CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2013

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Petroleum and natural gas revenues, net of royalties [6]	**42,168**	26,200	61%	**90,390**	67,792	33%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC [2] [6]	**45,987**	27,350	68%	**97,609**	69,145	41%
Cash provided by operating activities [4]	**36,406**	6,445	465%	**56,130**	12,836	337%
Per share – basic ($)	**0.42**	0.10	320%	**0.65**	0.20	225%
Per share – diluted ($)	**0.41**	0.10	310%	**0.64**	0.20	220%
Adjusted funds from operations [1] [2] [4] [6]	**15,599**	3,202	387%	**39,877**	17,274	131%
Per share – basic and diluted ($)	**0.18**	0.05	260%	**0.46**	0.27	70%
Net income (loss) [4]	**(10,412)**	1,820	n/a	**(7,431)**	(5,336)	39%
Per share – basic and diluted ($)	**(0.12)**	0.03	n/a	**(0.09)**	(0.08)	13%
Capital expenditures, net	**22,749**	19,431	17%	**40,157**	34,402	17%
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC [1][2]	**32,679**	22,667	44%	**56,422**	41,598	36%
				December 31, 2013	June 30, 2013	Change
Cash and cash equivalents				**56,468**	52,290	8%
Restricted cash				**42,330**	26,394	60%
Working capital surplus, excluding the current portion of bank debt and non-cash items [1]				**37,622**	69,148	(46%)
Short-term and long-term bank debt				**135,201**	134,316	1%
Total assets				**512,800**	469,592	9%
Common shares, end of period (000s) [5]				**86,688**	86,506	-

Operating	Three months ended December 31,			Six months ended December 31,		
	2013	**2012**	Change	**2013**	**2012**	Change
Petroleum and natural gas production, before royalties (boepd) [3]						
Petroleum	**6,998**	5,035	39%	**6,555**	5,529	19%
Natural gas	**3,097**	319	871%	**3,060**	160	>999%
Total	**10,095**	5,354	89%	**9,615**	5,689	69%
Petroleum and natural gas sales, before royalties (boepd) [3] [6]						
Petroleum	**5,868**	4,815	22%	**6,088**	6,070	-
Natural gas	**2,953**	319	826%	**3,003**	160	>999%
Total	**8,821**	5,134	72%	**9,091**	6,230	46%
Realized sales prices ($/boe)						
LLA-23 (oil)	**86.86**	88.54	(2%)	**89.81**	88.54	1%
Esperanza (natural gas)	**29.45**	33.87	(13%)	**29.56**	33.87	(13%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**89.52**	64.91	38%	**91.85**	66.44	38%
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**61.81**	62.43	(1%)	**63.64**	65.25	(2%)
Operating netbacks ($/boe) [1]						
LLA-23 (oil)	**64.68**	59.64	8%	**66.05**	59.64	11%
Esperanza (natural gas)	**24.56**	28.35	(13%)	**24.82**	28.35	(12%)
Rancho Hermoso (tariff and non-tariff oil and liquids)	**20.88**	16.54	26%	**18.90**	21.20	(11%)
Ecuador (tariff oil) [2]	**38.54**	38.54	-	**38.54**	38.54	-
Total [2]	**38.44**	19.01	102%	**38.89**	21.85	78%

(1) Non-IFRS measure – 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.
(4) Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, per share information presented above was restated to a post-consolidation basis for comparability.
(5) On January 29, 2014, the Corporation issued an additional 2.5 million shares in connection with the acquisition of an 80% interest in each of the COR 4 and COR 12 blocks located in the Upper Magdalena Basin of Colombia – see “Subsequent Event” section within MD&A.
(6) Sales volumes, revenues and adjusted funds from operations for the three months ended December 31, 2013 were negatively affected by the build-up of crude oil inventory at December 31, 2013 as further described below under “Average Daily Petroleum and Natural Gas Production and Sales Volumes”.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. ("Canacol" or the "Corporation") and its subsidiaries are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Brazil, Guyana and Peru. 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 under the symbol CNE and the Bolsa de Valores de Colombia under the symbol CNEC.

Advisories

The following management's discussion and analysis ("MD&A") is dated February 11, 2014 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 months and six months ended December 31, 2013 and 2012 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended June 30, 2013. The financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

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

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

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

Change in Accounting Policy **–** International Financial Accounting Standard ("IFRS") 11 "Joint Arrangements", which became effective for the Corporation on July 1, 2013, divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

Upon the adoption of IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Corporation's investments in joint arrangements. The adoption of IFRS 11 resulted in a change in the method of accounting for the Corporation's interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador (the "Ecuador IPC") from a jointly-controlled entity, using the proportionate consolidation method, to being accounted for using the equity method. This change in accounting for the Corporation's investment in the Ecuador IPC has been applied in accordance with the relevant IFRS transitional provisions. The initial investment in the Ecuador IPC as at July 1, 2012 for the purposes of applying the equity method was measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. The change in accounting method has affected the amounts previously reported in the Corporation's financial statements.

As further described in the next section, the Corporation has provided supplemental disclosures related to revenues, expenditures and funds flows from the Ecuador IPC.

Non-IFRS Measures *– Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the 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 earnings per share. The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Cash provided by operating activities	**$ 36,406**	$ 6,445	**$ 56,130**	$ 12,836
Changes in non-cash working capital	**(24,626)**	(4,393)	**(23,472)**	3,085
Ecuador IPC revenue, net of current income tax	**3,819**	1,150	**7,219**	1,353
Adjusted funds from operations (1)	**$ 15,599**	$ 3,202	**$ 39,877**	$ 17,274

(1) Adjusted funds from operations for the three months ended December 31, 2013 was negatively affected by the build-up of crude oil inventory at December 31, 2013 as further described below under "Average Daily Petroleum and Natural Gas Production and Sales Volumes".

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, the current portion of warrants, and the current portion of any embedded derivatives asset/liability, 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 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

Producing Field Overview

For the three months ended December 31, 2013, the Corporation's production primarily consisted of crude oil and natural gas liquids from its Labrador and Rancho Hermoso fields in the Llanos Basin in Colombia, natural gas from its Esperanza block in the Lower Magdalena Basin in Colombia, crude oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Capella and Santa Isabel properties in Colombia.

During the quarter ended December 31, 2013, the Corporation made a key light oil discovery in the Leono field, located in the northern part of the LLA-23 block. The initial well, Leono-1, was completed and put onto production in early December 2013. As a result, the Leono field accounted for only a minor amount of the Corporation's total production for the three and six months ended December 31, 2013. The Corporation plans to drill four additional wells at Leono in calendar 2014. The first such well, Leono-2, was spud in January 2014.

The Esperanza block, located in the Lower Magdelena Basin in Colombia, produces dry natural gas for sale to local customers under long-term contracts. The Corporation continues to pursue new sales contracts for the natural gas associated with the Nelson field.

The Corporation, through a consortium, participates in an incremental production contract for the Libertador and Atacapi fields in Ecuador whereby the Corporation receives 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, the Corporation changed its accounting policy with respect to the Ecuador IPC as required under IFRS 11, which became effective to the Corporation on July 1, 2013. This resulted in the Ecuador IPC being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting, which was previously applied. 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.

Ecuador tariff production has steadily increased since the year ended June 30, 2013 and is expected to continue to increase into calendar 2016, when it is expected to reach peak production. During the quarter ended December 31, 2013, the Corporation participated in the drilling of two new development wells and the work over of three existing wells to add new production. The consortium plans to drill nine additional new development wells and work over seven existing producing wells in calendar 2014.

Crude oil production from Rancho Hermoso falls under either: i) "non-tariff", which represents crude oil produced under a production sharing contract with Ecopetrol S.A. ("Ecopetrol"), the state oil company of Colombia; or ii) "tariff" production, which represents crude oil produced under a risk service contract with Ecopetrol whereby the Corporation receives a set tariff price per barrel of oil produced. Tariff production is limited to one specific formation, the Mirador formation, while non-tariff production is derived from the remaining formations, including the Ubaque, Guadalupe, Barco Los Cuervos, Carbonera and Gacheta. Natural gas liquids production includes naphtha and LPGs from the processing of associated gas from the Rancho Hermoso field. Under its contracts with Ecopetrol, the Corporation is responsible for 100% of the production expenses of the field, while it recognizes 100% of gross tariff production and only 24-25% of gross non-tariff production before royalties. Consequently, average production expenses per barrel are higher due to this additional cost burden under the non-tariff production sharing contract. Similarly, the price received for tariff oil (currently established at $17.36.bbl to the end of the contract) is significantly below benchmark oil prices and, therefore, reduces average sales prices in the field, depending on the level of tariff oil production. Rancho Hermoso is a mature field and the Corporation plans to undertake certain additional work over activities with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

In December 2013, the Corporation commenced drilling of an appraisal well, Mono Arana-2, located on the VMM-2 block in the Middle Magdalena Valley of Colombia. The Mono Arana-2 well encountered 244 feet measured depth of oil pay in two conventional sandstone reservoirs within the Tertiary Lisama Formation. The remaining appraisal program on the VMM-2 block consists of the drilling of up to five wells and the construction of production facilities related to the appraisal and development of the Tertiary aged Lisama sandstone at Mono Arana. The next appraisal well, Mono Arana 5, was spud in January 2014.

For the three months ended December 31, 2013, the Corporation also had other crude oil production from its Capella and Santa Isabel properties in Colombia.

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

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 December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Production (boepd)						
LLA-23 (oil)	**3,705**	433	755%	**3,365**	217	>999%
Esperanza (gas)	**3,097**	319	871%	**3,060**	160	>999%
Rancho Hermoso (tariff and non-tariff oil and liquids)	**1,824**	4,093	(63%)	**1,870**	4,968	(68%)
Ecuador (tariff oil)	**1,077**	316	241%	**1,018**	186	447%
Other (oil)	**392**	193	103%	**302**	158	91%
Total production	**10,095**	5,354	89%	**9,615**	5,689	69%
Inventory movements, power generation and other	**(1,274)**	(220)	479%	**(524)**	541	n/a
Total sales	**8,821**	5,134	72%	**9,091**	6,230	46%
Sales (boepd)						
LLA-23 (oil)	**2,874**	199	>999%	**3,089**	100	>999%
Esperanza (gas)	**2,953**	319	826%	**3,003**	160	>999%
Rancho Hermoso (tariff and non-tariff oil and liquids)	**1,609**	4,126	(61%)	**1,609**	5,622	(71%)
Ecuador (tariff oil)	**1,077**	316	241%	**1,018**	186	447%
Other (oil)	**308**	174	77%	**372**	162	130%
Total sales	**8,821**	5,134	72%	**9,091**	6,230	46%

The overall increase in production volumes in the three and six months ended December 31, 2013 compared to the same periods in 2012 is primarily due to new production from the Labrador discovery on the LLA-23 block, production from the Esperanza block, and production increases from the Libertador and Atacapi fields in Ecuador.

Most of the Corporation's Llanos Basin crude oil production is sold by pipeline for export. The Corporation recognizes sales for such oil on title transfer to customers, which is at the point of export in the case of such pipeline shipments. During the three months ended December 31, 2013, the Corporation's crude oil inventory built up considerably to approximately 132,000 barrels due to its crude oil not being evacuated at the export shipping terminal on December 31, 2013. This build-up of inventory amounted to the equivalent of 964 boepd of production for the quarter and negatively affected petroleum revenues and adjusted funds from operations accordingly. The timing of oil exports and related recognition of sales revenues can vary due to the logistical issues of evacuating the oil at the export shipping terminal. However, this is only a matter of timing and the Corporation normally has been able to market its Llanos Basin crude oil production without any considerable issues.

Petroleum and Natural Gas Revenues

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
LLA-23	**$ 22,967**	$ 1,624	>999%	**$ 51,045**	$ 1,624	>999%
Esperanza	**8,002**	994	705%	**16,332**	994	>999%
Rancho Hermoso	**13,251**	24,638	(46%)	**27,192**	68,726	(60%)
Other	**2,124**	1,084	96%	**4,666**	2,096	123%
Petroleum and natural gas revenues, before royalties	**46,344**	28,340	64%	**99,235**	73,440	35%
Royalties	**(4,176)**	(2,140)	95%	**(8,845)**	(5,648)	57%
Petroleum and natural gas revenues, after royalties, as reported	**42,168**	26,200	61%	**90,390**	67,792	33%
Ecuador	**3,819**	1,150	232%	**7,219**	1,353	434%
Adjusted petroleum and natural gas revenues, after royalties [(1)]	**$ 45,987**	$ 27,350	68%	**$ 97,609**	$ 69,145	41%

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

Adjusted petroleum and natural gas revenues include tariff revenues from the Corporation's risk service contract at Rancho Hermoso and its incremental production contract in Ecuador.

The increase in adjusted petroleum and natural gas revenues in the three and six months ended December 31, 2013 compared to the same periods in 2012 is primarily the result of the increased overall sales of 72% and 46% by volume, respectively, partially offset by a decrease in overall realized prices of 1% and 2%, respectively. Adjusted petroleum and natural gas revenues were affected in fiscal Q2 2014 due to a significant build-up of crude oil inventories at December 31, 2013, as further described above.

Average Benchmark and Realized Sales Prices

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Brent ($/bbl)	**$ 109.23**	$ 110.15	(1%)	**$ 109.73**	$ 109.89	-
West Texas Intermediate ($/bbl)	**$ 97.50**	$ 88.01	11%	**$ 101.66**	$ 90.07	13%
LLA-23 ($/bbl)	**$ 86.86**	$ 88.54	(2%)	**$ 89.81**	$ 88.54	1%
Esperanza ($/boe)	**29.45**	33.87	(13%)	**29.56**	33.87	(13%)
Rancho Hermoso ($/bbl)	**89.52**	64.91	38%	**91.85**	66.44	38%
Ecuador ($/bbl)	**38.54**	38.54	-	**38.54**	38.54	-
Other ($/bbl)	**74.96**	67.72	11%	**68.17**	70.32	(3%)
Average realized sales price ($/boe) [(1)]	**$ 61.81**	$ 62.43	(1%)	**$ 63.64**	$ 65.25	(2%)

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

In January 2014, the Guajira Index, the natural gas reference price used as a basis for the calculation of the Corporation's Esperanza sales contract, was reduced to $3.97/MMbtu ($22.63/boe) by decree of the "Comision de Regulacion de Energia y Gas" ("CREG") of Colombia. The decree was made by the CREG as part of temporary measures involved in bridging the time from January 1, 2014, when certain amendments to the applicable legislation in Colombia came into force, and the establishment of a "market regulator" who will be in charge of calculating publishing a Guarjira average price as mandated by such legislation. The Corporation expects this process to be completed within the next six to nine months and, given that the current Guajira price does not represent neither current market prices nor anticipated future market prices, it is currently anticipated that the revised index price will at such time normalize.

Royalties

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
LLA-23	**$ 2,254**	$ 167	**$ 4,963**	$ 167
Esperanza	**709**	77	**1,371**	77
Rancho Hermoso	**1,067**	1,815	**2,194**	5,242
Other	**146**	81	**317**	162
Total royalties	**$ 4,176**	$ 2,140	**$ 8,845**	$ 5,648

In Colombia, crude oil royalties are generally at a rate of 8% until net field production reaches 5,000 boepd, then increase on a sliding scale to 20% up to field production of 125,000 boepd. Crude oil royalties in Rancho Hermoso are taken in kind. The Corporation's LLA-23 block is subject to an additional x-factor royalty of 3% (effectively 2.76%). Crude oil royalties in LLA-23 are calculated from crude oil revenue net of transportation expenses. The Corporation's Capella heavy oil field is subject to a 6% royalty. There are no royalties on tariff production in Ecuador. Natural gas royalties are calculated from natural gas revenue, generally at a rate of 6.4%. In addition, the Corporation's natural gas production is subject to an additional overriding royalty of 2%.

Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Production expenses	**$ 11,308**	$ 15,549	(27%)	**$ 24,308**	$ 37,281	(35%)
Transportation expenses	**3,482**	2,820	23%	**8,243**	6,815	21%
Total production and transportation expenses	**$ 14,790**	$ 18,369	(19%)	**$ 32,551**	$ 44,096	(26%)
$/boe	**$ 18.22**	$ 38.89	(53%)	**$ 19.46**	$ 38.47	(49%)

An analysis of production expenses is provided below:

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
LLA-23	**$ 1,880**	$ 144	>999%	**$ 5,027**	$ 144	>999%
Esperanza	**619**	85	628%	**1,249**	85	>999%
Rancho Hermoso	**7,600**	14,175	(46%)	**15,252**	34,569	(56%)
Other	**1,209**	1,145	6%	**2,780**	2,483	12%
Total production expenses	**$ 11,308**	$ 15,549	(27%)	**$ 24,308**	$ 37,281	(35%)
$/boe						
LLA-23	**$ 7.11**	$ 7.88	(10%)	**$ 8.84**	$ 7.88	12%
Esperanza	**$ 2.28**	$ 2.90	(21%)	**$ 2.26**	$ 2.90	(22%)
Rancho Hermoso	**$ 51.34**	$ 37.34	37%	**$ 51.52**	$ 33.42	54%
Total	**$ 13.93**	$ 32.92	(58%)	**$ 14.53**	$ 32.52	(55%)

The Corporation commenced production from the LLA-23 block in December 2012 and acquired the Esperanza block during the same month. Consequently, production expenses for such blocks were insignificant during the comparative three and six months ended December 31, 2012.

Production expenses at Rancho Hermoso decreased 46% and 56% in the three and six months ended December 31, 2013, respectively, compared to the same periods in 2012. The decrease is the result of decreased production in the field. However, since much of the costs of the field are not directly variable with production volumes, per boe production expenses have increased significantly from Q1 and H1 2013 to fiscal Q1 and H1 2014, respectively. Under its contract with Ecopetrol, the Corporation pays 100% of the production expenses at Rancho Hermoso while only recognizing non-tariff production before royalties of approximately 24-25% of gross non-tariff production. As a result, production expenses per boe for Rancho Hermoso oil are higher than a similar operation that is subject to an ANH

contract, such as LLA-23, Capella, VMM-2 and Santa Isabel. As Rancho Hermoso is a mature field, the Corporation intends to manage the operation with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

The Corporation does not pay production costs in Ecuador.

An analysis of transportation expenses is provided below:

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
LLA-23	**$ 1,733**	$ 219	693%	**$ 3,515**	$ 219	>999%
Rancho Hermoso	**1,494**	2,372	(37%)	**4,152**	6,111	(32%)
Other	**255**	229	11%	**576**	485	19%
Total transportation expenses	**$ 3,482**	$ 2,820	23%	**$ 8,243**	$ 6,815	21%
$/boe						
LLA-23	**$ 6.55**	$ 11.91	(45%)	**$ 6.18**	$ 11.88	(48%)
Rancho Hermoso	**$ 10.09**	$ 6.25	61%	**$ 14.02**	$ 5.91	137%
Total	**$ 4.29**	$ 5.97	(28%)	**$ 4.93**	$ 5.95	(17%)

Total transportation expenses have increased in the three and six months ended December 31, 2013 compared to the same periods in 2012 mainly due to increased sales volumes.

The Corporation does not pay transportation costs at Esperanza or in Ecuador.

Operating Netbacks

	Three months ended December 31,			Six months ended December 31,		
$/boe	**2013**	2012	Change	**2013**	2012	Change
Petroleum and natural gas revenues	**$ 61.81**	$ 62.43	(1%)	**$ 63.64**	$ 65.25	(2%)
Royalties	**(5.15)**	(4.53)	14%	**(5.29)**	(4.93)	7%
Production and transportation expenses	**(18.22)**	(38.89)	(53%)	**(19.46)**	(38.47)	(49%)
Operating netback (1)	**$ 38.44**	$ 19.01	102%	**$ 38.89**	$ 21.85	78%

(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:

	Three months ended December 31,			Six months ended December 31,		
$/boe	**2013**	2012	Change	**2013**	2012	Change
LLA-23						
Crude oil revenues	**$ 86.86**	$ 88.54	(2%)	**$ 89.81**	$ 88.54	1%
Royalties	**(8.52)**	(9.11)	(7%)	**(8.73)**	(9.11)	(4%)
Production and transportation expenses	**(13.66)**	(19.79)	(31%)	**(15.03)**	(19.79)	(24%)
Operating netback	**$ 64.68**	$ 59.64	8%	**$ 66.05**	$ 59.64	11%
Esperanza						
Natural gas revenues	**$ 29.45**	$ 33.87	(13%)	**$ 29.56**	$ 33.87	(13%)
Royalties	**(2.61)**	(2.62)	(1%)	**(2.48)**	(2.62)	(5%)
Production expenses	**(2.28)**	(2.90)	(21%)	**(2.26)**	(2.90)	(22%)
Operating netback	**$ 24.56**	$ 28.35	(13%)	**$ 24.82**	$ 28.35	(12%)
Rancho Hermoso						
Petroleum and tariff revenues	**$ 89.52**	$ 64.91	38%	**$ 91.85**	$ 66.44	38%
Royalties	**(7.21)**	(4.78)	51%	**(7.41)**	(5.01)	48%
Production and transportation expenses	**(61.43)**	(43.59)	41%	**(65.54)**	(40.23)	63%
Operating netback	**$ 20.88**	$ 16.54	26%	**$ 18.90**	$ 21.20	(11%)

$/boe	Three months ended December 31, 2013	2012	Change	Six months ended December 31, 2013	2012	Change
Ecuador						
Tariff revenues [(1)]	$ 38.54	$ 38.54	-	$ 38.54	$ 38.54	-
Operating netback [(1)]	$ 38.54	$ 38.54	-	$ 38.54	$ 38.54	-

(1) Revenues related to the Ecuador IPC are not included in Petroleum and Natural Gas Revenues as reported under IFRS – see "Non-IFRS Measures" section above.

Other fields in Colombia contributed only a minor amount to total revenues (<5%) in the three months and six months ended December 31, 2013 and 2012 and, therefore, a separate operating netback analysis is not provided.

General and Administrative Expenses

	Three months ended December 31, 2013	2012	Change	Six months ended December 31, 2013	2012	Change
Gross costs	$ 10,155	$ 6,406	59%	$ 16,054	$ 11,612	38%
Less: capitalized amounts / reversal	(1,175)	(496)	137%	(1,663)	(979)	70%
General and administrative expenses	$ 8,980	$ 5,910	52%	$ 14,391	$ 10,633	35%
$/boe	$ 11.07	$ 12.51	(12%)	$ 8.60	$ 9.28	(7%)

Gross general and administrative expenses increased 59% and 38% in the three and six months ended December 31, 2013, respectively, compared to same periods in 2012 primarily due to the acquisition of Shona Energy Company, Inc. in December 2012 as well as a general increase in costs required to support operations in Colombia. Accrued annual bonuses were further included in general and administrative expenses for the three months ended December 31, 2013 and 2012 as compared to other quarters.

Net Finance Income and Expense

	Three months ended December 31, 2013	2012	Change	Six months ended December 31, 2013	2012	Change
Net financing (expense) income (paid) received	$ 1,579	$ 231	584%	$ 2,905	$ 178	>999%
Non-cash financing costs	627	2,178	(71%)	1,244	2,442	(49%)
Net finance expense	$ 2,206	$ 2,409	(8%)	$ 4,149	$ 2,620	58%

Net finance expense decreased in the three months ended December 31, 2013 compared the same period in 2012 due to the recording of a non-cash financing cost related to the phantom warrants issued on closing of the Shona term loan in 2012, offset by additional interest and financing costs incurred on bank debt and the amortization of non-cash financing costs. Net finance expense increased in the six months ended December 31, 2013 compared to the same period in 2012 due to additional interest and financing costs incurred on bank debt and the amortization of non-cash financing costs.

Commodity Contracts

The Corporation entered into one new commodity contract during the three months ended December 31, 2013 to meet its obligations under its Senior Secured Term Loan. At December 31, 2013, the Corporation had one financial oil collars outstanding under the following terms:

Period	Volume	Type	Price Range
Jan 2014 – Dec 2014	500 bbls/day	Financial Brent Oil Collar	$75.00 – $123.50

Gains and losses on commodity contracts recognized in net income/loss are summarized below:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Unrealized change in fair value	**$ (156)**	$ (1,584)	**$ (195)**	$ 2,148
Realized cash settlement	**201**	394	**432**	911
Total loss (gain)	**$ 45**	$ (1,190)	**$ 237**	$ 3,059

Stock-Based Compensation Expense

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Gross costs	**$ 778**	$ 1,517	(49%)	**$ 1,383**	$ 3,591	(61%)
Less: capitalized amounts	**(259)**	(658)	(61%)	**(633)**	(1,551)	(59%)
Stock-based compensation expense	**$ 519**	$ 859	(40%)	**$ 750**	$ 2,040	(63%)

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options granted. The fair value is calculated on grant date and amortized over the vesting period.

Restricted Share Units

	Number (000s)	Amount
Balance at June 30, 2013	1,404	$ 3,914
Settled	(468)	(1,321)
Unrealized loss	-	3,741
Foreign exchange loss	-	(59)
Balance at December 31, 2013	**936**	**$ 6,275**

One-third of restricted share units vested and were settled during the six months ended December 31, 2013. The remaining units vest on May 2, 2014.

Depletion and Depreciation Expense

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Depletion and depreciation expense	**$ 7,530**	$ 9,893	(24%)	**$ 14,828**	$ 23,139	(36%)
$/boe	**$ 9.28**	$ 21.58	(57%)	**$ 8.86**	$ 20.19	(56%)

Depletion and depreciation expense decreased 24% and 36% in the three and six months ended December 31, 2013, respectively, compared to same periods in 2012 primarily as a result of the lower depletable base at Rancho Hermoso after a one-time impairment charge was recognized in the three months ended June 30, 2013.

Income Tax Expense

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Current income tax expense	**$ 5,548**	$ (758)	**$ 7,170**	$ (1,643)
Deferred income tax expense (recovery)	**(2,545)**	2,692	**(2,951)**	1,139
Income tax expense (recovery)	**$ 3,003**	$ 1,934	**$ 4,219**	$ (504)

The Corporation's pre-tax income is subject to the Colombian statutory income tax rate of 34%.

Cash and Funds from Operations and Net Income (Loss)

	Three months ended December 31,			Six months ended December 31,		
	2013	2012	Change	**2013**	2012	Change
Cash provided by operating activities	**$ 36,406**	$ 6,445	465%	**$ 56,130**	$ 12,836	337%
Per share – basic ($)	**$ 0.42**	$ 0.10	320%	**$ 0.65**	$ 0.20	225%
Per share – diluted ($)	**$ 0.41**	$ 0.10	310%	**$ 0.64**	$ 0.20	220%
Adjusted funds from operations (1) (2)	**$ 15,599**	$ 3,202	387%	**$ 39,877**	$ 17,274	131%
Per share – basic and diluted ($)	**$ 0.18**	$ 0.05	260%	**$ 0.46**	$ 0.27	70%
Net income (loss) (2)	**$ (10,412)**	$ 1,820	n/a	**$ (7,431)**	$ (5,336)	39%
Per share – basic and diluted ($)	**$ (0.12)**	$ 0.03	n/a	**$ (0.09)**	$ (0.08)	13%

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

(2) Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, per share information presented above was restated to a post-consolidation basis for comparability.

Adjusted funds from operations were negatively affected in Q2 2014 due to a significant build-up of export pipeline inventories at December 31, 2013, as further described above. Accrued annual bonuses were further included in general and administrative expenses for the three months ended December 31, 2013 and 2012 as compared to other quarters.

Net loss for the three months ended December 31, 2013 included $14.1 million of non-cash fair value adjustments of derivatives and financial instruments related to share price appreciation during the quarter. The Corporation's share price appreciated from C$4.41 at September 30, 2013 to C$7.13 at December 31, 2013. This significant increase caused the carrying values of the Corporation's warrants, phantom warrants and restricted share units to increase, resulting in the recording of non-cash losses on derivatives and financial instruments. Further, during Q2 2014 the Corporation beneficially amended the terms of its trucking contract resulting in the de-recognition of the $2.3 million non-cash embedded derivatives asset, which further contributed to the net loss for the period.

Capital Expenditures

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	**2013**	2012
Drilling and completions	**$ 17,304**	$ 10,330	**$ 28,172**	$ 11,924
Facilities, work overs and infrastructure	**2,980**	4,238	**4,929**	7,100
Seismic, capitalized general and administrative expenses, capitalized borrowing costs and other	**2,465**	4,863	**7,056**	15,378
Net capital expenditures	**22,749**	19,431	**40,157**	34,402
Ecuador	**9,930**	3,236	**16,265**	7,196
Adjusted net capital expenditures (1)	**$ 32,679**	$ 22,667	**$ 56,422**	$ 41,598
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 4,077**	$ 12,854	**$ 11,113**	$ 17,635
Expenditures on property, plant and equipment	**18,672**	6,577	**29,044**	16,767
Net capital expenditures	**$ 22,749**	$ 19,431	**$ 40,157**	$ 34,402

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

Capital expenditures in fiscal Q2 2014 primarily related to:

- Drilling and completion costs at LLA-23 related to the Leono discovery;
- Drilling and completion costs at VMM-2 (non-operated);
- Drilling and completion costs at Coati (non-operated);
- Drilling, completion and facilities costs at Capella (non-operated);
- Recompletion costs at Rancho Hermoso;
- Facilities costs at LLA-23; and
- Drilling, completion and recompletion costs related to the Ecuador IPC (accounted for under the equity method of accounting)

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 common share capital, convertible debentures, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, warrants and any embedded derivatives asset/liability. 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 the ratio of net debt to adjusted funds from operations. This ratio is calculated as net debt, defined as the principal amount of its outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money or may otherwise be settled in common shares at the option of the Corporation, less working capital, as defined above and less the current portion of bank debt and convertible debentures included above, divided by annualized adjusted funds from operations. The Corporation uses the ratio of net debt to adjusted funds from operations as a key indicator of the Corporation's leverage and to monitor the strength of its financial position.

In order to facilitate the management of this ratio, 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.

		December 31, 2013
Bank debt (current and long-term) – principal	$	140,000
Working capital surplus, excluding the current portion of bank debt and derivatives		(37,622)
Net debt	$	102,378
Annualized adjusted funds from operations [1]	$	79,754
Net debt to adjusted funds from operations		1.3

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above. Calculated as adjusted funds from operations for the six months ended December 31, 2013, annualized.

Credit Facilities and Debt

Senior Secured Term Loan

The Corporation has in place a credit agreement for a $140 million senior secured term loan with a syndicate of banks. The Senior Secured Term Loan is for a five-year term, with interest payable quarterly and principal repayable in 15 equal quarterly instalments starting in October 2014, following an initial 18 month grace period. The Senior Secured Term Loan carries interest at LIBOR plus 4.50% and is secured by all of the material assets of the Corporation. The carrying value of the Senior Secured Term Loan includes $4.8 million of transaction costs netted against the principal amount as at December 31, 2013. The Corporation was in compliance with its covenants as at December 31, 2013.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $41.8 million (COP$ 80.7 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at December 31, 2013.

Letters of Credit

At December 31, 2013, the Corporation had letters of credit outstanding totaling $30.5 million to guarantee work commitments on exploration blocks 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 $15.6 million.

Convertible Debentures

The Corporation has convertible debentures outstanding with a face value of $24.0 million (fair value – $24.4 million) that mature on July 15, 2015, and bear an annual coupon rate of 8%, payable semi-annually. The debentures are convertible into common shares of the Corporation at the option of the holder at a conversion price of C$10.526 per share, being the ratio of 95 common shares per C$1,000 principal amount of the debentures. On the maturity date, the Corporation has a right to repay the outstanding principal amount and any accrued interest in common shares of the Corporation, subject to certain conditions, including customary regulatory approvals.

Share Capital

At February 11, 2014, the Corporation had 89.4 million common shares, 4.0 million warrants, 6.8 million stock options, 0.9 million cash-settled restricted share units, and 2.7 million cash-settled phantom warrants 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 December 31, 2013:

	Less than 1 year	1-3 years	Thereafter	Total
Bank debt – principal	$ 9,333	$ 74,664	$ 56,003	$ 140,000
Trade and other payables	62,704	-	-	62,704
Deferred income	-	3,731	-	3,731
Commodity contracts	85	-	-	85
Equity tax payable – undiscounted	1,143	-	-	1,143
Other long term obligations	-	10,764	-	10,764
Convertible debentures – principal	-	23,993	-	23,993
Phantom warrants	-	8,795	-	8,795
Warrants	137	11,094	-	11,231
Restricted share units	6,275	-	-	6,275
Exploration and production contracts	13,087	22,808	-	35,895
Office leases	1,042	1,735	4,308	7,085

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia, Brazil, Guyana and Peru which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at December 31, 2013 of $36.3 million and has issued $21.7 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

Ecuador Incremental Production Contract

In addition to the contractual obligations described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital 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 is committed to incur project expenditures for a total of $334 million ($93.3 million net to the Corporation) over the 15 year term of the contract. As at December 31, 2013, the Corporation had incurred $36.9 million of expenditures in connection with its Ecuador IPC commitment.

SUBSEQUENT EVENT

Subsequent to December 31, 2013, the Corporation entered into agreements to acquire rights to an 80% interest in each of the COR-4 and COR-12 exploration blocks located in the Upper Magdalena Basin of Colombia. Pursuant to the terms of the agreements, consideration paid for the block acquisitions included: i) a total payment of $15 million ($7.5 million for each block) payable entirely in newly issued common shares of the Corporation (the "Share Consideration"); ii) agreement to fund the vendors' remaining 20% share of exploration commitments in the first two phases (unified into a single phase in the case of COR-12) of each of the contracts; iii) the granting of a 3% overriding royalty to the applicable vendors for each block; and iv) agreeing to the payment of a one-time bonus totalling $5 million in the event that any one of the two blocks is subsequently successfully farmed out by the Corporation to a third party. The Share Consideration was payable at a deemed price of C$6.79 per common share and the Corporation issued 2,454,590 common shares in satisfaction thereof.

OUTLOOK

In calendar 2014, the Corporation plans to spend approximately $150 million net capital expenditures on drilling, work overs, seismic, production facilities, and pipelines in Colombia and Ecuador, and anticipates net average production before royalties of between 11,500 and 12,500 boepd, which represents a 30% to 40% increase from average calendar 2013 production of 8,796 boepd. The production split for 2014 is expected to be approximately 70% crude oil and liquids, and 30% natural gas.

The Corporation plans to drill 36 gross development wells (8.0 net) and work over 13 existing producing wells in its oil fields located in Colombia and Ecuador in order to continue strong production growth. The focus for calendar 2014 oil production growth is on high netback oil primarily from the Corporation's Labrador, Leono, Mono Arana, and Libertador-Atacapi fields. Tariff oil production from the Libertador-Atacapi field is anticipated to yield net average production of approximately 1,600 bopd. Net before royalty gas production from the Esperanza field located in Colombia is anticipated to average approximately 3,000 boepd. The Corporation plans to drill 11 gross (7.2 net) exploration wells on its blocks in Colombia and Ecuador targeting a management estimate of 89 million net barrels unrisked oil equivalent (32 million barrels risked oil equivalent) of mean prospective oil and gas resource. Oil exploration drilling activities for 2014 will focus on the Corporation's LLA-23 block, where the Corporation has achieved recent exploration success with the Labrador and Leono oil discoveries, and the Cano Los Totumos block in the Llanos Basin, the VMM2 block, where the company made the Mono Arana oil discovery, the VMM3 and Santa Isabel blocks in the Middle Magdalena Basin, and the Ombu block in the Caguan Putumayo Basin. Conventional gas exploration will focus on the Corporation's Esperanza block in the Lower Magdalena Basin. Nonconventional oil exploration will focus on the VMM-2 and VMM-3 blocks located in the Middle Magdalena Basin, where the Corporation holds interests in 250,000 net acres of prospective shale oil acreage.

Funding for the 2014 capital program is expected to come from existing working capital, operating cash flows and debt facilities.

SUMMARY OF QUARTERLY RESULTS

	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Petroleum and natural gas revenues, net of royalties	**42,168**	48,222	38,960	34,602	26,200	41,592	45,702	48,632
Adjusted petroleum and natural gas revenues, net of royalties, including revenues relate to the Ecuador IPC (1)	**45,987**	51,622	41,796	36,725	27,350	41,795	45,702	48,632
Cash provided by operating activities	**36,406**	19,724	13,829	1,346	6,445	6,372	(43,055)	19,283
Per share – basic (3)	**0.42**	0.23	0.16	0.02	0.10	0.10	(0.69)	0.31
Per share – diluted (3)	**0.41**	0.23	0.16	0.02	0.10	0.10	(0.69)	0.30
Adjusted funds from operations (1)	**15,599**	24,278	19,102	15,578	3,202	14,072	9,656	19,663
Per share – basic (1)(3)	**0.18**	0.28	0.22	0.18	0.05	0.23	0.15	0.32
Per share – diluted (1)(3)	**0.18**	0.28	0.22	0.18	0.05	0.23	0.15	0.31
Net income (loss)	**(10,412)**	2,981	(119,046)	(3,425)	1,820	(7,156)	3,830	3,663
Per share – basic (3)	**(0.12)**	0.03	(1.38)	(0.04)	0.03	(0.12)	0.06	0.06
Per share – diluted (3)	**(0.12)**	0.03	(1.38)	(0.04)	0.03	(0.12)	0.06	0.06
Capital expenditures, net	**22,749**	17,408	13,099	3,021	19,431	14,971	39,927	52,424
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC (1)	**32,679**	23,743	15,758	10,434	22,667	18,931	39,927	52,424
Operations (boepd)								
Petroleum and natural gas production, before royalties								
Petroleum (2)	**6,998**	6,110	5,390	4,785	5,035	6,021	10,670	13,598
Natural gas	**3,097**	3,022	2,879	2,874	319	-	-	-
Total (2)	**10,095**	9,132	8,269	7,659	5,354	6,021	10,670	13,598

(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.
(3) Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, per share information presented above was restated to a post-consolidation basis for comparability.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months and six months ended December 31, 2013 to the risks and uncertainties as identified in the MD&A for the year ended June 30, 2013.

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

A detailed discussion of new accounting policies that affect the Corporation is provided in the notes to financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed, under the CEO and CFO's supervision, disclosure controls and procedures and established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109. In addition to the processes that specifically fall into the category of DC&P, the Corporation has also adopted a company-wide Corporate Disclosure Policy and has additional procedures in place to provide reasonable assurance that any material information required to be disclosed by the Corporation in its interim filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. With the assistance of expert advisors and other members of management, the Corporation's CEO and CFO have assessed the design effectiveness of the Corporation's DC&P as at December 31, 2013 and have not identified any material weaknesses relating to the design effectiveness of the Corporation's DC&P framework.

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. With the assistance of expert advisors and other members of management, the Corporation's CEO and CFO have assessed the design effectiveness of the Corporation's ICFR as at December 31, 2013, using the framework and criteria established in Internal Control – Integrated Framework ("1992 COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and have not identified any material weaknesses relating to the design effectiveness of the Corporation's ICFR framework.

During the quarter ended December 31, 2013, 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.