

CANACOL ENERGY LTD.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2018**



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	March 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		\$ 61,022	\$ 39,071
Restricted cash	6	6,733	16,399
Trade and other receivables		53,838	50,411
Prepaid expenses and deposits		3,710	1,562
Investments	7	10,800	16,601
Crude oil inventory		372	642
Hedging contract		247	35
Assets held for sale		43,853	71,960
		180,575	196,681
Non-current assets			
Other receivable	15	6,000	—
Restricted cash	6	6,610	11,520
Prepaid expenses and deposits		2,979	2,680
Exploration and evaluation assets	4	54,162	43,867
Property, plant and equipment	5	403,305	383,356
Investments	7	2,160	2,028
Deferred tax assets		61,906	56,311
		537,122	499,762
Total assets		\$ 717,697	\$ 696,443
LIABILITIES AND EQUITY			
Current liabilities			
Bank debt	8	22,736	—
Trade and other payables		50,608	59,739
Crude oil payable in kind		777	748
Deferred income		7,764	4,805
Finance lease obligations	9	7,900	6,500
Restricted share units	15	2,149	1,971
Taxes payable		13,051	8,663
Liabilities held for sale		3,854	3,854
		108,839	86,280
Non-current liabilities			
Bank debt	8	272,828	294,590
Finance lease obligations	9	40,165	29,358
Decommissioning obligations		19,831	19,223
Restricted share units	15	32	32
Other long term obligations		2,069	1,903
Deferred tax liabilities		22,421	25,915
Total liabilities		466,185	457,301
Equity			
Share capital	10	710,141	707,125
Other reserves		66,623	65,547
Accumulated other comprehensive income		335	335
Deficit		(525,569)	(533,847)
Non-controlling interest		(18)	(18)
Total equity		251,512	239,142
Total liabilities and equity		\$ 717,697	\$ 696,443

Commitments and contingencies (note 16)

Subsequent event (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)**
(UNAUDITED)

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

Three months ended March 31,	Note	2018		2017	
Revenues					
Petroleum and natural gas revenues, net of royalties	13	\$	51,387	\$	38,604
Take-or-pay natural gas			369		2,979
Total petroleum and natural gas revenues, net of royalties			51,756		41,583
Dividend income			356		—
Equity income			—		286
Expenses					
Production and transportation			10,890		6,390
Pre-license costs and E&E impairment			595		23
General and administrative			6,113		6,520
Donations			286		—
Stock-based compensation and restricted share units	10,15		4,473		7,156
Depletion and depreciation	5		10,131		9,797
Foreign exchange loss (gain)			(1,520)		1,687
Other expense (income)			847		1,222
Loss (Gain) on financial instruments	13		4,273		1,971
Other tax expenses			591		550
			36,679		35,316
Net finance expense	11		9,050		10,777
Income (Loss) before income taxes			6,383		(4,224)
Income taxes (recovery)					
Current			7,194		9,355
Deferred			(9,089)		(5,578)
			(1,895)		3,777
Non-controlling interest			—		59
Net income (loss) and comprehensive income (loss)			8,278		(7,942)
Net income (loss) per share					
Basic and diluted	12	\$	0.05	\$	(0.05)

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Non- Controlling Interest	Total Equity
Balance at December 31, 2016	\$ 700,528	\$ 60,567	\$ 335	\$ (385,818)	\$ 774	\$ 376,386
Stock options exercised	239	(115)	—	—	—	124
Stock-based compensation	—	3,310	—	—	—	3,310
Net loss	—	—	—	(7,942)	—	(7,942)
Non-controlling interest net loss	—	—	—	—	(59)	(59)
Balance at March 31, 2017	\$ 700,767	\$ 63,762	\$ 335	\$ (393,760)	\$ 715	\$ 371,819
Balance at December 31, 2017	\$ 707,125	\$ 65,547	\$ 335	\$ (533,847)	\$ (18)	\$ 239,142
Stock options exercised	3,016	(1,144)	—	—	—	1,872
Stock-based compensation	—	2,220	—	—	—	2,220
Net income	—	—	—	8,278	—	8,278
Balance at March 31, 2018	\$ 710,141	\$ 66,623	\$ 335	\$ (525,569)	\$ (18)	\$ 251,512

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

Three months ended March 31,	Note	2018	2017
Operating activities			
Net income (loss) and comprehensive income (loss)		\$ 8,278	\$ (7,942)
Adjustments:			
Non-controlling interest net loss		—	(59)
Net financing expense	11	9,050	10,777
Equity income		—	(286)
Stock-based compensation and restricted share units	10,15	4,473	7,156
Depletion and depreciation	5	10,131	9,797
Unrealized loss (gain) on financial instruments	13	6,026	2,310
Unrealized foreign exchange loss (gain) and other		(3,335)	1,787
Realized loss (gain) on investment	13	(1,856)	—
Settlement of restricted share units liability	15	(2,097)	(2,052)
Deferred income tax		(9,089)	(5,578)
Changes in non-cash working capital	13	(1,713)	1,629
		19,868	17,539
Investing activities			
Expenditures on exploration and evaluation assets		(15,131)	(15,104)
Expenditures on property, plant and equipment		(10,943)	(7,820)
Proceeds on disposition of assets		—	107
Proceeds from investments	7	1,925	24
Proceeds from assets held for sale	15	22,107	—
Change in restricted cash		14,577	(445)
Change in non-current prepaid expenses and deposits		(299)	—
Other long-term liabilities		—	(82)
Changes in non-cash working capital	13	(2,814)	(8,478)
		9,422	(31,798)
Financing activities			
Draw on bank debt		—	265,000
Financing fees		—	(10,870)
Repayment of bank debt		—	(255,000)
Net financing expense paid	11	(7,657)	(5,515)
Finance lease principal payments		(1,554)	(985)
Issue of common shares	10	1,872	124
		(7,339)	(7,246)
Change in cash		21,951	(21,505)
Cash, beginning of year		39,071	66,283
Cash, end of year		\$ 61,022	\$ 44,778

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in petroleum and natural gas exploration and development activities in Colombia. The Corporation’s head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation’s shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on May 11, 2018.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, “Interim Financial Reporting”. These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2017.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, restricted share units, crude oil payable in kind and hedging contract, which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”), bank debt and finance obligations, which are measured at amortized cost and decommissioning obligations, which are measured at the present value (“PV”) of management’s best estimate of the expenditure required to settle the present obligations at the period end date. Finance lease obligations and assets were initially measured at the lower of PV of minimum lease payments and fair market value. Subsequently, they are measured at amortized costs and cost, respectively.

These financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

On January 1, 2018, the Corporation adopted new IFRS pronouncements which have the below impact to the financial statements.

(i) IFRS 15: Revenue from Contracts with Customers

IFRS 15 “Revenue from Contracts with Customers” replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. The standard provides a single, principle-based five-step model that applies to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements”. In addition to providing a new five-step revenue recognition model, the standard specifies how to account for the incremental costs of obtaining a contract and costs directly related to fulfilling a contract. The standard’s requirements also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not part of the Corporation’s ordinary activities. The adoption of the new standard does not have a material impact to the financial statements, however the required disclosures have been included in the notes to the financial statements (note 13).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

The Corporation has also revised its revenue recognition accounting policy as a result of the new standard as follows:

The Corporation's revenues are primarily derived from the production of petroleum and natural gas. Revenue from contracts with customers is recognized when the Corporation satisfies a performance obligation by physically transferring the product and control to a customer. The Corporation satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers.

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

(ii) IFRS 9: Financial Instruments

IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The standard also requires entities to recognize a loss allowance for expected credit losses on financial assets with the objective to recognize lifetime expected credit losses for all financial instruments. Amendments to IFRS 7 "Financial Instruments: Disclosures" was also adopted simultaneously with IFRS 9. There is no material impact to the financial statements due to the adoption of the new standards.

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

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2017	\$	43,867
Additions		15,131
Transferred to D&P assets (note 5)		(4,836)
Balance at March 31, 2018	\$	54,162

During the three months ended March 31, 2018, the Corporation made a natural gas discovery, Pandereta-3 on its VIM-5 block and, accordingly, \$4.8 million of exploration costs associated with the block have been transferred to D&P assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Cost	
Balance at December 31, 2017	\$ 874,656
Additions	25,063
Transferred from E&E asset (note 4)	4,836
Balance at March 31, 2018	\$ 904,555
Accumulated depletion and depreciation	
Balance at December 31, 2017	\$ (491,300)
Depletion and depreciation	(10,131)
Derecognition and inventory adjustments	181
Balance at March 31, 2018	\$ (501,250)
Carrying value	
As at December 31, 2017	\$ 383,356
As at March 31, 2018	\$ 403,305

As at March 31, 2018, an asset is recognized at its cost of \$18.3 million and is not yet being depleted as it remains under construction.

During the three months ended March 31, 2018, the Corporation's second leased natural gas compression station commenced operation and as such, was recognized as a finance lease asset valued at \$13.9 million (note 9).

NOTE 6 – RESTRICTED CASH

	March 31, 2018	December 31, 2017
Restricted cash – current	\$ 6,733	\$ 16,399
Restricted cash – non-current	6,610	11,520
	\$ 13,343	\$ 27,919

As at March 31, 2018, restricted cash consisted of \$8 million for work commitments and other capital commitments (\$1.4 million classified as current; \$6.6 million classified as non-current), and \$5.3 million held in a debt reserve account as required under its bank debt (classified as current). Subsequent to March 31, 2018, upon closing the bond deal and the repayment of existing bank debt (note 17), the \$5.3 million held in the debt reserve account became unrestricted and has been classified as cash.

During the three months ended March 31, 2018, the Corporation received the outstanding term deposits of \$8.3 million as a portion of proceeds upon closing the sale of its equity interest in the Ecuador IPC.

NOTE 7 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Interoil Investment	Total Investments
Balance at December 31, 2017	\$ 1,803	\$ 225	\$ 15,085	\$ 1,516	\$ 18,629
Disposals	—	—	—	(1,925)	(1,925)
Realized gain	—	—	—	1,856	1,856
Unrealized loss	—	—	(4,285)	(2,025)	(6,310)
Foreign exchange gain	132	—	—	578	710
Balance at March 31, 2018	\$ 1,935	\$ 225	\$ 10,800	\$ —	\$ 12,960

During the three months ended March 31, 2018, the Corporation sold its remaining shares of its Interoil Investment for proceeds of \$1.9 million, resulting in a realized gain of \$1.9 million.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 8 – BANK DEBT

Balance at December 31, 2017	\$	294,590
Amortization of transaction costs		974
Balance at March 31, 2018	\$	295,564

Subsequent to March 31, 2018, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of \$320 million (the “Notes”). The net proceeds from the Notes have been used to fully repay the outstanding amounts borrowed under the existing credit facility in the amount of \$305 million plus accrued interest and transaction costs. The Notes will 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.

As at March 31, 2018, the first principal repayment, net of unamortized transaction costs for the amount of \$22.7 million has been classified as current as payments were scheduled to commence in March 2019.

NOTE 9 – FINANCE LEASE OBLIGATIONS

As at March 31, 2018	Minimum Lease Payments	PV of Minimum Lease Payments
Jobo natural gas processing facility		
Not later than one year	\$ 7,774	\$ 6,304
Later than one year and not later than five years	20,873	19,110
Later than five years	—	—
	28,647	25,414
Less: future finance charges	(3,233)	—
PV of minimum lease payments	\$ 25,414	\$ 25,414
Compression stations		
Not later than one year	\$ 2,742	\$ 1,596
Later than one year and not later than five years	11,530	7,888
Later than five years	14,929	13,167
	29,201	22,651
Less: future finance charges	(6,550)	—
PV of minimum lease payments	\$ 22,651	\$ 22,651
Finance lease obligations		
As at March 31, 2018		
Finance lease obligations - current	\$	7,900
Finance lease obligations - non-current		40,165
PV of minimum lease payments	\$	48,065
As at December 31, 2017		
Finance lease obligations - current	\$	6,500
Finance lease obligations - non-current		29,358
PV of minimum lease payments	\$	35,858

During the three months ended March 31, 2018, the Corporation’s second leased natural gas compression station commenced operation and was recognized as a finance lease. The lease term is ten years and the Corporation has the option to take over ownership at the end of the term. The finance lease obligation was discounted at the implicit interest rate of 5.2% at inception, and was initially recognized at the fair value of \$13.9 million.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 10 – SHARE CAPITAL

Authorized

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

Issued and Outstanding	Number	Amount
	(000's)	
Balance at December 31, 2017	176,109	707,125
Issued on exercise of stock options	691	1,872
Transfer from other reserves for stock options	—	1,144
Balance at March 31, 2018	176,800	\$ 710,141

Stock options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C\$)
Balance at December 31, 2017	14,853	3.89
Granted	2,774	4.42
Exercised	(691)	3.40
Forfeited and Cancelled	(89)	4.62
Balance at March 31, 2018	16,847	3.99

Information with respect to stock options outstanding at March 31, 2018 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$2.21 to \$3.50	5,282	2.2	2.80	5,282	2.80
\$3.60 to \$6.66	11,565	3.8	4.54	7,686	4.65
	16,847	3.3	3.99	12,968	3.89

Stock-based compensation of \$2.2 million (2017 - \$3.3 million) was expensed during the three months ended March 31, 2018.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017
(in United States dollars (tabular amounts in thousands) except as otherwise noted)

NOTE 11 – FINANCE INCOME AND EXPENSE

Three months ended March 31,	2018		2017	
Finance income				
Interest and other income	\$	288	\$	890
Finance expense				
Accretion on decommissioning obligations		419		545
Amortization of upfront fees		974		4,717
Interest and other financing costs		7,945		6,405
		9,338		11,667
Net finance expense	\$	9,050	\$	10,777

NOTE 12 – NET INCOME (LOSS) PER SHARE

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

Three months ended March 31,	2018		2017	
Net income (loss)	\$	8,278	\$	(7,942)
Weighted-average common share adjustments				
Weighted-average common shares outstanding, basic		176,572		174,378
Effect of stock options		2,187		—
Weighted-average common shares outstanding, diluted	\$	178,759	\$	174,378

For the three months ended March 31, 2017, stock options were anti-dilutive due to a net loss.

NOTE 13 – SUPPLEMENTAL INFORMATION

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

Three months ended March 31,	2018		2017	
Natural gas revenues, net of royalties	\$	42,526	\$	31,356
Petroleum revenues, net of royalties	\$	8,861	\$	7,248

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

Three months ended March 31,	2018		2017	
Natural gas royalties	\$	5,799	\$	4,185
Petroleum royalties	\$	975	\$	814

Income taxes and interest paid were as follows:

Three months ended March 31,	2018		2017	
Income taxes paid	\$	4,120	\$	—
Interest paid	\$	6,572	\$	6,249

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

Loss (gain) on financial instruments:

Three months ended March 31,	2018		2017	
Crude oil payable in kind – unrealized	\$	39	\$	(31)
Restricted share units – unrealized		(111)		(359)
Restricted share units – realized		103		(339)
Investments – unrealized		6,310		2,700
Investments – realized		(1,856)		—
Hedging contract - unrealized		(212)		—
	\$	4,273	\$	1,971

Changes in non-cash working capital are comprised of:

Three months ended March 31,	2018		2017	
Change in:				
Trade and other receivables	\$	(3,427)	\$	(4,515)
Prepaid expenses and deposits		(2,148)		(230)
Crude oil inventory		86		104
Trade and other payables		(6,373)		(11,469)
Crude oil payable in kind		(11)		—
Deferred income		2,959		(1,200)
Wealth tax payable		—		469
Taxes payable		4,387		9,992
	\$	(4,527)	\$	(6,849)
Attributable to:				
Operating activities	\$	(1,713)	\$	1,629
Investing activities		(2,814)		(8,478)
	\$	(4,527)	\$	(6,849)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 14 – SEGMENTED INFORMATION

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

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

	Colombia	Other Segments	Total
Three months ended March 31, 2018			
Revenue and other income	\$ 52,112	\$ —	\$ 52,112
Expenses, excluding income taxes	(29,069)	(16,660)	(45,729)
Net income (loss) before taxes	23,043	(16,660)	6,383
Income tax recovery	(1,895)	—	(1,895)
Net income (loss)	\$ 24,938	\$ (16,660)	\$ 8,278
Capital expenditures, net of dispositions	\$ 40,063	\$ 131	\$ 40,194
Three months ended March 31, 2017			
Revenue and other income	\$ 41,583	\$ —	\$ 41,583
Equity profit	—	286	286
Expenses, excluding income taxes	(29,432)	(16,602)	(46,034)
Net income (loss) before taxes	12,151	(16,316)	(4,165)
Income tax expense	3,777	—	3,777
Net income (loss)	\$ 8,374	\$ (16,316)	\$ (7,942)
Capital expenditures, net of dispositions	\$ 23,893	\$ 107	\$ 24,000
Balance at March 31, 2018			
Total assets	\$ 644,362	\$ 73,335	\$ 717,697
Total liabilities	\$ 272,001	\$ 194,184	\$ 466,185
Balance at December 31, 2017			
Total assets	\$ 619,189	\$ 77,254	\$ 696,443
Total liabilities	\$ 259,544	\$ 197,757	\$ 457,301

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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

NOTE 15 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's classification of financial instruments remains unchanged from December 31, 2017.

Fair Value of Financial Instruments

The carrying values and respective fair values of cash, restricted cash, trade and other receivables, trade and other payables and finance lease obligations approximate their fair values at March 31, 2018. Restricted Share Units ("RSUs"), investments and hedging contracts are recorded at fair value. The fair value of bank debt is \$305 million.

The Corporation classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash and RSUs are classified as Level 1. The pipeline and oil and gas company investments (\$2.1 million), crude oil payable in kind and hedging contract are classified as Level 2. The power generation company investment is classified as Level 3 (\$10.8 million). Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Restricted Share Units

	Number		Amount	
	(000's)			
Balance at December 31, 2017	\$	617	\$	2,003
Granted		632		2,254
Settled		(580)		(2,200)
Realized loss		—		103
Unrealized gain		—		(111)
Foreign exchange loss		—		132
Balance at March 31, 2018	\$	669	\$	2,181

On January 26, 2018, the Corporation granted 631,500 with a reference price of C\$4.22 per share. The RSUs vest at one-half in six months and one-half in one year from the grant date, and will all likely be settled in cash.

On January 16, 2018, 580,250 RSUs were settled in cash at a price of C\$4.71 per share, resulting in a payment of \$2.2 million.

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Market Risk

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of the Corporation's production volume are subject to long-term fixed price contracts limiting its exposure to commodity price risk. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. The Corporation had no commodity contracts in place as at or during the three months ended March 31, 2018.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at March 31, 2018, the Colombian peso to the United States dollar exchange rate was 2,780:1 (December 31, 2017 – 2,984:1) and the Canadian dollar to United States dollar exchange rate was 1.29:1 (December 31, 2017 – 1.25:1).

The Corporation had no forward exchange rate contracts in place as at or during the three months ended March 31, 2018.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As at March 31, 2018, the Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. Subsequent to March 31, 2018, the Corporation completed a private offering of senior unsecured notes which are subject to a fixed interest rate, thereby significantly reducing the Corporation's exposure to interest rate risk. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk.

As at March 31, 2018, the Corporation had a hedging contract under the following terms:

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

Subsequent to March 31, 2018, upon the completion of the private offering of the Notes and the repayment of the existing debt, the LIBOR collar has been liquidated.

Liquidity Risk

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

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The following table outlines the contractual maturities of the Corporation's financial liabilities at March 31, 2018:

	Less than 1 year		1-2 years		Thereafter		Total
Bank debt – principal	\$	23,462	\$	93,846	\$	187,692	\$ 305,000
Finance lease obligations – undiscounted		10,517		10,600		36,731	57,848
Trade and other payables		50,608		—		—	50,608
Crude oil payable in kind		777		—		—	777
Taxes payable		13,051		—		—	13,051
Deferred income		7,764		—		—	7,764
Other long term obligations		—		2,069		—	2,069
Restricted share units		2,149		32		—	2,181
	\$	108,328	\$	106,547	\$	224,423	\$ 439,298

Subsequent to March 31, 2018, the Corporation completed the private offering of the Notes which defers the quarterly \$23.5 million amortization of the existing credit facility beginning in March 2019, for a bullet maturity in May 2025.

In addition to the above, the Corporation has issued letters of credit totaling \$89 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments, of which \$21.1 million relates to assets held for sale. Such amounts only become payable should the Corporation not meet those obligations.

Credit Risk

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

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at March 31, 2018 was \$35.6 million (December 31, 2017 - \$24.2 million).

Capital Management

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

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

During the three months ended March 31, 2018, the Corporation has sold its remaining shares of Interoil for proceeds of \$1.9 million, resulting in an overall realized cash gain of \$3.8 million on the Corporation's original \$3.2 million investment.

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The Corporation also received \$22.1 million of the total \$28.1 million cash proceeds and the \$8.3 million outstanding term deposit previously recorded as restricted cash (note 6) from the sale of its equity interest in the Ecuador IPC. The remaining \$6 million of remaining cash proceeds have been classified as a long-term receivable as it will be received in June 2019.

Subsequent to March 31, 2018, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of \$320 million and has used the net proceeds to fully repay the outstanding amounts borrowed under its existing credit facility in the amount of \$305 million plus accrued interest.

By replacing the current credit facility of \$305 million, the Corporation benefits from: (i) replacing the current term loan that bears an interest rate of fluctuating three month Libor +5.5% (which currently totals approximately 8%, as the three month Libor has been increasing materially during the last 14 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 existing credit facility beginning in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that will 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 is required under the current credit facility (these amounts are scheduled to total approximately \$25 million later in 2018 under the existing credit facility); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay a dividend.

	March 31, 2018
Bank debt – principal	\$ 305,000
Finance lease obligations	48,065
Working capital surplus	(94,472)
Net debt	\$ 258,593

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at March 31, 2018:

	Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	\$	21,511	\$	49,805	\$	22,016	\$ 93,332
Jobo facility operating contract		2,879		5,757		1,919	10,555
Compression station operating contracts		2,470		5,090		18,744	26,304
Office leases		1,388		1,502		365	3,255

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at March 31, 2018 of \$93.3 million and has issued \$39.6 million in financial guarantees related thereto. In the event that the Corporation sells certain petroleum E&E and D&P assets, \$25.6 million of the total \$93.3 million of the exploration commitments and \$21.1 million of the \$39.6 million financial guarantees relating to these assets will no longer be held by the Corporation.

Pipeline Ship-or-Pay Contracts

The Corporation owns a 0.5% interest in Oleoducto Bicentenario de Colombia ("OBC"), which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. Under the terms of the OBC agreement, the Corporation may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings undertaken by OBC. The Corporation has also entered into ship-or-pay arrangements with OBC and Cenit Transporte y Logística de Hidrocarburos S.A. for 550 barrels of oil per day at a variable regulated tariff. The

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tariffs as at March 31, 2018 are \$7.56 / barrel and \$2.97 / barrel, respectively. The ship-or-pay contracts will expire in November 2025 and 2028, respectively.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants and assessments from tax authorities for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

NOTE 17 - SUBSEQUENT EVENT

Subsequent to March 31, 2018, the Corporation completed a private offering of senior unsecured 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 Notes will 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.