CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

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, within 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 provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported financial results and the financial performance of the Corporation.

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"

Charle Gamba
President and Chief Executive Officer

(signed) "Jason Bednar"

Jason Bednar
Chief Financial Officer

March 23, 2017

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Independent Auditor’s Report

To the Shareholders
of Canacol Energy Ltd.

We have audited the accompanying consolidated financial statements of Canacol Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the twelve months ended December 31, 2016, the six months ended December 31, 2015, and the twelve months ended June 30, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canacol Energy Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the twelve months ended December 31, 2016, the six months ended December 31, 2015 and twelve months ended June 30, 2015, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 24, 2017
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$ 66,283	$ 43,257
Restricted cash	6	10,203	8,147
Trade and other receivables		34,617	11,682
Prepaid expenses and deposits		8,897	4,015
Investments	7	2,700	2,800
Crude oil inventory		790	465
		123,490	70,366
Non-current assets			
Restricted cash	6	51,870	53,574
Exploration and evaluation assets	4	144,328	149,906
Property, plant and equipment	5	364,319	331,995
Investment in equity	24,25	15,414	15,802
Investments	7	14,907	13,679
Deferred tax assets	14	73,180	33,027
		664,018	597,983
Total assets		$ 787,508	$ 668,349
LIABILITIES AND EQUITY			
Current liabilities			
Bank debt	8	22,193	-
Trade and other payables		32,438	12,704
Crude oil payable in kind		646	721
Deferred income	20	3,991	2,216
Finance lease obligation	9	4,140	-
Restricted share units	18	2,181	100
Taxes payable		15,195	8,315
		80,784	24,056
Non-current liabilities			
Bank debt	8	228,445	248,228
Deferred income	20	3,731	3,731
Finance lease obligation	9	28,622	-
Decommissioning obligations	10	29,964	39,989
Restricted share units	18	56	55
Other long term obligations		3,328	2,801
Deferred tax liabilities	14	36,192	46,202
Total liabilities		411,122	365,062
Equity			
Share capital	11	700,528	652,202
Other reserves		60,567	60,206
Accumulated other comprehensive income		335	343
Deficit		(385,818)	(409,464)
Non-controlling interest		774	-
Total equity		376,386	303,287
Total liabilities and equity		$ 787,508	$ 668,349

Commitments and contingencies (note 19)

Subsequent events (note 26)

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)

	Note	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Revenues				
Petroleum and natural gas revenues, net of royalties	16	$ **141,905**	$ 38,430	$ 149,047
Take-or-pay income	21	**6,080**	930	-
Total petroleum and natural gas revenues, net of royalties		**147,985**	39,360	149,047
Other income	21	**4,218**	268	321
Equity (loss) income	24,25	**(380)**	(328)	4,689
Expenses				
Production and transportation expenses		**21,376**	12,796	58,214
Pre-license and exploration costs	4	**17,530**	8,848	4,517
General and administrative		**21,560**	13,475	24,050
Stock-based compensation and restricted share units	11,18	**9,647**	3,966	5,887
Depletion and depreciation	5	**26,512**	26,479	61,262
Foreign exchange loss and other		**1,555**	7,349	504
Loss (gain) on financial instruments	16	**1,793**	(1,790)	(9,304)
Loan investment write-down	18	**1,594**	-	-
Change in provision		**-**	-	(1,865)
Wealth tax expense	22	**1,135**	-	1,501
Impairment on D&P assets	5	**37,318**	44,599	72,057
Gain on settlement of decommissioning obligation		**(214)**	-	-
Loss (gain) on sale of assets		**11**	(168)	7,982
		139,817	115,554	224,805
Net finance expense	12	**22,669**	11,453	27,807
Loss before income taxes		**(10,663)**	(87,707)	(98,555)
Income taxes (recovery)				
Current	14	**16,079**	3,459	7,671
Deferred	14	**(50,162)**	12,325	(204)
		(34,083)	15,784	7,467
Non-controlling interest		**226**	-	-
Net income (loss)		**23,646**	(103,491)	(106,022)
Other comprehensive loss	24	**(8)**	(4)	-
Comprehensive income (loss)		**23,638**	(103,495)	(106,022)
Net income (loss) per share				
Basic and diluted	13	$ **0.14**	$ (0.72)	$ (0.96)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars, number of shares in thousands)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Non-Controlling Interest	Total Equity
Balance as at June 30, 2014	$ 551,049	$ 48,842	$ 347	$ (199,951)	$ -	$ 400,287
Issue of common shares	39,294	-	-	-	-	39,294
Stock options and warrants exercised	1,177	(421)	-	-	-	756
Stock-based compensation	-	7,320	-	-	-	7,320
Net loss for the period	-	-	-	(106,022)	-	(106,022)
Balance at June 30, 2015	**$ 591,520**	**$ 55,741**	**$ 347**	**$ (305,973)**	**$ -**	**$ 341,635**
Balance as at June 30, 2015	$ 591,520	$ 55,741	$ 347	$ (305,973)	$ -	341,635
Issue of common shares, net of costs	60,112	-	-	-	-	60,112
Stock options exercised	570	(337)	-	-	-	233
Stock-based compensation	-	4,802	-	-	-	4,802
Other comprehensive loss	-	-	(4)	-	-	(4)
Net loss for the period	-	-	-	(103,491)	-	(103,491)
Balance at December 31, 2015	**$ 652,202**	**$ 60,206**	**$ 343**	**$ (409,464)**	**$ -**	**303,287**
Balance as at December 31, 2015	$ 652,202	$ 60,206	$ 343	$ (409,464)	$ -	303,287
Issue of common shares, net of costs	35,535	-	-	-	-	35,535
Stock options exercised	12,791	(6,096)	-	-	-	6,695
Stock-based compensation	-	6,457	-	-	-	6,457
Other comprehensive loss	-	-	(8)	-	-	(8)
Net income for the period	-	-	-	23,646	-	23,646
Non-controlling interest equity contribution	-	-	-	-	1,000	1,000
Non-controlling interest net loss for the period	-	-	-	-	(226)	(226)
Balance at December 31, 2016	**$ 700,528**	**$ 60,567**	**$ 335**	**$ (385,818)**	**$ 774**	**376,386**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

	Note	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Operating activities				
Comprehensive income (loss)		$ 23,638	$ (103,495)	$ (106,022)
Adjustments:				
Other comprehensive loss	24	8	4	-
Non-controlling interest net loss		(226)	-	-
Net financing expense	12	22,669	11,453	27,807
Equity loss (income)	24,25	380	328	(4,689)
Stock-based compensation and restricted share units	11,18	9,647	3,966	5,887
Depletion and depreciation	5	26,512	26,479	61,262
Unrealized loss (gain) on financial instruments	16	1,268	(1,815)	(9,150)
Unrealized foreign exchange loss and other		481	6,167	1,196
Settlement of restricted share units liability		(2,043)	(225)	(377)
Deferred income tax (recovery) expense	14	(50,162)	12,325	(204)
Loan investment write-down	18	1,594	-	-
Gain on decommissioning obligation settlement		(214)	-	-
Settlement of decommissioning obligation		(403)	-	-
Non-cash pre-license and exploration costs	4	17,339	8,651	3,954
Impairment of D&P assets	5	37,318	44,599	72,057
Loss (gain) on sale of assets		14	(168)	7,982
Changes in non-cash working capital	16	(14,243)	11,007	4,742
		73,577	19,276	64,445
Investing activities				
Property acquisitions	5	(11,483)	-	-
Expenditures on exploration and evaluation assets		(36,510)	(4,703)	(120,989)
Expenditures on property, plant and equipment		(38,552)	(28,467)	(69,548)
Asset dispositions		34	-	12,275
Investments in equity	24,25	-	(3,401)	-
Investments	7	(1,658)	(11,796)	(18)
Change in restricted cash		(262)	51	5,055
Other long-term liabilities		(84)	(599)	-
Finance lease principal payments		(238)	-	-
Changes in non-cash working capital	16	12,319	(3,943)	(35,529)
		(76,434)	(52,858)	(208,754)
Financing activities				
Draw on bank debt, net of financing fees	8	-	-	265,966
Repayment of bank debt	8	-	(20,000)	(220,000)
Net financing expense paid	12	(17,354)	(9,263)	(16,761)
Issue of common shares, net of costs	11	42,237	60,337	640
Non-controlling interest equity contribution		1,000	-	-
Settlement of phantom warrants	18	-	-	(3,500)
		25,883	31,074	26,345
Change in cash		23,026	(2,508)	(117,964)
Cash, beginning of period		43,257	45,765	163,729
Cash, end of period		$ 66,283	$ 43,257	$ 45,765

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 petroleum and natural gas exploration and development activities in Colombia, Ecuador and Mexico. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The financial year end of the Corporation was changed from June 30 to December 31 in the prior period in order to align the Corporation's year end with its peer group to allow for easier comparisons. Accordingly, the comparative figures for the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity, consolidated statements of cash flows and the related notes to the consolidated financial statements (the "financial statements") are for the six month period ended December 31, 2015 and twelve month period ended June 30, 2015.

The Board of Directors approved these financial statements for issuance on March 23, 2017.

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, commodity contracts, investments, restricted share units and crude oil payable in kind, which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss"), bank debt, which is measured at amortized cost, decommissioning obligation, which is measured at the present value ("PV") of management's best estimate of the expenditure required to settle the present obligation at the period date and the finance lease obligation and asset, which are measured at the fair market value less amortization.

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 and 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.

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 primarily generates and expends cash in United States dollars.

The Corporation holds 25% of the voting rights of its joint arrangement in Ecuador and has classified the joint arrangement as a joint venture (see note 25). The Corporation has joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The Corporation's joint arrangement is structured in a jointly-controlled entity and provides the Corporation and the parties to the agreement with rights to the net assets of the jointly-controlled entity under the arrangements.

The Corporation holds 49% of the voting rights of its investment in Andes Interoil Limited ("Interoil"). The Corporation has significant influence over Interoil based on its 49% voting rights and presence on the Interoil Board of Directors.

Amounts recorded for depletion, depreciation, amortization, accretion, provisions for decommissioning obligations, the valuation of investments, valuation of the finance lease obligation and asset, restricted share units, crude oil payable in kind and stock options are based on their expected lives and other relevant assumptions.

Significant management judgement is required in determining the provision for 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 its Canadian non-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 assumptions used for stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

Petroleum and natural gas 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.

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. 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 oil and gas 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) Petroleum and natural gas prices – Forward price estimates of the petroleum and natural gas 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.

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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Application of New and Revised IFRS and International Financial Reporting Interpretations Committee ("IFRIC")

The International Accounting Standards Board has revised following existing standards:

- IAS 1 "Presentation of financial statements": for the clarification on materiality relating to aggregation;
- IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in associates and joint ventures": for the clarification on accounting for Investment Entities and consolidation requirements;
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets": for the depletion and depreciation method based on revenue generated by an activity with the use of an asset is no longer an acceptable depletion and depreciation method;
- IFRS 11 "Joint arrangements": for accounting for a joint operation acquisition must be assessed under IFRS 3 "Business combinations" to determine if the transaction qualifies as a business or asset acquisition under IFRS;
- IAS 27 "Separate financial statements": as the equity method is now required to be applied in separate financial statements.

The adoption of the newly pronounced amendments to IFRS did not have a significant impact on the financial statements.

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, 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 – Many of the Corporation's petroleum and natural gas 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 is 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).

Investment in Interoil – The Corporation's investment in Interoil is accounted for using the equity method whereby the investment is originally recognized at cost and the Corporation's share of Interoil's comprehensive loss is included in the Corporation's consolidated statements of operations and comprehensive income (loss).

Non-controlling interest – The Corporation's execution of the license contact for the extraction of hydrocarbons on the Moloacan Block in Mexico is initially accounted for as a business combination and included in the Corporation's financial statements using the consolidation method with the partner's share of 25% working interest recorded as non-controlling interest.

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 and cash equivalents, restricted cash, trade and other receivables, bank debt, investments, restricted share units, 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 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).

Bank debt – Bank 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 facility through the consolidated statements of operations and comprehensive income (loss).

Finance lease obligation – Finance lease obligation is an obligation of the lessee to pay lease payments that consist of principal and interest components according to the lease agreement. The finance lease obligation is 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 obligation is 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).

Other – Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, deferred income 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 petroleum and natural gas 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 petroleum and natural gas 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 petroleum and natural gas 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 petroleum and natural gas 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 petroleum and natural gas interests 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 crude oil, natural gas 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 petroleum and natural gas 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:

Equipment and other	2 - 5 years
Leasehold improvements	Over the term of the leasing agreement

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. Finance leases are depleted using the units of production method by reference to the ratio of production to the related proved plus probable reserves of the related D&P assets.

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) on a straight-line basis over the term of the lease.

Impairment

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 as petroleum and natural gas interests, 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 (petroleum and natural gas 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 petroleum and natural gas.

Revenue from the sale of petroleum and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, the economic benefits associated with the transaction are likely to flow to the Corporation and the Corporation has no continuing managerial involvement or control over the product, which is usually when legal title passes to an external party.

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 lease, amortization of upfront fees and accretion of the discount on decommissioning liabilities.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method.

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 Income (Loss) per Share

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

Recent Accounting Pronouncements

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

(i) IFRS 15: Revenue from Contracts with Customers

On January 1, 2018, the Corporation will be required to adopt IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and will replace 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". IFRS 15 provides a single, principle-based five-step model that will apply 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 the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Corporation's ordinary activities.

(ii) IFRS 9: Financial Instruments

On January 1, 2018 , the Corporation will be required to adopt 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 only two classification categories: amortized cost and fair value. Amendments to IFRS 7 "Financial Instruments: Disclosures" will also be required to be adopted by the Corporation simultaneously with IFRS 9.

(iii) IFRIC 22: Foreign Currency Transactions and Advance Consideration

On January 1, 2018, the Corporation will be required to adopt IFRIC 22 "Foreign Currency Transactions and Advance Consideration". The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

(iv) IFRS 16: Leases

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.

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

(v) Amendment to existing standards

On January 1, 2017, the Corporation will be required to adopt amendments made to existing standards. IAS 7 "Statement of Cash Flows" is amended for cash and non-cash changes in liabilities arising from financing activities shall be disclosed separately in the statement of cash flow's financing activities section; only aggregate cash movements of liabilities are currently being reported. IAS 12 "Income Taxes" is amended for the clarification of the requirements on recognition of deferred tax assets for unrealized losses on debt instruments held at fair market value. IFRS 2 "Share-based Payment" is amended for the classification and measurement of share-based payment transactions. IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" have been amended for the sale or contribution of assets between an investor and its associate.

Interpretation of the new IFRS standards and amendments is currently in progress; the full impact on the financial statements will be determined upon completion of management's assessment.

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at June 30, 2015	$	152,925
Additions		5,632
Exploration expense		(8,651)
Balance at December 31, 2015	$	149,906
Additions		36,510
Transferred to D&P assets (note 5)		(24,749)
Exploration expense		(17,339)
Balance at December 31, 2016	**$**	**144,328**

During the year ended December 31, 2016, the Corporation made natural gas discoveries, Oboe-1 on its VIM-5 block and Trombon-1, Nispero-1 and Nelson-6 on its Esperanza block and, accordingly, $24.7 million of exploration costs associated with these blocks have been transferred to D&P assets.

During the year ended December 31, 2016, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment or planned relinquishment of certain blocks, all costs and capitalized interests associated with such blocks have been written off to exploration expense. In addition to the $17.3 million (six months ended December 31, 2015 – $8.7 million; year ended June 30, 2015 – $3.9 million) of relinquishment related costs, $0.2 million (six months ended December 31, 2015 – $0.2 million; year ended June 30, 2015 – $0.6 million) of pre-license costs were also included in pre-license and exploration costs for the year ended December 31, 2016.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Assets	Corporate and Other Assets	Total
Cost			
Balance at June 30, 2015	$ 777,821	$ 9,440	$ 787,261
Additions	38,863	198	39,061
Derecognition and other	(56)	(87)	(143)
Balance at December 31, 2015	816,628	9,551	826,179
Property acquisition	11,483	-	11,483
Additions	58,450	1,537	59,987
Dispositions	-	(50)	(50)
Transferred from E&E assets (note 4)	24,749	-	24,749
Balance at December 31, 2016	**$ 911,310**	**$ 11,038**	**$ 922,348**
Accumulated depletion and depreciation			
Balance at June 30, 2015	$ (418,331)	$ (5,306)	$ (423,637)
Depletion and depreciation	(26,185)	(294)	(26,479)
Impairment	(44,599)	-	(44,599)
Derecognition and inventory adjustments	488	43	531
Balance at December 31, 2015	(488,627)	(5,557)	(494,184)
Depletion and depreciation	(25,951)	(561)	(26,512)
Impairment	(37,318)	-	(37,318)
Derecognition and inventory adjustments	(27)	12	(15)
Balance at December 31, 2016	**$ (551,923)**	**$ (6,106)**	**$ (558,029)**
Carrying value			
At June 30, 2015	$ 359,490	$ 4,134	$ 363,624
At December 31, 2015	$ 328,001	$ 3,994	$ 331,995
At December 31, 2016	**$ 359,387**	**$ 4,932**	**$ 364,319**

In connection with the acquisition of VIM-5 and VIM-19 E&P contracts, the Corporation paid an additional $11.5 million in reserves addition related bonus payments during the year ended December 31, 2016.

During the year ended December 31, 2016, the Corporation entered into a lease agreement with Promisol SAS to construct and operate a natural gas processing plant. The lease was determined to be a finance lease valued at $33 million at inception, and was recognized as an asset upon commencement of operation on December 1, 2016.

During the year ended December 31, 2016, a write-down of $37.3 million (six months ended December 31, 2015 – $44.6 million; year ended June 30, 2015 – $72.1 million) was recorded based primarily on the estimated recoverable amount of the LLA-23 and Capella CGUs. Such write-down was primarily a result of reduced oil reserves as at December 31, 2016. The Corporation's other CGUs were unaffected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2016 and December 31, 2015 and for the periods ended December 31, 2016, December 31, 2015 and June 30, 2015
(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Impairment tests carried out at December 31, 2016 were based on fair value calculations, using pre-tax discount rates of 15%. This approach requires assumptions about revenue, future commodity prices, and discount rates, all of which are level 3 inputs (see Note 18 for hierarchy). Impairment tests carried out at December 31, 2015 and June 30, 2015 were based on value-in-use calculations, using pre-tax discount rates of 10% to 15%. The following forward commodity price estimates were used:

Year	WTI Oil (US$/bbl) as at December 31, 2016	WTI Oil (US$/bbl) as at December 31, 2015	WTI Oil (US$/bbl) as at June 30, 2015
2015	-	-	60.00
2016	-	48.00	66.30
2017	55.00	56.10	72.83
2018	59.16	60.34	79.59
2019	63.46	66.86	84.43
2020	68.98	72.52	86.12
2021	72.52	77.29	90.09
2022	73.97	84.46	91.89
2023	76.58	86.15	93.73
2024	80.41	87.87	95.61
2025	84.36	89.63	97.52
2026	86.05	91.42	99.47
2027	87.77	93.25	101.46
2028	89.52	95.12	103.49
Remainder	+2.0% per year	+2.0% per year	+2.0% per year

The following tables summarize the impairments, recoverable amount and discount rate used for each CGU that was impaired as at December 31, 2016, December 31, 2015 and June 30, 2015.

December 31, 2016	Recoverable Amount ($)	Risk Adjusted Discount Rate (%)	Impairment Recorded ($)
LLA-23	30,207	15%	19,568
Capella	-	15%	17,750
Total	**30,207**		**37,318**

December 31, 2015	Recoverable Amount ($)	Risk Adjusted Discount Rate (%)	Impairment Recorded ($)
LLA-23	59,725	15%	40,021
Capella	17,302	15%	3,613
Santa Isabel	717	15%	965
Total	**77,744**		**44,599**

June 30, 2015	Recoverable Amount ($)	Risk Adjusted Discount Rate (%)	Impairment Recorded ($)
Rancho Hermoso	-	10%	34,131
Capella	20,674	15%	16,000
Santa Isabel	3,946	10%	7,903
VMM-2	533	10%	14,023
Total	**25,153**		**72,057**

The following table demonstrates the effect of the assumed discount rate and the effect of forecast benchmark commodity price estimates on impairment charges for each CGU recorded for the year ended December 31, 2016. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and $5/bbl increase and $5/bbl decrease in the forecast benchmark commodity price estimate. The Capella block has no recoverable amount; therefore sensitivity is not applicable.

CGU	Impairment + 1% Discount Rate ($)	Impairment - 1% Discount Rate ($)	Impairment + $5/bbl Forward Prices ($)	Impairment -$5/bbl Forward Prices ($)
LLA-23	485	(485)	(6,168)	6,168
Total	**485**	**(485)**	**(6,168)**	**6,168**

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

NOTE 6 – RESTRICTED CASH

		December 31, 2016		December 31, 2015
Restricted cash – current	$	10,203	$	8,147
Restricted cash – non-current		51,870		53,574
	$	62,073	$	61,721

At December 31, 2016, restricted cash consisted of $49 million of term deposits used as collateral to secure the Ecuador IPC's borrowings ($8.3 million classified as current; $40.7 million classified as non-current), $8.3 million for work commitments and other capital commitments ($1.9 million classified as current; $6.4 million classified as non-current), and $4.8 million held in a debt reserve account as required under its bank debt (classified as non-current).

NOTE 7 – INVESTMENTS

		Pipeline Company Investment		Oil and Gas Company Investments		Power Generation Company Investment		Total Investments
Balance at June 30, 2015	$	1,909	$	3,051	$	-	$	4,960
Additions		-		365		11,641		12,006
Disposals		(211)		-		-		(211)
Unrealized gain (loss)		227		(61)		-		166
Foreign exchange loss		(436)		(6)		-		(442)
Balance at December 31, 2015	$	1,489	$	3,349	$	11,641	$	16,479
Additions		-		-		1,668		1,668
Disposals		-		(10)		-		(10)
Realized loss		-		(541)		-		(541)
Unrealized gain (loss)		12		(75)		-		(63)
Foreign exchange gain		74		-		-		74
Balance at December 31, 2016	**$**	**1,575**	**$**	**2,723**	**$**	**13,309**	**$**	**17,607**

Pipeline Company Investment

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. The Corporation is eligible to receive any proportional share of dividends on the project (see note 19). During the six months ended December 31, 2015, the Corporation settled $0.2 million of the pipeline investment.

Oil and Gas Company Investments

The Corporation holds 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 is also a director of such company. As at December 31, 2016, the convertible notes have been classified as current as they are expected to be settled within the next twelve months.

The Corporation also invested in shares of oil and gas companies of which the Corporation recognized a realized loss of $0.5 million during the year ended December 31, 2016, as a result of assessing the value of such shares to be $nil as at December 31, 2016.

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

Power Generation Company Investment

During the six months ended December 31, 2015, the Corporation invested $11.6 million in Interamerican Energy Corp. ("IEC"), previously named Pacific Power Generation Corporation, consisting of $10.8 million for 15% of IEC's outstanding shares, $0.6 million in additional capital contribution and $0.2 million in capitalized fees. During the year ended December 31, 2016, the Corporation invested an additional $1.7 million in its IEC investment; the additional investment is proportional to the Corporation's 15% ownership.

NOTE 8 – BANK DEBT

Balance at June 30, 2015	$	267,023
Repayment		(20,000)
Amortization of transaction costs		1,205
Balance at December 31, 2015		248,228
Amortization of transaction costs		2,410
Balance at December 31, 2016	**$**	**250,638**

The Corporation's bank debt as at December 31, 2016 consisted of a senior secured term loan for a principal amount of $180 million ("BNP Senior Secured Term Loan") and unsecured senior notes ("Senior Notes") for a principal amount of $75 million. The carrying value of the BNP Senior Secured Term Loan and Senior Notes included $2.5 million and $1.9 million of transaction costs netted against the principal amount as at December 31, 2016, respectively.

Subsequent to December 31, 2016, the Corporation entered into a credit agreement for a $265 million senior secured term loan with a syndicate of banks led by Credit Suisse ("2017 Senior Secured Term Loan"). Proceeds from the 2017 Senior Secured Term Loan will be used for repayment of the principal in the amount of $255 million including $180 million of the BNP Senior Secured Term Loan and $75 million of the Senior Notes, plus accrued interest and cost of transaction (see note 26). Remaining proceeds from the 2017 Senior Secured Term Loan were made available for other general corporate purposes.

Senior Secured Term Loan

On April 24, 2015, the Corporation replaced its then existing $176 million senior secured term loan with Credit Suisse ("CS Senior Secured Term Loan") with a new senior secured term loan with a syndicate of banks led by BNP Paribas for a principal amount of $200 million (BNP Senior Secured Term Loan). The carrying value of the CS Senior Secured Term Loan included $6.1 million of transaction costs netted against the principal amount which were fully expensed at the time of settlement. The BNP Senior Secured Term Loan carries interest at LIBOR plus 4.75% and is secured by all of the material assets of the Corporation. On September 30, 2015, the Corporation prepaid $20 million on the BNP Senior Secured Term Loan, thereby reducing the principal to $180 million. The BNP Senior Secured Term Loan is scheduled to mature on September 30, 2019, with interest payable quarterly and principal repayable in eight equal quarterly installments beginning on December 31, 2017, following an initial grace period. As such, $22.5 million of the BNP Senior Secured Term Loan principal, net of unamortized transaction costs, is classified as current and the remaining balance is classified as non-current as at December 31, 2016.

The BNP Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The BNP Senior Secured Term Loan also includes various financial covenants, including a maximum consolidated leverage ratio ("Consolidated Leverage Ratio") of 3.50:1.00, a minimum consolidated interest coverage ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00 and a minimum consolidated current assets to consolidated current liabilities ratio ("Consolidated Current Assets to Consolidated Current Liabilities Ratio") of 1.00:1.00.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("Consolidated Total Debt") divided by consolidated EBITDAX ("Consolidated EBITDAX"). The maximum allowable Consolidated Leverage Ratio is 3.50:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt and finance lease obligation; additionally, restricted cash maintained in the debt service reserve account related to the BNP Senior Secured Term Loan is deductible against Consolidated Total Debt. Consolidated EBITDAX is calculated on a rolling 12-month basis and is defined as consolidated net income adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, equity income (loss) and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the Corporation's share of revenues from the Ecuador IPC (see note 25). The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity consolidation basis in the Corporation's financial statements.

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). The minimum Consolidated Interest Coverage Ratio required is 2.50:1.00. Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and includes interest expense and capitalized interest, net of interest income, and excludes any non-cash interest charges.

The Consolidated Current Assets to Consolidated Current Liabilities Ratio is calculated on a quarterly basis as consolidated current assets divided by consolidated current liabilities, excluding the current portion of any long-term indebtedness and any non-cash current assets and non-cash current liabilities. The minimum Consolidated Current Assets to Consolidated Current Liabilities Ratio required is 1.00:1.00.

The Corporation was in compliance with its covenants as at December 31, 2016.

Senior Notes

On October 29, 2014, the Corporation entered into the $100 million unsecured floating rate senior note indenture agreement with Apollo Investment Corporation (Senior Notes), with $50 million drawn and funded on October 29, 2014, $25 million drawn and funded on April 2, 2015 and a further $25 million committed and available to be drawn at any time up to April 27, 2016 at the sole discretion of the Corporation, which was not exercised by the Corporation. The Senior Notes are repayable in full on their maturity date of December 31, 2019 and carry interest at LIBOR plus 8.5% per annum (subject to a LIBOR floor of 1.00%), payable quarterly.

The Senior Notes may be repaid at any time prior to maturity and are subject to customary financial, performance and legal covenants in which are consistent with the covenants under the BNP Senior Secured Term Loan. Standby fees on the undrawn portion of the Senior Notes are calculated at 1% per annum. As at December 31, 2016, the amount drawn of $75 million has been classified as non-current.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $61.7 million (COP$ 185 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at and during the year ended December 31, 2016.

Letters of Credit

At December 31, 2016, the Corporation had letters of credit outstanding totaling $65.1 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the Colombian revolving lines of credit by $42.5 million to $19.2 million at December 31, 2016.

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

NOTE 9 – FINANCE LEASE OBLIGATION

The Corporation leased one of its natural gas processing facilities under finance lease. The lease term is five years. The Corporation has the option to take over ownership of the leased natural gas processing facility at no cost at the end of the lease term. The finance lease obligation is discounted at the effective interest rate of 13.2% per annum at inception, and was initially recognized at fair market value of $33 million.

As at December 31, 2016		**Minimum Lease Payments**		**PV of Minimum Lease Payments**
Not later than one year	$	8,219	$	4,140
Later than one year and not later than five years		37,118		28,622
Later than five years		-		-
	$	45,337	$	32,762
Less: future finance charges		(12,575)		-
PV of minimum lease payments	**$**	**32,762**	**$**	**32,762**
Finance lease obligation – current			$	4,140
Finance lease obligation – non-current				28,622
Total Finance lease obligation			**$**	**32,762**

NOTE 10 – DECOMMISSIONING OBLIGATIONS

Balance at June 30, 2015	$	28,278
Accretion		985
Additions		269
Change in estimate		10,457
Balance at December 31, 2015		39,989
Accretion		2,912
Additions		2,009
Settlements		(617)
Change in estimate		(14,329)
Balance at December 31, 2016	**$**	**29,964**

The Corporation's decommissioning obligations result from its ownership interests in petroleum and natural gas assets, including well sites, facilities, and gathering systems. The total decommissioning obligation is 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 net present value of the decommissioning obligations to be $30 million at December 31, 2016 (December 31, 2015 – $40 million) based on an undiscounted total future liability of $41 million (December 31, 2015 – $75.5 million). These payments are expected to be made over the next 16 years. The average discount factor, being the risk-free rate related to the liability, is 7.7% (December 31, 2015 – 7.7%) and the average inflation rate is 4.3% (December 31, 2015 – 6.8%).

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

NOTE 11 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number		Amount
	(000's)		
Balance at June 30, 2015	126,434	$	591,520
Issued on private placement, net of costs	32,696		60,112
Issued on exercise of stock options	136		225
Transfer from other reserves for stock options	-		345
Balance at December 31, 2015	159,266	$	652,202
Issued on private placement, net of costs	11,827		35,535
Issued on exercise of stock options	3,266		6,702
Transfer from other reserves for stock options	-		6,089
Balance at December 31, 2016	**174,359**	**$**	**700,528**

On September 3, 2015, the Corporation completed a private placement with Cavengas Holding S.R.L, a Barbados company ("Cavengas"), for the amount of C$78,975,000 consisting of the issuance of 17,590,000 subscription receipts issued at C$2.50 per subscription receipt of the Corporation (the "Subscription Receipts") and convertible into 17,590,000 common shares of the Corporation (the "Common Shares"), along with the issuance of 14,000,000 Common Shares at a price of C$2.50 per Common Share. The C$35,000,000 related to the 14,000,000 Common Shares was released to the Corporation on September 3, 2015. On October 16, 2015, the 17,590,000 Subscription Receipts were converted into 17,590,000 Common Shares and the associated C$43,975,000 was released from escrow to the Corporation. The Corporation engaged an exclusive advisor for this transaction, and paid a fee of 3.5%, payable entirely in Common Shares, for their services.

On August 2, 2016 and August 5, 2016, the Corporation completed the first and second tranche of private placement offerings of 9,687,670 and 1,800,000 common shares of the Corporation, respectively, issued at C$4.08 per common share for a total of C$46.9 million, net of transaction costs.

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 June 30, 2015	10,282	5.51
Granted	6,136	2.69
Exercised	(136)	2.25
Forfeited and cancelled	(947)	8.04
Balance at December 31, 2015	15,335	4.26
Granted	3,570	4.23
Exercised	(3,266)	2.68
Forfeited and cancelled	(2,523)	8.41
Balance at December 31, 2016	**13,116**	**3.85**

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

Information with respect to stock options outstanding at December 31, 2016 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	7,584	3.3	2.81	5,344	2.86
$3.60 to $7.00	4,965	3.7	4.88	3,273	5.22
$7.10 to $8.70	567	0.1	8.66	567	8.66
	13,116	**3.3**	**3.85**	**9,184**	**4.06**

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

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Weighted-average fair value at grant date (C$)	**2.50**	1.40	1.12
Share price (C$)	**2.88 – 4.59**	2.28 – 3.26	2.21 – 3.70
Exercise price (C$)	**2.88 – 4.59**	2.28 – 3.26	2.21 – 3.70
Volatility	**62% – 63%**	61% – 62%	62% – 63%
Option life	**5 years**	5 years	5 years
Dividends	**Nil**	Nil	Nil
Risk-free interest rate	**0.59%–0.99%**	0.72%–0.90%	0.73%– 1.15%

A forfeiture rate of 5% (six months ended December 31, 2015 – 5%; year ended June 30, 2015 – 5%) was used when recording stock-based compensation for the year ended December 31, 2016. Stock-based compensation of $6.5 million (six months ended December 31, 2015 – $3.9 million; year ended June 30, 2015 – $4.9 million) was expensed during the year ended December 31, 2016.

NOTE 12 – FINANCE INCOME AND EXPENSE

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Finance income			
Interest and other income	**$ (2,369)**	$ (1,357)	$ (3,139)
Finance expense			
Fair value adjustment on wealth tax payable	**-**	-	5
Accretion on decommissioning obligations	**2,912**	985	674
Amortization of upfront fees	**2,411**	1,208	4,212
Accelerated amortization of upfront fees	**-**	-	6,157
Interest and other financing costs	**19,715**	10,617	19,898
	25,038	12,810	30,946
Net finance expense	**$ 22,669**	$ 11,453	$ 27,807

During the year ended June 30, 2015, due to the settlement of the CS Senior Secured Term Loan (see note 8), $6.1 million of the unamortized transaction costs netted against the CS Senior Secured Term Loan principal amount were fully expensed at the time of settlement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2016 and December 31, 2015 and for the periods ended December 31, 2016, December 31, 2015 and June 30, 2015
(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Net income (loss), basic and diluted	**$ 23,646**	$ (103,491)	$ (106,022)
Weighted-average common share adjustments			
Weighted-average common shares outstanding, basic	**165,640**	143,538	110,346
Effect of stock options	**2,062**	-	-
Weighted-average common shares outstanding, diluted	**167,702**	143,538	110,346

For the six months ended December 31, 2015 and year ended June 30, 2015, stock options were anti-dilutive due to the net loss.

NOTE 14 – INCOME TAXES

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

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Net loss before taxes	**$ (10,663)**	$ (87,707)	$ (98,555)
Statutory rates	**27%**	27%	25%
Expected income taxes	**$ (2,879)**	$ (23,681)	$ (24,639)
Effect on taxes resulting from:			
Non-deductible share-based payments and other permanent differences	**2,316**	1,393	1,803
Tax differential on foreign jurisdictions	**2,376**	(8,794)	444
Change in unrecognized tax benefit	**(23,436)**	34,726	(5,350)
Provision to filing true-up	**(5,306)**	-	-
Change in enacted tax rate	**(2,633)**	-	-
Foreign exchange and other	**(4,521)**	12,140	35,209
Provision for income taxes	**$ (34,083)**	$ 15,784	$ 7,467
Current	**$ 16,079**	$ 3,459	$ 7,671
Deferred	**(50,162)**	12,325	(204)
	$ (34,083)	$ 15,784	$ 7,467

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

The net deferred tax liability is comprised of:

	December 31, 2016	December 31, 2015
Net book value of property, plant and equipment in excess of asset tax base	$ **(14,805)**	$ (32,221)
Non-capital losses carried forward	**74,132**	58,698
Decommissioning liabilities and other provision	**10,914**	14,474
Timing differences on revenue and expense recognition and other	**2,079**	751
Deferred tax asset	$ **72,320**	$ 41,702
Deferred tax asset not recognized	**(35,332)**	(54,877)
Net deferred tax asset (liability)	$ **36,988**	$ (13,175)

At December 31, 2016, the Corporation had non-capital losses carried forward of approximately $100 million (December 31, 2015 - $59.5 million) available to reduce future years taxable income. At December 31, 2016, the Corporation had available deferred income tax assets of $35.3 million (December 31, 2015 – $54.9 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 15 – 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:

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Salaries and director fees	$ **5,171**	$ 2,211	$ 3,742
Severance	**-**	1,744	-
Benefits	**645**	309	680
Stock-based compensation	**2,424**	2,792	4,797
Restricted share units	**2,260**	-	477
Key management personnel compensation	$ **10,500**	$ 7,056	$ 9,696

NOTE 16 – SUPPLEMENTAL INFORMATION

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

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Petroleum and natural gas royalties	$ **21,944**	$ 4,989	$ 16,266

Income taxes and interest paid were as follows:

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Income taxes paid	**8,893**	1,994	10,544
Interest paid	$ **18,275**	$ 9,812	$ 19,606

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

Loss (gain) on derivatives and financial instruments:

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Crude oil payable in kind	**$ 186**	$ (1,568)	$ (1,630)
Convertible debentures – unrealized	**-**	-	(1,611)
Convertible debentures – realized	**-**	-	202
Warrants – unrealized	**-**	(62)	(3,871)
Warrants – realized	**-**	(3)	(27)
Phantom warrants – unrealized	**-**	-	(5,703)
Phantom warrants – realized	**-**	-	2,025
Restricted share units – unrealized	**1,019**	(15)	(625)
Restricted share units – realized	**(16)**	24	25
Investments – unrealized	**63**	(166)	2,126
Investments – realized	**541**	-	5
Commodity contracts – unrealized	**-**	-	(38)
Commodity contracts – realized	**-**	-	(182)
	$ 1,793	$ (1,790)	$ (9,304)

Changes in non-cash working capital are comprised of:

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Change in:			
Trade and other receivables	**$ (24,529)**	$ 10,088	$ 38,865
Prepaid expenses and deposits	**(4,882)**	891	7,499
Crude oil inventory	**(298)**	566	891
Trade and other payables	**19,308**	(7,555)	(68,713)
Crude oil payable in kind	**(178)**	(901)	671
Deferred income	**1,775**	2,216	-
Wealth tax payable	**-**	(630)	43
Taxes payable	**6,880**	2,389	(10,043)
	$ (1,924)	$ 7,064	$ (30,787)
Attributable to:			
Operating activities	**(14,243)**	11,007	4,742
Investing activities	**12,319**	(3,943)	(35,529)
	$ (1,924)	$ 7,064	$ (30,787)

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

NOTE 17 – 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 maker is its executive officers.

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

	Colombia (reportable)	Other Segments (non-reportable)	Total
Twelve months ended December 31, 2016			
Revenues and other income	152,155	48	152,203
Equity loss	-	(380)	(380)
Expenses, excluding income taxes and impairments	(58,658)	(48,945)	(107,603)
Impairment on E&E assets	(17,339)	-	(17,339)
Impairment on D&P assets	(37,318)	-	(37,318)
Net income (loss) before taxes	38,840	(49,277)	(10,437)
Income tax recovery	(34,083)	-	(34,083)
Net income (loss)	72,923	(49,277)	23,646
Capital expenditures, net	**106,443**	**1,487**	**107,930**
Six months ended December 31, 2015			
Revenues and other income	$ 39,628	$ -	$ 39,628
Equity loss	-	(328)	(328)
Expenses, excluding income taxes and impairments	(50,493)	(23,264)	(73,757)
Impairment on E&E assets	(8,651)	-	(8,651)
Impairment on D&P assets	(44,599)	-	(44,599)
Net loss before taxes	(64,115)	(23,592)	(87,707)
Income tax expense	15,784	-	15,784
Net loss	$ (79,899)	$ (23,592)	$ (103,491)
Capital expenditures, net	$ 44,495	$ 198	$ 44,693

Twelve months ended June 30, 2015			
Revenues	$ 149,368	$ -	$ 149,368
Equity income	-	4,689	4,689
Expenses, excluding income taxes and impairments	(134,463)	(42,138)	(176,601)
Impairment on E&E assets	(3,954)	-	(3,954)
Impairment on D&P assets	(72,057)	-	(72,057)
Net loss before taxes	(61,106)	(37,449)	(98,555)
Income tax expense	7,467	-	7,467
Net loss	$ (68,573)	$ (37,449)	$ (106,022)
Capital expenditures, net	$ 216,575	$ 767	$ 217,342

	Colombia (reportable)	Other Segments (non-reportable)	Total
As at December 31, 2016			
Total assets	$ 604,640	$ 182,868	$ 787,508
Total liabilities	$ 159,068	$ 252,054	$ 411,112
As at December 31, 2015			
Total assets	$ 568,672	$ 99,677	$ 668,349
Total liabilities	$ 113,616	$ 251,446	$ 365,062

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

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2016, four major customers represented 20%, 19%, 19% and 10% of total revenues in the year, respectively. For the six months ended December 31, 2015, two major customers represented 38% and 31% of total revenues in the period, respectively. For the year ended June 30, 2015, four major customers represented 27%, 19%, 15% and 14% of total revenues in the year, respectively.

NOTE 18 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at December 31, 2016 are summarized as follows:

	Carrying Value	Fair Value
Fair value through profit or loss		
Cash	$ 66,283	$ 66,283
Restricted cash	62,073	62,073
Restricted share units	2,237	2,237
Investments	17,607	17,607
Crude oil payable in kind	646	646
Loans and receivables		
Trade and other receivables	34,617	34,617
Other liabilities		
Bank debt	250,638	255,000
Trade and other payables	32,438	32,438
Other long term obligations	3,328	3,328

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

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

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash, restricted share units and crude oil payable in kind are classified as Level 1. A portion of the investments is classified as Level 1 ($2.7 million) and a portion is classified as Level 2 ($1.6 million). The investment in IEC is classified as Level 3 ($13.3 million). There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended December 31, 2016. 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 carrying value of the bank debt includes $4.4 million of transaction costs netted against the principal amount as at December 31, 2016, which is amortized over the term of the underlying bank debt using the effective interest method.

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

Restricted Share Units

	Number (000's)		Amount
Balance at June 30, 2015	158	$	350
Granted	45		94
Settled	(125)		(273)
Realized loss	-		24
Unrealized gain	-		(15)
Foreign exchange gain	-		(25)
Balance at December 31, 2015	78		155
Granted	1,203		3,189
Settled	(626)		(2,027)
Realized gain	-		(16)
Unrealized loss	-		1,019
Foreign exchange gain	-		(83)
Balance at December 31, 2016	**655**	$	**2,237**

On August 18, 2015 and November 27, 2015, the Corporation granted 15,000 and 30,000 restricted shares units ("RSUs") with a reference price of C$2.28 and C$2.77 per share, respectively. The RSUs vest as to one-half in one year and one-half two years from the grant date, and will be settled in cash.

On October 2, 2015 and October 7, 2015, 117,388 and 8,000 RSUs were settled with a reference price of C$4.80 and C$4.70 per share, respectively.

On March 31, 2016 and August 24, 2016, the Corporation granted 1,150,615 and 52,000 RSUs with a reference price of C$3.41 and C$4.22 per share, respectively. The March 31, 2016 RSUs and 33,000 of the August 24, 2016 RSUs vest at one-half in six months and one-half in one year from the grant date and 19,000 of the August 24, 2016 RSUs vest at one-half in one year and one-half in two years from the grant date, and will all likely be settled in cash.

On January 21, 2016, February 14, 2016, March 31, 2016, May 30, 2016, August 18, 2016, September 30, 2016 and November 27, 2016, 4,667, 11,250, 1,791, 10,000, 7,500, 575,313 and 15,000 RSUs were settled in cash at C$2.16, C$2.65, C$3.31, C$3.71, C$4.09, C$4.31 and C$4.61 per share, respectively.

Phantom warrants

	Number (000's)		Amount
Balance at June 30, 2014	2,697	**$**	7,557
Settled	(2,697)		(3,500)
Realized loss	-		2,025
Unrealized gain	-		(5,703)
Foreign exchange gain	-		(379)
Balance at June 30, 2015, December 31, 2015 and December 31, 2016	**-**	**$**	**-**

In connection with the closing of the Shona business acquisition on December 21, 2012, the Corporation entered into a credit agreement for $45 million, which has since been replaced by the Senior Secured Term Loan. In consideration for entering into the credit agreement, the Corporation agreed to a "phantom warrant payment" arrangement such that the Corporation would pay an amount (in cash or shares, at the election of the Corporation) equal to the in-the-money amount of 2,697,292 common share purchase warrants of the Corporation at an exercise price of C$4.50 per Share. The phantom warrants holders had the right to demand the phantom warrants be settled partially or in full at any time for a period of three years.

During the year ended June 30, 2015, all 2,697,292 phantom warrants were settled in cash for $3.5 million. A realized loss on settlement of $2 million was recognized due to a fair value difference of the phantom warrants.

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

Warrants

	Number (000's)		Amount
Balance at June 30, 2015	779	$	67
Expired	(515)		(3)
Unrealized gain	-		(62)
Foreign exchange gain	-		(2)
Balance at December 31, 2015	264		-
Expired	(264)		-
Unrealized gain	-		-
Foreign exchange gain	-		-
Balance at December 31, 2016	-	$	-

On September 2, 2015, 514,988 warrants expired with an exercise price of C$3.97. On February 9, 2016, the remaining 264,192 warrants expired with an exercise price of C$5.20, which had a fair market value of $nil.

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. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. 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.

During the year ended December 31, 2016, the Corporation entered into one financial oil collar under the following terms:

Period	Volume	Type	Price Range
Jul 2016 – Dec 2016	1,000 bbls/day	Financial WTI Oil Collar	$40.00 – $58.40

(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, 2016, the United States dollar to Colombian peso exchange rate was 3,000:1 (December 31, 2015 – 3,149:1) and the Canadian dollar to United States dollar exchange rate was 1.34:1 (December 31, 2015 – 1.38:1).

The Corporation had no forward exchange rate contracts in place as at or during the year ended December 31, 2016.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2016.

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

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 annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at December 31, 2016:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	$ 22,500	$ 90,000	$ 142,500	$ 255,000
Finance lease obligation – undiscounted	8,219	8,751	28,367	45,337
Trade and other payables	32,438	-	-	32,438
Crude oil payable in kind	646	-	-	646
Taxes payable	15,195	-	-	15,195
Deferred income	3,991	-	3,731	7,722
Other long term obligations	-	-	3,328	3,328
Restricted share units	2,181	56	-	2,237
	$ 85,170	$ 98,807	$ 177,926	$ 361,903

In addition to the above, the Corporation has issued letters of credit totalling $65.1 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments. Such amounts only become payable should the Corporation not meet those obligations.

Credit Risk

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

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers.

During the year ended December 31, 2016, the Corporation wrote off $1.6 million of receivables related to certain loans made to its strategic industry partners.

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, bank debt 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 bank debt, 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.

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

On August 2, 2016 and August 5, 2016, the Corporation completed the first and second tranche of private placement offerings of 9,687,670 and 1,800,000 common shares of the Corporation, respectively, issued at C$4.08 per common share for a total of C$46.9 million. The private placement offering further enhances the Corporation's liquidity and its ability to explore and develop its 100% operated gas assets for the remainder of 2016. Subsequent to December 31, 2016, the Corporation executed a new credit agreement to refinance its existing debt consisting of the BNP Senior Secured Term Loan and the Apollo Senior Notes, currently totaling $255 million, into a single loan facility, with the following benefits: a) a lower the average interest rate, and b) extend the first amortization payment of the new term loan into 2019.

		December 31, 2016
Bank debt – principal	$	255,000
Working capital surplus		(64,899)
Net debt	**$**	**190,101**

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2016:

		Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	$	50,166	$	51,952	$	-	$	102,118
Jobo facility operating contract		3,250		7,072		7,569		17,891
Liquid natural gas processing contract		706		5,651		9,943		16,300
Office leases		1,292		1,566		1,277		4,135

Ecuador Incremental Production Contract

In addition to the commitments described above, the Corporation has a non-operated 25% equity participation interest in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium plans to incur project expenditures estimated for a total of $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at December 31, 2016, the Corporation had incurred $85.3 million of expenditures in connection with its Ecuador IPC commitment.

Oleoducto Bicentenario de Colombia ("OBC") Pipeline

The Corporation owns a 0.5% interest in 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 has also entered into ship-or-pay arrangements for 550 barrels of oil per day at $8.54 / barrel with OBC to guarantee its pipeline revenue.

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.

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

NOTE 20 – DEFERRED INCOME

During the year ended December 31, 2016, the Corporation received proceeds for crude oil and natural gas to be delivered at a later date ("Undelivered Nominations"). As at December 31, 2016, Undelivered Nominations resulted in a deferred income balance of $4 million ($3.4 million related to gas; $0.6 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.

Pacific Exploration & Production Corp. ("Pacific") has executed an agreement with the Corporation whereby, among other things, the Corporation has agreed to transfer operatorship of the Portofino Exploration and Production contract (the "Contract") to Pacific subject to ANH approval. Under the terms of the agreement, Pacific will operate any commercial discoveries made on the contract. In consideration for the transfer of operatorship, Pacific has paid the sum of $3.7 million (the "Consideration") and has agreed to provide the Corporation with the option to participate pro-rata in its interest in the Contract, as well as in all pipelines and transportation infrastructure projects in which Pacific participates in respect of the evacuation of crude from the area. As at December 31, 2016, the condition of the contract has not been met and therefore the consideration remains recognized as deferred income and classified as a non-current liability.

NOTE 21 – TAKE-OR-PAY INCOME AND OTHER INCOME

During the year ended December 31, 2016, the Corporation realized take-or-pay income of $6.1 million relating to the portion of natural gas sales nominations by the Corporation's off-takers that did not get delivered, typically 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.

During the year ended December 31, 2016, the Corporation realized other income of $3.5 million relating to a penalty fee due to the delayed operation of the natural gas processing plant according to the lease agreement entered into with Promisol SAS (see note 5 and note 9).

The Corporation is eligible to receive dividends on its investment in OBC. During the year ended December 31, 2016, the Corporation received dividend income of $0.7 million (six months ended December 31, 2015 – $0.3 million; year ended June 30, 2015 – $0.3 million).

NOTE 22 – WEALTH TAX

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 and January 1, 2016 resulting in a $1.1 million wealth tax expense for the year end December 31, 2016 (six months ended December 31, 2015 - $nil; year ended June 30, 2015 - $1.5 million). The amount was classified as an operating expense in the consolidated statements of operations since it is not assessed based on income.

NOTE 23 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of Incorporation	Fiscal year end	Ownership Interest December 31, 2016	Ownership Interest December 31, 2015
Canacol Energy Inc.	Canada	December 31	100%	100%
Canacol Energy Ltd. (British Columbia)	Canada	December 31	100%	100%
Shona Energy Company Inc. (Alberta)	Canada	December 31	100%	100%
CNE Oil & Gas S.A.S (Colombia)	Colombia	December 31	100%	100%

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

NOTE 24 – INVESTMENT IN ANDES INTEROIL LIMITED

On October 28, 2015, the Corporation invested $3.2 million in Andes Interoil Limited ("Interoil") to acquire 49% of Interoil's outstanding shares. Due to the Corporation's ownership and governance participation, the Corporation has significant influence over Interoil and therefore has accounted for Interoil using the equity method. The investment has initially been recognized at cost and subsequently reduced for Interoil's comprehensive loss for the pro-rated period from the acquisition date of October 28, 2015 to December 31, 2015 ("Pro-rated period ended December 31, 2015") and the year ended December 31, 2016.

As at	**December 31, 2016**	December 31, 2015
Interoil cash and cash equivalents (gross)	**$ 11,468**	$ 15,558
Interoil bank debt (gross)	**37,863**	43,892
Total Interoil current assets (gross)	**$ 15,117**	$ 21,098
Total Interoil non-current assets (gross)	**34,259**	39,948
Total Interoil current liabilities (gross)	**8,850**	12,008
Total Interoil non-current liabilities (gross)	**41,491**	38,685
Interoil equity (gross)	**(965)**	10,353
Investment in Interoil	**$ 758**	$ 2,491

	Year ended December 31, 2016	Pro-rated period ended December 31, 2015
Interoil revenue (gross)	**$ 15,083**	$ 2,570
Interoil depletion and depreciation (gross)	**6,208**	1,444
Interoil interest expense (gross)	**5,070**	1,078
Interoil income tax expense (recovery) (gross)	**1,399**	(1,437)

	Year ended December 31, 2016	Pro-rated period ended December 31, 2015
Interoil net loss	**$ 6,898**	$ 2,918
Interoil other comprehensive loss	**32**	17
Corporation's share of Interoil net loss	**1,725**	730
Corporation's share of Interoil other comprehensive loss	**8**	4

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

NOTE 25 – INVESTMENT IN JOINT ARRANGEMENTS

Joint venture

The Corporation conducts its operations in Ecuador through a 25% equity interest in the Ecuador IPC, which is reported in these financial statements 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, 2016	December 31, 2015
Ecuador IPC cash and cash equivalents (gross)	$ 9,672	$ 7,412
Ecuador IPC bank debt (gross)	175,463	174,065
Total Ecuador IPC current assets (gross)	$ 130,828	$ 91,781
Total Ecuador IPC non-current assets (gross)	123,197	170,717
Total Ecuador IPC current liabilities (gross)	71,148	105,297
Total Ecuador IPC non-current liabilities (gross)	138,253	118,124
Ecuador IPC equity (gross)	44,624	39,078
Investment in joint venture	$ 14,656	$ 13,311

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Joint venture revenue (gross)	$ 100,797	$ 61,689	$ 115,555
Joint venture depletion and depreciation (gross)	59,094	46,722	60,003
Joint venture interest expense (gross)	9,768	4,030	8,294
Joint venture income tax expense (gross)	1,845	1,300	4,458

	Twelve months ended December 31, 2016	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Joint venture net income and comprehensive income	$ 5,379	$ 1,608	$ 18,758
Corporation's share of joint venture profit	1,345	402	4,689

Joint operations

The Corporation has the following significant joint operations:

Joint operation	Principal place of business	Working interest %
LLA-23	Colombia	91%
Santa Isabel	Colombia	30% (deep); 100% (shallow)
VMM-2	Colombia	66.9% (deep); 40% (shallow)
VMM-3	Colombia	20%
Ombu/Capella	Colombia	10%
Coati	Colombia	20%
Portofino	Colombia	40%
Los Picachos	Colombia	37.5%
Macaya	Colombia	37.5%
Serrania	Colombia	37.5%

NOTE 26 – SUBSEQUENT EVENT

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 (2017 Senior Secured Term Loan). The 2017 Senior Secured Term Loan will 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 carries interest at LIBOR plus 5.5% and is secured by all of the material assets of the Corporation. Proceeds from the 2017 Senior Secured Term Loan was used for repayment of the principal in the amount of $255 million including $180 million of the BNP Senior Secured 2017 Senior Secured Term Loan and $75 million of Senior Notes, plus accrued interest and costs of the transaction. Remaining proceeds from the 2017 Senior Secured Term Loan were made available for other general corporate purposes.

The 2017 Senior Secured Term Loan includes various non-financial and financial covenants including a maximum Consolidated Leverage Ratio of 3.00:1.00, a minimum Consolidated Interest Coverage Ratio of 3.50:1.00 and minimum consolidated current assets to Consolidated Current Assets to Consolidated Current Liabilities Ratio of 1.00:1.00.