

# **CANACOL ENERGY LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE AND SIX MONTHS ENDED JUNE 30, 2017**



## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 25,582	\$ 66,283
Restricted cash	6	18,565	10,203
Trade and other receivables		36,340	34,617
Prepaid expenses and deposits		4,134	8,897
Investments	7	12,504	2,700
Crude oil inventory		597	790
		<b>97,722</b>	<b>123,490</b>
<b>Non-current assets</b>			
Restricted cash	6	44,326	51,870
Prepaid expenses and deposits		8,631	—
Exploration and evaluation assets	4	165,930	144,328
Property, plant and equipment	5	378,476	364,319
Investment in equity		15,471	15,414
Investments	7	15,052	14,907
Deferred tax assets		69,459	73,180
		<b>697,345</b>	<b>664,018</b>
<b>Total assets</b>		<b>\$ 795,067</b>	<b>\$ 787,508</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank debt	8	—	22,193
Trade and other payables		18,356	32,438
Crude oil payable in kind		536	646
Deferred income		3,316	3,991
Finance lease obligation		4,694	4,140
Restricted share units	14	4,085	2,181
Wealth tax payable		221	—
Taxes payable		11,795	15,195
		<b>43,003</b>	<b>80,784</b>
<b>Non-current liabilities</b>			
Bank debt	8	273,940	228,445
Deferred income		3,731	3,731
Finance lease obligation		26,065	28,622
Decommissioning obligations		25,319	29,964
Restricted share units	14	102	56
Other long term obligations		2,913	3,328
Deferred tax liabilities		34,384	36,192
<b>Total liabilities</b>		<b>409,457</b>	<b>411,122</b>
<b>Equity</b>			
Share capital	9	702,356	700,528
Other reserves		64,306	60,567
Accumulated other comprehensive income		335	335
Deficit		(381,990)	(385,818)
Non-controlling interest		603	774
<b>Total equity</b>		<b>385,610</b>	<b>376,386</b>
<b>Total liabilities and equity</b>		<b>\$ 795,067</b>	<b>\$ 787,508</b>

Commitments and contingencies (note 15)

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)

	Note	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>Revenues</b>					
Petroleum and natural gas revenues, net of royalties	12	\$ 36,954	\$ 37,135	\$ 75,558	\$ 58,897
Take-or-pay natural gas income		329	1,791	3,308	2,729
<b>Total petroleum and natural gas revenues, net of royalties</b>		<b>37,283</b>	<b>38,926</b>	<b>78,866</b>	<b>61,626</b>
Other income		129	—	129	187
Equity income		493	718	779	1,012
<b>Expenses</b>					
Production and transportation expenses		6,346	5,175	12,736	9,257
Pre-license and exploration expense	4	23	99	46	139
General and administrative		6,103	4,203	12,623	7,965
Stock-based compensation and restricted share units	9,14	1,080	860	8,236	4,908
Depletion and depreciation	5	5,539	3,671	15,336	9,505
Foreign exchange loss (gain) and other		2,127	(324)	4,907	(915)
Loss (gain) on financial instruments	12	(13,257)	1,020	(11,286)	1,137
Wealth tax expense		24	285	474	1,135
Loss on sale of assets		33	11	262	11
		<b>8,018</b>	<b>15,000</b>	<b>43,334</b>	<b>33,142</b>
Net finance expense	10	6,950	5,737	17,727	11,060
Income before income taxes		<b>22,937</b>	<b>18,907</b>	<b>18,713</b>	<b>18,623</b>
<b>Income taxes (recovery)</b>					
Current		3,788	7,579	13,143	14,161
Deferred		7,491	83	1,913	(7,244)
		<b>11,279</b>	<b>7,662</b>	<b>15,056</b>	<b>6,917</b>
Non-controlling interest		112	—	171	—
Net income and comprehensive income		<b>11,770</b>	<b>11,245</b>	<b>3,828</b>	<b>11,706</b>
<b>Net income per share</b>					
Basic and diluted	11	\$ 0.07	\$ 0.07	\$ 0.02	\$ 0.07

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, 2015	\$ 652,202	\$ 60,206	\$ 343	\$ (409,464)	\$ —	\$ 303,287
Stock options exercised	6,183	(2,858)	—	—	—	3,325
Stock-based compensation	—	1,879	—	—	—	1,879
Net income	—	—	—	11,706	—	11,706
<b>Balance at June 30, 2016</b>	<b>\$ 658,385</b>	<b>\$ 59,227</b>	<b>\$ 343</b>	<b>\$ (397,758)</b>	<b>\$ —</b>	<b>\$ 320,197</b>
Balance as 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)
<b>Balance at June 30, 2017</b>	<b>\$ 702,356</b>	<b>\$ 64,306</b>	<b>\$ 335</b>	<b>\$ (381,990)</b>	<b>\$ 603</b>	<b>\$ 385,610</b>

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	2017	2016	2017	2016
<b>Operating activities</b>					
Net income and comprehensive income		\$ 11,770	\$ 11,245	\$ 3,828	\$ 11,706
Adjustments:					
Non-controlling interest		(112)	—	(171)	—
Net financing expense	10	6,950	5,737	17,727	11,060
Equity income		(493)	(718)	(779)	(1,012)
Stock-based compensation and restricted share units	9,14	1,080	860	8,236	4,908
Depletion and depreciation	5	5,539	3,671	15,336	9,505
Unrealized loss (gain) on financial instruments	12	(13,103)	1,018	(10,793)	1,137
Unrealized foreign exchange loss (gain) and other		(420)	(651)	1,266	(1,409)
Settlement of restricted share units liability	14	(48)	(26)	(2,100)	(61)
Deferred income tax		7,491	83	1,913	(7,244)
Settlement of decommissioning obligation		(43)	(470)	(171)	(470)
Loss on sale of assets		33	11	262	11
Changes in non-cash working capital	12	(7,514)	(6,996)	(5,885)	(7,118)
		<b>11,130</b>	<b>13,764</b>	<b>28,669</b>	<b>21,013</b>
<b>Investing activities</b>					
Property acquisitions		—	—	—	(3,665)
Expenditures on exploration and evaluation assets		(17,703)	(3,655)	(32,807)	(11,983)
Expenditures on property, plant and equipment		(16,423)	(6,257)	(24,243)	(12,121)
Proceeds on disposition of assets		—	9	107	9
Proceeds from investment in equity		1,614	—	1,614	—
Investments	7	(107)	(1,225)	(83)	(1,236)
Change in restricted cash		(373)	(430)	(818)	(742)
Change in prepaid expenses and deposits		(8,631)	—	(8,631)	—
Other long-term liabilities		(115)	—	(197)	—
Changes in non-cash working capital	12	(1,722)	(6,058)	(10,200)	(4,173)
		<b>(43,460)</b>	<b>(17,616)</b>	<b>(75,258)</b>	<b>(33,911)</b>
<b>Financing activities</b>					
Draw on bank debt	8	20,000	—	285,000	—
Financing fees	8	(1,378)	—	(12,248)	—
Repayment of bank debt	8	—	—	(255,000)	—
Net financing expense paid	10	(5,524)	(4,228)	(11,039)	(8,340)
Finance lease principal payments		(1,017)	—	(2,002)	—
Issue of common shares	9	1,053	3,101	1,177	3,325
		<b>13,134</b>	<b>(1,127)</b>	<b>5,888</b>	<b>(5,015)</b>
Change in cash		<b>(19,196)</b>	<b>(4,979)</b>	<b>(40,701)</b>	<b>(17,913)</b>
Cash, beginning of period		<b>44,778</b>	<b>30,315</b>	<b>66,283</b>	<b>43,257</b>
<b>Cash, end of period</b>		<b>\$ 25,582</b>	<b>\$ 25,336</b>	<b>\$ 25,582</b>	<b>\$ 25,344</b>

See accompanying notes to the interim condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

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### NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in petroleum and natural gas exploration and development activities in Colombia, Ecuador and Mexico. The Corporation’s head office is located at 4500, 525 - 8<sup>th</sup> 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 9, 2017.

### 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, 2016.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, restricted share units and crude oil payable in kind, which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”), bank debt and finance obligation, which are measured at amortized cost and decommissioning obligation, which is measured at the present value (“PV”) of management’s best estimate of the expenditure required to settle the present obligation at the period date.

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

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

(i) IFRS 15: Revenue from Contracts with Customers

On January 1, 2018, the Corporation will be required to adopt IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). IFRS 15 was issued in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements”. In addition to 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 will 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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

(ii) IFRS 9: Financial Instruments

On January 1, 2018, the Corporation will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the International Accounting Standards Board (“IASB”) project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Amendments to IFRS 7 “Financial Instruments: Disclosures” will also be required to be adopted by the Corporation simultaneously with IFRS 9.

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

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

(iv) IFRS 16: Leases

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

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

### Amendment to existing standards

On January 1, 2017, the Corporation adopted amendments made to existing standards. IAS 7 “Statement of Cash Flows” which clarified the requirement for cash and non-cash changes in liabilities arising from financing activities to be disclosed separately in the statement of cash flow’s financing activities section; only aggregate cash movements of liabilities are currently being reported. Other amendments were made to IAS 12 “Income Taxes” clarifying the requirements for recognition of deferred tax assets for unrealized losses on debt instruments held at fair market value, IFRS 2 “Share-based Payment” is amended for the classification and measurement of share-based payment transactions, IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” for the sale or contribution of assets between an investor and its associate. These amendments did not have a material impact on the Company’s accounting policies or disclosures.

### NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2016	\$	144,328
Additions		32,807
Transferred to D&P assets (note 5)		(11,205)
<b>Balance at June 30, 2017</b>	<b>\$</b>	<b>165,930</b>

During the three months ended June 30, 2017, the Corporation made natural gas discoveries, Toronja-1 on its VIM-21 block and Cañahuat-1 on its Esperanza block and, accordingly, \$11.2 million of exploration costs associated with these blocks have been transferred to D&P assets.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

### NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>	
Balance at December 31, 2016	\$ 922,348
Additions	22,531
Dispositions	(766)
Transfer from E&E asset (note 4)	11,205
<b>Balance at June 30, 2017</b>	<b>\$ 955,318</b>
<b>Accumulated depletion and depreciation</b>	
Balance at December 31, 2016	\$ (558,029)
Depletion and depreciation	(19,236)
Derecognition and inventory adjustments	423
<b>Balance at June 30, 2017</b>	<b>\$ (576,842)</b>
<b>Carrying value</b>	
At December 31, 2016	\$ 364,319
<b>At June 30, 2017</b>	<b>\$ 378,476</b>

During the three months ended June 30, 2017, the Corporation made natural gas discoveries, Toronja-1 on its VIM-21 block and Canahuate-1 on its Esperanza block and, accordingly, \$11.2 million of exploration costs associated with these blocks have been transferred to D&P assets.

During the three months ended June 30, 2017, the depletion and depreciation expense of \$9.4 million was reduced by a decommissioning liability change in estimate adjustment of \$3.9 million, resulting in a net expense of \$5.5 million recorded on the condensed consolidated statement of operations and comprehensive income (loss).

As at June 30, 2017, \$9.3 million of assets under construction are being recognized at cost and are not being depleted.

### NOTE 6 – RESTRICTED CASH

	June 30, 2017	December 31, 2016
Restricted cash – current	\$ 18,565	\$ 10,203
Restricted cash – non-current	44,326	51,870
	<b>\$ 62,891</b>	<b>\$ 62,073</b>

At June 30, 2017, restricted cash consisted of \$49.5 million of term deposits used as collateral to secure the Ecuador IPC's borrowings (\$16.7 million classified as current; \$32.8 million classified as non-current), \$8.5 million for work commitments and other capital commitments (\$1.9 million classified as current; \$6.6 million classified as non-current), and \$4.9 million held in a debt reserve account as required under its bank debt (classified as non-current).



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

### NOTE 7 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Interoil Investment	Total Investments
Balance at December 31, 2016	\$ 1,575	\$ 2,723	\$ 13,309	\$ —	\$ 17,607
Disposals	—	(24)	—	(890)	(914)
Realized gain	—	—	—	107	107
Unrealized gain (loss)	188	(2,700)	—	13,287	10,775
Foreign exchange gain (loss)	(20)	1	—	—	(19)
<b>Balance at June 30, 2017</b>	<b>\$ 1,743</b>	<b>\$ —</b>	<b>\$ 13,309</b>	<b>\$ 12,504</b>	<b>\$ 27,556</b>

On October 28, 2015, the Corporation invested \$3.2 million in Andes Interoil Limited (“Andes”) to acquire 49% of Andes’s outstanding shares. Andes owned 51% of Interoil Exploration and Production ASA (“Interoil”), a publicly listed company on the Oslo Stock Exchange in Norway, at the time of the transaction. Due to the Corporation’s ownership and governance participation in Andes, the Corporation deemed to have significant influence over Andes and Interoil and therefore the investment was accounted for using the equity method. During the three months ended June 30, 2017, the Corporation exchanged all of its shares in Andes for 16,172,052 shares in Interoil, as a result, the Corporation reclassified its investment in Interoil as a financial asset, which was measured at fair value with changes in fair value recorded in profit or loss.

### NOTE 8 – BANK DEBT

Balance at December 31, 2016	\$ 250,638
Draw, net of transaction costs	272,752
Repayment	(255,000)
Amortization of transaction costs	5,550
<b>Balance at June 30, 2017</b>	<b>\$ 273,940</b>

On February 14, 2017, the Corporation entered into a credit agreement for \$265 million senior secured term loan with a syndicate of banks led by Credit Suisse (the “2017 Senior Secured Term Loan”). The 2017 Senior Secured Term Loan will mature on March 20, 2022, with interest payable quarterly and principal repayable in 13 equal quarterly installments starting March 20, 2019, following more than two years of initial grace period. The 2017 Senior Secured Term Loan carries interest at LIBOR plus 5.5% and is secured by all of the material assets of the Corporation. Proceeds from the 2017 Senior Secured Term Loan were used for the repayment of the principal in the amount of \$255 million including \$180 million of the BNP Senior Secured Term Loan and \$75 million of Senior Notes, plus accrued interest and costs of the transaction. The carrying value of the BNP Senior Secured Term Loan and Senior notes included \$4.4 million of transaction costs netted against the principal amounts, which were fully expensed at the time of settlement. The carrying value of the 2017 Senior Secured Term Loan included \$11.1 million of transaction costs netted against the principal amounts as at June 30, 2017. The 2017 Senior Secured Term Loan agreement also allows an additional \$40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions, of which \$20 million of the \$40 million greenshoe funds were drawn during the three months ended June 30, 2017, and the remaining \$20 million were drawn subsequent to June 30, 2017.

The 2017 Senior Secured Term Loan includes various non-financial covenants and financial covenants, including a maximum consolidated leverage ratio (“Consolidated Leverage Ratio”) of 3.00:1.00, a minimum consolidated interest coverage ratio (“Consolidated Interest Coverage Ratio”) of 3.50:1.00 and a minimum consolidated current assets to consolidated current liabilities ratio (“Consolidated Current Assets to Consolidated Current Liabilities Ratio”) of 1.00:1.00, a minimum PV10 ratio of 1.30:1.00 and a minimum debt service coverage ratio of 1.50:1.00.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt (“Consolidated Total Debt”) divided by consolidated EBITDAX (“Consolidated EBITDAX”). Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt and finance lease obligation; additionally, restricted cash maintained

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

in the debt service reserve account related to the 2017 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 (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, equity income (loss) and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the Corporation's share of revenues from the Ecuador IPC, to the extent that they are collected in cash. The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity consolidation basis in the Corporation's financial statements.

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). 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 excludes non-cash interest charges.

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

The PV10 ratio is calculated semi-annually as the present value of after-tax future net revenues discounted at 10% calculated from the Corporation's reserves reports divided by the outstanding principal balance of the 2017 Senior Secured Term Loan.

The debt service coverage ratio is calculated on a quarterly basis as the ratio of a) the aggregate amount of cash received in the Corporation's collection accounts during the quarter to b) the upcoming debt service amount.

The Corporation was in compliance with its covenants as at June 30, 2017.

### NOTE 9 – 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, 2016	174,359	\$ 700,528
Issued on exercise of stock options	573	1,177
Transfer from other reserves for stock options	—	651
<b>Balance at June 30, 2017</b>	<b>174,932</b>	<b>\$ 702,356</b>

#### Stock Options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C\$)
Balance at December 31, 2016	13,116	3.85
Granted	2,786	4.30
Exercised	(573)	2.74
Forfeited and cancelled	(1,145)	6.35
<b>Balance at June 30, 2017</b>	<b>14,184</b>	<b>3.78</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

Information with respect to stock options outstanding at June 30, 2017 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	6,857	2.8	2.81	5,541	2.84
\$3.60 to \$6.98	7,327	3.7	4.68	4,456	4.95
	<b>14,184</b>	<b>3.3</b>	<b>3.78</b>	<b>9,997</b>	<b>3.78</b>

Stock-based compensation of \$1.1 million and \$4.4 million (2016 - \$0.9 million and \$1.9 million) was expensed during the three and six months ended June 30, 2017, respectively.

### NOTE 10 – FINANCE INCOME AND EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Finance income</b>				
Interest and other income	\$ 697	\$ 537	\$ 1,587	\$ 1,166
<b>Finance expense</b>				
Accretion on decommissioning obligations	593	914	1,138	1,505
Amortization of upfront fees	833	595	5,550	1,215
Interest and other financing costs	6,221	4,765	12,626	9,506
	\$ 7,647	\$ 6,274	\$ 19,314	\$ 12,226
<b>Net finance expense</b>	\$ 6,950	\$ 5,737	\$ 17,727	\$ 11,060

During the six months ended June 30, 2017, due to the settlement of the BNP Senior Secured Term Loan and Senior Notes (see note 8), \$4.4 million of the unamortized transaction costs netted against the principal amounts were fully expensed at the time of settlement.

### NOTE 11 – NET INCOME PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$ 11,770	\$ 11,245	\$ 3,828	\$ 11,706
<b>Weighted-average common share adjustments</b>				
Weighted-average common shares outstanding, basic	174,668	160,271	174,524	159,791
Effect of stock options	2,071	2,669	2,037	1,637
<b>Weighted-average common shares outstanding, diluted</b>	<b>176,739</b>	<b>162,940</b>	<b>176,561</b>	<b>161,428</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

### NOTE 12 – SUPPLEMENTAL INFORMATION

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,	
	2017	2016	2017	2016
Petroleum and natural gas royalties	\$ 5,191	\$ 5,849	\$ 10,190	\$ 8,078

Income taxes and interest paid were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Income taxes paid	\$ 14,442	\$ 8,893	\$ 14,442	\$ 8,893
Interest paid	\$ 5,707	\$ 4,496	\$ 11,956	\$ 9,065

Loss (gain) on derivatives and financial instruments:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Crude oil payable in kind	\$ (74)	\$ 94	\$ (105)	82
Restricted share units – unrealized	446	874	87	903
Restricted share units – realized	(47)	2	(386)	—
Investments – unrealized	(13,475)	—	(10,775)	102
Investments – realized	(107)	—	(107)	—
Commodity contracts	—	50	—	50
	\$ (13,257)	\$ 1,020	\$ (11,286)	\$ 1,137

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Changes in non-cash working capital are comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Change in:</b>				
Trade and other receivables	\$ 2,792	\$ (14,217)	\$ (1,723)	\$ (23,138)
Prepaid expenses and deposits	4,993	(2,277)	4,763	(3,231)
Crude oil inventory	63	(20)	167	(13)
Trade and other payables	(3,965)	1,747	(15,434)	4,935
Crude oil payable in kind	(4)	246	(4)	(134)
Deferred income	525	2,898	(675)	3,956
Wealth tax payable	(248)	(314)	221	571
Taxes payable	(13,392)	(1,117)	(3,400)	5,763
	\$ (9,236)	\$ (13,054)	\$ (16,085)	\$ (11,291)
<b>Attributable to:</b>				
Operating activities	\$ (7,514)	\$ (6,996)	\$ (5,885)	\$ (7,118)
Investing activities	(1,722)	(6,058)	(10,200)	(4,173)
	\$ (9,236)	\$ (13,054)	\$ (16,085)	\$ (11,291)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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### NOTE 13 – 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
<b>Three months ended June 30, 2017</b>			
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
<b>Three months ended June 30, 2016</b>			
Revenue and other income	\$ 38,926	\$ —	\$ 38,926
Equity profit	—	718	718
Expenses, excluding income taxes	(7,970)	(12,767)	(20,737)
Net income (loss) before taxes	30,956	(12,049)	18,907
Income tax expense	7,662	—	7,662
Net income (loss)	\$ 23,294	\$ (12,049)	\$ 11,245
Capital expenditures, net of dispositions	\$ 4,935	\$ 111	\$ 5,046
<b>Six months ended June 30, 2017</b>			
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
<b>Six months ended June 30, 2016</b>			
Revenue and other income	\$ 61,813	\$ —	\$ 61,813
Equity profit	—	1,012	\$ 1,012
Expenses, excluding income taxes	(23,403)	(20,799)	\$ (44,202)
Net income (loss) before taxes	38,410	(19,787)	18,623
Income tax expense	6,917	—	6,917
Net income (loss)	\$ 31,493	\$ (19,787)	\$ 11,706
Capital expenditures, net of dispositions	\$ 20,368	\$ 226	\$ 20,594
<b>Balance at June 30, 2017</b>			
Total assets	\$ 561,868	\$ 233,199	\$ 795,067
Total liabilities	\$ 245,745	\$ 163,712	\$ 409,457
<b>Balance at December 31, 2016</b>			
Total assets	\$ 604,640	\$ 182,868	\$ 787,508
Total liabilities <sup>(1)</sup>	\$ 159,068	\$ 252,054	\$ 411,122

(1) Total liabilities in "Other segments" as at December 31, 2016 primarily related to the BNP Senior Secured Term Loan and Senior Notes.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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### NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Other than the reclassification of the Interoil investment discussed in note 7, the Corporation's classification of financial instruments remains unchanged from December 31, 2016.

#### Fair Value of Financial Instruments

The carrying values and respective fair values of cash, restricted cash, trade and other receivables and trade and other payables approximate their fair values at June 30, 2017, given the short term nature of these financial instruments. Restricted Share Units ("RSUs") and investments are recorded at fair value. The fair value of bank debt is \$285 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, investment in Interoil and crude oil payable in kind are classified as Level 1. The pipeline company investment is classified as Level 2 (\$1.7 million). The power generation company investment is classified as Level 3 (\$13.3 million). There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three and six months ended June 30, 2017. 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, 2016	655	\$ 2,237
Granted	1,183	3,846
Settled	(612)	(1,713)
Realized gain	—	(386)
Unrealized loss	—	87
Foreign exchange loss	—	116
<b>Balance at June 30, 2017</b>	<b>1,226</b>	<b>\$ 4,187</b>

On January 10, 2017, the Corporation granted 1,183,000 RSUs with a reference price of C\$4.30. The RSUs vest as to one-half in six months and one-half in one year from the grant date, and will likely be settled in cash.

On January 21, 2017, February 24, 2017, and March 31, 2017, 4,666, 9,500 and 582,802 RSUs were settled at a price of C\$4.22, C\$3.92 and C\$3.86 per share, respectively.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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### Market Risk

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. The Corporation had no commodity contracts in place during the three and six months ended June 30, 2017.

(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, 2017, the Colombian peso to the United States dollar exchange rate was 3,038:1 (December 31, 2016 – 3,000:1) and the Canadian dollar to United States dollar exchange rate was 1.30:1 (December 31, 2016 – 1.34:1).

The Corporation had no forward exchange rate contracts in place as at or during the three and six months ended June 30, 2017.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three and six months ended June 30, 2017.

### 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.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

(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, 2017:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	\$ —	\$ 43,846	\$ 241,154	\$ 285,000
Finance lease obligation – undiscounted	8,485	8,989	23,753	41,227
Trade and other payables	18,356	—	—	18,356
Crude oil payable in kind	536	—	—	536
Taxes payable	11,795	—	—	11,795
Wealth tax payable	221	—	—	221
Deferred income	3,316	3,731	—	7,047
Other long term obligations	—	—	2,913	2,913
Restricted share units	4,085	102	—	4,187
	<b>\$ 46,794</b>	<b>\$ 56,668</b>	<b>\$ 267,820</b>	<b>\$ 371,282</b>

In addition to the above, the Corporation has issued letters of credit totaling \$80 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments. Such amounts only become payable should the Corporation not meet those obligations.

### Credit Risk

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

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

### Capital Management

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

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

During the six months ended June 30, 2017, the Corporation executed a new credit agreement to refinance its BNP Senior Secured Term Loan and Senior Notes, totaling \$255 million, into the 2017 Senior Secured Term Loan of \$265 million, with the following benefits: a) a lower average interest rate, and b) extend the first amortization payment of the new term loan into 2019. The 2017 Senior Secured Term Loan agreement also allows an additional \$40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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

to certain conditions, of which \$20 million of the \$40 million greenshoe funds were drawn during the three months ended June 30, 2017, and the remaining \$20 million were drawn subsequent to June 30, 2017.

	June 30, 2017
Bank debt – principal	\$ 285,000
Working capital surplus	(54,719)
<b>Net debt</b>	<b>\$ 230,281</b>

### NOTE 15 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at June 30, 2017:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 54,706	\$ 19,569	\$ —	\$ 74,275
Jobo facility operating contract	3,344	7,275	5,647	16,266
Liquid natural gas processing contract	942	5,654	9,714	16,310
Office leases	1,075	1,596	888	3,559

#### Ecuador Incremental Production Contract

In addition to the commitments described above, the Corporation has a non-operated 25% equity participation interest in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium plans to incur capital 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 June 30, 2017, the Corporation had incurred \$86.2 million of expenditures in connection with its Ecuador IPC commitment and has a remaining commitment of \$21.4 million.

#### 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 has 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, 2017 are \$7.56 / barrel and \$2.97 / barrel, respectively. The ship-or-pay contracts will expire in November 2025 and 2028, respectively.

#### 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.

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**For the three and six months ended June 30, 2017 and 2016**

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

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### **NOTE 16 - SUBSEQUENT EVENT**

The 2017 Senior Secured Term Loan agreement allows an additional \$40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions. On July 14, 2017, the remaining \$20 million of the \$40 million greenshoe funds were drawn (note 8).