CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Total petroleum and natural gas revenues, net of royalties	**44,392**	21,958	102%	**106,018**	75,684	40%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC (2)	**50,851**	29,899	70%	**125,241**	96,602	30%
Cash provided by operating activities	**22,275**	14,302	56%	**43,288**	1,386	>999%
Per share – basic ($)	**0.13**	0.11	18%	**0.27**	0.01	>999%
Per share – diluted ($)	**0.13**	0.11	18%	**0.26**	0.01	>999%
Adjusted funds from operations (1) (2)	**30,719**	15,218	102%	**71,040**	42,499	67%
Per share – basic ($)	**0.18**	0.12	50%	**0.44**	0.36	22%
Per share –diluted ($)	**0.18**	0.12	50%	**0.43**	0.35	23%
Net (loss) income and comprehensive (loss) income	**(8,399)**	(19,029)	(56%)	**3,307**	(93,191)	n/a
Per share – basic ($)	**(0.05)**	(0.15)	(67%)	**0.02**	(0.78)	n/a
Per share – diluted ($)	**(0.05)**	(0.15)	(67%)	**0.02**	(0.78)	n/a
Capital expenditures, net, including acquisitions	**28,698**	22,299	29%	**49,292**	113,716	(57%)
Adjusted capital expenditures, net, including acquisitions and capital expenditures related to the Ecuador IPC (1)(2)	**29,208**	26,080	12%	**50,533**	125,751	(60%)
				Sept 30, 2016	Dec 31, 2015	Change
Cash				**62,103**	43,257	44%
Restricted cash				**62,580**	61,721	1%
Working capital surplus, excluding non-cash items (1)				**68,524**	46,310	48%
Bank debt				**250,039**	248,228	1%
Total assets				**735,253**	668,349	10%
Common shares, end of period (000s)				**172,976**	159,266	9%

Operating	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum (3)	**3,892**	6,983	(44%)	**4,145**	6,812	(39%)
Natural gas	**14,740**	3,472	325%	**11,197**	3,643	207%
Total (2)	**18,632**	10,455	78%	**15,342**	10,455	47%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum (3)	**3,801**	7,272	(48%)	**4,141**	7,032	(41%)
Natural gas	**14,621**	3,455	323%	**11,106**	3,660	203%
Total (2)	**18,422**	10,727	72%	**15,247**	10,692	43%
Realized contractual sales, before royalties (boepd)						
Natural gas	**15,107**	3,455	337%	**11,586**	3,660	217%
Colombia oil	**2,090**	5,116	(59%)	**2,413**	5,157	(53%)
Ecuador tariff oil (2)	**1,711**	2,156	(21%)	**1,728**	1,875	(8%)
Total (2)	**18,908**	10,727	76%	**15,727**	10,692	47%
Operating netbacks ($/boe) (1)						
Esperanza (natural gas)	**27.63**	22.54	23%	**27.45**	22.55	22%
VIM-5 (natural gas)	**24.65**	-	n/a	**24.52**	-	n/a
LLA-23 (oil)	**13.78**	19.75	(30%)	**11.36**	22.33	(49%)
Ecuador (tariff oil) (2)	**38.54**	38.54	-	**38.54**	38.54	-
Total (2)	**25.83**	22.73	14%	**25.28**	23.25	9%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador. 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 (the "TSX") under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, and the Bolsa de Valores de Colombia under the symbol CNEC.

Advisories

The following management's discussion and analysis ("MD&A") is dated November 9, 2016 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2016 and 2015 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the six months ended December 31, 2015. The financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward-Looking Statements – *Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that petroleum and natural gas production will result from such capital projects, that additional natural gas sales contracts will be secured, that the Ecuadorian government will not renegotiate tariff prices on certain fixed priced contracts during low oil price environment, or that hydrocarbon-based royalties assessed will remain consistent or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.*

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

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

***Non-IFRS Measures** – Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador ("Ecuador IPC"), the Corporation does not record its proportionate share of revenues and expenditures as would be typical in oil and gas joint interest arrangements. Therefore, within this MD&A, management has provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. Such supplemental measures should not be considered as an alternative to, or more meaningful than, the measures as determined in accordance with IFRS as an indicator of the Corporation's performance, and such measures may not be comparable to that reported by other companies.*

One of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations. Adjusted funds from operations is a measure not defined in IFRS. It represents cash provided by operating activities before changes in non-cash working capital and decommissioning obligation expenditures, and includes the Corporation's proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. The Corporation considers adjusted funds from operations a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Adjusted funds from operations should not be considered as an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of adjusted funds from operations may not be comparable to that reported by other companies. The Corporation also presents adjusted funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share. The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Cash provided by (used in) operating activities	**$ 22,275**	$ 14,302	**$ 43,288**	$ 1,386
Changes in non-cash working capital	**2,260**	(7,025)	**9,378**	20,195
Ecuador IPC revenue, net of current income tax	**6,184**	7,941	**18,374**	20,918
Adjusted funds from operations	**$ 30,719**	$ 15,218	**$ 71,040**	$ 42,499

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

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

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

Results of Operations

For the three months ended September 30, 2016, the Corporation's production primarily consisted of natural gas from its Nelson, Palmer, Clarinete and Oboe fields in the Lower Magdalena Basin in Colombia, crude oil from its Leono, Labrador, Pantro, Tigro and Maltes fields in the Llanos Basin in Colombia, tariff oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Rancho Hermoso and Santa Isabel properties in Colombia.

The Nelson and Palmer fields at the Esperanza block and the Clarinete and Oboe fields at the VIM-5 block, located in the Lower Magdalena Basin in Colombia, produce dry natural gas for sale to local customers under long-term and interruptible contracts. The construction of the Promigas natural gas pipeline was completed on April 21, 2016, which allowed Canacol to increase gas production capacity by an additional 65 million standard cubic feet per day ("MMscfpd") (11,400 boe per day ("boepd")) from 25 MMscfpd (4,386 boepd) to 90 MMscfpd (15,789 boepd).

During the three months ended September 30, 2016, the Nispero-1 exploration well was completed and tested at 28 MMscfpd of dry gas with no water. The well encountered 79 feet measured depth ("ft. md") (55 feet true vertical depth) of net gas pay with average porosity of 17% within the primary Cienaga de Oro ("CDO") reservoir target.

With success at Nispero-1, on September 13, 2016, the Corporation spud the Trombon-1 exploration well from the same drilling platform the Nispero-1 well was drilled from. The Trombon-1 exploration well targetted the same CDO reservoir interval tested in the offsetting Nispero-1 well, but in a distinct and isolated fault block located approximately 2 kilometers south of the Nispero-1 discovery. On October 17, 2016, the Trombon-1 exploration well was completed and tested at 26 MMscfpd of dry gas with no water. The well encountered 26 ft. md (21 feet true vertical depth) of net gas pay with average porosity of 22% within the primary CDO reservoir target. Both the Nispero-1 and Trombon-1 wells will be tied into the Corporation's operated Jobo production facility.

The Corporation, through a consortium, participates in an incremental production contract for the Libertador and Atacapi fields in Ecuador whereby the Corporation is entitled to a tariff price of $38.54/bbl for each incremental barrel of oil produced over a pre-determined production base curve. Such incremental production volumes are reported as production in this MD&A. As further described above, as required under IFRS 11, the Ecuador IPC is being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting. For purposes of this MD&A, management has provided supplemental measures for adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations.

For the three months ended September 30, 2016, the Corporation also had crude oil production from its LLA-23, Rancho Hermoso and Santa Isabel properties in Colombia. The Corporation's Rancho Hermoso and Santa Isabel properties individually contributed only a minor amount to total production in the three and nine months ended September 30, 2016 and, therefore, they were aggregated into a single group ("Other") for analysis purposes in this MD&A. These properties are susceptible to negative cash flows in a low oil price environment and the Corporation plans to shut-in any wells under its control that are uneconomic.

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

Average Daily Petroleum and Natural Gas Production and Sales Volumes

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

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Production (boepd)						
Esperanza (gas)	**7,782**	3,472	124%	**7,143**	3,643	96%
VIM-5 (gas)	**6,958**	-	n/a	**4,054**	-	n/a
LLA-23 (oil)	**1,569**	4,112	(62%)	**1,774**	4,031	(56%)
Ecuador (tariff oil)	**1,711**	2,156	(21%)	**1,728**	1,875	(8%)
Other (oil and liquids)	**612**	715	(14%)	**643**	906	(29%)
Total production	**18,632**	10,455	78%	**15,342**	10,455	47%
Inventory movements and other	**(210)**	272	n/a	**(95)**	237	n/a
Total sales	**18,422**	10,727	72%	**15,247**	10,692	43%
Sales (boepd)						
Esperanza (gas)	**7,669**	3,455	122%	**7,081**	3,660	93%
VIM-5 (gas)	**6,952**	-	n/a	**4,025**	-	n/a
LLA-23 (oil)	**1,505**	4,301	(65%)	**1,765**	4,159	(58%)
Ecuador (tariff oil)	**1,711**	2,156	(21%)	**1,728**	1,875	(8%)
Other (oil and liquids)	**585**	815	(28%)	**648**	998	(35%)
Total sales	**18,422**	10,727	72%	**15,247**	10,692	43%
Realized Contractual Sales (boepd)						
Esperanza	**7,669**	3,455	122%	**7,081**	3,660	93%
VIM-5	**6,952**	-	n/a	**4,025**	-	n/a
Take-or-pay volumes	**486**	-	n/a	**480**	-	n/a
Total natural gas	**15,107**	3,455	337%	**11,586**	3,660	217%
Total Colombia oil	**2,090**	5,116	(59%)	**2,413**	5,157	(53%)
Ecuador tariff oil	**1,711**	2,156	(21%)	**1,728**	1,875	(8%)
Total realized contractual sales	**18,908**	10,727	76%	**15,727**	10,692	47%

The overall increase in production volumes in the three and nine months ended September 30, 2016 compared to the same periods in 2015 is primarily due to an increase in gas production in Esperanza and VIM-5 as a result of the additional sales related to the Promigas pipeline expansion, offset by production declines from the oil fields in Colombia and Ecuador.

Total Cash Sales

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	$	Boepd	Mscfpd	$	Boepd	Mscfpd
Cash Sales						
Gas sales (1)	43,329	14,621	83,340	97,158	11,106	63,304
Take-or-pay income (2)	1,385	486	2,770	4,114	480	2,736
Total realized contractual gas sales	**44,714**	**15,107**	**86,110**	**101,272**	**11,586**	**66,040**
Undelivered gas nominations (settlements) (3)	(773)	(215)	(1,226)	3,261	368	2,098
Gas cash sales	**43,941**	**14,892**	**84,884**	**104,533**	**11,954**	**68,138**
Colombia oil sales	6,825	2,090		19,971	2,413	
Ecuador tariff oil sales [(a)]	6,065	1,711		18,249	1,728	
Total Cash sales	**56,831**	**18,693**		**142,753**	**16,095**	

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

The Corporation has three types of natural gas sales, as reconciled in the above table:

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

During the three months ended September 30, 2016, certain offtakers were able to accept physical delivery of the "make-up volumes" as described in 3) above. The net settlement in the quarter was $0.8 million. Gas cash sales for the three months ended September 30, 2016 were lower than its contractual nomination of 90 MMbtu per day (89.5 MMscfpd) primarily due to scheduled maintenance at two of Canacol's customer's facilities which have since been completed.

Petroleum and Natural Gas Revenues

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Esperanza	**$ 22,504**	$ 8,459	166%	**$ 61,323**	$ 26,579	131%
VIM-5	**20,825**	-	n/a	**35,835**	-	n/a
LLA-23	**4,918**	13,459	(63%)	**14,510**	45,647	(68%)
Other	**1,907**	3,009	(37%)	**5,461**	11,622	(53%)
Petroleum and natural gas revenues, before royalties	**50,154**	24,927	101%	**117,129**	83,848	40%
Royalties	**(7,147)**	(2,969)	141%	**(15,225)**	(8,164)	86%
Petroleum and natural gas revenues, after royalties	**43,007**	21,958	96%	**101,904**	75,684	35%
Take-or-pay natural gas income	**1,385**	-	n/a	**4,114**	-	n/a
Total petroleum and natural gas revenues, after royalties, as reported	**44,392**	21,958	102%	**106,018**	75,684	40%
Ecuador tariff and other revenues	**6,459**	7,941	(19%)	**19,223**	20,918	(8%)
Adjusted petroleum and natural gas revenues, after royalties (1)	**$ 50,851**	$ 29,899	70%	**$ 125,241**	$ 96,602	30%

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

The increase in adjusted petroleum and natural gas revenues after royalties in the three months ended September 30, 2016 compared to the same period in 2015 is primarily the result of an increase in natural gas revenues due to additional sales related to the Promigas pipeline expansion, offset by lower crude oil sales in Colombia and Ecuador.

The increase in adjusted petroleum and natural gas revenues after royalties in the nine months ended September 30, 2016 compared to the same period in 2015 is primarily the result of an increase in natural gas revenues due to additional sales related to the Promigas pipeline expansion, offset by lower realized average prices as a result of declines in benchmark crude oil prices and lower crude oil sales in Colombia and Ecuador.

Average Benchmark and Realized Sales Prices

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Brent ($/bbl)	**$ 46.52**	$ 50.44	(8%)	**$ 40.98**	$ 57.18	(28%)
West Texas Intermediate ($/bbl)	**$ 45.91**	$ 46.65	(2%)	**$ 41.35**	$ 52.19	(21%)
Natural gas ($/boe)	**$ 32.21**	$ 26.61	21%	**$ 31.93**	$ 26.60	20%
Colombia oil ($/bbl)	**35.50**	34.99	1%	**30.21**	40.68	(26%)
Ecuador tariff ($/bbl)	**38.54**	38.54	-	**38.54**	38.54	-
Esperanza ($/boe)	**31.90**	26.61	20%	**31.60**	26.60	19%
VIM-5 ($/boe)	**32.56**	-	n/a	**32.49**	-	n/a
LLA-23 ($/bbl)	**35.52**	34.01	4%	**30.01**	40.20	(25%)
Ecuador ($/bbl)	**38.54**	38.54	-	**38.54**	38.54	-
Other ($/bbl)	**35.43**	40.13	(12%)	**30.77**	42.64	(28%)
Average realized sales price ($/boe) (1)	**$ 33.17**	$ 33.00	1%	**$ 32.40**	$ 35.48	(9%)

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

The increase in average realized Colombia crude oil sales prices in the three months ended September 30, 2016 despite a decrease in benchmark crude oil prices compared to the same period in 2015 is mainly due to lower negotiated marketing costs.

The decrease in average realized Colombia crude oil sales prices in the nine months ended September 30, 2016 compared to the same period in 2015 is mainly due to decreased benchmark crude oil prices.

The increase in average realized natural gas sales prices in the three and nine months ended September 30, 2016 compared to the same periods in 2015 is due to a) the increase in the Guajira price in December 2015, from $5.08/MMbtu to $6.17/MMbtu, and b) the Corporation's sales of natural gas on its fixed price contracts at prices higher than the 2015 Guajira price.

The tariff price for Ecuador tariff oil production is fixed at $38.54/bbl.

Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Esperanza	**$ 1,954**	$ 646	**$ 5,429**	$ 2,148
VIM-5	**4,479**	-	**7,745**	-
LLA-23	**557**	2,068	**1,615**	5,061
Other	**157**	255	**436**	955
Total royalties	**$ 7,147**	$ 2,969	**$ 15,225**	$ 8,164

In Colombia, light crude oil and natural gas royalties are generally at a rate of 8% and 6.4%, respectively, until net field production reaches 5,000 boepd, at which time the royalty rates increase on a sliding scale to 20% up to field production of 125,000 boepd. The Corporation's LLA-23 and VMM-2 blocks are subject to an additional x-factor royalty of 3% (effectively 2.76%). Crude oil royalties in LLA-23 and VMM-2 are calculated from crude oil revenue net of transportation expenses. The Corporation's Capella heavy oil field is subject to a 6% royalty. Crude oil royalties in Labrador and Rancho Hermoso are taken in kind. There are no royalties on tariff production in Ecuador. The Corporation's Esperanza natural gas production is subject to an additional overriding royalty of 2% and the Corporation's VIM-5 natural gas production is subject to an additional x-factor royalty of 13% and an overriding royalty of 3% to 4%.

Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Production expenses	**$ 4,593**	$ 6,417	(28%)	**$ 12,336**	$ 24,092	(49%)
Transportation expenses	**691**	746	(7%)	**2,205**	3,444	(36%)
Total production and transportation expenses	**$ 5,284**	$ 7,163	(26%)	**$ 14,541**	$ 27,536	(47%)
$/boe	**$ 3.12**	$ 7.26	(57%)	**$ 3.48**	$ 9.43	(63%)

An analysis of production expenses is provided below:

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Esperanza	**$ 1,061**	$ 647	64%	**$ 2,621**	$ 1,897	38%
VIM-5	**583**	-	n/a	**1,047**	-	n/a
LLA-23	**1,947**	2,975	(35%)	**5,843**	12,698	(54%)
Other	**1,002**	2,795	(64%)	**2,825**	9,497	(70%)
Total production expenses	**$ 4,593**	$ 6,417	(28%)	**$ 12,336**	$ 24,092	(49%)
$/boe						
Esperanza	**$ 1.50**	$ 2.04	(26%)	**$ 1.35**	$ 1.90	(29%)
VIM-5	**$ 0.91**	$ -	n/a	**$ 0.95**	$ -	n/a
LLA-23	**$ 14.06**	$ 7.52	87%	**$ 12.08**	$ 11.18	8%
Total	**$ 2.71**	$ 6.50	(58%)	**$ 2.95**	$ 8.25	(64%)

Production expenses at LLA-23 decreased 35% in the three months ended September 30, 2016 compared to the same period in 2015 primarily due to a 65% decrease in sales volume. On a per barrel basis, production expenses at LLA-23 increased 87% in the three months ended September 30, 2016 compared to the same period in 2015 due to the allocation of fixed costs over lower production.

Production expenses at LLA-23 decreased 58% in the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to a 56% decrease in sales volume, as well as the Corporation's cost-cutting initiatives of centralizing the production, loading, and water disposal operations from the different fields within the LLA-23 block to the Pointer facility, lower renegotiated operating costs and the devaluation of the Colombian peso versus the United States dollar. On a per barrel basis, production expenses at LLA-23 increased 8% in the nine months ended September 30, 2016 compared to the same period in 2015 despite the Corporation's cost-cutting initiatives due to the allocation of fixed costs over lower production.

Production expenses at Esperanza increased by 64% and 38% mainly due to a 122% and 93% increase in sales volume in the three and nine months ended September 30, 2016, compared to the same periods in 2015, respectively. On a per boe basis, production expenses at Esperanza decreased 26% and 29% in the three and nine months ended September 30, 2016 compared to the same periods in 2015, respectively. The decrease of production expenses on a per boe basis is due to the fact that majority of the production expenses at Esperanza is fixed.

In light of continued weakness in benchmark crude oil prices, the Corporation continues to focus its efforts on reducing production expenses in order to maintain profitability in its operations. The Corporation will continue to monitor its non-operated fields at VMM-2 and Capella and work with the operators to optimize profitability. As of September 30, 2016, all of the wells at the Capella and VMM-2 fields have been shut-in.

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

An analysis of transportation expenses is provided below:

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
LLA-23	**$ 507**	$ 599	(15%)	**$ 1,560**	$ 2,528	(38%)
Other	**184**	147	25%	**645**	916	(30%)
Total transportation expenses	**$ 691**	$ 746	(7%)	**$ 2,205**	$ 3,444	(36%)
$/boe						
LLA-23	**$ 3.66**	$ 1.51	142%	**$ 3.23**	$ 2.23	45%
Total	**$ 0.41**	$ 0.76	(46%)	**$ 0.53**	$ 1.18	(55%)

Total transportation expenses have decreased by 7% and 36% in the three and nine months ended September 30, 2016 compared to the same periods in 2015, respectively, mainly due to lower oil production, offset by less oil production sold at the field.

The Corporation does not pay transportation costs at Esperanza or VIM-5 as gas pipeline costs are paid by the offtakers. The Corporation does not pay transportation costs in Ecuador.

Operating Netbacks

	Three months ended September 30,			Nine months ended September 30,		
$/boe	**2016**	2015	Change	**2016**	2015	Change
Corporate						
Petroleum and natural gas revenues	**$ 33.17**	$ 33.00	1%	**$ 32.40**	$ 35.48	(9%)
Royalties	**(4.22)**	(3.01)	40%	**(3.64)**	(2.80)	30%
Production and transportation expenses	**(3.12)**	(7.26)	(57%)	**(3.48)**	(9.43)	(63%)
Operating netback (1)	**$ 25.83**	$ 22.73	14%	**$ 25.28**	$ 23.25	9%

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

Operating netbacks by major production categories were as follows:

Natural Gas

	Three months ended September 30,			Nine months ended September 30,		
$/boe	**2016**	2015	Change	**2016**	2015	Change
Esperanza						
Natural gas revenues	**$ 31.90**	$ 26.61	20%	**$ 31.60**	$ 26.60	19%
Royalties	**(2.77)**	(2.03)	36%	**(2.80)**	(2.15)	30%
Production expenses	**(1.50)**	(2.04)	(26%)	**(1.35)**	(1.90)	(29%)
Operating netback	**$ 27.63**	$ 22.54	23%	**$ 27.45**	$ 22.55	22%
VIM-5						
Natural gas revenues	**$ 32.56**	$ -	n/a	**$ 32.49**	$ -	n/a
Royalties	**(7.00)**	-	n/a	**(7.02)**	-	n/a
Production expenses	**(0.91)**	-	n/a	**(0.95)**	-	n/a
Operating netback	**$ 24.65**	$ -	n/a	**$ 24.52**	$ -	n/a
Total Natural Gas						
Natural gas revenues	**$ 32.21**	$ 26.61	21%	**$ 31.93**	$ 26.60	20%
Royalties	**(4.78)**	(2.03)	135%	**(4.33)**	(2.15)	101%
Production expenses	**(1.22)**	(2.04)	(40%)	**(1.21)**	(1.90)	(37%)
Operating netback	**$ 26.21**	$ 22.54	16%	**$ 26.39**	$ 22.55	17%

Crude Oil

$/boe	Three months ended September 30, 2016	2015	Change	Nine months ended September 30, 2016	2015	Change
LLA-23						
Crude oil revenues	**$ 35.52**	$ 34.01	4%	**$ 30.01**	$ 40.20	(25%)
Royalties	**(4.02)**	(5.23)	(23%)	**(3.34)**	(4.46)	(25%)
Production and transportation expenses	**(17.72)**	(9.03)	96%	**(15.31)**	(13.41)	14%
Operating netback	**$ 13.78**	$ 19.75	(30%)	**$ 11.36**	$ 22.33	(49%)
Ecuador						
Tariff revenues (1)	**$ 38.54**	$ 38.54	-	**$ 38.54**	$ 38.54	-
Operating netback (1)	**$ 38.54**	$ 38.54	-	**$ 38.54**	$ 38.54	-

(1) Revenues related to the Ecuador IPC are not included in Petroleum and Natural Gas Revenues as reported under IFRS – see "Non-IFRS Measures" section above.

LLA-23 production and transportation expenses on a per barrel basis increased 96% to $17.72 in the three months ended September 30, 2016 from a low of $9.03 in the same period in 2015 due to a 62% decline in production volume. The Corporation expects production and transportation expenses per barrel to decrease as production increases in the future.

General and Administrative Expenses

	Three months ended September 30, 2016	2015	Change	Nine months ended September 30, 2016	2015	Change
Gross costs	**$ 5,497**	$ 5,670	(3%)	**$ 15,025**	$ 18,658	(19%)
Less: capitalized amounts	**(729)**	(820)	(11%)	**(2,292)**	(3,412)	(33%)
General and administrative expenses	**$ 4,768**	$ 4,850	(2%)	**$ 12,733**	$ 15,246	(16%)
$/boe	**$ 2.81**	$ 4.91	(43%)	**$ 3.05**	$ 5.22	(42%)

Gross general and administrative ("G&A") expenses decreased by 3% and 19% in the three and nine months ended September 30, 2016 compared to the same periods in 2015, respectively, primarily due to the Corporation's efforts to manage its G&A expenses in light of the continued weakness in benchmark crude oil prices and the devaluation of the Colombian peso versus the United States dollar.

Net Finance Income and Expense

	Three months ended September 30, 2016	2015	Change	Nine months ended September 30, 2016	2015	Change
Net financing expense paid	**$ 4,434**	$ 5,098	(13%)	**$ 12,774**	$ 15,708	(19%)
Non-cash financing costs	**1,277**	1,085	18%	**3,997**	9,412	(58%)
Net finance expense	**$ 5,711**	$ 6,183	(8%)	**$ 16,771**	$ 25,120	(33%)

Net finance expense paid decreased 13% and 18% in the three and nine months ended September 30, 2016 compared to the same periods in 2015, respectively. The decrease is mainly due to the $20 million pre-payment of the BNP Senior Secured Term Loan on September 30, 2015. The non-cash financing costs are related to the accretion of the decommissioning liabilities and the amortization of the debt upfront fees.

Commodity Contracts

During the nine months ended September 30, 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

Gains and losses on commodity contracts recognized in net income/loss are summarized below:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Unrealized change in fair value	**$ (47)**	$ -	**$ 3**	$ -
Realized cash settlement	**-**	-	**-**	-
Total loss (gain)	**$ (47)**	$ -	**$ 3**	$ -

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Stock-based compensation expense	**$ 3,569**	$ 1,606	122%	**$ 5,456**	$ 4,144	32%
Restricted share unit expense	**106**	26	308%	**3,127**	50	>999%
Stock-based compensation and restricted share units expense	**$ 3,675**	$ 1,632	125%	**$ 8,583**	$ 4,194	105%

Stock-based compensation and restricted share unit expense increased 125% and 105% in the three and nine months ended September 30, 2016 compared the same periods in 2015, respectively, due to stock options and restricted share units granted during the periods. Stock-based compensation and restricted share units expense is a non-cash expense recognized based on the fair value of units granted.

Depletion and Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Depletion and depreciation expense	**$ 10,814**	$ 12,573	(14%)	**$ 20,319**	$ 37,524	(46%)
$/boe	**$ 6.38**	$ 12.74	(50%)	**$ 4.86**	$ 12.86	(62%)

Depletion and depreciation expense decreased 14% and 46% in the three and nine months ended September 30, 2016 compared to the same periods in 2015, respectively, primarily as a result of lower depletable cost base and higher reserves.

Income Tax Expense

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Current income tax expense	**$ 8,174**	$ 2,812	**$ 22,335**	$ 8,260
Deferred income tax expense (recovery)	**(571)**	3,522	**(7,815)**	3,254
Income tax expense (recovery)	**$ 7,603**	$ 6,334	**$ 14,520**	$ 11,514

The Corporation's pre-tax income is subject to the Colombian statutory income tax rate of 40%.

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

	Three months ended September 30,			Nine months ended September 30,		
	2016	2015	Change	**2016**	2015	Change
Cash provided by operating activities	**$ 22,275**	$ 14,302	56%	**$ 43,288**	$ 1,386	>999%
Per share – basic ($)	**$ 0.13**	$ 0.11	18%	**$ 0.27**	$ 0.01	>999%
Per share – diluted ($)	**$ 0.13**	$ 0.11	18%	**$ 0.26**	$ 0.01	>999%
Adjusted funds from operations [1]	**$ 30,719**	$ 15,218	102%	**$ 71,040**	$ 42,499	67%
Per share – basic ($)	**$ 0.18**	$ 0.12	50%	**$ 0.44**	$ 0.36	22%
Per share – diluted ($)	**$ 0.18**	$ 0.12	50%	**$ 0.43**	$ 0.35	23%
Net (loss) income and comprehensive (loss) income	**$ (8,399)**	$ (19,029)	(56%)	**$ 3,307**	$ (93,191)	n/a
Per share – basic ($)	**$ (0.05)**	$ (0.15)	(67%)	**$ 0.02**	$ (0.78)	n/a
Per share – diluted ($)	**$ (0.05)**	$ (0.15)	(67%)	**$ 0.02**	$ (0.78)	n/a

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

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
Drilling and completions	**$ 10,016**	$ 12,216	**$ 19,311**	$ 32,508
Facilities, work overs and infrastructure	**3,892**	5,550	**11,503**	12,623
Land, seismic, communities and other	**6,135**	4,533	**13,334**	12,075
Non-cash costs and adjustments [2]	**837**	-	**(6,317)**	20,981
Property acquisitions	**7,818**	-	**11,483**	38,000
Dispositions and farm-outs	**-**	-	**(22)**	(2,471)
Net capital expenditures	**28,698**	22,299	**49,292**	113,716
Ecuador	**510**	3,781	**1,241**	12,035
Adjusted net capital expenditures [1]	**$ 29,208**	$ 26,080	**$ 50,533**	$ 125,751
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 12,465**	$ 2,462	**$ 24,448**	$ 18,863
Expenditures on property, plant and equipment	**8,415**	19,837	**13,383**	59,324
Property acquisition	**7,818**	-	**11,483**	38,000
Disposition and farm-outs	**-**	-	**(22)**	(2,471)
Net capital expenditures	**$ 28,698**	$ 22,299	**$ 49,292**	$ 113,716

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.
(2) Other non-cash costs include capitalized costs related to decommissioning liabilities in the three and nine months ended September 30, 2016.

Capital expenditures in the three months ended September 30, 2016 primarily related to:

- Reserves addition related bonus payment related to the VIM-5 and VIM-19 acquisition;
- Pre-drilling of Nelson-6 exploration well;
- Drilling of Nispero-1 and Trombon-1 exploration wells;
- Workover costs at LLA-23 and Esperanza;
- Facilities costs at LLA-23 and Esperanza;
- Facilities and infrastructure costs at VIM-5 ;
- Facilities costs related to the Ecuador IPC (accounted for under the equity method of accounting); and
- Other capitalized costs (capitalized G&A of $0.7 million and non-cash decommissioning costs of $0.8 million).

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items. 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.

On August 2, 2016 and August 5, 2016, the Corporation completed the first and second tranche of a private placement offering 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.

The Corporation is in active negotiations 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 term loan facility, with the intention to a) lower the average interest rate, and b) extend the first amortization payment of the new term loan into 2019.

		September 30, 2016
Bank debt – principal	$	255,000
Working capital surplus		(68,524)
Net debt	$	186,476

Credit Facilities and Debt

Senior Secured Term Loan

On April 24, 2015, the Corporation entered into a credit agreement for a $200 million senior secured term loan with a syndicate of banks led by BNP Paribas ("BNP") ("BNP Senior Secured Term Loan"). The BNP Senior Secured Term Loan is due September 30, 2019, with interest payable quarterly and principal repayable in eight equal quarterly installments starting on December 31, 2017, following an initial grace period. As such, the BNP Senior Secured Term Loan is classified as non-current as at September 30, 2016. 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 pre-paid $20 million on its BNP Senior Secured Term Loan, thus reducing the balance outstanding to $180 million. The carry value of the BNP Senior Secured Term Loan included $2.8 million of transaction costs netted against the principal amount as at September 30, 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. As at September 30, 2016, the Consolidated Leverage Ratio was 2.25:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt; 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, share of joint venture profit/loss and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the contribution to adjusted funds from operations, before taxes, of the results of the Ecuador IPC. 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 consolidated financial statements. Consolidated Total Debt and Consolidated EBITDAX are calculated as follows:

Consolidated Total Debt		**September 30, 2016**
Bank debt (current and long-term) – principal	$	255,000
Debt service reserve account balance		(3,000)
Consolidated Total Debt	$	252,000

Consolidated EBITDAX	**Q4 2015**	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Rolling**
Consolidated net (loss) income and comprehensive (loss) income	(84,462)	461	11,245	(8,399)	(81,155)
(+) Interest expense	5,575	5,361	5,360	5,531	21,827
(+/-) Income taxes (recovery)	9,450	(745)	7,662	7,603	23,970
(+) Wealth taxes	-	850	285	-	1,135
(+) Depletion and depreciation	13,906	5,834	3,671	10,814	34,225
(+) Exploration expenses	8,796	40	99	14,583	23,518
(-) Share of equity loss (profit)	193	(294)	(718)	(387)	(1,206)
(+) Other non-cash expenses and non-recurring items	51,890	4,000	1,807	5,372	63,069
(+) Contribution of Ecuador IPC	7,481	6,300	6,464	6,459	26,704
Consolidated EBITDAX	12,829	21,807	35,875	41,576	112,087

Consolidated Leverage Ratio		**September 30, 2016**
Consolidated Total Debt	$	252,000
Consolidated EBITDAX		112,087
Consolidated Leverage Ratio		2.25

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.

Consolidated Interest Coverage Ratio		**September 30, 2016**
Interest expense	$	19,424
Interest income		(2,488)
Consolidated Interest Expense	$	16,936
Consolidated EBITDAX	$	112,087
Consolidated Interest Coverage Ratio		6.62

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 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 September 30, 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"), of which, $50 million was drawn on October 29, 2014 and $25 million was drawn on April 2, 2015 for a total outstanding balance of $75 million at September 30, 2016. 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 (subject to BNP's approval) and are subject to customary financial, performance and legal covenants which are consistent with the covenants under the BNP Senior Secured Term Loan. The carrying value of the Senior Notes included $2.2 million of transaction costs netted against the principal amount as at September 30, 2016.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $62.6 million (COP$ 124 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at September 30, 2016.

Letters of Credit

At September 30, 2016, the Corporation had letters of credit outstanding totaling $76 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 $42.6 million to $20 million at September 30, 2016.

Share Capital

At November 9, 2016, the Corporation had 173.7 million common shares, 14.1 million stock options and 0.7 million restricted share units outstanding.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at September 30, 2016:

	Less than 1 year	1-3 years	Thereafter	Total
Bank debt – principal	$ -	$ 180,000	$ 75,000	$ 255,000
Trade and other payables	22,909	-	-	22,909
Crude oil payable in kind	472	-	-	472
Commodity contracts	3	-	-	3
Taxes payable	22,376	-	-	22,376
Deferred income	4,200	-	3,731	7,931
Other long term obligations	-	-	2,684	2,684
Restricted share units	2,038	104	-	2,142
Exploration and production contracts	43,654	59,822	-	103,476
Office leases	866	1,733	1,223	3,822
Finance lease	9,213	24,482	30,343	64,038

Finance lease

The Corporation entered into a lease agreement with Promisol SAS to construct and operate a natural gas processing plant which is currently expected to commence operation by the end of 2016. Upon commencement of operation, the Corporation is expected to recognize a finance lease asset and liability of approximately $33 million.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia and Peru which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2016 of $103.5 million and has issued $40.1 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

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.

Ecuador Incremental Production Contract

In addition to the contractual obligations described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital 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 September 30, 2016, the Corporation had incurred a net $84.3 million of capital expenditures in connection with its Ecuador IPC commitment. It is anticipated that cash flows from the Ecuador IPC is sufficient to sustain envisioned future capital development.

OUTLOOK

The three months ended September 30, 2016 was another record quarter for the Corporation in terms of production levels, and its highest revenues, EBITDAX, and adjusted funds flows from operations since the robust oil prices of 2014; primarily due to having a full quarter of increased gas production as a result of the completion of the Promigas pipeline expansion in April 2016 which allowed the Corporation to increase average daily gas cash sales to approximately 90 MMscfpd.

In August of 2016, the Corporation accepted a $36 million equity financing, which was completed at a premium to the existing market price. The proceeds of which have been used to accelerate the Corporation's 2016 gas exploration and development program. The objective of the program is to continue building the reserve base to sign a new ten year 100 MMscfpd ship or pay gas pipeline and gas sales contracts, which are anticipated to commence in 2018 after the construction of a new pipeline, as well as the drilling of two additional development wells to add additional productive capacity. The Corporation is currently negotiating several new long term take or pay gas sales contracts with existing and new clients, as well as a contract which will see a third party construct and operate a new pipeline to the Caribbean coast of Colombia operational in late 2018, at no cost to the Corporation.

Looking ahead to the remainder of 2016, the Corporation's resource capture strategy anticipates four more wells before year end. The Corporation has contracted the Tuscany Rig-12 to drill the Nelson-6 gas exploration well and the Nelson-8 gas development well. Tuscany Rig-15 mobilized from the Trombon discovery to the Clarinete field and spud the Clarinete-3 gas development well on November 3, 2016. The Nelson-6 exploration well was spud on October 18, 2016 and is targeting interpreted gas pay within the shallow Porquero sandstone reservoir in the Nelson field. Existing Nelson wells drilled to date have encountered up to 62 feet of interpreted gas pay on open-hole logs over the Porquero sandstone reservoir. Upon testing and completion of the Nelson-6 exploration well, the Corporation will drill the Nelson-8 development well targeting productive reservoirs within the CDO reservoir that are not being drained by the existing producing wells in the Nelson field. A third rig, the Tuscany Rig-14 has been contracted to drill the Mono Capuchino-1 oil exploration well on the VMM-2 E&P contract located in the Middle Magdalena Basin. The well is anticipated to be spud on December 1, 2016 and is expected to take up to two months to drill and test.

Canacol estimates that average net before royalty oil and gas production for 2016 will range between 16,000 and 17,000 boepd. Realized contractual gas sales will average approximately 75 MMscfpd (13,160 boepd) including approximately 90 MMscfpd from April 21, 2016 forward at an anticipated average realized price of $5.60/Mcf ($31.92/boe), with an average netback of approximately $4.56/Mcf ($26.00/boe). Additionally, Canacol anticipates Colombian oil production to average approximately 2,300 bopd and Ecuador oil production of approximately 1,300 bopd in calendar 2016, both without the drilling of any additional oil wells. Total corporate hydrocarbon sales are anticipated to average between 18,500 and 19,000 boepd for the last half of 2016.

Total corporate EBITDAX is anticipated to be approximately $135 million for calendar 2016, which represents a Consolidated Leverage Ratio of less than 2.0, despite realized contractual gas sales for the period of January 1, 2016 to April 20, 2016 being less than half of current volumes.

The Corporation is in active negotiations 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 term loan facility, with the intention to a) lower the average interest rate, and b) extend the first amortization payment of the new term loan into 2019.

SUMMARY OF QUARTERLY RESULTS

	2016			2015				2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Total Petroleum and natural gas revenues, net of royalties	**44,392**	38,926	22,700	17,402	21,958	27,297	26,429	36,404
Adjusted petroleum and natural gas revenues, net of royalties, including revenues relate to the Ecuador IPC (1)	**50,851**	45,390	29,000	24,883	29,899	33,892	32,811	43,878
Cash provided by (used in) operating activities	**22,275**	13,764	7,249	4,974	14,302	(10,905)	(2,011)	31,743
Per share – basic	**0.13**	0.09	0.05	0.03	0.11	(0.09)	(0.02)	0.29
Per share – diluted	**0.13**	0.08	0.05	0.03	0.11	(0.09)	(0.02)	0.29
Adjusted funds from operations (1)	**30,719**	26,870	13,451	8,473	15,218	16,359	10,922	22,952
Per share – basic (1)	**0.18**	0.17	0.08	0.05	0.12	0.14	0.10	0.21
Per share – diluted (1)	**0.18**	0.16	0.08	0.05	0.12	0.14	0.10	0.21
Comprehensive (loss) income	**(8,399)**	11,245	461	(84,466)	(19,029)	(58,524)	(15,638)	(45,970)
Per share – basic	**(0.05)**	0.07	-	(0.54)	(0.15)	(0.50)	(0.14)	(0.43)
Per share – diluted	**(0.05)**	0.07	-	(0.54)	(0.15)	(0.50)	(0.14)	(0.43)
Capital expenditures, net	**28,698**	5,046	15,548	22,394	22,299	25,310	62,482	78,403
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC (1)	**29,208**	5,376	15,949	22,867	26,080	27,268	68,778	87,228
Operations (boepd)								
Petroleum and natural gas production, before royalties								
Petroleum (2)	**3,892**	4,018	4,526	5,523	6,983	6,007	7,448	8,586
Natural gas	**14,740**	12,405	6,407	3,541	3,472	3,954	3,502	3,236
Total (2)	**18,632**	16,423	10,933	9,064	10,455	9,961	10,950	11,822
Petroleum and natural gas sales, before royalties								
Petroleum (2)	**3,801**	4,045	4,578	5,468	7,272	6,192	7,636	8,187
Natural gas	**14,621**	12,331	6,329	3,542	3,455	4,064	3,462	3,216
Total (2)	**18,422**	16,376	10,907	9,010	10,727	10,256	11,098	11,403
Realized contractual sales, before royalties								
Natural gas	**15,107**	12,972	6,642	3,891	3,455	4,064	3,462	3,216
Colombia oil	**2,090**	2,294	2,856	3,390	5,116	4,433	5,932	6,220
Ecuador tariff oil (2)	**1,711**	1,751	1,722	2,078	2,156	1,759	1,704	1,967
Total (2)	**18,908**	17,017	11,220	9,359	10,727	10,256	11,098	11,403

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

RISKS AND UNCERTAINTIES

There have been no significant changes in the three and nine months ended September 30, 2016 to the risks and uncertainties as identified in the MD&A for the six months ended December 31, 2015.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation is currently reviewing a number of new and revised IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies that may affect the Corporation are provided in the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2016 and the audited consolidated financial statements as at and for the six months ended December 31, 2015.

REGULATORY POLICIES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

During the quarter ended September 30, 2016, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

Limitations of Controls and Procedures

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