CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

CANACOL ENERGY LTD.

Management's Report

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements of Canacol Energy Ltd. (the "Corporation") within reasonable limits of materiality. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Corporation's financial position, financial performance and cash flows, in accordance with International Financial Reporting Standards. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Corporation's external auditors, Deloitte LLP, have audited the consolidated financial statements. Their audit included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.

(signed) "Charle Gamba"	*(signed) "Jason Bednar"*
Charle Gamba	Jason Bednar
President and Chief Executive Officer	Chief Financial Officer

March 21, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Canacol Energy Ltd.

Opinion

We have audited the consolidated financial statements of Canacol Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

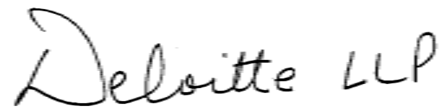
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sippy Chhina.



Chartered Professional Accountants
Calgary, Alberta
March 21, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		$ 51,632	$ 39,071
Restricted cash	4	1,208	16,399
Trade and other receivables	20	68,210	50,411
Prepaid expenses and deposits		1,909	1,562
Investments	9	1,466	16,601
Crude oil inventory		314	642
Hedging contract		—	35
Assets held for sale	8	—	71,960
		124,739	196,681
Non-current assets			
Restricted cash	4	2,988	11,520
Prepaid expenses and deposits		1,608	2,680
Exploration and evaluation assets	5	39,555	43,867
Property, plant and equipment	6	480,428	383,356
Investments	9	350	2,028
Deferred tax assets	16	55,335	56,311
		580,264	499,762
Total assets		$ 705,003	$ 696,443
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		$ 49,279	$ 59,739
Crude oil payable in kind		—	748
Deferred income	22	5,413	4,805
Finance lease obligation	13	1,701	6,500
Restricted share units	20	2,112	1,971
Taxes payable		6,313	8,663
Settlement liability	7	3,600	—
Decommissioning obligations	12	840	—
Liabilities held for sale	8	—	3,854
		69,258	86,280
Non-current liabilities			
Long-term debt	11	339,684	294,590
Finance lease obligation	13	19,772	29,358
Decommissioning obligations	12	22,850	19,223
Restricted share units	20	31	32
Settlement liability	7	13,149	—
Other long term obligations		2,533	1,903
Deferred tax liabilities	16	32,289	25,915
Total liabilities		499,566	457,301
Equity			
Share capital	10	159,116	707,125
Other reserves		67,821	65,547
Accumulated other comprehensive income		335	335
Deficit	10	(21,835)	(533,847)
Non-controlling interest		—	(18)
Total equity		205,437	239,142
Total liabilities and equity		$ 705,003	$ 696,443

Commitments and contingencies (note 21)
See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Michael Hibberd"
Director

(signed) "Francisco Diaz"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

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

Year ended December 31,	Note	2018	2017
Revenues			
Natural gas and crude oil revenues, net of royalties	18	$ **219,419**	$ 153,946
Take-or-pay natural gas income	23	**2,994**	4,962
Total natural gas and crude oil revenues, net of royalties		**222,413**	158,908
Dividend income	23	**356**	447
Equity income	26, 27	**—**	2,522
Expenses			
Operating expenses		**28,896**	25,040
Transportation expenses		**18,262**	5,243
Pre-license costs and exploration impairment	5	**13,674**	27,132
General and administrative		**28,195**	26,476
Donations		**2,668**	31
Stock-based compensation and restricted share units	10, 20	**8,476**	11,586
Depletion and depreciation	6	**44,246**	35,776
Foreign exchange loss		**3,559**	174
Other expenses		**2,979**	1,870
Other tax expenses	24	**3,976**	2,861
Loss (gain) on financial instruments	18	**8,580**	(6,204)
Loss on settlement of long-term debt	11	**14,417**	4,362
Loss on assets and liabilities held for sale	8	**1,822**	—
Impairment on oil assets held for sale	8	**—**	117,576
Impairment recovery	6	**(19,126)**	—
Settlement liability	7	**20,258**	—
		180,882	251,923
Net finance expense	14	**34,539**	26,328
Income (Loss) before income taxes		**7,348**	(116,374)
Income taxes			
Current	16	**21,833**	25,857
Deferred	16	**7,350**	6,590
		29,183	32,447
Non-controlling interest		**—**	792
Net loss and comprehensive loss		$ **(21,835)**	$ (148,029)
Net loss per share			
Basic and diluted	15	$ **(0.12)**	$ (0.85)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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	6,597	(2,693)	—	—	—	3,904
Stock-based compensation	—	7,673	—	—	—	7,673
Net loss	—	—	—	(148,029)	—	(148,029)
Net controlling interest net loss	—	—	—	—	(792)	(792)
Balance at December 31, 2017	**$ 707,125**	**$ 65,547**	**$ 335**	**$ (533,847)**	**$ (18)**	**$ 239,142**
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	—	—
Return of share capital	(20,000)	—	—	—	—	(20,000)
Common share repurchases	(1,037)	—	—	—	—	(1,037)
Stock options exercised	6,875	(2,660)	—	—	—	4,215
Stock-based compensation	—	4,934	—	—	—	4,934
Sale of non-controlling interest	—	—	—	—	18	18
Net loss	—	—	—	(21,835)	—	(21,835)
Balance at December 31, 2018	**$ 159,116**	**$ 67,821**	**$ 335**	**$ (21,835)**	**$ —**	**$ 205,437**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

Year ended December 31,	Note	2018	2017
Operating activities			
Net loss and comprehensive loss		$ (21,835)	$ (148,029)
Adjustments:			
Non-controlling interest		—	(792)
Net financing expense	14	34,539	26,328
Equity income	26, 27	—	(2,522)
Stock-based compensation and restricted share units	10, 20	8,476	11,586
Depletion and depreciation	6	44,246	35,776
Realized loss (gain) on financial instruments	18	1,645	(2,352)
Unrealized loss (gain) on financial instruments	18	7,086	(3,613)
Unrealized foreign exchange loss (gain) and other		808	617
Loss on settlement of long-term debt	11	14,417	4,362
Impairment recovery	6	(19,126)	—
Settlement liability	7	18,862	—
Settlement of decommissioning obligations	12	(2,250)	—
Settlement of restricted share units liability	20	(3,241)	(4,283)
Deferred income tax	16	7,350	6,590
Exploration impairment	5	9,865	23,652
Loss on assets and liabilities held for sale	8	1,822	—
Impairment on oil assets held for sale	8	—	117,576
Changes in non-cash working capital	18	(8,653)	450
		94,011	65,346
Investing activities			
Expenditures on exploration and evaluation assets	5	(42,534)	(51,919)
Expenditures on property, plant and equipment		(68,569)	(62,057)
Finance lease obligation settlement	13	(21,262)	—
Proceeds on assets and liabilities held for sale	8	47,349	—
Proceeds on disposition of assets	6	3,000	107
Proceeds from disposal of investments	9	12,725	5,413
Proceeds from equity investments		—	700
Proceeds from investment in subsidiary		500	—
Investments	9	(5,125)	(225)
Change in restricted cash		23,723	3,435
Change in prepaid expenses and deposits		1,072	(2,680)
Other long-term liabilities		—	(233)
Changes in non-cash working capital	18	(26,400)	1,475
		(75,521)	(105,984)
Financing activities			
Draw on long-term debt	11	350,000	305,000
Financing fees	11	(11,260)	(13,428)
Repayment of long-term debt	11	(305,000)	(255,000)
Net financing expense paid	14	(30,982)	(21,216)
Prepayment penalty on settlement of credit facility	11	(4,980)	—
Finance lease principal payments	13	(6,885)	(5,834)
Common share repurchases	10	(1,037)	—
Issue of common shares	10	4,215	3,904
		(5,929)	13,426
Change in cash and cash equivalents		12,561	(27,212)
Cash and cash equivalents, beginning of year		39,071	66,283
Cash and cash equivalents, end of year		$ 51,632	$ 39,071

See accompanying notes to the consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in 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 ("TSX") 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 consolidated financial statements (the "financial statements") for issuance on March 21, 2019.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, restricted share units, crude oil payable in kind and hedging contract, 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 expenditures 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.

Significant Estimates and Management Judgements

The timely preparation of financial statements in accordance with IFRS requires that management make estimates, assumptions and use judgement regarding the measured amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. The following discussion relates to amounts determined by management which required estimation and/or judgement.

Management judgement is required in determining the functional currency that represents the economic effect of underlying transactions, events and conditions. The United States dollar is selected as the Corporation's functional currency as it is the currency of the primary economic environment in which the Corporation operates; the Corporation's revenues, funds from financing and the majority of its expenditures are denominated in United States dollars.

The Corporation held 25% of the voting rights of its joint arrangement in Ecuador (the "Ecuador IPC") and had classified the joint arrangement as a joint venture before it was reclassified as asset held for sale as at December 31, 2017 (note 8 and note 27). The Corporation had joint control over this arrangement as under the contractual agreements, unanimous consent was required from all parties to the agreements for all relevant activities. The Corporation's joint arrangement was structured in a jointly-controlled entity and provided the Corporation and the joint parties with rights to the net assets of the jointly-controlled entity under the arrangements. During the year ended December 31, 2018, the Corporation completed the sale of its equity investment in the Ecuador IPC (note 8).

The Corporation held an investment in a private company, Interamerican Energy Corp. ("IEC"), previously named Pacific Power Generation Corporation, which was fair valued as at December 31, 2017, using management's estimates since inputs for valuation were not based on observable market data. The investment was sold during the year ended December 31, 2018 (note 9 and note 18).

The Corporation holds an investment in a public company, Arrow Exploration Corp. ("Arrow"), of which two of the board of directors of Arrow are also key members of the Corporation's management. Management has used judgement

in determining that the Corporation does not have significant influence over Arrow by considering the Corporation's voting rights and ownership interest of Arrow (note 9).

Significant management judgement is required in determining the provision for deferred income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation has not recognized a benefit for the net deferred tax asset created from a portion of its non-capital losses and capital losses carried forward due to the uncertainty of realization of such amounts.

The calculation of stock-based compensation expense is subject to uncertainty as it reflects the Corporation's best estimate of whether or not performance will be achieved and obligations incurred. In addition, the key assumptions used for stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

Natural gas and crude oil assets are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement.

Amounts recorded for depletion, depreciation, amortization, accretion and provisions for decommissioning obligations are based on their expected lives and other relevant assumptions.

The recoverability of development and production asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Indicators of impairment or impairment recovery are assessed by management using judgement, considering market conditions and commodity prices. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Key input estimates used in the determination of future cash flows from natural gas and oil reserves include the following:

a) Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Commodity prices - Forward price estimates of the petroleum prices are used in the cash flow model. Commodity prices have fluctuated in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors. Forward natural gas prices are based on firm priced contracts, which are not subject to management's estimate.

c) Discount rate - The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

d) Decommissioning obligation - The decommissioning obligation is determined based on management's best estimate for future costs for decommissioning activities at the end of the asset's useful life. The timing and amount of costs are subject to change based on local legal and regulatory requirements as well as market conditions.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Subsidiaries - Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss as a gain on acquisition. Acquisition related costs, other than share issue costs, are expensed as period costs in the consolidated statements of operations and comprehensive income (loss).

Jointly-controlled operations and jointly-controlled assets - The Corporation's operating activities involve jointly-controlled assets. The financial statements include the Corporation's share of these jointly-controlled assets and a proportionate share of the relevant revenue and related operating costs.

Joint ventures - The Corporation's investment in the Ecuador IPC was accounted for using the equity method whereby the investment is originally recognized at cost and the Corporation's share of the Ecuador IPC's net income or loss is included in the consolidated statements of operations and comprehensive income (loss). During the year ended December 31, 2018, the Corporation sold its equity investment in the Ecuador IPC, classified as an assets held for sale as at December 31, 2017 (note 8 and note 27).

Transactions eliminated on consolidation - Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

Foreign Currency

The United States dollar is the functional currency of the Corporation and its significant subsidiaries. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Exchange gains or losses are included in the determination of profit or loss in the consolidated statements of operations and comprehensive income (loss).

Financial Instruments

Non-derivative financial instruments - Non-derivative financial instruments include cash, restricted cash, trade and other receivables, investments, restricted share units, long-term debt, settlement liability, trade and other payables and other long-term obligations. Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs, except for financial assets and liabilities at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash - Cash is measured similar to other non-derivative financial instruments. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Restricted cash - Restricted cash relates to cash placed in trust to ensure the payment of its obligations pursuant to exploration, abandonment and credit agreements. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Investments - Investments are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Restricted share units - Restricted share units are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Long-term debt - Long-term debt is recorded at amortized cost, net of directly attributable transaction costs. Subsequent to initial recognition, the directly attributable transaction costs are amortized into the carrying value using the effective interest method over the term of the debt facility through the consolidated statements of operations and comprehensive income (loss).

Settlement liability - Settlement liability is a present legal obligation of the Corporation which is measured at the estimated settlement amount and is subject to accrued interest at 8.74% per annum. The interest and settlement liability is settled on a monthly basis.

Finance lease obligations - Finance lease obligations are obligations of the lessee to pay lease payments that consist of principal and interest components according to the lease agreement. The finance lease obligations are measured at the lower of the fair value of the leased property, or the present value of the minimum lease payments as determined at the inception of the lease. Subsequent to initial recognition, the finance lease obligations are accreted using the effective interest rate and is recorded as finance expense to the statement of operations and comprehensive income (loss).

Crude oil payable in kind - Crude oil payable in kind is recorded at fair value through profit or loss. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss). During the year ended December 31, 2018, the Corporation sold its interest in certain petroleum assets and corresponding liabilities, resulting in the derecognition of its crude oil payable in kind (note 8).

Other - Other non-derivative financial instruments, such as trade and other receivables, trade and other payables and other long-term obligations are measured at amortized cost, less any impairment losses.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Exploration and evaluation ("E&E") assets - E&E costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalized either as tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When E&E assets are determined to be technically feasible and commercially viable (assignment of proved and probable reserves), the accumulated costs are transferred to property, plant and equipment. When E&E assets are determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income (loss) as exploration costs.

E&E assets are allocated into CGUs and assessed for impairment when they are transferred to property, plant and equipment or in any circumstances where sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production costs ("D&P") - Items of property, plant and equipment, which include natural gas and crude oil development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of property, plant and equipment, including natural gas and crude oil interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including natural gas and crude oil interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within the consolidated statements of operations and comprehensive income (loss).

Subsequent costs - Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as natural gas and crude oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of operations and comprehensive income (loss) as incurred. Such capitalized natural gas and crude oil generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of operations and comprehensive income (loss) as incurred.

Depletion and depreciation - The net carrying value of D&P assets is depleted using the units-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated by taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of natural gas, crude oil and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected natural gas and crude oil production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For other property, plant and equipment, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of the asset. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Flowline	Over the estimated block reserve life
Equipment and other	2 - 5 years
Finance leases - Compression stations	Over the term of the leasing agreements

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Leased Assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized as assets at the lower of the fair value of the leased property, or the present value of the minimum lease payments as determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Other leases are operating leases, which are not recognized on the consolidated statements of financial position. Payments made under operating leases are recognized in the consolidated statements of operations and comprehensive income (loss) over the term of the lease.

Assets and Liabilities Held for Sale

Assets and liabilities held for sale are recognized if the carrying value will be recovered principally through a sale transaction rather than continuing use. The assets and liabilities will be revalued at the lower of the carrying amount

or the fair value less cost to sell and any impairment loss or recovery is recognized in the consolidated statements of operations and comprehensive income (loss).

Impairment loss and recovery

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statements of operations and comprehensive income (loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the consolidated statements of operations and comprehensive income (loss).

Financial assets - A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-financial assets - The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that their carrying amount exceeds the recoverable amount. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (natural gas and crude oil interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of operations and comprehensive income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

In respect of assets other than goodwill, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations - The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the period-end date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Inventory

Inventory consists of crude oil in transit or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

Revenue

The Corporation's revenues are primarily derived from the production of 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.

Stock-Based Compensation

The grant date fair value of stock options granted to officers, employees and directors is recognized as stock-based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. The fair value of the stock options granted is estimated using the Black-Scholes option pricing model.

Restricted Share Units

The grant date fair value of restricted share units granted to officers, employees and directors is recognized as restricted share units expense with a corresponding increase in restricted share units liability. Subsequent to initial recognition, the restricted share units liability is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings and finance leases, amortization of upfront fees and accretion of the discount on decommissioning liabilities.

Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred

income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net loss per share

Basic net loss per share is calculated by dividing the net loss attributable to common shareholders of the Corporation by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is determined by adjusting the weighted-average number of common shares outstanding for the effects of dilutive instruments such as stock options.

Reclassification of prior year figures

The Corporation has reclassified certain prior year finance expenses to loss on settlement of long-term debt in the consolidated statements of operations and comprehensive income (loss) and the consolidated statements of cash flows for comparative purposes.

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 did not have a material impact to the financial statements and the required disclosures have been included in the notes to the financial statements (note 18).

(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. 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

	December 31, 2018	December 31, 2017
Restricted cash – current	$ 1,208	$ 16,399
Restricted cash – non-current	2,988	11,520
	$ 4,196	$ 27,919

At December 31, 2018, restricted cash consisted of $4.2 million for work commitments and other capital commitments, of which $1.2 million is classified as current and $3 million is classified as non-current.

During the year ended December 31, 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 $10.1 million of restricted cash relating to work commitments was released.

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2016	$ 151,078
Additions	51,919
Transferred to D&P assets (note 6)	(23,293)
Impairment on assets held for sale (note 8)	(102,686)
Transferred to assets held for sale (note 8)	(9,499)
Exploration impairment	(23,652)
Balance at December 31, 2017	43,867
Additions	42,534
Exploration impairment	(9,865)
Transferred to D&P assets (note 6)	(36,981)
Balance at December 31, 2018	**$ 39,555**

During the year ended December 31, 2017, the Corporation made natural gas discoveries, Toronja-1 on its VIM-21 block, Cañahuate-1 and Cañandonga-1 on its Esperanza block and Pandereta-1 on its VIM-5 block and, accordingly, $23.3 million of exploration costs associated with these blocks have been transferred to D&P assets.

The Corporation classified certain petroleum exploration blocks as a current asset held for sale as at December 31, 2017, with a carrying amount of $112.2 million (note 8). As a result, the assets held for sale were recognized at the lower of their carrying amount and fair value less cost to sell of $9.5 million and an impairment loss of $102.7 million was recognized during the year ended December 31, 2017.

During the year ended December 31, 2018, the Corporation made natural gas discoveries, Breva-1 on its VIM-21 block, Pandereta-3 and Chirimia-1 on its VIM-5 block and Cañahuate-2 and Cañahuate-3 on its Esperanza block and, accordingly, $37 million of exploration costs associated with these blocks have been transferred to D&P assets.

During the year ended December 31, 2018, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment of a block, all costs associated with such block have been written off to exploration impairment. In addition to the $9.9 million (2017 - $23.7 million) of relinquishment related costs, $3.8 million (2017 - $3.4 million) of pre-license costs were also included in pre-license costs and exploration impairment for the year ended December 31, 2018.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Cost		
Balance at December 31, 2016	$	922,348
Additions		70,049
Dispositions		(766)
Transferred to assets held for sale (note 8)		(140,268)
Transferred from E&E asset (note 5)		23,293
Balance at December 31, 2017		874,656
Additions		88,057
Dispositions		(3,000)
Transfer from E&E (note 5)		36,981
Balance at December 31, 2018	**$**	**996,694**
Accumulated depletion and depreciation		
Balance at December 31, 2016	$	(558,029)
Depletion and depreciation		(39,677)
Transferred to assets held for sale (note 8)		105,914
Derecognition and inventory adjustments		492
Balance at December 31, 2017		(491,300)
Depletion and depreciation		(44,246)
Impairment recovery		19,126
Derecognition and inventory adjustments		154
Balance at December 31, 2018	**$**	**(516,266)**
Carrying value		
As at December 31, 2016	$	364,319
As at December 31, 2017	$	383,356
As at December 31, 2018	**$**	**480,428**

During the year ended December 31, 2017, the depletion and depreciation expense of $39.7 million was reduced by $3.9 million due to the revaluation of the decommissioning liability on impaired assets, resulting in a net expense of $35.8 million recorded on the consolidated statement of operations and comprehensive income (loss).

During the year ended December 31, 2017, the Corporation entered into an agreement for the construction, operation and ownership of the 82 kilometer Sabanas gas flowline from its Jobo 2 natural gas processing plant ("Jobo 2") to the connection point with the Promigas S.A. gas pipeline at Bremen, Colombia. Pursuant to the agreement, financing of the project consists of $30.5 million investment from a group of private investors and a $10.5 million contribution from the Corporation, with each holding its interest in the Sabanas gas flowline in separate companies, resulting in a joint operation. Two members of the Corporation's board of directors have participated by providing $9 million of the $30.5 million private investment. As at December 31, 2017, the Corporation had a receivable of $7.6 million for the remaining private investment, of which $2.2 million was a trade and other receivable from the two members of the board. The $7.6 million trade and other receivable was collected during the year ended December 31, 2018.

During the year ended December 31, 2017, the Corporation classified certain petroleum D&P blocks with a carrying amount of $34.4 million as assets held for sale (note 8).

During the year ended December 31, 2017, the Corporation entered into a lease agreement to construct and operate a natural gas compression station. The lease was determined to be a finance lease valued at $8.9 million at inception, and was recognized as an asset upon commencement of operation. During the year ended December 31, 2018, the Corporation adjusted the value recorded at inception by $2.6 million and the second leased natural gas compression station commenced operation and as such, was recognized as a finance lease asset valued at $11.3 million (note 13).

During the year ended December 31, 2018, the Corporation purchased Jobo 2, which had a finance lease obligation carrying value of $21.3 million, for a purchase price of $24.2 million, resulting in $3 million being capitalized to the Jobo 2 asset carrying value (note 13).

During the year ended December 31, 2017, the Corporation entered into a purchase agreement for a liquefied natural gas plant for $18.3 million. As at December 31, 2018, the asset was recognized at cost and is not currently being depleted as it is not yet in operation. In addition, costs of $22.5 million relating to the Jobo 3 natural gas plant under construction are not yet being depleted as at December 31, 2018.

During the year ended December 31, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (CGU) with an estimated decommissioning obligation of $10.2 million, resulting in a net recoverable amount of $8.9 million. The recoverable amount estimate at the time of revaluation, 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 was estimated using the fair value less cost of disposal and is considered Level 3, as defined in note 20. 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 year ended December 31, 2018. The Corporation's other CGUs were unaffected.

During the year ended December 31, 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

Balance at December 31, 2017 and 2016	$	—
Settlement liability		20,258
Settlement payments		(1,396)
Foreign exchange gain		(2,113)
Balance at December 31, 2018	**$**	**16,749**

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 of $20.3 million (the "Settlement") has been recorded during the year ended December 31, 2018. The Settlement amount is subject to a 8.74% annual interest rate on the outstanding balance. In accordance with the terms of the settlement agreement, cash payments of approximately $0.3 million per month will be paid by the Corporation and, as such, $3.6 million has been classified as current.

NOTE 8 – ASSETS AND LIABILITIES HELD FOR SALE

Ecuador IPC Joint Venture

During the year ended December 31, 2017, Corporation classified its 25% equity interest joint venture in the Ecuador IPC (note 27) and related term deposits used as collateral to secure the Ecuador IPC's borrowings ("restricted cash") as assets held for sale. The carrying amounts of the investment in the Ecuador IPC and restricted cash were revalued to the lower of their carrying value and fair value less cost to sell of $28.1 million, resulting in an impairment loss of $19.8 million allocated as follows:

As at December 31, 2017		Carrying amount		Impairment loss		Recoverable amount
Assets held for sale						
Restricted cash	$	30,719	$	8,052	$	22,667
Investment in equity		17,212		11,772		5,440
	$	**47,931**	**$**	**19,824**	**$**	**28,107**

During the year ended December 31, 2018, the Corporation completed the sale of its equity investment in the Ecuador IPC 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 trade and other receivable as they will be received in July 2019. The proceeds received were equal to the carrying amount of the assets held for sale at the disposition date.

Petroleum Assets and Liabilities

During the year ended December 31, 2017, the Corporation classified certain petroleum assets as held for sale due to its intention to sell the assets. As at December 31, 2017, the assets and liabilities were revalued to the lower of their carrying amounts and fair value less cost to sell, resulting in a net impairment loss of $97.8 million allocated as follows:

As at December 31, 2017	Carrying amount	Impairment loss	Recoverable amount
Assets held for sale			
Petroleum assets	**$ 146,539**	**$ 102,686**	**$ 43,853**

	Carrying amount	Revaluation gain	Recoverable amount
Liabilities held for sale			
Decommissioning obligations	$ 7,694	$ (4,934)	$ 2,760
Other long term obligations	1,094	—	1,094
	$ 8,788	**$ (4,934)**	**$ 3,854**

On September 27, 2018, the Corporation completed the sale of such petroleum assets and corresponding liabilities, for an aggregate consideration of $40 million, adjusted for customary closing adjustments 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 ("Arrow's Shares") and a $5 million promissory note (note 9), bearing annual interest rate of 15%, to be paid by Arrow within six month 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. 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 recognized during the year ended December 31, 2018.

During the year ended December 31, 2018, $20 million of the $39.2 million total consideration received through the receipt of 22,598,870 of Arrow's Shares were distributed to the Corporation's shareholders (the "Shareholders") as a return of share capital. The Shareholders received 0.127 Arrow's Shares per each common share of Canacol owned by the shareholder (note 10).

NOTE 9 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Interoil Investment	Total Investments
Balance at December 31, 2016	$ 1,575	$ 2,723	$ 13,309	$ —	$ 17,607
Additions	—	225	—	—	225
Disposals	—	(24)	—	(5,389)	(5,413)
Realized Gain (loss)	—	(2,700)	—	5,052	2,352
Unrealized Gain	216	—	1,776	1,837	3,829
Foreign exchange gain	12	1	—	16	29
Balance at December 31, 2017	1,803	225	15,085	1,516	18,629
Additions	—	5,125	—	—	5,125
Disposals	—	—	(10,800)	(1,925)	(12,725)
Realized gain (loss)	(1,836)	—	(2,509)	1,856	(2,489)
Unrealized loss	—	(3,275)	(1,776)	(2,025)	(7,076)
Foreign exchange gain (loss)	33	(259)	—	578	352
Balance at December 31, 2018	**$ —**	**$ 1,816**	**$ —**	**$ —**	**$ 1,816**

Pipeline Company Investment

The Corporation held a 0.5% interest in Oleoducto Bicentenario de Colombia ("OBC"), which owns a pipeline system that links Llanos basin oil production to the Cano Limon oil pipeline system. In relation to the sale of petroleum assets, the Corporation's investment in OBC was transferred to Arrow for no additional proceeds, resulting in a realized loss on investment of $1.8 million (note 8).

Oil and Gas Company Investments

The Corporation held convertible notes of a company involved in the exploration and development of oil and gas in Latin America totalling $2.7 million of principal amount and accrued interest. An officer of the Corporation was also a director of such company. During the year ended December 31, 2017, the Corporation recognized a realized loss of $2.7 million as a result of assessing the recoverability of the investment as remote.

During the year ended December 31, 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.

Interoil Investment

On October 28, 2015, the Corporation invested $3.2 million in Andes Interoil Limited ("Andes") to acquire 49% of Andes's outstanding shares. Andes owned 51% of Interoil Exploration and Production ASA ("Interoil"), a publicly listed company on the Oslo Stock Exchange in Norway, at the time of the transaction. Due to the Corporation's ownership and governance participation in Andes, the Corporation was deemed to have significant influence over Andes and Interoil and therefore the investment was accounted for using the equity method (note 26). The investment was written down to $nil in May 2017, as a result of equity losses recorded since inception.

On May 18, 2017, the Corporation exchanged all of its shares in Andes for 16,172,052 shares in Interoil. As a result, the Corporation reclassified its investment in Interoil as a financial asset, which was measured at fair value of $13.3 million and resulted in an unrealized revaluation gain in profit or loss. During the year ended December 31, 2017, the Corporation sold 11,921,644 of the 16,172,052 shares for proceeds of $5.4 million, which resulted in a realized gain of $5.1 million and an unrealized revaluation gain of $1.8 million on the remaining shares held as at December 31, 2017 (note 18).

During the year ended December 31, 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.

Power Generation Company Investment

The Corporation held an investment in Interamerican Energy Corp. ("IEC"), previously named Pacific Power Generation Corporation, consisting of $12.5 million for 15% of IEC's outstanding shares, $0.6 million in additional capital contribution, $0.2 million in capitalized fees and a $1.8 million unrealized gain on revaluation of the investment as at December 31, 2017 (note 18). During the year ended December 31, 2018, the Corporation sold its investment in IEC 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. As a result, an overall loss of $2.5 million was realized on the Corporation's original $13.3 million investment. As at December 31, 2018, $8.5 million of the total proceeds are classified as a trade and other receivable and will be fully collected in 2019.

NOTE 10 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number (000's)		Amount
Balance at December 31, 2016	174,359	$	700,528
Issued on exercise of stock options	1,750		3,904
Transfer from other reserves for stock options	—		2,693
Balance at December 31, 2017	176,109		707,125
Issued on exercise of stock options	1,705		4,215
Transfer from other reserves for stock options	—		2,660
Common share repurchases	(352)		(1,037)
Transfer of deficit to share capital	—		(533,847)
Return of share capital	—		(20,000)
Balance at December 31, 2018	**177,462**	**$**	**159,116**

On July 3, 2018, the shareholders of the Corporation (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. During the year ended December 31, 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 received as a portion of sale proceeds (note 8). The Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each Shareholder as a return of share capital.

During the year ended December 31, 2018, the Corporation obtained necessary approval to conduct a normal course issuer bid ("NCIB") to purchase outstanding common shares of the Corporation ("Common Shares") on the open market, in accordance with the rules of the TSX. As approved by the TSX, the Corporation is authorized to purchase up to 14,086,746 Common Shares, representing approximately 10% of the public float of Canacol at the time. The maximum number of common shares that Canacol may purchase on any given day is 31,126 common shares, which is 25% of the Corporation's average daily trading volume on the TSX for the six months ended October 31, 2018. Canacol may also make one weekly block repurchase which exceeds the daily limit subject to prescribed rules. All Common Shares acquired under the NCIB will be cancelled. The Corporation is authorized to make purchases during the period from November 20, 2018 to November 19, 2019, or until such earlier time as the NCIB is completed or terminated at the option of the Corporation. During the year ended December 31, 2018, the Corporation purchased 351,282 Common Shares at a cost of $1 million, including transaction fees. Subsequent to December 31, 2018, the Corporation purchased 321, 956 Common Shares for $1.2 million, including transaction fees.

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, 2016	13,116	3.85
Granted	5,153	4.28
Exercised	(1,750)	2.88
Forfeited and cancelled	(1,666)	5.84
Balance at December 31, 2017	14,853	3.89
Granted	3,781	4.34
Exercised	(1,705)	3.17
Forfeited and cancelled	(1,247)	4.50
Balance at December 31, 2018	**15,682**	**4.02**

Information with respect to stock options outstanding at December 31, 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	4,298	1.55	2.76	4,298	2.76
$3.60 to $6.66	11,384	3.11	4.50	8,688	4.56
	15,682	**2.70**	**4.02**	**12,986**	**3.96**

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average inputs:

Year ended December 31,	2018	2017
Weighted-average fair value at grant date (C$)	**1.51**	1.97
Share price (C$)	**4.34 - 4.42**	3.86 - 4.30
Exercise price (C$)	**4.34 - 4.42**	3.86 - 4.30
Volatility	**42% - 47%**	47% - 63%
Option life	**5 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.85% - 1.96%**	1.09% - 1.67%

A forfeiture rate of 6% (2017 - 5%) was used when recording stock-based compensation for the year ended December 31, 2018. Stock-based compensation $4.9 million (2017 - $7.7 million) was expensed during the year ended December 31, 2018.

NOTE 11 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Total
Balance at December 31, 2016	$ —	$ 250,638	$ 250,638
Draw, net of transaction costs	—	291,572	291,572
Repayment	—	(255,000)	(255,000)
Loss on settlement of long-term debt	—	4,362	4,362
Amortization of transaction costs	—	3,018	3,018
Balance at December 31, 2017	—	294,590	294,590
Draw, net of transaction costs	310,135	28,601	338,736
Repayment	—	(305,000)	(305,000)
Loss on settlement of long-term debt	—	9,426	9,426
Amortization of transaction costs	920	1,012	1,932
Balance at December 31, 2018	**$ 311,055**	**$ 28,629**	**$ 339,684**

On February 14, 2017, the Corporation entered into a credit agreement for $265 million senior secured term loan with a syndicate of banks led by Credit Suisse (the "2017 Senior Secured Term Loan"). The 2017 Senior Secured Term Loan was set to mature on March 20, 2022, with interest payable quarterly and principal repayable in 13 equal quarterly installments starting March 20, 2019, following more than two years of initial grace period. The 2017 Senior Secured Term Loan carried interest at LIBOR plus 5.5% and was secured by all of the material assets of the Corporation. Proceeds from the 2017 Senior Secured Term Loan were used for the repayment of the principal of the then existing loans in the amount of $255 million, plus accrued interest and costs of the transaction. The carrying value of the then existing loans included $4.4 million of transaction costs netted against the principal amounts, which were recognized as a loss on settlement of long-term obligations. The carrying value of the 2017 Senior Secured Term Loan included $10.4 million of transaction costs netted against the principal amounts as at December 31, 2017. The 2017 Senior Secured Term Loan agreement also allowed an additional $40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions, all of which were drawn during the year ended December 31, 2017, resulting in a principal debt balance outstanding of $305 million as at December 31, 2017.

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 were used to fully repay the outstanding amounts borrowed under the 2017 Senior Secured Term Loan 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 long-term obligations totaling $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 fixed rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms. The carrying value of the Senior Notes included $8.9 million of transaction costs netted against the principal amounts as at December 31, 2018.

On December 6, 2018, the Corporation entered into a credit agreement for an amount of $30 million with Credit Suisse (the "2018 Credit Facility"). The 2018 Credit Facility will mature on December 11, 2022, with interest payable quarterly and principal repayable in 11 equal quarterly installments starting June 30, 2020, following more than one year of initial grace period. The 2018 Credit Facility carries interest at a fixed rate of 6.875% per annum and is secured by Jobo 2. A portion of the proceeds from the 2018 Credit Facility totaling $24.2 million were used to purchase Jobo 2, previously held under a finance lease agreement (note 6). The residual proceeds of the 2018 Credit Facility will contribute to the completion of the Jobo 3 natural gas plant expansion. The carrying value of the 2018 Credit Facility included $1.4 million of transaction costs netted against the principal amounts as at December 31, 2018.

The 2018 Credit Facility includes various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The 2018 Credit Facility is also subject to various financial covenants, including a maximum consolidated leverage ratio of 3.50:1.00 and a minimum consolidated EBITDAX to interest expense, excluding non-cash interest expenses, ratio of 2.50:1.00. As at December 31, 2018, the Corporation was in compliance with the covenants.

NOTE 12 – DECOMMISSIONING OBLIGATION

Balance at December 31, 2016	$	29,964
Accretion		2,094
Additions		2,758
Settlements		(176)
Change in estimate		(7,723)
Revaluation gain on liabilities held for sale (note 8)		(4,934)
Transferred to liabilities held for sale (note 8)		(2,760)
Balance at December 31, 2017		19,223
Accretion		1,625
Additions		5,219
Settlements		(2,250)
Change in estimate		(127)
Balance at December 31, 2018	**$**	**23,690**

The Corporation's decommissioning obligations result from its ownership interests in natural gas and petroleum assets, including well sites, facilities, and gathering systems. The total decommissioning obligations are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Corporation has estimated the present value of the decommissioning obligations to be $23.7 million at December 31, 2018 (2017 - $19.2 million) based on an undiscounted total future liability of $35 million (2017 - $27 million). These payments are expected to be made over the next 14 years with payments of $0.8 million expected to be made in 2019 relating to the Pico-Plata well on the Corporation's VMM-3 block and, as such, has been classified as current. The average discount factor, being the risk-free rate related to the liability, is 6.1% (2017 - 6.6%) and the average inflation rate is 3.3% (2017 - 3.5%).

During the year ended December 31, 2017, the Corporation classified $7.7 million of decommissioning obligations related to certain petroleum assets as liabilities held for sale. As a result, the liabilities held for sale were recognized at the lower of their carrying amount and fair value of $2.8 million and a revaluation gain of $4.9 million was recognized during the year ended December 31, 2017 (note 8).

NOTE 13 – FINANCE LEASE OBLIGATIONS

As at December 31, 2018		Minimum Lease Payments		PV of Minimum Lease Payments
Compression stations				
Not later than one year	$	2,783	$	1,701
Later than one year and not later than five years		11,702		8,378
Later than five years		12,669		11,394
		27,154		21,473
Less: future finance charges		(5,681)		—
PV of minimum lease payments	**$**	**21,473**	**$**	**21,473**
Finance lease obligations - current			$	1,701
Finance lease obligations - non-current				19,772
PV of minimum lease payments			**$**	**21,473**

As at December 31, 2017		Minimum Lease Payments		PV of Minimum Lease Payments
Jobo 2 natural gas processing facility				
Not later than one year	$	7,767	$	6,196
Later than one year and not later than five years		22,822		20,730
Later than five years		—		—
		30,589		26,926
Less: future finance charges		(3,663)		—
PV of minimum lease payments	**$**	**26,926**	**$**	**26,926**
Compression station				
Not later than one year	$	1,624	$	304
Later than one year and not later than five years		6,826		2,207
Later than five years		9,167		6,421
		17,617		8,932
Less: future finance charges		(8,685)		—
PV of minimum lease payments	**$**	**8,932**	**$**	**8,932**
Finance lease obligations - current			$	6,500
Finance lease obligations - non-current				29,358
PV of minimum lease payments			**$**	**35,858**

During the year ended December 31, 2017, the Corporation held a five-year finance lease for Jobo 2. The Corporation had the option to take over ownership of Jobo 2 at no cost at the end of the lease term. The finance lease obligation was discounted at the implicit interest rate of 6.5% per annum at inception, and was initially recognized at fair market value of $33 million. During the year ended December 31, 2018, the Corporation purchased Jobo 2, which had a finance lease obligation carrying value of $21.3 million, for a purchase price of $24.2 million, resulting in $3 million being capitalized to the Jobo 2 asset carrying value (note 6).

During the year ended December 31, 2017, the Corporation leased a natural gas compression station under 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 present value of minimum lease payments of $8.9 million. During the year ended December 31, 2018, the Corporation adjusted the value recorded at inception by $2.6 million to a total recognized value of $11.5 million and the second leased natural gas compression station commenced operation which was also recognized as a finance lease of $11.3 million. 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.

NOTE 14 – FINANCE INCOME AND EXPENSE

Year ended December 31,	2018	2017
Finance income		
Interest and other income	$ 865	$ 3,101
Finance expense		
Accretion on decommissioning obligations	1,625	2,094
Amortization of upfront fees	1,932	3,018
Interest and other financing costs	31,847	24,317
	$ 35,404	$ 29,429
Net finance expense	$ 34,539	$ 26,328

NOTE 15 – NET LOSS PER SHARE

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

Year ended December 31,	2018	2017
Net loss	$ (21,835)	$ (148,029)
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	177,184	175,180
Effect of stock options	—	—
Weighted-average common shares outstanding, diluted	177,184	175,180

Due to the net loss realized during the years ended December 31, 2018 and 2017, stock options were anti-dilutive.

NOTE 16 – INCOME TAXES

The following table reconciles income taxes calculated at the Canadian Statutory rate with actual income taxes:

Year ended December 31,	2018	2017
Net income (loss) before taxes	$ 7,348	$ (116,374)
Statutory rates	27%	27%
Expected income taxes	1,984	(31,421)
Effect on taxes resulting from:		
Non-deductible share-based payments and other permanent differences	4,040	7,764
Tax differential on foreign jurisdictions	6,515	(2,598)
Change in unrecognized tax benefit	1,803	30,031
Provision to filing true-up	(404)	3,843
Change in enacted tax rate	(5,058)	25,005
Foreign exchange and other	20,303	(177)
Provision for income taxes	$ 29,183	$ 32,447
Current	$ 21,833	$ 25,857
Deferred	7,350	6,590
	$ 29,183	$ 32,447

The net deferred tax asset is comprised of:

Year ended December 31,		2018		2017
Net book value of property, plant and equipment in excess of asset tax base	$	(48,091)	$	(23,093)
Losses carried forward		62,415		44,251
Decommissioning liabilities and other provision		7,867		8,243
Timing differences on revenue and expense recognition and other		855		995
Deferred tax asset	$	23,046	$	30,396

At December 31, 2018, the Corporation had non-capital losses carried forward of approximately $195.7 million (2017 - $134.1 million) available to reduce future years taxable income. At December 31, 2018, the Corporation had deferred income tax assets of $67.2 million (2017 - $65.4 million) related to Canada, Brazil and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

NOTE 17 – KEY MANAGEMENT PERSONNEL COMPENSATION

The Corporation has determined that the key management personnel of the Corporation consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Corporation also provides compensation to both groups under its stock-based compensation and restricted share unit plans. Compensation expenses paid to key management personnel were as follows:

Year ended December 31,		2018		2017
Salaries and director fees	$	4,412	$	4,140
Benefits		812		730
Stock-based compensation		1,202		2,450
Restricted share units		1,997		2,730
Key management personnel compensation	$	8,423	$	10,050

NOTE 18 – SUPPLEMENTAL INFORMATION

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

Year ended December 31,		2018		2017
Natural gas revenues, net of royalties	$	188,725	$	125,590
Petroleum revenues, net of royalties	$	30,694	$	28,356

The Corporation records natural gas and crude oil revenues, net of royalties. Royalties incurred were as follows:

Year ended December 31,		2018		2017
Natural gas royalties	$	24,581	$	16,389
Petroleum royalties	$	3,200	$	3,155

Income taxes and interest paid were as follows:

Year ended December 31,	2018	2017
Income taxes paid	$ 32,569	$ 24,156
Interest paid	$ 23,943	$ 24,426

Loss (gain) on derivatives and financial instruments:

Year ended December 31,	2018	2017
Crude oil payable in kind - realized	$ (844)	$ 121
Crude oil payable in kind - unrealized	144	—
Restricted share units - unrealized	(169)	130
Restricted share units - realized	100	(395)
Investments - unrealized	7,076	(3,829)
Investments - realized	2,489	(2,352)
Hedging contracts - unrealized	35	(35)
Hedging contracts - realized	(251)	156
	$ 8,580	$ (6,204)

Changes in non-cash working capital are comprised of:

Year ended December 31,	2018	2017
Change in:		
Trade and other receivables	$ (18,951)	$ (3,327)
Prepaid expenses and deposits	(347)	5,257
Crude oil inventory	(48)	52
Trade and other payables	(13,917)	9,411
Crude oil payable in kind	(48)	(19)
Deferred income	608	(2,917)
Taxes payable	(2,350)	(6,532)
	$ (35,053)	$ 1,925
Attributable to:		
Operating activities	$ (8,653)	$ 450
Investing activities	(26,400)	1,475
	$ (35,053)	$ 1,925

NOTE 19 – 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
Year ended December 31, 2018			
Revenue and other income	$ 222,769	$ —	$ 222,769
Expenses, excluding impairment recovery, impairment on E&E assets and income taxes	(158,266)	(66,416)	(224,682)
Impairment recovery	19,126	—	19,126
Impairment on E&E assets	(9,865)	—	(9,865)
Net income (loss) before taxes	73,764	(66,416)	7,348
Income tax expense	29,183	—	29,183
Net income (loss)	$ 44,581	$ (66,416)	$ (21,835)
Capital expenditures, net of dispositions	$ 127,396	$ 195	$ 127,591
Year ended December 31, 2017			
Revenue and other income	$ 159,355	$ —	$ 159,355
Equity profit	—	2,522	2,522
Expenses, excluding income taxes and impairments	(94,554)	(41,677)	(136,231)
Impairment on E&E assets	(23,652)	—	(23,652)
Impairment on assets held for sale	(97,752)	(19,824)	(117,576)
Net loss before taxes	(56,603)	(58,979)	(115,582)
Income tax expense	32,447	—	32,447
Net loss	$ (89,050)	$ (58,979)	$ (148,029)
Capital expenditures, net of dispositions	$ 120,137	$ 1,065	$ 121,202
Balance at December 31, 2018			
Total assets	$ 471,653	$ 233,350	$ 705,003
Total liabilities	$ 153,789	$ 345,777	$ 499,566
Balance at December 31, 2017			
Total assets	$ 619,189	$ 77,254	$ 696,443
Total liabilities	$ 259,544	$ 197,757	$ 457,301

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2018, three major customers represented 28%, 19% and 10% of total revenues in the year, respectively. For the year ended December 31, 2017, four major customers represented 28%, 25%, 14% and 10% of total revenues in the year, respectively.

NOTE 20 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables, finance lease obligations and settlement liability approximate their fair values at December 31, 2018. Restricted Share Units ("RSUs") and investments are recorded at fair value. The fair value of the Senior Notes and Bank Debt is $296.8 million and $30 million, respectively.

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, RSUs and oil and gas company investments were classified as Level 1 during the year ended December 31, 2018. The Corporation's Interoil investment was classified as Level 1; the pipeline and oil and gas company investments, crude oil payable in kind and hedging contract were classified as Level 2; and the power generation company investment was classified as Level 3 during the year ended December 31, 2017. During the year ended December 31, 2017, the Interoil equity investment was reclassified to the level 1 financial instrument hierarchy (note 9 and note 26). There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended December 31, 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.

The power generation company investment was fair valued as at December 31, 2017, using the discounted cash flow valuation technique. The valuation model considered the present value of the expected future payments, discounted using a risk-adjusted discount rate. The expected payment was determined by considering the possible scenarios of the forecast revenue and EBITDA, the amount to be paid under each scenario and the probability of each scenario.

The following significant assumptions were used to determine the fair market value:

- Risk-adjusted discount rate - The Capital Asset Pricing model was used to calculate the cost of equity using the risk-free rate adjusted for a risk premium, resulting in a discount rate ranging from 8.6% to 11.2% to calculate the discounted cash flows.
- Revenue growth assumptions - The pricing and revenue volume were based on customer contracts held by the entity, resulting in a revenue growth rate between 1.6% to 9.5% per annum.
- Estimated EBITDA margin - The estimated EBITDA margin was based on management's budgeted costs according to vendor contracts and the International Price Program index, resulting in an estimated increase in EBITDA margin of 1.3% to 2.6%.

A change in the estimated significant assumptions would have had the following impact on the fair market value of the investment as at December 31, 2017:

+ 1% Discount Rate	- 1% Discount Rate	+ 5% Revenue growth	- 5% Revenue growth	+5% EBITDA Margin	-5% EBITDA Margin
(1,041)	1,041	645	(645)	429	(429)

Restricted Share Units

	Number (000's)		Amount
Balance at December 31, 2016	655	$	2,237
Grant	1,203		3,913
Settled	(1,218)		(3,819)
Canceled	(23)		(69)
Realized gain	—		(395)
Unrealized loss	—		130
Foreign exchange loss	—		6
Balance at December 31, 2017	617		2,003
Granted	1,039		3,542
Settled	(932)		(3,341)
Realized loss	—		100
Unrealized gain	—		(169)
FX Gain/Loss	—		8
Balance at December 31, 2018	**724**	**$**	**2,143**

On January 16, 2017 and August 14, 2017, the Corporation granted 1,183,000 and 20,000 RSUs with a reference price of C$4.30 and C$4.26, respectively. A portion of the RSUs vest as to a one-half in six months and one-half in one year from the grant date and a portion vest as to one-half in one year and one-half in two years from the grant date. The RSUs will likely be settled in cash.

During the year ended December 31, 2017, 1,218,218 RSUs were settled at a price ranging from C$3.86 to C$4.40 per share, resulting in a payment of $3.8 million. During the year ended December 31, 2017, 22,500 RSUs were terminated and will not be settled in cash or shares.

On January 26, 2018, August 16, 2018, and October 3, 2018 the Corporation granted 631,500, 393,000 and 14,433 with reference prices of C$4.42, C$4.12 and a range from C$4.12 to C$4.26 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 year ended December 31, 2018, 931,886 RSUs were settled in cash at a price ranging from C$4.01 to C$4.71 per share, resulting in cash settlements of $3.3 million.

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 year ended December 31, 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 December 31, 2018, the Colombian peso to the United States dollar exchange rate was 3,250:1 (December 31, 2017 – 2,984:1) and the Canadian dollar to United States dollar exchange rate was 1.36:1 (December 31, 2017 – 1.25:1).

The Corporation had no forward exchange rate contracts in place as at or during the year ended December 31, 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 was 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 eliminating 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 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 December 31, 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. Natural gas and crude oil production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at December 31, 2018:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt - principal	$ —	$ 5,455	$ 344,545	$ 350,000
Finance lease obligations – undiscounted	2,783	2,840	21,531	27,154
Trade and other payables	49,279	—	—	49,279
Deferred income	5,413	—	—	5,413
Settlement liability	3,600	3,600	9,549	16,749
Other long term obligation	—	2,533	—	2,533
Restricted share units	2,112	31	—	2,143
	$ 63,187	**$ 14,459**	**$ 375,625**	**$ 453,271**

In addition to the above, the Corporation had issued letters of credit totaling $89.1 million to guarantee certain obligations under its exploration contracts and other contractual commitments, of which, $21.9 million are financial guarantees related to certain petroleum assets sold during the year ended December 31, 2018 (note 8). The letters of credit relating to such petroleum assets will be cancelled subsequent to December 31, 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 natural gas and crude oil 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 natural gas and crude oil 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 natural gas and crude oil, 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 December 31, 2018 was $41.4 million (December 31, 2017 - $24.2 million), $5.8 million related to taxes receivable, $8.5 million related to the disposal of the Corporation's power generation company investment (note 9) and $11.2 million related to sale of assets and liabilities held for sale (note 8), all of which, will be collected in 2019.

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, settlement liability, 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 or repurchase 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 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 commodity 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.

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. During the year ended December 31, 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 received as a portion of sale proceeds (note 8). The Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each Shareholder as a return of share capital (note 10).

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), 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 that was scheduled to begin 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 by the end of 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

On December 6, 2018, the Corporation entered into a credit agreement for an amount of $30 million, which carries interest at a fixed rate of 6.875% per annum (note 11). By replacing the Jobo 2 finance lease with the 2018 Credit Facility, the Corporation benefits from: a) a lower interest rate (after inflation adjusted future lease payments are considered), and b) the Corporation is able to operate Jobo 2 on its own, thereby reducing its operating costs going forward.

	December 31, 2018	December 31, 2017
Senior Notes - Principal (7.25%)	$ 320,000	$ —
Bank debt - Principal (2018 - 6.875%; 2017 - LIBOR + 5.5%)	30,000	305,000
Settlement liability (8.74%)	16,749	—
Finance lease obligation (2018 - 5.2%; 2017 - 6.5%)	21,473	35,858
Total debt	388,222	340,858
Working capital surplus	(55,481)	(110,401)
Net debt	**$ 332,741**	**$ 230,457**

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2018:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 24,092	$ 39,536	$ 6,391	$ 70,019
Compression station operating contracts	2,508	5,166	16,787	24,461
Office leases	1,320	1,304	480	3,104

Letters of Credit

At December 31, 2018, the Corporation had letters of credit outstanding totaling $89.1 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, $21.1 million relates to assets held for sale (note 8), which will be transferred to Arrow upon completion of the transition period.

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 year ended December 31, 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 December 31, 2018 of $70 million and has issued $39.7 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 year ended December 31, 2018 and $21.9 million of the total $39.7 million financial guarantees relating to these assets will be cancelled subsequent to December 31, 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 22 – DEFFERED INCOME

During the year ended December 31, 2018, the Corporation received proceeds for crude oil and natural gas to be delivered at a later date ("Undelivered Nominations"). As at December 31, 2018, Undelivered Nominations resulted in a deferred income balance of $5.4 million (2017 - $4.8 million), $5.2 million related to gas (2017 - $4.4 million) and $0.2 million related to crude oil (2017 - $0.4 million) which has been classified as a current liability as it is expected to be settled within the next twelve months.

NOTE 23 – TAKE OR PAY AND DIVIDEND INCOME

During the year ended December 31, 2018, the Corporation realized take-or-pay income of $3 million (2017 - $5 million) relating to the portion of natural gas sales nominations by the Corporation's off-takers that did not get delivered, due to the off-takers' inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date.

The Corporation was eligible to receive dividends on its pipeline company investment (note 9). During the year ended December 31, 2018, the Corporation received dividend income of $0.4 million (2017 - $0.4 million).

NOTE 24 – OTHER TAX EXPENSE

Wealth tax represents a tax on the capital of Colombian corporations and Colombian branches of foreign corporations. The tax was approved by the Colombian government in December 2014 and was assessed for the calendar years 2015 to 2017 at rates of 1.15%, 1.0% and 0.40%, respectively, of the net equity of the Corporation's Colombian entities as at January 1, 2015, January 1, 2016 and January 1, 2017, resulting in a $0.5 million wealth tax expense for the year ended December 31, 2017. Withholding tax on expenditures during the year ended December 31, 2018 totaled $4 million (2017 - $2.4 million).

NOTE 25 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of		Ownership Interest	
	Incorporation	Fiscal year end	December 31, 2018	December 31, 2017
Canacol Energy Inc.	Canada	December 31	100%	100%
Shona Energy L.P.	Canada	December 31	100%	—
CNE Oil & Gas S.A.S (Colombia)	Colombia	December 31	100%	100%
CNE Energy S.A.S (Colombia)	Colombia	December 31	100%	100%

NOTE 26 – INVESTMENT IN ANDES INTEROIL LIMITED

On October 28, 2015, the Corporation invested $3.2 million in Andes Interoil Limited ("Andes") to acquire 49% of Andes's outstanding shares. Andes owned 51% of Interoil Exploration and Production ASA ("Interoil"), a publicly listed company on the Oslo Stock Exchange in Norway, at the time of the transaction. Due to the Corporation's ownership and governance participation in Andes, the Corporation was deemed to have significant influence over Andes and Interoil and therefore the investment was accounted for using the equity method. The investment was written down to $nil as at May 2017, as a result of equity losses recorded since inception.

On May 18, 2017, the Corporation exchanged all of its shares in Andes for 16,172,052 shares in Interoil, as a result, the Corporation reclassified its investment in Interoil as a financial asset, which was measured at fair value with changes in fair value recorded in profit or loss (note 9). Interoil's other comprehensive loss was recognized under the equity method for the Corporation's proportional ownership up to the exchange date ("Pro-rated period ended").

		Pro-rated period ended
Interoil revenue (gross)	$	5,560
Interoil depletion and depreciation (gross)		2,631
Interoil interest expense (gross)		1,461
Interoil income tax expense (recovery) (gross)	$	563

		Pro-rated period ended
Interoil net loss	$	2,940
Interoil other comprehensive loss		—
Corporation's share of Interoil net loss		735
Corporation's share of Interoil other comprehensive loss	$	—

NOTE 27 – INVESTMENT IN JOINT ARRANGEMENTS

Joint venture

The Corporation conducted its operations in Ecuador through a 25% equity interest in the Ecuador IPC, which was previously reported using the equity method of accounting. Details of the Ecuador IPC's net assets and net income are shown below along with the Corporation's share of the investment and profit. As at December 31, 2017, the Corporation has committed to sell its equity interest in the Ecuador IPC and as a result, the investment was classified as an asset held for sale and recognized at the lower of carrying amount and fair value less cost to sell of $5.4 million. During the year ended December 31, 2018, the Corporation sold its interest in the Ecuador IPC (note 8).

As at		December 31, 2017
Ecuador IPC cash and cash equivalents (gross)	$	39,514
Ecuador IPC bank debt (gross)		160,372
Total Ecuador IPC current assets (gross)		129,834
Total Ecuador IPC non-current assets (gross)		110,727
Total Ecuador IPC current liabilities (gross)		83,455
Total Ecuador IPC non-current liabilities (gross)		99,516
Ecuador IPC equity (gross)	$	57,590
Investment in joint venture, before impairment	$	17,212
Impairment loss	$	11,772
Transferred to held for sale asset (note 8)	$	5,440

Year ended December 31,		2017
Joint venture revenue (gross)	$	77,521
Joint venture depletion and depreciation (gross)		37,718
Joint venture interest expense (gross)		9,612
Joint venture income tax expense (gross)	$	3,847

Year ended December 31,		2017
Joint venture net income and comprehensive income	$	13,026
Corporation's share of joint venture profit	$	3,256

Joint operations

The Corporation has the following significant joint operations:

Joint operation	**Principal place of business**	**Working interest %**
Sabanas gas flowline	Colombia	25.6%
VMM-2	Colombia	20%
VMM-3	Colombia	20%
SSNJ-7	Colombia	50%