CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2019

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note		March 31, 2019		December 31, 2018
ASSETS					
Current assets					
Cash and cash equivalents		$	**38,998**	$	51,632
Restricted cash	4		**1,237**		1,208
Trade and other receivables	16		**72,333**		68,210
Prepaid expenses and deposits			**3,629**		1,909
Investments	8		**2,310**		1,466
Crude oil inventory			**364**		314
			118,871		124,739
Non-current assets					
Restricted cash	4		**3,071**		2,988
Prepaid expenses and deposits			**1,829**		1,608
Exploration and evaluation assets	5		**42,045**		39,555
Property, plant and equipment	6		**499,955**		480,428
Investments	8		**304**		350
Deferred tax assets			**54,020**		55,335
			601,224		580,264
Total assets		$	**720,095**	$	705,003
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables		$	**49,895**	$	49,279
Deferred income			**5,013**		5,413
Lease obligations	11		**5,118**		1,701
Restricted share units	16		**3,987**		2,112
Taxes payable			**8,803**		6,313
Settlement liability	7		**3,600**		3,600
Decommissioning obligations			**—**		840
			76,416		69,258
Non-current liabilities					
Long-term debt	10		**340,152**		339,684
Lease obligations	11		**22,489**		19,772
Decommissioning obligations			**23,756**		22,850
Restricted share units	16		**14**		31
Settlement liability	7		**13,111**		13,149
Other long term obligations			**3,193**		2,533
Deferred tax liabilities			**28,481**		32,289
Total liabilities			**507,612**		499,566
Equity					
Share capital	9		**159,019**		159,116
Other reserves			**69,119**		67,821
Accumulated other comprehensive income			**335**		335
Deficit			**(15,990)**		(21,835)
Total equity			**212,483**		205,437
Total liabilities and equity		$	**720,095**	$	705,003

Commitments and contingencies (note 17)

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 March 31,	Note		2019		2018
Revenues					
Natural gas and crude oil revenues, net of royalties	14	$	50,637	$	51,387
Take-or-pay natural gas income			289		369
Total natural gas and crude oil revenues, net of royalties			50,926		51,756
Dividend income			—		356
Expenses					
Operating expenses			4,094		6,763
Transportation expenses			1,522		4,127
Pre-license costs			171		595
General and administrative			5,823		6,113
Donations			15		286
Stock-based compensation and restricted share units	9, 16		4,805		4,473
Depletion and depreciation	6		12,689		10,131
Foreign exchange gain			(171)		(1,520)
Other expenses			2,086		847
Other tax expenses			203		591
Loss on financial instruments	14		424		4,273
			31,661		36,679
Net finance expense	12		8,226		9,050
Income before income taxes			11,039		6,383
Income taxes					
Current			7,258		7,194
Deferred			(2,493)		(9,089)
			4,765		(1,895)
Net income and comprehensive income		$	6,274	$	8,278
Net income per share					
Basic and diluted	13	$	0.04	$	0.05

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, 2017	$ 707,125	$ 65,547	$ 335	$ (533,847)	$ (18)	$ 239,142
Stock options exercised	3,016	(1,144)	—	—	—	1,872
Stock-based compensation	—	2,220	—	—	—	2,220
Net income	—	—	—	8,278	—	8,278
Balance at March 31, 2018	**$ 710,141**	**$ 66,623**	**$ 335**	**$ (525,569)**	**$ (18)**	**$ 251,512**
Balance at January 1, 2019 (note 3)	$ 159,116	$ 67,821	$ 335	$ (22,264)	$ —	$ 205,008
Common share repurchases	(1,148)	—	—	—	—	(1,148)
Stock options exercised	1,051	(251)	—	—	—	800
Stock-based compensation	—	1,549	—	—	—	1,549
Net income	—	—	—	6,274	—	6,274
Balance at March 31, 2019	**$ 159,019**	**$ 69,119**	**$ 335**	**$ (15,990)**	**$ —**	**$ 212,483**

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 March 31,	Note		2019		2018
Operating activities					
Net income and comprehensive income		$	6,274	$	8,278
Adjustments:					
Net financing expense	12		8,226		9,050
Stock-based compensation and restricted share units	9, 16		4,805		4,473
Depletion and depreciation	6		12,689		10,131
Realized gain on financial instruments	14		—		(1,856)
Unrealized loss on financial instruments	14		339		6,026
Unrealized foreign exchange loss (gain) and other			226		(3,335)
Settlement liability	7		(436)		—
Settlement of decommissioning obligations			(2,741)		—
Loss on settlement of decommissioning obligations			1,894		—
Settlement of restricted share units liability	16		(1,617)		(2,097)
Deferred income tax			(2,493)		(9,089)
Changes in non-cash working capital	14		(1,911)		(1,713)
			25,255		19,868
Investing activities					
Expenditures on exploration and evaluation assets	5		(2,490)		(15,131)
Expenditures on property, plant and equipment			(25,155)		(10,943)
Proceeds on assets and liabilities held for sale			—		22,107
Proceeds from disposal of investments			—		1,925
Investment income	8		90		—
Change in restricted cash			(112)		14,577
Change in prepaid expenses and deposits			(221)		(299)
Changes in non-cash working capital	14		(1,086)		(2,814)
			(28,974)		9,422
Financing activities					
Net financing expense paid	12		(7,388)		(7,657)
Lease principal payments	11		(1,179)		(1,554)
Common share repurchases	9		(1,148)		—
Issue of common shares	9		800		1,872
			(8,915)		(7,339)
Change in cash and cash equivalents			(12,634)		21,951
Cash and cash equivalents, beginning of year			51,632		39,071
Cash and cash equivalents, end of year		$	38,998	$	61,022

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 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 ("TSX") under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on May 7, 2019.

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, 2018.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, restricted cash, oil and gas investments, restricted share units, 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, office sub-lease investment and settlement liability, which are measured at amortized cost and decommissioning obligations, which are measured at the present value ("PV") of management's best estimate of the expenditures required to settle the present obligations at the period end date. Lease obligations and assets were initially measured at the PV of minimum lease payments. 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

A number of various accounting standards were effective January 1, 2019, however they do not have a material impact on the financial statements, with the exception of IFRS 16 Leases ("IFRS 16") as described below.

On January 1, 2019, the Corporation adopted IFRS 16 to replace the existing guidance of IAS 17 Leases ("IAS 17"). IFRS 16 establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease arrangement and establishes a single definition of a lease arrangement rather than distinguish between an operating and finance lease. Under IFRS 16, lease arrangements previously classified as operating leases under IAS 17, are recognized on the consolidated statement of financial position as a right-of-use asset and corresponding lease obligation. IAS 17 criteria recognized a lease arrangement as a finance lease when substantially all of the risks and rewards of ownership of the underlying asset are transferred to the lessor, whereas IFRS 16 recognizes a finance lease based on the right to control and the use of an identified asset.

Under IFRS 16, an intermediate lessor of an office lease accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference of the right-of-use asset arising from the head lease. Upon transition to IFRS 16, the Corporation recognized $1.4 million of the total $7.3 million lease obligation related to an office head lease and an office sub-lease was recognized as an investment of $1 million (note 8). The difference between the present value of the head lease payments and sub-lease receipts was adjusted to the opening deficit balance as at January 1, 2019.

The Corporation reviewed its lease arrangements to determine which of them meet the definition of a lease under IFRS 16, and the corresponding impact on the financial statements. For all lease arrangements determined to be a lease under IFRS 16, the Corporation has recognized a right-of-use asset of $5.9 million (note 6) and a lease obligation of $7.3 million (note 11) on the consolidated statements of financial position.

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

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial adoption is recognized as at January 1, 2019 and does not impact comparative figures or retained earnings. The Corporation has elected not to recognize right-of-use assets and lease obligations for low-value assets or short-term lease arrangements. The Corporation has recognized leases previously recorded as finance leases under IAS 17 at the carrying value of the finance lease asset and the finance lease obligation as at December 31, 2018.

The contractual commitments disclosed as at December 31, 2018 recognized as lease obligations as at January 1, 2019 are as follows:

Office lease commitments		**December 31, 2018**
Office lease commitments - disclosed as at December 31, 2018	$	3,104
Adjustment for head leases and a sub-lease reported as separate contracts[1]		1,180
Adjustment for reasonably certain renewal terms and consumer price index		1,381
Adjusted office lease commitments - undiscounted basis	**$**	**5,665**

[1] As at December 31, 2018, the Corporation's office head lease commitments were disclosed net of a sub-lease contract

IFRS 16 adoption		**January 1, 2019**
Adjusted office lease commitments - undiscounted basis	$	5,665
Adjustment for discounting the office lease commitments at 6.875%		(576)
Adjusted office lease commitments - discounted basis		5,089
Other lease obligations[1] - discounted basis		2,224
Total lease obligations - discounted basis (note 11)	**$**	**7,313**

[1] Other lease obligations recognized as at January 1, 2019 relate to operational and IT equipment

The details of the changes in accounting policy are disclosed below.

Lessee

The Corporation holds leases including properties, production equipment, compressors and information technology equipment. The lease arrangements are assessed based on whether they meet the following definition of a lease under IFRS 16:

i) Identified asset - The Corporation has access to the use of a physically distinct asset and the counterparty does not hold the right to substitute an alternative asset for use;

ii) Right to direct the use of an asset - The Corporation has relevant operational decision-making rights for the use and purpose of the underlying asset; and

iii) Substantially all of the economic rights and benefits - The Corporation obtains sole benefit from the use of the asset throughout the duration of the lease term.

Lease arrangements which meet the criteria of a lease are recognized as right-of-use assets and lease obligations at the lease commencement date.

The right-of-use asset is initially measured at cost. Subsequently it is measured at cost less accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease obligation. The lease obligation is measured at the present value of the lease payments outstanding at the commencement date, discounted using the implicit rate, and when not determinable, the Corporation's incremental borrowing rate. The Corporation has elected to include both lease and non-lease components in the total estimated lease payments outstanding.

The lease obligation is re-measured when there is a change in estimated future payments arising from a change in a lease term, index or rate, residual guarantee or purchase option.

The Corporation has applied judgment and estimates when determining the estimated lease payments including the lease term. The assessment of whether a renewal, extension, termination or purchase option is reasonably certain to exercise was considered, based on facts and circumstances, and has the potential to significantly impact the amount of right-of-use asset and lease obligation recognized.

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

Lessor

The Corporation holds a head lease in a property, which is sub-leased to a third party in return for monthly lease income. The Corporation accounts for the head lease and sub-lease arrangements as two separate contracts. The head lease is recognized as a lease obligation and the sub-lessee's share of the head lease is recognized as a net investment. The Corporation recognizes interest income received under finance leases over the lease term in the consolidated statements of operation using the effective interest rate method.

NOTE 4 – RESTRICTED CASH

		March 31, 2019		December 31, 2018
Restricted cash – current	$	1,237	$	1,208
Restricted cash – non-current		3,071		2,988
	$	4,308	$	4,196

At March 31, 2019, restricted cash consisted of $4.3 million for work commitments and other capital commitments, of which $1.2 million is classified as current and $3.1 million is classified as non-current.

NOTE 5 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2018	$	39,555
Additions		2,490
Balance at March 31, 2019	**$**	**42,045**

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

		Purchased Property, Plant and Equipment		Right-of-Use Leased Assets		Total
Cost						
Balance at December 31, 2018	$	973,993	$	22,701	$	996,694
Additions		26,358		5,877		32,235
Balance at March 31, 2019	**$**	**1,000,351**	**$**	**28,578**	**$**	**1,028,929**
Accumulated depletion and depreciation						
Balance at December 31, 2018	$	(515,499)	$	(767)	$	(516,266)
Depletion and depreciation		(11,210)		(1,479)		(12,689)
Derecognition and inventory adjustments		(19)		—		(19)
Balance at March 31, 2019	**$**	**(526,728)**	**$**	**(2,246)**	**$**	**(528,974)**
Carrying value						
As at December 31, 2018	$	458,494	$	21,934	$	480,428
As at March 31, 2019	**$**	**473,623**	**$**	**26,332**	**$**	**499,955**

The Corporation owns a liquefied natural gas plant and is currently constructing the Jobo 3 natural gas plant, neither of which were in operation as at March 31, 2019, therefore such assets are recognized at their costs of $18.3 million and $30 million, respectively, and are not yet being depleted.

Due to the adoption of IFRS 16, the Corporation recognized right-of-use leased assets of $5.9 million, which will be depreciated over the terms of the lease contracts (note 3 and note 11).

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

NOTE 7 – SETTLEMENT LIABILITY

Balance at December 31, 2018	$	16,749
Settlement payments		(436)
Foreign exchange loss		398
Balance at March 31, 2019	**$**	**16,711**

The Settlement amount is subject to a 8.74% annual interest rate on the outstanding balance. In accordance with the terms of the settlement agreement, cash payments of approximately $0.3 million per month will be paid by the Corporation and, as such, $3.6 million has been classified as current.

NOTE 8 – INVESTMENTS

		Office Sub-Lease		Oil and Gas Company Investments		Total Investments
Balance at December 31, 2018	$	—	$	1,816	$	1,816
Adoption of IFRS 16		1,007		—		1,007
Sub-lease receipts and finance income		(90)		—		(90)
Unrealized loss		—		(150)		(150)
Foreign exchange gain		—		31		31
Balance at March 31, 2019	**$**	**917**	**$**	**1,697**	**$**	**2,614**

Office Sub-Lease

The Corporation holds a head lease for an office lease recognized as a finance lease obligation (note 11), which is subleased to a counterparty in return for monthly lease income. The sub-lease contract is reported separately from the head lease and is recognized as a net investment upon transition of IFRS 16 (note 3). A portion of the investment equal to $0.6 million has been classified as current as it will be received within the next twelve months.

Oil and Gas Company Investments

The Corporation holds five million shares of Arrow Exploration Corporation valued at $1.7 million as at March 31, 2019. The investment has been classified as current as it is expected to be disposed of within the next twelve months. Two members of key management of Canacol are also members of the board of directors of Arrow Exploration Corporation.

NOTE 9 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number (000's)		Amount
Balance at December 31, 2018	177,462	$	159,116
Issued on exercise of stock options	283		800
Transfer from other reserves for stock options	—		251
Common share repurchases	(342)		(1,148)
Balance at March 31, 2019	**177,403**	**$**	**159,019**

During the three months ended March 31, 2019, the Corporation repurchased 341,956 Common Shares at a cost of $1.1 million, including transaction fees. Subsequent to March 31, 2019, the Corporation repurchased 92,652 Common Shares for $0.3 million, including transaction fees.

(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, 2018	15,682	4.02
Granted	2,100	4.45
Exercised	(283)	3.70
Forfeited and cancelled	(1,138)	6.42
Balance at March 31, 2019	**16,361**	**3.84**

Information with respect to stock options outstanding at March 31, 2019 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$)
\$2.13 to \$3.50	4,205	1.29	2.67	4,204	2.67
\$3.51 to \$4.51	12,156	3.46	4.25	9,631	4.23
	16,361	**2.90**	**3.84**	**13,835**	**3.76**

Stock-based compensation of \$1.5 million (2018 - \$2.2 million) was expensed during the three months ended March 31, 2019.

NOTE 10 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Total
Balance at December 31, 2018	\$ 311,055	\$ 28,629	\$ 339,684
Amortization of transaction costs	343	125	468
Balance at March 31, 2019	**\$ 311,398**	**\$ 28,754**	**\$ 340,152**

The Bank Debt includes various financial and non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation was in compliance with its covenants as at March 31, 2019.

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

NOTE 11 – LEASE OBLIGATIONS

As at March 31, 2019		Minimum Lease Payments		PV of Minimum Lease Payments
IFRS 16 adoption				
Not later than one year	$	3,714	$	3,381
Later than one year and not later than five years		3,421		3,170
Later than five years		—		—
		7,135		6,551
Less: future finance charges		(584)		—
PV of minimum lease payments	**$**	**6,551**	**$**	**6,551**
Compression stations				
Not later than one year	$	2,797	$	1,737
Later than one year and not later than five years		11,760		8,547
Later than five years		11,901		10,772
		26,458		21,056
Less: future finance charges		(5,402)		—
PV of minimum lease payments	**$**	**21,056**	**$**	**21,056**
Lease obligations - current			$	5,118
Lease obligations - non-current				22,489
PV of minimum lease payments			**$**	**27,607**

As at December 31, 2018		PV of Minimum Lease Payments
Lease obligations - current	$	1,701
Lease obligations - non-current		19,772
PV of minimum lease payments	**$**	**21,473**

As at January 1, 2019, the Corporation adopted IFRS 16, resulting in the recognition of $7.3 million lease obligation, previously recognized as operating leases under IAS 17 (note 3). The lease obligations were discounted at the incremental borrowing rate of 6.875% at inception, equal to the interest rate of Bank Debt (note 10) and was initially recognized at the present value of minimum lease payments. The lease terms range from one to four years. The amortized lease carrying value as at March 31, 2019 was $6.6 million.

The Corporation utilized certain IFRS 16 exemptions to exclude low-value right-of-use assets and short-term lease arrangements as leases. There were no lease arrangements subject to variable lease payments. These types of lease arrangements were recognized as either capital payments (note 6) or operating leases payments recognized in the consolidated statements of operations on a straight-line basis during the three months ended March 31, 2019:

Three months ended March 31,		2019
Low-value right-of-use assets	$	24
Short-term lease arrangements		2,127
Total lease payments	**$**	**2,151**

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

NOTE 12 – FINANCE INCOME AND EXPENSE

Three months ended March 31,		2019		2018
Finance income				
Interest and other income	$	349	$	288
Finance expense				
Accretion on decommissioning obligations		370		419
Amortization of upfront fees		468		974
Interest expense on lease obligations		394		1,213
Interest and other financing costs		7,343		6,732
	$	8,575	$	9,338
Net finance expense	$	8,226	$	9,050

NOTE 13 – NET INCOME PER SHARE

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

Three months ended March 31,		2019		2018
Net income	$	6,274	$	8,278
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic		177,547		176,572
Effect of stock options		2,090		2,187
Weighted-average common shares outstanding, diluted		179,637		178,759

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

NOTE 14 – SUPPLEMENTAL INFORMATION

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

Three months ended March 31,		2019		2018
Natural gas revenues, net of royalties	$	**48,767**	$	42,526
Petroleum revenues, net of royalties	$	**1,870**	$	8,861

The Corporation records natural gas and crude oil revenues, net of royalties. Royalties incurred were as follows:

Three months ended March 31,		2019		2018
Natural gas royalties	$	**6,951**	$	5,799
Petroleum royalties	$	**158**	$	975

Income taxes and interest paid were as follows:

Three months ended March 31,		2019		2018
Income taxes paid	$	**6,307**	$	4,120
Interest paid	$	**1,124**	$	6,572

Loss (gain) on derivatives and financial instruments:

Three months ended March 31,		2019		2018
Crude oil payable in kind - unrealized	$	**—**	$	39
Restricted share units - unrealized		**189**		(111)
Restricted share units - realized		**85**		103
Investments - unrealized		**150**		6,310
Investments - realized		**—**		(1,856)
Hedging contracts - unrealized		**—**		(212)
	$	**424**	$	4,273

Changes in non-cash working capital are comprised of:

Three months ended March 31,		2019		2018
Change in:				
Trade and other receivables	$	**(4,123)**	$	(3,427)
Prepaid expenses and deposits		**(1,720)**		(2,148)
Crude oil inventory		**(31)**		86
Trade and other payables		**785**		(6,373)
Crude oil payable in kind		**—**		(11)
Deferred income		**(400)**		2,959
Taxes payable		**2,490**		4,387
	$	**(2,998)**	$	(4,527)
Attributable to:				
Operating activities	$	**(1,911)**	$	(1,713)
Investing activities		**(1,086)**		(2,814)
	$	**(2,998)**	$	(4,527)

(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 March 31, 2019			
Revenue and other income	$ 50,926	$ —	$ 50,926
Expenses, excluding income tax	(25,179)	(14,708)	(39,887)
Net income (loss) before taxes	25,747	(14,708)	11,039
Income tax expense	4,765	—	4,765
Net income (loss)	$ 20,982	$ (14,708)	$ 6,274
Capital expenditures, net of dispositions	$ 32,911	$ 1,814	$ 34,725
Three months ended March 31, 2018			
Revenue and other income	$ 52,112	$ —	$ 52,112
Expenses, excluding income tax	(29,069)	(16,660)	(45,729)
Net income (loss) before taxes	23,043	(16,660)	6,383
Income tax recovery	(1,895)	—	(1,895)
Net income (loss)	$ 24,938	$ (16,660)	$ 8,278
Capital expenditures, net of dispositions	$ 40,063	$ 131	$ 40,194
Balance at March 31, 2019			
Total assets	$ 644,628	$ 75,467	$ 720,095
Total liabilities	$ 149,514	$ 358,098	$ 507,612
Balance at December 31, 2018			
Total assets	$ 629,611	$ 75,392	$ 705,003
Total liabilities	$ 130,859	$ 368,707	$ 499,566

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

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, lease obligations and settlement liability approximate their fair values at March 31, 2019. Restricted Share Units ("RSUs") and oil and gas company investments are recorded at fair value. The fair value of the Senior Notes and Bank Debt is $319.8 million and $30 million, respectively.

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 and cash equivalents, restricted cash, RSUs and oil and gas company investments were classified as Level 1 as at March 31, 2019. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended March 31, 2019. 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 (000's)		Amount
Balance at December 31, 2018	724	$	2,143
Granted	971		3,256
Settled	(517)		(1,702)
Realized loss	—		85
Unrealized loss	—		189
Foreign exchange loss	—		30
Balance at March 31, 2019	**1,178**	**$**	**4,001**

On January 28, 2019, the Corporation granted 970,500 with reference prices of C$4.45 per share, respectively. 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.

During the three months ended March 31, 2019, 516,580 RSUs were settled in cash at a price ranging from C$4.24 to C $4.45 per share, resulting in cash settlements of $1.7 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 Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk. The Corporation had no commodity contracts in place as at or during the three months ended March 31, 2019.

(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 March 31, 2019, the Colombian peso to the United States dollar exchange rate was 3,175:1 (December 31, 2018 – 3,250:1) and the Canadian dollar to United States dollar exchange rate was 1.34:1 (December 31, 2018 – 1.36:1).

The Corporation had no forward exchange rate contracts in place as at or during the three months ended March 31, 2019.

(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 to the extent that variable interest rate debt instruments are drawn. The Corporation is not currently exposed to interest rate risk as its interest-bearing loans are all subject to fixed interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate contracts in place as at or during the three months ended March 31, 2019.

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 an annual budget which is monitored regularly and updated as considered necessary. Natural gas and crude oil production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at March 31, 2019:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	$ —	$ 10,909	$ 339,091	$ 350,000
Lease obligations – undiscounted	6,511	4,606	22,476	33,593
Trade and other payables	49,895	—	—	49,895
Taxes payable	8,803	—	—	8,803
Deferred income	5,013	—	—	5,013
Settlement liability	3,600	3,600	9,511	16,711
Other long term obligation	—	3,193	—	3,193
Restricted share units	3,987	14	—	4,001
	$ 77,809	**$ 22,322**	**$ 371,078**	**$ 471,209**

In addition to the above, the Corporation had issued letters of credit totaling $88.8 million to guarantee certain obligations under its exploration contracts and other contractual commitments, of which, $21.9 million are financial guarantees related to previously sold petroleum assets. The letters of credit relating to such petroleum assets will be cancelled upon completion of the transition period.

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

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 natural gas and crude oil 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 natural gas and crude oil 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 natural gas and crude oil, 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 March 31, 2019 was $33.1 million (December 31, 2018 - $34.9 million), $7.8 million related to the recovery of transportation costs passed-through to customers (December 31, 2018 - $3.7 million), $8.1 million related to taxes receivable (December 31, 2018 - $5.8 million), $6.4 million related to the disposal of the Corporation's power generation company investment (December 31, 2018 - $8.5 million), $8.1 million from Arrow Exploration Corporation related to the sale of certain petroleum assets (December 31, 2018 - $8.2 million) and $6 million related to the sale of the Corporation's interest in a joint venture arrangement (December 31, 2018 - $6 million) and $2.8 million of other receivables (December 31, 2018 - $1.1 million), all of which, will be collected in 2019.

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, settlement liability, lease obligations and working capital, defined as current assets less current liabilities less the current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase 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 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 commodity 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.

		March 31, 2019		December 31, 2018
Senior Notes - Principal (7.25%)	$	320,000	$	320,000
Bank debt - Principal (6.875%)		30,000		30,000
Settlement liability (8.74%)		16,711		16,749
Lease obligation (2019 - 6.875%; 2018 - 5.2%)		27,607		21,473
Total debt		394,318		388,222
Working capital surplus		(51,173)		(60,782)
Net debt	**$**	**343,145**	**$**	**327,440**

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at March 31, 2019:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 25,084	$ 38,946	$ 5,989	$ 70,019
Compression station operating contracts	2,520	5,192	16,121	23,833
Other lease payments	9,432	—	—	9,432

Letters of Credit

At March 31, 2019, the Corporation had letters of credit outstanding totaling $88.8 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, $21.1 million relates to assets previously sold, which will be transferred to the purchaser upon completion of the transition period.

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. In aggregate, the Corporation has outstanding exploration commitments at March 31, 2019 of $70 million and has issued $40 million in financial guarantees related thereto. Due to the prior sale of certain petroleum assets, $21.1 million of the total $88.8 million financial guarantees relating to these assets will be cancelled upon completion of the transition period.

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.