CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Total petroleum and natural gas revenues, net of royalties	**59,133**	37,950	56%	**168,090**	116,816	44%
Adjusted petroleum and natural gas revenues, net of royalties [(2)]	**59,133**	43,258	37%	**170,046**	133,240	28%
Cash flow provided by operating activities	**36,810**	11,783	212%	**76,504**	40,345	90%
Per share – basic ($)	**0.21**	0.07	200%	**0.43**	0.23	87%
Per share – diluted ($)	**0.21**	0.07	200%	**0.43**	0.23	87%
Adjusted funds from operations [(1)(2)]	**26,482**	18,871	40%	**78,845**	63,947	23%
Per share – basic ($) [(1)]	**0.15**	0.11	36%	**0.45**	0.37	22%
Per share – diluted ($) [(1)]	**0.15**	0.11	36%	**0.44**	0.36	22%
Net income (loss) and comprehensive income (loss)	**12,138**	(1,514)	n/a	**(5,563)**	2,314	n/a
Per share – basic ($)	**0.07**	(0.01)	n/a	**(0.03)**	0.01	n/a
Per share – diluted ($)	**0.07**	(0.01)	n/a	**(0.03)**	0.01	n/a
Capital expenditures, net, including acquisitions	**18,585**	24,978	(26%)	**89,890**	79,550	13%
Adjusted capital expenditures, net, including acquisitions [(1)(2)]	**18,585**	25,568	(27%)	**92,267**	81,034	14%
				Sep 30, 2018	Dec 31, 2017	Change
Cash				**53,470**	39,071	37%
Restricted cash				**5,427**	27,919	(81%)
Working capital surplus				**65,678**	110,401	(41%)
Long-term debt				**310,705**	294,590	5%
Total assets				**725,932**	696,443	4%
Common shares, end of period (000's)				**177,623**	176,109	—

Operating	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Petroleum and natural gas production, before royalties (boepd)						
Petroleum [(3)]	**1,816**	3,263	(44%)	**2,088**	3,418	(39%)
Natural gas	**20,162**	13,324	51%	**19,400**	13,495	44%
Total [(3)]	**21,978**	16,587	33%	**21,488**	16,913	27%
Petroleum and natural gas sales, before royalties (boepd)						
Petroleum [(3)]	**1,945**	3,268	(40%)	**2,101**	3,428	(39%)
Natural gas	**19,972**	13,239	51%	**19,222**	13,403	43%
Total [(3)]	**21,917**	16,507	33%	**21,323**	16,831	27%
Realized contractual sales, before royalties (boepd)						
Natural gas	**20,231**	13,338	52%	**19,514**	13,848	41%
Colombia oil	**1,945**	1,895	3%	**1,915**	1,947	(2%)
Ecuador tariff oil [(3)]	**—**	1,373	(100%)	**186**	1,481	(87%)
Total [(3)]	**22,176**	16,606	34%	**21,615**	17,276	25%
Operating netbacks ($/boe) [(1)]						
Natural gas	**21.62**	21.81	(1%)	**21.48**	22.82	(6%)
Colombia oil	**26.27**	20.28	30%	**31.52**	17.65	79%
Ecuador (tariff oil) [(2)]	**—**	38.54	(100%)	**38.54**	38.54	—
Total [(2)]	**22.04**	23.02	(4%)	**22.53**	23.60	(5%)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Advisories

The following management's discussion and analysis ("MD&A") is dated November 8, 2018 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2018 and 2017 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2017. The financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward-Looking Statements – *Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that petroleum and natural gas production will result from such capital projects, that additional natural gas sales contracts will be secured, or that hydrocarbon-based royalties assessed will remain consistent, or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.*

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

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

Non-IFRS Measures *– The Ecuador IPC was accounted for using the equity method of accounting applied under IFRS 11, as such, the proportionate share of revenues and expenditures were excluded as would be typical in oil and gas joint interest arrangements. Therefore, within this MD&A, management has provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. Such supplemental measures should not be considered as an alternative to, or more meaningful than, the measures as determined in accordance with IFRS as an indicator of the Corporation's performance, and such measures may not be comparable to that reported by other companies. On February 15, 2018, the Corporation sold its interest in the Ecuador IPC investment. The incremental production volumes, the revenues and expenditures related to the Ecuador IPC are reported in this MD&A up to the disposition date.*

Two of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations and EBITDAX, which are measures not defined in IFRS. Adjusted funds from operations represents cash provided by operating activities before changes in non-cash working capital and decommissioning obligation expenditures, and includes the Corporation's proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. EBITDAX is calculated on a rolling 12-month basis and is defined as net income (loss) and comprehensive income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, equity income (loss) and other similar non-recurring or non-cash charges. The Corporation considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment and to repay its debt. These measures should not be considered as an alternative to, or more meaningful than, cash provided by operating activities or net income (loss) and comprehensive income (loss) as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of these measures may not be comparable to that reported by other companies.

The Corporation also presents cash flow from operations and adjusted funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share. The following table includes the Corporation's basic and dilutive weighted-average shares outstanding:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Weighted-average common shares outstanding, basic	**177,453**	175,663	**177,018**	174,908
Effect of stock options	**1,532**	2,042	**1,677**	1,847
Weighted-average common shares outstanding, diluted	**178,985**	177,705	**178,695**	176,755

The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Cash flow provided by operating activities	**$ 36,810**	$ 11,783	**$ 76,504**	$ 40,345
Changes in non-cash working capital	**(10,328)**	2,093	**385**	7,978
Ecuador IPC revenue, net of current income taxes	**—**	4,995	**1,956**	15,624
Adjusted funds from operations	**$ 26,482**	$ 18,871	**$ 78,845**	$ 63,947

The following table reconciles the Corporation's net income (loss) and comprehensive income (loss) to EBITDAX:

	2017	2018			
	Q4	Q1	Q2	Q3	Rolling
Consolidated net income (loss)	(150,343)	8,278	(25,979)	12,138	(155,906)
(+) Interest expense	4,948	7,945	7,428	8,225	28,546
(+/-) Income taxes (recovery)	19,050	(1,895)	11,627	(2,738)	26,044
(+) Depletion and depreciation	10,060	10,131	11,677	10,636	42,504
(+) Exploration expenses	26,017	595	10,490	1,844	38,946
(-) Equity (loss) profit	(1,475)	—	—	—	(1,475)
(+/-) Other non-cash expenses (income)	117,407	8,557	18,374	5,901	150,239
(+) Contribution of Ecuador IPC	4,193	1,956	—	—	6,149
EBITDAX	**29,857**	**35,567**	**33,617**	**36,006**	**135,047**

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

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

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

Results of Operations

For the three months ended September 30, 2018, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Trombon and Nispero fields in the Esperanza block, the Clarinete and Oboe fields in the VIM-5 block and the Toronja field in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also includes crude oil from the Leono, Labrador and Tigro fields in the LLA-23 block in the Llanos Basin in Colombia, and, to a lesser extent, crude oil from its Rancho Hermoso, VMM-2, Santa Isabel and Capella properties in Colombia, which were aggregated into a single group ("Colombia oil") for analysis purposes in this MD&A.

As at September 30, 2018, the Corporation has sold the majority of the its Colombian oil assets (with the exception of its interests in the Rancho Hermoso block and its unconventional oil portfolio) to Arrow Exploration Ltd. ("Arrow") for a total consideration of $40 million, adjusted for customary closing adjustments and deal costs of $0.8 million, resulting in total adjusted consideration of $39.2 million. The adjusted consideration comprised of $14.2 million in cash, $20 million in common shares of the Arrow ("Arrow's Shares"), and $5 million in promissory note at an annual interest rate of 15% maturing four months after closing of the transaction.

During the three months ended September 30, 2018, the Corporation spud the Cañahuate-3 appraisal well on its Esperanza block, which took approximately four weeks to drill. The Corporation will drill the adjacent Cañahuate-2 appraisal well in early 2019. The two wells are located in separate fault compartments on either side of the Cañahuate-1 exploration discovery on the Esperanza E&P contract announced by the Corporation on May 3, 2017. Both wells will be tested with a workover rig upon drilling the Cañahuate-2 appraisal well in order to minimize mobilization costs.

During the three months ended September 30, 2018, the Chirimia-1 appraisal well on the Corporation's VIM-5 block was tied into the Jobo gas processing facility via the existing flowline connecting all of the Clarinete producing wells to the Jobo gas processing facility.

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

Average Daily Petroleum and Natural Gas Production and Sales Volumes

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

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Production (boepd)						
Esperanza (gas)	**12,525**	11,244	11%	**12,405**	10,038	24%
VIM-5 (gas)	**6,911**	2,080	232%	**6,328**	3,457	83%
VIM-21 (gas)	**726**	—	n/a	**667**	—	n/a
Colombia oil	**1,816**	1,890	(4%)	**1,902**	1,937	(2%)
Ecuador (tariff oil)	**—**	1,373	(100%)	**186**	1,481	(87%)
Total production	**21,978**	16,587	33%	**21,488**	16,913	27%
Inventory movements and other	**(61)**	(80)	(24%)	**(165)**	(82)	101%
Total sales	**21,917**	16,507	33%	**21,323**	16,831	27%
Sales (boepd)						
Esperanza (gas)	**12,436**	11,166	11%	**12,305**	9,953	24%
VIM-5 (gas)	**6,836**	2,073	230%	**6,268**	3,450	82%
VIM-21 (gas)	**700**	—	n/a	**649**	—	n/a
Colombia oil	**1,945**	1,895	3%	**1,915**	1,947	(2%)
Ecuador (tariff oil)	**—**	1,373	(100%)	**186**	1,481	(87%)
Total sales	**21,917**	16,507	33%	**21,323**	16,831	27%
Realized Contractual Sales (boepd)						
Esperanza (gas)	**12,436**	11,166	11%	**12,305**	9,953	24%
VIM-5 (gas)	**6,836**	2,073	230%	**6,268**	3,450	82%
VIM-21 (gas)	**700**	—	n/a	**649**	—	n/a
Take-or-pay volumes	**259**	99	161%	**292**	445	(34%)
Total natural gas	**20,231**	13,338	52%	**19,514**	13,848	41%
Total Colombia oil	**1,945**	1,895	3%	**1,915**	1,947	(2%)
Ecuador (tariff oil)	**—**	1,373	(100%)	**186**	1,481	(87%)
Total realized contractual sales	**22,176**	16,606	34%	**21,615**	17,276	25%

The overall increase in production volumes in the three and nine months ended September 30, 2018, compared to the same periods in 2017, is primarily due to an increase in gas production in Esperanza, VIM-5 and VIM-21, as a result of the additional sales related to the construction and operation of the Corporation's partially owned Sabanas pipeline. Canacol's ownership of its infrastructure continues to allow the Corporation to control production levels at its fields from wellhead to the sales delivery point and enables the Corporation to quickly respond to changing conditions and thereby maximize profitability.

The overall decrease in crude oil production volumes during the three and nine months ended September 30, 2018, compared to the same periods in 2017, is primarily due to the Corporation selling its interest in the Ecuador IPC investment on February 15, 2018.

Realized gas contractual sales during the three and nine months ended September 30, 2018 averaged approximately 115 MMscfpd. Realized contractual sales is defined as gas produced and sold plus gas revenues received from nominated take or pay contracts.

Petroleum and Natural Gas Revenues

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Esperanza (gas)	**$ 35,772**	$ 29,214	22%	**$ 104,063**	$ 78,958	32%
VIM-5 (gas)	**18,044**	5,197	247%	**48,044**	25,888	86%
VIM-21 (gas)	**1,865**	—	n/a	**5,136**	—	n/a
Colombia oil	**10,338**	7,556	37%	**31,054**	22,869	36%
Petroleum and natural gas revenues, before royalties	**66,019**	41,967	57%	**188,297**	127,715	47%
Royalties	**(7,268)**	(4,308)	69%	**(21,327)**	(14,498)	47%
Petroleum and natural gas revenues, after royalties	**58,751**	37,659	56%	**166,970**	113,217	47%
Take-or-pay natural gas income	**382**	291	31%	**1,120**	3,599	(69%)
Total petroleum and natural gas revenues, after royalties, as reported	**59,133**	37,950	56%	**168,090**	116,816	44%
Ecuador tariff and other revenues (1)	**—**	5,308	(100%)	**1,956**	16,424	(88%)
Adjusted petroleum and natural gas revenues, after royalties (1)	**$ 59,133**	$ 43,258	37%	**$ 170,046**	$ 133,240	28%

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

The Corporation has three types of natural gas sales:

1) *Natural Gas sales* - represents natural gas production less a typically small amount of gas volume that is consumed at the field level;

2) *Take-or-pay income* - represents the portion of natural gas sales nominations by the Corporation's off-takers that do not get delivered, typically due to the off-taker's inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period;

3) *Undelivered gas nominations* - represents the portion of undelivered natural gas sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside gas sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered; b) the make-up right expires; or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

During the three and nine months ended September 30, 2018, the Corporation has realized $0.4 million and $1.1 million of take-or-pay income (as described in (2) above), respectively, which is equivalent to 259 boepd and 292 boepd of natural gas sales, respectively, without actual delivery of the natural gas.

As at September 30, 2018, the Corporation has received proceeds for crude oil and natural gas to be delivered at a later date (as described in (3) above). As at September 30, 2018, undelivered nominations resulted in a deferred income balance of $9.4 million ($8.2 million related to gas; $1.2 million related to crude oil at the Rancho Hermoso block) and has been classified as a current liability as it is expected to be settled within the next twelve months.

Average Benchmark and Realized Sales Prices

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Brent ($/bbl)	**$ 75.27**	$ 51.69	46%	**$ 72.16**	$ 52.05	39%
West Texas Intermediate ($/bbl)	**$ 68.40**	$ 48.55	41%	**$ 66.30**	$ 49.23	35%
Natural gas ($/boe)	**$ 30.30**	$ 28.25	7%	**$ 29.96**	$ 28.65	5%
Crude oil ($/boe)	**$ 57.77**	$ 43.34	33%	**$ 59.40**	$ 43.02	38%
Ecuador tariff ($/boe)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Esperanza ($/boe)	**$ 31.27**	$ 28.44	10%	**$ 30.98**	$ 29.06	7%
VIM-5 ($/boe)	**28.69**	27.25	5%	**28.08**	27.49	2%
VIM-21 ($/boe)	**28.96**	—	n/a	**28.99**	—	n/a
Colombia oil ($/bbl)	**57.77**	43.34	33%	**59.40**	43.02	38%
Ecuador ($/bbl)	**—**	38.54	(100%)	**38.54**	38.54	—
Average realized sales price ($/boe) [(1)]	**$ 32.74**	$ 30.84	6%	**$ 32.68**	$ 31.18	5%

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

The natural gas sales price, net of transportation, during the three and nine months ended September 30, 2018 was US $4.80/Mcf and US$4.79/Mcf, respectively, which was higher than the Corporation's prior guidance.

The increase in average realized natural gas sales prices in the three and nine months ended September 30, 2018, compared to the same periods in 2017, is due to higher priced firm contract sales.

The increase in average realized crude oil sales prices in the three and nine months ended September 30, 2018, compared to the same periods in 2017, is mainly due to increased benchmark crude oil prices.

Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Esperanza	**$ 2,919**	$ 2,542	**$ 8,794**	$ 6,897
VIM-5	**3,264**	1,018	**9,135**	5,316
VIM-21	**120**	—	**379**	—
Colombia Oil	**965**	748	**3,019**	2,285
Total royalties	**$ 7,268**	$ 4,308	**$ 21,327**	$ 14,498

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

The Corporation's Esperanza natural gas production is subject to an additional overriding royalty of 2% and the Corporation's VIM-5 natural gas production is subject to an additional x-factor royalty of 13% and an overriding royalty of 3% to 4%.

Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Production expenses	**$ 8,585**	$ 5,568	54%	**$ 23,093**	$ 17,360	33%
Transportation expenses	**5,735**	1,988	188%	**14,666**	2,932	400%
Total production and transportation expenses	**$ 14,320**	$ 7,556	90%	**$ 37,759**	$ 20,292	86%
$/boe	**$ 7.10**	$ 4.98	43%	**$ 6.49**	$ 4.42	47%

An analysis of production expenses is provided below:

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Esperanza	**$ 2,831**	$ 1,763	61%	**$ 8,087**	$ 4,780	69%
VIM-5	**1,212**	694	75%	**3,679**	2,487	48%
VIM-21	**159**	—	n/a	**491**	—	n/a
Colombia oil	**4,383**	3,111	41%	**10,836**	10,093	7%
Total production expenses	**$ 8,585**	$ 5,568	54%	**$ 23,093**	17,360	33%
$/boe						
Esperanza	**$ 2.47**	$ 1.72	44%	**$ 2.41**	$ 1.76	37%
VIM-5	**$ 1.93**	$ 3.64	(47%)	**$ 2.15**	$ 2.64	(19%)
VIM-21	**$ 2.47**	$ —	n/a	**$ 2.77**	$ —	n/a
Total natural gas	**$ 2.29**	$ 2.02	13%	**$ 2.34**	$ 1.99	18%
Colombia oil	**$ 24.49**	$ 17.84	37%	**$ 20.73**	$ 18.99	9%
Total	**$ 4.26**	$ 3.67	16%	**$ 3.97**	$ 3.78	5%

Total natural gas production expenses per boe increased by 13% and 18% to $2.29/boe ($0.40/Mcf) and $2.34/boe ($0.41/Mcf) for the three and nine months ended September 30, 2018, compared to $2.02/boe ($0.35/Mcf) and $1.99/boe ($0.35/Mcf) for the same periods in 2017, respectively. The increase is mainly attributable to expenses associated with additional fixed operating expenses at the new fields, such as Nispero, Trombon and Toronja.

Production expenses per bbl at the Colombia oil properties have increased 37% and 9% from $17.84 and $18.99 in the three and nine months ended September 30, 2018, compared to the same periods in 2017, respectively. The increase is mainly due to higher fixed costs over lower production.

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

An analysis of transportation expenses is provided below:

	Three months ended September 30,						Nine months ended September 30,					
		2018		2017	Change			**2018**		2017	Change
Esperanza	**$**	**2,055**	$	813	153%	**$**	**6,832**	$	813	740%
VIM-5		**2,767**		1,012	173%		**5,471**		1,012	441%
VIM-21		**623**		—	n/a		**1,642**		—	n/a
Colombia oil		**290**		163	78%		**721**		1,107	(35%)
Total transportation expenses	**$**	**5,735**	$	1,988	188%	**$**	**14,666**	$	2,932	400%
$/boe										
Esperanza	**$**	**1.80**	$	0.79	128%	**$**	**2.03**	$	0.30	577%
VIM-5	**$**	**4.40**	$	5.31	(17%)	**$**	**3.20**	$	1.07	199%
VIM-21	**$**	**9.67**	$	—	n/a	**$**	**9.27**	$	—	n/a
Total natural gas	**$**	**2.96**	$	1.50	97%	**$**	**2.66**	$	0.50	432%
Colombia oil	**$**	**1.62**	$	0.93	74%	**$**	**1.38**	$	2.08	(34%)
Total	**$**	**2.84**	$	1.31	117%	**$**	**2.52**	$	0.64	294%

The natural gas sales price, net of transportation, during the three and nine months ended September 30, 2018 was US $4.80/Mcf and US$4.79/Mcf, respectively, which was higher than the Corporation's prior guidance.

The Corporation incurred natural gas transportation costs during the three and nine months ended September 30, 2018 due to the following: a) certain gas sales contracts have an integrated sales price whereby the Corporation is responsible for delivering the natural gas to the off-takers at Cartagena, and b) the increase of natural gas production delivered through the Sabanas Flowline, which is subject to a tariff net of the Corporation's 25.6% working interest. The sales contracts with an integrated sales price have been allocated mainly to VIM-21.

Operating Netbacks

	Three months ended September 30,					Nine months ended September 30,				
$/boe		**2018**		2017	Change		**2018**		2017	Change
Corporate										
Petroleum and natural gas revenues	**$**	**32.74**	$	30.84	6%	**$**	**32.68**	$	31.18	5%
Royalties		**(3.60)**		(2.84)	27%		**(3.66)**		(3.16)	16%
Production expenses		**(4.26)**		(3.67)	16%		**(3.97)**		(3.78)	5%
Transportation expenses		**(2.84)**		(1.31)	117%		**(2.52)**		(0.64)	294%
Operating netback (1)	**$**	**22.04**	$	23.02	(4%)	**$**	**22.53**	$	23.60	(5%)

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

Operating netbacks by major production categories were as follows:

Natural gas ($/boe)

$/boe	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Esperanza						
Natural gas revenues	**$ 31.27**	$ 28.44	10%	**$ 30.98**	$ 29.06	7%
Royalties	**(2.55)**	(2.47)	3%	**(2.62)**	(2.54)	3%
Production expenses	**(2.47)**	(1.72)	44%	**(2.41)**	(1.76)	37%
Transportation expenses	**(1.80)**	(0.79)	128%	**(2.03)**	(0.30)	577%
Operating netback	**$ 24.45**	$ 23.46	4%	**$ 23.92**	$ 24.46	(2%)
VIM-5						
Natural gas revenues	**$ 28.69**	$ 27.25	5%	**$ 28.08**	$ 27.49	2%
Royalties	**(5.19)**	(5.34)	(3%)	**(5.34)**	(5.64)	(5%)
Production expenses	**(1.93)**	(3.64)	(47%)	**(2.15)**	(2.64)	(19%)
Transportation expenses	**(4.40)**	(5.31)	(17%)	**(3.20)**	(1.07)	199%
Operating netback	**$ 17.17**	$ 12.96	32%	**$ 17.39**	$ 18.14	(4%)
VIM-21						
Natural gas revenues	**$ 28.96**	$ —	n/a	**$ 28.99**	$ —	n/a
Royalties	**(1.86)**	—	n/a	**(2.14)**	—	n/a
Production expenses	**(2.47)**	—	n/a	**(2.77)**	—	n/a
Transportation expenses	**(9.67)**	—	n/a	**(9.27)**	—	n/a
Operating netback	**$ 14.96**	$ —	n/a	**$ 14.81**	$ —	n/a
Total Natural Gas						
Natural gas revenues	**$ 30.30**	$ 28.25	7%	**$ 29.96**	$ 28.65	5%
Royalties	**(3.43)**	(2.92)	17%	**(3.49)**	(3.34)	4%
Production expenses	**(2.29)**	(2.02)	13%	**(2.34)**	(1.99)	18%
Transportation expenses	**(2.96)**	(1.50)	97%	**(2.66)**	(0.50)	432%
Operating netback	**$ 21.62**	$ 21.81	(1%)	**$ 21.47**	$ 22.82	(6%)

Natural gas ($/Mcf)

$/Mcf	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Total Natural Gas						
Natural gas revenues	**$ 5.32**	$ 4.96	7%	**$ 5.26**	$ 5.03	38%
Royalties	**(0.60)**	(0.51)	17%	**(0.61)**	(0.59)	34%
Production expenses	**(0.40)**	(0.35)	13%	**(0.41)**	(0.35)	9%
Transportation expenses	**(0.52)**	(0.26)	98%	**(0.47)**	(0.09)	(34%)
Operating netback	**$ 3.80**	$ 3.84	(1%)	**$ 3.77**	$ 4.00	(6%)
Natural gas sales price, net of transportation	**$ 4.80**	$ 4.70	2%	**$ 4.79**	$ 4.94	(3%)

Crude Oil

$/boe	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Colombia oil						
Crude oil revenues	**$ 57.77**	$ 43.34	33%	**$ 59.40**	$ 43.02	38%
Royalties	**(5.39)**	(4.29)	26%	**(5.77)**	(4.30)	34%
Production expenses	**(24.49)**	(17.84)	37%	**(20.73)**	(18.99)	9%
Transportation expenses	**(1.62)**	(0.93)	74%	**(1.38)**	(2.08)	(34%)
Operating netback	**$ 26.27**	$ 20.28	30%	**$ 31.52**	$ 17.65	79%
Ecuador						
Tariff revenues [1]	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Operating netback	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—

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

General and Administrative Expenses

	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Gross costs	**$ 7,711**	$ 5,772	34%	**$ 23,605**	$ 20,138	17%
Less: capitalized amounts	**(1,381)**	(889)	55%	**(4,095)**	(2,632)	56%
General and administrative expenses	**$ 6,330**	$ 4,883	30%	**$ 19,510**	$ 17,506	11%
$/boe	**$ 3.14**	$ 3.22	(2%)	**$ 3.35**	$ 3.81	(12%)

Total general and administrative expenses ("G&A") per boe decreased 2% and 12% in the three and nine months ended September 30, 2018, compared to the same periods in 2017, respectively. The decrease in G&A per boe is a result of the 33% and 27% increase in production. The G&A per boe is expected to further decrease as the Corporation's production base grows into 2019 and 2020.

Gross "G&A" increased by 34% and 17% in the three and nine months ended September 30, 2018, compared to same periods in 2017, primarily due to increased support costs for the Corporation's 33% and 27% increase in production compared to the same periods in 2017, respectively. In addition, a one-time severance payment contributed to the increased costs in the nine months ended September 30, 2018.

Net Finance Income and Expense

	Three months ended September 30, 2018	2017	Change	Nine months ended September 30, 2018	2017	Change
Net financing expense paid	**$ 8,112**	$ 6,025	35%	**$ 23,070**	$ 17,064	35%
Non-cash financing costs	**722**	1,382	(48%)	**2,764**	8,070	(66%)
Net finance expense	**$ 8,834**	$ 7,407	19%	**$ 25,834**	$ 25,134	3%

Net financing expense paid increased during the three and nine months ended September 30, 2018, compared to the same periods in 2017, due to: a) finance lease obligations b) lower interest income due to the release of Ecuador IPC term deposits and c) the long-term debt principal amount increase from $305 million to $320 million.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Stock-based compensation expense	**$ 1,119**	$ 2,321	(52%)	**$ 4,335**	$ 6,711	(35%)
Restricted share unit expense	**1,240**	67	>1000%	**3,493**	3,913	(11%)
Stock-based compensation and restricted share unit expense	**$ 2,359**	$ 2,388	(1%)	**$ 7,828**	$ 10,624	(26%)

Stock-based compensation and restricted share units expense is a non-cash expense recognized based on the fair value of units granted. The fair value of the stock options granted were estimated using the Black-Scholes option pricing model.

Depletion and Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	**2018**	2017	Change
Depletion and depreciation expense	**$ 10,636**	$ 10,380	2%	**$ 32,444**	$ 25,716	26%
$/boe	**$ 5.27**	$ 6.84	(23%)	**$ 5.57**	$ 5.60	(1%)

Depletion and depreciation expense increased 2% and 26% in the three and nine months ended September 30, 2018, compared to the same periods in 2017, respectively, primarily as a result of higher natural gas production and a higher depletable base.

Impairment Expense and Recovery

Impairment recovery

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Impairment recovery	**$ —**	$ —	**$ 19,126**	$ —

During the nine months ended September 30, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (cash generating unit) being $8.9 million, which was previously estimated as $nil with an estimated decommissioning obligation of $10.2 million, representing the fair value less cost of disposal using discounted cash flows, as estimated by the management and current forecasted prices of crude oil. Such recovery was primarily a result of increased market participant interest in acquiring the block and the recovery in benchmark crude oil prices during the nine months ended September 30, 2018.

Impairment on E&E Assets

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Impairment on E&E Assets	**$ —**	$ —	**$ 9,865**	$ —

During the nine months ended September 30, 2018, the Corporation assessed its exploration blocks for impairment and, as a result of planned relinquishment of a block, all costs associated with such block have been written off to exploration impairment. In addition to the $9.9 million of relinquishment related costs recognized during the nine months ended September 30, 2018, $1.8 million and $2.7 million of pre-license costs were also included in pre-license costs and exploration impairment for the three and nine months ended September 30, 2018, respectively.

Income Tax Expense

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		2018		2017
Current income tax expense	$	6,007	$	6,826	$	19,593	$	19,969
Deferred income tax expense (recovery)		(8,745)		(8,485)		(12,599)		(6,572)
Income tax expense	$	(2,738)	$	(1,659)	$	6,994	$	13,397

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 37% for the three and nine months ended September 30, 2018. The Colombian statutory income tax rate will decrease to 33% on January 1, 2019. The Corporation consistently implements tax planning measures to reduce its overall effective tax rate.

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

	Three months ended September 30,					Nine months ended September 30,				
		2018		2017	Change		2018		2017	Change
Cash flow provided by operating activities	$	36,810	$	11,783	212%	$	76,504	$	40,345	90%
Per share – basic	$	0.21	$	0.07	200%	$	0.43	$	0.23	87%
Per share – diluted	$	0.21	$	0.07	200%	$	0.43	$	0.23	87%
Adjusted funds from operations (1)	$	26,482	$	18,871	40%	$	78,845	$	63,947	23%
Per share – basic	$	0.15	$	0.11	36%	$	0.45	$	0.37	22%
Per share – diluted	$	0.15	$	0.11	36%	$	0.44	$	0.36	22%
Net income (loss) and comprehensive income (loss)	$	12,138	$	(1,514)	n/a	$	(5,563)	$	2,314	n/a
Per share – basic	$	0.07	$	(0.01)	n/a	$	(0.03)	$	0.01	n/a
Per share – diluted	$	0.07	$	(0.01)	n/a	$	(0.03)	$	0.01	n/a

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

The Corporation's cash flow provided by operating activities increased 212% and 90% in the three and nine months ended September 30, 2018, compared to the same periods 2017, respectively. The increase is primarily due to increased production, realized sales prices, net of transportation and effective management of costs, which is expected to continue into 2019 in 2020.

Capital Expenditures

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		2018		2017
Drilling and completions	$	6,258	$	1,135	$	30,111	$	25,061
Facilities, work overs and infrastructure		6,378		3,379		17,574		9,504
Midstream pipeline costs		—		15,290		3,887		24,607
Land, seismic, communities and other		7,049		5,237		19,668		22,152
Non-cash costs and adjustments(2)		1,900		(63)		21,650		(1,774)
Disposition		(3,000)		—		(3,000)		—
Net capital expenditures		18,585		24,978		89,890		79,550
Ecuador		—		590		2,377		1,484
Adjusted net capital expenditures (1)	$	18,585	$	25,568	$	92,267	$	81,034
Net capital expenditures recorded as:								
Expenditures on exploration and evaluation assets	$	8,332	$	4,774	$	37,406	$	37,581
Expenditures on property, plant and equipment		13,253		20,204		55,484		41,969
Disposition		(3,000)		—		(3,000)		—
Net capital expenditures	$	18,585	$	24,978	$	89,890	$	79,550

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.
(2) Other non-cash costs include capitalized costs related to decommissioning liabilities.

Capital expenditures in the three months ended September 30, 2018 primarily related to:

- Gas plant costs (Jobo 3);
- Drilling of Cañahuate-3 and pre-drilling Cañahuate-2;
- Facilities costs at Esperanza and VIM-5; and
- Other capitalized costs (capitalized G&A of $1.4 million and non-cash decommissioning costs of $0.5 million primarily due to a change in estimate)

The Jobo 3 gas plant expansion will facilitate up to 330 MMcfpd of production, which will allow for spare capacity and future growth above the Corporation's expected production of 230 MMcfpd when the new Promigas pipeline is completed in March 2019.

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

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

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

At September 30, 2018, the Corporation had $53.5 million of unrestricted cash. The Corporation also had $27.6 million of current receivables to be collected consisting of: i) $11.6 million related to the disposal of the Corporation's power generation company investment, ii) $13 million related to sale of assets and liabilities held for sale and iii) $3 million related to the sale of the Corporation's gas plant on its Rancho Hermoso block, which will contribute to the Corporation's strong cash position at the the end of 2018 and into 2019.

During the nine months ended September 30, 2018, the Corporation sold its remaining shares of Interoil for proceeds of \$1.9 million, resulting in an overall realized cash gain of \$3.8 million on the Corporation's original \$3.2 million investment. During the nine months ended September 30, 2018, the Corporation sold its investment in a power generation company for proceeds of \$12.4 million.

During the three and nine months ended September 30, 2018, the Corporation also received proceeds relating to assets and liabilities held for sale of \$44.6 million consisting of: i) \$14.2 million of the total \$39.2 million proceeds from Arrow and ii) \$30.4 million of the total \$36.4 million cash proceeds, from the sale of its equity interest in the Ecuador IPC. The remaining proceeds were recognized as current receivables, with the exception of \$20 million, which was received through the receipt of Arrow's Shares.

On May 3, 2018, the Corporation completed a private offering of Senior Notes in the aggregate principal amount of \$320 million. The net proceeds have been used to fully repay the outstanding amounts borrowed under its existing credit facility in the amount of \$305 million plus accrued interest and transaction costs. The Senior Notes pay interest semi-annually at a rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms. Due to the settlement of the existing credit facility, \$14.4 million loss on credit facility was recognized during the nine months ended September 30, 2018.

By replacing the credit facility of \$305 million, the Corporation benefits from: (i) replacing the term loan that bears an interest rate of fluctuating three month Libor +5.5% (which would have totaled approximately 8.1%, as the three month Libor has been increasing materially during the last 18 months), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly \$23.5 million principal amortization of the credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that does not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as was required under the credit facility (these amounts were scheduled to total approximately \$25 million later in 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

On July 3, 2018, the Shareholders approved a reduction in stated share capital by the amount of the Corporation's deficit of \$533.8 million as at January 1, 2018. A distribution to the Shareholders, as a return of share capital, either in cash, or property, in the amount of \$20 million as also approved by the Shareholders. As at September 30, 2018, the Board declared a \$20 million special distribution, in this regard, to be settled by the transfer of the 22,598,870 of Arrow's Shares, which were held in trust as at September 30, 2018. Subsequent to September 30, 2018, the Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each shareholder.

		September 30, 2018
Long-term debt – principal	\$	320,000
Finance lease obligations		44,187
Working capital surplus		(65,678)
Net debt	**\$**	**298,509**

Letters of Credit

At September 30, 2018, the Corporation had letters of credit outstanding totaling \$90.7 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which , \$21.9 million of the total \$90.7 million financial guarantees were related to certain petroleum assets sold during the three months ended September 30, 2018. The letters of credit relating to such petroleum assets will be cancelled subsequent to September 30, 2018 upon completion of the transition period.

At November 8, 2018, the Corporation had 177.7 million common shares, 16.4 million stock options and 0.7 million restricted share units outstanding.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at September 30, 2018:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ —	$ —	$ 320,000	$ 320,000
Finance lease obligation – undiscounted (1)	10,558	21,372	20,669	52,599
Trade and other payables	47,003	—	—	47,003
Shareholder distribution payable	20,000	—	—	20,000
Deferred income	9,423	—	—	9,423
Settlement liability	3,600	7,200	8,212	19,012
Other long term obligations	—	2,310	—	2,310
Restricted share units	2,188	31	—	2,219
Exploration and production contracts	25,263	27,418	17,297	69,978
Jobo facility operating contract	2,879	2,879	3,357	9,115
Compression station operating contracts	2,495	2,545	20,035	25,075
Office leases	1,192	1,836	154	3,182

(1) The finance lease obligations comprise of Jobo natural gas processing facility ($24.8 million) and the Sabanas compression stations ($27.8 million).

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. During the nine months ended September 30, 2018, the Corporation entered into phase two of its VIM-21 block work program with a total commitment of $10.3 million to be completed over the next three years. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2018 of $70 million and has issued $41.3 million in financial guarantees related thereto. Due to the sale of certain petroleum assets, $30 million of exploration commitments have been transferred to the purchaser and $21.9 million of the total $41.3 million financial guarantees relating to these assets will be cancelled subsequent to September 30, 2018.

Settlement Liability

As a result of a disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production, a settlement liability expense of $20.3 million (the "Settlement") has been accrued during the nine months ended September 30, 2018. The outstanding settlement liability is subject to a 8.74% annual interest rate. Under the terms of the agreement, the Corporation will reduce the outstanding settlement liability by making cash payments on a monthly basis equal to the amount of approximately $0.3 million per month until a mutual agreement is reached to settle the remainder of the debt.

SUBSEQUENT EVENT

During the three months ended September 30, 2018, the Corporation declared a $20 million return of share capital through the distribution of 22,598,870 Arrow's Shares, which were held in trust as at September 30, 2018. Subsequent to September 30, 2018, the Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each shareholder.

OUTLOOK

For the remainder of 2018, the Corporation remains focused on achieving 230 MMscfpd of productive capacity via the expansion of the gas processing facilities at Jobo and the tying in of the Pandereta-1, 2, 3, Canahuate-1 and 3, and Chirimia-1 wells by December 2018. The Corporation completed the de-bottlenecking of the Betania-to-Jobo flowline in October 2018, and is currently completing the Pandereta-to-Jobo flowline. The expansion of the Jobo gas processing facility is progressing as planned, and will add another 130 MMscfpd of capacity to the facility bring total processing capacity to 330 MMscfpd. Promigas anticipates that all of the additional 100 MMscfpd of capacity will be available in March 2019, with the first 20 MMscfpd available on December 1, 2018.

The Corporation has contracted a drilling rig and will spud the first of a planned nine well gas exploration and development drilling program in mid-December 2018, with the Nelson-13 development well.

SUMMARY OF QUARTERLY RESULTS

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Total Petroleum and natural gas revenues, net of royalties	**59,133**	57,201	51,756	42,092	37,950	37,283	41,583	41,967
Adjusted petroleum and natural gas revenues, net of royalties (1)	**59,133**	57,201	53,712	46,285	43,258	43,007	46,975	47,943
Cash flow provided by operating activities	**36,810**	19,826	19,868	25,001	11,783	11,130	17,539	30,289
Per share – basic ($)	**0.21**	0.11	0.11	0.14	0.07	0.06	0.10	0.17
Per share – diluted ($)	**0.21**	0.11	0.11	0.14	0.07	0.06	0.10	0.17
Adjusted funds from operations (1)	**26,482**	28,826	23,537	20,857	18,871	24,236	20,947	41,979
Per share – basic ($) (1)	**0.15**	0.16	0.13	0.12	0.11	0.14	0.12	0.24
Per share – diluted ($) (1)	**0.15**	0.16	0.13	0.12	0.11	0.14	0.12	0.24
Net income (loss) and comprehensive income (loss)	**12,138**	(25,979)	8,278	(150,343)	(1,514)	11,770	(7,942)	20,331
Per share – basic ($)	**0.07**	(0.15)	0.05	(0.85)	(0.01)	0.07	(0.05)	0.12
Per share – diluted ($)	**0.07**	(0.15)	0.05	(0.85)	(0.01)	0.07	(0.05)	0.12
Capital expenditures, net	**18,585**	31,111	40,194	41,652	24,978	30,572	24,000	58,638
Adjusted capital expenditures, net (1)	**18,585**	31,111	42,571	44,373	25,568	30,648	24,818	59,691
Operations (boepd)								
Petroleum and natural gas production, before royalties								
Petroleum (2)	**1,816**	1,967	2,488	3,008	3,263	3,487	3,505	3,616
Natural gas	**20,162**	19,552	18,467	14,569	13,324	13,675	13,487	14,112
Total (2)	**21,978**	21,519	20,955	17,577	16,587	17,162	16,992	17,728
Petroleum and natural gas sales, before royalties								
Petroleum (2)	**1,945**	1,903	2,460	3,003	3,268	3,500	3,517	3,657
Natural gas	**19,972**	19,340	18,335	14,379	13,239	13,563	13,409	13,986
Total (2)	**21,917**	21,243	20,795	17,382	16,507	17,063	16,926	17,643
Realized contractual sales, before royalties								
Natural gas	**20,231**	19,637	18,655	14,950	13,338	13,695	14,526	14,653
Colombia oil	**1,945**	1,903	1,896	1,820	1,895	1,933	2,014	2,026
Ecuador tariff oil (2)	**—**	—	564	1,183	1,373	1,567	1,503	1,631
Total (2)	**22,176**	21,540	21,115	17,953	16,606	17,195	18,043	18,310

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

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended September 30, 2018 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has implemented new accounting policies during the nine months ended September 30, 2018. The Corporation is currently reviewing new IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

During the three months ended September 30, 2018, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

Limitations of Controls and Procedures

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