CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2018

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	June 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		$ 55,230	$ 39,071
Restricted cash	7	800	16,399
Trade and other receivables		61,762	50,411
Prepaid expenses and deposits		2,276	1,562
Prepaid income tax expense		2,260	—
Investments	8	—	16,601
Crude oil inventory		518	642
Hedging contract		—	35
Assets held for sale		43,853	71,960
		166,699	196,681
Non-current assets			
Other receivable	16	6,000	—
Restricted cash	7	4,661	11,520
Prepaid expenses and deposits		2,997	2,680
Exploration and evaluation assets	4	40,901	43,867
Property, plant and equipment	5	445,239	383,356
Investments	8	2,161	2,028
Deferred tax assets		57,243	56,311
		559,202	499,762
Total assets		$ 725,901	$ 696,443
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		55,999	59,739
Crude oil payable in kind		858	748
Deferred income		8,386	4,805
Finance lease obligation	10	8,045	6,500
Restricted share units	16	2,048	1,971
Taxes payable		—	8,663
Settlement liability	6	3,600	—
Liabilities held for sale		3,854	3,854
		82,790	86,280
Non-current liabilities			
Long-term debt	9	310,356	294,590
Finance lease obligation	10	38,097	29,358
Decommissioning obligations		25,576	19,223
Restricted share units	16	32	32
Settlement liability	6	16,084	—
Other long term obligations		2,310	1,903
Deferred tax liabilities		22,994	25,915
Total liabilities		498,239	457,301
Equity			
Share capital	11	712,160	707,125
Other reserves		66,733	65,547
Accumulated other comprehensive income		335	335
Deficit		(551,548)	(533,847)
Non-controlling interest		(18)	(18)
Total equity		227,662	239,142
Total liabilities and equity		$ 725,901	$ 696,443

Commitments and contingencies (note 17)
Subsequent event (note 18)
See accompanying notes to the interim condensed consolidated financial statements.

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

(UNAUDITED)

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

		Three months ended June 30,		Six months ended June 30,	
	Note	2018	2017	2018	2017
Revenues					
Petroleum and natural gas revenues, net of royalties	14	$ 56,832	$ 36,954	$ 108,219	$ 75,558
Take-or-pay natural gas income		369	329	738	3,308
Total petroleum and natural gas revenues, net of royalties		57,201	37,283	108,957	78,866
Dividend income		—	129	356	129
Equity income		—	493	—	779
Expenses					
Production and transportation expenses		12,549	6,346	23,439	12,736
Pre-license costs and exploration impairment	4	10,490	23	11,085	46
General and administrative		7,067	6,103	13,180	12,623
Donations		952	—	1,238	—
Stock-based compensation and restricted share units	11,16	996	1,080	5,469	8,236
Depletion and depreciation	5	11,677	5,539	21,808	15,336
Foreign exchange loss (gain)		2,459	2,127	939	4,907
Other expenses		832	33	1,679	262
Other tax expenses		908	24	1,499	474
Loss (gain) on financial instruments	14	124	(13,257)	4,397	(11,286)
Loss on settlement of credit facility	9	14,417	—	14,417	—
Impairment recovery	5	(19,126)	—	(19,126)	—
Settlement liability	6	20,258	—	20,258	—
		63,603	8,018	100,282	43,334
Net finance expense	12	7,950	6,950	17,000	17,727
Income (Loss) before income taxes		(14,352)	22,937	(7,969)	18,713
Income taxes (recovery)					
Current		6,392	3,788	13,586	13,143
Deferred		5,235	7,491	(3,854)	1,913
		11,627	11,279	9,732	15,056
Non-controlling interest		—	112	—	171
Net income (loss) and comprehensive income (loss)		(25,979)	11,770	(17,701)	3,828
Net income (loss) per share					
Basic and diluted	13	$ (0.15)	$ 0.07	$ (0.10)	$ 0.02

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Non-Controlling Interest	Total Equity
Balance at December 31, 2016	$ 700,528	$ 60,567	$ 335	$ (385,818)	$ 774	$ 376,386
Stock options exercised	1,828	(651)	—	—	—	1,177
Stock-based compensation	—	4,390	—	—	—	4,390
Net income	—	—	—	3,828	—	3,828
Net controlling interest net loss	—	—	—	—	(171)	(171)
Balance at June 30, 2017	**$ 702,356**	**$ 64,306**	**$ 335**	**$ (381,990)**	$ 603	**$ 385,610**
Balance as at December 31, 2017	$ 707,125	$ 65,547	$ 335	$ (533,847)	$ (18)	$ 239,142
Stock options exercised	5,035	(2,030)	—	—	—	3,005
Stock-based compensation	—	3,216	—	—	—	3,216
Net loss	—	—	—	(17,701)	—	(17,701)
Balance at June 30, 2018	**$ 712,160**	**$ 66,733**	**$ 335**	**$ (551,548)**	**$ (18)**	**$ 227,662**

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2018**	2017	**2018**	2017
Operating activities					
Net income (loss) and comprehensive income (loss)		**$ (25,979)**	$ 11,770	**$ (17,701)**	$ 3,828
Adjustments:					
Non-controlling interest		**—**	(112)	**—**	(171)
Net financing expense	12	**7,950**	6,950	**17,000**	17,727
Equity income		**—**	(493)	**—**	(779)
Exploration impairment	4	**9,865**	—	**9,865**	—
Stock-based compensation and restricted share units	11,16	**996**	1,080	**5,469**	8,236
Depletion and depreciation	5	**11,677**	5,539	**21,808**	15,336
Realized loss on investments	14	**2,509**	—	**653**	—
Unrealized loss (gain) on financial instruments	14	**(2,133)**	(13,103)	**3,893**	(10,793)
Unrealized foreign exchange loss (gain) and other		**3,238**	(430)	**(97)**	1,357
Loss on settlement of credit facility	9	**14,417**	—	**14,417**	—
Impairment recovery	5	**(19,126)**	—	**(19,126)**	—
Settlement liability	6	**20,258**	—	**20,258**	—
Settlement of restricted share units liability	16	**(81)**	(48)	**(2,178)**	(2,100)
Deferred income tax		**5,235**	7,491	**(3,854)**	1,913
Changes in non-cash working capital	14	**(9,000)**	(7,514)	**(10,713)**	(5,885)
		19,826	11,130	**39,694**	28,669
Investing activities					
Expenditures on exploration and evaluation assets		**(13,943)**	(17,703)	**(29,074)**	(32,807)
Expenditures on property, plant and equipment		**(11,535)**	(16,423)	**(22,478)**	(24,243)
Proceeds on held for sale assets		**—**	—	**22,107**	—
Proceeds on disposition of assets		**—**	—	**—**	107
Proceeds from disposal of investments	8	**10,800**	1,614	**12,725**	1,614
Investments	8	**(100)**	(107)	**(100)**	(83)
Change in restricted cash		**7,881**	(373)	**22,458**	(818)
Change in prepaid expenses and deposits		**(18)**	(8,631)	**(317)**	(8,631)
Other long-term liabilities		**—**	(115)	**—**	(197)
Changes in non-cash working capital	14	**(10,193)**	(1,722)	**(13,007)**	(10,200)
		(17,108)	(43,460)	**(7,686)**	(75,258)
Financing activities					
Draw on long-term debt	9	**320,000**	20,000	**320,000**	285,000
Financing fees	9	**(9,864)**	(1,378)	**(9,864)**	(12,248)
Repayment of long-term debt	9	**(305,000)**	—	**(305,000)**	(255,000)
Settlement liability paid	6	**(574)**	—	**(574)**	—
Net financing expense paid	12	**(7,301)**	(5,524)	**(14,958)**	(11,039)
Prepayment penalty on settlement of credit facility	9	**(4,980)**	—	**(4,980)**	—
Finance lease principal payments	10	**(1,924)**	(1,017)	**(3,478)**	(2,002)
Issue of common shares	11	**1,133**	1,053	**3,005**	1,177
		(8,510)	13,134	**(15,849)**	5,888
Change in cash		**(5,792)**	(19,196)	**16,159**	(40,701)
Cash, beginning of period		**61,022**	44,778	**39,071**	66,283
Cash, end of period		**$ 55,230**	$ 25,582	**$ 55,230**	$ 25,582

See accompanying notes to the interim condensed consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on August 13, 2018.

NOTE 2 - BASIS OF PREPARATION

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

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

(i) IFRS 15: Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 11 "Construction Contracts", IAS 18 "Revenue Recognition", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services". The standard provides a single, principle-based five-step model that applies to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In addition to providing a new five-step revenue recognition model, the standard specifies how to account for the incremental costs of obtaining a contract and costs directly related to fulfilling a contract. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not part of the Corporation's ordinary activities. The adoption of the new standard does not have a material impact to the financial statements, however the required disclosures have been included in the notes to the financial statements (note 14).

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

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

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

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

(ii) IFRS 9: Financial Instruments

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

On January 1, 2019, the Corporation will be required to adopt IFRS 16 "Leases" to replace the existing guidance of IAS 17 "Leases". The standard establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease arrangement.

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2017	$	43,867
Additions		29,074
Exploration impairment		(9,865)
Transferred to D&P assets (note 5)		(22,175)
Balance at June 30, 2018	**$**	**40,901**

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

During the three months ended June 30, 2018, the Corporation assessed its exploration blocks for impairment and, as a result of planned relinquishment of a block, all costs associated with such block have been written off to exploration impairment. In addition to the $9.9 million of relinquishment related costs, $0.6 million and $1.2 million of pre-license costs were also included in pre-license costs and exploration impairment for the three and six months ended June 30, 2018, respectively.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Cost		
Balance at December 31, 2017	$	874,656
Additions		42,231
Transfer from E&E asset (note 4)		22,175
Balance at June 30, 2018	**$**	**939,062**
Accumulated depletion and depreciation		
Balance at December 31, 2017	$	(491,300)
Depletion and depreciation		(21,808)
Impairment recovery		19,126
Derecognition and inventory adjustments		159
Balance at June 30, 2018	**$**	**(493,823)**
Carrying value		
As at December 31, 2017	$	383,356
As at June 30, 2018	**$**	**445,239**

During the six months ended June 30, 2018, the Corporation's second leased natural gas compression station commenced operation and as such, was recognized as a finance lease asset valued at $13.9 million (note 10).

As at June 30, 2018, $21.8 million of assets under construction are being recognized at cost and are not being depleted.

During the six months ended June 30, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (cash generating unit), which was previously estimated to be $nil with an estimated decommissioning obligation of $10.2 million. The recoverable amount estimate of $8.9 million as at June 30, 2018 was based on the fair value less cost of disposal using discounted cash flows, as estimated by the management, an after-tax discount rate of 15% and the following forward West Texas Intermediate crude oil price per barrel of oil ("bbl") estimates: 2018 - $67.04/bbl, 2019 - $65.83/bbl, 2020 - $67.65/bbl, 2021 - $69.38/bbl, 2022 - $71.77/bbl and an increase of 2% per year thereafter. The recoverable amount of the Rancho Hermoso block is estimated using the fair value less cost of disposal and is considered Level 3, as defined in note 16. Such recovery was primarily a result of increased market participant interest in acquiring the block and the recovery in benchmark crude oil prices as at June 30, 2018. The Corporation's other CGUs were unaffected.

NOTE 6 – SETTLEMENT LIABILITY

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

NOTE 7 – RESTRICTED CASH

		June 30, 2018		December 31, 2017
Restricted cash – current	**$**	**800**	$	16,399
Restricted cash – non-current		**4,661**		11,520
	$	**5,461**	$	27,919

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

At June 30, 2018, restricted cash consisted of $5.5 million for work commitments and other capital commitments, of which $0.8 million is classified as current and $4.7 million is classified as non-current.

During the six months ended June 30, 2018, the Corporation's debt reserve account of $5.3 million was released as a result of the credit facility settlement (note 9), the Ecuador IPC outstanding term deposits of $8.3 million were received as a portion of sale proceeds (note 16) and $8.8 million of restricted cash relating to work commitments was released.

NOTE 8 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Interoil Investment	Total Investments
Balance at December 31, 2017	$ 1,803	$ 225	$ 15,085	$ 1,516	$ 18,629
Additions	—	100	—	—	$ 100
Disposals	—	—	(10,800)	(1,925)	(12,725)
Realized gain (loss)	—	—	(2,509)	1,856	(653)
Unrealized loss	—	—	(1,776)	(2,025)	(3,801)
Foreign exchange gain	33	—	—	578	611
Balance at June 30, 2018	**$ 1,836**	**$ 325**	**$ —**	**$ —**	**$ 2,161**

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

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bank Debt
Balance at December 31, 2017	$ —	$ 294,590
Draw, net of transaction costs	310,136	—
Repayment	—	(305,000)
Amortization of transaction costs	220	10,410
Balance at June 30, 2018	**$ 310,356**	**$ —**

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

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

NOTE 10 – FINANCE LEASE OBLIGATIONS

As at June 30, 2018		Minimum Lease Payments		PV of Minimum Lease Payments
Jobo natural gas processing facility				
Not later than one year	$	7,781	$	6,415
Later than one year and not later than five years		18,924		17,464
Later than five years		—		—
		26,705		23,879
Less: future finance charges		(2,826)		—
PV of minimum lease payments	**$**	**23,879**	**$**	**23,879**
Compression stations				
Not later than one year	$	2,756	$	1,630
Later than one year and not later than five years		7,533		8,049
Later than five years		18,230		12,584
		28,519		22,263
Less: future finance charges		(6,256)		—
PV of minimum lease payments	**$**	**22,263**	**$**	**22,263**

Finance lease obligations		
As at June 30, 2018		
Finance lease obligations - current	$	8,045
Finance lease obligations - non-current		38,097
PV of minimum lease payments	**$**	**46,142**
As at December 31, 2017		
Finance lease obligations - current	$	6,500
Finance lease obligations - non-current		29,358
PV of minimum lease payments	**$**	**35,858**

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

NOTE 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 December 31, 2017	176,109	$	707,125
Issued on exercise of stock options	1,161		3,005
Transfer from other reserves for stock options	—		2,030
Balance at June 30, 2018	**177,270**	**$**	**712,160**

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

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at December 31, 2017	14,853	3.89
Granted	2,774	4.42
Exercised	(1,161)	3.29
Forfeited and cancelled	(168)	4.40
Balance at June 30, 2018	**16,298**	**4.01**

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

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000's)	(years)	(C$)	(000's)	(C$)
$2.21 to $3.50	4,810	2.1	2.76	4,810	2.76
$3.60 to $6.66	11,488	3.5	4.54	7,727	4.65
	16,298	**3.1**	**4.01**	**12,537**	**3.92**

Stock-based compensation of $1 million and $3.2 million (2017 - $1.1 million and $4.4 million) was expensed during the three and six months ended June 30, 2018, respectively.

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Finance income				
Interest and other income	**$ 127**	$ 697	**$ 415**	$ 1,587
Finance expense				
Accretion on decommissioning obligations	**429**	593	**848**	1,138
Amortization of upfront fees	**220**	833	**1,194**	5,550
Interest and other financing costs	**7,428**	6,221	**15,373**	12,626
	$ 8,077	$ 7,647	**$ 17,415**	$ 19,314
Net finance expense	**$ 7,950**	$ 6,950	**$ 17,000**	$ 17,727

(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:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Net income (loss)	**$ (25,979)**	$ 11,770	**$ (17,701)**	$ 3,828
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic	**177,018**	174,668	**176,796**	174,524
Effect of stock options	**—**	2,071	**—**	2,037
Weighted-average common shares outstanding, diluted	**177,018**	176,739	**176,796**	176,561

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

NOTE 14 – SUPPLEMENTAL INFORMATION

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Natural gas revenues, net of royalties	**$ 47,031**	$ 30,425	**$ 89,557**	$ 61,782
Petroleum revenues, net of royalties	**$ 9,801**	$ 6,529	**$ 18,662**	$ 13,776

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Natural gas royalties	**$ 6,206**	$ 4,469	**$ 12,005**	$ 8,653
Petroleum royalties	**$ 1,079**	$ 722	**$ 2,054**	$ 1,537

Income taxes and interest paid were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Income taxes paid	**$ 21,835**	$ 14,442	**$ 25,955**	$ 14,442
Interest paid	**$ 3,834**	$ 5,707	**$ 10,406**	$ 11,956

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

Loss (gain) on derivatives and financial instruments:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Crude oil payable in kind	**$ 105**	$ (74)	**$ 144**	$ (105)
Restricted share units – unrealized	**24**	446	**(87)**	87
Restricted share units – realized	**(1)**	(47)	**102**	(386)
Investments – unrealized	**(2,509)**	(13,475)	**3,801**	(10,775)
Investments – realized	**2,509**	(107)	**653**	(107)
Hedging contract - unrealized	**247**	—	**35**	—
Hedging contract - realized	**(251)**	—	**(251)**	—
	$ 124	$ (13,257)	**$ 4,397**	$ (11,286)

Changes in non-cash working capital are comprised of:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Change in:				
Trade and other receivables	**$ (7,924)**	$ 2,792	**$ (11,351)**	$ (1,723)
Prepaid expenses and deposits	**1,435**	4,993	**(713)**	4,763
Crude oil inventory	**(124)**	63	**(38)**	167
Trade and other payables	**2,131**	(3,965)	**(4,242)**	(15,434)
Crude oil payable in kind	**(23)**	(4)	**(34)**	(4)
Deferred income	**622**	525	**3,581**	(675)
Wealth tax payable	**—**	(248)	**—**	221
Taxes payable	**(15,310)**	(13,392)	**(10,923)**	(3,400)
	$ (19,193)	$ (9,236)	**$ (23,720)**	$ (16,085)
Attributable to:				
Operating activities	**$ (9,000)**	$ (7,514)	**$ (10,713)**	$ (5,885)
Investing activities	**(10,193)**	(1,722)	**(13,007)**	(10,200)
	$ (19,193)	$ (9,236)	**$ (23,720)**	$ (16,085)

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

NOTE 15 – SEGMENTED INFORMATION

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

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

	Colombia (reportable)	Other Segments (non-reportable)	Total
Three months ended June 30, 2018			
Revenue and other income	$ 57,201	$ —	$ 57,201
Expenses, excluding impairment recovery and income taxes	(69,264)	(21,415)	(90,679)
Impairment recovery	19,126	—	19,126
Net loss before taxes	7,063	(21,415)	(14,352)
Income tax expense	11,627	—	11,627
Net loss	$ (4,564)	$ (21,415)	$ (25,979)
Capital expenditures, net of dispositions	$ 31,072	$ 39	$ 31,111
Three months ended June 30, 2017			
Revenue and other income	$ 37,412	$ —	$ 37,412
Equity profit	—	493	493
Expenses, excluding income taxes	(21,660)	6,804	(14,856)
Net income before taxes	15,752	7,297	23,049
Income tax expense	11,279	—	11,279
Net income	$ 4,473	$ 7,297	$ 11,770
Capital expenditures, net of dispositions	$ 30,328	$ 244	$ 30,572
Six months ended June 30, 2018			
Revenue and other income	$ 109,313	$ —	$ 109,313
Expenses, excluding impairment recovery and income taxes	(98,333)	(38,075)	(136,408)
Impairment recovery	19,126	—	19,126
Net income (loss) before taxes	30,106	(38,075)	(7,969)
Income tax expense	9,732	—	9,732
Net income (loss)	$ 20,374	$ (38,075)	$ (17,701)
Capital expenditures, net of dispositions	$ 71,135	$ 170	$ 71,305
Six months ended June 30, 2017			
Revenue and other income	$ 78,995	$ —	$ 78,995
Equity profit	—	779	$ 779
Expenses, excluding income taxes	(50,327)	(10,563)	$ (60,890)
Net income (loss) before taxes	28,668	(9,784)	18,884
Income tax expense	15,056	—	15,056
Net income (loss)	$ 13,612	$ (9,784)	$ 3,828
Capital expenditures, net of dispositions	$ 54,221	$ 351	$ 54,572
Balance at June 30, 2018			
Total assets	$ 657,814	$ 68,087	$ 725,901
Total liabilities	$ 180,813	$ 317,426	$ 498,239
Balance at December 31, 2017			
Total assets	$ 619,189	$ 77,254	$ 696,443
Total liabilities	$ 259,544	$ 197,757	$ 457,301

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

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair Value of Financial Instruments

The carrying values of cash, restricted cash, trade and other receivables, trade and other payables and finance lease obligations approximate their fair values at June 30, 2018. Restricted Share Units ("RSUs") and investments are recorded at fair value. The fair value of the Senior Notes is $308.5 million.

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

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

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash, restricted share units, and crude oil payable in kind are classified as Level 1. The pipeline company investment is classified as Level 2 ($1.8 million). There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three and six months ended June 30, 2018. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Restricted Share Units

	Number		Amount
	(000's)		
Balance at December 31, 2017	617	$	2,003
Granted	632		2,254
Settled	(605)		(2,280)
Realized loss	—		102
Unrealized gain	—		(87)
Foreign exchange loss	—		88
Balance at June 30, 2018	**644**	**$**	**2,080**

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

On January 16, 2018, and June 5, 2018, 580,250 and 25,000 RSUs were settled in cash at a price of C$4.71 and C$4.18 per share, respectively, resulting in a cash settlement of $2.3 million.

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

Market Risk

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

(i) Commodity Price Risk

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

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at June 30, 2018, the Colombian peso to the United States dollar exchange rate was 2,931:1 (December 31, 2017 – 2,984:1) and the Canadian dollar to United States dollar exchange rate was 1.31:1 (December 31, 2017 – 1.25:1).

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

(iii) Interest Rate Risk

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

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

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares 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.

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

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

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt - principal	$ —	$ —	$ 320,000	$ 320,000
Finance lease obligations – undiscounted	10,537	10,622	34,065	55,224
Trade and other payables	55,999	—	—	55,999
Crude oil payable in kind	858	—	—	858
Deferred income	8,386	—	—	8,386
Settlement liability	3,600	3,600	12,484	19,684
Other long term obligation	—	2,310		2,310
Restricted share units	2,048	32	—	2,080
	$ 81,428	**$ 16,564**	**$ 366,549**	**$ 464,541**

In addition to the above, the Corporation has issued letters of credit totaling $94.3 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments, of which $21.9 million relates to assets held for sale. 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, mostly with investment grade credit ratings.

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at June 30, 2018 was $44.3 million (December 31, 2017 - $24.2 million) and $12.4 million relating to the disposal of an investment (note 8).

Capital Management

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

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

During the six months ended June 30, 2018, the Corporation sold its remaining shares of Interoil for proceeds of $1.9 million, resulting in an overall realized cash gain of $3.8 million on the Corporation's original $3.2 million investment. During the three months ended June 30, 2018, the Corporation sold its investment in a power generation company for proceeds of $12.4 million (note 8).

The Corporation also received $22.1 million of the total $28.1 million cash proceeds and the $8.3 million outstanding term deposit previously recorded as restricted cash (note 7) from the sale of its equity interest in the Ecuador IPC. The remaining $6 million of remaining cash proceeds have been classified as a long-term receivable as it will be received in July 2019.

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

On May 3, 2018, the Corporation completed a private offering of Senior Notes in the aggregate principal amount of $320 million and replaced its existing credit facility (note 9). By replacing the credit facility of $305 million, the Corporation benefits from: (i) replacing the term loan that bears an interest rate of fluctuating three month Libor +5.5% (which totaled approximately 8%, as the three month Libor has been increasing materially during the last 14 months), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly $23.5 million principal amortization of the credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that does not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as was required under the credit facility (these amounts were scheduled to total approximately $25 million later in 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

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

		Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	$	23,585	$	87,783	$	7,132	$	118,500
Jobo facility operating contract		2,879		2,879		4,077		9,835
Compression station operating contracts		2,483		2,639		20,567		25,689
Office leases		1,030		1,857		268		3,155

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. During the three months ended June 30, 2018, the Corporation entered into phase two of its VIM-21 block work program with a total commitment of $26 million to be completed over the next three years. In aggregate, the Corporation has outstanding exploration commitments at June 30, 2018 of $118.5 million and has issued $44.9 million in financial guarantees related thereto. In the event that the Corporation sells certain petroleum E&E and D&P assets, $30 million of the total $118.5 million of the exploration commitments and $21.9 million of the total $44.9 million financial guarantees relating to these assets will no longer be held by the Corporation.

Pipeline Ship-or-Pay Contracts

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

Contingencies

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

NOTE 18 - SUBSEQUENT EVENT

The Corporation entered into an share purchase agreement with Arrow Exploration Ltd. ("Arrow") on May 31, 2018 which was amended subsequent to June 30, 2018 (the "SPA"). Pursuant to the SPA, subject to certain conditions precedent, Arrow will acquire the majority of the Corporation's Colombian oil assets (with the exception of its interests in the Rancho Hermoso block and its unconventional oil portfolio) for a total consideration of $40 million, comprised of $10 million in cash, $25 million in common shares of Arrow ("Arrow Shares"), and $5 million in promissory note at an annual interest rate of 15% maturing 120 days after closing of the transaction. Concurrently with the execution of the SPA, Arrow entered into an arrangement agreement with Front Range Resources Ltd. ("FRK"), pursuant to which FRK and Arrow will complete a business combination (the "Arrangement"), pursuant to a plan of arrangement under the Business Corporations Act (Alberta). The Arrangement will constitute as a reverse takeover of FRK and FRK will carry on the business currently carried on by Arrow under the name "Arrow Exploration Ltd.". In connection with the foregoing transactions, Arrow has also entered into an agreement with Macquarie Capital Markets Canada Ltd. ("Macquarie"), to effect a brokered private placement offering of subscription receipts ("Subscription Receipts") on a best efforts agency basis (the "Concurrent Financing"). Each holder of Subscription Receipts will receive one Arrow Share and one Arrow common share purchase warrant for each Subscription Receipt held in connection with the Arrangement. The Arrow Shares to be received by the Corporation will be priced in accordance with the valuation of such shares under the Subscription Receipts offering. Of the $25 million Arrow Shares, the Corporation will hold $20 million Arrow Shares (and the shares of FRK into which the same are to be exchanged) in trust to be held for the benefit of the Corporation's shareholders, pending an expected subsequent distribution of the shares in the third quarter of 2018 as a return of capital, which was approved by Canacol's shareholders at the 2018 annual general meeting. Each of the foregoing transactions is subject to certain conditions precedent which, among other things, require each of them to be completed for the others to become effective.