

# **CANACOL ENERGY LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE MONTHS ENDED MARCH 31, 2017**



## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	March 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 44,778	\$ 66,283
Restricted cash	6	18,706	10,203
Trade and other receivables		39,132	34,617
Prepaid expenses and deposits		9,127	8,897
Investments	7	-	2,700
Crude oil inventory		712	790
		<b>112,455</b>	<b>123,490</b>
<b>Non-current assets</b>			
Restricted cash	6	43,812	51,870
Exploration and evaluation assets	4	159,432	144,328
Property, plant and equipment	5	363,788	364,319
Investment in equity		15,700	15,414
Investments	7	14,949	14,907
Deferred tax assets		76,028	73,180
		<b>673,709</b>	<b>664,018</b>
<b>Total assets</b>		<b>\$ 786,164</b>	<b>\$ 787,508</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank debt	8	-	22,193
Trade and other payables		22,726	32,438
Crude oil payable in kind		614	646
Deferred income		2,791	3,991
Finance lease obligation		4,413	4,140
Restricted share units	14	3,577	2,181
Wealth tax payable		469	-
Taxes payable		25,187	15,195
		<b>59,777</b>	<b>80,784</b>
<b>Non-current liabilities</b>			
Bank debt	8	254,485	228,445
Deferred income		3,731	3,731
Finance lease obligation		27,364	28,622
Decommissioning obligations		32,189	29,964
Restricted share units	14	88	56
Other long term obligations		3,246	3,328
Deferred tax liabilities		33,465	36,192
<b>Total liabilities</b>		<b>414,345</b>	<b>411,122</b>
<b>Equity</b>			
Share capital	9	700,767	700,528
Other reserves		63,762	60,567
Accumulated other comprehensive income		335	335
Deficit		(393,760)	(385,818)
Non-controlling interest		715	774
<b>Total equity</b>		<b>371,819</b>	<b>376,386</b>
<b>Total liabilities and equity</b>		<b>\$ 786,164</b>	<b>\$ 787,508</b>

Commitments and contingencies (note 15)

Subsequent event (note 16)

See accompanying notes to the interim condensed consolidated financial statements.

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

(UNAUDITED)

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

Three months ended March 31,	Note	2017	2016
<b>Revenues</b>			
Petroleum and natural gas revenues, net of royalties	12	\$ 38,604	\$ 21,762
Take-or-pay natural gas income		2,979	938
<b>Total petroleum and natural gas revenues, net of royalties</b>		<b>41,583</b>	<b>22,700</b>
Other income		-	187
Equity income		286	294
<b>Expenses</b>			
Production and transportation expenses		6,390	4,082
Pre-license and exploration costs		23	40
General and administrative		6,520	3,762
Stock-based compensation and restricted share units	9,14	7,156	4,048
Depletion and depreciation	5	9,797	5,834
Foreign exchange loss (gain) and other		2,780	(591)
Loss on financial instruments	12	1,971	117
Wealth tax expense		450	850
Loss on sale of assets		229	-
		35,316	18,142
Net finance expense	10	10,777	5,323
<b>Loss before income taxes</b>		<b>(4,224)</b>	<b>(284)</b>
<b>Income taxes (recovery)</b>			
Current		9,355	6,582
Deferred		(5,578)	(7,327)
		3,777	(745)
Non-controlling interest		59	-
<b>Net (loss) income and comprehensive (loss) income</b>		<b>(7,942)</b>	<b>461</b>
<b>Net (loss) income per share</b>			
Basic and diluted	11	\$ (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, 2015	\$ 652,202	\$ 60,206	\$ 343	\$ (409,464)	\$ -	\$ 303,287
Stock options exercised	473	(249)	-	-	-	224
Stock-based compensation	-	1,019	-	-	-	1,019
Net income for the period	-	-	-	461	-	461
<b>Balance at March 31, 2016</b>	<b>\$ 652,675</b>	<b>\$ 60,976</b>	<b>\$ 343</b>	<b>\$ (409,003)</b>	<b>\$ -</b>	<b>\$ 304,991</b>
Balance as 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 for the period	-	-	-	(7,942)	-	(7,942)
Non-controlling interest net loss for the period	-	-	-	-	(59)	(59)
<b>Balance at March 31, 2017</b>	<b>\$ 700,767</b>	<b>\$ 63,762</b>	<b>\$ 335</b>	<b>\$ (393,760)</b>	<b>\$ 715</b>	<b>\$ 371,819</b>

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	2017	2016
<b>Operating activities</b>			
Net (loss) income and comprehensive (loss) income		\$ (7,942)	\$ 461
Adjustments:			
Non-controlling interest		(59)	-
Net financing expense	10	10,777	5,323
Equity income		(286)	(294)
Stock-based compensation and restricted share units	9,14	7,156	4,048
Depletion and depreciation	5	9,797	5,834
Unrealized loss on financial instruments	12	2,310	119
Unrealized foreign exchange loss (gain) and other		1,686	(758)
Settlement of restricted share units liability	14	(2,052)	(35)
Deferred income tax recovery		(5,578)	(7,327)
Settlement of decommissioning obligation		(128)	-
Loss on sale of assets		229	-
Changes in non-cash working capital	12	1,629	(122)
		<b>17,539</b>	<b>7,249</b>
<b>Investing activities</b>			
Property acquisitions		-	(3,665)
Expenditures on exploration and evaluation assets		(15,104)	(8,328)
Expenditures on property, plant and equipment		(7,820)	(5,864)
Proceeds on disposition of assets		107	-
Investments	7	24	(11)
Change in restricted cash		(445)	(312)
Other long-term liabilities		(82)	-
Finance lease principal payments		(985)	-
Changes in non-cash working capital	12	(8,478)	1,885
		<b>(32,783)</b>	<b>(16,295)</b>
<b>Financing activities</b>			
Draw on bank debt	8	265,000	-
Financing fees	8	(10,870)	-
Repayment of bank debt	8	(255,000)	-
Net financing expense paid	10	(5,515)	(4,120)
Issue of common shares, net of costs	9	124	224
		<b>(6,261)</b>	<b>(3,896)</b>
Change in cash		(21,505)	(12,942)
Cash, beginning of period		66,283	43,257
<b>Cash, end of period</b>		<b>\$ 44,778</b>	<b>\$ 30,315</b>

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, 2017 and 2016

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

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### 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, Ecuador and Mexico. 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, the OTCQX in the United States of America under the symbol CNEF, 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 9, 2017.

### 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, 2016.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash, restricted cash, investments, restricted share units and crude oil payable in kind, which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”), bank debt, which is measured at amortized cost, decommissioning obligation, which is measured at the present value (“PV”) of management’s best estimate of the expenditure required to settle the present obligation at the period date and the finance lease obligation and asset, which are measured at the fair market value less amortization.

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 both the functional and presentation currency.

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

#### Recent Accounting Pronouncements

The following are new IFRS pronouncements that have been issued, although not yet effective and have not been early adopted, and may have an impact on the financial statements in the future as discussed below.

(i) IFRS 15: Revenue from Contracts with Customers

On January 1, 2018, the Corporation will be required to adopt IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 was issued in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue Recognition”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 “Financial Instruments”, IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements”. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Corporation’s ordinary activities.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

(ii) IFRS 9: Financial Instruments

On January 1, 2018, the Corporation will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the International Accounting Standards Board (“IASB”) project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Amendments to IFRS 7 “Financial Instruments: Disclosures” will also be required to be adopted by the Corporation simultaneously with IFRS 9.

(iii) IFRIC 22: Foreign Currency Transactions and Advance Consideration

On January 1, 2018, the Corporation will be required to adopt IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

(iv) IFRS 16: Leases

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

Interpretation of the new IFRS standards and amendments is currently in progress; the full impact on the financial statements will be determined upon completion of management’s assessment.

### Amendment to existing standards

On January 1, 2017, the Corporation adopted amendments made to existing standards. IAS 7 “Statement of Cash Flows” which clarified the requirement for cash and non-cash changes in liabilities arising from financing activities to be disclosed separately in the statement of cash flow’s financing activities section; only aggregate cash movements of liabilities are currently being reported. Other amendments were made to IAS 12 “Income Taxes” clarifying the requirements for recognition of deferred tax assets for unrealized losses on debt instruments held at fair market value, IFRS 2 “Share-based Payment” is amended for the classification and measurement of share-based payment transactions, IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” for the sale or contribution of assets between an investor and its associate. These amendments did not have a material impact on the Company’s accounting policies or disclosures.

### NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2016	\$	144,328
Additions		15,104
<b>Balance at March 31, 2017</b>	<b>\$</b>	<b>159,432</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Cost	
Balance at December 31, 2016	\$ 922,348
Additions	9,629
Dispositions	(733)
<b>Balance at March 31, 2017</b>	<b>\$ 931,244</b>
Accumulated depletion and depreciation	
Balance at December 31, 2016	\$ (558,029)
Depletion and depreciation	(9,797)
Derecognition and inventory adjustments	370
<b>Balance at March 31, 2017</b>	<b>\$ (567,456)</b>
Carrying value	
At December 31, 2016	\$ 364,319
<b>At March 31, 2017</b>	<b>\$ 363,788</b>

### NOTE 6 – RESTRICTED CASH

	March 31, 2017	December 31, 2016
Restricted cash – current	\$ 18,706	\$ 10,203
Restricted cash – non-current	43,812	51,870
	<b>\$ 62,518</b>	<b>\$ 62,073</b>

At March 31, 2017, restricted cash consisted of \$49.4 million of term deposits used as collateral to secure the Ecuador IPC's borrowings (\$16.7 million classified as current; \$32.7 million classified as non-current), \$8.6 million for work commitments and other capital commitments (\$2.0 million classified as current; \$6.6 million classified as non-current) and \$4.5 million held in a debt reserve account as required under its bank debt (classified as non-current).

### NOTE 7 – INVESTMENTS

	Pipeline Company Investment	Oil and Gas Company Investments	Power Generation Company Investment	Total Investments
Balance at December 31, 2016	\$ 1,575	\$ 2,723	\$ 13,309	\$ 17,607
Disposals	-	(24)	-	(24)
Unrealized loss	-	(2,700)	-	(2,700)
Foreign exchange gain	65	1	-	66
<b>Balance at March 31, 2017</b>	<b>\$ 1,640</b>	<b>\$ -</b>	<b>\$ 13,309</b>	<b>\$ 14,949</b>



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 8 – BANK DEBT

Balance at December 31, 2016	\$	250,638
Draw, net of transaction costs		254,130
Repayment		(255,000)
Amortization of transaction costs		4,717
<b>Balance at March 31, 2017</b>	<b>\$</b>	<b>254,485</b>

On February 14, 2017, the Corporation entered into a credit agreement for \$265 million senior secured term loan with a syndicate of banks led by Credit Suisse (the “2017 Senior Secured Term Loan”). The 2017 Senior Secured Term Loan will mature on March 20, 2022, with interest payable quarterly and principal repayable in 13 equal quarterly installments starting March 20, 2019, following more than two years of initial grace period. The 2017 Senior Secured Term Loan carries interest at LIBOR plus 5.5% and is secured by all of the material assets of the Corporation. Proceeds from the 2017 Senior Secured Term Loan were used for the repayment of the principal in the amount of \$255 million including \$180 million of the BNP Senior Secured Term Loan and \$75 million of Senior Notes, plus accrued interest and costs of the transaction. The carrying value of the BNP Senior Secured Term Loan and Senior notes included \$4.4 million of transaction costs netted against the principal amounts, which were fully expensed at the time of settlement. The carrying value of the 2017 Senior Secured Term Loan included \$10.5 million of transaction costs netted against the principal amounts as at March 31, 2017. The 2017 Senior Secured Term Loan agreement also allows an additional \$40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions. On April 28, 2017, \$20 million of the \$40 million greenshoe funds was drawn.

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

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

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

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

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

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

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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 9 – 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, 2016	174,359	\$ 700,528
Issued on exercise of stock options	63	124
Transfer from other reserves for stock options	-	115
<b>Balance at March 31, 2017</b>	<b>174,422</b>	<b>\$ 700,767</b>

#### 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, 2016	13,116	3.85
Granted	2,786	4.30
Exercised	(63)	2.66
Forfeited and cancelled	(800)	7.15
<b>Balance at March 31, 2017</b>	<b>15,039</b>	<b>3.76</b>

Information with respect to stock options outstanding at March 31, 2017 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$2.21 to \$3.50	7,434	3.0	2.81	6,055	2.83
\$3.60 to \$7.00	7,578	3.9	4.68	4,561	4.96
\$7.10 to \$7.90	27	0.1	7.90	27	7.90
	<b>15,039</b>	<b>3.5</b>	<b>3.76</b>	<b>10,643</b>	<b>3.75</b>

Stock-based compensation of \$3.3 million (2016 - \$1 million) was expensed during the three months ended March 31, 2017.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 10 – FINANCE INCOME AND EXPENSE

Three months ended March 31,	2017	2016
<b>Finance income</b>		
Interest and other income	\$ (890)	\$ (629)
<b>Finance expense</b>		
Accretion on decommissioning obligations	545	591
Amortization of upfront fees	4,717	620
Interest and other financing costs	6,405	4,741
	11,667	\$ 5,952
<b>Net finance expense</b>	\$ 10,777	\$ 5,323

During the three months ended March 31, 2017, due to the settlement of the BNP Senior Secured Term Loan and Senior Notes (see note 8), \$4.4 million of the unamortized transaction costs netted against the principal amounts were fully expensed at the time of settlement.

### NOTE 11 – NET (LOSS) INCOME PER SHARE

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

Three months ended March 31,	2017	2016
Net (loss) income	\$ (7,942)	\$ 461
<b>Weighted-average common share adjustments</b>		
Weighted-average common shares outstanding, basic	174,378	159,311
Effect of stock options	-	924
<b>Weighted-average common shares outstanding, diluted</b>	174,378	160,235

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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 12 – SUPPLEMENTAL INFORMATION

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

Three months ended March 31,	2017	2016
Petroleum and natural gas royalties	\$ 4,999	\$ 2,229

Income taxes and interest paid were as follows:

Three months ended March 31,	2017	2016
Income taxes paid	\$ -	\$ -
Interest paid	\$ 6,249	\$ 4,569

Loss (gain) on derivatives and financial instruments:

Three months ended March 31,	2017	2016
Crude oil payable in kind	\$ (31)	\$ (12)
Restricted share units – unrealized	(359)	29
Restricted share units – realized	(339)	(2)
Investments – unrealized	2,700	102
	\$ 1,971	\$ 117

Changes in non-cash working capital are comprised of:

Three months ended March 31,	2017	2016
<b>Change in:</b>		
Trade and other receivables	\$ (4,515)	\$ (8,921)
Prepaid expenses and deposits	(230)	(954)
Crude oil inventory	104	7
Trade and other payables	(11,469)	3,188
Crude oil payable in kind	-	(380)
Deferred income	(1,200)	1,058
Wealth tax payable	469	885
Taxes payable	9,992	6,880
	\$ (6,849)	\$ 1,763
<b>Attributable to:</b>		
Operating activities	1,629	(122)
Investing activities	(8,478)	1,885
	\$ (6,849)	\$ 1,763

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 13 – 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 (reportable)	Other Segments (non-reportable)	Total
<b>Three months ended March 31, 2017</b>			
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
<b>Three months ended March 31, 2016</b>			
Revenue and other income	\$ 22,887	\$ -	\$ 22,887
Equity profit	-	294	294
Expenses, excluding income taxes	(18,808)	(4,657)	(23,465)
Net income (loss) before taxes	4,079	(4,363)	(284)
Income tax recovery	(745)	-	(745)
Net income (loss)	\$ 4,824	\$ (4,363)	\$ 461
Capital expenditures, net of dispositions	\$ 15,433	\$ 115	\$ 15,548
<b>Balance at March 31, 2017</b>			
Total assets	\$ 613,209	\$ 172,955	\$ 786,164
Total liabilities	\$ 275,903	\$ 138,442	\$ 414,345
<b>Balance at December 31, 2016</b>			
Total assets	\$ 604,640	\$ 182,868	\$ 787,508
Total liabilities <sup>(1)</sup>	\$ 159,068	\$ 252,054	\$ 411,122

(1) Total liabilities in "Other Segments" as at December 31, 2016 primarily related to the BNP Senior Secured Term Loan and Senior Notes.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's classification of financial instruments remains unchanged from December 31, 2016.

#### Fair Value of Financial Instruments

The carrying values and respective fair values of cash, restricted cash, trade and other receivables and trade and other payables approximate their fair values at March 31, 2017, given the short term nature of these financial instruments. Restricted Share Units ("RSUs") and investments are recorded at fair value. The fair value of bank debt is \$265 million.

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

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

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash, restricted share units and crude oil payable in kind are classified as Level 1. The pipeline company investment is classified as Level 2 (\$1.6 million). The power generation company investment is classified as Level 3 (\$13.3 million). There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three months ended March 31, 2017. 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 (000's)	Amount
Balance at December 31, 2016	655	\$ 2,237
Granted	1,183	3,846
Settled	(597)	(1,713)
Realized gain	-	(339)
Unrealized loss	-	(359)
Foreign exchange gain	-	(7)
<b>Balance at March 31, 2017</b>	<b>1,241</b>	<b>\$ 3,665</b>

On January 10, 2017, the Corporation granted 1,183,000 RSUs with a reference price of C\$4.30. The RSUs vest as to one-half in six months and one-half in one year from the grant date, and will likely be settled in cash.

On January 21, 2017, February 24, 2017 and March 31, 2017, 4,666, 9,500 and 582,802 RSUs were settled at a price of C\$4.22, C\$3.92 and C\$3.86 per share, respectively.

#### 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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### (i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. The Corporation had no commodity contracts in place during the three months ended March 31, 2017.

### (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, 2017, the Colombian peso to the United States dollar exchange rate was 2,880:1 (December 31, 2016 – 3,000:1) and the Canadian dollar to United States dollar exchange rate was 1.33:1 (December 31, 2016 – 1.34:1).

The Corporation had no forward exchange rate contracts in place as at or during the three months ended March 31, 2017.

### (iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three months ended March 31, 2017.

### Liquidity Risk

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

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

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	\$ -	\$ 20,385	\$ 244,615	\$ 265,000
Finance lease obligation – undiscounted	8,352	8,870	26,060	43,282
Trade and other payables	22,726	-	-	22,726
Crude oil payable in kind	614	-	-	614
Taxes payable	25,187	-	-	25,187
Deferred income	2,791	3,731	-	6,522
Other long term obligations	-	-	3,246	3,246
Restricted share units	3,577	88	-	3,665
	<b>\$ 63,247</b>	<b>\$ 33,074</b>	<b>\$ 273,921</b>	<b>\$ 370,242</b>

In addition to the above, the Corporation has issued letters of credit totaling \$79.4 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments. Such amounts only become payable should the Corporation not meet those obligations.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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

### Credit Risk

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

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers.

### Capital Management

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

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding bank debt, 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, 2017, the Corporation executed a new credit agreement to refinance its BNP Senior Secured Term Loan and Senior Notes, totaling \$255 million, into the 2017 Senior Secured Term Loan of \$265 million, with the following benefits: a) a lower average interest rate, and b) extend the first amortization payment of the new term loan into 2019.

	March 31, 2017	
Bank debt – principal	\$	265,000
Working capital surplus		(52,678)
<b>Net debt</b>	<b>\$</b>	<b>212,322</b>

### NOTE 15 – COMMITMENTS AND CONTINGENCIES

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

	Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	\$	49,170	\$	50,932	\$	-	\$ 100,102
Jobo facility operating contract		3,297		7,173		6,609	17,079
Liquid natural gas processing contract		1,414		5,654		9,243	16,311
Office leases		1,205		1,652		989	3,846



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

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### Ecuador Incremental Production Contract

In addition to the commitments described above, the Corporation has a non-operated 25% equity participation interest in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium plans to incur capital expenditures estimated for a total of \$397 million (\$107.6 million net to the Corporation) over the 15 year term of the contract. As at March 31, 2017, the Corporation had incurred \$86.1 million of expenditures in connection with its Ecuador IPC commitment and has a remaining commitment of \$21.5 million.

### Pipeline Ship-Or-Pay Contracts

The Corporation owns a 0.5% interest in Oleoducto Bicentenario de Colombia (“OBC”), which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. Under the terms of the OBC agreement, the Corporation may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings undertaken by OBC. The Corporation has also entered into ship-or-pay arrangements with OBC and Cenit Transporte y Logística de Hidrocarburos S.A. for 550 barrels of oil per day at a variable regulated tariff. The tariffs as at March 31, 2017 are \$7.56 / barrel and \$2.97 / barrel, respectively. The ship-or-pay contracts will expire in November 2025 and 2028, respectively.

### Contingencies

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

### NOTE 16 – SUBSEQUENT EVENT

The 2017 Senior Secured Term Loan agreement allows an additional \$40 million of greenshoe funds available to be drawn at any time within 12 months post-funding at the sole discretion of the Corporation, subject to certain conditions. On April 28, 2017, \$20 million of the \$40 million greenshoe funds was drawn (note 8).