CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		$ 53,470	$ 39,071
Restricted cash	4	2,120	16,399
Trade and other receivables		73,214	50,411
Prepaid expenses and deposits		2,093	1,562
Investment in shares held in trust	8, 10	20,000	—
Investments	9	5,000	16,601
Crude oil inventory		338	642
Hedging contract		—	35
Assets held for sale	8	—	71,960
		156,235	196,681
Non-current assets			
Restricted cash	4	3,307	11,520
Prepaid expenses and deposits		5,724	2,680
Exploration and evaluation assets	5	49,233	43,867
Property, plant and equipment	6	444,878	383,356
Investments	9	325	2,028
Deferred tax assets		66,230	56,311
		569,697	499,762
Total assets		$ 725,932	$ 696,443
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		47,003	59,739
Shareholder distribution payable	10	20,000	—
Crude oil payable in kind		—	748
Deferred income		9,423	4,805
Finance lease obligation	12	8,192	6,500
Restricted share units	17	2,188	1,971
Taxes payable		151	8,663
Settlement liability	7	3,600	—
Liabilities held for sale	8	—	3,854
		90,557	86,280
Non-current liabilities			
Long-term debt	11	310,705	294,590
Finance lease obligation	12	35,995	29,358
Decommissioning obligations		26,001	19,223
Restricted share units	17	31	32
Settlement liability	7	15,412	—
Other long term obligations		2,310	1,903
Deferred tax liabilities		23,227	25,915
Total liabilities		504,238	457,301
Equity			
Share capital	10	159,498	707,125
Other reserves		67,442	65,547
Accumulated other comprehensive income		335	335
Deficit	10	(5,563)	(533,847)
Non-controlling interest		(18)	(18)
Total equity		221,694	239,142
Total liabilities and equity		$ 725,932	$ 696,443

Commitments and contingencies (note 18)
Subsequent event (note 19)
See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands of United States dollars, except per share amounts)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2018**	2017	**2018**	2017
Revenues					
Petroleum and natural gas revenues, net of royalties	15	**$ 58,751**	$ 37,659	**$166,970**	$ 113,217
Take-or-pay natural gas income		**382**	291	**1,120**	3,599
Total petroleum and natural gas revenues, net of royalties		**59,133**	37,950	**168,090**	116,816
Dividend income		**—**	319	**356**	448
Equity income		**—**	268	**—**	1,047
Expenses					
Production expenses		**8,585**	5,568	**23,093**	17,360
Transportation expenses		**5,735**	1,988	**14,666**	2,932
Pre-license costs and exploration impairment	5	**1,844**	1,069	**12,929**	1,115
General and administrative		**6,330**	4,883	**19,510**	17,506
Donations		**396**	—	**1,634**	—
Stock-based compensation and restricted share units	10,17	**2,359**	2,388	**7,828**	10,624
Depletion and depreciation	6	**10,636**	10,380	**32,444**	25,716
Foreign exchange loss (gain)		**1,041**	(57)	**1,980**	670
Other expenses		**2**	1,423	**1,681**	5,491
Other tax expenses		**1,244**	688	**2,743**	1,536
Loss (gain) on financial instruments	15	**905**	6,022	**5,302**	(5,264)
Loss on settlement of credit facility	11	**—**	—	**14,417**	—
Loss on assets and liabilities held for sale	8	**1,822**	—	**1,822**	—
Impairment recovery	6	**—**	—	**(19,126)**	—
Settlement liability	7	**—**	—	**20,258**	—
		40,899	34,352	**141,181**	77,686
Net finance expense	13	**8,834**	7,407	**25,834**	25,134
Income (Loss) before income taxes		**9,400**	(3,222)	**1,431**	15,491
Income taxes (recovery)					
Current		**6,007**	6,826	**19,593**	19,969
Deferred		**(8,745)**	(8,485)	**(12,599)**	(6,572)
		(2,738)	(1,659)	**6,994**	13,397
Non-controlling interest		**—**	49	**—**	220
Net income (loss) and comprehensive income (loss)		**12,138**	(1,514)	**(5,563)**	2,314
Net income (loss) per share					
Basic and diluted	14	**$ 0.07**	$ (0.01)	**$ (0.03)**	$ 0.01

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Non-Controlling Interest	Total Equity
Balance at December 31, 2016	$ 700,528	$ 60,567	$ 335	$ (385,818)	$ 774	$ 376,386
Stock options exercised	5,832	(2,349)	—	—	—	3,483
Stock-based compensation	—	6,711	—	—	—	6,711
Net income	—	—	—	2,314	—	2,314
Net controlling interest net loss	—	—	—	—	(220)	(220)
Balance at September 30, 2017	**$ 706,360**	**$ 64,929**	**$ 335**	**$ (383,504)**	**$ 554**	**$ 388,674**
Balance as at December 31, 2017	$ 707,125	$ 65,547	$ 335	$ (533,847)	$ (18)	$ 239,142
Transfer of deficit to share capital	(533,847)	—	—	533,847	—	—
Distribution of share capital	(20,000)	—	—	—	—	(20,000)
Stock options exercised	6,220	(2,439)	—	—	—	3,781
Stock-based compensation	—	4,334	—	—	—	4,334
Net loss	—	—	—	(5,563)	—	(5,563)
Balance at September 30, 2018	**$ 159,498**	**$ 67,442**	**$ 335**	**$ (5,563)**	**$ (18)**	**$ 221,694**

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

	Note	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Operating activities					
Net income (loss) and comprehensive income (loss)		$ 12,138	$ (1,514)	$ (5,563)	$ 2,314
Adjustments:					
Non-controlling interest		—	(49)	—	(220)
Net financing expense	13	8,834	7,407	25,834	25,134
Equity income		—	(268)	—	(1,047)
Exploration impairment	5	—	—	9,865	—
Stock-based compensation and restricted share units	10, 17	2,359	2,388	7,828	10,624
Depletion and depreciation	6	10,636	10,380	32,444	25,716
Realized loss on financial instruments	15	992	(2,847)	1,645	(2,954)
Unrealized loss (gain) on financial instruments	15	(85)	8,778	3,808	(2,015)
Unrealized foreign exchange loss (gain) and other		(427)	220	(524)	1,486
Loss on settlement of credit facility	11	—	—	14,417	—
Impairment recovery	6	—	—	(19,126)	—
Settlement liability	7	—	—	20,258	(171)
Settlement of restricted share units liability	17	(1,042)	(2,134)	(3,220)	(4,234)
Deferred income tax		(8,745)	(8,485)	(12,599)	(6,572)
Loss on held for sale assets and liabilities		1,822	—	1,822	262
Changes in non-cash working capital	15	10,328	(2,093)	(385)	(7,978)
		36,810	11,783	76,504	40,345
Investing activities					
Expenditures on exploration and evaluation assets		(8,332)	(4,774)	(37,406)	(37,581)
Expenditures on property, plant and equipment		(12,686)	(20,376)	(35,164)	(44,619)
Proceeds on held for sale assets and liabilities	8	14,242	—	36,349	—
Proceeds on disposition of assets	6	3,000	—	3,000	107
Proceeds from disposal of investments	9	—	3,233	12,725	4,847
Investments	9	(5,000)	(225)	(5,100)	(201)
Change in restricted cash		34	8,366	22,492	7,548
Change in prepaid expenses and deposits		(2,727)	3,068	(3,044)	(5,563)
Other long-term liabilities		—	(36)	—	(233)
Changes in non-cash working capital	15	(17,139)	(5,421)	(30,146)	(15,621)
		(28,608)	(16,165)	(36,294)	(91,316)
Financing activities					
Draw on long-term debt	11	—	20,000	320,000	305,000
Financing fees	11	—	(655)	(9,864)	(12,903)
Repayment of long-term debt	11	—	—	(305,000)	(255,000)
Settlement liability paid	7	(672)	—	(1,246)	—
Net financing expense paid	13	(8,112)	(6,025)	(23,070)	(17,064)
Prepayment penalty on settlement of credit facility	11	—	—	(4,980)	—
Finance lease principal payments	12	(1,954)	(1,051)	(5,432)	(3,053)
Issue of common shares	10	776	2,306	3,781	3,483
		(9,962)	14,575	(25,811)	20,463
Change in cash		(1,760)	10,193	14,399	(30,508)
Cash, beginning of period		55,230	25,582	39,071	66,283
Cash, end of period		$ 53,470	$ 35,775	$ 53,470	$ 35,775

See accompanying notes to the interim condensed consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in petroleum and natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on November 8, 2018.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2017.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, investment in shares held in trust and restricted share units which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss"), long-term debt and settlement liability, which are measured at amortized cost and decommissioning obligations, which are measured at the present value ("PV") of management's best estimate of the expenditure required to settle the present obligations at the period end date. Finance lease obligations and assets were initially measured at the lower of PV of minimum lease payments and fair market value. Subsequently, they are measured at amortized costs and cost, respectively.

These financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

On January 1, 2018, the Corporation adopted new IFRS pronouncements which have the below impact to the financial statements.

(i) IFRS 15: Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 11 "Construction Contracts", IAS 18 "Revenue Recognition", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services". The standard provides a single, principle-based five-step model that applies to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In addition to providing a new five-step revenue recognition model, the standard specifies how to account for the incremental costs of obtaining a contract and costs directly related to fulfilling a contract. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not part of the Corporation's ordinary activities. The adoption of the new standard does not have a material impact to the financial statements, however the required disclosures have been included in the notes to the financial statements (note 15).

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The Corporation has also revised its revenue recognition accounting policy as a result of the new standard as follows:

The Corporation's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Corporation satisfies a performance obligation by physically transferring the product and control to a customer. The Corporation satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers.

The Corporation recognizes take-or-pay income relating to the portion of natural gas sales nominations by the Corporation's off-takers that do not get delivered, typically due to the off-takers' inability to accept such gas when they have no recourse or legal right to delivery at a later date. Certain take-or-pay contracts grant the off-takers the legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time and are recorded as deferred income. The Corporation recognizes revenue associated with such make-up rights at the earliest of: a) when the make-up volume is delivered; b) when the make-up rights expires; or c) when it is determined that the likelihood of the off-taker will utilize the make-up right is remote. Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

(ii) IFRS 9: Financial Instruments

IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The standard also requires entities to recognize a loss allowance for expected credit losses on financial assets with the objective to recognize lifetime expected credit losses for all financial instruments. Amendments to IFRS 7 "Financial Instruments: Disclosures" was also adopted simultaneously with IFRS 9 "Financial Instruments". There is no material impact to the financial statements due to the adoption of the new standards.

On January 1, 2019, the Corporation 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 arrangement.

The Corporation has developed a plan to identify and review its various lease agreements in order to determine the impact that the adoption of IFRS 16 "Leases" will have on the financial statements. The Corporation is currently in the process of reviewing and analyzing the contracts that fall into the scope; the full impact on the financial statements will be determined upon the adoption of the new standard.

NOTE 4 – RESTRICTED CASH

	September 30, 2018	December 31, 2017
Restricted cash – current	$ 2,120	$ 16,399
Restricted cash – non-current	3,307	11,520
	$ 5,427	$ 27,919

At September 30, 2018, restricted cash consisted of $5.4 million for work commitments and other capital commitments, of which $2.1 million is classified as current and $3.3 million is classified as non-current.

During the nine months ended September 30, 2018, the Corporation's debt reserve account of $5.3 million was released as a result of the credit facility settlement (note 11), the Ecuador IPC outstanding term deposits of $8.3 million were received as a portion of sale proceeds (note 8) and $8.9 million of restricted cash relating to work commitments was released.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2017	$	43,867
Additions		37,406
Exploration impairment		(9,865)
Transferred to D&P assets (note 6)		(22,175)
Balance at September 30, 2018	**$**	**49,233**

During the nine months ended September 30, 2018, the Corporation made natural gas discoveries, Breva-1 on its VIM-21 block and Pandereta-3 and Chirimia-1 on its VIM-5 block and, accordingly, $22.2 million of exploration costs associated with these blocks have been transferred to development and production assets.

During the nine months ended September 30, 2018, the Corporation assessed its exploration blocks for impairment and, as a result of planned relinquishment of a block, all costs associated with such block have been written off to exploration impairment. In addition to the $9.9 million of relinquishment related costs recognized during the nine months ended September 30, 2018, $1.8 million and $2.7 million of pre-license costs were also included in pre-license costs and exploration impairment for the three and nine months ended September 30, 2018, respectively.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Cost		
Balance at December 31, 2017	$	874,656
Additions		55,484
Disposition		(3,000)
Transfer from E&E asset (note 5)		22,175
Balance at September 30, 2018	**$**	**949,315**
Accumulated depletion and depreciation		
Balance at December 31, 2017	$	(491,300)
Depletion and depreciation		(32,444)
Impairment recovery		19,126
Derecognition and inventory adjustments		181
Balance at September 30, 2018	**$**	**(504,437)**
Carrying value		
As at December 31, 2017	$	383,356
As at September 30, 2018	**$**	**444,878**

During the nine months ended September 30, 2018, the Corporation's second leased natural gas compression station commenced operation and as such, was recognized as a finance lease asset valued at $13.9 million (note 12).

As at September 30, 2018, $29.5 million of assets under construction are being recognized at cost and are not being depleted.

During the nine months ended September 30, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (cash generating unit), which was previously estimated to be $nil with an estimated decommissioning obligation of $10.2 million. The recoverable amount estimate, net of decommissioning obligations of $8.9 million, as at September 30, 2018, was based on the fair value less cost of disposal using discounted cash flows, as estimated by the management, an after-tax discount rate of 15% and the following forward West Texas Intermediate crude oil price per barrel of oil ("bbl") estimates: 2018 - $67.04/bbl, 2019 - $65.83/bbl, 2020 - $67.65/bbl, 2021 - $69.38/bbl, 2022 - $71.77/bbl and an increase of 2% per year thereafter. The recoverable amount of the Rancho Hermoso block is estimated using the fair value less cost of disposal and is considered Level 3, as defined in note 17. Such recovery was primarily a result of increased market participant interest in acquiring the block and the recovery in benchmark crude oil prices during the nine months ended September 30, 2018 . The Corporation's other CGUs were unaffected.

During the three and nine months ended September 30, 2018, the Corporation sold its gas plant on its Rancho Hermoso block for proceeds of $3 million which was equal to the carrying value of the asset.

NOTE 7 – SETTLEMENT LIABILITY

As a result of a disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production, a settlement liability expense of $20.3 million (the "Settlement") has been accrued during the nine months ended September 30, 2018. The outstanding settlement liability is subject to a 8.74% annual interest rate. Under the terms of the agreement, the Corporation will reduce the outstanding settlement liability by making cash payments on a monthly basis equal to the amount of approximately $0.3 million per month until a mutual agreement is reached to settle the remainder of the debt.

NOTE 8 – ASSETS AND LIABILITIES HELD FOR SALE

Ecuador IPC Joint Venture

During the nine months ended September 30, 2018, the Corporation sold its equity investment in the Ecuador IPC, previously classified as assets held for sale and received $22.1 million of the total $28.1 million cash proceeds and the $8.3 million outstanding term deposit previously recorded as restricted cash (note 4). The remaining $6 million of the cash proceeds have been classified as a receivable as they will be received in July 2019. The proceeds received were equal to the carry amount of the assets held for sale at the disposition date.

Petroleum Assets and Liabilities

During the three and nine months ended September 30, 2018, the Corporation completed its sale of certain petroleum assets and corresponding liabilities, previously classified as assets and liabilities held for sale, for an aggregate consideration of $40 million, adjusted for customary closing adjustments and deal costs of $0.8 million, resulting in total adjusted consideration of $39.2 million. The adjusted consideration consisted of $14.2 million in cash payments, $20 million through the receipt of 22,598,870 of common shares of the purchaser, Arrow Exploration Ltd. ("Arrow's Shares") and a $5 million promissory note, bearing annual interest rate of 15%, to be paid by Arrow Exploration Ltd. ("Arrow") after four months of closing the sale. In addition to the $39.2 million of consideration, as described above, Arrow is obligated to pay an additional $5 million cash bonus, in the event that, within five years of closing the sale, the proven and probable reserves associated with the sold properties increases to a minimum of 18 million barrels of oil equivalent, subject to certain adjustments.

As at September 30, 2018, $20 million of the $39.2 million total consideration received through the receipt of 22,598,870 of Arrow's Shares are being held in trust for the benefit of the Corporation's shareholders (the "Shareholders"). The Corporation has declared the full amount of the Arrow's Shares as a return of shareholder capital as at September 30, 2018, which was distributed to the Shareholders subsequent to September 30, 2018. The Shareholders received 0.127 Arrow's Shares per each common share of Canacol owned by the shareholder (note 10).

The assets and liabilities held for sale were valued at the lower of their carrying amounts and fair value less cost to sell of $43.9 million and $3.9 million, respectively. In addition to the petroleum assets and liabilities held for sale, $1 million of other assets were transferred to Arrow, resulting in an overall loss on assets and liabilities held for sale of $1.8 million.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 9 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Interoil Investment	Total Investments
Balance at December 31, 2017	$ 1,803	$ 225	$ 15,085	$ 1,516	$ 18,629
Additions	—	5,100	—	—	5,100
Disposals	—	—	(10,800)	(1,925)	(12,725)
Realized gain (loss)	(1,836)	—	(2,509)	1,856	(2,489)
Unrealized loss	—	—	(1,776)	(2,025)	(3,801)
Foreign exchange gain	33	—	—	578	611
Balance at September 30, 2018	**$ —**	**$ 5,325**	**$ —**	**$ —**	**$ 5,325**

During the nine months ended September 30, 2018, the Corporation sold its remaining shares of its Interoil Investment for proceeds of $1.9 million, resulting in a realized gain of $1.9 million.

During the nine months ended September 30, 2018, the Corporation sold its investment in a power generation company for proceeds of $12.4 million, consisting of $10.8 million for its investment and settlement of an outstanding loan receivable of $1.6 million. The full proceeds of $12.4 million has been classified as a receivable and will be collected within twelve months as at September 30, 2018. As a result, an overall loss of $2.5 million was realized on the Corporation's original $13.3 million investment.

During the three and nine months ended September 30, 2018, the Corporation invested $5 million in shares of Arrow, of which two members of key management of the Corporation are also members of the board of directors of Arrow. In relation to the sale of assets, the Corporation's pipeline company investment was transferred to Arrow for no additional proceeds, resulting in a realized loss on investment of $1.8 million. The Corporation also invested $0.1 million in an oil and gas company during the three and nine months ended September 30, 2018.

NOTE 10 – SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares.

Issued and Outstanding

	Number	Amount
	(000's)	
Balance at December 31, 2017	176,109	$ 707,125
Issued on exercise of stock options	1,514	3,781
Transfer from other reserves for stock options	—	2,439
Transfer of deficit to share capital	—	(533,847)
Distribution of share capital	—	(20,000)
Balance at September 30, 2018	**177,623**	**$ 159,498**

On July 3, 2018, the Shareholders approved a reduction in stated share capital by the amount of the Corporation's deficit of $533.8 million as at January 1, 2018. A distribution to the Shareholders, as a return of share capital, either in cash, or property, in the amount of $20 million was also approved by the Shareholders. As at September 30, 2018, the board of directors declared a $20 million special distribution, in this regard, to be settled by the transfer of the 22,598,870 Arrow's Shares, which were held in trust as at September 30, 2018 (note 8). Subsequent to September 30, 2018, the Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each shareholder (note 19).

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Stock Options

The number and weighted-average exercise prices of stock options were as follows:

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at December 31, 2017	14,853	3.89
Granted	3,781	4.34
Exercised	(1,515)	3.19
Forfeited and cancelled	(633)	4.56
Balance at September 30, 2018	**16,486**	**4.03**

Information with respect to stock options outstanding at September 30, 2018 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	**Number of Stock Options**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number of Stock Options**	**Weighted-Average Exercise Price**
(C$)	(000's)	(years)	(C$)	(000's)	(C$)
\$2.21 to \$3.50	4,468	1.8	2.76	4,468	2.76
\$3.60 to \$6.66	12,018	3.4	4.54	9,212	4.56
	16,486	**2.9**	**4.03**	**13,680**	**3.97**

Stock-based compensation of \$1.1 million and \$4.3 million (2017 - \$2.3 million and \$6.7 million) was expensed during the three and nine months ended September 30, 2018, respectively.

NOTE 11 – LONG-TERM DEBT

	Senior Notes	Bank Debt
Balance at December 31, 2017	\$ —	\$ 294,590
Draw, net of transaction costs	310,136	—
Repayment	—	(305,000)
Amortization of transaction costs	569	10,410
Balance at September 30, 2018	**\$ 310,705**	**\$ —**

On May 3, 2018, the Corporation completed a private offering of senior unsecured notes ("Senior Notes") in the aggregate principal amount of \$320 million. The net proceeds have been used to fully repay the outstanding amounts borrowed under its existing credit facility in the amount of \$305 million plus accrued interest and transaction costs. As a result of the repayment of the existing credit facility, a loss on settlement of Senior Secured Term Loan of \$14.4 million was realized consisting of \$9.4 million of unamortized financing fees at the time of settlement and a prepayment penalty of \$5 million. The Senior Notes pay interest semi-annually at a rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 12 – FINANCE LEASE OBLIGATIONS

As at September 30, 2018		Minimum Lease Payments		PV of Minimum Lease Payments
Jobo natural gas processing facility				
Not later than one year	$	7,788	$	6,527
Later than one year and not later than five years		16,975		15,790
Later than five years		—		—
		24,763		22,317
Less: future finance charges		(2,446)		—
PV of minimum lease payments	**$**	**22,317**	**$**	**22,317**
Compression stations				
Not later than one year	$	2,770	$	1,665
Later than one year and not later than five years		11,644		8,212
Later than five years		13,422		11,993
		27,836		21,870
Less: future finance charges		(5,966)		—
PV of minimum lease payments	**$**	**21,870**	**$**	**21,870**
Finance lease obligations				
As at September 30, 2018				
Finance lease obligations - current			$	8,192
Finance lease obligations - non-current				35,995
PV of minimum lease payments			**$**	**44,187**
As at December 31, 2017				
Finance lease obligations - current			$	6,500
Finance lease obligations - non-current				29,358
PV of minimum lease payments			**$**	**35,858**

During the nine months ended September 30, 2018, the Corporation's second leased natural gas compression station commenced operation and was recognized as a finance lease. The lease term is ten years and the Corporation has the option to take over ownership at the end of the term. The finance lease obligation was discounted at the implicit interest rate of 5.2% at inception, and was initially recognized at the fair value of $13.9 million.

NOTE 13 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Finance income				
Interest and other income	**$ 113**	$ 718	**$ 528**	$ 2,305
Finance expense				
Accretion on decommissioning obligations	**373**	472	**1,221**	1,610
Amortization of upfront fees	**349**	910	**1,543**	6,460
Interest and other financing costs	**8,225**	6,743	**23,598**	19,369
	$ 8,947	$ 8,125	**$ 26,362**	$ 27,439
Net finance expense	**$ 8,834**	$ 7,407	**$ 25,834**	$ 25,134

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 14 – NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share is calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net income (loss)	**$ 12,138**	$ (1,514)	**$ (5,563)**	$ 2,314
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic	**177,453**	175,663	**177,018**	174,908
Effect of stock options	**1,532**	—	**—**	1,847
Weighted-average common shares outstanding, diluted	**178,985**	175,663	**177,018**	176,755

Due to the net loss realized during the nine months ended September 30, 2018 and the three months ended September 30, 2017, stock options were anti-dilutive.

NOTE 15 – SUPPLEMENTAL INFORMATION

The Corporation records petroleum and natural gas revenues, net of royalties allocated to the following categories:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Natural gas revenues, net of royalties	**$ 49,378**	$ 30,851	**$ 138,935**	$ 92,633
Petroleum revenues, net of royalties	**$ 9,373**	$ 6,808	**$ 28,035**	$ 20,584

The Corporation records petroleum and natural gas sales net of royalties. Royalties incurred were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Natural gas royalties	**$ 6,303**	$ 3,560	**$ 18,308**	$ 12,213
Petroleum royalties	**$ 965**	$ 748	**$ 3,019**	$ 2,285

Income taxes and interest paid were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Income taxes paid	**$ 4,021**	$ —	**$ 29,976**	$ 14,442
Interest paid	**$ 1,045**	$ 6,215	**$ 11,451**	$ 18,171

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Loss (gain) on derivatives and financial instruments:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Crude oil payable in kind – realized	$ (844)	$ —	$ (844)	$ —
Crude oil payable in kind – unrealized	—	114	144	9
Restricted share units – unrealized	(85)	(124)	(172)	(37)
Restricted share units – realized	(2)	(8)	100	(394)
Investments – unrealized	—	8,637	3,801	(2,138)
Investments – realized	1,836	(2,847)	2,489	(2,954)
Hedging contract - unrealized	—	151	35	151
Hedging contract - realized	—	99	(251)	99
	$ 905	$ 6,022	$ 5,302	$ (5,264)

Changes in non-cash working capital are comprised of:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Change in:				
Trade and other receivables	$ (1,296)	$ (6,654)	$ (12,647)	$ (8,377)
Prepaid expenses and deposits	183	(3,474)	(530)	1,289
Crude oil inventory	(60)	(8)	(97)	159
Trade and other payables	(9,072)	(4,017)	(13,314)	(19,451)
Crude oil payable in kind	(14)	(30)	(48)	(34)
Deferred income	1,037	(350)	4,618	(1,025)
Wealth tax payable	—	(221)	—	—
Taxes payable	2,411	7,240	(8,513)	3,840
	$ (6,811)	$ (7,514)	$ (30,531)	$ (23,599)
Attributable to:				
Operating activities	$ 10,328	$ (2,093)	$ (385)	$ (7,978)
Investing activities	(17,139)	(5,421)	(30,146)	(15,621)
	$ (6,811)	$ (7,514)	$ (30,531)	$ (23,599)

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 16 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment. The Corporation's chief operating decision makers are its executive officers.

The following tables show information regarding the Corporation's segments.

	Colombia (reportable)	Other Segments (non-reportable)	Total
Three months ended September 30, 2018			
Revenue and other income	$ 59,133	$ —	$ 59,133
Expenses, excluding income taxes	(37,799)	(11,934)	(49,733)
Net loss before taxes	21,334	(11,934)	9,400
Income tax expense (recovery)	(2,738)	—	(2,738)
Net income (loss)	$ 24,072	$ (11,934)	$ 12,138
Capital expenditures, net of dispositions	$ 18,579	$ 6	$ 18,585
Three months ended September 30, 2017			
Revenue and other income	$ 38,269	$ —	$ 38,269
Equity profit	—	268	268
Expenses, excluding income taxes	(22,243)	(19,467)	(41,710)
Net income before taxes	16,026	(19,199)	(3,173)
Income tax expense (recovery)	(1,659)	—	(1,659)
Net income (loss)	$ 17,685	$ (19,199)	$ (1,514)
Capital expenditures, net of dispositions	$ 24,413	$ 565	$ 24,978
Nine months ended September 30, 2018			
Revenue and other income	$ 168,446	$ —	$ 168,446
Expenses, excluding impairment recovery, impairment on E&E assets and income taxes	(125,769)	(50,507)	(176,276)
Impairment recovery	19,126	—	19,126
Impairment on E&E assets	(9,865)	—	(9,865)
Net income (loss) before taxes	51,938	(50,507)	1,431
Income tax expense (recovery)	6,994	—	6,994
Net income (loss)	$ 44,944	$ (50,507)	$ (5,563)
Capital expenditures, net of dispositions	$ 89,720	$ 170	$ 89,890
Nine months ended September 30, 2017			
Revenue and other income	$ 117,264	$ —	$ 117,264
Equity profit	—	1,047	$ 1,047
Expenses, excluding income taxes	(75,583)	(27,017)	$ (102,600)
Net income (loss) before taxes	41,681	(25,970)	15,711
Income tax expense (recovery)	13,397	—	13,397
Net income (loss)	$ 28,284	$ (25,970)	$ 2,314
Capital expenditures, net of dispositions	$ 78,634	$ 916	$ 79,550
Balance at September 30, 2018			
Total assets	$ 637,821	$ 88,111	$ 725,932
Total liabilities	$ 160,470	$ 343,768	$ 504,238
Balance at December 31, 2017			
Total assets	$ 619,189	$ 77,254	$ 696,443
Total liabilities	$ 259,544	$ 197,757	$ 457,301

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 17 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's classification of financial instruments remains unchanged from December 31, 2017.

Fair Value of Financial Instruments

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, dividend payable and finance lease obligations approximate their fair values at September 30, 2018. Restricted Share Units ("RSUs"), investments and investments in shares held in trust are recorded at fair value. The fair value of the Senior Notes is $309 million.

The Corporation classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash, restricted share units, crude oil payable in kind, investments and investment is shares held in trust are classified as Level 1. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three and nine months ended September 30, 2018. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Restricted Share Units

	Number (000's)		Amount
Balance at December 31, 2017	617	$	2,003
Granted	1,025		3,504
Settled	(925)		(3,320)
Realized loss	—		100
Unrealized gain	—		(172)
Foreign exchange loss	—		104
Balance at September 30, 2018	**717**	**$**	**2,219**

On January 26, 2018 and August 16, 2018, the Corporation granted 631,500 and 393,000 with reference prices of C$4.22 and C$4.12 per share, respectively. The RSUs vest at one-half in six months and one-half in one year from the grant date, and will all likely be settled in cash.

During the three and nine months ended September 30, 2018, 319,750 and 925,000 RSUs were settled in cash at a price ranging from C$4.14 to C$4.71 per share, resulting in cash settlements of $1 million and $3.3 million, respectively.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of the Corporation's production volume are subject to long-term fixed price contracts limiting its exposure to commodity price risk. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. The Corporation had no commodity contracts in place as at or during the three and nine months ended September 30, 2018.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at September 30, 2018, the Colombian peso to the United States dollar exchange rate was 2,972:1 (December 31, 2017 – 2,984:1) and the Canadian dollar to United States dollar exchange rate was 1.30:1 (December 31, 2017 – 1.25:1).

The Corporation had no forward exchange rate contracts in place as at or during the three and nine months ended September 30, 2018.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. On May 3, 2018, the Corporation completed a private offering of senior unsecured notes which are subject to a fixed interest rate, thereby significantly reducing the Corporation's exposure to interest rate risk. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. Upon the completion of the private offering of the Senior Notes and the repayment of the existing credit facility, the LIBOR collar in place was liquidated. The liquidated hedging contract had the following terms:

Term	Principal	Type	Interest Rate Range
Aug 2017 - Jun 2019	$305 million	LIBOR collar	1.4% - 2.5%

The Corporation had no interest rate contracts in place as at September 30, 2018.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares an annual budget which is monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The following table outlines the contractual maturities of the Corporation's financial liabilities at September 30, 2018:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt - principal	$ —	$ —	$ 320,000	$ 320,000
Finance lease obligations – undiscounted	10,558	10,642	31,399	52,599
Trade and other payables	47,003	—	—	47,003
Shareholder distribution payable	20,000	—	—	20,000
Deferred income	9,423	—	—	9,423
Settlement liability	3,600	3,600	11,812	19,012
Other long term obligation	—	2,310	—	2,310
Restricted share units	2,188	31	—	2,219
	$ 92,772	**$ 16,583**	**$ 363,211**	**$ 472,566**

In addition to the above, the Corporation had issued letters of credit totaling $90.7 million to guarantee certain obligations under its exploration contracts and other contractual commitments, of which, $21.9 million of the total $90.7 million financial guarantees were related to certain petroleum assets sold during the three months ended September 30, 2018 (note 8). The letters of credit relating to such petroleum assets will be cancelled subsequent to September 30, 2018 upon completion of the transition period.

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's trade receivable balances relate to petroleum and natural gas sales. The Corporation's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables. In Colombia, a significant portion of crude oil and natural gas sales are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies, mostly with investment grade credit ratings.

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at September 30, 2018 was $39.4 million (December 31, 2017 - $24.2 million), $11.6 million related to the disposal of the Corporation's power generation company investment (note 9), $13 million related to sale of assets and liabilities held for sale (note 8) and $3 million related to the sale of the Corporation's gas plant on its Rancho Hermoso block (note 6).

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, finance lease obligations and working capital, defined as current assets less current liabilities. In order to maintain or adjust the capital structure, from time to time the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding long-term debt and finance lease obligations less working capital, as defined above. In order to facilitate the management of its net debt, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

During the nine months ended September 30, 2018, the Corporation sold its remaining shares of Interoil for proceeds of $1.9 million, resulting in an overall realized cash gain of $3.8 million on the Corporation's original $3.2 million investment.

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

During the nine months ended September 30, 2018, the Corporation sold its investment in a power generation company for proceeds of $12.4 million (note 9).

The Corporation also received proceeds relating to assets and liabilities held for sale of $44.6 million consisting of: i) $14.2 million of the total $39.2 million proceeds from Arrow and ii) $30.4 million of the total $36.4 million cash proceeds, from the sale of its equity interest in the Ecuador IPC. The remaining proceeds were recognized as current receivables, with the exception of $20 million, which was received through the receipt of Arrow's Shares (note 8).

On May 3, 2018, the Corporation completed a private offering of Senior Notes in the aggregate principal amount of $320 million and replaced its existing credit facility (note 11). By replacing the credit facility of $305 million, the Corporation benefits from: (i) replacing the term loan that bears an interest rate of fluctuating three month Libor +5.5% (which would have totaled approximately 8.1%, as the three month Libor has been increasing materially during the last 18 months), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly $23.5 million principal amortization of the credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that does not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as was required under the credit facility (these amounts were scheduled to total approximately $25 million later in 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

		September 30, 2018
Long-term debt - Principal	$	320,000
Finance lease obligations		44,187
Working capital surplus		(65,678)
Net debt	**$**	**298,509**

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2018:

		Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	$	25,263	$	27,418	$	17,297	$	69,978
Jobo facility operating contract		2,879		2,879		3,357		9,115
Compression station operating contracts		2,495		2,545		20,035		25,075
Office leases		1,192		1,836		154		3,182

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. During the nine months ended September 30, 2018, the Corporation entered into phase two of its VIM-21 block work program with a total commitment of $10.3 million to be completed over the next three years. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2018 of $70 million and has issued $41.3 million in financial guarantees related thereto. Due to the sale of certain petroleum assets (note 8), $30 million of exploration commitments have been transferred to Arrow during the three months ended September 30, 2018 and $21.9 million of the total $41.3 million financial guarantees relating to these assets will be cancelled subsequent to September 30, 2018 after the transition period.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants and assessments from tax authorities for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

NOTE 19 - SUBSEQUENT EVENT

On July 3, 2018, the Shareholders approved a reduction in stated share capital by the amount of the Corporation's deficit of $533.8 million as at January 1, 2018. A distribution to the Shareholders, as a return of share capital, either in cash, or property, in the amount of $20 million was also approved by the Shareholders. As at September 30, 2018, the board of directors declared a $20 million special distribution, in this regard, to be settled by the transfer of the 22,598,870 Arrow's Shares, which were held in trust as at September 30, 2018 (note 8). Subsequent to September 30, 2018, the Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each shareholder (note 10).