluation Program covering an area of 32,518 acres was declared around the well in which the reserves and prospective resources exist and are covered by the existing 3D seismic. The Evaluation Program consists of geological and geophysical studies and an evaluation of re-entries on the existing wells and will expire on September 2, 2019. On December 7, 2018, CruzSur notified the ANH of its intention not to proceed to Phase 3 of the exploration program and to return the areas of the Maria Conchita Block not covered by the Evaluation Program. On December 13, 2018 the ANH returned the deposit held in guarantee of the phase 2 commitments in full to CruzSur.

SN-9 Block (80% working interest)

The SN-9 Block is located in the Lower Magdalena Valley, 75 km from Colombia's Caribbean coast. The SN-9 Block has 730 km of 2-D seismic. The Hechizo well was drilled on the block by Ecopetrol, S.A. in 1992 and tested gas in the Cienaga de Oro formation at a depth of approximately 4,250 ft.

The SN-9 Block, which covers an area of approximately 311,353 acres in the Department of Cordoba, Colombia, has a 6-year exploration period, divided in two phases of three years each, followed with a 24-year production period from the date when commerciality is declared.

The E&P Contract for the SN-9 Block (the "SN-9 E&P Contract"), dated October 8, 2014, was entered into between the ANH and Clean Energy Resources S.A.S., a Colombian corporation ("Clean Energy"). The SN-9 E&P Contract is currently in the first phase of the exploration program which includes a minimum work obligation of acquiring 125 km^2 of 3-D seismic and drilling one exploration well.

The SN-9 Block is adjacent to blocks held by Canacol Energy Ltd. The area has excellent infrastructure with good roads and access to the northern gas trunk line.

SN-9 Dispute

On August 9, 2018 the Company received a letter from Clean Energy, as one of the original sellers of the SN-9 Block, alleging breach of certain clauses in the Purchase and Sales Agreement. CruzSur has refuted these claims and is in discussions with Clean Energy to find a solution that protects the beneficial working interest in the SN-9 Block while avoiding a long and costly arbitration process to resolve the dispute.

Tiburon Block (60% working interest)

The Tiburon Block currently covers an area of approximately 245,850 acres in the Department of La Guajira, Colombia. The E&P Contract for the Tiburon Block (the "Tiburon E&P Contract") is a contract for the exploration and production of conventional hydrocarbons, dated June 14, 2006 and entered into between the ANH and Omimex de Colombia Ltd., which later changed its name to Colpan Oil & Gas Ltda. ("Colpan").

The Tiburon E&P Contract initially provided for an exploration period divided into six phases of twelve months each. The Tiburon E&P Contract is currently in Phase 3 of the exploration period with an existing minimum work obligation to acquire, process, and interpret 69.75 km^2 of 3D seismic. The phase commitment is currently suspended due to "Force Majeure and Third-Party Acts".

Tiburon Dispute

On August 9, 2018 the Company received a letter from Colpan, as the original seller of the Tiburon Block, alleging breach of certain clauses in the Purchase and Sales Agreement. CruzSur has refuted these claims and is in discussions with Clean Energy to find a solution that protects its beneficial working interest in the Tiburon Block while avoiding a long and costly arbitration process to resolve the dispute.

Argentina

Llancanelo Exploitation Asset (39% working interest)

Prior to the relinquishment described further below, the Company held a 39% working interest in the Llancanelo Asset through the Company's subsidiary, Alianza.

The Llancanelo Asset is situated at the northern edge of the Neuquén Basin in the province of Mendoza, 37 km south of the city of Malargüe and covers approximately 23,700 acres. The Llancanelo field was discovered by YPF in 1937 after drilling two exploratory wells that tested heavy oil in Tertiary reservoirs. In 1965, a discovery well was drilled into the Cretaceous Neuquén Group. Since 2010, YPF has drilled 29 horizontal wells, 4 pilot wells, and 1 vertical well.

Relinquishment of Llancanelo Asset

In August 2018, the Company received formal notification from YPF S.A., the operator of the Llancanelo concession, advising that, pursuant to the provisions of the governing agreement of the Llancanelo joint venture project ("JV"), Alianza is to immediately withdraw from its 39% working interest in the Llancanelo Asset in favor of YPF on account of failure to pay outstanding cash call balances owed by Alianza to the JV. YPF requested Alianza's cooperation in making the necessary filings and obtaining the relevant governmental approvals necessary for the transfer of the working interest to YPF. YPF had also advised that the exercise of their right to assume Alianza's working interest does not preclude its right to pursue payment of the outstanding cash call balances, currently estimated to be approximately $8 million plus interest, as well as to seek damages caused to YPF as a result of Alianza's non-compliance.

In February 2019, CruzSur and YPF arrived at a settlement agreement whereby YPF will cancel all outstanding liabilities of CruzSur associated with the Llancanelo Asset, including decommissioning obligations, and CruzSur agreed to return to YPF its 39% working interest in the Llancanelo Asset.

Termination of YPF Farm-In Agreement

In August 2018, the Company also received notification from YPF acknowledging the termination of the Llancanelo Farm-In Agreement ("FIA"), wherein the Company was to earn an additional 11% working interest in the Llancanelo Asset. The termination of the FIA was due to non-satisfaction of conditions precedent to closing by the long stop date stipulated in the agreement. YPF requested that the parties should reverse the effects of all acts performed under the FIA and requested Alianza's cooperation in making the necessary filings and obtaining the relevant governmental approvals necessary to that end. YPF also reserved the right to claim damages caused to YPF as a result of Alianza's non-compliance. Furthermore, the $2.5 million cash payment that was to be paid as part of the FIA was still owed by the Company per the terms of the agreement.

In February 2018, as part of the aforementioned settlement agreement, YPF agreed to release and hold harmless CruzSur from all existing liabilities or future commitments, damages or penalties related with the termination of the FIA. 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 in the second quarter of 2018, resulting in a net impairment losses of $23.1 million on the Llancanelo Asset for 2018.

KM8 Asset (100% working interest)

The KM8 Asset is located immediately north of the city of Comodoro Rivadavia in the province of Chubut. The block covers 4,585 acres and has two productive zones. Shallow drilling activity began in 1915 and continued until the late 1960's, with 671 wells in the Salamanca formation, with cumulative estimated production of 28.3 mmbbl. From 1970 until 1997, 58 deeper wells were drilled, with cumulative production of 9.5 mmbbl. Today, there are 7 wells producing. The field is ready for reactivation and the development of deeper producing formations. Adjacent areas to the KM8 Asset have been the focus of recent drilling activity by YPF.

Sur Río Deseado Este Production Asset (54.14% working interest)

The Sur Río Deseado Este Production area ("SRDE") is located in the Santa Cruz province in the Southern Flank of the Golfo San Jorge Basin. The Sur Río Deseado Este Production area covers approximately 12,000 acres and includes three heavy oil fields (Estación Tehuelches, La Frieda and La Frieda Oeste). The oil production is from a depth of approximately 2,800 ft.

Sur Río Deseado Este Exploration Area (7.92% working interest)

The Sur Río Deseado Este Exploration Area neighbors the Sur Río Deseado Este Production area and includes the right to exploit and carry out complementary exploration for hydrocarbons located in a concession with an area of 63,000 acres. Three wells have been drilled in the area to a depth of 3,820 ft to 4,100 ft and tested heavy oil.

Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo (18% carried interest)

The Company acquired an 18% carried interest in the Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo Blocks (collectively, the "Mariposa Asset") through the acquisition of Alianza. The 3 blocks are located in the province of Santa Cruz and constitute a fully carried working interest in a gas prone area in the center of the Golfo San Jorge basin in the Santa Cruz province. Estancia La Mariposa covers 6,910 acres, Lomita de la Costa covers 2,525 acres, and Cerro Mangrullo covers 12,360 acres. The exploitation permits were granted in 2008. Current production comes from Estancia La Mariposa and is predominantly gas.

OPERATIONS UPDATE

Production

Production figures below represent CruzSur's net working interest in each of the blocks, before applicable royalties. As at December 31, 2018, the Company's operating results reflect a 39% working interest ownership in Llancanelo (prior to relinquishment), a 100% working interest ownership in KM8, and a 54.14% working interest ownership in SRDE. Production from the Mariposa Asset is not included within the figures below given the Company only retains a carried interest in this particular asset, receiving funds for net revenue distributed from the operator of the concession to the Company.

Total Production Volumes (boe)	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Llancanelo	84,344	63,091	-	-	41,057	43,287
KM8	10,445	4,012	3,468	4,246	2,176	555
SRDE	5,158	-	1,317	861	1,444	1,536
Inventory movements	(1,764)	(4,012)	7,510	(5,107)	(2,076)	(2,091)
Total sales	**98,183**	**63,091**	**12,295**	**-**	**42,601**	**43,287**
Average Production Volumes (boe/d)						
Llancanelo	466	410	-	-	451	481
KM8	40	44	38	46	32	50
SRDE	14	-	14	9	16	17
Average Production Volumes (boe/d)	**520**	**454**	**52**	**55**	**499**	**548**

Llancanelo

In August 2018, as previously mentioned, the Company received formal notification from YPF advising that the Company is to relinquish its 39% working interest in the Llancanelo Asset. On account of this requested relinquishment, production from the Llancanelo concession in the third and fourth quarter of 2018 has been retained by YPF.

During the second quarter of 2018, the Llancanelo concession produced a total of 41,057 net boe (105,302 gross boe) compared to 43,287 net boe (111,024 gross boe) in the first quarter of 2018, representing roughly a 5% decrease in production. This equated to average daily production of 451 net boe/d in the second quarter of 2018 compared to 481 net boe/d in the first quarter of 2018. The reduction in production can be attributed to scheduled maintenance that required certain wells on the concession to be shut-in during the maintenance period. All production attributed to Llancanelo was sold in the month that it was produced.

KM8

During the year ended December 31, 2018, the KM8 concession produced a total of 10,445 boe. This equated to average daily production of 40 boe/d, based on the 262 days during the period in which the concession produced. During the year, the Company was able to realize sales of 9,950 boe, which represented a portion of current year production and opening crude inventory from production from the previous year. The remaining crude oil production attributed to KM8 was held in inventory as at December 31, 2018

SRDE

During the year ended December 31, 2018, the SRDE concession produced a total of 5,158 boe. This equated to average daily production of 14 boe/d. During this period the Company was able to realize sales of 3,889 boe, which represented a portion of current year production and the crude oil inventory accumulated from the date of acquisition of December 29, 2017. The remaining crude oil production attributed to SRDE was held in inventory as at December 31, 2018.

Llancanelo Revenue and Royalties

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue before royalties (1)	4,460,189	2,834,762	-	-	2,189,946	2,270,243
Royalties (3)						
Government royalties	(714,613)	(423,580)	-	-	(371,542)	(343,071)
Turnover tax	(130,313)	(104,848)	-	-	(64,126)	(66,187)
Overriding royalties	(73,427)	(46,126)	-	-	(36,207)	(37,220)
Petroleum and natural gas revenues after royalties	**3,541,836**	**2,260,208**	**-**	**-**	**1,718,071**	**1,823,765**
$/boe realized sales price	**52.88**	**44.93**	**-**	**-**	**53.34**	**52.44**
$/boe total royalties	**(10.89)**	**(9.11)**	**-**	**-**	**(11.49)**	**(10.31)**
$/boe on CruzSur production after royalties	**41.99**	**35.82**	**-**	**-**	**41.85**	**42.13**

1) 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 the 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.

   Based on realized selling prices after taking discounts into account, the Company was able to realize an average selling price of $52.44/boe and $53.34/boe on the production from the Llancanelo concession for the first and second quarter of 2018, respectively. Average realized price showed an increase of $7.95/boe to $52.88/boe when compared to $44.93/boe from the previous year.

2) Any oil and gas produced by the holder of an exploration permit prior to the granting of a production concession is subject to the payment of a 15% royalty. During the year, the Llancanelo concession was subject to a 15% royalty based on the 12% baseline royalty at the wellhead, plus an additional 3% royalty upon renewal of the concession extension.

   As consideration for its services, an overriding royalty interest ("ORR") equal to 2% of any net production of hydrocarbons attributable to the Company's participation interest in Llancanelo among other assets acquired in the Argentina acquisitions described above was granted to Dexton International Ltd. The Company assumed the obligation of this ORR as part of its acquisitions in Argentina in 2017. The amount attributable to Llancanelo for the ORR has been included in royalty expenses.

Llancanelo Operating Expenses

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Compensation costs	303,358	189,496	-	-	95,864	207,494
Transportation and processing	384,793	360,561	-	-	162,222	222,571
Operator overhead	154,000	95,492	-	-	61,072	92,928
Maintenance, workovers and other	1,874,242	1,336,815	-	-	996,425	877,817
Total operating expenses	**2,716,393**	**1,982,364**	**-**	**-**	**1,315,583**	**1,400,810**
$/boe	**32.21**	**31.42**	**-**	**-**	**32.04**	**32.36**

On a per barrel basis, operating expenses increased by $0.79/boe (or 3% increase) to $32.21/boe from $31.42/boe in the previous year. No operating expenses were incurred in the third or fourth quarter of 2018 due to the YPF relinquishment request mentioned previously.

Llancanelo Netbacks (1)

USD $/boe	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Oil revenue	52.88	44.93	-	-	53.34	52.44
Royalties	(10.89)	(9.11)	-	-	(11.49)	(10.31)
Operating expenses	(32.21)	(31.42)	-	-	(32.04)	(32.36)
Total Llancanelo operating netback	**9.78**	**4.40**	**-**	**-**	**9.81**	**9.77**

1) The term "netback" is a non-GAAP measure and may not be comparable with the calculation of other entities. Netback is calculated as the average unit sales price, less royalties and operating expenses and represents the cash margin for every barrel of oil equivalent sold. The Company uses this measure to analyze operating performance and considers netback a key measure as it demonstrates its profitability relative to current commodity prices.

SRDE Revenue and Royalties

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
SRDE oil revenues before royalties	210,652	-	145,262	-	65,390	-
Royalties						
Government royalties	(25,151)	-	(17,547)	-	(7,604)	-
Turnover tax	(1,034)	-	(580)	-	(454)	-
Overriding royalties	(3,641)	-	(2,490)	-	(1,151)	-
Petroleum and natural gas revenues after royalties	**180,826**	**-**	**124,645**	**-**	**(9,209)**	**-**
$/boe realized sales price	**62.62**	**-**	**61.95**	**-**	**64.17**	-
$/boe total royalties	**(8.87)**	**-**	**(8.79)**	**-**	**(9.04)**	-
$/boe on PentaNova production after royalties	**53.75**	**-**	**53.16**	**-**	**55.13**	-

SRDE Operating Expenses

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Compensation costs	78,159	-	55,920	-	22,239	-
Transportation and processing	24,489	-	17,214	-	7,275	-
Operator overhead	18,169	-	11,523	-	6,646	-
Total operating expenses	**120,817**	**-**	**84,657**	**-**	**36,160**	**-**
$/boe	**35.91**	**-**	**36.10**	**-**	**35.48**	**-**

SRDE Netbacks

USD $/boe	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Oil revenue	62.62	-	61.95	-	64.17	-
Royalties	(8.87)	-	(8.79)	-	(9.04)	-
Operating expenses	(35.91)	-	(36.10)	-	(35.48)	-
Total SRDE operating netback	**17.84**	**-**	**17.06**	**-**	**19.65**	**-**

KM8 Operating Results

In the fourth quarter of 2018, the Company realized sales on crude inventory attributable to the KM8 concession of $586,525 for an average sales price of approximately $58.95/boe (December 31, 2017 – nil amount as no realized sales in prior year). Throughout the year, the combined operating and royalty expenses incurred on production at the KM8 concession exceeded the net realizable value of the crude inventory. Thus, crude oil inventory was written down to its recoverable amount quarter over quarter based on prevailing crude market prices. The total loss on inventory revaluation of $717,270 was recognized in 2018, which was all attributable to KM8 production and final crude inventory (December 31, 2017 – $205,302). The recognized costs of sales associated with sold KM8 inventory were equal to the total sales of $586,525 after inventory write downs.

The operating and royalty expenses per boe on sold KM8 crude inventory prior to inventory write-downs would have been $122.61/boe (December 31, 2017 – no sales). This unadjusted cost per barrel is primarily due to the fact that the majority of operating expenses related to the production operations on the KM8 concession are fixed in nature, thus resulting in higher costs per barrel at lower production volumes.

Net Revenue on Carried Working Interest

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Mariposa revenues before royalties	1,235,489	759,229	303,595	257,175	246,341	428,378
Royalties						
Government royalties	(166,011)	(99,916)	(38,485)	(39,747)	(39,014)	(48,765)
Turnover tax	(25,142)	(25,710)	(1,516)	(1,634)	(8,927)	(13,065)
Overriding royalties	(20,887)	(13,186)	(5,272)	(4,316)	(3,707)	(7,592)
Mariposa revenues after royalties	**1,023,449**	**620,417**	**258,322**	**211,478**	**194,693**	**358,956**
Transport, treating and processing	(24,744)	(13,243)	(8,044)	(3,706)	(5,644)	(7,350)
Net Mariposa revenue	**998,705**	**607,174**	**250,278**	**207,772**	**189,049**	**351,606**

The net revenue on carried working interest is derived from the carried interest held by the Company in the Mariposa Asset. The carried working interest entitles the Company to 18% of the oil, natural gas and condensate sales, while the operator carries 100% of the capital expenditures and the majority of operating costs. The net revenue figures associated with the Mariposa Asset are presented net of any applicable royalties and certain operating costs of transportation, treatment and processing. Oil and natural gas production is sold on behalf of the Company, for which the Company receives proceeds from the operator, net of applicable royalties and other specific costs. The net revenue generated from this asset has not been included in any "per barrel" pricing herein. The increase of net revenue by $391,531 from 2017 to 2018 is primarily attributed to a full year of production from the acquisition date of the Mariposa Asset that closed in August 2017 and from the workover campaign on some of the wells that was carried out by the operator during the year.

Impairment Loss

During the year ended December 31, 2018, the Company has recognized impairments relating to E&E assets in Colombia and Argentina. The recoverable amount for impairment purposes was estimated using fair value less costs of disposal based on market transactions. This resulted in impairments being recorded 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 Asset for total impairment of $35.8 million.

Additionally, during the year ended December 31, 2018, the Company recognized impairments relating to the Llancanelo Asset of $23.1 million. These impairments were the result of the difference between the net book value and management's assessment of the recoverable amount of the Llancanelo Asset, on account of the relinquishment of the Company's working interest in the Llancanelo Asset and the termination of the FIA.

General and Administrative Expenses

General and administrative expenses ("G&A") for the year ended December 31, 2018 totaled $4,943,366 (December 31, 2017 - $4,093,672). The G&A expenses relate to the normal course of the Company's operations, and are constituted as follows:

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Professional Fees	1,313,668	1,468,497	344,762	318,250	343,482	307,174
Wages & Salaries	1,623,892	1,574,098	(51,058)	492,864	640,378	541,708
Severance	925,000	-	-	118,624	246,091	560,285
Fees, Rent, Investor Relations & Other	1,080,806	1,051,077	515,356	102,180	166,602	296,668
Total	**4,943,366**	**4,093,672**	**809,060**	**1,031,918**	**1,396,553**	**1,705,835**

Professional fees are comprised of legal, audit, tax, and other fees that have been incurred by the Company for operations. Wages and salaries are amounts paid to employees of the Company. Severance costs consist of severance payments paid and/or owed to former employees of the Company. Other expenses comprise the normal operations of the Company and include office rent, public relations, insurance, travel, and other general and administrative expenses. In the fourth quarter of 2018, the reversal of cumulative director fees owed to directors of the Company due to an approved resolution by the Board of Directors to waive all accumulated director fees resulted in a credit to wages & salaries for the period. As well, the write-off of previously recorded accounts receivable and the disposal of corporate fixed assets resulted in an increase in Other expenses for the fourth quarter of 2018.

Business Development

Business development expenses of $187,834 (December 31, 2017 - $5,000,345) were recognized for the year ended December 31, 2018. These 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 table below compares the business development expense in each of the reporting periods:

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Legal fees	85,751	2,274,264	-	8,338	59,798	17,615
Professional fees	90,087	647,106	-	-	19,881	70,206
Travel	11,996	838,350	-	10,014	-	1,982
Finder fees on transactions	-	1,240,625	-	-	-	-
Total	**187,834**	**5,000,345**	**-**	**18,352**	**79,679**	**89,803**

Share Based Payments

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.

The value of the stock options vesting during 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.

Gain on terminated farmout transaction

In June 2018, CruzSur executed the SN-9 Farm-out Agreement with Panacol Oil and Gas ("Panacol"). One of the terms of the Farm-out Agreement was that Panacol agreed to replace the $2.4 million USD guarantee required by the ANH for the SN-9 license. The amount would be reimbursed to Panacol subsequent to the fulfillment of the commitments within the agreement.

In August 2018, due to to Panacol's inability to fulfill the other conditions of the Farm-out Agreement, the Company terminated the SN-9 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. This results in a gain to CruzSur of $2.5 million (net of foreign exchange differences) recorded in the statement of loss and comprehensive loss.

Depletion and Depreciation ("D&D")

The Company's depletion and depreciation expense for the year ended December 31, 2018 are as follows:

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Llancanelo	908,380	724,781	-	-	442,177	466,203
Mariposa	530,185	208,372	133,371	129,499	111,798	155,517
Depletion on oil and gas assets	**1,438,565**	**933,153**	**133,371**	**129,499**	**553,975**	**621,720**
Fixed asset depreciation	98,984	24,935	21,706	30,138	26,430	20,710
Consolidated depletion and depreciation	**1,537,549**	**958,088**	**155,077**	**159,637**	**580,405**	**20,710**

Finance

The Company's finance related income and expenses for the year ended December 31, 2018 are as follows:

USD $	Year 2018	Year 2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Interest income	(217,878)	(196,542)	(15,101)	(64,259)	(60,533)	(77,985)
Interest expenses and bank charges	124,571	105,839	(11,948)	18,053	20,984	97,482
Debt related expenses	-	195,849	-	-	-	-
Total cash finance expenses/income	**(93,307)**	**105,146**	**(27,049)**	**(46,206)**	**(39,549)**	**19,497**
Non-cash:						
Accretion on decommissioning obligation	119,241	31,294	30,582	30,409	29,905	28,345
Total non-cash finance expenses/income	**119,241**	**31,294**	**30,582**	**30,409**	**29,905**	**28,345**
Total finance expenses/income	**25,934**	**136,440**	**3,533**	**(15,797)**	**(9,644)**	**47,842**

Foreign Exchange

The Company incurred a foreign exchange loss of $2,267,920 for the year ended December 31, 2018 (December 31, 2017 - $575,642). The foreign exchange loss is primarily due to the result of assumed cash call debt that was derived in Argentina pesos that is being maintained in US dollars as part of the terms of certain acquisitions agreements in Argentina.

Loss on revaluation of asset held for sale

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.

Cash used in Operations

For the year ended December 31, 2018, the Company used cash in operations of $2,591,631 (December 31, 2017 - $7,290,666). The Cash used in operations are primarily comprised of operating expenses, G&A expenses and business development expenses incurred during these periods.

CAPITAL ADDITIONS

For the year ended December 31, 2018 the Company had additions, prior to recognition of any impairments, of $11.3 million to exploration and evaluation assets and no additions to property, plant and equipment for oil and gas properties. The movements in E&E were comprised of the following:

- $9.8 million to fund the drilling of Istanbul-1 and other capital expenditures in the Maria Conchita Block in Colombia
- $0.3 million in asset retirement costs
- $0.5 million in capital expenditures towards other projects in Colombia
- $0.2 million in capital expenditures towards projects in Argentina
- $0.5 million in capitalized general and administrative expense and share-based payments during the year

LIQUIDITY AND CAPITAL RESOURCES AND GOING CONCERN

The Company's capital management objective is to have sufficient capital to be able to execute its business plan. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The continued development of the Company's oil and natural gas assets is dependent on the ability of the

Company to secure sufficient funds through operations, credit facilities and other sources. Such funds may not be available on acceptable terms or at all.

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.

The Company will continue to utilize its financial resources to fund existing administrative budgets and capital commitments. There is uncertainty as to the future operating and development ability of the Company as it will be contingent upon the Company's ability to successfully identify and procure necessary capital.

There is material uncertainty as to the future ability of the Company to fulfill existing commitments as it will be contingent upon the Company's ability to successfully identify and procure necessary capital, which may be by way of strategic transactions to obtain financing and/or generate profitable operations that are beneficial to the Company and its shareholders. 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.

The 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.

Management believes that the going concern assumption is appropriate for the 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, the Financial Statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

The Company's Colombian oil and gas interests are in the exploration stage and the Company has yet to establish operations to achieve sustainable production from its acquired oil and gas assets. Accordingly, the recoverability of amounts recorded as oil and natural gas properties is dependent upon successful development of its assets in order to put them into production and then achieve future profitable production, the ability of the Company to secure adequate sources of financing to continue to fund the development of its assets, and the political stability of Colombia. The outcome of these matters cannot be predicted with certainty at this time.

Certain Argentine oil and gas interests are in early exploration stage while other assets are still being analyzed to assess an appropriate development plan. Accordingly, the recoverability of amounts recorded as oil and natural gas properties is dependent upon the existence, discovery, and exploitation of economically recoverable oil and gas reserves on blocks, the political stability of Argentina, and the ability of the Company to secure adequate sources of financing to continue to fund the development of its assets and achieve future profitable production. The outcome of these matters cannot be predicted with certainty at this time.

Consideration Payable on Acquisitions

As of December 31, 2018, balances owed to sellers on acquisitions closed during the previous year included 1); $5.0 million owed in cash consideration to the selling party in the acquisition of Alianza; 2) approximately $8.4 million in unpaid cash call debt owed to YPF that was assumed as part of 2017 acquisition transactions, and 3) $2.5 million for cash payment owed to YPF as part of the FIA. Subsequent to year end, CruzSur and YPF reached an agreement whereby the unpaid cash call debt of $8.4 million and the $2.5 million cash payment were cancelled in exchange for which CruzSur relinquished its rights in the Llancanelo Asset.

With regards to the $5.0 million balances owed in the acquisition of Alianza, the Company is currently in negotiations with the selling party on various points regarding this transaction. Management believes that the points of dispute being presented to the selling party are supportable under the terms of the original purchase agreement.

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. 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. As of December 31, 2018, a balance of $51,473 remains in escrow.

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

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 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.

A further 384,400 phantom options were granted to new management member under the same vesting and expiry terms as the granted stock options. Phantom options will be settled by payment of cash for the market price minus C$3.60 per phantom option on the date of exercise. Further to the stock option grant to new management, 100,000 stock options were forfeited as per the terms of an agreement reached by the Company and certain employees.

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

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

COMMITMENT SUMMARY UPDATE

CruzSur drilled and evaluated the Istanbul-1 well in the first quarter of 2018, fulfilling 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 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.

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 private placements in 2017, 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. 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, 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 and rights to an 80% working 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. A former director of the Company, through affiliate entities, is the 50% beneficial owner of Dexton International Ltd. ("Dexton"). Dexton retains an overriding royalty interest equal to 2% of any net production of hydrocarbons attributable to the Company's participation interest in Argentina assets. This overriding royalty interest was granted in 2017 as part of an agreement wherein Dexton provided advisory services in connection with the acquisition of oil and gas assets located in Argentina. 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 the Company. Furthermore, this company received a finders fee of 75,000 common shares of CruzSur, which are included in the 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 accrued in 2017 and up to September 30, 2018.

KEY FINANCIAL RESULTS

The following table summarizes CruzSur's key financial results over the past three years:

	Year 2018	Year 2017	Year 2016
Total revenue	6,256,071	3,441,936	-
Loss from continuing operations	(61,235,275)	(15,752,694)	(523,441)
Net loss	(61,235,275)	(14,007,177)	(523,441)
Loss per share (based & diluted):			
Loss from continuing operations	(2.53)	(0.84)	(10.47)
Net loss	(2.53)	(0.74)	(10.47)
Total assets	29,978,922	98,596,379	526,784
Total non-current liabilities	5,194,788	8,767,724	-

CruzSur is still primarily in the exploratory and early development phase of its oil and gas prospects. Net losses to date are largely a result of general and administrative expenses and business development expenses incurred over each of the 2016, 2017, and 2018 financials years. Some of these losses were offset by oil and natural gas revenue realized in 2017 and 2018. Additionally, 2018, impairment loss of $58.9 million was recognized in relation to various E&E assets, further contributing to the overall loss recognized in the 2018 year.

SELECTED QUARTERLY INFORMATION

The following table sets out selected quarterly financial information of CruzSur and is derived from unaudited quarterly financial data prepared by management in accordance with IFRS.

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net Revenue	904,045	207,772	1,961,084	2,175,371
Net loss - continuing operations	(32,893,354)	(1,620,843)	(24,745,680)	(1,975,398)
Income from discontinued operations	-	-	-	-
Net loss	(32,893,354)	(1,620,843)	(24,745,680)	(1,975,398)
Comprehensive loss	(32,840,845)	(1,585,006)	(24,727,942)	(2,022,906)
Net loss per share				
(basic & diluted):				
Continuing operations	(1.36)	(0.07)	(1.02)	(0.08)
Discontinued operations	-	-	-	-
Net loss	(1.36)	(0.07)	(1.02)	(0.08)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net Revenue	1,872,856	994,526	-	-
Net loss - continuing operations	(793,865)	(8,501,444)	(4,426,942)	(2,030,443)
Income from discontinued operations	(73,841)	1,869,299	(49,941)	-
Net loss	(867,706)	(6,632,145)	(4,476,883)	(2,030,443)
Comprehensive loss	(1,028,409)	(6,874,430)	(4,385,504)	(2,030,443)
Net loss per share				
(basic & diluted):				
Continuing operations	(0.03)	(0.39)	(0.30)	(0.18)
Discontinued operations	(0.00)	0.09	(0.00)	-
Net loss	(0.04)	(0.31)	(0.30)	(0.18)

Changes in net loss reported between each quarterly period to date is primarily a function of variances in general and administrative expense and business development expenses recorded in each quarter. Significant corporate and administrative expenses commenced in March 2017 with the establishment of corporate operations in Canada and Colombia, including administrative and operations staff. Additionally, in 2018, impairment loss of $58.9 million was recognized in relation to E&E assets, with $25.0 million being recognized in Q2 2018 and $33.9 million being recognized in Q4 2018.

OUTLOOK

Due to the inconclusive results of the testing of the Istanbul-1 well, the Company plans to secure a workover rig or coiled tubing, with the intent of isolating the water producing intervals in the well in order to test the other potential gas bearing zones independently. The Company will then evaluate the results of the flow test to determine further drilling activity, namely the drilling of a second exploratory well. However, the Company will first need to secure financing in order to carry out any future activity on the Maria Conchita Block.

On February 15, 2018, the Company announced the appointment of a new management team and certain changes to the CruzSur Board of Directors. As at April 27, 2018, the Board of Directors has given management a mandate (the “Mandate”) to refocus the Company. The Mandate reflects an evaluation of the Company, the market and the plans of the Company’s previous management team. As management continues to implement the Mandate, it may affect the nature and scope of administrative budgets and timing of the development of the Company's reserves.

Subsequent to year end, CruzSur arranged a non-brokered private placement of secured convertible debentures for aggregate proceeds of $2,500,000, to enable the Company to restructure its portfolio of assets and settle outstanding liabilities.

The Company anticipates prudently pursuing asset divestiture opportunities, additional and/or alternative production and exploration opportunities, and the development of its undeveloped reserves. The Company may choose to delay development, depending on a number of circumstances, including the existence of higher priority expenditures, prevailing commodity prices and the availability of funds.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company has adopted a number of new and revised IFRSs that have been issued effective January 1, 2018 and is also currently reviewing others that are not yet effective. Detailed discussions of new accounting policies that may affect the Company are provided in the Financial Statements.

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 the 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.

PRINCIPAL BUSINESS RISKS

The Company's business and results of operations are subject to a number of risks and uncertainties including, but not limited to the following:

Crude Oil and Natural Gas Development

Exploration, development, production of oil and natural gas involves a wide variety of risks which include but are not limited to the uncertainty of finding oil and gas in commercial quantities, securing markets, commodity price fluctuations, exchange and interest rate exposure and changes to government regulations, including regulations relating to prices, taxes, royalties and environmental protection. The oil and gas industry is intensely competitive and the Company competes with a large number of companies with greater resources.

The Company's ability to obtain reserves in the future will depend not only on its ability to develop its current properties but also on its ability to acquire new prospects and producing properties. The acquisition, exploration and development of new properties also require that sufficient capital from outside sources will be available to the Company in a timely manner. The availability of equity or debt financing is affected by many factors many of which are beyond the control of the Company.

Foreign Operations

There are a number of risks associated with conducting foreign operations over which the Company has no control, including political instability, potential and actual civil disturbances, ability to repatriate funds, changes in laws affecting foreign ownership and existing contracts, environmental regulations, oil and gas prices, production regulations, royalty rates, income tax law changes, potential expropriation of property without fair compensation and restriction on exports.

Addition of Reserves and Resources

The Company's future crude oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Company successfully discovering and developing or acquiring new reserves and resources. The addition of new reserves and resources will depend not only on the Company's ability to explore and develop properties but also, in the case of reserves, on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's exploration, development or acquisition efforts will result in the discovery and development of commercial accumulations of oil and natural gas.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Company. Estimates of reserves depend in large part upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign reserve volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate reserves discovered by the Company may be significantly less than the total estimates.

Exploration Risks

The exploration of the Company's properties may from time to time involve a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Company's exploration programs and projects. In addition, the Company's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, community issues and social unrest, necessary governmental, regulatory, or other third party approvals and compliance with regulatory requirements.

Management's Report on Internal Control over Financial Reporting

In connection with National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company are required to file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52- 109.

FINANCIAL AND OTHER INSTRUMENTS

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.

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. Please refer to discussion above in "Llancanelo Revenue and Royalties" regarding the oil price market in Argentina as it pertains to the Company's current oil production revenue.

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.

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.

READER ADVISORIES

Forward Looking Statements

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, ability to execute farm-in and farm-out opportunities, and other factors, all of which are more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

Management believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Such forward-looking information included in this MD&A should not be unduly relied upon as the plans, assumptions, intentions or expectations upon which it is based may not occur. Actual results or events may vary from the forward-looking information.

In particular, this MD&A may contain forward-looking information pertaining to the following:

- the resource potential of the Company's assets,
- the Company's strategy and opportunities, including implementation of the Mandate
- performance characteristics of the Company's oil properties and estimated capital commitments and probability of success,
- crude oil production and recovery estimates and targets,
- the existence and size of the oil reserves and resources,
- the Company's drilling plans,
- capital expenditure programs and estimates, including the timing of activity,
- the Company's plans for, and results of, exploration and development, activities, and factors that may affect such activities,
- projections of market prices and costs,
- the supply and demand for oil,
- expectations regarding the ability to raise equity and debt capital on acceptable terms and to add continually to reserves through acquisitions and development, including the ability to negotiate and complete the agreements contemplated in this MD&A,
- the timing for receipt of regulatory approvals, including ANH approvals, and

- treatment of the Company under governmental regulatory regimes and tax laws.

The purpose of providing any financial outlook in this MD&A is to illustrate how the business of the Company might develop without the benefit of specific historical financial information. Readers are cautioned that this information may not be appropriate for other purposes.

The forward looking information herein is based on certain assumptions and analysis by the management of the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors that it believes are appropriate and reasonable under the circumstances. The forward looking information herein is based on a number of assumptions, including but not limited to:

- the availability on acceptable terms of funds for capital expenditures,
- the availability in a cost-efficient manner of equipment and qualified personnel when required,
- continuing favourable relations with Latin American governmental agencies,
- continuing strong demand for oil,
- the stability of the regulatory framework governing royalties, taxes and environmental matters in Colombia and any other jurisdiction in which the Company may conduct its business in the future,
- the Company's future ability to market production of oil successfully to customers,
- the Company's future production levels and oil prices,
- the applicability of technologies for recovery and production of the Company's oil reserves,
- the existence and recoverability of any oil reserves,
- geological and engineering estimates in respect of the Company's resources and reserves,
- the geography of the areas in which the Company is exploring, and
- the impact of increasing competition on the Company.

The actual results, performance and achievements of the Company could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in the MD&A and the following risks and uncertainties:

- global financial conditions,
- general economic, market and business conditions,
- volatility in market prices for oil and natural gas, the stock market, foreign exchange and interest rates,
- risks inherent in oil and gas operations, exploration, development and production,
- risks inherent in the Company's international operations, including security, political, sovereignty and legal risks in Colombia and Argentina,
- the failure by counterparties to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties,
- risks related to the timing of completion of the Company's projects and plans,
- uncertainties associated with estimating oil and natural gas reserves and resources,
- competition for, among other things, capital, acquisitions of resources, undeveloped lands and skilled personnel,
- the Company's ability to hold existing leases through drilling or lease extensions or otherwise,
- incorrect assessments of the value of acquisitions or title to properties,
- the failure of the Company or the holder of certain licenses or leases to meet specific requirements of such licenses or leases,

- claims made in respect of the Company's properties or assets,
- geological, technical, drilling and processing problems, including the availability of equipment and access to properties,
- environmental risks and hazards,
- failure to estimate accurately abandonment and reclamation costs,
- the inaccuracy of third parties' reviews, reports and projections,
- rising costs of labour and equipment,
- the failure to engage or retain key personnel,
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, and
- the other factors discussed under "Principal Business Risks" in this MD&A.

Readers are cautioned that the foregoing lists of assumptions, risks and uncertainties are not exhaustive. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information speaks only as of the date of this MD&A, and the Company does not undertake any obligation to publicly update or revise any forward-looking information except as required by applicable securities laws.

Analogous Information

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), including, but not limited to, information relating to areas, assets, wells, industry activity and/or operations that are in geographical proximity to or believed to be on-trend with lands held by CruzSur. In particular, this document notes specific analogous oil and gas discoveries and corresponding details of said discoveries in the Chuchupa Block as well as blocks owned by Canacol Energy Ltd. and makes certain assumptions about the Maria Conchita Block and SN-9 Block as a result of such analogous information and potential recovery rates as a result thereof. Such information has been obtained from public sources, government sources, regulatory agencies or other industry participants. Management of CruzSur believes the information may be relevant to help define the reservoir characteristics within lands on which CruzSur holds an interest and such information has been presented to help demonstrate the basis for CruzSur's business plans and strategies. However, management cannot confirm whether such analogous information has been prepared in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook and CruzSur is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. CruzSur has no way of verifying the accuracy of such information. There is no certainty that the results of the analogous information or inferred thereby will be achieved by CruzSur and such information should not be construed as an estimate of future production levels or the actual characteristics and quality CruzSur's assets. Such information is also not an estimate of the reserves or resources attributable to lands held or to be held by CruzSur and there is no certainty that such information will prove to be analogous in the future. The reader is cautioned that the data relied upon by CruzSur may be in error and/or may not be analogous to such lands to be held by CruzSur.

Barrels of Oil Equivalent

Where amounts are expressed in a barrel of oil equivalent ("boe"), or barrel of oil equivalent per day ("boe/d"), natural gas volumes have been converted to barrels of oil equivalent on the basis that 6 thousand cubic feet ("mcf") is equal to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. This boe conversion ratio is based on an energy equivalence methodology, and does not represent a value equivalency. Indeed, the energy and value relationships may differ widely with market conditions. The conversion does conform to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

Abbreviations

$/bbl dollars per barrel
$/boe dollars per barrel of oil equivalent
$/GJ dollars per gigajoule
$/mcf dollars per thousand cubic feet
bbl barrel
bbl/d barrels per day
bcf billion cubic feet
boe barrel of oil equivalent
boe/d barrel of oil equivalent per day
GJ gigajoule
GJ/d gigajoules per day
km kilometer
mcf thousand cubic feet
mcf/d thousand cubic feet per day
mmbbl million barrels
mmboe million barrels of oil equivalent
mmcf/d million cubic feet per day
NGLs natural gas liquids
API American Petroleum Industry gravity
m^3 meters cubed
ppm parts per million