



CRUZSUR ENERGY CORP

(formerly PentaNova Energy Corp.)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2018

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(Unaudited, expressed in U.S. Dollars)</i>	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	2,170,765	8,962,371
Short term investments	-	402,016
Accounts receivable and prepaids (Note 8)	2,191,327	3,956,243
Inventory	765,226	966,818
Assets held for sale (Note 13)	473,156	683,539
Restricted cash (Note 7)	3,718,754	11,732,933
	9,319,228	26,703,920
Non-current Assets		
Exploration and evaluation assets (Note 9)	53,813,607	67,609,348
Property, plant and equipment (Note 10)	3,008,341	4,283,111
Total Assets	66,141,176	98,596,379
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	15,207,340	16,585,780
Cash calls assumed on acquisition (Note 6)	8,369,461	8,186,280
	23,576,801	24,772,060
Non-current Liabilities		
Deferred tax liability	-	3,831,850
Decommissioning obligation	5,320,540	4,935,874
Total Liabilities	28,897,341	33,539,784
Shareholders' Equity		
Share capital (Note 11)	63,799,393	63,799,393
Contributed surplus (Note 11)	6,423,956	5,900,862
Warrants (Note 11)	10,201,910	10,201,910
Deficit	(42,875,882)	(14,533,961)
Accumulated other comprehensive loss	(305,542)	(311,609)
Total Shareholders' Equity	37,243,835	65,056,595
Total Liabilities and Shareholders' Equity	66,141,176	98,596,379

Commitments (Note 15)

Subsequent Events (Note 19)

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and nine months ended September 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the nine months ended	
	2018	2017	2018	2017
Revenue:				
Oil and natural gas revenue	-	930,576	4,525,579	930,576
Net revenue on carried working interest	207,772	255,861	748,427	255,861
Royalty expense	-	(191,911)	(929,779)	(191,911)
	207,772	994,526	4,344,227	994,526
Expenses:				
Operating expenses	-	772,566	2,752,553	772,566
Inventory revaluation	(76,054)	-	299,949	-
General and administrative	1,031,918	1,198,085	4,134,306	2,573,267
Business development	18,352	1,412,542	205,255	4,735,255
Share based payments (Note 11)	75,273	5,440,965	438,228	5,440,965
Cost of acquisition (Note 5)	-	-	-	1,019,415
Depletion and depreciation (Note 10)	159,637	269,993	1,382,472	281,435
Impairment loss (Note 9)	-	-	25,000,000	-
Finance (Note 12)	(15,797)	(11,268)	22,401	(20,646)
Foreign exchange loss	578,500	(4,257)	2,055,650	733,754
Loss on revaluation of asset held for sale (Note 13)	46,455	537,795	190,276	537,795
	1,818,284	9,616,421	36,481,090	16,073,806
Loss before income taxes	(1,610,512)	(8,621,895)	(32,136,863)	(15,079,280)
Deferred income tax recovery	-	120,451	3,831,850	120,451
Loss from continuing operations	(1,610,512)	(8,501,444)	(28,305,013)	(14,958,829)
Loss from discontinued operations	(10,331)	1,869,299	(36,908)	1,819,358
Net loss	(1,620,843)	(6,632,145)	(28,341,921)	(13,139,471)
Other comprehensive loss				
Foreign currency translation adjustment	35,837	(421,674)	6,067	(330,295)
Transfer of translation loss realized on disposal of foreign operations	-	179,389	-	179,389
	35,837	(242,285)	6,067	(150,906)
Comprehensive loss	(1,585,006)	(6,874,430)	(28,335,854)	(13,290,377)
Loss per share – basic and diluted (Note 11)	(0.07)	(0.31)	(1.17)	(0.77)
Weighted average number of common				
Shares outstanding	24,220,160	21,726,273	24,220,160	17,069,331

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the nine months ended	
	2018	2017	2018	2017
Operating Activities				
Net loss from continuing operations	(1,610,512)	(8,501,444)	(28,305,013)	(14,958,829)
Items not affecting cash:				
Impairment loss (Note 9)	-	-	25,000,000	-
Depletion and depreciation (Note 10)	159,637	269,993	1,382,472	281,435
Share based payments (Note 11)	75,273	5,440,965	438,228	5,440,965
Unrealized foreign exchange loss (gain)	(125,479)	(105,025)	177,143	264,456
Shares issued for services rendered (Note 11)	-	430,045	-	879,181
Cost of acquisition (Note 5)	-	-	-	1,019,415
Loss on revaluation of assets held for sale (Note 13)	46,455	537,795	190,276	537,795
Accretion on decommissioning obligations (Note 12)	30,409	4,495	88,659	4,495
Deferred income tax expense/(recovery)	-	(120,451)	(3,831,850)	(120,451)
Change in non-cash working capital (Note 17)	1,003,796	(730,138)	850,861	1,388,092
Continuing operations	(420,421)	(2,773,765)	(4,009,224)	(5,263,446)
Discontinued operations	-	(12,687)	(478)	(56,482)
Cash used in operating activities	(420,421)	(2,786,452)	(4,009,702)	(5,319,928)
Investing Activities				
Cash payments on Maria Conchita Acquisition, net of cash acquired (Note 6)	(12,896)	-	(2,250,000)	(1,098,295)
Cash payments on SN-9 Acquisition (Note 6)	-	(850,000)	-	(2,500,000)
Cash payments on Tiburon Acquisition (Note 6)	-	-	-	(250,000)
Exploration and evaluation asset additions (Note 9)	(352,800)	(866,967)	(10,823,386)	(2,067,712)
Property, plant and equipment additions (Note 10)	(10,483)	(37,793)	(107,702)	(41,646)
Acquisition of Bolivar, net of cash acquired (Note 6)	-	-	-	(48,929)
Acquisition of Alianza, net of cash acquired (Note 6)	-	(7,946,594)	-	(7,946,594)
Short-term investments	-	-	417,320	-
Investment in Horizon (Note 13)	-	(1,176,000)	-	(1,176,000)
Advance toward acquisition	-	(2,121,129)	-	(4,021,129)
Change in restricted cash (Note 7)	14,717	(297,854)	8,000,957	(4,637,820)
Change in non-cash working capital (Note 17)	(2,686,945)	503,993	2,133,958	(1,259,367)
Cash used in investing activities	(3,048,407)	(12,792,344)	(2,628,853)	(25,047,492)
Financing Activities				
Shares issued, net of costs (Note 11)	-	9,203,651	-	38,658,169
Warrants issued, net of costs (Note 11)	-	3,648,285	-	3,648,285
Cash acquired on Transaction (Note 4)	-	-	-	8,188,819
Transaction costs	-	-	-	(396,820)
Change in non-cash working capital (Note 17)	-	-	-	(53,685)
Cash provided by financing activities	-	12,851,936	-	50,044,768
Net increase in cash	(3,468,828)	(2,726,860)	(6,638,555)	19,677,348
Foreign exchange gain on cash	191,469	402,112	(153,051)	167,578
Increase in cash	(3,277,359)	(2,324,748)	(6,791,606)	19,844,926
Cash, beginning of period	5,448,124	22,169,674	8,962,371	-
Cash, end of period	2,170,765	19,844,926	2,170,765	19,844,926

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

CRUZSUR ENERGY CORP
Notes to the Interim Condensed Consolidated Financial Statements
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1. REPORTING ENTITY

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

The Company’s registered address is 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. CruzSur’s common shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “PNO”.

Share consolidation

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

2. GOING CONCERN

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

During the nine months ended September 30, 2018, the Company incurred a loss from continuing operations of \$28.3 million and \$4.0 million of cash used in its operating activities. As at September 30, 2018, the Company had a working capital deficiency of \$14.3 million. Furthermore, the Company has contractually committed exploration and development amounts as outlined in Note 15. These commitments could leave the Company potentially cash deficient depending on the outcome of the Company’s ongoing operations. As a result, these conditions give rise to a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

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

3. BASIS OF PRESENTATION

Statement of compliance

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

These interim condensed consolidated financial statements follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2017, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, are presented in U.S. dollars, and were authorized for issue by the Board of Directors on November 26, 2018.

Significant accounting policies

The Company's significant accounting policies can be read in Note 4 to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2017.

New standards and interpretations adopted on January 1, 2018

IFRS 9: Financial Instruments

On January 1, 2018, the Company adopted IFRS 9 "Financial Instruments", which includes a principle-based approach for classification and measurement of financial assets and a forward-looking 'expected credit loss' model. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The

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classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Company's consolidated financial statements.

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

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Cash and cash equivalents and trade and other receivables continue to be measured at amortized cost and are now classified as "amortized cost". Short term investments continue to be measured at fair value and are now classified as "FVTPL". The Corporation's financial liabilities previously classified as "other financial liabilities" being trade and other payables and cash calls payable continue to be measured at amortized cost and are now classified as "amortized cost". The Corporation has not designated any financial instruments as FVOCI, nor does the Corporation use hedge accounting.

IFRS 15: Revenue from Contracts with Customers

The Company adopted IFRS 15 "Revenue from Contracts with Customers" effective January 1, 2018, which establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company's revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices. The Company adopted IFRS 15 using the modified retrospective approach to contracts that were not completed at the date of initial application. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The adoption of IFRS 15 did not materially impact the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.

In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. The transfer of control of oil, natural gas, natural gas liquids usually occurs at a point in time and coincides with title passing to the customer and the customer taking physical possession. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Recent Accounting Pronouncements

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

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IFRS 16: Leases

On January 1, 2019, the Company will be required to adopt IFRS 16 “Leases” to replace the existing guidance of IAS 17 “Leases”. The standard establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease. Interpretation of this new standard is currently in progress; the full impact on the financial statements will be determined upon completion of management’s assessment.

4. REVERSE TAKEOVER TRANSACTION

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

Due to the completion of this Transaction, PMI’s 956,100 subscription receipts that were issued prior to the Transaction during the non-brokered private placement that closed in January 2017 (see Note 5) were converted into 956,100 shares and the associated funds of \$3,565,143 (C\$4,780,500) were released from escrow. After this share issuance, PMI had a total of 1,947,329 common shares outstanding.

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

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

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5. PRIVATE PLACEMENTS

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

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

6. ACQUISITIONS

Maria Conchita Block (Bochica)

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

- a) pay cash consideration of \$1 million to the sellers as a condition of the definitive agreement. Of the \$1 million, \$0.75 million was paid in 2017 and \$0.24 million of the remaining \$0.25 million was paid in the nine months ended September 30, 2018 upon the spudding of the first well. The total consideration amount has been paid as of September 30, 2018.
- b) retention by the sellers of a 20% retained beneficial working interest and carry of the sellers' beneficial interest for costs incurred for the drilling of three new wells, the re-entry and workover of 2 existing wells, the construction and provision of a gas pipeline and connecting flowlines framework to connect block production fields to the Colombian transportation network, and the construction and provision of a gas plant to process the gas produced in the block to commercial conditions.
- c) pay consideration of \$1.5 million to the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the Maria Conchita Block.
- d) assumption of all rights and obligations under the Master Sales and Purchase Agreement ("MSPA") with the Turkish Petroleum International Company ("TPIC"), whereby the seller was to acquire 100% beneficial working interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed by the Company under the MSPA included:

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- i. present a letter of credit in favor of TPIC for \$9.0 million as security for the performance of the first well under the MSPA.
- ii. acquire the TPIC 51% beneficial working interest and operatorship for \$2.0 million. This amount was paid in the nine months ended September 30, 2018.
- iii. acquire the 9% beneficial working interest and net profit interest held in the Maria Conchita Block from another third party contractual partner in the block for \$0.5 million. This working interest was acquired and the consideration paid in 2017.
- iv. pay to TPIC certain operational expenses in the amount of \$0.7 million. This amount was paid in 2017.
- v. acknowledge and comply with the existing overriding royalty agreements previously executed between TPIC, the seller, and other existing third-party partners in the Maria Conchita Block E&P Contract.

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

Amendment to MSPA

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

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

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

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

In February 2018, the ANH approved the transfer of operatorship of the Maria Conchita block from TPIC to one of the subsidiaries of the Company. As a result, the aforementioned \$1.75 million deposit in escrow held as a performance guarantee and the balance of the \$9.0 million deposit in escrow to fund the drilling of the first well (less a balance of \$0.6 million maintained in escrow while formalization of the transfer is completed) were released back to the Company in March 2018. As of September 30, 2018, a balance of \$0.1 million remains in escrow, which is classified as restricted cash.

SN-9 Block

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

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

SN-9 Strategic Farm-out

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

In June 2018, CruzSur and Panacol executed the SN-9 Farm-out Agreement, formalizing the terms of the farm-out from the Letter of Intent. Per the terms of the Farm-out Agreement, Panacol was to replace the \$2.4 million guarantee required by the ANH license, which was completed in 2017 after the execution of the Letter of Intent and will be reimbursed to Panacol upon Panacol's fulfillment of their commitments

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under the Farm-out Agreement and when the guarantee is released by the ANH. Furthermore, Panacol would fully fund the Company's commitments for Phase I of the SN-9 Exploration and Production Contract for the amount of \$22.3 million. Assignment of working interests for both parties would be subject to approval from the National Hydrocarbon Agency of Colombia. Under the terms of the Farm-out Agreement, Panacol would recover 50% of the funds invested from 70% of the proceeds of the Company's net production. Further capital commitments beyond the \$22.3 million would be assumed proportionally by the partners. Additionally, the past costs due to the Sellers that are to be paid out of the Company's portion of net operating revenue would be split, with CruzSur paying half and Panacol paying the other half. The remaining 20% working interest on the block is held by other third-party partners.

As closing conditions to the Farm-out Agreement, within 30 days following the signing Panacol was required to place \$3.0 million in escrow to fund near-term activities. In addition, Panacol was required to provide a standby letter of credit for \$3.0 million to guarantee further payments into the escrow account and pay approximately \$0.5 million in past costs. Despite a number of extensions, Panacol were unable to raise the funds required to be placed in escrow account nor for the standby letter of credit. In August 2018, the Company terminated the SN-9 Farm-out Agreement due to Panacol's inability to fulfill the conditions of the Farm-out Agreement. Under the terms of the Farm-out Agreement the \$2.4 million security placed by Panacol as guarantee in front of the ANH for the SN-9 license commitments will remain in place until the commitments are deemed complete by the ANH.

Tiburon Block

In February 2017, the Company acquired a 60% beneficial working interest and operatorship of the Tiburon Block under the E&P Contract with the ANH. The acquisition was accounted for in exploration and evaluation assets (Note 9) as an asset acquisition. The Company agreed to the following terms with the seller:

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

Dispute on SN-9 and Tiburon Acquisitions

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

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Company was in breach of certain obligations under the Tiburon PSA and that, as a consequence, the Tiburon PSA was immediately terminated.

The Company, in consultation with legal counsel, considers that the alleged breaches are without merit and that the unilateral termination by the counterparties in each respective acquisition transaction is not legally valid or enforceable. The Company has requested that the seller parties retract these letters and have advised of the consequences of failure to do so, but without success. The Company intends to take all legal measures necessary to ensure that the seller parties are fully aware of their inability to terminate each respective PSA, that the alleged breaches are without merit, and that each seller party will be held fully responsible for any and all damages arising from their actions. The Company intends to vigorously defend itself and will pursue all means available to protect its interests in the SN-9 and Tiburon Blocks.

Bolivar Energy

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

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

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

Patagonia Oil Corp.

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

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

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

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

Alianza Petrolera Argentina S.A.

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

- a) Pay \$1 million in cash consideration upon execution of the definitive agreement, which was paid by the Company in 2017.
- b) Pay \$2 million in cash consideration at the closing of the definitive agreement, which was released from escrow to the seller in 2017.
- c) Assumption of the balance of the YPF Cash Calls, which has been represented to be \$5.0 million. This amount was included in "Cash calls assumed on acquisition."
- d) Pay \$5.0 million in cash consideration at closing of the definitive agreement, to be adjusted accordingly based on the final assessed balance of the YPF Cash Calls, wherein the cash payment will be reduced or increased by any balance of the YPF Cash Calls that is greater than or less than \$5.0 million, respectively. This amount was paid to the seller in 2017.
- e) Issue 1,140,625 Units of the Company at a subscription price of \$6.40 (C\$8.00) that total to consideration of \$7.3 million. Each Unit was comprised of one common share of CruzSur and one warrant to purchase one common share of CruzSur at a purchase price of C\$10.50 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
- f) Pay \$0.5 million in cash consideration within thirty days following the closing of the definitive agreement, pending determination and finalization of purchase price adjustments. Such amount has been included in accounts payable as of December 31, 2017 and September 30, 2018 (see Note 8) with negotiations with the seller still ongoing.
- g) Pay \$4.5 million in cash consideration within four months following the closing of the definitive agreement, subject to any deductions or withholdings in connection with this transaction. Such amount has been included in accounts payable as of December 31, 2017 and September 30, 2018 (see Note 8) with negotiations with the seller still ongoing.

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

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

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

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

The YPF Cash Calls represent certain outstanding cash call balances owed to the operator of the Llançanelo Asset, YPF S.A. ("YPF"), by Alianza as at the time of the Alianza Acquisition, which are payable on demand under the terms of the associated joint venture agreement. The Company has been in the process of negotiating an arrangement for terms of payment with YPF with regards to this payable balance. As of September 30, 2018, the balance of the YPF Cash Calls is accounted for as a current liability.

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

Argentina Assets

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

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

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compensated to Patagonia through the deduction of any outstanding payments owed on the Roch Acquisition, up to a maximum of \$0.5 million. This amount was included in “Cash calls assumed on acquisition” as of year end 2017 and is maintained as such as of September 30, 2018.

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

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

Preliminary purchase price adjustments of \$0.5 million have been recognized in relation to operating results of the participating interests acquired in the Llanquanelo Asset and the Sur Río Deseado Este Production Asset between the effective date and closing date of this acquisition, eliminating the remaining \$0.5 million in cash consideration still owed, as previously described. A further \$0.3 million balance in for of the Company was recognized for unpaid cash calls in excess of the \$3.0 million balance to be assumed by the Company, which amount was settled between the seller and the Company, net of other post-close adjustments, as of September 30, 2018.

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

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

KM8 Asset and Operator

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

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

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

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

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

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

Costs related to this transaction were comprised of finders fees paid through the issuance of 75,000 shares with an associated value of \$300,000 to a member of management that facilitated the KM8 Acquisition as the original buyer of the KM8 Asset (see Note 14). In 2017, the seller agreed to reimburse \$0.3 million due to working capital deficiencies existing as at the closing of the KM8 Acquisition. This amount has been reflected in the balance of accounts receivable as of September 30, 2018.

YPF Farm-in Agreement

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

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

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- a) Pay an additional \$2.5 million cash payment beyond the initial \$0.5 million payment already made. This amount has been included in accounts payable as of December 31, 2017 and September 30, 2018.
- b) Provide YPF security over payment of consideration of \$2.7 million in the form of a bank guarantee or a deposit in an escrow account.
- c) Agree upon the details of a work program for \$54 million over three years that the Company is to fully finance.

As of the deadline of June 22, 2018, the Company had not fulfilled the conditions outlined above.

Relinquishment of Llancañelo Asset

In August 2018, the Company received formal notification from YPF advising that, pursuant to the provisions of the governing agreement of the Llancañelo joint venture project, the Company is to relinquish its 39% working interest in the Llancañelo Asset on account of failure to pay outstanding cash call balances currently owed by the Company's wholly-owned subsidiary Alianza. On the basis that Alianza is in default on payment of these cash call obligations, and has been unable to remedy the issue of non-compliance under the governing agreement, YPF has exercised their right as operator to assume control of Alianza's 39% beneficial working interest in the Llancañelo Asset effective immediately. Furthermore, the exercising of their right to assume Alianza's working interest does not preclude the operator's right to also pursue payment on the outstanding cash call balances. On account of this notification of relinquishment, an impairment loss on exploration and evaluation assets attributed to the Llancañelo Asset has been recognized for the nine months ended September 30, 2018. The Company continues to negotiate with YPF regarding the settlement of the outstanding cash call obligations on the Llancañelo Asset.

Termination of YPF Farm-In Agreement

In August 2018, the Company also received formal notification from YPF advising that the YPF Farm-In was being terminated due to the Company's inability to fulfill the conditions precedent to the Farm-In Agreement. On account of the termination of the Farm-In Agreement, YPF retains the 11% working interest in the Llancañelo Asset that was to be assigned to the Company's subsidiary, Alianza. Furthermore, the \$2.5 million cash payment that was to be paid as part of the YPF Farm-In is still owed by the Company per the terms of the Farm-In Agreement. On account of the termination of the YPF Farm-In, an impairment loss on exploration and evaluation assets attributed to the Llancañelo Asset for previously capitalized costs incurred on this farm-in has been recognized for the nine months ended September 30, 2018.

7. 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 of this amount is as follows:

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	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 ANH 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 (see Note 6). 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 (see Note 6). As of September 30, 2018, a balance of \$51,473 remains in escrow.

8. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

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

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amounts are included in accounts payable when they exist at the end of a reporting period. The table below represents the composition of the accounts receivable and accounts payable balances as at September 30, 2018 and December 31, 2017.

	2018	2017
Value-added tax receivable	1,289,436	1,045,008
Prepaid expenses	21,022	493,613
Acquisitions receivable	299,058	634,695
Sales receivable	256,184	1,212,731
Other receivables	325,627	570,196
Accounts receivable	2,191,327	3,956,243
Trade accounts payable and accruals	4,231,965	3,393,394
Joint venture payables	992,298	769,553
Consideration payable on Acquisitions	7,500,000	9,939,756
AOG Repayment of guarantee	2,483,077	2,483,077
Accounts payable and accrued liabilities	15,207,340	16,585,780

9. EXPLORATION AND EVALUATION ASSETS

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

Balance as at December 31, 2016	-
Acquisitions	50,452,323
Additions	3,906,692
YPF Farm-In	3,000,000
Additional working interest acquired	9,165,071
Capitalized general and administrative	369,515
Share based compensation	715,747
Balance as at December 31, 2017	67,609,348
Additions	10,461,337
Acquisition purchase price adjustments	(46,988)
Capitalized general and administrative	409,037
Asset retirement cost addition	296,007
Capitalized share-based compensation	84,866
Impairment loss	(25,000,000)
Balance as at September 30, 2018	53,813,607

The Corporation's exploration and evaluation assets represent costs incurred in relation to three exploration blocks in Colombia and three exploration blocks in Argentina. During the nine months ended September 30, 2018, the Company recognized impairments relating to the Llananelo Asset of \$25.0 million. These impairments were the result of the difference between the period-end E&E net book value

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and management's assessment of the recoverable amount of the Llancañelo Asset as of September 30, 2018 on account of the formal notification received from YPF regarding the relinquishment of the Company's working interest in the Llancañelo Asset and the termination of the YPF Farm-In (see Note 6).

10. PROPERTY, PLANT, AND EQUIPMENT

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

Cost	Oil and natural gas assets	Corporate	Total
As at December 31, 2016	-	-	-
Acquisitions	4,274,624	48,877	4,323,501
Additions	793,330	124,368	917,698
As at December 31, 2017	5,067,954	173,245	5,241,199
Capital expenditures	(29,635)	137,337	107,702
As at September 30, 2018	5,038,319	310,582	5,348,901
Accumulated depletion and depreciation			
As at December 31, 2016	-	-	-
Additions	933,153	24,935	958,088
As at December 31, 2017	933,153	24,935	958,088
Additions	1,305,194	77,278	1,382,472
As at September 30, 2018	2,238,347	102,213	2,340,560
Net book value			
As at December 31, 2016	-	-	-
As at December 31, 2017	4,134,801	148,310	4,283,111
As at September 30, 2018	2,799,972	208,369	3,008,341

The Corporation's property, plant and equipment assets represent costs incurred in relation to two blocks in Argentina as well as certain corporate fixed assets held in Colombia and Argentina. As at September 30, 2018, the Company determined that indicators of impairment existed regarding the period-end PP&E net book value of the Llancañelo Asset that is included within property, plant and equipment assets. However, management's assessment of the recoverable amount (based on fair value less costs to sell) for the PP&E portion of the Llancañelo Assets was determined to exceed the net book value existing as of September 30, 2018, resulting in no impairment loss on PP&E assets for the period.

The depletion expense calculation for the nine months ended September 30, 2018 included as part of the depletable base \$5.5 million for estimated future development costs associated with proved and probable reserves in Argentina.

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11. SHARE CAPITAL

Common shares

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

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 as of September 30, 2018 are as follows:

	Common shares	Amount (\$)
Balance, January 1, 2017	5,000	-
Shares redeemed	(5,000)	-
Shares issued through private placement (net of share issuance costs)	16,044,156	29,306,312
Shares issued to consultant	120,000	449,136
Balance April 4, 2017	16,164,156	29,755,448
Shares issued in Transaction	1,947,329	7,252,621
Transaction costs		(396,820)
Shares issued for transaction costs	160,000	595,903
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

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

Also in January 2017, the Company completed a non-brokered private placement issuing 4,764,156 common shares for gross proceeds of \$18,306,778 (C\$23,820,780) and closed a brokered private placement issuing 3,280,000 common shares for gross proceeds of \$12,603,751 (C\$16,400,000). Of the

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common shares issued, 496,228 were issued to related officers, directors, and insiders which equates to \$1,906,809 (C\$2,481,140). Share issuance costs incurred in relation to the non-brokered and brokered private placements are \$1,665,698, which includes \$308,866 for the estimated fair value of warrants issued to brokers of the private placement, as described below. Furthermore, in March 2017, the Company issued 120,000 common shares to a consultant at a price of \$3.72 (C\$5.00) per share for services rendered in connection with the acquisition of the Company's participating interest in the SN-9 Block.

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

For the non-brokered private placement completed in August 2017, the Company issued 2,062,500 Units, each consisting of one common share and one share purchase warrant, as described in Note 6. This resulted in total proceeds of \$12,688,106 (C\$15,869,000), net of issuance costs. Of the total net proceeds, \$9,039,821 (C\$11,306,116) has been attributed to common shares and \$3,648,285 (C\$4,562,884) has been attributed to share purchase warrants. Of the Units issued, 4,782,500 were issued to related officers, directors, and insiders which equated to \$2,942,130 (C\$3,679,684).

As part of the consideration for the Alianza, Roch, and KM8 Acquisitions, the Company issued 1,140,625 Units, 781,250 Units and 1,640,625 Units, respectively, (each Unit consisting of one common share and one share purchase warrant) at the same time as the non-brokered private placement described above. The Units were valued at \$6.40 (C\$8.00) per Unit and were allocated towards the various acquisitions, as described in Note 6, as follows:

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

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

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

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In conjunction with the appointment of new senior management in February 2018, 480,000 common shares are to be issued to these new management members, which will be held in escrow and will vest over a period of three years. As of the date hereof, approval from the TSX-V for the issuance of these common shares 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 at 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 August 8, 2017, the Company granted 2,218,750 options to acquire common shares to certain directors, officers, and consultants of the Company at a price of C\$8.00 per common share. The options were for a ten-year term, expiring on August 8, 2027. Of the options granted, 2,050,000 vested immediately on the date of grant. The other 168,750 options vest on a basis of one-third on the date of grant, one-third on the first anniversary date and one-third on the second anniversary date from the date of grant.

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

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

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The following summarizes information about stock options outstanding as at September 30, 2018:

Exercise prices (C\$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
3.60	415,600	9.52	138,533
6.10	41,500	7.90	41,500
8.00	1,510,000	6.41	1,410,000
	1,967,100	7.10	1,590,033

For the stock options issued during the nine months ended September 30, 2018 and the year ended December 31, 2017, the Black-Scholes option pricing model was used to estimate their fair value with the following assumptions:

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

The value of the stock options vesting in the nine months ended September 30, 2018 equated to \$523,094. Of this amount \$84,866 was capitalized and \$438,227 was expensed as share-based payments.

Warrants

Broker Warrants

Pursuant to the brokered private placement of common shares in February 2017, the Company issued 196,800 warrants to brokers of the private placement based on the terms of the agency agreement (the "Broker Warrants"). These Broker Warrants are for a two-year term, exercisable immediately at a price of C\$5.00 per share and expire January 31, 2019.

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

Purchase Warrants

Pursuant to the non-brokered private placement, the Alianza Acquisition, and the Advances Toward Acquisitions in August 2017, as described previously, the Company issued a total of 5,625,000 Units, each consisting of one common share and one share purchase warrant, each exercisable into one additional common share at a price of C\$10.50 per share until July 31, 2022 (the "Purchase Warrants"). As mentioned previously, a fair value of \$10,201,910 (C\$12,754,916), net of issue costs, was recognized for the issuance of the Purchase Warrants.

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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

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

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

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

Loss per share

For purposes of the loss per share calculations for the periods ended September 30, 2018 and September 30, 2017 there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended September 30, 2018, 1,967,100 stock options, 196,800 Broker Warrants, and 5,625,000 Purchase Warrants were excluded as their impact was anti-dilutive.

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12. FINANCE

The components of finance expenses/income are as follows:

For periods ending September 30	Three months ended		Nine months ended	
	2018	2017	2018	2017
Cash:				
Interest income	(64,259)	(127,318)	(202,777)	(152,574)
Interest expenses and bank charges	18,053	10,406	136,519	26,284
Debt-related expense	-	101,149	-	101,149
Total cash finance expenses/(income)	(46,206)	(15,763)	(66,258)	(25,141)
Non-cash:				
Accretion on decommissioning obligation	30,409	4,495	88,659	4,495
Total non-cash finance expenses/(income)	30,409	4,495	88,659	4,495
Total finance expenses/(income)	(15,797)	(11,268)	22,401	(20,646)

13. ASSETS HELD FOR SALE

Horizon Investment

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

The investment of Horizon Shares held by the Company have been classified as held for sale. At 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.

14. RELATED PARTIES

During the nine months ended 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

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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. 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 is no longer employed by the Company.

15. COMMITMENTS

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 was 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
Llançanelo 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 km² 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

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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. This amount has been included in accounts payable as of December 31, 2017 and September 30, 2018.

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.

16. SEGMENTED INFORMATION

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

The following tables show information regarding the Company's segments for the three and nine months ended September 30, 2018 and 2017.

Nine months ended September 30, 2018	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	4,525,579	-	-	4,525,579
Net revenue on carried working interest	748,427	-	-	748,427
Royalty expense	(929,779)	-	-	(929,779)
Net oil and natural gas revenue	4,344,227	-	-	4,344,227
Expenses:				
Operating expenses	2,752,553	-	-	2,752,553
Inventory revaluation	299,949	-	-	299,949
General and administrative	418,740	735,102	2,993,364	4,147,206
Business development	25,759	7,186	159,410	192,355
Cost of Acquisition	-	-	-	-
Share based payments	-	-	438,228	438,228
Depletion and depreciation	1,356,038	26,434	-	1,382,472
Impairment loss	25,000,000	-	-	25,000,000
Finance	91,024	(175,733)	107,110	22,401
Foreign exchange loss (gain)	2,422,271	27,120	(393,741)	2,055,650
Loss on revaluation of asset held for sale	-	-	190,276	190,276
	32,366,334	620,109	3,494,647	36,481,090
Loss before income taxes	(28,022,107)	(620,109)	(3,494,647)	(32,136,863)
Assets September 30, 2018	32,035,736	27,987,096	6,118,344	66,141,176
Liabilities September 30, 2018	22,486,491	890,729	5,520,121	28,897,341

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Nine months ended September 30, 2017	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	930,576	-	-	930,576
Net revenue on carried working interest	255,861	-	-	255,861
Royalty expense	(191,911)	-	-	(191,911)
Net oil and natural gas revenue	994,526	-	-	994,526
Expenses:				
Operating expenses	772,566	-	-	772,566
Inventory revaluation	-	-	-	-
General and administrative	254,234	782,240	1,536,793	2,573,267
Business development	214,576	7,186	4,513,493	4,735,255
Cost of Acquisition	-	-	1,019,415	1,019,415
Share based payments	-	-	5,440,965	5,440,965
Depletion and depreciation	262,661	18,774	-	281,435
Finance	4,495	(93,482)	68,341	(20,646)
Foreign exchange loss (gain)	(34,894)	25,838	742,810	733,754
Loss on revaluation of asset held for sale	-	-	537,795	537,795
	1,473,638	740,556	13,859,612	16,073,806
Loss before income taxes	(479,112)	(740,556)	(13,859,612)	(15,079,280)
Assets September 30, 2017	52,084,928	13,515,326	21,567,162	87,167,416
Liabilities September 30, 2017	17,185,613	1,787,812	2,163,665	21,137,090

Three months ended September 30, 2018	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	-	-	-	-
Net revenue on carried working interest	207,772	-	-	207,772
Royalty expense	-	-	-	-
Net oil and natural gas revenue	207,772	-	-	207,772
Expenses:				
Operating expenses	-	-	-	-
Inventory revaluation	(76,054)	-	-	(76,054)
General and administrative	95,073	286,071	663,674	1,044,818
Business development	-	-	5,452	5,452
Cost of Acquisition	-	-	-	-
Share based payments	-	-	75,273	75,273
Depletion and depreciation	149,516	10,121	-	159,637
Impairment loss	-	-	-	-
Finance	15,138	(55,722)	24,787	(15,797)
Foreign exchange loss (gain)	558,493	118,624	(98,617)	578,500
Loss on revaluation of asset held for sale	-	-	46,455	46,455
	742,166	359,094	717,024	1,818,284
Loss before income taxes	(534,394)	(359,094)	(717,024)	(1,610,512)

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Three months ended September 30, 2017	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	930,576	-	-	930,576
Net revenue on carried working interest	255,861	-	-	255,861
Royalty expense	(191,911)	-	-	(191,911)
Net oil and natural gas revenue	994,526	-	-	994,526
Expenses:				
Operating expenses	772,566	-	-	772,566
Inventory revaluation	-	-	-	-
General and administrative	254,234	434,566	509,285	1,198,085
Business development	214,576	-	1,197,966	1,412,542
Cost of Acquisition	-	-	-	-
Share-based payments	-	-	5,440,965	5,440,965
Depletion and depreciation	262,661	7,332	-	269,993
Finance	4,495	(92,126)	76,363	(11,268)
Foreign exchange loss	(34,894)	(104,193)	134,830	(4,257)
Loss on revaluation of asset held for sale	-	-	537,795	537,795
	1,473,638	245,579	7,897,204	9,616,421
Loss before income taxes	(479,112)	(245,579)	(7,897,204)	(8,621,895)

17. SUPPLEMENTAL CASH FLOW INFORMATION

For periods ending September 30	Three months ended		Nine months ended	
	2018	2017	2018	2017
Accounts receivable	381,499	(2,090,231)	1,764,916	(2,497,597)
Inventory	(279,401)	(5,935)	201,592	(870,358)
Accounts payable and accrued liabilities	(1,787,812)	(1,131,697)	(1,195,259)	4,150,893
Liabilities held for sale	-	(1,827,568)	-	-
Working capital adjustments for Bochica Acquisition	12,896	400,000	2,250,000	(2,328,420)
Working capital adjustments for SN9 Acquisition	-	850,000	-	-
Working capital adjustments for Bolivar Acquisition	-	-	-	(3,151)
Working capital adjustments for Alianza Acquisition	-	1,870,710	-	1,870,710
Working capital adjustments for the Transaction	-	1,708,576	-	(247,037)
Working capital adjustments for discontinued operations	(10,331)	-	(36,430)	-
Change in non-cash working capital	(1,683,149)	(226,145)	2,984,819	75,040
Relating to:				
Operating activities	1,003,796	(730,138)	850,861	1,388,092
Investing activities	(2,686,945)	503,993	2,133,958	(1,259,367)
Financing activities	-	-	-	(53,685)
Change in non-cash working capital	(1,683,149)	(226,145)	2,984,819	75,040

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18. REVENUE

The following table presents the Company's oil and natural gas revenue disaggregated by product type for the three and nine months ended September 30, 2018:

	Three months	Nine months
Production revenue:		
Oil and condensate sales	-	4,525,579
Natural gas sales	-	-
Natrual gas liquid sales	-	-
Total oil and natural gas production revenue	-	4,525,579
Net revenue on carried working interest	207,772	748,427
Total oil and natural gas revenue	207,772	5,274,006