CRUZSUR ENERGY CORP.

(formerly PentaNova Energy Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2019

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 months ended March 31, 2019, 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 interim condensed consolidated financial statements for the three months ended March 31, 2019 as well as the audited annual consolidated financial statements for the year ended December 31, 2018 (collectively, 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 May 29, 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 name PentaNova Energy Corp. ("PentaNova"). CruzSur's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "CZR".

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.

OIL AND NATURAL GAS PROPERTIES AND OUTLOOK

Colombia

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

Maria Conchita Block

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 Company maintains an 80% working interest in the Maria Conchita Block with 20% being held by private joint venture partners.

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

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"). 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.

Resolution of Dispute Affecting SN-9 Block

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

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

  Payment to the Company for either option will be received through the sale of 62.5% of Clean's production on the SN-9 Block corresponding to this 5% interest. Furthermore, the share of Net Profit Interest and Overriding Royalties (as defined in the SN-9 PSA and discussed further below) related to this additional 5% working interest will be the obligation of Clean and not carried by the Company.

Tiburon Block

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".

Resolution of Dispute Affecting Tiburon Block

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

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

- In the event that CruzSur does not fulfill the Phase 3 commitment, except for reasons beyond its control, CruzSur will cede a 1.5% carried working interest in the SN-9 Block to Clean, and forfeit the aforementioned $120,000 loan.

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

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

- Panacol is to finance the ANH Phase 1 minimum exploration commitment of $22.3 million through the provision of services at market rates.
- CruzSur will reimburse Panacol for its portion of these costs ("SN-9 Investment Costs") out of 60% of its share of any commercial production realized from the SN-9 Block, after deduction of costs, royalties and Net Profit Interest.
- Panacol will share equally in the revised terms required to resolve the SN-9 dispute with Clean.
- Panacol will acquire a participating interest of 36% upon completion of the ANH Phase 1 commitments.
- Additionally, Panacol will finance the acquisition of 70km^2 of 3D seismic on the Tiburon block through services up to a value of $5 million and, upon completion of the commitment, will receive an additional 1.5% working interest in the SN-9 Block coming from CruzSur's 36% working interest. The seismic acquisition costs are to be paid by CruzSur out of 60% of its commercial production from the SN-9 Block after costs, royalties and Net Profit Interest.
- Panacol will be entitled to receive the $2.4 million performance guarantee currently held in deposit with the ANH (see Note 6) when returned by the ANH upon completion of the Phase 1 commitments.
- Panacol will recognize past costs of $600,000 which are to be deducted from the SN-9 Investment Costs to be repaid by CruzSur out of commercial production.
- Panacol and CruzSur will share the SN-9 PSA commitments proportionally relative to their respective working interests, and will include:
  - Carry of Clean for Phase 1 exploration commitments as defined in the ANH contract.
  - Should the parties elect to proceed to Phase 2, carry of Clean for the Phase 2 exploration commitments as defined in the ANH contract.
  - Net Profit Interest of $6.5 million to be paid out of 60% of production share.
  - Overriding Royalty of 6% to be paid to Clean.
- Expenditures outside of the minimum work commitment will be divided between the parties in proportion to their participating interest.
- Upon acceptance of the non-binding letter of intent, the Parties will complete a definitive Farmout Agreement.

Argentina

Llancanelo Exploitation Asset

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 SA 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 February 2019, the Company completed the Settlement and Assignment Agreement with YPF SA, the operator of the Llancanelo Asset, wherein both parties have agreed upon terms of assignment of Alianza's 39% participating interest in the Llancanelo Asset to YPF. In return, YPF has released Alianza from all existing and future financial obligations related to Llancanelo Asset operations. This has resulted in the elimination of approximately $12.4 million of exploration and evaluation assets, $1.0 million of property, plant and equipment assets, $1.0 million of joint venture payables, $8.4 million in liabilities for cash calls assumed on acquisitions, $2.5 million in liabilities for considerations payable on acquisitions, and $1.6 million in decommissioning liabilities.

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

KM8 Asset

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. The Company maintains 100% working interest in the KM8 Asset.

Sur Río Deseado Este Production Asset

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. The Company maintains 54.14% working interest in SRDE.

Sur Río Deseado Este Exploration Area

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. The Company maintains 7.92% working interest in this asset.

Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo

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 March 31, 2019, 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)	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Llancanelo	-	43,287	-	-	41,057
KM8	2,458	555	3,468	4,246	2,176
SRDE	703	1,536	1,317	861	1,444
Inventory movements	100	(2,091)	7,510	(5,107)	(2,076)
Total sales	**3,261**	**43,287**	**12,295**	**-**	**42,601**
Average Production Volumes (boe/d)					
Llancanelo	-	481	-	-	451
KM8	27	50	38	46	32
SRDE	8	17	14	9	16
Average Production Volumes (boe/d)	**35**	**548**	**52**	**55**	**499**

Llancanelo

In February 2019, as previously mentioned, the Company relinquished its 39% working interest in the Llancanelo Asset to YPF in accordance with the settlement agreement. On account of the relinquishment, no further production or operating results from the Llancanelo concession was recognized subsequent to Q2 2018.

KM8

During the three months ended March 31, 2019, the KM8 concession produced a total of 2,458 boe. This equated to average daily production of 27 boe/d, based on the 90 days during the period in which the concession produced. During the quarter, the Company was able to realize sales of 3,261 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 March 31, 2019.

SRDE

During the three months ended March 31, 2019, the SRDE concession produced a total of 703 boe. This equated to average daily production of 8 boe/d. During this period no sales of SRDE oil production were realized. The crude oil production attributed to SRDE was held in inventory as at March 31, 2019.

SRDE Revenue and Royalties

USD $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
SRDE oil revenues before royalties	-	-	145,262	-	65,390
Royalties					
Government royalties	-	-	(17,547)	-	(7,604)
Turnover tax	-	-	(580)	-	(454)
Overriding royalties	-	-	(2,490)	-	(1,151)
Petroleum and natural gas revenues after royalties	-	-	**124,645**	-	**56,181**
$/boe realized sales price	-	-	61.95	-	64.17
$/boe total royalties	-	-	(8.79)	-	(9.04)
$/boe on SRDE production after royalties	-	-	**53.16**	-	**55.13**

SRDE Operating Expenses

USD $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Compensation costs	-	-	55,920	-	22,239
Transportation and processing	-	-	17,214	-	7,275
Operator overhead	-	-	11,523	-	6,646
Total operating expenses	-	-	**84,657**	-	**36,160**
$/boe	-	-	**36.10**	-	**35.48**

SRDE Netbacks

USD $/boe	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Oil revenue	-	-	61.95	-	64.17
Royalties	-	-	(8.79)	-	(9.04)
Operating expenses	-	-	(36.10)	-	(35.48)
Total SRDE operating netback	-	-	**17.06**	-	**19.65**

KM8 Operating Results

In the first quarter of 2019, the Company realized sales on crude inventory attributable to the KM8 concession of $171,889 for an average sales price of approximately $52.71/boe (Q1 2018 – nil amount as no realized sales in the comparative quarter). The combined operating and royalty expenses incurred on production at the KM8 concession continues to exceed the net realizable value of the crude inventory. Thus, crude oil inventory is written down to its recoverable amount quarter over quarter based on prevailing crude market prices. Loss on revaluation of KM8 crude inventory of $246,591 was recognized in Q1 2019 (Q1 2018 – $186,729). The recognized costs of sales associated with sold KM8 inventory were equal to the total sales of $171,889 after inventory write downs.

The operating and royalty expenses per boe on sold KM8 crude inventory prior to inventory write-downs would have been $135.95/boe (Q1 2018 – 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 $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Mariposa revenues before royalties	264,043	428,378	303,595	257,175	246,341
Royalties					
Government royalties	(34,668)	(48,765)	(38,485)	(39,747)	(39,014)
Turnover tax	(1,403)	(13,065)	(1,516)	(1,634)	(8,927)
Overriding royalties	(4,045)	(7,592)	(5,272)	(4,316)	(3,707)
Mariposa revenues after royalties	**223,927**	**358,956**	**258,322**	**211,478**	**194,693**
Transport, treating and processing	(8,319)	(7,350)	(8,044)	(3,706)	(5,644)
Net Mariposa revenue	**215,608**	**351,606**	**250,278**	**207,772**	**189,049**

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.

General and Administrative Expenses

General and administrative expenses ("G&A") for the Q1 2019 totaled $680,963 (Q1 2018 - $1,721,671). The G&A expenses relate to the normal course of the Company's operations, and are constituted as follows:

USD $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Professional Fees	132,082	323,010	307,854	328,581	354,223
Wages & Salaries	392,501	541,708	(51,058)	492,864	640,378
Severance	-	560,285	-	118,624	246,091
Fees, Rent, Investor Relations & Other	156,380	296,668	515,356	102,180	166,602
Total	**680,963**	**1,721,671**	**772,152**	**1,042,249**	**1,407,294**

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.

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 $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Legal fees	-	17,615	-	8,338	59,798
Professional fees	7,935	70,206	-	-	19,881
Travel	-	1,982	-	10,014	-
Finder fees on transactions	-	-	-	-	-
Total	**7,935**	**89,803**	-	**18,352**	**79,679**

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.

No stock options were issued during Q1 2019. The value of the stock options vesting in Q1 2019 equated to $67,439, which was expensed as share-based payments.

Depletion and Depreciation ("D&D")

The Company's depletion and depreciation expense for Q1 2019 are as follows:

USD $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Llancanelo	-	466,203	-	-	442,177
Mariposa	120,420	155,517	133,371	129,499	111,798
Depletion on oil and gas assets	**120,420**	**621,720**	**133,371**	**129,499**	**553,975**
Fixed asset depreciation	21,227	20,710	21,706	30,138	26,430
Consolidated depletion and depreciation	**141,647**	**642,430**	**155,077**	**159,637**	**580,405**

Finance

The Company's finance related income and expenses Q1 2019 are as follows:

USD $	Q1 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018
Interest income	(45,180)	(77,985)	(15,101)	(64,259)	(60,533)
Interest expenses and bank charges	7,982	97,482	(11,948)	18,053	20,984
Debt related expenses	-	-	-	-	-
Total cash finance expenses/income	**(37,198)**	**19,497**	**(27,049)**	**(46,206)**	**(39,549)**
Non-cash:					
Accretion on decommissioning obligation	24,604	28,345	30,582	30,409	29,905
Total non-cash finance expenses/income	**24,604**	**28,345**	**30,582**	**30,409**	**29,905**
Total finance expenses/income	**(12,594)**	**47,842**	**3,533**	**(15,797)**	**(9,644)**

Foreign Exchange

The Company incurred a foreign exchange gain of $38,825 for Q1 2019 (Q1 2018 - $99,629). Foreign exchange gains are due to an increase in the value of the US dollar when compared to the Canadian dollar, Colombian peso, and the Argentina peso in the period.

Loss on revaluation of asset held for sale

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

Cash used in Operations

For Q1 2019, the Company used cash in operations of $210,829 (Q1 2018 - $410,843). 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 Q1 2019, the Company had a net recovery, prior to recognition of any impairments or disposals, of $86,301 to exploration and evaluation assets and no additions to property, plant and equipment for oil and gas properties. During Q1 2019, the Company completed the transfer of operatorship and liquidation of former joint venture operations relating to the Maria Conchita Block with the former operator, TPIC. Liquidation terms agreed upon included the release of the remaining balance of escrow funds to TPIC of $51,273 (after bank fees), with an offset liquidation of the remaining joint venture funds resulting in payment to the Company of $227,574. The net result of these terms was a net recovery of $176,301, which was recognized as a reduction of former exploration and evaluation expenditures on the Maria Conchita Block. Other additions of $90,000 relate to ongoing operator fees paid in relation to the Tiburon and SN-9 Blocks.

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 Q1 2019, the Company incurred a loss of $0.8 million and used $0.2 million of cash flow in its operating activities. As at March 31, 2019, the Company had a working capital deficiency of $1.7 million making it unfeasible to fund administrative budget and capital commitment amounts that exist for the upcoming year and beyond.

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 March 31, 2019, balances owed to sellers on acquisitions closed in 2017 consist of $5.0 million owed in cash consideration to the selling party in the acquisition of Alianza, which amount the Company is currently negotiating with the original counterparty. In February 2019, CruzSur and YPF reached an agreement whereby unpaid cash call debt of $8.4 million and the $2.5 million cash payment owed to YPF as part of the YPF Farm-In 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 March 31, 2019, funds totaling $2,832,672 (December 31, 2018 - $2,782,368) comprised the balance represented in restricted cash. The composition of this amount is as follows:

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

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

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

SHARE CAPITAL

Common shares

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

Stock Options

The Company's stock option plan provides for the issue of stock options to directors, officers, employees, charities and consultants, who are all considered related parties to the Company. The plan provides that stock options may be granted up to a number equal to 10% of the Company's outstanding shares. Vesting terms are determined by the Board of Directors as they are granted and currently include periods ranging from immediately to one-third on each anniversary date over three years. The options' maximum term is ten years.

As at March 31, 2019, a total of 1,542,100 (December 31, 2018 – 1,542,100) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

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

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

Warrants

Broker Warrants

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

Purchase Warrants

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

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

COMMITMENT SUMMARY UPDATE

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 2019. The commencement date for seismic acquisition is unknown at this time. The Company assumes that operations will commence in 2019.

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

RELATED PARTIES

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

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.

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net Revenue	367,343	904,045	207,772	1,961,084
Net loss - continuing operations	(829,538)	(32,893,354)	(1,620,843)	(24,745,680)
Income from discontinued operations	-	-	-	-
Net loss	(829,538)	(32,893,354)	(1,620,843)	(24,745,680)
Comprehensive loss	(853,708)	(32,840,845)	(1,585,006)	(24,727,942)
Net loss per share				
(basic & diluted):				
Continuing operations	(0.03)	(1.36)	(0.07)	(1.02)
Discontinued operations	-	-	-	-
Net loss	(0.03)	(1.36)	(0.07)	(1.02)

	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Net Revenue	2,175,371	1,872,856	994,526	-
Net loss - continuing operations	(1,975,398)	(793,865)	(8,501,444)	(4,426,942)
Income from discontinued operations	-	(73,841)	1,869,299	(49,941)
Net loss	(1,975,398)	(867,706)	(6,632,145)	(4,476,883)
Comprehensive loss	(2,022,906)	(1,028,409)	(6,874,430)	(4,385,504)
Net loss per share				
(basic & diluted):				
Continuing operations	(0.08)	(0.03)	(0.39)	(0.30)
Discontinued operations	-	(0.00)	0.09	(0.00)
Net loss	(0.08)	(0.04)	(0.31)	(0.30)

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. The relinquishment of the Llancanelo Asset resulted in a significant reduction in production revenue and associated operating costs per quarter, commencing in Q3 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.

Subsequent to Q1 2019, 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 certain new and revised IFRSs that have been issued effective January 1, 2019. 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 March 31, 2019, the Company had $2,832,672 (December 31, 2018 - $2,782,368) in restricted cash towards development activity joint venture operations in

Colombia. 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 March 31, 2019, the company had $1,712,976 (December 31, 2018 - $2,251,162) 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 $1,508,485 (December 31, 2018 - $1,616,970. The Company manages the credit exposure related to cash and cash equivalents 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 March 31, 2019.

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.

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 March 31, 2019, 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 March 31, 2019 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