# CANACOL ENERGY LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## THREE AND SIX MONTHS ENDED JUNE 30, 2017

# FINANCIAL & OPERATING HIGHLIGHTS

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

| Financial | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Total petroleum and natural gas revenues, net of royalties | **37,283** | 38,926 | (4%) | **78,866** | 61,626 | 28% |
| Adjusted petroleum and natural gas revenues, net of royalties (2) | **43,007** | 45,390 | (5%) | **89,982** | 74,390 | 21% |
| Cash flow provided by operating activities | **11,130** | 13,764 | (19%) | **28,669** | 21,013 | 36% |
| Per share – basic ($) | **0.06** | 0.09 | (33%) | **0.16** | 0.13 | 23% |
| Per share – diluted ($) | **0.06** | 0.08 | (25%) | **0.16** | 0.13 | 23% |
| Adjusted funds from operations (1) (2) | **24,236** | 26,870 | (10%) | **45,183** | 40,321 | 12% |
| Per share – basic ($) | **0.14** | 0.17 | (18%) | **0.26** | 0.25 | 4% |
| Per share – diluted ($) | **0.14** | 0.16 | (13%) | **0.26** | 0.25 | 4% |
| Net income and comprehensive income | **11,770** | 11,245 | 5% | **3,828** | 11,706 | (67%) |
| Per share – basic ($) | **0.07** | 0.07 | — | **0.02** | 0.07 | (71%) |
| Per share – diluted ($) | **0.07** | 0.07 | — | **0.02** | 0.07 | (71%) |
| Capital expenditures, net, including acquisitions | **30,572** | 5,046 | 506% | **54,572** | 20,594 | 165% |
| Adjusted capital expenditures, net, including acquisitions (1)(2) | **30,648** | 5,376 | 470% | **55,466** | 21,325 | 160% |
| | | | | **Jun 30, 2017** | Dec 31, 2016 | Change |
| Cash | | | | **25,582** | 66,283 | (61%) |
| Restricted cash | | | | **62,891** | 62,073 | 1% |
| Working capital surplus | | | | **54,719** | 64,899 | (16%) |
| Bank debt | | | | **273,940** | 250,638 | 9% |
| Total assets | | | | **795,067** | 787,508 | 1% |
| Common shares, end of period (000's) | | | | **174,932** | 174,359 | — |

| Operating | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Petroleum and natural gas production, before royalties (boepd) | | | | | | |
| Petroleum (3) | **3,487** | 4,018 | (13%) | **3,496** | 4,273 | (18%) |
| Natural gas | **13,675** | 12,405 | 10% | **13,581** | 9,407 | 44% |
| Total (2) | **17,162** | 16,423 | 4% | **17,077** | 13,680 | 25% |
| Petroleum and natural gas sales, before royalties (boepd) | | | | | | |
| Petroleum (3) | **3,500** | 4,045 | (13%) | **3,508** | 4,312 | (19%) |
| Natural gas | **13,563** | 12,331 | 10% | **13,487** | 9,331 | 45% |
| Total (2) | **17,063** | 16,376 | 4% | **16,995** | 13,643 | 25% |
| **Realized contractual sales, before royalties (boepd)** | | | | | | |
| **Natural gas** | **13,695** | 12,972 | 6% | **14,108** | 9,808 | 44% |
| **Colombia oil** | **1,933** | 2,294 | (16%) | **1,973** | 2,575 | (23%) |
| **Ecuador tariff oil (2)** | **1,567** | 1,751 | (11%) | **1,535** | 1,737 | (12%) |
| **Total (2)** | **17,195** | 17,017 | 1% | **17,616** | 14,120 | 25% |
| Operating netbacks ($/boe) (1) | | | | | | |
| Esperanza (natural gas) | **24.35** | 27.24 | (11%) | **25.06** | 27.37 | (8%) |
| VIM-5 (natural gas) | **19.24** | 24.57 | (22%) | **19.44** | 24.35 | (20%) |
| LLA-23 (oil) | **19.31** | 12.45 | 55% | **20.32** | 10.39 | 96% |
| Ecuador (tariff oil) (2) | **38.54** | 38.54 | — | **38.54** | 38.54 | — |
| Total (2) | **23.25** | 25.58 | (9%) | **23.91** | 24.90 | (4%) |

(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 and Ecuador. The Corporation's head office is located at 4500, 525 - 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 August 9, 2017 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 six months ended June 30, 2017 and 2016 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended June 30, 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, that the Ecuadorian government will not renegotiate tariff prices on certain fixed priced contracts during low oil price environment, 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 –** Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador ("Ecuador IPC"), the Corporation does not record its proportionate share of revenues and expenditures 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.*

*One of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations. Adjusted funds from operations is a measure not defined in IFRS. It 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. The Corporation considers adjusted funds from operations a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Adjusted funds from operations should not be considered as an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of adjusted funds from operations may not be comparable to that reported by other companies. The Corporation also presents 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 reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Cash flow provided by operating activities | **$ 11,130** | $ 13,764 | **$ 28,669** | $ 21,013 |
| Changes in non-cash working capital | **7,514** | 6,996 | **5,885** | 7,118 |
| Ecuador IPC revenue, net of current income taxes | **5,592** | 6,110 | **10,629** | 12,190 |
| **Adjusted funds from operations** | **$ 24,236** | $ 26,870 | **$ 45,183** | $ 40,321 |

*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 June 30, 2017, the Corporation's production primarily consisted of natural gas from its Nelson and Palmer fields in the Esperanza block and Clarinete and Oboe fields in the VIM-5 block, both located in the Lower Magdalena Basin in Colombia, crude oil from its Leono, Labrador, Pantro, Tigro and Maltes fields in the LLA-23 block in the Llanos Basin in Colombia, tariff oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Rancho Hermoso, VMM-2 and Santa Isabel properties in Colombia.

The Nelson and Palmer fields at the Esperanza block and the Clarinete and Oboe fields at the VIM-5 block, located in the Lower Magdalena Basin in Colombia, produce dry natural gas for sale to local customers under long-term take-or-pay as well as short-term spot market contracts. The Cañahuate-1 exploration well was spud on March 24, 2017 and reached a total depth of 8,263 feet measured depth ("ft. md."). The well encountered 124 ft. md. of net gas pay with average porosity of 18% within the primary Cienaga de Oro ("CDO") reservoir target. Two different zones were completed and flow tested at a combined rate of 28 million standard cubic feet per day ("MMscfpd") of dry gas. Work is underway to tie the Cañahuate-1 exploration well into the Corporation's gas processing facility at Jobo.

During the three months ended June 30, 2017, the Toronja-1 exploration well was spud at the Corporation's VIM-21 block. The well reached a total depth of 7,200 ft. md. in six days. The well encountered gas between 4,875 to 6,256 ft. md. with average porosity of 20% within the primary Porquero sandstone resevoir target. Two different zones were completed and flow tested within the Porquero resevoir. The first zone test was perforated between 4,865 to 4,884 ft. md. and flowed at a stabilized rate of 24.4 MMscfpd of dry gas. The second zone tested was perforated between 6,249 to 6,257 ft. md. and flowed at a final stabilized rate of 21.9 MMscfpd of dry gas. Work is currently underway to tie the Toronja-1 exploration well into the Corporation's gas processing facility at Jobo.

During the three months ended June 30, 2017, the Pumara-1 exploration well was drilled at the Corporation's LLA-23 block and reach a total depth of 10,713 ft. md. in 20 days. Two potential oil bearing zones in the Gacheta-A and Gacheta-D were tested using an electro-submersible pump, with both zones producing small quantities of oil. The well will be plugged and abandoned, fulfilling the Corporation's exploration drilling commitment on its LLA-23 block for 2017. The technical staff are currently evaluating the well results to determine potential impacts on the remaining prospectivity of the block.

The Corporation, through a consortium, participates in an incremental production contract for the Libertador and Atacapi fields in Ecuador whereby the Corporation is entitled to a tariff price of $38.54/bbl for each incremental barrel of oil produced over a pre-determined production base curve. Such incremental production volumes are reported as production in this MD&A. As further described above, as required under IFRS 11, the Ecuador IPC is being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting. For purposes of this MD&A, management has provided supplemental measures for adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations.

For the three months ended June 30, 2017, the Corporation also had crude oil production from its LLA-23, Rancho Hermoso, VMM-2 and Santa Isabel properties in Colombia. The Corporation's Rancho Hermoso, VMM-2 and Santa Isabel properties individually contributed only a minor amount to total production in the three months ended June 30, 2017 and, therefore, were aggregated into a single group ("Other") for analysis purposes in this MD&A. These properties are susceptible to negative cash flows in a low oil price environment and the Corporation plans to shut-in any wells under its control that are uneconomic. As of the date of this MD&A, all wells at the Capella field in Colombia and the Moloacan field in Mexico have been shut-in.

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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| **Production (boepd)** | | | | | | |
| Esperanza (gas) | **8,970** | 7,706 | 16% | **9,424** | 6,821 | 38% |
| VIM-5 (gas) | **4,705** | 4,699 | — | **4,157** | 2,586 | 61% |
| LLA-23 (oil) | **1,209** | 1,648 | (27%) | **1,277** | 1,878 | (32%) |
| Ecuador (tariff oil) | **1,567** | 1,751 | (11%) | **1,535** | 1,737 | (12%) |
| Other (oil) | **711** | 619 | 15% | **684** | 658 | 4% |
| Total production | **17,162** | 16,423 | 5% | **17,077** | 13,680 | 25% |
| Inventory movements and other | **(99)** | (47) | 111% | **(82)** | (37) | 122% |
| **Total sales** | **17,063** | 16,376 | 4% | **16,995** | 13,643 | 25% |
| **Sales (boepd)** | | | | | | |
| Esperanza (gas) | **8,866** | 7,635 | 16% | **9,337** | 6,785 | 38% |
| VIM-5 (gas) | **4,697** | 4,696 | — | **4,150** | 2,546 | 63% |
| LLA-23 (oil) | **1,219** | 1,661 | (27%) | **1,282** | 1,896 | (32%) |
| Ecuador (tariff oil) | **1,567** | 1,751 | (11%) | **1,535** | 1,737 | (12%) |
| Other (oil) | **714** | 633 | 13% | **691** | 679 | 2% |
| **Total sales** | **17,063** | 16,376 | 4% | **16,995** | 13,643 | 25 % |
| **Realized Contractual Sales (boepd)** | | | | | | |
| Esperanza (gas) | **8,866** | 7,635 | 16% | **9,337** | 6,785 | 38% |
| VIM-5 (gas) | **4,697** | 4,696 | — | **4,150** | 2,546 | 63% |
| Take-or-pay volumes | **132** | 641 | (79%) | **621** | 477 | 30% |
| Total natural gas | **13,695** | 12,972 | 6% | **14,108** | 9,808 | 44% |
| Total Colombia oil | **1,933** | 2,294 | (16%) | **1,973** | 2,575 | (23%) |
| Ecuador tariff oil | **1,567** | 1,751 | (11%) | **1,535** | 1,737 | (12%) |
| **Total realized contractual sales** | **17,195** | 17,017 | 1% | **17,616** | 14,120 | 25% |

The overall increase in production volumes in the three and six months ended June 30, 2017, compared to the same periods in 2016, is primarily due to an increase in gas production in Esperanza and VIM-5, as a result of the additional sales related to the Promigas pipeline expansion, offset by production declines from LLA-23 and Ecuador.

Realized contractual gas sales during the second quarter of 2017 averaged approximately 78 MMscfpd, a slight decrease from the previous quarter as a result of seasonal conditions along Colombia's Caribbean coast that impacted the demand relating to one of the Corporation's small interruptible contracts. A long-term fixed price contract has been signed, such that the Corporation's total gas sales will be under long-term fixed price take-or-pay contracts by December 2017.

## Petroleum and Natural Gas Revenues

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Esperanza | **$ 23,244** | $ 21,899 | 6% | **$ 49,744** | $ 38,819 | 28% |
| VIM-5 | **11,650** | 13,892 | (16%) | **20,691** | 15,010 | 38% |
| LLA-23 | **4,632** | 5,202 | (11%) | **10,002** | 9,592 | 4% |
| Other | **2,619** | 1,991 | 32% | **5,311** | 3,554 | 49% |
| Petroleum and natural gas revenues, before royalties | **42,145** | 42,984 | (2%) | **85,748** | 66,975 | 28% |
| Royalties | **(5,191)** | (5,849) | (11%) | **(10,190)** | (8,078) | 26% |
| Petroleum and natural gas revenues, after royalties | **36,954** | 37,135 | — | **75,558** | 58,897 | 28% |
| Take-or-pay natural gas income | **329** | 1,791 | (82%) | **3,308** | 2,729 | 21% |
| Total petroleum and natural gas revenues, after royalties, as reported | **37,283** | 38,926 | (4%) | **78,866** | 61,626 | 28% |
| Ecuador tariff and other revenues [(1)] | **5,724** | 6,464 | (11%) | **11,116** | 12,764 | (13%) |
| **Adjusted petroleum and natural gas revenues, after royalties** [(1)] | **$ 43,007** | $ 45,390 | (5%) | **$ 89,982** | $ 74,390 | 21% |

(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 six months ended June 30, 2017, the Corporation has realized $0.3 million and $3.3 million of take-or-pay income (as described in (2) above), respectively, which is equivalent to 132 boepd and 621 boepd of gas sales, respectively, without actual delivery of the natural gas.

As at June 30, 2017, 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 June 30, 2017, undelivered nominations resulted in a deferred income balance of $3.3 million ($3.2 million related to gas; $0.1 million related to crude oil) 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 June 30, | | | | | Six months ended June 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | Change | | **2017** | | 2016 | Change |
| Brent ($/bbl) | **$** | **50.59** | $ | 46.33 | 9% | **$** | **52.57** | $ | 40.98 | 28% |
| West Texas Intermediate ($/bbl) | **$** | **48.77** | $ | 46.56 | 5% | **$** | **50.73** | $ | 41.35 | 23% |
| Natural gas ($/boe) | **$** | **28.27** | $ | 31.90 | (11%) | **$** | **28.85** | $ | 31.70 | (9%) |
| Crude oil ($/boe) | **$** | **41.22** | $ | 34.45 | 20% | **$** | **42.87** | $ | 28.05 | 53% |
| Ecuador tariff ($/boe) | **$** | **38.54** | $ | 38.54 | — | **$** | **38.54** | $ | 38.54 | — |
| Esperanza ($/boe) | **$** | **28.81** | $ | 31.52 | (9%) | **$** | **29.43** | $ | 31.44 | (6%) |
| VIM-5 ($/boe) | | **27.26** | | 32.51 | (16%) | | **27.55** | | 32.40 | (15%) |
| LLA-23 ($/bbl) | | **41.76** | | 34.42 | 21% | | **43.10** | | 27.80 | 55% |
| Ecuador ($/bbl) | | **38.54** | | 38.54 | — | | **38.54** | | 38.54 | — |
| Other ($/bbl) | | **40.31** | | 34.55 | 17% | | **42.46** | | 28.74 | 48% |
| **Average realized sales price ($/boe)** (1) | **$** | **30.68** | $ | 32.97 | (7%) | **$** | **31.36** | $ | 31.88 | (2%) |

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

The increase in average realized crude oil sales prices in the three and six months ended June 30, 2017 compared to the same periods in 2016 is mainly due to increased benchmark crude oil prices.

The decrease in average realized natural gas sales prices in the three and six months ended June 30, 2017 compared to the same periods in 2016 is due to a) the decrease in the Guajira price in December 2016, from $6.17/MMbtu to $4.63/MMbtu, and b) lower spot market prices, due to seasonal conditions along Colombia's Caribbean coast negatively impacting the price relating to a small interruptible contract, which has been replaced by a long-term, higher fixed price take-or-pay contract beginning in December 2017. The Guajira price is the local natural gas reference price in Colombia and is set to be redetermined on an annual basis.

The tariff price for Ecuador tariff oil production is fixed at $38.54/bbl. During periods of low oil prices in 2015 and 2016, the Ecuador IPC did not receive the full $38.54/bbl in cash. The uncollected amounts recorded as receivables by the Ecuador IPC as at June 30, 2017 have since been collected, a portion received in tradable bonds which were sold during the three months ended June 30, 2017 and a portion received in the form of government of Ecuador interest bearing bonds.

## Royalties

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | | **2017** | | 2016 |
| Esperanza | **$** | **2,025** | $ | 2,049 | **$** | **4,355** | $ | 3,475 |
| VIM-5 | | **2,444** | | 3,042 | | **4,298** | | 3,266 |
| LLA-23 | | **506** | | 589 | | **1,102** | | 1,058 |
| Other | | **216** | | 169 | | **435** | | 279 |
| **Total royalties** | **$** | **5,191** | $ | 5,849 | **$** | **10,190** | $ | 8,078 |

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 are subject to an additional x-factor royalty of 3% on net revenue (effectively 2.76%). Crude oil royalties in LLA-23 and VMM-2 are calculated from crude oil revenue net of transportation expenses. Crude oil royalties in Labrador and Rancho Hermoso are taken in kind. There are 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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Production expenses | **$ 6,085** | $ 4,317 | 41 % | **$ 11,792** | $ 7,743 | 52 % |
| Transportation expenses | **261** | 858 | (70%) | **944** | 1,514 | (38%) |
| **Total production and transportation expenses** | **$ 6,346** | $ 5,175 | 23 % | **$ 12,736** | $ 9,257 | 38 % |
| $/boe | **$ 4.09** | $ 3.47 | 18 % | **$ 4.14** | $ 3.73 | 11 % |

An analysis of production expenses is provided below:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Esperanza | **$ 1,574** | $ 925 | 70% | **$ 3,017** | $ 1,560 | 93% |
| VIM-5 | **982** | 352 | 179% | **1,793** | 464 | 286% |
| LLA-23 | **1,917** | 2,087 | (8%) | **3,644** | 3,896 | (6%) |
| Other | **1,612** | 953 | 69% | **3,338** | 1,823 | 83% |
| **Total production expenses** | **$ 6,085** | $ 4,317 | 41% | **11,792** | 7,743 | 52% |
| **$/boe** | | | | | | |
| Esperanza | **$ 1.95** | $ 1.33 | 47% | **$ 1.79** | $ 1.26 | 42% |
| VIM-5 | **$ 2.30** | $ 0.82 | 180% | **$ 2.39** | $ 1.00 | 139% |
| Total natural gas | **$ 2.07** | $ 1.14 | 82% | **$ 1.97** | $ 1.19 | 66% |
| LLA-23 | **$ 17.28** | $ 13.81 | 25% | **$ 15.70** | $ 11.29 | 39% |
| **Total** | **$ 3.92** | $ 2.90 | 35% | **$ 3.83** | $ 3.12 | 23% |

Total natural gas production expenses per boe increased by 82% and 66% to $2.07/boe ($0.36/Mcf) and $1.97/boe ($0.35/Mcf) for the three and six months ended June 30, 2017 compared to $1.14/boe ($0.20/Mcf) and $1.19/boe ($0.21/Mcf) for the same periods in 2016, respectively. The increase is mainly attributable to the operating lease cost of the Promisol Jobo gas processing facility (Jobo 2) at a contracted rate of approximately $0.57/boe ($0.10/Mcf) at the Corporation's current production level.

Production expenses at LLA-23 decreased 8% and 6% in the three and six months ended June 30, 2017 compared to the same periods in 2016, respectively. The decrease is primarily due to lower production. Despite a 8% and 6% decrease in LLA-23 production expenses year over year, the production expenses on a per barrel basis have increased 25% and 39% to $17.28/bbl and $15.70/bbl for the three and six months ended June 30, 2017 compared to $13.81/boe and $11.29/boe for the same periods in 2016, respectively, due to fixed costs over lower production.

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

An analysis of transportation expenses is provided below:

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| LLA-23 | **$ 68** | $ 644 | (89%) | **$ 541** | $ 1,053 | (49%) |
| Other | **193** | 214 | (10%) | **403** | 461 | (13%) |
| **Total transportation expenses** | **$ 261** | $ 858 | (70%) | **$ 944** | $ 1,514 | (38%) |
| **$/boe** | | | | | | |
| LLA-23 | **$ 0.61** | $ 4.26 | (86%) | **$ 2.33** | $ 3.05 | (24%) |
| Total | **$ 0.17** | $ 0.58 | (71%) | **$ 0.31** | $ 0.61 | (49%) |

Transportation expenses at LLA-23 decreased 89% and 49% in the three and six months ended June 30, 2017, compared to the same periods in 2016, due to a 27% and 32% decrease in production, respectively, and more sales at the well head where the purchasers assume the transportation costs, thereby reducing transportation expenses while also decreasing the average realized sales prices as a result.

## Operating Netbacks

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| **$/boe** | **2017** | 2016 | Change | **2017** | 2016 | Change |
| **Corporate** | | | | | | |
| Petroleum and natural gas revenues | **$ 30.68** | $ 32.97 | (7%) | **$ 31.36** | $ 31.88 | (2%) |
| Royalties | **(3.34)** | (3.92) | (15%) | **(3.31)** | (3.25) | 2% |
| Production and transportation expenses | **(4.09)** | (3.47) | 18% | **(4.14)** | (3.73) | 11% |
| **Operating netback** [1] | **$ 23.25** | $ 25.58 | (9%) | **$ 23.91** | $ 24.90 | (4%) |

(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**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| **$/boe** | **2017** | 2016 | Change | **2017** | 2016 | Change |
| **Esperanza** | | | | | | |
| Natural gas revenues | **$ 28.81** | $ 31.52 | (9%) | **$ 29.43** | $ 31.44 | (6%) |
| Royalties | **(2.51)** | (2.95) | (15%) | **(2.58)** | (2.81) | (8%) |
| Production expenses | **(1.95)** | (1.33) | 47% | **(1.79)** | (1.26) | 42% |
| **Operating netback** | **$ 24.35** | $ 27.24 | (11%) | **$ 25.06** | $ 27.37 | (8%) |
| **VIM-5** | | | | | | |
| Natural gas revenues | **$ 27.26** | $ 32.51 | (16%) | **$ 27.55** | $ 32.40 | (15%) |
| Royalties | **(5.72)** | (7.12) | (20%) | **(5.72)** | (7.05) | (19%) |
| Production expenses | **(2.30)** | (0.82) | 180% | **(2.39)** | (1.00) | 139% |
| **Operating netback** | **$ 19.24** | $ 24.57 | (22%) | **$ 19.44** | $ 24.35 | (20%) |
| **Total Natural Gas** | | | | | | |
| Natural gas revenues | **$ 28.27** | $ 31.90 | (11%) | **$ 28.85** | $ 31.70 | (9%) |
| Royalties | **(3.62)** | (4.54) | (20%) | **(3.54)** | (3.97) | (11%) |
| Production expenses | **(2.07)** | (1.14) | 82% | **(1.97)** | (1.19) | 66% |
| **Operating netback** | **$ 22.58** | $ 26.22 | (14%) | **$ 23.34** | $ 26.54 | (12%) |

**Crude Oil**

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| **$/boe** | **2017** | 2016 | Change | **2017** | 2016 | Change |
| **LLA-23** | | | | | | |
| Crude oil revenues | **$ 41.76** | $ 34.42 | 21% | **$ 43.10** | $ 27.80 | 55% |
| Royalties | **(4.56)** | (3.90) | 17% | **(4.75)** | (3.07) | 55% |
| Production and transportation expenses | **(17.89)** | (18.07) | (1%) | **(18.03)** | (14.34) | 26% |
| **Operating netback** | **$ 19.31** | $ 12.45 | 55% | **$ 20.32** | $ 10.39 | 96% |
| **Ecuador** | | | | | | |
| Tariff revenues [1] | **$ 38.54** | $ 38.54 | — | **$ 38.54** | $ 38.54 | — |
| **Operating netback** | **$ 38.54** | $ 38.54 | — | **$ 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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Gross costs | **$ 6,913** | $ 4,984 | 39% | **$ 14,366** | $ 9,528 | 51% |
| Less: capitalized amounts | **(810)** | (781) | 4% | **(1,743)** | (1,563) | 12% |
| **General and administrative expenses** | **$ 6,103** | $ 4,203 | 45% | **$ 12,623** | $ 7,965 | 58% |
| $/boe | **$ 3.93** | $ 2.82 | 39% | **$ 4.10** | $ 3.21 | 28% |

Gross general and administrative expenses ("G&A") increased by 39% and 51% in the three and six months ended June 30, 2017, compared to same periods in 2016, respectively, primarily due to increased staffing costs in preparation for significantly increased gas production over the next six months, G&A related to Mexico and corporate restructuring costs during the period.

## Net Finance Income and Expense

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Net financing expense paid | **$ 5,524** | $ 4,228 | 31% | **$ 11,039** | $ 8,340 | 32% |
| Non-cash financing costs | **1,426** | 1,509 | (6%) | **6,688** | 2,720 | 146% |
| **Net finance expense** | **$ 6,950** | $ 5,737 | 21% | **$ 17,727** | $ 11,060 | 60% |

During the six months ended June 30, 2017, the Corporation entered into a credit agreement for a $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 agreement also allows an additional $40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions, of which $20 million of the $40 million greenshoe funds were drawn during the three months ended June 30, 2017.

Proceeds from the 2017 Senior Secured Term Loan was used for the repayment of the principal in the amount of $255 million including $180 million of the BNP Senior Secured Term Loan and $75 million of Senior Notes, plus accrued interest and costs of the transaction. The carrying value of the BNP Senior Secured Term Loan and Senior notes included $4.4 million of transaction costs netted against the principal amounts, which were fully expensed at the time of settlement.

## Stock-Based Compensation Expense and Restricted Share Units

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Stock-based compensation expense | **$ 1,080** | $ 860 | 26% | **$ 4,390** | $ 1,887 | 133% |
| Restricted share unit expense | **—** | — | — | **3,846** | 3,021 | 27% |
| **Stock-based compensation and restricted share unit expense** | **$ 1,080** | $ 860 | 26% | **$ 8,236** | $ 4,908 | 68% |

Stock-based compensation and restricted share units expense increased 26% and 68% in the three and six months ended June 30, 2017, compared the same periods in 2016, respectively, primarily due to a stock option grant of $3.3 million (2016 - $1.2 million) and a restricted share units grant of $3.8 million (2016 - $3 million) during the six months ended June 30, 2017. 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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Depletion and depreciation expense | **$ 5,539** | $ 3,671 | 51% | **$ 15,336** | $ 9,505 | 61% |
| $/boe | **$ 3.57** | $ 2.46 | 45% | **$ 4.99** | $ 3.83 | 30% |

Depletion and deprecation expense increased 51% and 61% in the three and six months ended June 30, 2017, compared to the same periods in 2016, respectively, primarily as a result of higher natural gas production and higher depletable base, offset by a change in estimate relating to the decommissioning obligation, which was recorded as a reduction of depletion and depreciation expense in the three months ended June 30, 2017.

## Income Tax Expense

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Current income tax expense | **$ 3,788** | $ 7,579 | **$ 13,143** | $ 14,161 |
| Deferred income tax expense (recovery) | **7,491** | 83 | **1,913** | (7,244) |
| **Income tax expense** | **$ 11,279** | $ 7,662 | **$ 15,056** | $ 6,917 |

The Corporation's pre-tax income is subject to the Colombian statutory income tax rate of 40%.

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

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| Cash flow provided by operating activities | **$ 11,130** | $ 13,764 | (19%) | **$ 28,669** | $ 21,013 | 36% |
| Per share – basic | **$ 0.06** | $ 0.09 | (33%) | **$ 0.16** | $ 0.13 | 23% |
| Per share – diluted | **$ 0.06** | $ 0.08 | (25%) | **$ 0.16** | $ 0.13 | 23% |
| Adjusted funds from operations (1) | **$ 24,236** | $ 26,870 | (10%) | **$ 45,183** | $ 40,321 | 12% |
| Per share – basic | **$ 0.14** | $ 0.17 | (18%) | **$ 0.26** | $ 0.25 | 4% |
| Per share – diluted | **$ 0.14** | $ 0.16 | (13%) | **$ 0.26** | $ 0.25 | 4% |
| Net income (loss) and comprehensive income (loss) | **$ 11,770** | $ 11,245 | 5% | **$ 3,828** | $ 11,706 | (67)% |
| Per share – basic | **$ 0.07** | $ 0.07 | — % | **$ 0.02** | $ 0.07 | (71)% |
| Per share – diluted | **$ 0.07** | $ 0.07 | — % | **$ 0.02** | $ 0.07 | (71)% |

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

## Capital Expenditures

| | | Three months ended June 30, | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|
| | | **2017** | 2016 | | **2017** | 2016 |
| Drilling and completions | **$** | **13,041** | $ 1,598 | **$** | **23,926** | $ 9,295 |
| Facilities, work overs and infrastructure | | **5,247** | 3,754 | | **6,125** | 7,611 |
| Midstream pipeline costs | | **9,317** | — | | **9,317** | — |
| Land, seismic, communities and other | | **6,487** | 4,561 | | **16,915** | 7,199 |
| Non-cash costs and adjustments(2) | | **(3,520)** | (4,845) | | **(1,711)** | (7,154) |
| Property acquisition | | **—** | — | | **—** | 3,665 |
| Net capital expenditures | | **30,572** | 5,068 | | **54,572** | 20,616 |
| Ecuador | | **76** | 330 | | **894** | 731 |
| **Adjusted net capital expenditures** (1) | **$** | **30,648** | $ 5,398 | **$** | **55,466** | $ 21,347 |
| Net capital expenditures recorded as: | | | | | | |
| Expenditures on exploration and evaluation assets | **$** | **17,703** | $ 3,655 | **$** | **32,807** | $ 11,983 |
| Expenditures on property, plant and equipment | | **12,869** | 1,413 | | **21,765** | 4,968 |
| Property acquisition | | **—** | — | | **—** | 3,665 |
| **Net capital expenditures** | **$** | **30,572** | $ 5,068 | **$** | **54,572** | $ 20,616 |

(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 June 30, 2017 primarily related to:

- Midstream pipeline costs;
- Drilling, completion and testing of Pumara-1;
- Drilling, completion and testing of Cañahuate-1;
- Drilling, completion and testing of Toronja-1;
- Testing of Mono Capuchino-1ST;
- Workover of Pico Plata in VMM-3;
- Facilities costs at Esperanza and VIM-5;
- Facilities costs related to the Ecuador IPC (accounted for under the equity method of accounting); and
- Other capitalized costs (capitalized G&A of $0.8 million and decrease of non-cash decommissioning costs of $3.5 million due to a change in estimate)

## 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, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items. In order to maintain or adjust the capital structure, from time to time the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

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

During the six months ended June 30, 2017, the Corporation executed a new credit agreement to refinance its BNP Senior Secured Term Loan and Senior Notes, totaling $255 million, into the 2017 Senior Secured Term Loan of $265 million, with the following benefits: a) a lower the average interest rate, and b) extend the first amortization payment of the new term loan into 2019.

| | | June 30, 2017 |
|---|---|---|
| Bank debt – principal | $ | 285,000 |
| Working capital surplus | | (54,719) |
| Net debt | $ | 230,281 |

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

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

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("Consolidated Total Debt") divided by consolidated EBITDAX ("Consolidated EBITDAX"). Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt and finance lease obligation; additionally, restricted cash maintained in the debt service reserve account related to the 2017 Senior Secured Term Loan is deductible against Consolidated Total Debt. Consolidated EBITDAX is calculated on a rolling 12-month basis and is defined as consolidated net income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, equity income (loss) and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the Corporation's share of revenues from the Ecuador IPC, to the extent that they are collected in cash. The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity consolidation basis in the Corporation's financial statements.

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and excludes non-cash interest charges.

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

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

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

Consolidated Total Debt and Consolidated EBITDAX are calculated as follows:

| Consolidated Total Debt | | June 30, 2017 |
|---|---|---|
| Bank debt – principal | $ | 285,000 |
| Finance lease obligation | | 30,759 |
| Debt service reserve account balance | | (4,946) |
| Consolidated Total Debt | $ | 310,813 |

| Consolidated EBITDAX | Q3 | Q4 | Q1 | Q2 | Rolling |
|---|---|---|---|---|---|
| Consolidated net income (loss) | (8,399) | 20,339 | (7,942) | 11,770 | 15,768 |
| (+) Interest expense | 4,935 | 5,274 | 6,405 | 6,221 | 22,835 |
| (+/-) Income taxes (recovery) | 7,603 | (48,603) | 3,777 | 11,279 | (25,944) |
| (+) Wealth taxes | — | — | 450 | 24 | 474 |
| (+) Depletion and depreciation | 10,814 | 6,193 | 9,797 | 5,539 | 32,343 |
| (+) Exploration expenses | 14,583 | 2,808 | 23 | 23 | 17,437 |
| (-) Equity (loss) profit | (387) | 1,779 | (286) | (493) | 613 |
| (+/-) Other non-cash expenses (income) | 5,968 | 42,433 | 16,628 | (11,016) | 54,013 |
| (+) Contribution of Ecuador IPC | 6,459 | 5,976 | 5,392 | 5,724 | 23,551 |
| Consolidated EBITDAX | 41,576 | 36,199 | 34,244 | 29,071 | 141,090 |
| (+/-) Ecuador IPC receivable adjustment | (1,584) | (2,751) | (5,392) | 13,751 | 4,024 |
| Covenant EBITDAX | 39,992 | 33,448 | 28,852 | 42,822 | 145,114 |

| Consolidated Leverage Ratio | | June 30, 2017 |
|---|---|---|
| Consolidated Total Debt | $ | 310,813 |
| Consolidated EBITDAX | | 145,114 |
| Consolidated Leverage Ratio | | 2.14 |

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). The minimum Consolidated Interest Coverage Ratio required is 3.50:1.00. 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 any non-cash interest charges.

| Consolidated Interest Coverage Ratio | | June 30, 2017 |
|---|---|---|
| Consolidated Interest Expense | $ | 22,835 |
| Consolidated EBITDAX | | 145,114 |
| Consolidated Interest Coverage Ratio | | 6.35 |

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

*Other Colombian Credit Facilities*

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $49.6 million (COP 150.5 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at June 30, 2017.

*Letters of Credit*

At June 30, 2017, the Corporation had letters of credit outstanding totaling $80 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the Colombian revolving lines of credit by $49.6 million to $nil at June 30, 2017.

At August 9, 2017, the Corporation had 175.8 million common shares, 13 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 June 30, 2017:

| | Less than 1 year | 1-3 years | Thereafter | Total |
|---|---|---|---|---|
| Bank debt – principal | $ — | $ 131,538 | $ 153,462 | $ 285,000 |
| Finance lease obligation – undiscounted | 8,485 | 18,469 | 14,273 | 41,227 |
| Trade and other payables | 18,356 | — | — | 18,356 |
| Crude oil payable in kind | 536 | — | — | 536 |
| Wealth tax payable | 221 | — | — | 221 |
| Taxes payable | 11,795 | — | — | 11,795 |
| Deferred income | 3,316 | 3,731 | — | 7,047 |
| Other long term obligations | — | — | 2,913 | 2,913 |
| Restricted share units | 4,085 | 102 | — | 4,187 |
| Exploration and production contracts | 54,706 | 19,569 | — | 74,275 |
| Jobo facility operating contract | 3,344 | 7,275 | 5,647 | 16,266 |
| Liquid natural gas processing contract | 942 | 5,654 | 9,714 | 16,310 |
| Office leases | 1,075 | 1,596 | 888 | 3,559 |

**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 June 30, 2017 of $74.3 million and has issued $31.5 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

**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 Logística de Hidrocarburos S.A. for 550 barrels of oil per day at a variable regulated tariff. The tariffs as at June 30, 2017 are $7.56 / barrel and $2.97 / barrel, respectively. The ship-or-pay contracts will expire in November 2025 and 2028, respectively.

**Ecuador Incremental Production Contract**

In addition to the contractual obligations described above, the Corporation has a non-operated 25% equity participation interest in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium plans to incur capital expenditures estimated for a total of $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at June 30, 2017, the Corporation had incurred a net $86.2 million of capital expenditures in connection with its Ecuador IPC commitment and has a remaining commitment of $21.4 million. It is anticipated that cash flows from the Ecuador IPC is sufficient to sustain envisioned future capital development.

## OUTLOOK

For the remainder of 2017, the Corporation will focus on: 1) the drilling of the Pandereta and Gaitero gas exploration wells on its VIM-5 E&P contract located in the Lower Magdalena Basin, and 2) the construction of the gas flowline connecting the Corporation's gas processing facility at Jobo to the Promigas connection point at Bremen, which will add 40 MMscfpd of additional transportation capacity and lift Corporation gas production to 130 MMscfpd on December 1, 2017.

The Corporation plans to spud the Pandereta-1 exploration well during the first week of October 2017. The well is targeting prospective gas resources within the proven CDO sandstone reservoir, and is anticipated to take five weeks to drill and test. Upon completion of the Pandereta-1 well, the rig will be mobilized to drill the Gaitero-1 exploration well, location approximately three kms to the north. The well is targeting prospective gas resources within the CDO sandstone reservoir and is anticipated to take approximately five weeks to drill and test.

On August 9, 2017, the Corporation signed an agreement for the construction, operation and ownership of the 82 kms long Sabanas gas flowline from its Jobo gas plant to the connection point with the Promigas S.A. gas pipeline at Bremen. Pursuant to the agreement, the $41 million Sabanas gas flowline project will be financed through a $30.5 million investment by a group of private investors and a $10.5 million contribution from Canacol (the investors and Canacol, collectively the "Owners"), with each holding its interest in the Sabanas gas flowline in separate companies. Canacol's financial contribution to the project will be almost entirely satisfied by costs incurred to date, and as such will not involve the issuance of new equity or affect its current cash position. The tariff for the Sabanas gas flowline is similar to other regulated tariffs in the region and, as customary, the tariff will be borne by the offtakers of the gas. Under the terms of the agreement, Canacol is not required to either sign a ship or pay commitment to the benefit of the Owners, or place a corporate guarantee in favour of the Owners. The Owners engaged Horizon Capital Management Inc. ("Horizon") as advisor for this transaction, and will pay a fee of 3.5% on the $30.5 million of private funds raised. Two members of Canacol's board of directors have participated in the private investor financing for an aggregate amount of $10.5 million. Under the terms of the agreement with Horizon, Canacol has the option, valid until the commissioning of the pipeline, to divest up to an additional $3 million of its share of the project, thus lowering its investment to approximately $7.5 million plus the leasing of the compression as previously announced.

Construction of the Sabanas gas flowline connecting Jobo to the Promigas connection point at Bremen is proceeding on schedule, with first gas transportation anticipated on December 1, 2017. Approximately 55% of the tubulars have arrived on location, with the remainder expected on location in September 2017. The compression stations are anticipated to arrive in the third week of August from the Port of Houston. All forestry, archeological, and environmental permits have been obtained and 100% of the right of way has been negotiated and purchased. Civil works at the two compression station locations commenced the first week of August 2017, and digging and laying of the tubulars is anticipated to commence the last week of August 2017. Flowline laying will occur simultaneously at both Jobo and Bremen at either end of the 82 kms route, with flowline laying anticipated to be completed the first week of November 2017. Commissioning of the compression stations and pressure testing of the flowline is anticipated to be completed by the third week of November 2017.

The productive capacity of the Corporation's current gas wells is approximately 195 MMscfpd, and that of the Corporation's gas processing facilities located at Jobo approximately 200 MMscfpd, more than adequate to lift production to 130 MMscfpd in December 2017 when construction of the Sabanas gas flowline is complete. As previously announced, Canacol executed a ten year take-or-pay contract for 40 MMscfpd of gas at contractual terms comparable to the Corporation's current US dollar denominated gas sale contracts, which is expected to be transported by the Sabanas gas flowline commencing in December 2017.

## SUMMARY OF QUARTERLY RESULTS

| | 2017 | | 2016 | | | | 2015 | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| **Financial** | | | | | | | | |
| Total Petroleum and natural gas revenues, net of royalties | **37,283** | 41,583 | 41,967 | 44,392 | 38,926 | 22,700 | 17,402 | 21,958 |
| Adjusted petroleum and natural gas revenues, net of royalties | **43,007** | 46,975 | 47,943 | 50,851 | 45,390 | 29,000 | 24,883 | 29,899 |
| Cash flow provided by operating activities | **11,130** | 17,539 | 30,289 | 22,275 | 13,764 | 7,249 | 4,974 | 14,302 |
| Per share – basic ($) | **0.06** | 0.10 | 0.17 | 0.13 | 0.09 | 0.05 | 0.03 | 0.11 |
| Per share – diluted ($) | **0.06** | 0.10 | 0.17 | 0.13 | 0.08 | 0.05 | 0.03 | 0.11 |
| Adjusted funds from operations (1) | **24,236** | 20,947 | 41,979 | 30,719 | 26,870 | 13,451 | 8,473 | 15,218 |
| Per share – basic ($) (1) | **0.14** | 0.12 | 0.24 | 0.18 | 0.17 | 0.08 | 0.05 | 0.12 |
| Per share – diluted ($) (1) | **0.14** | 0.12 | 0.24 | 0.18 | 0.16 | 0.08 | 0.05 | 0.12 |
| Net income and comprehensive income | **11,770** | (7,942) | 20,331 | (8,399) | 11,245 | 461 | (84,466) | (19,029) |
| Per share – basic ($) | **0.07** | (0.05) | 0.12 | (0.05) | 0.07 | — | (0.54) | (0.15) |
| Per share – diluted ($) | **0.07** | (0.05) | 0.12 | (0.05) | 0.07 | — | (0.54) | (0.15) |
| Capital expenditures, net | **30,572** | 24,000 | 58,638 | 28,698 | 5,046 | 15,548 | 22,394 | 22,299 |
| Adjusted capital expenditures, net | **30,648** | 24,818 | 59,691 | 29,208 | 5,376 | 15,949 | 22,867 | 26,080 |
| **Operations (boepd)** | | | | | | | | |
| Petroleum and natural gas production, before royalties | | | | | | | | |
| Petroleum (2) | **3,487** | 3,505 | 3,616 | 3,892 | 4,018 | 4,526 | 5,523 | 6,983 |
| Natural gas | **13,675** | 13,487 | 14,112 | 14,740 | 12,405 | 6,407 | 3,541 | 3,472 |
| Total (2) | **17,162** | 16,992 | 17,728 | 18,632 | 16,423 | 10,933 | 9,064 | 10,455 |
| Petroleum and natural gas sales, before royalties | | | | | | | | |
| Petroleum (2) | **3,500** | 3,517 | 3,657 | 3,801 | 4,045 | 4,578 | 5,468 | 7,272 |
| Natural gas | **13,563** | 13,409 | 13,986 | 14,621 | 12,331 | 6,329 | 3,542 | 3,455 |
| Total (2) | **17,063** | 16,926 | 17,643 | 18,422 | 16,376 | 10,907 | 9,010 | 10,727 |
| **Realized contractual sales, before royalties** | | | | | | | | |
| **Natural gas** | **13,695** | 14,526 | 14,653 | 15,107 | 12,972 | 6,642 | 3,891 | 3,455 |
| **Colombia oil** | **1,933** | 2,014 | 2,026 | 2,090 | 2,294 | 2,856 | 3,390 | 5,116 |
| **Ecuador tariff oil (2)** | **1,567** | 1,503 | 1,631 | 1,711 | 1,751 | 1,722 | 2,078 | 2,156 |
| **Total (2)** | **17,195** | 18,043 | 18,310 | 18,908 | 17,017 | 11,220 | 9,359 | 10,727 |

(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 June 30, 2017 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2016.

## 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 is currently reviewing a number of new and revised IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies that may affect the Corporation are provided in the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three and six months ended June 30, 2017 and the audited consolidated financial statements as at and for the year ended December 31, 2016.

## 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 June 30, 2017, 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.