CRUZSUR ENERGY CORP.

(formerly PentaNova Energy Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

The following is management's discussion and analysis ("MD&A") of the operating and financial results of CruzSur Energy Corp. ("CruzSur") for the three and nine months ended September 30, 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 interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 as well as the audited annual consolidated financial statements for the year ended December 31, 2017 (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 November 26, 2018.

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 heavy oil, one light oil and one natural gas asset in Argentina.

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 has been 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 is approximately $0.3 million.

OIL AND NATURAL GAS PROPERTIES AND OUTLOOK

Colombia

As described above, CruzSur entered into (i) a share purchase agreement to acquire an 80% working interest in the Maria Conchita Block, (ii) a binding agreement of purchase and sale to acquire an 80%

working interest in the SN-9 Block and (iii) a binding agreement to acquire 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 contract for the exploration and production of conventional hydrocarbons in the Maria Conchita area, dated January 22, 2009 and entered into between the ANH and a consortium formed by TPIC, and Multiservicios RJT S.A.S. In July 2010, the ANH approved the assignment of 40% of TPIC's participating interest in the E&P Contract to MKMS Enerji AS. In January 2017, the Company carried out the Maria Conchita Acquisition, as outlined previously, through which the Company acquired 80% participating interest and operatorship of the Maria Conchita Block. In February 2018, the Company's subsidiary was approved as operator of the Maria Conchita Block by the ANH.

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. The exploration term is divided into one preliminary phase (Phase 0) and six primary phases. Phase 0 had a term of six months intended to identify Colombian ethnic communities within the area of influence of the Maria Conchita E&P Contract and to carry out and complete mandatory consultations in respect of the project with such communities. Exploration Phases 1 to 6 of the Maria Conchita E&P Contract are divided as follows: (i) Phase 1 with a term of 18 months that has a work obligation of acquiring, processing and interpreting 120 km^2 of 3-D seismic; (ii) Phases 2 to 5 each with a term of 12 months and work obligation of drilling one exploration well; and (iii) Phase 6 with a term of 6 months and a work obligation of one exploration well. Each phase includes minimum working obligations as well as compliance with other contractual and regulatory requirements. The Maria Conchita E&P Contract is currently in Exploration Phase 2, for which the Company was granted an extension until September 10th, 2018 in order to complete the Phase 2 exploratory commitment of one A3 exploratory well. This phase commitment is fulfilled with the drilling of the Istanbul-1 well, 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 (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 21st. When drilling through the Jimol formation indications of gas were seen and open hole logs, run between March 21st and March 24th 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. Six of the perforated intervals were shot over an upper sand package at depths of between 7,912 feet MD and 8,122 feet MD, while the remaining perforations targeted a lower sand package at depths of between 8,429 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. The well was cleaned up for 33 hours and, although steady state conditions were never achieved, the well was flowed through the test separator 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 with an average salinity of 18,200 ppm chlorides. After 14 hours flowing, the accumulated water in the well was impeding the gas flow. A production log ("PLT") was subsequently run, confirming that the majority of water and gas production was coming from four zones with 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.

The Company has filed a discovery notice for the Istanbul-1 well with the ANH as per the E&P Contract terms and has requested that the area in which the prospective resources exist be considered an area for evaluation. The Company further requested additional time to determine if CruzSur wishes to pass to Phase 3 of the E&P Contract at which point it would need to commit to drilling one A3 exploration well before September 10, 2019. The ANH granted an extension to December 10, 2018 for this decision without modifying the date by which the Phase 3 obligation would have to be met should the company elect to proceed with Phase 3.

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 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, is close to the cities of Monteria and Sincelejo and is 75 km south of the Caribbean coast. It has a term of a 6-year exploration period, divided in two phase of three years each and which may be subject to extension by agreement of the parties and satisfaction of certain requirements set out in the E&P Contract, 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 Colombian National Hydrocarbons Agency, an agency of the Colombian Government managing and regulating the hydrocarbons sector in Colombia ("ANH"), and Clean Energy Resources S.A.S., a Colombian corporation ("Clean Energy").

The SN-9 E&P Contract provides for an exploration term divided into three phases (0, 1 and 2). The first exploration phase (Phase 0) was for one year and was intended to identify Colombian indigenous communities within the area of influence of the E&P Contract and to carry out and complete mandatory consultations of the intended activities with such communities. Phase 1 of the SN-9 E&P Contract is for 3 years and includes a minimum work obligation of acquiring 200 km of 2-D seismic and drilling one exploration well, and Phase 2 is for three years with a minimum work obligation of acquiring 100 km^2 of 3-D seismic and drilling 2 exploration wells. Currently, the SN-9 E&P Contract is in Exploration Phase 1.

The Company has now terminated the prior consultations with the indigenous population required to acquire seismic and has received bids for the seismic acquisition and seismic quality control, which are currently being evaluated. The Company has also received bids for the Environmental Impact Study required to apply for the global drilling license which it expects to start in September. Due to the SN-9 Dispute, the contracts have not been awarded but the bids do remain valid should a solution be achieved in the short term.

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 who currently hold a 3.4% beneficial interest in the block, alleging breach of certain clauses in the Purchase and Sales Agreement. CruzSur has refuted these claims and is pursuing all necessary actions to vigorously defend the Company and protect its legitimate title to its 80% beneficial working interest in the SN-9 Block.

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., a Company incorporated under the laws of the United States of America, which later was re-domiciled to the Cayman Islands and 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 200 km of 2D seismic, which can be replaced with a 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 who currently hold a 40% beneficial interest in the block, alleging breach of certain clauses in the Purchase and Sales Agreement. CruzSur has refuted these claims and is pursuing all necessary actions to vigorously defend the Company and protect its legitimate title to its 80% beneficial working interest in the SN-9 Block.

Argentina

Llancanelo Exploitation Asset (39% working interest)

As of the end of October 2017, the Company held a 39% participating interest in the Llancanelo Asset as follows: 29% participating interest through the Alianza Acquisition, 10% participating interest through the Roch Acquisition. that was assigned to 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's wholly-owned subsidiary Alianza 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 currently 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. Finally, YPF 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.

Termination of YPF Farm-In Agreement

In August 2018, Alianza also received notification from YPF acknowledging the termination of the Llancanelo Farm-In Agreement ("FIA") due to non-satisfaction of conditions precedent to closing by the long stop date. As a consequence, Alianza will not earn the additional 11% working interest resulting from the FIA. YPF requested that the parties should reverse the effects of all acts performed by them 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 YPF Farm-In is still owed by the Company per the terms of the Farm-In Agreement.

CruzSur is continuing its discussions with YPF to negotiate a mutually agreeable settlement that, while allowing a satisfactory exit from the Llancanelo Asset and termination of the FIA, shall protect its value and Alianza's rights under the JV.

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. In total, production has averaged approximately 1,032 boe/d throughout the history of the area. Today there are 7 wells producing. The field is ready for reactivation and the development of deeper producing formations. Adjacent areas have been the focus of recent drilling activity by YPF. The KM8 Asset includes areas defined as "San Jorge", "Sol de Mayo", "German Burmeister" and "George Stephenson", with surface land property rights over approximately 990 acres within the area and certain infrastructure and equipment related to such properties.

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

The Sur Río Deseado Este area is located in the Santa Cruz province (Golfo San Jorge Basin) in the Southern Flank of the 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. The Punta Bauza-1 well was drilled in 1993 by Bridas to a depth of 4,100 ft, which tested heavy oil and gas. The two other wells, PBX-1001 and EPaX.X-1, were drilled by Quintana in 2013 and also tested heavy oil. The wells were drilled to a depth of 3,820 ft and 4,100 ft, respectively.

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

Patagonia acquired an 18% carried interest in the Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo Assets (collectively, the "Mariposa Asset") through the Alianza Acquisition. 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 San Jorge basin in the Santa Cruz province and that generated over US$1.5 million in revenue in 2016. 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 the Estancia La Mariposa Asset 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 September 30, 2018, the Company's operating results reflect a 39% working interest ownership in Llancanelo, a 100% working interest ownership in KM8, and a 54.14% working interest ownership in SRDE. Production from the Estancia La 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)	**Q3 2018**	**Q3 2017**	**Q2 2018**	**Q1 2018**	**Q4 2017**
Llancanelo	-	22,419	41,057	43,287	40,672
KM8	4,345	-	2,175	555	**4,012**
SRDE	861	-	1,445	1,537	-
Inventory movements	(5,206)	-	(2,076)	(2,092) -	**4,012**
Total sales	**-**	**22,419**	**42,601**	**43,287**	**40,672**
Average Production Volumes (boe/d)					
Llancanelo	-	368	451	481	452
KM8	47	-	32	50	**42**
SRDE	9	-	16	17	-
Average Production Volumes (boe/d)	**56**	**368**	**499**	**548**	**494**

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 failure to pay outstanding cash call balances currently owed. On account of this requested relinquishment, production from the Llancanelo concession in the third 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 43,827 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.

The Llancanelo net production recorded for Q3 2017 is for the 29% working interest held during this time period. Subsequent to the closing of the Roch acquisition on October 27, 2017, which included an additional 10% working interest in Llancanelo, the Company's Llancanelo net production increased to a 39% working interest. All production attributed to Llancanelo was sold in the month that it was produced, resulting in no crude oil inventory at the end of the reporting period.

In July 2018, the Company was notified by YPF that, under the terms of the governing agreement of the Llancanelo concession, oil production pertaining to the Company's participating interest in the concession will be retained by YPF, with sales of such oil production, net of operating costs and royalties, being credited towards the Company's outstanding cash call balances. On this basis, the Company's percentage of production for June 2018 was retained by YPF. Sale of that production, as well as related operating costs and royalties have been recognized for the month of June, with the net profit being recognized as a reduction towards outstanding cash call balances owed to YPF on Llancanelo operations.

KM8

During the nine months ended September 30, 2018, the KM8 concession produced a total of 7,075 boe. This equated to average daily production of 42 boe/d, based on the 170 days during the period in which the concession produced. The crude oil production attributed to KM8 during the period was held in inventory at the end of the period. The Company was unable to realize the sale of their production due to third party midstream constraints.

SRDE

During the three and nine months ended September 30, 2018, the SRDE concession produced a total of 861 boe and 3,843 boe, respectively. This equated to average daily production of 14 boe/d for the nine months ended September 30, 2018. During this period the Company was able to realize sales of 1,544 boe, which represented a portion of year-to-date 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 at the end of the period.

Llancanelo Revenue and Royalties

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Llancanelo oil revenues before royalties [(1)]	-	930,576	2,189,946	2,270,243	1,904,186
Royalties [(3)]					-
Government royalties	-	(140,927)	(371,542)	(343,071)	(282,653)
Turnover tax	-	(35,910)	(64,126)	(66,187)	(68,938)
Overriding royalties	-	(15,075)	(36,207)	(37,220)	(31,051)
Petroleum and natural gas revenues after royalties	**-**	**738,664**	**1,718,071**	**1,823,765**	**1,521,544**
$/boe realized sales price	**-**	**41.51**	**54.29**	**52.44**	**46.82**
$/boe total royalties	**-**	**(8.56)**	**(11.49)**	**(10.31)**	**(9.41)**
$/boe on PentaNova production after royalties	**-**	**32.95**	**42.80**	**42.13**	**37.41**

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. Under the terms of the Pricing Agreement, local refiners paid $59.40/boe for Medanito crude oil and $48.30/boe for Escalante crude oil in January 2017 and the prices gradually decreased every month until they reached $55 per boe and $47/boe, respectively, in July 2017. Prices in effect in July 2017 were to be applicable until the December 31, 2017 expiry date of the Pricing Agreement, unless (1) the Brent price fell below $45/boe for ten consecutive days or (2) the Argentinian peso depreciated more than 20%, in which case the Pricing Agreement was to be renegotiated. 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. Under the Revised Pricing Agreement (the "Revised Agreement"), the Company receives a selling price that is equal to the benchmark Brent price per boe, less approximately $13/boe.

   In May 2018, the Argentine government enacted a two-month freeze for June and July 2018 on gasoline prices and, concurrently, set the price of domestic crude at $68/boe (about $10/boe below the global Brent crude price) to mitigate the impact of freezing fuel prices on refiners' margins. In August 2018, the government reverted back to the Revised Agreement outlined above, with the market Brent oil price once again becoming the benchmark.

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 $54.29/boe on the production from the Llancanelo concession for the first and second quarter of 2018, respectively. No sales were realized in the third quarter of 2018 due to the retention of Llancanelo production by YPF on account of the notice of relinquishment mentioned previously.

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. Currently the Llancanelo concession is 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 Patagonia'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 with the acquisition of Patagonia from Blue Pacific Assets Corp. The amount attributable to Llancanelo for the ORR has been included in royalty expenses.

Llancanelo Operating Expenses

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Compensation costs	-	72,486	95,864	207,494	117,010
Transportation and processing	-	122,130	162,222	222,571	238,431
Operator overhead	-	40,335	61,072	92,927	55,157
Maintenance, workovers and other	-	537,615	996,424	877,816	799,200
Total operating expenses	**-**	**772,566**	**1,315,582**	**1,400,808**	**1,209,798**
$/boe	**-**	**34.46**	**32.04**	**32.36**	**29.75**

On a per barrel basis, operating expenses were $0.32/boe (or 1%) lower at $32.04/boe in the second quarter of 2018, compared to $32.36/boe in the first quarter of 2018. No operating expenses were incurred in the third quarter of 2018 due to the YPF relinquishment request mentioned previously.

Llancanelo Netbacks [1]

USD $/boe	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Oil revenue	-	41.51	54.29	52.44	46.82
Royalties	-	(8.56)	(11.49)	(10.31)	(9.41)
Operating expenses	-	(34.46)	(32.04)	(32.36)	(29.75)
Total Llancanelo operating netback	**-**	**(1.51)**	**10.76**	**9.77**	**7.66**

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 $	**Q3 2018**	**Q3 2017**	**Q2 2018**	**Q1 2018**	**Q4 2017**
SRDE oil revenues before royalties	-	-	65,390	-	-
Royalties					
Government royalties	-	-	(7,605)	-	-
Turnover tax	-	-	(454)	-	-
Overriding royalties	-	-	(3,367)	-	-
Petroleum and natural gas revenues after royalties	**-**	**-**	**53,964**	**-**	**-**
$/boe realized sales price	**-**	**-**	**64.17**	**-**	**-**
$/boe total royalties	**-**	**-**	**(11.21)**	**-**	**-**
$/boe on PentaNova production after royalties	**-**	**-**	**52.96**	**-**	**-**

SRDE Operating Expenses

USD $	**Q3 2018**	**Q3 2017**	**Q2 2018**	**Q1 2018**	**Q4 2017**
Compensation costs	-	-	22,238	-	-
Transportation and processing	-	-	7,279	-	-
Operator overhead	-	-	6,646	-	-
Maintenance, workovers and other	-	-	-	-	-
Total operating expenses	**-**	**-**	**36,163**	**-**	**-**
$/boe	**-**	**-**	**35.49**	**-**	**-**

SRDE Netbacks

USD $/boe	**Q3 2018**	**Q3 2017**	**Q2 2018**	**Q1 2018**	**Q4 2017**
Oil revenue	-	-	64.17	-	-
Royalties	-	-	(11.21)	-	-
Operating expenses	-	-	(35.49)	-	-
Total SRDE operating netback	**-**	**-**	**17.47**	**-**	**-**

Net Revenue on Carried Working Interest

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Mariposa revenues before royalties	257,175	322,477	246,341	428,378	436,752
Royalties					
Government royalties	(39,747)	(44,047)	(39,014)	(48,765)	(55,869)
Turnover tax	(1,634)	(8,734)	(8,927)	(13,065)	(16,976)
Overriding royalties	(4,316)	(5,222)	(3,707)	(7,592)	(7,964)
Mariposa revenues after royalties	**211,478**	**264,474**	**194,693**	**358,956**	**355,943**
Transport, treating and processing	(3,706)	(8,613)	(5,644)	(7,350)	(4,630)
Net Mariposa revenue	**207,772**	**255,861**	**189,049**	**351,606**	**351,313**

The net revenue on carried working interest results 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. The net revenue generated from this asset has not been included in any "per barrel" pricing herein. Reduction of net revenue in Q2 2018 and Q3 2018 is the result of decreased production from the Mariposa Asset due to a workover campaign on some of the wells that was carried out by the operator.

Impairment Loss

During the nine months ended September 30, 2018, the Company has recognized impairments relating to the Llancanelo Asset of $25.0 million. These impairments were the result of the difference between the period-end net book value and management's assessment of the recoverable amount of the Llancanelo Asset on account of the formal notification received from YPF regarding the relinquishment of the Company's working interest in the Llancanelo Asset and the termination of the YPF Farm-In. Following completion of the write-down, the Llancanelo Asset has a carrying value of approximately $10.5 million.

General and Administrative Expenses

General and administrative expenses ("G&A") for three months ended September 30, 2018 totaled $1,031,918 ($1,198,085 – September 30, 2017). The G&A expenses relate to the normal course of the Company's operations, and are constituted as follows:

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Professional Fees	318,250	190,919	343,482	307,174	693,906
Wages & Salaries	492,864	692,335	640,378	541,708	427,739
Severance	118,624	-	246,091	560,285	-
Fees, Rent, Investor Relations and Other	102,180	314,831	166,602	296,668	411,972
Total	**1,031,918**	**1,198,085**	**1,396,553**	**1,705,835**	**1,533,617**

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 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 $18,352 ($1,412,542 – September 30, 2017) were recognized for the three months ended September 30, 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 $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Legal fees	-	385,015	-	-	(34,910)
Professional fees	18,352	25,838	97,100	89,803	-
Travel	-	61,064	-	-	-
Finder fees on transactions	-	940,625	-	-	300,000
Total	**18,352**	**1,412,542**	**97,100**	**89,803**	**265,090**

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 nine months ended September 30, 2018 equated to $523,094 ($6,133,221 – September 30, 2017). Of this amount, $84,866 was capitalized and $438,228 was expensed as share-based payments.

Depletion and Depreciation ("D&D")

The table below compares the depletion and depreciation expense in each of the reporting periods:

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Llancanelo	-	231,780	442,177	466,203	493,001
Mariposa	129,499	30,881	111,798	155,517	177,491
Depletion on oil and gas assets	**129,499**	**262,661**	**553,975**	**621,720**	**670,492**
Fixed asset depreciation	30,138	7,332	26,430	20,710	6,161
Consolidated depletion and depreciation	**159,637**	**269,993**	**580,405**	**642,430**	**676,653**

Finance

The Company's finance related income and expenses for each of the reporting periods are as follows:

USD $	Q3 2018	Q3 2017	Q2 2018	Q1 2018	Q4 2017
Interest income	(64,259)	(127,318)	(60,533)	(77,985)	(43,968)
Interest expenses and bank charges	18,053	10,406	20,984	97,482	75,721
Debt related expenses	-	101,149	-	-	94,700
Total cash finance expenses/(income)	**(46,206)**	**(15,763)**	**(39,549)**	**19,497**	**126,453**
Non-cash:					
Accretion on decommissioning obligation	30,409	4,495	29,905	28,345	26,799
Total non-cash finance expenses/(income)	**30,409**	**4,495**	**29,905**	**28,345**	**26,799**
Total finance expenses/(income)	**(15,797)**	**(11,268)**	**(9,644)**	**47,842**	**153,252**

Foreign Exchange

The Company incurred a foreign exchange loss of $2,055,650 for the nine months ended September 30, 2018 ($733,754 foreign exchange loss – September 30, 2017). 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 (see further below), the Company agreed to invest C$1,500,000 by way of a private placement in the capital of Horizon Petroleum Ltd. ("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 September 30, 2018, the fair market value of the 12,250,000 Horizon Shares was $473,156 (C$612,500) resulting in an unrealized loss on assets held for sale of $190,276 (C$245,000) representing the decline in share value for the nine months ended September 30, 2018 between the closing price as of December 31, 2017 of $0.056 (C$0.07) per share and the closing price as of September 30, 2018 of $0.039 (C$0.05) per share, net of foreign exchange.

Funds used in Operations

For the nine months ended September 30, 2018, the Company used funds in operations of $4,009,702. The funds used in operations are primarily comprised of operating expenses, G&A expenses and business development expenses incurred during these periods.

CAPITAL ADDITIONS

For the nine months ended September 30, 2018 the Company had additions, prior to recognition of any impairments, of $11.2 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:

- $9.7 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

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 nine months ended September 30, 2018, the Company incurred a loss from continuing operations of $28.3 million and used $4.0 million of cash flow in its operating activities. As at September 30, 2018, the Company had a working capital deficiency of $14.3 million and has insufficient finances 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. Such financing alternatives may include a share consolidation.

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 September 30, 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 Alianza Acquisition, 2) approximately $8.4 million in unpaid cash call debt owed to YPF that was assumed as part of the Alianza Acquisition and Roch Acquisition, and 3) $2.5 million for cash payment owed to YPF as part of the YPF Farm-In. The Company is currently negotiating with YPF in regards to the unpaid cash call debt and the farm-in cash payment. The Company's objective is to ensure flexibility in its financial structure in order to fund both investing and financing activities.

With regards the $5.0 million balances owed in the Alianza Acquisition, the Company is currently in negotiations with the selling party on various points regarding this transaction. Management does not believe that payment on this outstanding balance will be made in the foreseeable future given the ongoing disputes that the Company is discussing with the selling party. 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 September 30, 2018, funds totaling $3,718,754 (December 31, 2017 - $11,732,933) comprised the balance represented in restricted cash. The composition and changes in restricted cash are as follows:

	2018	2017
SN-9 ANH Guarantee Deposit	2,607,353	2,483,077
Tiburon ANH Guarantee Deposit	369,939	352,689
TPIC Maria Conchita Escrow	-	1,750,000
TPIC Escrow	51,473	7,147,167
Maria Conchita Guarantee Deposit	689,989	-
Restricted cash	**3,718,754**	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. Furthermore, as a result of the transfer of operatorship, the Company was required to establish a term deposit of $0.7 million to secure the performance guarantee required by the ANH under the Maria Conchita E&P Contract. This deposit is defined in US dollars by the ANH but is held in Colombian pesos with a Colombian bank and is subject to foreign currency fluctuation risks in relation to the US dollar. This deposit is to be released to the Company once the current phase commitment under the E&P Contract are completed. As of September 30, 2018, the balance of the Maria Conchita term deposit was $689,989.

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 September 30, 2018, the balances of the SN-9 term deposit and Tiburon term deposit were $2,607,353 and $369,939, 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 September 30, 2018, a balance of $51,473 remains in escrow.

SHARE CAPITAL

Common Shares

As at September 30, 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 for the respective reporting periods 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
Balance June 30, 2017	**18,271,485**	**37,207,152**
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 & September 30, 2018 (1)	**24,220,160**	**63,799,393**

1) There was no share capital activity during the nine months ended September 30, 2018

The Board of Directors approved the issuance of 480,000 common shares to new management members, which will be held in escrow and will vest over a period of three years. As of the date herein, approval from the TSX-V regarding this share issuance is still pending.

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 a September 30, 2018, a total of 1,967,100 (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	(164,750)	7.35
Balance, September 30, 2018	**1,967,100**	**7.03**

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.

In April 2018, 415,600 stock options were granted to new management members, at an exercise price C$3.60 per option. These stock 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, all expiring in February 2028. 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 is 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 September 30, 2018 (September 30, 2017 – nil) 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
	5,625,000	**10,201,910**

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

COMMITMENT SUMMARY UPDATE

CruzSur drilled Istanbul 1 in the first quarter of 2018, which is representative of the ANH commitment for Phase 2 of the contractual exploration program to drill one exploration well (for which the Company will paid 100% of the costs under the terms of the Maria Conchita Acquisition), which is required by September 2018. The Company is currently awaiting ANH approval to ensure that the commitment has been met.

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

Block	2018	2019	2020	Total
SN-9 Block (1)	-	-	22.3	**22.3**
Tiburon Block (2)	-	3.0	-	**3.0**
Llancanelo Block (3)	2.5	-	-	**2.5**
Total	**2.5**	**3.0**	**22.3**	**27.8**

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 204.4 km of 2D seismic (which commitment the Company plans to replace with 69.75 km^2 of 3D seismic instead) according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to disputes in the region, with current ANH deadline of 2019 with extensions if disputes were resolved in 2018. The commencement date for seismic acquisition is unknown at this time. The Company assumes that operations will commence in 2019.
3) Represents the Company's commitment under the YPF Farm-In to fulfill farm-in cash payment of $2.5 million that is still required to be paid under the terms of the Farm-In Agreement.

RELATED PARTIES

During the nine months ended September 30, 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.

In January 2017, the Company acquired 100% of the shares of Bochica and rights to an 80% participating interest in the Maria Conchita Block. The terms and conditions of the Maria Conchita Acquisition included that former shareholders of Bochica retained a 20% carried interest in the Maria Conchita Block. A certain member of the Company's management previously served as President and Director of Bochica until

August 26, 2016, and as former shareholder of Bochica holds a minority indirect interest on the 20% carried interest, which amounts to approximately 1.2% of the total working interest on the Maria Conchita Block.

Also, during the nine months ended September 30, 2018, a director of the Company, through affiliate entities, is the 50% beneficial owner of Dexton International Ltd. ("Dexton"). In February 2017, Patagonia and Dexton entered into an agreement wherein Dexton provided advisory services in connection with the acquisition of certain oil and gas assets located in Argentina by Patagonia. In consideration for its services, Patagonia granted to Dexton an overriding royalty interest equal to 2% of any net production of hydrocarbons attributable to Patagonia's participation interest in Argentina assets. For the nine months ended September 30,2018 this royalty equated to $104,931 in royalty expense to the Company. Total cumulative royalty balance of $163,729 as owed to Dexton in included in the payables of the Company as of September 30, 2018. This director resigned from the Company in July 2018.

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

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.

USD $	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**
Net loss - continuing operations	(1,610,512)	(24,734,939)	(1,959,562)	(793,865)
Income (loss) from discontinued operations	(10,331)	(10,741)	(15,836)	(73,841)
Net loss	(1,620,843)	(24,745,680)	(1,975,398)	(867,706)
Comprehensive loss	(1,585,006)	(24,727,942)	(2,022,906)	(1,028,409)
Net loss per share (basic & diluted):				
Continuing operations	(0.07)	(0.10)	(0.01)	(0.00)
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net loss	(0.07)	(0.10)	(0.01)	(0.00)

	Q3 2017	**Q2 2017**	**Q1 2017**	**Q4 2016**
Net loss - continuing operations	(8,501,444)	(4,426,942)	(2,030,443)	(523,441)
Income (loss) from discontinued operations	1,869,299	(49,941)	-	-
Net loss	(6,632,145)	(4,476,883)	(2,030,443)	(523,441)
Comprehensive loss	(6,874,430)	(4,385,504)	(2,030,443)	(523,441)
Net loss per share(basic & diluted):				
Continuing operations	(0.39)	(0.30)	(0.18)	(104.69)
Discontinued operations	0.08	(0.00)	-	-
Net loss	(0.31)	(0.30)	(0.18)	(104.69)

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. In Q2 2018, an impairment loss of $25.0 million was recognized, contributing to the overall loss recognized in the quarter.

OUTLOOK

The Company has spudded one exploratory commitment well in the Maria Conchita Block in 2018. The Company plans to secure a workover rig or coiled tubing, with the intent of isolating the water producing intervals in order to flow 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 and continue building 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. 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 exploration and evaluation assets and property, plant and equipment
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) Technical feasibility and commercial viability of exploration and evaluation assets
The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to property, plant and equipment. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

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

The assessment of reported recoverable quantities of proved and probable reserves 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 may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties 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 producible. 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. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) Decommissioning obligations

At the end of the operating life of the Company's facilities and properties and upon retirement of its petroleum and natural gas assets, decommissioning costs will be incurred by the Company. This requires judgment 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 discount rates to determine the present value of these cash flows.

iii) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

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.

READER ADVISORIES

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.

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