CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

CANACOL ENERGY LTD.

Management's Report

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements of Canacol Energy Ltd. (the "Corporation") within reasonable limits of materiality. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Corporation's financial position, financial performance and cash flows, in accordance with International Financial Reporting Standards. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Corporation's external auditors, Deloitte LLP, have audited the consolidated financial statements. Their audit included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.

(signed) "Charle Gamba"
Charle Gamba
President and Chief Executive Officer

(signed) "Jason Bednar"
Jason Bednar
Chief Financial Officer

March 23, 2018

Deloitte.

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canacol Energy Ltd.

We have audited the accompanying consolidated financial statements of Canacol Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canacol Energy Ltd. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 26, 2018
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		$ **39,071**	$ 66,283
Restricted cash	6	**16,399**	10,203
Trade and other receivables	27	**50,411**	46,616
Prepaid expenses and deposits	27	**1,562**	6,818
Investments	7	**16,601**	2,700
Crude oil inventory		**642**	790
Hedging contract		**35**	—
Assets held for sale	26	**71,960**	—
		196,681	133,410
Non-current assets			
Restricted cash	6	**11,520**	51,870
Prepaid expenses and deposits		**2,680**	—
Exploration and evaluation assets	4,27	**43,867**	151,078
Property, plant and equipment	5	**383,356**	364,319
Investment in equity	25	**—**	15,414
Investments	7	**2,028**	14,907
Deferred tax assets	14	**56,311**	73,180
		499,762	670,768
Total assets		$ **696,443**	$ 804,178
LIABILITIES AND EQUITY			
Current liabilities			
Bank debt	8	**—**	22,193
Trade and other payables	27	**59,739**	49,108
Crude oil payable in kind		**748**	646
Deferred income	20	**4,805**	3,991
Finance lease obligations	9	**6,500**	4,140
Restricted share units	18	**1,971**	2,181
Taxes payable		**8,663**	15,195
Liabilities held for sale	26	**3,854**	—
		86,280	97,454
Non-current liabilities			
Bank debt	8	**294,590**	228,445
Deferred income	20	**—**	3,731
Finance lease obligations	9	**29,358**	28,622
Decommissioning obligations	10	**19,223**	29,964
Restricted share units	18	**32**	56
Other long term obligations		**1,903**	3,328
Deferred tax liabilities	14	**25,915**	36,192
Total liabilities		**457,301**	427,792
Equity			
Share capital	11	**707,125**	700,528
Other reserves		**65,547**	60,567
Accumulated other comprehensive income		**335**	335
Deficit		**(533,847)**	(385,818)
Non-controlling interest		**(18)**	774
Total equity		**239,142**	376,386
Total liabilities and equity		$ **696,443**	$ 804,178

Commitments and contingencies (note 19)
See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Michael Hibberd"
Director

(signed) "Francisco Diaz"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

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

Year ended December 31,	Note		2017		2016
Revenues					
Petroleum and natural gas revenues, net of royalties	16	$	153,946	$	141,905
Take-or-pay natural gas income	21		4,962		6,080
Total petroleum and natural gas revenues, net of royalties			158,908		147,985
Dividend income	21		447		719
Equity income (loss)	24,25		2,522		(380)
Expenses					
Production and transportation			30,283		21,376
Pre-license costs and E&E impairment	4		27,132		17,530
General and administrative			26,507		21,560
Stock-based compensation and restricted share units	11,18		11,586		9,647
Depletion and depreciation	5		35,776		26,512
Foreign exchange loss (gain)			174		(161)
Other expense (income)			1,870		(3,946)
Loss (gain) on financial instruments	16		(6,204)		1,793
Loan investment write-down			—		1,594
Other tax expenses	22		2,861		3,095
Impairment on D&P assets	5		—		37,318
Impairment on oil assets held for sale	26		117,576		—
			247,561		136,318
Net finance expense	12		30,690		22,669
Loss before income taxes			(116,374)		(10,663)
Income taxes (recovery)					
Current	14		25,857		16,079
Deferred	14		6,590		(50,162)
			32,447		(34,083)
Non-controlling interest			792		226
Net income (loss)			(148,029)		23,646
Other comprehensive income (loss)	24		—		(8)
Comprehensive income (loss)			(148,029)		23,638
Net income (loss) per share					
Basic and diluted	13	$	(0.85)	$	0.14

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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
Issue of common shares, net of costs	35,535	—	—	—	—	35,535
Stock options exercised	12,791	(6,096)	—	—	—	6,695
Stock-based compensation	—	6,457	—	—	—	6,457
Other comprehensive loss			(8)			(8)
Net income	—	—	—	23,646	—	23,646
Non-controlling interest equity contribution	—	—	—	—	1,000	1,000
Non-controlling interest net loss for the year	—	—	—	—	(226)	(226)
Balance at December 31, 2016	**$ 700,528**	**$ 60,567**	**$ 335**	**$ (385,818)**	**$ 774**	**$ 376,386**
Balance at December 31, 2016	$ 700,528	$ 60,567	$ 335	$ (385,818)	$ 774	$ 376,386
Stock options exercised	6,597	(2,693)	—	—	—	3,904
Stock-based compensation	—	7,673	—	—	—	7,673
Net loss	—	—	—	(148,029)	—	(148,029)
Non-controlling interest net loss	—	—	—	—	(792)	(792)
Balance at December 31, 2017	**$ 707,125**	**$ 65,547**	**$ 335**	**$ (533,847)**	**$ (18)**	**$ 239,142**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

Year ended December 31	Note	2017	2016
Operating activities			
Comprehensive income (loss)		$ (148,029)	$ 23,638
Adjustments:			
Other comprehensive loss		—	8
Non-controlling interest net loss		(792)	(226)
Net financing expense	12	30,690	22,669
Equity (income) loss		(2,522)	380
Stock-based compensation and restricted share units	11,18	11,586	9,647
Depletion and depreciation	5	35,776	26,512
Unrealized loss (gain) on financial instruments	16	(3,613)	1,268
Unrealized foreign exchange loss (gain) and other		617	(122)
Realized gain on investment	16	(2,352)	—
Settlement of restricted share units liability	18	(4,283)	(2,043)
Deferred income tax	14	6,590	(50,162)
Loan investment write-down		—	1,594
Non-cash pre-license and exploration costs	4	23,652	17,339
Impairment of D&P assets	5	—	37,318
Impairment on oil assets held for sale	26	117,576	—
Changes in non-cash working capital	16	450	(14,243)
		65,346	73,577
Investing activities			
Property acquisitions		—	(11,483)
Expenditures on exploration and evaluation assets		(51,919)	(36,510)
Expenditures on property, plant and equipment		(62,057)	(38,552)
Proceeds on disposition of assets		107	34
Proceeds from investments		5,413	—
Investments	7	(225)	(1,658)
Investment in equity		700	—
Change in restricted cash		3,435	(262)
Change in non-current prepaid expenses and deposits		(2,680)	—
Other long-term liabilities		(233)	(84)
Changes in non-cash working capital	16	1,475	12,319
		(105,984)	(76,196)
Financing activities			
Draw on bank debt	8	305,000	—
Financing fees	8	(13,428)	—
Repayment of bank debt	8	(255,000)	—
Net financing expense paid	12	(21,216)	(17,354)
Finance lease principal payments	9	(5,834)	(238)
Issue of common shares	11	3,904	42,237
Non-controlling interest equity contribution		—	1,000
		13,426	25,645
Change in cash		(27,212)	23,026
Cash, beginning of year		66,283	43,257
Cash, end of year		$ 39,071	$ 66,283

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 consolidated financial statements (the "financial statements") for issuance on March 23, 2018.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, restricted share units, crude oil payable in kind and hedging contract, 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 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.

During the fourth quarter of 2017, the Corporation adjusted for a non-cash error related to netting of certain financial position amounts. Accordingly, this adjustment has been corrected on a retrospective basis with certain prior period comparative figures being reclassified (note 27). The cumulative impact of this error as of January 1, 2016 has also been disclosed in note 27.

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is also the Corporation's functional currency.

Significant Estimates and Management Judgements

The timely preparation of financial statements in accordance with IFRS requires that management make estimates and assumptions and use judgement regarding the measured amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. The following discussion relates to amounts determined by management which required estimation and/or judgement.

Management judgement is required in determining the functional currency that represents the economic effect of underlying transactions, events and conditions. The United States dollar is selected as the Corporation's functional currency as it is the currency of the primary economic environment in which the Corporation operates; the Corporation primarily generates and expends cash in United States dollars.

The Corporation holds 25% of the voting rights of its joint arrangement in Ecuador and had classified the joint arrangement as a joint venture before it was reclassified as asset held for sale at December 31, 2017 (note 25). The Corporation has joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The Corporation's joint arrangement is structured in a jointly-controlled entity and provides the Corporation and the parties to the agreement with rights to the net assets of the jointly-controlled entity under the arrangements. As at December 31, 2017, the joint venture has been classified as an asset held for sale (note 26).

The Corporation holds an investment in a private company, Interamerican Energy Corp. ("IEC"), previously named Pacific Power Generation Corporation, which has been fair valued as at December 31, 2017, using management's estimates since inputs for valuation are not based on observable market data (note 7 and note 18).

Significant management judgement is required in determining the provision for deferred income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation has not recognized a benefit for the net deferred tax asset created from a portion of its non-capital losses carried forward due to the uncertainty of realization of such amounts. The calculation of stock-based compensation expense is subject to uncertainty as it reflects the Corporation's best estimate of whether or not performance will be achieved and obligations incurred. In addition, the key assumptions used for stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

Petroleum and natural gas assets are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement.

Amounts recorded for depletion, depreciation, amortization, accretion and provisions for decommissioning obligations are based on their expected lives and other relevant assumptions.

The recoverability of development and production asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Key input estimates used in the determination of future cash flows from oil and gas reserves include the following:

a) Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Petroleum and natural gas prices - Forward price estimates of the petroleum and natural gas prices are used in the cash flow model. Commodity prices have fluctuated in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate - The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

d) Decommissioning obligation - The decommissioning obligation is determined based on management's best estimate for future costs for decommissioning activities at the end of the asset's useful life. The timing and amount of costs are subject to change based on local legal and regulatory requirements as well as market conditions.

Certain assets and liabilities of the Corporation have been classified as held for sale due to management's intention to sell the net assets, which is expected to be completed in 2018. The held for sale assets and liabilities have been recognized at the lower of their carrying amount and fair market value less cost to sell based on management's best estimates.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Subsidiaries - Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss as a gain on acquisition. Acquisition related costs, other than share issue costs, are expensed as period costs in the consolidated statements of operations and comprehensive income (loss).

Jointly-controlled operations and jointly-controlled assets - Many of the Corporation's petroleum and natural gas activities involve jointly-controlled assets. The financial statements include the Corporation's share of these jointly-controlled assets and a proportionate share of the relevant revenue and related operating costs.

Joint ventures - The Corporation's investment in the Ecuador IPC had been accounted for using the equity method whereby the investment is originally recognized at cost and the Corporation's share of the Ecuador IPC's net income or loss is included in the consolidated statements of operations and comprehensive income (loss). As at December 31, 2017, the joint venture has been classified as an asset held for sale (see note 26).

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

Transactions eliminated on consolidation - Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

Foreign Currency

The United States dollar is the functional currency of the Corporation and its significant subsidiaries. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Exchange gains or losses are included in the determination of profit or loss in the consolidated statements of operations and comprehensive income (loss).

Financial Instruments

Non-derivative financial instruments - Non-derivative financial instruments include cash, restricted cash, trade and other receivables, bank debt, investments, restricted share units, finance lease obligations, trade and other payables and other long-term obligations. Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs, except for financial assets and liabilities at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash - Cash is measured similar to other non-derivative financial instruments. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Restricted cash - Restricted cash relates to cash placed in trust to ensure the payment of its obligations pursuant to exploration and credit agreements. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Investments - Investments are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Restricted share units - Restricted share units are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Bank debt - Bank debt is recorded at amortized cost, net of directly attributable transaction costs. Subsequent to initial recognition, the directly attributable transaction costs are amortized into the carrying value using the effective interest method over the term of the facility through the consolidated statements of operations and comprehensive income (loss).

Finance lease obligations - Finance lease obligations are obligations of the lessee to pay lease payments that consist of principal and interest components according to the lease agreement. The finance lease obligations are measured at the lower of the fair value of the leased property, or the present value of the minimum lease payments as determined at the inception of the lease. Subsequent to initial recognition, the finance lease obligations are accreted using the effective interest rate and is recorded as finance expense to the statement of operations and comprehensive income (loss).

Crude oil payable in kind - Crude oil payable in kind is recorded at fair value through profit or loss. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Other - Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, deferred income and other long-term obligations are measured at amortized cost, less any impairment losses.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Exploration and evaluation ("E&E") assets - E&E costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalized either as tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When E&E assets are determined to be technically feasible and commercially viable (assignment of proved and probable reserves), the accumulated costs are transferred to property, plant and equipment. When E&E assets are determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income (loss) as exploration costs.

E&E assets are allocated into CGUs and assessed for impairment when they are transferred to property, plant and equipment or in any circumstances where sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production costs ("D&P") - Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of property, plant and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within the consolidated statements of operations and comprehensive income (loss).

Subsequent costs - Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of operations and comprehensive income (loss) as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of operations and comprehensive income (loss) as incurred.

Depletion and depreciation - The net carrying value of D&P assets is depleted using the units-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated by taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For other property, plant and equipment, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of the asset. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Flowline	Over the estimated block reserve life
Equipment and other	2 - 5 years
Finance lease - Compression station	Over the term of the leasing agreement

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Leased Assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized as assets at the lower of the fair value of the leased property, or the present value of the minimum lease payments as determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset. Finance leases relating to D&P assets are depleted using the units of production method by reference to the ratio of production to the related proved plus probable reserves of the related D&P assets.

Other leases are operating leases, which are not recognized on the consolidated statements of financial position. Payments made under operating leases are recognized in the consolidated statements of operations and comprehensive income (loss) over the term of the lease.

Assets and Liabilities Held for Sale

Assets and liabilities held for sale are recognized if the carrying value will be recovered principally through a sale transaction rather than continuing use. The assets and liabilities will be revalued at the lower of the carrying amount or the fair value less cost to sell and any impairment loss or recovery is recognized in the consolidated statements of operations and comprehensive income (loss).

Impairment

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statements of operations and comprehensive income (loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statements of operations and comprehensive income (loss).

Financial assets - A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-financial assets - The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment as petroleum and natural gas interests, and also if facts and circumstances suggest that their carrying amount exceeds the recoverable amount. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (petroleum and natural gas interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of operations and comprehensive income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations - The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the period-end date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Inventory

Inventory consists of crude oil in transit or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

Revenue

The Corporation's revenues are primarily derived from the production of petroleum and natural gas.

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

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

Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Stock-Based Compensation

The grant date fair value of stock options granted to officers, employees and directors is recognized as stock-based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. The fair value of the stock options granted is estimated using the Black-Scholes option pricing model.

Restricted Share Units

The grant date fair value of restricted share units granted to officers, employees and directors is recognized as restricted share units expense with a corresponding increase in restricted share units liability. Subsequent to initial recognition, the restricted share units liability is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income (loss).

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings and finance leases, amortization of upfront fees and accretion of the discount on decommissioning liabilities.

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

Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Net Income (Loss) per Share

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

The Corporation has reclassified certain prior year figures on the consolidated statements of operations and comprehensive income (loss) and the consolidated statements of cash flows for comparative purposes.

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.

The Corporation has assessed the potential impact of the new standard by reviewing all contracts with customers and concluded that the adoption of the standard will not have a material impact on its financial statements. Additional disclosures required by the standard will be incorporated into the notes to the financial statements including the disclosure of revenue by product type.

(ii) IFRS 9: Financial Instruments

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

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.

The Corporation has assessed the potential impact of the new standard based on all financial instruments currently held by the Corporation and concluded that the adoption of the standard will not have a material impact on its financial statements. The financial instrument disclosure in the notes to the financial statements will reflect the new standard requirements and classification of financial instruments.

(iii) 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.

The Corporation's assessment of the new standard is currently in progress; the full impact on the financial statements will be determined upon the adoption of the new standard.

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 were being reported. Other amendments were made to IAS 12 "Income Taxes" clarifying the requirements for recognition of deferred tax assets resulting from unrealized losses on debt instruments held at fair market value, IFRS 2 "Share-based Payment" was 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 EVALUATON ASSETS

Balance at December 31, 2015 (note 27)	$	156,656
Additions		36,510
Transferred to D&P assets (note 5)		(24,749)
Exploration expense		(17,339)
Balance at December 31, 2016 (note 27)	$	151,078
Additions		51,919
Transferred to D&P assets (note 5)		(23,293)
Impairment on assets held for sale (note 26)		(102,686)
Transferred to assets held for sale (note 26)		(9,499)
E&E impairment		(23,652)
Balance at December 31, 2017	**$**	**43,867**

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

During the year ended December 31, 2017, the Corporation made natural gas discoveries, Toronja-1 on its VIM-21 block, Cañahuate-1 and Cañandonga-1 on its Esperanza block and Pandereta-1 on its VIM-5 block and, accordingly, $23.3 million of exploration costs associated with these blocks have been transferred to D&P assets.

The Corporation classified certain petroleum exploration blocks as a current asset held for sale as at December 31, 2017 with a carrying amount of $112.2 million (note 26). As a result, the assets held for sale have been recognized at the lower of their carrying amount and fair value less cost to sell of $9.5 million and an impairment loss of $102.7 million has been recognized during the year ended December 31, 2017.

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

During the year ended December 31, 2017, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment or planned relinquishment of certain blocks, all costs associated with such blocks have been written off to E&E impairment. In addition to the $23.7 million (2016 - $17.3 million) of relinquishment related costs, $3.5 million (2016 - $0.2 million) of pre-license costs were also included in pre-license costs and E&E impairment for the year ended December 31, 2017.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Cost		
Balance at December 31, 2015	$	826,179
Property acquisition		11,483
Additions		59,987
Dispositions		(50)
Transferred from E&E assets (note 4)		24,749
Balance at December 31, 2016		922,348
Additions		70,049
Dispositions		(766)
Transferred to assets held for sale (note 26)		(140,268)
Transferred from E&E asset (note 4)		23,293
Balance at December 31, 2017	**$**	**874,656**
Accumulated depletion and depreciation		
Balance at December 31, 2015	$	(494,184)
Depletion and depreciation		(26,512)
Impairment		(37,318)
Derecognition and inventory adjustments		(15)
Balance at December 31, 2016		(558,029)
Depletion and depreciation		(39,677)
Transferred to assets held for sale (note 26)		105,914
Derecognition and inventory adjustments		492
Balance at December 31, 2017	**$**	**(491,300)**
Carrying value		
At December 31, 2015	$	331,995
At December 31, 2016	$	364,319
As at December 31, 2017	**$**	**383,356**

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

During the year ended December 31, 2016, the Corporation entered into a lease agreement with Promisol SAS to construct and operate a natural gas processing plant. The lease was determined to be a finance lease valued at $33 million at inception, and was recognized as an asset upon commencement of operation (note 9).

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

During the year ended December 31, 2017, the Corporation entered into a purchase agreement for a liquefied natural gas plant for $18.3 million. As at December 31, 2017, the asset was recognized at cost and is not currently being depleted as it is currently under construction.

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

During the year ended December 31, 2017, the Corporation entered into an agreement for the construction, operation and ownership of the 82 kilometer Sabanas gas flowline from its Jobo gas plant to the connection point with the Promigas S.A. gas pipeline at Bremen, Colombia. Pursuant to the agreement, financing of the project consists of $30.5 million investment from a group of private investors and a $10.5 million contribution from the Corporation, with each holding its interest in the Sabanas gas flowline in separate companies, resulting in a joint operation. Two members of the Corporation's board of directors have participated by providing $9 million of the $30.5 million private investment. As at December 31, 2017, the Corporation has a receivable of $7.6 million for the remaining private investment, of which $2.2 million is a receivable from the two directors. The $7.6 million receivable was collected subsequent to December 31, 2017.

During the year ended December 31, 2017, the Corporation entered into a lease agreement to construct and operate a natural gas compression station. The lease was determined to be a finance lease valued at $8.9 million at inception, and was recognized as an asset upon commencement of operation (note 9).

The Corporation has classified certain petroleum D&P blocks with a carrying amount of $34.4 million as assets held for sale as at December 31, 2017 (note 26).

During the year ended December 31, 2017, the depletion and depreciation expense of $39.7 million was reduced by $3.9 million due to the revaluation of the decommissioning liability on impaired assets, resulting in a net expense of $35.8 million recorded on the consolidated statement of operations and comprehensive income (loss).

NOTE 6 – RESTRICTED CASH

		December 31, 2017		December 31, 2016
Restricted cash – current	**$**	**16,399**	$	10,203
Restricted cash – non-current		**11,520**		51,870
	$	**27,919**	$	62,073

At December 31, 2017, restricted cash consisted of $8.3 million of term deposits used as collateral to secure the Ecuador IPC's borrowings (classified as current), $14.3 million for work commitments and other capital commitments ($8.1 million classified as current; $6.2 million classified as non-current), and $5.3 million held in a debt reserve account as required under its bank debt (classified as non-current).

As at December 31, 2017, the Corporation has classified $30.7 million of its term deposits relating to its investment in Ecuador IPC as an asset held for sale (note 26). As a result, the assets held for sale have been recognized at the lower of their carrying amount and fair value less cost to sell of $22.7 million and an impairment loss of $8.1 million has been recognized during the year ended December 31, 2017.

(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, 2015	$ 1,489	$ 3,349	$ 11,641	—	$ 16,479
Additions	—	—	1,668	—	1,668
Disposals	—	(10)	—	—	(10)
Realized loss	—	(541)	—	—	(541)
Unrealized gain (loss)	12	(75)	—	—	(63)
Foreign exchange gain	74	—	—	—	74
Balance at December 31, 2016	$ 1,575	$ 2,723	$ 13,309	$ —	$ 17,607
Additions	—	225	—	—	$ 225
Disposals	—	(24)	—	(5,389)	(5,413)
Realized gain (loss)	—	(2,700)	—	5,052	2,352
Unrealized gain	216	—	1,776	1,837	3,829
Foreign exchange gain	12	1	—	16	29
Balance at December 31, 2017	**$ 1,803**	**$ 225**	**$ 15,085**	**$ 1,516**	**$ 18,629**

Pipeline Company Investment

The Corporation owns a 0.5% interest in Oleoducto Bicentenario de Colombia ("OBC"), which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. The Corporation is eligible to receive any proportional share of dividends on the project (note 19).

Oil and Gas Company Investments

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

The Corporation held convertible notes of a company involved in the exploration and development of oil and gas in Latin America totalling $2.7 million of principal amount and accrued interest. An officer of the Corporation was also a director of such company. During the year ended December 31, 2017, the Corporation recognized a realized loss of $2.7 million as a result of assessing the recoverability of the investment as remote. During the year ended December 31, 2017, the Corporation invested $0.2 million into an oil and gas company.

Power Generation Company Investment

The Corporation holds a $15.1 million investment in Interamerican Energy Corp. ("IEC"), previously named Pacific Power Generation Corporation, consisting of $12.5 million for 15% of IEC's outstanding shares, $0.6 million in additional capital contribution, $0.2 million in capitalized fees and a $1.8 million unrealized gain on revaluation of the investment as at December 31, 2017 (note 18).

Interoil Investment

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 was deemed to have significant influence over Andes and Interoil and therefore the investment was accounted for using the equity method. The investment was written down to $nil in May 2017, as a result of equity losses recorded since inception.

On May 18, 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 is measured at fair value with changes in fair value recorded in profit or loss. Upon the exchange of shares, the Corporation recorded an unrealized mark-to-market gain of $13.3 million (being the full value of the Interoil shares held at that time). Since the exchange of shares, the Corporation has sold 11,921,644 of the 16,172,052 shares for proceeds of $5.4 million, resulting in a total year to date realized gain of $5.1 million and an unrealized mark-to-market gain of $1.8 million on the remaining shares held as at December 31, 2017 (note 16). Subsequent to December 31, 2017, the Corporation has 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.

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

NOTE 8 – BANK DEBT

Balance at December 31, 2015	$	248,228
Amortization of transaction costs		2,410
Balance at December 31, 2016		250,638
Draw, net of transaction costs		291,572
Repayment		(255,000)
Amortization of transaction costs		7,380
Balance at December 31, 2017	**$**	**294,590**

Senior Secured Term Loan

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 of the then existing loans in the amount of $255 million, plus accrued interest and costs of the transaction. The carrying value of the then existing loans 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 includes $10.4 million of transaction costs netted against the principal amounts as at December 31, 2017. The 2017 Senior Secured Term Loan agreement also allowed 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 all were drawn during the year ended December 31, 2017, resulting in a principal debt balance outstanding of $305 million as at December 31, 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 obligations; additionally, restricted cash maintained 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 since the investment is accounted for using the equity method in the Corporation's financial statements and impacts the consolidated funds from operations.

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 relating to revenue during the quarter to b) the upcoming debt service amount.

The Corporation was in compliance with its covenants as at December 31, 2017.

Letters of Credit

At December 31, 2017, the Corporation had letters of credit outstanding totaling $81.3 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which $21.1 million relates to assets held for sale (note 26).

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

NOTE 9 – FINANCE LEASE OBLIGATIONS

The Corporation leased one of its Jobo natural gas processing facilities under a finance lease. The lease term is five years. The Corporation has the option to take over ownership of the leased natural gas processing facility at no cost at the end of the lease term. The finance lease obligation is discounted at the effective interest rates of 6.5% per annum at inception, and was initially recognized at fair market value of $33 million.

The Corporation also leased a natural gas compression station under 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 is discounted at the Corporation's incremental borrowing rate of 15% per annum at inception, and was initially recognized at the present value of minimum lease payments of $8.9 million.

As at December 31, 2017		Minimum Lease Payments		PV of Minimum Lease Payments
Jobo natural gas processing facility				
Not later than one year	$	7,767	$	6,196
Later than one year and not later than five years		22,822		20,730
Later than five years		—		—
		30,589		26,926
Less: future finance charges		(3,663)		—
PV of minimum lease payments	**$**	**26,926**	**$**	**26,926**
Compression station				
Not later than one year	$	1,624	$	304
Later than one year and not later than five years		6,826		2,207
Later than five years		9,167		6,421
		17,617		**8,932**
Less: future finance charges		(8,685)		—
PV of minimum lease payments	**$**	**8,932**	**$**	**8,932**
Finance lease obligation				
Finance lease obligation - current			$	6,500
Finance lease obligation - non-current				29,358
PV of minimum lease payments			**$**	**35,858**

As at December 31, 2016		Minimum Lease Payments		PV of Minimum Lease Payments
Jobo natural gas processing facility				
Not later than one year	$	7,612	$	4,140
Later than one year and not later than five years		30,589		28,622
Later than five years		—		—
		38,201		32,762
Less: future finance charges		(5,439)		—
PV of minimum lease payments	**$**	**32,762**	**$**	**32,762**
Finance lease obligation				
Finance lease obligation - current			$	4,140
Finance lease obligation - non-current				28,622
PV of minimum lease payments			**$**	**32,762**

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

NOTE 10 – DECOMMISSIONING OBLIGATIONS

Balance at December 31, 2015	$	39,989
Accretion		2,912
Additions		2,009
Settlements		(617)
Change in estimate		(14,329)
Balance at December 31, 2016		29,964
Accretion		2,094
Additions		2,758
Settlements		(176)
Change in estimate		(7,723)
Revaluation gain on liabilities held for sale (note 26)		(4,934)
Transferred to liabilities held for sale (note 26)		(2,760)
Balance at December 31, 2017	**$**	**19,223**

The Corporation's decommissioning obligations result from its ownership interests in petroleum and natural gas assets, including well sites, facilities, and gathering systems. The total decommissioning obligations are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Corporation has estimated the net present value of the decommissioning obligations to be $19.2 million at December 31, 2017 (2016 - $30 million) based on an undiscounted total future liability of $27 million (2016 - $41 million). These payments are expected to be made over the next 16 years. The average discount factor, being the risk-free rate related to the liability, is 6.6% (2016 - 7.7%) and the average inflation rate is 3.5% (2016 - 4.3%).

The Corporation has classified $7.7 million of decommissioning obligations related to certain petroleum assets as liabilities held for sale as at December 31, 2017. As a result, the liabilities held for sale have been recognized at the lower of their carrying amount and fair value of $2.8 million and a revaluation gain of $4.9 million has been recognized during the year ended December 31, 2017 (note 26).

NOTE 11 – 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, 2015	159,266	$	652,202
Issued on private placement, net of costs	11,827		35,535
Issued on exercise of stock options	3,266		6,702
Transfer from other reserves for stock options	—		6,089
Balance at December 31, 2016	174,359		700,528
Issued on exercise of stock options	1,750		3,904
Transfer from other reserves for stock options	—		2,693
Balance at December 31, 2017	**176,109**	**$**	**707,125**

On August 2, 2016 and August 5, 2016, the Corporation completed the first and second tranche of private placement offerings of 9,687,670 and 1,800,000 common shares of the Corporation, respectively, issued at C$4.08 per common share for a total of C$46.9 million, net of transaction costs, which were paid through the issuance of 339,069 common shares of the Corporation.

(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, 2015	15,335	4.26
Granted	3,570	4.23
Exercised	(3,266)	2.68
Forfeited and cancelled	(2,523)	8.41
Balance at December 31, 2016	13,116	3.85
Granted	5,153	4.28
Exercised	(1,750)	2.88
Forfeited and cancelled	(1,666)	5.84
Balance at December 31, 2017	**14,853**	**3.89**

Information with respect to stock options outstanding at December 31, 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	5,812	2.3	2.83	5,800	2.83
$3.60 to $6.66	9,041	3.7	4.57	5,879	4.73
	14,853	**3.1**	**3.89**	**11,679**	**3.79**

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

Year ended December 31,	2017	2016
Weighted-average fair value at grant date (C$)	**1.97**	2.50
Share price (C$)	**3.86 - 4.30**	2.88 - 4.59
Exercise price (C$)	**3.86 - 4.30**	2.88 - 4.59
Volatility	**47% - 63%**	62% - 63%
Option life	**5 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.09% - 1.67%**	0.59%-0.99%

A forfeiture rate of 5% was used when recording stock-based compensation for the year ended December 31, 2017 and 2016. Stock-based compensation of $7.7 million (2016 - $6.5 million) was expensed during the year ended December 31, 2017.

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

NOTE 12 – FINANCE INCOME AND EXPENSE

Year ended December 31,		2017		2016
Finance income				
Interest and other income	$	3,101	$	2,369
Finance expense				
Accretion on decommissioning obligations		2,094		2,912
Amortization of upfront fees		7,380		2,411
Interest and other financing costs		24,317		19,715
	$	33,791	$	25,038
Net finance expense	$	30,690	$	22,669

During the year ended December 31, 2017, due to the settlement of the previous loan outstanding, $4.4 million of the unamortized transaction costs netted against the principal amounts were fully expensed at the time of settlement.

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

Year ended December 31,		2017		2016
Net income (loss)	$	(148,029)	$	23,646
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic		175,180		165,640
Effect of stock options		—		2,062
Weighted-average common shares outstanding, diluted	$	175,180	$	167,702

For the year ended December 31, 2017, stock options were anti-dilutive due to a net loss.

NOTE 14 – INCOME TAXES

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

Year ended December 31,		2017		2016
Net loss before taxes	$	(116,374)	$	(10,663)
Statutory rates		27%		27%
Expected income taxes	$	(31,421)	$	(2,879)
Effect on taxes resulting from:				
Non-deductible share-based payments and other permanent differences	$	7,764	$	2,316
Tax differential on foreign jurisdictions		(2,598)		2,376
Change in unrecognized tax benefit		30,031		(23,436)
Provision to filing true-up		3,843		(5,306)
Change in enacted tax rate		25,005		(2,633)
Foreign exchange and other		(177)		(4,521)
Provision for income taxes	$	32,447	$	(34,083)
Current	$	25,857	$	16,079
Deferred		6,590		(50,162)
	$	32,447	$	(34,083)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016
(in United States dollars (tabular amounts in thousands) except as otherwise noted)

The net deferred tax asset is comprised of:

	December 31, 2017	December 31, 2016
Net book value of property, plant and equipment in excess of asset tax base	$ (3,388)	$ (14,805)
Non-capital losses carried forward	89,908	74,132
Decommissioning liabilities and other provision	8,243	10,914
Timing differences on revenue and expense recognition and other	995	2,079
Deferred tax asset	95,758	72,320
Deferred tax asset not recognized	(65,362)	(35,332)
Net deferred tax asset	$ 30,396	$ 36,988

At December 31, 2017, the Corporation had non-capital losses carried forward of approximately $134.1 million (2016 - $100 million) available to reduce future years taxable income. At December 31, 2017, the Corporation had deferred income tax assets of $86.3 million (2016 - $35.3 million) related to Canada, Brazil and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

NOTE 15 – KEY MANAGEMENT PERSONNEL COMPENSATION

The Corporation has determined that the key management personnel of the Corporation consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Corporation also provides compensation to both groups under its stock-based compensation and restricted share unit plans. Compensation expenses paid to key management personnel were as follows:

Year ended December 31,	2017	2016
Salaries and director fees	$ 4,140	$ 5,171
Benefits	730	645
Stock-based compensation	2,450	2,424
Restricted share units	2,730	2,260
Key management personnel compensation	$ 10,050	$ 10,500

NOTE 16 – SUPPLEMENTAL INFORMATION

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

Year ended December 31,	2017	2016
Petroleum and natural gas royalties	$ 19,544	$ 21,944

Income taxes and interest paid were as follows:

Year ended December 31,	2017	2016
Income taxes paid	$ 24,156	$ 8,893
Interest paid	$ 24,426	$ 18,275

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

Loss (gain) on derivatives and financial instruments:

Year ended December 31,		**2017**		2016
Crude oil payable in kind – unrealized	$	**121**	$	186
Restricted share units – unrealized		**130**		1,019
Restricted share units – realized		**(395)**		(16)
Investments – unrealized		**(3,829)**		63
Investments – realized		**(2,352)**		541
Hedging contract - unrealized		**(35)**		—
Hedging contract - realized		**156**		—
	$	**(6,204)**	$	1,793

Changes in non-cash working capital are comprised of:

Year ended December 31,		**2017**		2016
Change in:				
Trade and other receivables	$	**(3,327)**	$	(24,529)
Prepaid expenses and deposits		**5,257**		(4,882)
Crude oil inventory		**52**		(298)
Trade and other payables		**9,411**		19,308
Crude oil payable in kind		**(19)**		(178)
Deferred income		**(2,917)**		1,775
Wealth tax payable		**—**		—
Taxes payable		**(6,532)**		6,880
	$	**1,925**	$	(1,924)
Attributable to:				
Operating activities	$	**450**	$	(14,243)
Investing activities		**1,475**		12,319
	$	**1,925**	$	(1,924)

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

NOTE 17 – SEGMENTED INFORMATION

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

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

	Colombia	Other Segments	Total
Year ended December 31, 2017			
Revenue and other income	$ 159,355	$ —	$ 159,355
Equity profit	—	2,522	2,522
Expenses, excluding income taxes and impairments	(94,554)	(41,677)	(136,231)
Impairment on E&E assets	(23,652)	—	(23,652)
Impairment on assets held for sale	(97,752)	(19,824)	(117,576)
Net loss before taxes	(56,603)	(58,979)	(115,582)
Income tax expense	32,447	—	32,447
Net loss	$ (89,050)	$ (58,979)	$ (148,029)
Capital expenditures, net of dispositions	$ 120,137	$ 1,065	$ 121,202
Year ended December 31, 2016			
Revenue and other income	$ 152,155	$ 48	$ 152,203
Equity loss	—	(380)	(380)
Expenses, excluding income taxes and impairments	(58,658)	(48,945)	(107,603)
Impairment on E&E assets	(17,339)	—	(17,339)
Impairment on D&P assets	(37,318)	—	(37,318)
Net income (loss) before taxes	38,840	(49,277)	(10,437)
Income tax expense (recovery)	(34,083)	—	(34,083)
Net income (loss)	$ 72,923	$ (49,277)	$ 23,646
Capital expenditures, net of dispositions	$ 106,443	$ 1,487	$ 107,930
Balance at December 31, 2017			
Total assets	$ 619,189	$ 77,254	$ 696,443
Total liabilities	$ 259,544	$ 197,757	$ 457,301
Balance at December 31, 2016			
Total assets	$ 621,310	$ 182,868	$ 804,178
Total liabilities (1)	$ 175,738	$ 252,054	$ 427,792

(1) Total liabilities in "Other segments" as at December 31, 2016 primarily related to the Corporation's bank debt at the time.

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2017, four major customers represented 28%, 25%, 14% and 10% of total revenues in the year, respectively. For the year ended December 31, 2016, four major customers represented 20%, 19%, 19% and 10% of total revenues in the year, respectively.

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

NOTE 18 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of cash, restricted cash, trade and other receivables, trade and other payables and finance lease obligations approximate their fair values at December 31, 2017, given the short term nature of these financial instruments. Restricted Share Units ("RSUs"), investments and hedging contracts are recorded at fair value. The fair value of bank debt is $305 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 investment in Interoil are classified as Level 1. The pipeline and oil and gas company investments, crude oil payable in kind and hedging contract are classified as Level 2 ($0.2 million). The power generation company investment is classified as Level 3 ($15.1 million). During the year ended December 31, 2017, the Interoil equity investment was reclassified to the level 1 financial instrument hierarchy (note 7 and note 24). Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

The power generation company investment has been fair valued as at December 31, 2017, using the discounted cash flow valuation technique. The valuation model considers the present value of the expected future payments, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of the forecast revenue and EBITDA, the amount to be paid under each scenario and the probability of each scenario.

The following significant assumptions have been used to determine the fair market value:

- Risk-adjusted discount rate - The Capital Asset Pricing model was used to calculate the cost of equity using the risk-free rate adjusted for a risk premium, resulting in a discount rate ranging from 8.6% to 11.2% to calculate the discounted cash flows.
- Revenue growth assumptions - The pricing and revenue volume are based on customer contracts held by the entity, resulting in a revenue growth rate between 1.6% to 9.5% per annum.
- Estimated EBITDA margin - The estimated EBITDA margin is based on management's budgeted costs according to vendor contracts and the International Price Program index, resulting in estimated increase in EBITDA margin of 1.3% to 2.6%.

A change in the estimated significant assumptions would have the following impact on the fair market value of the investment:

+ 1% Discount Rate	- 1% Discount Rate	+ 5% Revenue growth	- 5% Revenue growth	+5% EBITDA Margin	-5% EBITDA Margin
(1,041)	1,041	645	(645)	429	(429)

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

Restricted Share Units

	Number (000's)		Amount
Balance at December 31, 2015	78	$	155
Granted	1,203		3,189
Settled	(626)		(2,027)
Realized gain	—		(16)
Unrealized loss	—		1,019
Foreign exchange gain	—		(83)
Balance at December 31, 2016	655	$	2,237
Granted	1,203		3,913
Settled	(1,218)		(3,819)
Canceled	(23)		(69)
Realized gain	—		(395)
Unrealized loss	—		130
Foreign exchange loss	—		6
Balance at December 31, 2017	**617**	**$**	**2,003**

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

During the year ended December 31, 2016, 625,521 RSUs were settled in cash at a price ranging from C$2.16 to C$4.61 per share, resulting in a payment of $2 million.

On January 16, 2017 and August 14, 2017, the Corporation granted 1,183,000 and 20,000 RSUs with a reference price of C$4.30 and C$4.26, respectively. A portion of the RSUs vest as to a one-half in six months and one-half in one year from the grant date and a portion vest as to one-half in one year and one-half in two years from the grant date. The RSUs will likely be settled in cash.

During the year ended December 31, 2017, 1,218,218 RSUs were settled at a price ranging from C$3.86 to C$4.40 per share, resulting in a payment of $3.8 million. During the year ended December 31, 2017, 22,500 RSUs were terminated and will not be settled in cash or shares.

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 year ended December 31, 2017.

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

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at December 31, 2017, the Colombian peso to the United States dollar exchange rate was 2,984:1 (2016 – 3,000:1) and the Canadian dollar to United States dollar exchange rate was 1.25:1 (2016 – 1.34:1).

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

During the year ended December 31, 2017, the Corporation entered into a hedging contract under the following terms:

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at December 31, 2017:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	$ —	$ 93,846	$ 211,154	$ 305,000
Finance lease obligations – undiscounted	9,391	9,452	29,363	48,206
Trade and other payables	59,739	—	—	59,739
Crude oil payable in kind	748	—	—	748
Taxes payable	8,663	—	—	8,663
Deferred income	4,805	—	—	4,805
Other long term obligations	—	1,903		1,903
Restricted share units	1,971	32	—	2,003
	$ 85,317	**$ 105,233**	**$ 240,517**	**$ 431,067**

In addition to the above, the Corporation has issued letters of credit totaling $81.3 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments, of which $21.1 million relates to assets held for sale (note 26). Such amounts only become payable should the Corporation not meet those obligations.

(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 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, 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 bank debt, 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 year ended December 31, 2017, the Corporation sold 11.9 million of the 16.2 million investment in shares of Interoil Exploration and Production ASA ("Interoil") for proceeds of $5.1 million. Subsequent to December 31, 2017, the Corporation has 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.

The funds from the 2017 Senior Secured Term Loan were used to retire the existing bank debt of $255 million. The Senior Secured Term Loan also has the following benefits: a) a lower the average interest rate, and b) extended the first amortization payment of the new term loan into 2019.

		December 31, 2017
Bank debt – principal	$	305,000
Finance lease obligations		35,858
Working capital surplus		(110,401)
Net debt	**$**	**230,457**

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

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2017:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 21,511	$ 49,805	$ 22,016	$ 93,332
Jobo facility operating contract	2,879	5,757	2,638	11,274
Compression station lease contracts	4,034	7,830	37,799	49,663
Office leases	1,447	1,403	1,157	4,007

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 December 31, 2017 of $93.3 million and has issued $37.3 million in financial guarantees related thereto. The Corporation intends to sell certain petroleum E&E and D&P assets as at December 31, 2017 and as a result, $25.6 million of the total $93.3 million of the exploration commitments and $21.1 million of the $37.3 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 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 December 31, 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.

NOTE 20 - DEFERRED INCOME

During the year ended December 31, 2017, the Corporation received proceeds for crude oil and natural gas to be delivered at a later date ("Undelivered Nominations"). As at December 31, 2017, Undelivered Nominations resulted in a deferred income balance of $4.8 million (2016 - $4 million), $4.4 million related to gas (2016 - $3.4 million) and $0.4 million related to crude oil (2016 - $0.6 million) which has been classified as a current liability as it is expected to be settled within the next twelve months.

NOTE 21 - TAKE-OR-PAY AND DIVIDEND INCOME

During the year ended December 31, 2017, the Corporation realized take-or-pay income of $5 million (2016 - $6.1 million) relating to the portion of natural gas sales nominations by the Corporation's off-takers that did not get delivered, typically due to the off-takers' inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date.

The Corporation is eligible to receive dividends on its investment in OBC (see note 7). During the year ended December 31, 2017, the Corporation received dividend income of $0.4 million (2016 - $0.7 million).

NOTE 22 - OTHER TAX EXPENSES

Wealth tax represents a tax on the capital of Colombian corporations and Colombian branches of foreign corporations. The tax was approved by the Colombian government in December 2014 and was assessed for the calendar years 2015 to 2017 at rates of 1.15%, 1.0% and 0.40%, respectively, of the net equity of the Corporation's Colombian entities as at

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

January 1, 2015, January 1, 2016 and January 1, 2017, resulting in a $0.5 million (2016 - $1.1 million) wealth tax expense for the year end December 31, 2017. Withholding tax on expenditures during the year ended December 31, 2017 totaled $2.4 million (2016 - $2 million).

NOTE 23 - SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of Incorporation	Fiscal year end	Ownership Interest December 31, 2017	Ownership Interest December 31, 2016
Canacol Energy Inc.	Canada	December 31	100%	100%
Canacol Energy Ltd. (British Columbia)	Canada	December 31	100%	100%
Shona Energy Company Inc. (Alberta)	Canada	December 31	100%	100%
CNE Oil & Gas S.A.S (Colombia)	Colombia	December 31	100%	100%
CNE Energy S.A.S (Colombia)	Colombia	December 31	100%	—

NOTE 24 - INVESTMENT IN ANDES INTEROIL LIMITED

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 was deemed to have significant influence over Andes and Interoil and therefore the investment was accounted for using the equity method. The investment was written down to $nil as at May 2017, as a result of equity losses recorded since inception.

On May 18, 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 7). Interoil’s other comprehensive loss was recognized under the equity method for the Corporation’s proportional ownership up to the exchange date (“Pro-rated period ended”).

As at		December 31, 2016
Interoil cash and cash equivalents (gross)	$	11,468
Interoil bank debt (gross)		37,863
Total Interoil current assets (gross)		15,117
Total Interoil non-current assets (gross)		34,259
Total Interoil current liabilities (gross)		8,850
Total Interoil non-current liabilities (gross)		41,491
Interoil equity (gross)		(965)
Investment in Interoil	$	758

		Pro-rated period ended		Year ended December 31, 2016
Interoil revenue (gross)	**$**	**5,560**	$	15,083
Interoil depletion and depreciation (gross)		**2,631**		6,208
Interoil interest expense (gross)		**1,461**		5,070
Interoil income tax expense (recovery) (gross)		**563**		1,399

	Pro-rated period ended	Year ended December 31, 2016
Interoil net loss	$ 2,940	$ 6,898
Interoil other comprehensive loss	—	32
Corporation's share of Interoil net loss	735	1,725
Corporation's share of Interoil other comprehensive loss	—	8

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

NOTE 25 - INVESTMENT IN JOINT ARRANGEMENTS

Joint venture

The Corporation conducts its operations in Ecuador through a 25% equity interest in the Ecuador IPC, which was previously reported using the equity method of accounting. Details of the Ecuador IPC's net assets and net income are shown below along with the Corporation's share of the investment and profit. As at December 31, 2017, the Corporation has committed to sell its equity interest in the Ecuador IPC and as a result, the investment has been classified as an asset held for sale and recognized at the lower of carrying amount and fair value less cost to sell of $5.4 million (note 26). The Corporation has closed on the sale subsequent to December 31, 2017.

As at		December 31, 2017		December 31, 2016
Ecuador IPC cash and cash equivalents (gross)	$	39,514	$	9,672
Ecuador IPC bank debt (gross)		160,372		175,463
Total Ecuador IPC current assets (gross)		129,834		130,828
Total Ecuador IPC non-current assets (gross)		110,727		123,197
Total Ecuador IPC current liabilities (gross)		83,455		71,148
Total Ecuador IPC non-current liabilities (gross)		99,516		138,253
Ecuador IPC equity (gross)		57,590		44,624
Investment in joint venture, before impairment	$	17,212	$	14,656
Impairment loss	$	11,772	$	—
Transferred to held for sale asset	$	5,440	$	—

Year ended December 31,		2017		2016
Joint venture revenue (gross)	$	77,521	$	100,797
Joint venture depletion and depreciation (gross)		37,718		59,094
Joint venture interest expense (gross)		9,612		9,768
Joint venture income tax expense (gross)	$	3,847	$	1,845

Year ended December 31,		2017		2016
Joint venture net income and comprehensive income	$	13,026	$	5,379
Corporation's share of joint venture profit	$	3,256	$	1,345

Joint operations

The Corporation has the following significant joint operations:

Joint operation	Principal place of business	Working interest %
Sabanas gas flowline	Colombia	25.6%
VMM-2	Colombia	20% (deep); 40% (shallow)
VMM-3	Colombia	20%
Ombu/Capella	Colombia	10%
Coati	Colombia	40%
Los Picachos	Colombia	37.5%
Macaya	Colombia	37.5%

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

NOTE 26 - ASSETS AND LIABILITIES HELD FOR SALE

Ecuador IPC Joint Venture

The Corporation has classified its 25% equity interest joint venture in the Ecuador IPC (note 25) and related term deposits used as collateral to secure the Ecuador IPC's borrowings ("restricted cash") as assets held for sale as at December 31, 2017, due its commitment to sell its equity interest in the Ecuador IPC, which closed subsequent to December 31, 2017. Proceeds for the sale total $36.4 million, consisting of $28.1 million of cash proceeds and $8.3 million return of an outstanding term deposit which has been classified as current restricted cash as at December 31, 2017 (note 6). A portion of the total proceeds ($30.8 million) has been received in January 2018 and the remaining $6 million will be received in June 2019. The Corporation has also received a reimbursement of $5.6 million cash call paid to the Ecuador IPC in January 2018, recorded as a receivable as at December 31, 2017.

The carrying amounts of the investment in the Ecuador IPC and restricted cash were revalued to the lower of their carrying value and fair value less cost to sell of $28.1 million, resulting in an impairment loss of $19.8 million allocated as follows:

As at December 31, 2017	Carrying amount	Impairment loss	Recoverable amount
Assets held for sale			
Restricted cash	$ 30,719	$ 8,052	$ 22,667
Investment in equity	17,212	11,772	5,440
	$ 47,931	**$ 19,824**	**$ 28,107**

Petroleum Assets and Liabilities

The Corporation has classified certain petroleum assets as held for sale as at December 31, 2017, due to its intention to sell the assets, which is expected to be completed in 2018. As at December 31, 2017, the assets and liabilities were revalued to the lower of their carrying amounts and fair value less cost to sell, resulting in a net impairment loss of $97.8 million allocated as follows:

As at December 31, 2017	Carrying amount	Impairment loss	Recoverable amount
Assets held for sale			
Petroleum assets	**$ 146,539**	**$ 102,686**	**$ 43,853**

	Carrying amount	Revaluation gain	Recoverable amount
Liabilities held for sale			
Decommissioning obligations	$ 7,694	$ (4,934)	$ 2,760
Other long term obligations	1,094	—	1,094
	$ 8,788	**$ (4,934)**	**$ 3,854**

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

NOTE 27 - PRIOR YEAR ADJUSTMENTS

Upon transfer of certain assets and liabilities, to the assets and liabilities held for sale category (Note 26), the Corporation completed a review of all account balances. As a result, certain assets and liabilities were identified as being improperly eliminated in prior periods. As a result of this error, management has adjusted these balances in the comparative period. The adjustment does not have a material impact on any of the Corporation's key metrics. There was no impact in the Statements of Operations and Comprehensive Income (Loss) or changes in Cash Flows for the year ended December 31, 2016. The impact on the Consolidated Statements of Financial Position of the reclassification is as follows:

		December 31, 2016 (As previously reported)		Adjustment		December 31, 2016 (Adjusted)
Accounts receivable	$	34,617	$	11,999	$	46,616
Prepaid expenses	$	8,897	$	(2,079)	$	6,818
Accounts payable	$	32,438	$	16,670	$	49,108
E&E Assets	$	144,328	$	6,750	$	151,078

		January 1, 2016 (As previously reported)		Adjustment		January 1, 2016 (Adjusted)
Accounts receivable	$	11,682	$	11,999	$	23,681
Prepaid expenses	$	4,015	$	(2,079)	$	1,936
Accounts payable	$	12,704	$	16,670	$	29,374
E&E Assets	$	149,906	$	6,750	$	156,656