CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2018

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Total petroleum and natural gas revenues, net of royalties	**57,201**	37,283	53%	**108,957**	78,866	38%
Adjusted petroleum and natural gas revenues, net of royalties[2]	**57,201**	43,007	33%	**110,913**	89,982	23%
Cash flow provided by operating activities	**19,826**	11,130	78%	**39,694**	28,669	38%
Per share – basic ($)	**0.11**	0.06	83%	**0.22**	0.16	38%
Per share – diluted ($)	**0.11**	0.06	83%	**0.22**	0.16	38%
Adjusted funds from operations [1][2]	**28,826**	24,236	19%	**52,363**	45,183	16%
Per share – basic ($) [1]	**0.16**	0.14	14%	**0.30**	0.26	15%
Per share – diluted ($) [1]	**0.16**	0.14	14%	**0.29**	0.26	12%
Net income (loss) and comprehensive income (loss)	**(25,979)**	11,770	n/a	**(17,701)**	3,828	n/a
Per share – basic ($)	**(0.15)**	0.07	n/a	**(0.10)**	0.02	n/a
Per share – diluted ($)	**(0.15)**	0.07	n/a	**(0.10)**	0.02	n/a
Capital expenditures, net, including acquisitions	**31,111**	30,572	2%	**71,305**	54,572	31%
Adjusted capital expenditures, net, including acquisitions[1][2]	**31,111**	30,648	2%	**73,682**	55,466	33%
				Jun 30, 2018	Dec 31, 2017	Change
Cash				**55,230**	39,071	41%
Restricted cash				**5,461**	27,919	(80%)
Working capital surplus				**83,909**	110,401	(24%)
Long-term debt				**310,356**	294,590	5%
Total assets				**725,901**	696,443	4%
Common shares, end of period (000's)				**177,270**	176,109	—

Operating	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum [3]	**1,967**	3,487	(44%)	**2,226**	3,496	(36%)
Natural gas	**19,552**	13,675	43%	**19,012**	13,581	40%
Total [2]	**21,519**	17,162	25%	**21,238**	17,077	24%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum [3]	**1,903**	3,500	(46%)	**2,180**	3,508	(38%)
Natural gas	**19,340**	13,563	43%	**18,840**	13,487	40%
Total [3]	**21,243**	17,063	24%	**21,020**	16,995	24%
Realized contractual sales, before royalties (boepd)						
Natural gas	**19,637**	13,695	43%	**19,149**	14,108	36%
Colombia oil	**1,903**	1,933	(2%)	**1,900**	1,973	(4%)
Ecuador tariff oil [3]	**—**	1,567	(100%)	**280**	1,535	(82%)
Total [3]	**21,540**	17,195	25%	**21,329**	17,616	21%
Operating netbacks ($/boe) [1]						
Natural gas	**21.64**	22.58	(4%)	**21.39**	23.34	(8%)
Colombia oil	**35.30**	15.58	127%	**34.26**	16.38	109%
Ecuador (tariff oil) [2]	**—**	38.54	(100%)	**38.54**	38.54	—
Total [2]	**22.90**	23.25	(2%)	**22.79**	23.91	(5%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section within MD&A.
(3) Includes tariff oil production and sales related to the Ecuador IPC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in petroleum and natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "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.

Advisories

The following management's discussion and analysis ("MD&A") is dated August 13, 2018 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and six months ended June 30, 2018 and 2017 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2017. The financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward-Looking Statements *– Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that petroleum and natural gas production will result from such capital projects, that additional natural gas sales contracts will be secured, or that hydrocarbon-based royalties assessed will remain consistent, or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block, or that the planned divestiture of the Corporation's Colombian oil assets will be successful. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.*

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; fluctuations in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; and risks associated with oil and gas operations, many of which are beyond the control of the Corporation. Accordingly, there is no representation by the Corporation that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except to the extent required by law, the Corporation assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are qualified in their entirety by these cautionary statements.

Readers are further cautioned not to place undue reliance on any forward-looking information or statements.

Non-IFRS Measures – *The Ecuador IPC was accounted for using the equity method of accounting applied under IFRS 11, as such, the proportionate share of revenues and expenditures were excluded as would be typical in oil and gas joint interest arrangements. Therefore, within this MD&A, management has provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. Such supplemental measures should not be considered as an alternative to, or more meaningful than, the measures as determined in accordance with IFRS as an indicator of the Corporation's performance, and such measures may not be comparable to that reported by other companies. On February 15, 2018, the Corporation sold its interest in the Ecuador IPC investment. The incremental production volumes, the revenues and expenditures related to the Ecuador IPC are reported in this MD&A up to the disposition date.*

Two of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations and EBITDAX, which are measures not defined in IFRS. Adjusted funds from operations represents cash provided by operating activities before changes in non-cash working capital and decommissioning obligation expenditures, and includes the Corporation's proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. EBITDAX is calculated on a rolling 12-month basis and is defined as net income (loss) and comprehensive income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, equity income (loss) and other similar non-recurring or non-cash charges. *The Corporation considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment and to repay its debt. These measures should not be considered as an alternative to, or more meaningful than, cash provided by operating activities* or net income (loss) and comprehensive income (loss) *as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of these measures may not be comparable to that reported by other companies.*

The Corporation also presents cash flow from operations and adjusted funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share. The following table includes the Corporation's basic and dilutive weighted-average shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
Weighted-average common shares outstanding, basic	**177,018**	174,668	**176,796**	174,524
Effect of stock options	**1,724**	2,071	**1,873**	2,037
Weighted-average common shares outstanding, diluted	**178,742**	176,739	**178,669**	176,561

The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
Cash flow provided by operating activities	**$ 19,826**	$ 11,130	**$ 39,694**	$ 28,669
Changes in non-cash working capital	**9,000**	7,514	**10,713**	5,885
Ecuador IPC revenue, net of current income taxes	**—**	5,592	**1,956**	10,629
Adjusted funds from operations	**$ 28,826**	$ 24,236	**$ 52,363**	$ 45,183

The following table reconciles the Corporation's net income (loss) and comprehensive income (loss) to EBITDAX:

	2017		2018		
	Q3	Q4	Q1	Q2	Rolling
Consolidated net income (loss)	(1,514)	(150,343)	8,278	(25,979)	(169,558)
(+) Interest expense	6,743	4,948	7,945	7,428	27,064
(+/-) Income taxes (recovery)	(1,659)	19,050	(1,895)	11,627	27,123
(+) Wealth taxes	(16)	—	—	—	(16)
(+) Depletion and depreciation	10,380	10,060	10,131	11,677	42,248
(+) Exploration expenses	1,069	26,017	595	10,490	38,171
(-) Equity (loss) profit	(268)	(1,475)	—	—	(1,743)
(+/-) Other non-cash expenses (income)	12,869	117,407	8,557	18,374	157,207
(+) Contribution of Ecuador IPC	5,308	4,193	1,956	—	11,457
EBITDAX	**32,912**	**29,857**	**35,567**	**33,617**	**131,953**

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding any non-cash items, and is used to evaluate the Corporation's financial leverage. Operating netback is a benchmark common in the oil and gas industry and is calculated as total petroleum and natural gas sales, less royalties, less production and transportation expenses, calculated on a per barrel of oil equivalent ("boe") basis of sales volumes using a conversion. Operating netback is an important measure in evaluating operational performance as it demonstrates field level profitability relative to current commodity prices.

Working capital and operating netback as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities.

The term "boe" is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet of natural gas to barrels of oil equivalent is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this MD&A, we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Ministry of Mines and Energy of Colombia.

Results of Operations

For the three months ended June 30, 2018, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Trombon and Nispero fields in the Esperanza block, the Clarinete and Oboe fields in the VIM-5 block and the Toronja field in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also includes crude oil from the Leono, Labrador and Tigro fields in the LLA-23 block in the Llanos Basin in Colombia, and, to a lesser extent, crude oil from its Rancho Hermoso, VMM-2, Santa Isabel and Capella properties in Colombia.

During the three months ended June 30, 2018, the Breva-1 exploration well was spud on the VIM-21 block and reached a total depth of 7,560 feet measured depth ("ft md") in thirteen days. The well encountered 29 feet total vertical depth of net gas pay with average porosity of 27% within the primary Middle Porquero sandstone reservoir target. The Middle Porquero sandstone reservoir was perforated between 6,365 – 6,422 ft md and flowed at a final stable rate of 25 MMscfpd. Based upon this result, management has calculated an absolute open flow rate of 91 MMscfpd for the Middle Porquero sandstone reservoir in the Breva-1 exploration well.

During the three months ended June 30, 2018, the Borojo-1 exploration well, located on the Esperanza block, was spud and reached a total depth of 8,012 ft md. The Borojo-1 well encountered 892 feet total vertical depth of porous sandstone within the primary Ciénaga de Oro ("CDO") reservoir, but failed to find any commercial volumes of gas, and was plugged and abandoned.

For the three months ended June 30, 2018, the Corporation's crude oil production from its LLA-23, Rancho Hermoso, VMM-2, Santa Isabel and Capella properties were aggregated into a single group ("Colombia oil") for analysis purposes in this MD&A. As of the date of this MD&A, the Corporation has classified certain petroleum blocks as held for sale due to its intention to sell the assets. The Corporation entered into an share purchase agreement with Arrow Exploration Ltd. ("Arrow") on May 31, 2018 which was amended subsequent to June 30, 2018 (the "SPA"). Pursuant to the SPA, subject to certain conditions precedent, Arrow will acquire the majority of the Corporation's Colombian oil assets (with the exception of its interests in the Rancho Hermoso block and its unconventional oil portfolio) for a total consideration of $40 million, comprised of $10 million in cash, $25 million in common shares of Arrow ("Arrow Shares"), and $5 million in promissory note at an annual interest rate of 15% maturing 120 days after closing of the transaction.

In addition to its producing fields, the Corporation has interests in a number of exploration blocks in Colombia.

Average Daily Petroleum and Natural Gas Production and Sales Volumes

Production and sales volumes in this MD&A are reported before royalties.

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Production (boepd)						
Esperanza (gas)	**12,605**	8,970	41%	**12,344**	9,424	31%
VIM-5 (gas)	**6,166**	4,705	31%	**6,032**	4,157	45%
VIM-21 (gas)	**781**	—	n/a	**636**	—	n/a
Colombia oil	**1,967**	1,920	2%	**1,946**	1,961	(1%)
Ecuador (tariff oil)	**—**	1,567	(100%)	**280**	1,535	(82%)
Total production	**21,519**	17,162	25%	**21,238**	17,077	24%
Inventory movements and other	**(276)**	(99)	178%	**(218)**	(82)	164%
Total sales	**21,243**	17,063	24%	**21,020**	16,995	24%
Sales (boepd)						
Esperanza (gas)	**12,489**	8,866	41%	**12,238**	9,337	31%
VIM-5 (gas)	**6,096**	4,697	30%	**5,979**	4,150	44%
VIM-21 (gas)	**755**	—	n/a	**623**	—	n/a
Colombia oil	**1,903**	1,933	(2%)	**1,900**	1,973	(4%)
Ecuador (tariff oil)	**—**	1,567	(100%)	**280**	1,535	(82%)
Total sales	**21,243**	17,063	24%	**21,020**	16,995	24%
Realized Contractual Sales (boepd)						
Esperanza (gas)	**12,489**	8,866	41%	**12,238**	9,337	31%
VIM-5 (gas)	**6,096**	4,697	30%	**5,979**	4,150	44%
VIM-21 (gas)	**755**	—	n/a	**623**	—	n/a
Take-or-pay volumes	**297**	132	126%	**309**	621	(50%)
Total natural gas	**19,637**	13,695	43%	**19,149**	14,108	36%
Total Colombia oil	**1,903**	1,933	(2%)	**1,900**	1,973	(4%)
Ecuador (tariff oil)	**—**	1,567	(100%)	**280**	1,535	(82%)
Total realized contractual sales	**21,540**	17,195	25%	**21,329**	17,616	21%

The overall increase in production volumes in the three and six months ended June 30, 2018, compared to the same periods in 2017, is primarily due to an increase in gas production in Esperanza, VIM-5 and VIM-21, as a result of the additional sales related to the construction and operation of the Corporation's partially owned Sabanas pipeline. Canacol's ownership of its infrastructure continues to allow the Corporation to control production levels at its fields from wellhead to the sales delivery point and enables the Corporation to quickly respond to changing conditions and thereby maximize profitability.

The overall decrease in crude oil production volumes during the three and six months ended June 30, 2018, compared to the same periods in 2017, is primarily due to the Corporation selling its interest in the Ecuador IPC investment on February 15, 2018.

Petroleum and Natural Gas Revenues

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Esperanza	**$ 35,829**	$ 23,244	54%	**$ 68,291**	$ 49,744	37%
VIM-5	**15,418**	11,650	32%	**30,000**	20,691	45%
VIM-21	**1,990**	—	n/a	**3,271**	—	n/a
Colombia oil	**10,880**	7,251	50%	**20,716**	15,313	35%
Petroleum and natural gas revenues, before royalties	**64,117**	42,145	52%	**122,278**	85,748	43%
Royalties	**(7,285)**	(5,191)	40%	**(14,059)**	(10,190)	38%
Petroleum and natural gas revenues, after royalties	**56,832**	36,954	54%	**108,219**	75,558	43%
Take-or-pay natural gas income	**369**	329	12%	**738**	3,308	(78%)
Total petroleum and natural gas revenues, after royalties, as reported	**57,201**	37,283	53%	**108,957**	78,866	38%
Ecuador tariff and other revenues (1)	**—**	5,724	(100%)	**1,956**	11,116	(82%)
Adjusted petroleum and natural gas revenues, after royalties (1)	**$ 57,201**	$ 43,007	33%	**$ 110,913**	$ 89,982	23%

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The Corporation has three types of natural gas sales:

1) *Natural Gas sales* - represents natural gas production less a typically small amount of gas volume that is consumed at the field level;
2) *Take-or-pay income* - represents the portion of natural gas sales nominations by the Corporation's off-takers that do not get delivered, typically due to the off-taker's inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period;
3) *Undelivered gas nominations* - represents the portion of undelivered natural gas sales nominations for which the off-takers have a 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, alongside gas sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered; b) the make-up right expires; or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

During the three and six months ended June 30, 2018, the Corporation has realized $0.4 million and $0.7 million of take-or-pay income (as described in (2) above), respectively, which is equivalent to 297 boepd and 309 boepd of natural gas sales, respectively, without actual delivery of the natural gas.

As at June 30, 2018, the Corporation has received proceeds for crude oil and natural gas to be delivered at a later date (as described in (3) above). As at June 30, 2018, undelivered nominations resulted in a deferred income balance of $8.4 million ($7.3 million related to gas; $1.1 million related to crude oil) and has been classified as a current liability as it is expected to be settled within the next twelve months.

Average Benchmark and Realized Sales Prices

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Brent ($/bbl)	**$ 74.33**	$ 50.59	47%	**$ 70.61**	$ 52.57	34%
West Texas Intermediate ($/bbl)	**$ 67.67**	$ 48.77	39%	**$ 65.26**	$ 50.73	29%
Natural gas ($/boe)	**$ 30.25**	$ 28.27	7%	**$ 29.78**	$ 28.85	3%
Crude oil ($/boe)	**$ 62.83**	$ 41.22	52%	**$ 60.24**	$ 42.87	41%
Ecuador tariff ($/boe)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Esperanza ($/boe)	**$ 31.53**	$ 28.81	9%	**$ 30.83**	$ 29.43	5%
VIM-5 ($/boe)	**27.79**	27.26	2%	**27.72**	27.55	1%
VIM-21 ($/boe)	**28.96**	—	n/a	**29.01**	—	n/a
Colombia oil ($/bbl)	**62.83**	41.22	52%	**60.24**	42.87	41%
Ecuador ($/bbl)	**—**	38.54	(100%)	**38.54**	38.54	—
Average realized sales price ($/boe) [1]	**$ 33.17**	$ 30.68	8%	**$ 32.65**	$ 31.36	4%

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The natural gas sales price, net of transportation, during the three and six months ended June 30, 2018 was US$4.85/Mcf and US$4.79/Mcf, respectively, which was higher than the Corporation's prior guidance.

The increase in average realized natural gas sales prices in the three and six months ended June 30, 2018, compared to the same periods in 2017, is due to higher priced firm contract sales.

The increase in average realized crude oil sales prices in the three and six months ended June 30, 2018, compared to the same periods in 2017, is mainly due to increased benchmark crude oil prices.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Esperanza	**$ 2,992**	$ 2,025	**$ 5,875**	$ 4,355
VIM-5	**3,051**	2,444	**5,871**	4,298
VIM-21	**163**	—	**259**	—
Colombia Oil	**1,079**	722	**2,054**	1,537
Total royalties	**$ 7,285**	$ 5,191	**$ 14,059**	$ 10,190

In Colombia, light crude oil and natural gas royalties are generally at a rate of 8% and 6.4%, respectively, until net field production reaches 5,000 boepd, at which time the royalty rates increase on a sliding scale to 20% up to field production of 125,000 boepd. The Corporation's LLA-23 and VMM-2 blocks are subject to an additional x-factor royalty of 3% on net revenue (effectively 2.76%). Crude oil royalties in Labrador and Rancho Hermoso are taken in kind. Overall natural gas and crude oil royalties are calculated from revenue net of transportation expenses. There are no royalties on tariff production in Ecuador.

The Corporation's Esperanza natural gas production is subject to an additional overriding royalty of 2% and the Corporation's VIM-5 natural gas production is subject to an additional x-factor royalty of 13% and an overriding royalty of 3% to 4%.

Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Production expenses	**$ 7,745**	$ 6,085	27%	**$ 14,508**	$ 11,792	23%
Transportation expenses	**4,804**	261	>1000%	**8,931**	944	846%
Total production and transportation expenses	**$ 12,549**	$ 6,346	98%	**$ 23,439**	$ 12,736	84%
$/boe	**$ 6.49**	$ 4.09	59%	**$ 6.16**	$ 4.14	49%

An analysis of production expenses is provided below:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Esperanza	**$ 2,749**	$ 1,574	75%	**$ 5,256**	$ 3,017	74%
VIM-5	**1,339**	982	36%	**2,467**	1,793	38%
VIM-21	**165**	—	n/a	**332**	—	n/a
Colombia oil	**3,492**	3,529	(1%)	**6,453**	6,982	(8%)
Total production expenses	**$ 7,745**	$ 6,085	27%	**$ 14,508**	11,792	23%
$/boe						
Esperanza	**$ 2.42**	$ 1.95	24%	**$ 2.37**	$ 1.79	32%
VIM-5	**$ 2.41**	$ 2.30	5%	**$ 2.28**	$ 2.39	(5%)
VIM-21	**$ 2.40**	$ —	n/a	**$ 2.94**	$ —	n/a
Total natural gas	**$ 2.42**	$ 2.07	17%	**$ 2.34**	$ 1.97	19%
Colombia oil	**$ 20.16**	$ 20.06	—	**$ 18.76**	$ 19.55	(4%)
Total	**$ 4.01**	$ 3.92	2%	**$ 3.81**	$ 3.83	(1%)

Total natural gas production expenses per boe increased by 17% and 19% to $2.42/boe ($0.42/Mcf) and $2.34/boe ($0.41/Mcf) for the three and six months ended June 30, 2018, compared to $2.07/boe ($0.36/Mcf) and $1.97/boe ($0.35/Mcf) for the same periods in 2017, respectively. The increase is mainly attributable to expenses associated with additional fixed operating expenses at the new fields, such as Nispero, Trombon and Toronja.

Production expenses per bbl at the Colombia oil properties have decreased 4% to $18.76 from $19.55 in the six months ended June 30, 2018, compared to the same period in 2017. The decrease is primarily due to overall lower fixed costs.

The Corporation does not pay production expenses in Ecuador, and as such, its tariff price of $38.54 equals netback.

An analysis of transportation expenses is provided below:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	Change	**2018**	2017	Change
Esperanza	**$ 1,987**	$ —	n/a	**$ 4,777**	$ —	n/a
VIM-5	**1,748**	—	n/a	**2,704**	—	n/a
VIM-21	**872**	—	n/a	**1,019**	—	n/a
Colombia oil	**197**	261	(25%)	**431**	944	(54%)
Total transportation expenses	**$ 4,804**	$ 261	>1000%	**$ 8,931**	$ 944	846%
$/boe						
Esperanza	**$ 1.75**	$ —	n/a	**$ 2.16**	$ —	n/a
VIM-5	**$ 3.15**	$ —	n/a	**$ 2.50**	$ —	n/a
VIM-21	**$ 12.69**	$ —	n/a	**$ 9.04**	$ —	n/a
Total natural gas	**$ 2.62**	$ —	n/a	**$ 2.49**	$ —	n/a
Colombia oil	**$ 1.14**	$ 1.48	(23%)	**$ 1.25**	$ 2.64	(53%)
Total	**$ 2.49**	$ 0.17	>1000%	**$ 2.35**	$ 0.31	658%

The natural gas sales price, net of transportation, during the three and six months ended June 30, 2018 was US$4.85/Mcf and US$4.79/Mcf, respectively, which was higher than the Corporation's prior guidance.

The Corporation incurred natural gas transportation costs during the three and six months ended June 30, 2018 due to the following: a) certain gas sales contracts have an integrated sales price whereby the Corporation is responsible for delivering the natural gas to the off-takers at Cartagena, and b) the increase of natural gas production delivered through the Sabanas Flowline, which is subject to a tariff net of the Corporation's 25.6% working interest. The sales contracts with an integrated sales price have been allocated mainly to VIM-21.

Transportation expenses at Colombia oil properties decreased 25% and 54% in the three and six months ended June 30, 2018, compared to the same periods in 2017, due to more sales at the well head where the purchasers assume the transportation costs, thereby reducing transportation expenses while also decreasing the average realized sales prices as a result.

Operating Netbacks

$/boe	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Corporate						
Petroleum and natural gas revenues	$ **33.17**	$ 30.68	8%	$ **32.65**	$ 31.36	4%
Royalties	**(3.77)**	(3.34)	13%	**(3.70)**	(3.31)	12%
Production expenses	**(4.01)**	(3.92)	2%	**(3.81)**	(3.83)	(1%)
Transportation expenses	**(2.49)**	(0.17)	>1000%	**(2.35)**	(0.31)	658%
Operating netback (1)	$ **22.90**	$ 23.25	(2%)	$ **22.79**	$ 23.91	(5%)

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

Operating netbacks by major production categories were as follows:

Natural gas

$/boe	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Esperanza						
Natural gas revenues	$ **31.53**	$ 28.81	9%	$ **30.83**	$ 29.43	5%
Royalties	**(2.63)**	(2.51)	5%	**(2.65)**	(2.58)	3%
Production expenses	**(2.42)**	(1.95)	24%	**(2.37)**	(1.79)	32%
Transportation expenses	**(1.75)**	—	n/a	**(2.16)**	—	n/a
Operating netback	$ **24.73**	$ 24.35	2%	$ **23.65**	$ 25.06	(6%)
VIM-5						
Natural gas revenues	$ **27.79**	$ 27.26	2%	$ **27.72**	$ 27.55	1%
Royalties	**(5.50)**	(5.72)	(4%)	**(5.43)**	(5.72)	(5%)
Production expenses	**(2.41)**	(2.30)	5%	**(2.28)**	(2.39)	(5%)
Transportation expenses	**(3.15)**	—	n/a	**(2.50)**	—	n/a
Operating netback	$ **16.73**	$ 19.24	(13%)	$ **17.51**	$ 19.44	(10%)
VIM-21						
Natural gas revenues	$ **28.96**	$ —	n/a	$ **29.01**	$ —	n/a
Royalties	**(2.37)**	—	n/a	**(2.30)**	—	n/a
Production expenses	**(2.40)**	—	n/a	**(2.94)**	—	n/a
Transportation expenses	**(12.69)**	—	n/a	**(9.04)**	—	n/a
Operating netback	$ **11.50**	$ —	n/a	$ **14.73**	$ —	n/a
Total Natural Gas						
Natural gas revenues	$ **30.25**	$ 28.27	7%	$ **29.78**	$ 28.85	3%
Royalties	**(3.57)**	(3.62)	(1%)	**(3.56)**	(3.54)	—
Production expenses	**(2.42)**	(2.07)	(207%)	**(2.34)**	(1.97)	19%
Transportation expenses	**(2.62)**	—	n/a	**(2.49)**	—	n/a
Operating netback	$ **21.64**	$ 22.58	(4%)	$ **21.39**	$ 23.34	(8%)

Crude Oil

$/boe	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Colombia oil						
Crude oil revenues	**$ 62.83**	$ 41.22	52%	**$ 60.24**	$ 42.87	41%
Royalties	**(6.23)**	(4.10)	52%	**(5.97)**	(4.30)	39%
Production expenses	**(20.16)**	(20.06)	—	**(18.76)**	(19.55)	(4%)
Transportation expenses	**(1.14)**	(1.48)	(23%)	**(1.25)**	(2.64)	(53%)
Operating netback	**$ 35.30**	$ 15.58	127%	**$ 34.26**	$ 16.38	109%
Ecuador						
Tariff revenues (1)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Operating netback	**$ —**	$ 38.54	—	**$ 38.54**	$ 38.54	—

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

General and Administrative Expenses

	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Gross costs	**$ 8,344**	$ 6,913	21%	**$ 15,894**	$ 14,366	11%
Less: capitalized amounts	**(1,277)**	(810)	58%	**(2,714)**	(1,743)	56%
General and administrative expenses	**$ 7,067**	$ 6,103	16%	**$ 13,180**	$ 12,623	4%
$/boe	**$ 3.66**	$ 3.93	(7%)	**$ 3.46**	$ 4.10	(16%)

Gross general and administrative expenses ("G&A") increased by 21% and 11% in the three and six months ended June 30, 2018, compared to same periods in 2017, respectively, primarily due to: a) a one-time severance expense and b) increased support costs for the Corporation's 25% and 24% increase in production compared to the same periods in 2017, respectively.

Net Finance Income and Expense

	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Net financing expense paid	**$ 7,301**	$ 5,524	32%	**$ 14,958**	$ 11,039	36%
Non-cash financing costs	**649**	1,426	(54%)	**2,042**	6,688	(69%)
Net finance expense	**$ 7,950**	$ 6,950	14%	**$ 17,000**	$ 17,727	(4%)

Net financing expense paid increased during the three and six months ended June 30, 2018, compared to the same periods in 2017, respectively, due to: a) finance lease obligations b) lower interest income due to the release of Ecuador IPC term deposits and c) the long-term debt principal amount increase from $305 million to $320 million, offset by a lower fixed interest rate of 7.25% compared to a floating rate of 7.7%.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended June 30, 2018	2017	Change	Six months ended June 30, 2018	2017	Change
Stock-based compensation expense	**$ 996**	$ 1,080	(8%)	**$ 3,216**	$ 4,390	(27%)
Restricted share unit expense	**—**	—	—	**2,253**	3,846	(41%)
Stock-based compensation and restricted share unit expense	**$ 996**	$ 1,080	(8%)	**$ 5,469**	$ 8,236	(34%)

Stock-based compensation and restricted share units expense is a non-cash expense recognized based on the fair value of units granted. The fair value of the stock options granted were estimated using the Black-Scholes option pricing model.

Depletion and Depreciation Expense

	Three months ended June 30,						Six months ended June 30,					
		2018		2017	Change		2018		2017	Change
Depletion and depreciation expense	$	**11,677**	$	5,539	111%	$	**21,808**	$	15,336	42%
$/boe	$	**6.04**	$	3.57	69%	$	**5.73**	$	4.99	15%

Depletion and depreciation expense increased 111% and 42% in the three and six months ended June 30, 2018, compared to the same periods in 2017, respectively, primarily as a result of higher natural gas production and higher depletable base.

Impairment Recovery

	Three months ended June 30,				Six months ended June 30,			
		2018		2017		2018		2017
Impairment recovery	$	**19,126**	$	—	$	**19,126**	$	—

During the three and six months ended June 30, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (cash generating unit) being $8.9 million, which was previously estimated as $nil with an estimated decommissioning obligation of $10.2 million, representing the fair value less cost of disposal using discounted cash flows, as estimated by the management and current forecasted prices of crude oil. Such recovery was primarily a result of increased market participant interest in acquiring the block and the recovery in benchmark crude oil prices as at June 30, 2018.

Income Tax Expense

	Three months ended June 30,				Six months ended June 30,			
		2018		2017		2018		2017
Current income tax expense	$	**6,392**	$	3,788	$	**13,586**	$	13,143
Deferred income tax expense (recovery)		**5,235**		7,491		**(3,854)**		1,913
Income tax expense	$	**11,627**	$	11,279	$	**9,732**	$	15,056

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 37% for the three and six months ended June 30, 2018. The Colombian statutory income tax rate will decrease to 33% on January 1, 2019.

Cash and Funds from Operations and Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended June 30,					Six months ended June 30,				
		2018		2017	Change		2018		2017	Change
Cash flow provided by operating activities	$	**19,826**	$	11,130	78%	$	**39,694**	$	28,669	38%
Per share – basic	$	**0.11**	$	0.06	83%	$	**0.22**	$	0.16	38%
Per share – diluted	$	**0.11**	$	0.06	83%	$	**0.22**	$	0.16	38%
Adjusted funds from operations (1)	$	**28,826**	$	24,236	19%	$	**52,363**	$	45,183	16%
Per share – basic	$	**0.16**	$	0.14	14%	$	**0.30**	$	0.26	15%
Per share – diluted	$	**0.16**	$	0.14	14%	$	**0.29**	$	0.26	12%
Net income (loss) and comprehensive income (loss)	$	**(25,979)**	$	11,770	n/a	$	**(17,701)**	$	3,828	n/a
Per share – basic	$	**(0.15)**	$	0.07	n/a	$	**(0.10)**	$	0.02	n/a
Per share – diluted	$	**(0.15)**	$	0.07	n/a	$	**(0.10)**	$	0.02	n/a

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Drilling and completions	**$ 10,745**	$ 13,041	**$ 23,853**	$ 23,926
Facilities, work overs and infrastructure	**7,832**	5,247	**11,196**	6,125
Midstream pipeline costs	**1,677**	9,317	**3,887**	9,317
Land, seismic, communities and other	**5,224**	6,487	**12,619**	16,915
Non-cash costs and adjustments(2)	**5,633**	(3,520)	**19,750**	(1,711)
Net capital expenditures	**31,111**	30,572	**71,305**	54,572
Ecuador	**—**	76	**2,377**	894
Adjusted net capital expenditures (1)	**$ 31,111**	$ 30,648	**$ 73,682**	$ 55,466
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 13,943**	$ 17,703	**$ 29,074**	$ 32,807
Expenditures on property, plant and equipment	**17,168**	12,869	**42,231**	21,765
Net capital expenditures	**$ 31,111**	$ 30,572	**$ 71,305**	$ 54,572

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.
(2) Other non-cash costs include capitalized costs related to decommissioning liabilities.

Capital expenditures in the three months ended June 30, 2018 primarily related to:

- Midstream pipeline and gas plant costs;
- Drilling, completion and testing of Breva-1;
- Drilling, completion and testing of Borojo-1;
- Pre-drilling of Cañahuate-2 and Cañahuate-3;
- Facilities costs at Esperanza and VIM-5; and
- Other capitalized costs (capitalized G&A of $1.3 million and non-cash decommissioning costs of $5.6 million primarily due to a change in estimate)

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

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

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

During the six months ended June 30, 2018, the Corporation sold its remaining shares of Interoil for proceeds of $1.9 million, resulting in an overall realized cash gain of $3.8 million on the Corporation's original $3.2 million investment. During the three months ended June 30, 2018, the Corporation sold its investment in a power generation company for proceeds of $12.4 million.

The Corporation also 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 from the sale of its equity interest in the Ecuador IPC. The remaining $6 million of remaining cash proceeds have been classified as a long-term receivable as it will be received in July 2019.

On May 3, 2018, the Corporation completed a private offering of Senior Notes in the aggregate principal amount of $320 million. The net proceeds have been used to fully repay the outstanding amounts borrowed under its existing credit facility in the amount of $305 million plus accrued interest and transaction costs. The Senior Notes pay interest semi-annually at a rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms.

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 totaled approximately 8%, as the three month Libor has been increasing materially during the last 14 months), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly $23.5 million principal amortization of the credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that does not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as was required under the credit facility (these amounts were scheduled to total approximately $25 million later in 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

		June 30, 2018
Long-term debt – principal	$	320,000
Finance lease obligations		46,142
Working capital surplus		(83,909)
Net debt	$	282,233

Letters of Credit

At June 30, 2018, the Corporation had letters of credit outstanding totaling $94.3 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which $21.9 million relates to assets held for sale.

At August 13, 2018, the Corporation had 177.3 million common shares, 16.2 million stock options and 0.4 million restricted share units outstanding.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at June 30, 2018:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ —	$ —	$ 320,000	$ 320,000
Finance lease obligation – undiscounted (1)	10,537	21,332	23,355	55,224
Trade and other payables	55,999	—	—	55,999
Crude oil payable in kind	858	—	—	858
Deferred income	8,386	—	—	8,386
Settlement liability	3,600	7,200	16,077	19,684
Other long term obligations	—	2,310	—	2,310
Restricted share units	2,048	32	—	2,080
Exploration and production contracts	23,585	87,783	7,132	118,500
Jobo facility operating contract	2,879	2,879	4,077	9,835
Compression station operating contracts	2,483	2,639	20,567	25,689
Office leases	1,030	1,857	268	3,155

(1) The finance lease obligations comprise of Jobo natural gas processing facility ($26.7 million) and the Sabanas compression stations ($28.5 million).

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 three months ended June 30, 2018, the Corporation entered into phase two of its VIM-21 block work program with a total commitment of $26 million to be completed over the next three years. In aggregate, the Corporation has outstanding exploration commitments at

June 30, 2018 of $118.5 million and has issued $44.9 million in financial guarantees related thereto. In the event that the Corporation sells certain petroleum E&E and D&P assets, $30 million of the total $118.5 million of the exploration commitments and $21.9 million of the total $94.3 million financial guarantees relating to these assets will no longer be held by the Corporation.

Pipeline Ship-or-Pay Contracts

The Corporation owns a 0.5% interest in Oleoducto Bicentenario de Colombia ("OBC"), which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. Under the terms of the OBC agreement, the Corporation may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings undertaken by OBC. The Corporation also entered into ship-or-pay arrangements with OBC and Cenit Transporte y Logistica de Hidrocarburos S.A. for 550 barrels of oil per day at a variable regulated tariff. The tariffs as at June 30, 2018 are $7.56 / barrel and $3.09 / barrel, respectively. Subsequent to June 30, 2018, the ship-or-pay contracts have been terminated under the terms of the contract. In the event that the Corporation sells certain petroleum E&E and D&P assets, its OBC investment will be included in the sale.

Settlement liability

As a result of a disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production, a settlement liability of $20.3 million (the "Settlement") has been accrued as of June 30, 2018. The settlement amount is subject to a 8.74% annual interest rate on the outstanding balance. Under the terms of the agreement, the Corporation will make cash payments on a monthly basis equal to the amount of approximately $0.3 million per month until a mutual agreement is reached to settle the remainder of the debt. The Corporation is in active discussions with the Counterparty in regards to potentially offsetting a portion or all of the obligation via a non-core oil asset transfer.

OUTLOOK

For the remainder of 2018, the Corporation remains focused on achieving 230 MMscfpd of productive capacity via the expansion of the gas processing facilities at Jobo and the tying in of the Pandereta-1, 2, 3, Canahuate-1 and 3, and Chirimia-1 wells by December 2018. Civil works for the expansion of the Jobo facility commenced in July 2018, with installation of the first modules anticipated in September 2018, with completion of the project anticipated in December 2018. The Chirimia-1 well is anticipated to be tied in and on production by mid-September 2018, with Pandereta tied in and on production in December 2018. In addition, the Corporation is currently in the process of debottlenecking the Betania-to-Jobo flowlines; specifically, by installing a twin six inch flexsteel gas flowline and a six inch water disposal line, which will allow increase production rates from the Nelson and Palmer gas fields. This work is anticipated to be completed by the end of October 2018.

On August 3, 2018, Promigas S.A. ("Promigas") received the final environmental permit relating to their project to add another 100 MMscfpd of transportation capacity to their existing pipeline, with all of the additional capacity allocated to Canacol. Promigas anticipates that all of the additional 100 MMscfpd of capacity will be available in March 2019, with the first 20 MMscfpd available on December 1, 2018.

In July 2018, the Corporation cased the Canahuate-3 appraisal well, which is awaiting completion by a workover rig. The Corporation anticipates drilling of the next exploration well, Acordeon-1, in November 2018.

SUMMARY OF QUARTERLY RESULTS

	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total Petroleum and natural gas revenues, net of royalties	**57,201**	51,756	42,092	37,950	37,283	41,583	41,967	44,392
Adjusted petroleum and natural gas revenues, net of royalties (1)	**57,201**	53,712	46,285	43,258	43,007	46,975	47,943	50,851
Cash flow provided by operating activities	**19,826**	19,868	25,001	11,783	11,130	17,539	30,289	22,275
Per share – basic ($)	**0.11**	0.11	0.14	0.07	0.06	0.10	0.17	0.13
Per share – diluted ($)	**0.11**	0.11	0.14	0.07	0.06	0.10	0.17	0.13
Adjusted funds from operations (1)	**28,826**	23,537	20,857	18,871	24,236	20,947	41,979	30,719
Per share – basic ($) (1)	**0.16**	0.13	0.12	0.11	0.14	0.12	0.24	0.18
Per share – diluted ($) (1)	**0.16**	0.13	0.12	0.11	0.14	0.12	0.24	0.18
Net income (loss) and comprehensive income (loss)	**(25,979)**	8,278	(150,343)	(1,514)	11,770	(7,942)	20,331	(8,399)
Per share – basic ($)	**(0.15)**	0.05	(0.85)	(0.01)	0.07	(0.05)	0.12	(0.05)
Per share – diluted ($)	**(0.15)**	0.05	(0.85)	(0.01)	0.07	(0.05)	0.12	(0.05)
Capital expenditures, net	**31,111**	40,194	41,652	24,978	30,572	24,000	58,638	28,698
Adjusted capital expenditures, net (1)	**31,111**	42,571	44,373	25,568	30,648	24,818	59,691	29,208
Operations (boepd)								
Petroleum and natural gas production, before royalties								
Petroleum (2)	**1,967**	2,488	3,008	3,263	3,487	3,505	3,616	3,892
Natural gas	**19,552**	18,467	14,569	13,324	13,675	13,487	14,112	14,740
Total (2)	**21,519**	20,955	17,577	16,587	17,162	16,992	17,728	18,632
Petroleum and natural gas sales, before royalties								
Petroleum (2)	**1,903**	2,460	3,003	3,268	3,500	3,517	3,657	3,801
Natural gas	**19,340**	18,335	14,379	13,239	13,563	13,409	13,986	14,621
Total (2)	**21,243**	20,795	17,382	16,507	17,063	16,926	17,643	18,422
Realized contractual sales, before royalties								
Natural gas	**19,637**	18,655	14,950	13,338	13,695	14,526	14,653	15,107
Colombia oil	**1,903**	1,896	1,820	1,895	1,933	2,014	2,026	2,090
Ecuador tariff oil (2)	**—**	564	1,183	1,373	1,567	1,503	1,631	1,711
Total (2)	**21,540**	21,115	17,953	16,606	17,195	18,043	18,310	18,908

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.
(2) Includes tariff oil production related to the Ecuador IPC.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended June 30, 2018 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's management made judgements, assumptions and estimates in the preparation of the financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Corporation's significant accounting policies can be found in the notes to the financial statements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has implemented new accounting policies during the six months ended June 30, 2018. The Corporation is currently reviewing new IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed, under the CEO and CFO's supervision, disclosure controls and procedures and established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109.

Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS.

During the three months ended June 30, 2018, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

Limitations of Controls and Procedures

The Corporation's management, including its CEO and CFO, believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.