CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

MANAGEMENT'S REPORT

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements of Canacol Energy Ltd. (the "Corporation") within reasonable limits of materiality. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Corporation's financial position, financial performance and cash flows, within International Financial Reporting Standards. Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Corporation's external auditors, Deloitte LLP, have audited the consolidated financial statements. Their audit provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported financial results and the financial performance of the Corporation.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.

(signed) " Charle Gamba"

Charle Gamba
President and Chief Executive Officer

(signed) "Jason Bednar"

Jason Bednar
Chief Financial Officer

September 21, 2015

Deloitte LLP
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Calgary AB T2P 0R8
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canacol Energy Ltd.

We have audited the accompanying consolidated financial statements of Canacol Energy Ltd., which comprise the consolidated statements of financial position as at June 30, 2015 and 2014, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canacol Energy Ltd. as at June 30, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
September 23, 2015
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	June 30, 2015	June 30, 2014
ASSETS			
Current assets			
Cash and cash equivalents		$ 45,765	$ 163,729
Restricted cash	6	10,903	7,379
Trade and other receivables		21,770	60,981
Prepaid expenses and deposits		4,906	12,405
Investments	7	2,700	5,254
Crude oil inventory		1,286	1,936
		87,330	251,684
Non-current assets			
Restricted cash	6	50,869	59,448
Exploration and evaluation assets	4	152,925	133,510
Property, plant and equipment	5	363,624	301,398
Investment in joint venture	23	12,734	8,046
Investments	7	2,260	2,501
		582,412	504,903
Total assets		$ 669,742	$ 756,587
LIABILITIES AND EQUITY			
Current liabilities			
Bank debt	8	$ -	$ 44,000
Trade and other payables		15,929	75,814
Crude oil payable in kind		1,622	-
Commodity contracts		-	38
Warrants	18	67	2,121
Convertible debentures	10	-	25,395
Restricted share units	18	340	202
Wealth tax payable	21	630	582
Taxes payable		5,926	15,969
		24,514	164,121
Non-current liabilities			
Bank debt	8	267,023	166,688
Deferred income	20	3,731	3,731
Decommissioning obligations	9	28,278	10,518
Restricted share units	18	10	202
Warrants	18	-	2,210
Phantom warrants	18	-	7,557
Other long term obligations	18	3,701	219
Deferred tax liabilities	14	850	1,054
Total liabilities		328,107	356,300
Equity			
Share capital	11	591,520	551,049
Other reserves		55,741	48,842
Accumulated other comprehensive loss		347	347
Deficit		(305,973)	(199,951)
Total equity		341,635	400,287
Total liabilities and equity		$ 669,742	$ 756,587

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(signed) "Jason Bednar"
Director

(signed) "Michael Hibberd"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

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

Year ended June 30	Note	2015	2014
Revenues			
Petroleum and natural gas revenues, net of royalties	16	$ 149,047	$ 207,787
Share of joint venture profit	23	4,689	3,532
Expenses			
Production and transportation expenses		58,214	67,559
Pre-license and exploration costs	4	4,517	1,163
General and administrative		24,050	27,045
Stock-based compensation and restricted share units	11,18	5,887	7,290
Depletion and depreciation	5	61,262	38,740
Foreign exchange (gain) loss and other		183	(2,057)
(Gain) Loss on financial instruments	16	(9,304)	26,584
Change in provision and other settlements		(1,865)	(7,182)
Wealth tax expense	21	1,501	-
Impairment on D&P assets	5	72,057	10,577
Loss (Gain) on sale of assets	4,5	7,982	(9)
		224,484	169,710
Net finance expense	12	27,807	9,656
Income (loss) before income taxes		(98,555)	31,953
Income taxes (recovery)			
Current	14	7,671	24,823
Deferred	14	(204)	(2,807)
		7,467	22,016
Net income (loss) and comprehensive income (loss)		$ (106,022)	$ 9,937
Earnings (loss) per share			
Basic and diluted	13	$ (0.96)	$ 0.11

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars, number of shares in thousands)

	Number of Common Shares	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance at July 1, 2013	86,506	$ 408,770	$ 40,074	$ 347	$ (209,888)	$ 239,303
Issue of common shares, net of costs	18,277	124,527	-	-	-	124,527
Stock options and warrants exercised	2,953	17,752	(1,577)	-	-	16,175
Stock-based compensation	-	-	10,345	-	-	10,345
Net income for the year	-	-	-	-	9,937	9,937
Balance at June 30, 2014	107,736	$ 551,049	$ 48,842	$ 347	$ (199,951)	$ 400,287
Issue of common shares	18,506	39,294	-	-	-	39,294
Stock options and warrants exercised	192	1,177	(421)	-	-	756
Stock-based compensation	-	-	7,320	-	-	7,320
Net loss for the year	-	-	-	-	(106,022)	(106,022)
Balance at June 30, 2015	**126,434**	**$ 591,520**	**$ 55,741**	**$ 347**	**$ (305,973)**	**$ 341,635**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

Year ended June 30	Note	2015	2014
Operating activities			
Net income (loss) for the year		$ (106,022)	$ 9,937
Adjustments for non-cash items:			
Net financing expense	12	27,807	9,656
Share of joint venture profit	23	(4,689)	(3,532)
Stock-based compensation and restricted share units	11,18	5,887	7,290
Depletion and depreciation	5	61,262	38,740
Unrealized (gain) loss on derivatives and financial instruments	18	(9,150)	24,288
Unrealized foreign exchange loss (gain) and other		1,196	(959)
Settlement of restricted share units liability		(377)	(7,232)
Deferred income tax recovery	14	(204)	(2,807)
Exploration costs	4	3,954	386
Change in provision		-	(10,545)
Impairment on D&P assets		72,057	10,577
Loss on sale of assets		7,982	-
Changes in non-cash working capital	16	4,742	2,145
		64,445	77,944
Investing activities			
Expenditures on exploration and evaluation assets		(120,989)	(25,358)
Expenditures on property, plant and equipment		(69,548)	(107,523)
Disposition of exploration and evaluation assets	4	12,275	-
Investments	7	(18)	(8,314)
Change in restricted cash	6	5,055	(40,433)
Changes in non-cash working capital	16	(35,529)	27,352
		(208,754)	(154,276)
Financing activities			
Net financing expense paid		(16,761)	(6,679)
Issue of common shares	11	640	126,167
Settlement of phantom warrants	18	(3,500)	-
Share issuance costs	11	-	(5,762)
Draw on bank debt, net financing fees	8	265,966	74,045
Repayment of bank debt	8	(220,000)	-
		26,345	187,771
Change in cash and cash equivalents		(117,964)	111,439
Cash and cash equivalents, beginning of year		163,729	52,290
Cash and cash equivalents, end of year		$ 45,765	$ 163,729
Cash and cash equivalents consists of:			
Cash		$ 45,765	$ 163,709
Cash equivalents		-	20
Cash and cash equivalents, end of year		$ 45,765	$ 163,729

See accompanying notes to consolidated financial statements.

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 and Ecuador, with non-core activities in 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, the OTCQX in the United States of America under the symbol CNNEF and the Bolsa de Valores de Colombia under the symbol CNEC.

The Board of Directors approved these consolidated financial statements (the "financial statements") for issuance on September 21, 2015.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash and cash equivalent, restricted cash, commodity contracts, convertible debentures, embedded derivatives, investments, warrants, phantom warrants, 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") and bank debt, which is measured at amortized cost.

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.

Significant Estimates and Management Judgements

The timely preparation of financial statements in accordance with IFRS requires that management make estimates and assumptions and use judgement regarding the measured amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

The Corporation holds 25% of the voting rights of its joint arrangement in Ecuador and has classified the joint arrangement as a joint venture (see note 23). The Corporation has joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The Corporation's joint arrangement is structured in a jointly-controlled entity and provides the Corporation and the parties to the agreements with rights to the net assets of the jointly-controlled entity under the arrangements.

Amounts recorded for depletion, depreciation, amortization, accretion, provisions for decommissioning obligations, the valuation of convertible debentures, warrants, phantom warrants, investments, restricted share units, crude oil payable in kind and stock options are based on their expected lives and other relevant assumptions.

Significant management judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation has not recognized a benefit for the net deferred tax asset created from its Canadian non-capital losses carried forward due to the uncertainty of realization of such amounts.

The calculation of stock-based compensation expense is subject to uncertainty as it reflects the Corporation's best estimate of whether or not performance will be achieved and obligations incurred. In addition, the assumptions used for stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

Petroleum and natural gas assets are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement.

The recoverability of development and production asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Key input estimates used in the determination of future cash flows from oil and gas reserves include the following:

a) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Petroleum and natural gas prices – Forward price estimates of the petroleum and natural gas prices are used in the cash flow model. Commodity prices have fluctuated in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Application of New and Revised International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC")

The International Accounting Standards Board released the new standard, IFRIC 21 "Levies". This standard has been adopted in the financial statements for the fiscal period beginning July 1, 2014. There have also been revisions made to the following existing standards: IFRS 7 "Financial Instruments: Disclosures", IAS 39 "Financial Instruments: Recognition and Measurement", IAS 19 "Employee Benefits", IAS 36 "Impairment of Assets", IAS 32 "Financial Instruments: Presentation", IAS 27 "Separate Financial Statements", IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities". The following describes the impact as a result of the application of the new and revised standards.

(i) Levies

IFRIC 21 "Levies" is applicable for all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g. IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The adoption of IFRIC 21 did not have a significant impact on the financial statements.

(ii) Revised Standards

The revisions to existing standards mostly involve amendments and clarification to the methods and disclosure requirements provided by the standards. IFRS 7 "Financial instruments: Disclosures" has been amended for the Mandatory Effective Date and Transition Disclosures definitions. IAS 19 "Employee Benefits" has been amended for its guidance on employee contributions in defined benefit plans. IAS 32 "Financial Instruments: Presentation" has been amended for guidance on offsetting financial assets and liabilities. IAS 36 "Impairment of Assets" has been amended to disclose the recoverable amount for non-financial assets. IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to include guidance regarding the novation of derivatives and continuation of hedge accounting. IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" have been amended for guidance regarding investment entities.

The revisions to these standards have no impact on the financial statements.

Principles of Consolidation

Subsidiaries – Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss as a gain on acquisition. Acquisition related costs, other than share issue costs, are expensed as period costs in the consolidated statements of operations.

Jointly-controlled operations and jointly-controlled assets – Many of the Corporation's petroleum and natural gas activities involve jointly-controlled assets. The financial statements include the Corporation's share of these jointly-controlled assets and a proportionate share of the relevant revenue and related operating costs.

Joint ventures – The Corporation's investment in the Ecuador IPC is accounted for using the equity method whereby the investment is originally recognized at cost and the Corporation's share of the Ecuador IPC's net income or loss is included in the consolidated statements of operations.

Transactions eliminated on consolidation – Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

Foreign Currency

The United States dollar is the functional currency of the Corporation and its significant subsidiaries. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Exchange gains or losses are included in the determination of profit or loss in the consolidated statements of operations.

Financial Instruments

Non-derivative financial instruments – Non-derivative financial instruments include cash and cash equivalents, restricted cash, trade and other receivables, bank debt, investments, restricted share units, trade and other payables and other long-term obligations. Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs, except for financial assets and liabilities at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents – Cash and cash equivalents comprise cash on deposit with banks and short-term investments with original maturities of three months or less and is measured similar to other non-derivative financial instruments. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations.

Restricted cash – Restricted cash relates to cash placed in trust to ensure the payment of its obligations pursuant to exploration and credit agreements. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations.

Investments – Investments are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations.

Restricted share units – Restricted share units are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations.

Bank debt – Bank debt is recorded at amortized cost, net of directly attributable transaction costs. Subsequent to initial recognition, the directly attributable transaction costs are amortized into the carrying value using the effective interest method over the term of the facility through the consolidated statements of operations.

Crude oil payable in kind – Crude oil payable in kind is recorded at fair value through profit or loss. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in the consolidated statements of operations.

Other – Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, deferred income and other long-term obligations are measured at amortized cost, less any impairment losses.

Derivative financial instruments – The Corporation has entered into certain financial derivative contracts to manage its exposure to market risks associated with fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Corporation has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting. As a result, all commodity derivative contracts are classified as fair value through profit or loss and are recorded on the consolidated statements of financial position at fair value. Transaction costs are expensed when incurred in the consolidated statements of operations.

Convertible debentures – Convertible debentures are recorded at fair value through profit or loss due to the inability to fair value the embedded derivative separately. Subsequent to initial recognition, these financial instruments are measured at fair value and changes therein are recognized in the consolidated statements of operations.

Warrants and phantom warrants – Warrants and phantom warrants are recorded at fair value through profit and loss. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in the consolidated statements of operations.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Exploration and evaluation ("E&E") assets – E&E costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalized either as tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When E&E assets are determined to be technically feasible and commercially viable (assignment of proved and probable reserves), the accumulated costs are transferred to property, plant and equipment. When E&E assets are determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations as exploration costs.

E&E assets are allocated into CGUs and assessed for impairment when they are transferred to property, plant and equipment or in any circumstances where sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production costs ("D&P") – Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of property, plant and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within the consolidated statements of operations.

Subsequent costs – Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of operations as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of operations as incurred.

Depletion and depreciation – The net carrying value of development or production assets is depleted using the units-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated by taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Equipment and other	2 - 5 years
Leasehold improvements	Over the term of the leasing agreement

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Leased Assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized as assets at the lower of the fair value of the leased property, or the present value of the minimum lease payments as determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset. Finance leases are amortized over the lease term.

Other leases are operating leases, which are not recognized on the consolidated statements of financial position. Payments made under operating leases are recognized in the consolidated statements of operations on a straight-line basis over the term of the lease.

Impairment

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statements of operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statements of operations.

Financial assets – A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non-financial assets – The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment as petroleum and natural gas interests, and also if facts and circumstances suggest that their carrying amount exceeds the recoverable amount. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (petroleum and natural gas interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations – The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the period-end date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Inventory

Inventory consists of crude oil in transit or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

Revenue

The Corporation's revenues are primarily derived from the production of petroleum and natural gas.

Revenue from the sale of petroleum and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, the economic benefits associated with the transaction are likely to flow to the Corporation and the Corporation has no continuing managerial involvement or control over the product, which is usually when legal title passes to an external party.

Revenue is recorded net of any royalties when the amount of revenue can be reliably measured and the costs incurred in respect of the transaction can be measured reliably.

Stock-Based Compensation

The grant date fair value of stock options granted to officers, employees and directors is recognized as stock-based compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. The fair value of the stock options granted is estimated using the Black-Scholes option pricing model.

Restricted Share Units

The grant date fair value of restricted share units granted to officers, employees and directors is recognized as restricted share units expense with a corresponding increase in restricted share units liability. Subsequent to initial recognition, the restricted share units liability is measured at fair value and changes therein are recognized in the consolidated statements of operations.

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings, amortization of upfront fees, fair value adjustments on wealth tax and accretion of the discount on decommissioning liabilities.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method.

Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per Share

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net income attributable to common shareholders and the weighted-average number of common shares outstanding for the effects of dilutive instruments such as stock options, warrants and convertible debentures.

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 Corporation in the future as discussed below.

(i) IAS 1 Amendment

On January 1, 2016, the Corporation will be required to adopt amendments to IAS 1 which involve applying professional judgment in determining what information to disclose in the financial statements. Furthermore, the amendments state that professional judgment should be used in determining where and in what order information is presented in the financial statement disclosures.

(ii) Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

On January 1, 2016, the Corporation will be required to adopt amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" which introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances when applying the consolidation requirements.

(iii) IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

On January 1, 2016, the Corporation will be required to adopt the clarified definition of "Acceptable method of Depreciation and Amortization" to exclude a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset.

(iv) IFRS 11 " Joint Arrangements"

On January 1, 2016, the Corporation will be required to adopt the amendment to IFRS 11 "Joint Arrangements" for accounting for acquisitions of interest in joint operations. The amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 and disclose the information required by IFRS 3 and other IFRSs for business combinations.

(v) IAS 27 "Separate Financial Statements"

On January 1, 2016, the Corporation will be required to adopt the amendment to IFRS 27 "Separate Financial Statements" for the application of the equity method in separate financial statements.

(vi) 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.

(vii) 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.

Portions of the standard remain in development and the full impact of the standard on the consolidated financial statements will not be known until the project is complete.

The new IFRS pronouncements have had no material impact on the financial statements.

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

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at July 1, 2013	$	92,753
Additions		27,108
Property acquisitions		15,000
Transferred to D&P assets (note 5)		(965)
Transferred to exploration expense		(386)
Balance at June 30, 2014		133,510
Additions		73,183
Property acquisitions		75,609
Dispositions and farm-out agreements		(19,963)
Transferred to D&P assets (note 5)		(107,284)
Transferred to exploration expense		(2,130)
Balance at June 30, 2015	**$**	**152,925**

During the year ended June 30, 2015, the Corporation acquired a right to an additional 20% interest in the COR-4 and COR-12 Exploration and Production ("E&P") contracts located in the Upper Magdalena Basin of Colombia for a total cash payment of $5 million. Further, the Corporation also acquired a right to a 100% interest in each of the VIM-5 and VIM-19 E&P contracts located in the Upper Magdalena Basin of Colombia for a total consideration consisting of a cash payment of $29.5 million and a royalty interest of 3% on net revenue generated by the sale of hydrocarbons derived from the drilling of any exploration wells on such blocks.

In connection with the acquisition of VIM-5 and VIM-19 E&P contracts, the Corporation entered into a farm-out agreement with an industry partner for a 25% interest in both the VIM-5 and VIM-19 E&P contracts for total consideration of $12 million, consisting of a cash payment of $7.5 million and reimbursement for 50% of drilling costs up to $9 million incurred by the Corporation for two exploratory wells under the VIM 5 contract.

The Corporation acquired the remaining 25% interest in the VIM-5 and VIM-19 E&P contracts from its industry partner, settled through the issuance of 8,749,424 shares valued at $2.06 per share for a total of $18 million (see note 11), cash payment of $5 million and the offset of $15 million of receivables. The Corporation is further liable for future consideration of $1.13 million per billion cubic feet ("Bcf") for 25% of proven and probable reserves booked to the Clarinete discovery over and above those booked by the February 28, 2015 report, if any, up to and including the time of the Corporation's reserve report for the period ending June 30, 2016, capped at a maximum of $13 million, and payable 15 days after the issuance of such report, at the election of the Corporation, in either cash or common shares. In addition, the Corporation has agreed to pay a 1% royalty on net revenues from gas sales on the blocks, excluding the current Clarinete discovery, capped at a cumulative total of $10 million.

During the year ended June 30, 2015, the Corporation disposed of its right to the Morichito E&P contract for total proceeds of $0.5 million, resulting in a loss on the sale of D&P and E&E assets totalling $7.9 million.

During the year ended June 30, 2015, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment or planned relinquishment of certain blocks, all costs and capitalized interests associated with such blocks have been transferred to exploration expense. In addition to the $3.9 million (2014 – $0.4 million) of relinquishment related costs, $0.6 million (2014 – $0.8 million) of pre-license costs were also included in pre-license and exploration costs for the year ended June 30, 2015.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

		Petroleum and Natural Gas (D&P) Assets		Corporate and Other Assets		Total
Cost						
Balance at July 1, 2013	$	472,997	$	6,728	$	479,725
Property acquisition		40,000		-		40,000
Additions		69,402		1,655		71,057
Transferred from E&E assets (note 4)		965		-		965
Reclassifications		(321)		321		-
Balance at June 30, 2014		583,043	$	8,704	$	591,747
Additions		89,437		767		90,204
Dispositions		(1,691)		-		(1,691)
Transferred from E&E assets (note 4)		107,284		-		107,284
Derecognition and other		(252)		(31)		(283)
Balance at June 30, 2015	**$**	**777,821**	**$**	**9,440**	**$**	**787,261**
Accumulated depletion and depreciation						
Balance at July 1, 2013	$	(237,316)		(4,131)		(241,447)
Depletion and depreciation		(38,224)		(516)		(38,740)
Impairment		(10,577)		-		(10,577)
Derecognition and inventory adjustments		388		27		415
Balance at June 30, 2014		(285,729)	$	(4,620)	$	(290,349)
Depletion and depreciation		(60,643)		(619)		(61,262)
Impairment		(72,057)		-		(72,057)
Derecognition and inventory adjustments		98		(67)		31
Balance at June 30, 2015	**$**	**(418,331)**	**$**	**(5,306)**	**$**	**(423,637)**
Carrying amounts						
At June 30, 2013	$	235,681	$	2,597	$	238,278
At June 30, 2014	$	297,314	$	4,084	$	301,398
At June 30, 2015	**$**	**359,490**	**$**	**4,134**	**$**	**363,624**

During the year ended June 30, 2015, the Corporation disposed of its right to the Morichito E&P contract for total proceeds of $0.5 million, resulting in a loss on the sale of D&P and E&E assets totalling $7.9 million.

On June 1, 2014, the Corporation acquired an additional 10% working interest in the LLA-23 E&P contract for a total cash payment of $40 million.

For the year ended June 30, 2015, a write-down of $72.1 million (2014 – $10.6 million) was recorded based primarily on the estimated recoverable amount of the Rancho Hermoso, Capella, Santa Isabel and VMM-2 CGUs, representing the value-in-use using discounted cash flows of reserves as determined by the Corporation's external reserve evaluators and current forecasted prices of crude oil. Such write-down was primarily a result of weakness in benchmark crude oil prices as at June 30, 2015. The Corporation's other CGUs were unaffected.

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

Impairment tests carried out at June 30, 2015 were based on value-in-use calculations, using pre-tax discount rates ranging from 10% to 15% (2014 – 10%) and the following forward commodity price estimates:

Year	WTI Oil (US$/bbl)
2015	60.00
2016	66.30
2017	72.83
2018	79.59
2019	84.43
2020	86.12
2021	90.09
2022	91.89
2023	93.73
2024	95.61
2025	97.52
2026	99.47
Remainder	+2.0% per year

NOTE 6 – RESTRICTED CASH

	June 30, 2015	June 30, 2014
Restricted cash – current	**$ 10,903**	$ 7,379
Restricted cash – long term	**50,869**	59,448
	$ 61,772	$ 66,827

At June 30, 2015, restricted cash consisted of $48.3 million of term deposits used as collateral to secure the Ecuador IPC's borrowings, $8.7 million for work commitments and other capital commitments, and $4.8 million held in a debt reserve account as required under the Corporation's senior secured term loan.

NOTE 7 – INVESTMENTS

Balance at July 1, 2013	$ 2,467
Additions	5,821
Unrealized loss	(508)
Foreign exchange loss	(25)
Balance at June 30, 2014	7,755
Additions	2,758
Disposals	(2,740)
Realized loss	(5)
Unrealized loss	(2,126)
Foreign exchange loss	(682)
Balance at June 30, 2015	**$ 4,960**

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 will be eligible to receive any proportional share of dividends on the project. The Corporation is required to enter into ship-or-pay arrangements with OBC to guarantee pipeline revenues.

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

During the year ended June 30, 2014, the Corporation invested $5 million in the securities of a company involved in the exploration and development of oil and gas in Latin America ("the Company"). An officer of the Corporation is also a director of such company. During the year ended June 30, 2015, the Company settled a portion of the securities for $2.5 million. The remaining $2.5 million invested in securities along with accrued interest as at June 30, 2015 of $0.2 million, was extended for settlement to March 31, 2016 and, as such, have been classified as current as at June 30, 2015.

The Corporation invested an additional $2.3 million in the Company's shares and 3,250,000 warrants were issued in connection with the investment. The Corporation thereafter disposed of 1,832,000 of the 6,250,000 invested shares at a price of C$0.03 per share during the year ended June 30, 2015.

During the year ended June 30, 2015, the Corporation invested $0.3 million in the securities of a company involved in infrastructure development for natural gas in Latin America.

As at June 30, 2015, the investment in shares and warrants of $0.5 million and pipeline investment (see note 19) of $1.9 million were classified as non-current since they are not expected to be settled within a year.

NOTE 8 – BANK DEBT

Balance at June 30, 2013	$	134,316
Draw, net of transaction costs		74,045
Amortization of transaction costs		2,327
Balance at June 30, 2014		210,688
Draw, net of transaction costs		265,966
Repayment		(220,000)
Amortization of transaction costs		10,369
Balance at June 30, 2015	**$**	**267,023**

Senior Secured Term Loan

On April 3, 2013, the Corporation entered into a credit agreement for a $140 million senior secured term loan with a syndicate of banks led by Credit Suisse ("CS Senior Secured Term Loan"). The CS Senior Secured Term Loan was for a five-year term, with interest payable quarterly and principal repayable in 15 equal quarterly installments starting in October 2014, following an initial 18 month grace period. The CS Senior Secured Term Loan carried interest at LIBOR plus 4.50% and was secured by all of the material assets of the Corporation.

On April 24, 2014, the Corporation completed an upsizing of its CS Senior Secured Term Loan, from $140 million to $220 million, with no changes to the terms of the CS Senior Secured Term Loan or the repayment schedule. The revised term loan carries interest at LIBOR plus 4.50-5.00%, depending on agreed leverage ratios, and is secured by all of the material assets of the Corporation.

On April 24, 2015, the CS Senior Secured Term Loan was settled for the principal amount outstanding on the settlement date of $176 million and was replaced with a new senior secured term loan with a syndicate of banks led by BNP Paribas for a principal amount of $200 million ("BNP Senior Secured Term Loan"). The carrying value of the CS Senior Secured Term Loan included $6.1 million of transaction costs netted against the principal amount and were fully expensed at the time of settlement. The BNP Senior Secured Term Loan is due September 30, 2019, with interest payable quarterly and principal repayable in eight equal quarterly installments starting on December 31, 2017, following an initial grace period. As such, the BNP Senior Secured Term Loan is classified as non-current as at June 30, 2015. The BNP Senior Secured Term Loan carries interest at LIBOR plus 4.75% and is secured by all of the material assets of the Corporation. The carry value of the BNP Senior Secured Term Loan included $4.6 million of transaction costs netted against the principal amount as at June 30, 2015.

The BNP Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The BNP Senior Secured Term Loan also includes various financial covenants, including a maximum consolidated leverage ratio ("Consolidated Leverage Ratio") of 3.50:1.00, a minimum consolidated interest coverage ratio ("Consolidated

Interest Coverage Ratio") of 2.50:1.00 and a minimum consolidated current assets to consolidated current liabilities ratio ("Consolidated Current Assets to Consolidated Current Liabilities Ratio") of 1.00:1.00.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("Consolidated Total Debt") divided by consolidated EBITDAX ("Consolidated EBITDAX"). The maximum allowable Consolidated Leverage Ratio is 3.50:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt; additionally, restricted cash maintained in the debt service reserve account related to the BNP 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, share of joint venture profit/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 (see note 23). 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"). The minimum Consolidated Interest Coverage Ratio required is 2.50:1.00. Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and includes interest expense and capitalized interest, net of interest income, and excludes any 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 minimum Consolidated Current Assets to Consolidated Current Liabilities Ratio required is 1.00:1.00.

The Corporation was in compliance with its covenants as at June 30, 2015.

Senior Notes

On October 29, 2014, the Corporation entered into the $100 million unsecured floating rate senior note indenture agreement with Apollo Investment Corporation ("Senior Notes"), with $50 million drawn and funded on October 29, 2014, $25 million drawn and funded on April 2, 2015 and a further $25 million committed and available to be drawn at any time up to April 2016 at the sole discretion of the Corporation, subject to certain conditions. The Senior Notes are repayable in full on their maturity date of December 31, 2019 and carry interest at LIBOR plus 8.5% per annum (subject to a LIBOR floor of 1.00%), payable quarterly. The Senior Notes may be repaid at any time prior to maturity and are subject to customary financial, performance and legal covenants in which are consistent with the covenants under the new senior secured term loan. Standby fees on the undrawn portion of the Senior Notes are calculated at 1% per annum. As at June 30, 2015, the amount drawn of $75 million has been classified as non-current. The carrying value of the Senior Notes included $3.4 million of transaction costs netted against the principal amount as at June 30, 2015.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $41.4 million (COP$ 107.1 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at and during the year ended June 30, 2015.

Letters of Credit

At June 30, 2015, the Corporation had letters of credit outstanding totaling $52.7 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 $35.7 million.

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

NOTE 9 – DECOMMISSIONING OBLIGATIONS

Balance at July 1, 2013	$	7,995
Accretion		540
Additions		1,860
Dispositions		(25)
Change in estimate		148
Balance at June 30, 2014		10,518
Accretion		674
Additions		3,034
Change in estimate		14,052
Balance at June 30, 2015	**$**	**28,278**

The Corporation's decommissioning obligations result from its ownership interests in petroleum and natural gas assets, including well sites, facilities, and gathering systems. The total decommissioning obligation is estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Corporation has estimated the net present value of the decommissioning obligations to be $28.3 million at June 30, 2015 (2014 - $10.5 million) based on an undiscounted total future liability of $51.5 million (2014 - $18 million). These payments are expected to be made over the next 15 years with the majority of costs to be incurred between 2016 and 2030. The average discount factor, being the risk-free rate related to the liability, is 7.2% (2014 – 6.3%) and the average inflation rate is 3.5% (2014 – 3.0%).

NOTE 10 – CONVERTIBLE DEBENTURES

Balance at July 1, 2013	$	22,091
Unrealized loss		3,699
Foreign exchange gain		(395)
Balance at June 30, 2014		25,395
Settled		(20,431)
Realized loss		202
Unrealized gain		(1,611)
Foreign exchange gain		(3,555)
Balance at June 30, 2015	**$**	**-**

During the year ended June 30, 2015, the Corporation had convertible debentures outstanding with a principal value of C$25.5 million. The convertible debentures bore an annual coupon rate of 8%, payable semi-annually. On June 30, 2015, the maturity date, the Corporation redeemed the outstanding principal amount and accrued interest in common shares of the Corporation ("Common Shares"). Upon redemption of the convertible debentures, 9,757,263 Common Shares were issued based on a price of C$2.72 per Common Share (the "Redemption Price"). Pursuant to the terms of the convertible debentures, the Redemption Price was calculated based on 95% of the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on June 24, 2015. The convertible debentures were delisted from trading on the TSX at the close of trading on June 30, 2015.

NOTE 11 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number		Amount
	(000s)		
Balance at July 1, 2013	86,506	$	408,770
Issued on equity offering	15,823		115,289
Issued on property acquisitions (note 4)	2,454		15,000
Issued on exercise of stock options and warrants	2,953		10,878
Transfer from other reserves and warrants for stock options and warrants exercised	-		6,874
Share issuance costs	-		(5,762)
Balance at June 30, 2014	107,736	$	551,049
Issued on property acquisitions (note 4)	8,749		18,046
Issued on settlement of convertible debentures (note 10)	9,757		21,248
Issued on exercise of stock options and warrants	192		640
Transfer from other reserves and warrants for stock options and warrants exercised	-		537
Balance at June 30, 2015	**126,434**		**591,520**

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000s)	(C$)
Balance at July 1, 2013	7,451	6.61
Granted	3,983	6.90
Exercised	(1,177)	2.84
Forfeited and cancelled	(568)	8.99
Balance at June 30, 2014	9,689	7.05
Granted	4,140	2.66
Exercised	(117)	2.31
Forfeited and cancelled	(3,430)	6.52
Balance at June 30, 2015	**10,282**	**5.51**

Information with respect to stock options outstanding at June 30, 2015 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$)	(000s)	(years)	(C$)	(000s)	(C$)
$2.21 to $3.50	5,109	4.09	2.83	3,024	2.95
$3.60 to $7.00	2,526	2.77	6.00	2,073	5.94
$7.10 to $10.50	2,011	0.91	8.89	2,011	8.89
$10.60 to $14.00	126	0.67	12.11	126	12.11
$14.10 and higher	510	0.57	14.90	510	14.90
	10,282	**2.93**	**5.51**	**7,744**	**6.23**

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average inputs:

Year ended June 30	2015	2014
Weighted-average fair value at grant date (C$)	**1.12**	4.84
Share price (C$)	**2.21 – 3.70**	3.38 – 15.00
Exercise price (C$)	**2.21 – 3.70**	3.38 – 15.00
Volatility	**62% – 63%**	72% – 126%
Option life	**5 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**0.73%– 1.15%**	1.17% – 2.78%

A forfeiture rate of 5% (2014 – 5%) was used when recording stock-based compensation for year ended June 30, 2015. Stock-based compensation expense of $4.9 million (2014 – $6.9 million) was expensed and $2.5 million (2014 – $3.4 million) was capitalized during the year ended June 30, 2015.

NOTE 12 – FINANCE INCOME AND EXPENSE

Year ended June 30	2015	2014
Finance income		
Interest and other income	**$ (3,139)**	$ (2,241)
Finance expense		
Fair value adjustment on wealth tax payable	**5**	55
Accretion on decommissioning obligations	**674**	540
Amortization of upfront fees	**4,212**	2,383
Accelerated amortization of upfront fees	**6,157**	-
Interest and other expense	**19,898**	8,919
	30,946	11,897
Net finance expense	**$ 27,807**	$ 9,656

Due to the settlement of the CS Senior Secured Term Loan (see note 8), $6.1 million of the unamortized transaction costs netted against the CS Senior Secured Term Loan principal amount were fully expensed at the time of settlement.

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

NOTE 13 – EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were calculated as follows:

Year ended June 30	2015	2014
Net income (loss), basic and diluted	$ (106,022)	$ 9,937
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	110,346	89,836
Effect of warrants	-	79
Effect of stock options	-	456
Weighted-average common shares outstanding, diluted	110,346	90,371

For the year ended June 30, 2014, the effect of the convertible debentures was anti-dilutive. For the year ended June 30, 2015, all items were anti-dilutive due to the net loss.

NOTE 14 – INCOME TAXES

The following table reconciles income taxes calculated at the Colombian Statutory rate with actual income taxes:

Year ended Jun 30	2015	2014
Net income (loss) before taxes	$ (98,555)	$ 31,953
Statutory rates	25.00%	25.00%
Expected income taxes	$ (24,639)	$ 7,988
Effect on taxes resulting from:		
Non-deductible share-based payments and other permanent differences	1,803	860
Tax differential on foreign jurisdictions	444	5,968
Change in unrecognized tax benefit, foreign exchange and other	29,859	7,200
Provision for income taxes	7,467	22,016
Current	7,671	24,823
Deferred	(204)	(2,807)
	7,467	22,016

The net deferred tax asset is comprised of:

	June 30, 2015	June 30, 2014
Net book value of property, plant and equipment in excess of asset tax base	$ (29,024)	$ (5,493)
Non-capital losses carried forward	41,780	27,154
Decommissioning liabilities and other provision	10,798	3,576
Timing differences on revenue and expense recognition and other	(918)	2,546
Deferred tax asset	22,636	27,783
Deferred tax asset not recognized	(23,486)	(28,837)
Net deferred tax liability	(850)	(1,054)

At June 30, 2015, the Corporation had non-capital losses carried forward of approximately $41.2 million (2014 - $11.3 million) available to reduce future years taxable income. At June 30, 2015, the Corporation had available deferred income tax assets of $23.5 million (2014 – $28.8 million) related to Canada and Brazil that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

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

NOTE 15 – KEY MANAGEMENT PERSONNEL COMPENSATION

The Corporation has determined that the key management personnel of the Corporation consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Corporation also provides compensation to both groups under its stock-based compensation and restricted share unit plans. Compensation expenses paid to key management personnel were as follows:

Year ended June 30	2015	2014
Salaries and director fees	$ 3,742	$ 4,159
Benefits	680	478
Stock-based compensation	4,797	7,016
Restricted share units	477	-
Key management personnel compensation	$ 9,696	$ 11,653

NOTE 16 – SUPPLEMENTAL INFORMATION

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

Year ended June 30	2015	2014
Petroleum and natural gas royalties	$ 16,266	$ 21,287

Income taxes and interest paid were as follows:

Year ended June 30	2015	2014
Income taxes paid	$ 10,544	$ 5,252
Interest paid	$ 19,606	$ 10,613

Loss (gain) on derivatives and financial instruments:

Year ended June 30	2015	2014
Embedded derivatives	$ -	$ 2,714
Crude oil payable in kind – unrealized	(1,630)	-
Convertible debentures – unrealized	(1,611)	3,699
Convertible debentures – realized	202	-
Warrants – unrealized	(3,871)	8,746
Warrants – realized	(27)	(611)
Phantom warrants – unrealized	(5,703)	5,827
Phantom warrants – realized	2,025	-
Restricted share units – unrealized	(625)	3,647
Restricted share units – realized	25	1,864
Share investments – unrealized	2,126	508
Share investments – realized	5	
Commodity contracts – unrealized	(38)	(242)
Commodity contracts – realized	(182)	432
	$ (9,304)	$ 26,584

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

Changes in non-cash working capital were comprised of:

Year ended June 30	2015	2014
Change in:		
Trade and other receivables	$ 38,865	$ (21,321)
Prepaid expenses and deposits	7,499	(1,074)
Crude oil inventory	891	979
Trade and other payables	(68,713)	36,798
Crude oil payable in kind	671	-
Wealth tax payable	43	(1,279)
Taxes payable	(10,043)	15,394
	(30,787)	29,497
Attributable to:		
Operating activities	4,742	2,145
Investing activities	(35,529)	27,352
	$ (30,787)	$ 29,497

NOTE 17 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia" (previously "Colombia" and "Ecuador"). 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 following tables show information regarding the Corporation's segments.

	Colombia (reportable)	Other Segments (non-reportable)	Total
Year ended June 30, 2015			
Revenues	$ 149,047	$ -	$ 149,047
Share of joint venture profits	-	4,689	4,689
Expenses, excluding income taxes and impairments	(134,142)	(42,138)	(176,280)
Impairment on E&E assets	(3,954)	-	(3,954)
Impairment on D&P assets	(72,057)	-	(72,057)
Net income (loss) before taxes	(61,106)	(37,449)	(98,555)
Income taxes (recovery)	7,467	-	7,467
Net income (loss)	$ (68,573)	$ (37,449)	$ (106,022)
Capital expenditures, net	$ 216,575	$ 767	$ 217,342
Year ended June 30, 2014			
Revenues	$ 207,787	$ -	$ 207,787
Share of joint venture loss	-	3,532	3,532
Expenses, excluding income taxes	(145,778)	(33,588)	(179,366)
Net income (loss) before taxes	62,009	(30,056)	31,953
Income taxes (recovery)	22,016	-	22,016
Net income (loss)	$ 39,993	$ (30,056)	$ 9,937
Capital expenditures, net	$ 147,353	$ 5,812	$ 153,165

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

		Colombia (reportable)		Other Segments (non-reportable)		Total
As at June 30, 2015						
Total assets	$	509,868	$	159,874	$	669,742
Total liabilities	$	48,510	$	279,597	$	328,107
As at June 30, 2014						
Total assets	$	529,705	$	226,882	$	756,587
Total liabilities	$	192,923	$	163,377	$	356,300

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended June 30, 2015, four major customers represented 27%, 19%, 15% and 14% of total revenue, respectively. For the year ended June 30, 2014, five major customers represented 30%, 20%, 12%, 11% and 11% of total revenue, respectively.

NOTE 18 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at June 30, 2015 are summarized as follows:

		Carrying Value		Fair Value
Fair value through profit or loss				
Cash and cash equivalents	$	45,765	$	45,765
Restricted cash		61,772		61,772
Warrants		67		67
Restricted share units		350		350
Investments		4,960		4,960
Crude oil payable in kind		1,622		1,622
Loans and receivables				
Trade and other receivables		21,770		21,770
Other liabilities				
Bank debt		267,023		275,000
Trade and other payables		15,929		15,929
Other long term obligations		3,701		3,701

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 and cash equivalents, restricted cash, restricted share units, convertible debentures and crude oil payable in kind are classified as Level 1. A portion of the Investments are classified as Level 1 ($2.7 million) and a portion are classified as Level 2 ($2.3 million). The Investment classified as Level 2 is a 0.5% interest in a private company (see note 19) valued based on its estimated market value. Warrants are classified as Level 3. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended June 30, 2015. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying value of the bank debt includes $8 million of transaction costs netted against the principal amount as at June 30, 2015 which is amortized over the term of the underlying bank debt using the effective interest method.

Warrants

On December 21, 2012, upon closing of the Shona acquisition, the Corporation issued 5,053,216 warrants in exchange for Shona warrants at an exchange ratio of 0.12587 of a Canacol warrant per Shona warrant and the exercise price of the warrants was reduced with respect to the exchange ratio of 0.12587 such that the warrants maintained their economic equivalency.

	Number (000s)	Amount
Balance at July 1, 2013	5,382	$ 1,871
Exercised	(1,776)	(5,329)
Expired	(1,114)	(650)
Unrealized gain	-	8,746
Foreign exchange gain	-	(307)
Balance at June 30, 2014	2,492	$ 4,331
Exercised	(75)	(99)
Expired	(1,638)	(27)
Unrealized gain	-	(3,871)
Foreign exchange gain	-	(267)
Balance at June 30, 2015	**779**	**67**

Information with respect to warrants outstanding at June 30, 2015 is presented below.

Expiry date	Number of warrants (000s)	Exercise Price (C$)
September 2, 2015	515	3.97
February 9, 2016	264	5.20
	779	**4.39**

Restricted Share Units

	Number (000s)		Amount
Balance at July 1, 2013	1,404		3,914
Granted	62		366
Settled	(1,404)		(7,232)
Unrealized loss	-		3,647
Foreign exchange gain	-		(291)
Balance at June 30, 2014	62	$	404
Granted	244		1,034
Settled	(148)		(377)
Realized loss			25
Unrealized gain	-		(625)
Foreign exchange gain	-		(111)
Balance at June 30, 2015	**158**	**$**	**350**

On May 2, 2013, the Corporation granted 1,404,138 restricted share units ("RSUs") to certain directors, officers and employees, with a reference price of C$2.58 per share. The RSUs vested as to one-third in three months and two-thirds in twelve months from the grant date, and were settled in cash.

During the year ended June 30, 2014, the Corporation granted 62,082 RSUs to certain employees with a weighted-average reference price of C$6.35 per share. The RSUs vest as to one-half in one year and one-half in two years from the grant date, and are settled in cash. RSU expense of $1.0 million (2014 – $0.3 million) was expensed during the year ended June 30, 2015.

On October 2, 2014 and January 21, 2015, the Corporation granted 234,781 and 9,333 restricted share units ("RSUs") to certain directors, officers and employees with a reference price of C$4.80 and C$3.21 per share, respectively. The RSUs granted on October 2, 2014 vest as to one-half in six months and one-half in twelve months from the grant date, and will be settled in cash. The RSUs granted on January 21, 2015 vest as to one-half in one year and one-half in two years from the grant date, and will be settled in cash.

Phantom Warrants

	Number (000s)		Amount
Balance at July 1, 2013	2,697	$	1,866
Unrealized loss	-		5,827
Foreign exchange gain	-		(136)
Balance at June 30, 2014	2,697	$	7,557
Settled	(2,697)		(3,500)
Realized loss	-		2,025
Unrealized gain	-		(5,703)
Foreign exchange gain	-		(379)
Balance at June 30, 2015	**-**	**$**	**-**

In connection with the closing of the Shona business acquisition on December 21, 2012, the Corporation entered into a credit agreement for $45 million, which has since been replaced by the Senior Secured Term Loan. In consideration for entering into the credit agreement, the Corporation agreed to a "phantom warrant payment" arrangement such that the Corporation would pay an amount (in cash or shares, at the election of the Corporation) equal to the in-the-money amount of 2,697,292 common share purchase warrants of the Corporation at an exercise price of C$4.50 per Canacol Share. The phantom warrant payment may be demanded partially or in full at any time for a period of three years.

During the year ended June 30, 2015, all 2,697,292 phantom warrant units were settled in cash for $3.5 million. A realized loss on settlement of $2 million was recognized due to a fair value difference of the phantom warrants.

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, net income (loss), liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. 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.

For the year ended June 30, 2015, a $1.00/boe increase/decrease in the price of a barrel of oil equivalent is estimated to increase/decrease the Corporation's earnings by $2,230,000 (2014 - $1,987,000) assuming all other variables are held constant.

(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, and to a lesser extent, Peruvian sol.

The Corporation had no forward exchange rate contracts in place as at or during the year ended June 30, 2015.

For the year ended June 30, 2015, a 1% increase/decrease in the US dollar vis-à-vis the Colombian peso and Canadian dollar is estimated to increase/decrease the Corporation's earnings by $368,000 and $35,000 (2014 - $417,000 and $622,000), respectively, assuming all other variables are held constant.

The Corporation's sensitivity to Peruvian sol in the years ended June 30, 2015 and 2014 was immaterial.

(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 year ended June 30, 2015.

For the year ended June 30, 2015, a 1% increase/decrease in interest rate is estimated to increase/decrease the Corporation's earnings by $1,677,500 (2014 - $990,000), assuming all other variables are held constant.

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.

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

The following table outlines the contractual maturities of the Corporation's financial liabilities at June 30, 2015:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	-	-	275,000	275,000
Trade and other payables	15,929	-	-	15,929
Crude oil payable in kind	1,622	-	-	1,622
Taxes payable	5,926	-	-	5,926
Wealth tax payable	630	-	-	630
Deferred income	-	-	3,731	3,731
Other long term obligations	-	-	3,701	3,701
Warrants	67	-	-	67
Restricted share units	340	10	-	350
	24,514	10	282,432	306,956

In addition to the above, the Corporation has issued letters of credit totalling $52.7 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.

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 well established customers in a good financial position 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 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, excluding non-cash items such as the current portion warrants. 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 less working capital, as defined above, divided by 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.

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

		June 30, 2015
Bank debt (current and long-term) – principal	$	275,000
Working capital surplus, excluding derivatives		(62,883)
Net debt	$	212,117
Trailing 12 months adjusted funds from operations (1)	$	87,395
Net debt to trailing 12 months adjusted funds from operations		2.4

(1) Trailing 12 months adjusted funds from operations for the year ended June 30, 2015 inclusive of amounts related to the Ecuador IPC.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at June 30, 2015:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 20,968	$ 56,452	$ -	$ 77,420
Office lease	891	1,502	2,541	4,934

Ecuador Incremental Production Contract

In addition to the commitments 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 $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at June 30, 2015, the Corporation had incurred a net $78.8 million of capital expenditures in connection with its Ecuador IPC commitment.

OBC Pipeline

The Corporation owns a 0.5% interest in 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 is also required to enter into ship-or-pay arrangements with OBC to guarantee pipeline revenues.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants 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.

There is an ongoing disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production. The Counterparty has asserted that the Corporation is liable for certain operating costs incurred by the Counterparty. The Corporation disagrees with this assertion because it believes the Counterparty has not met the terms of the contract governing these operating costs. The ultimate result of this disagreement cannot be determined at June 30, 2015.

Detailed information of the contingency was not disclosed as it may prejudice seriously the position of the Corporation in the disagreement with the Counterparty.

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

NOTE 20 – DEFERRED INCOME

Pacific Rubiales Energy Corp. ("Pacific Rubiales") has executed an agreement with the Corporation whereby, among other things, the Corporation has agreed to transfer operatorship of the Portofino Exploration and Production contract (the "Contract") to Pacific Rubiales subject to ANH approval. Under the terms of the agreement, Pacific Rubiales will operate any commercial discoveries made on the contract. In consideration for the transfer of operatorship, Pacific Rubiales has agreed to pay the Corporation the sum of $3,731,000 (the "Consideration") and has agreed to provide the Corporation with the option to participate pro-rata in its interest in the Contract, as well as in all pipelines and transportation infrastructure projects in which Pacific Rubiales participates in respect of the evacuation of crude from the area. As at June 30, 2015, the consideration was received, recognized as deferred income and classified as a non-current liability.

NOTE 21 – WEALTH TAX

Wealth tax represents a tax on the capital of Colombian corporations and Colombian branches of foreign corporations. The tax was approved by the Colombian government in December 2014 and was assessed for the calendar years 2015-2017 at a rate of 1.15% of the net equity of the Corporation's Colombian entities as at January 1, 2015. The assessed amount of $1.5 million is payable in 2015 and was expensed on January 1, 2015. The amount was classified as an operating expense in the consolidated statements of operations since it is not based on income.

NOTE 22 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of Incorporation	Fiscal year end	Ownership Interest June 30, 2015	Ownership Interest June 30, 2014
Canacol Energy Inc.	Canada	December 31	100%	100%
Carrao Energy S.A. (Panama)	Panama	December 31	100%	100%
Canacol Energy Ltd. (Alberta)	Canada	December 31	100%	100%
Shona Energy Company Inc. (Alberta)	Canada	December 31	100%	100%
CNE Oil & Gas S.A.S (Colombia)	Colombia	December 31	100%	100%

NOTE 23 – INVESTMENT IN JOINT VENTURE AND JOINT OPERATIONS

Joint venture

The Corporation conducts its operations in Ecuador through a 25% equity interest (27.9% capital participation interest) in the Ecuador IPC, which is reported in these financial statements using the equity method of accounting. Prior to the adoption of IFRS 11, the Ecuador IPC was accounted for using the proportionate consolidation method of accounting. Details of the Ecuador IPC's net assets, revenues and net income (loss) are shown below with comparative information due to the adoption of IFRS 11.

As at	June 30, 3015	June 30, 2014
Ecuador IPC cash and cash equivalents (gross)	$ 7,709	$ 48,445
Ecuador IPC bank debt (gross)	176,657	168,223
Total Ecuador IPC current assets (gross)	$ 58,836	$ 87,209
Total Ecuador IPC non-current assets (gross)	203,681	163,046
Total Ecuador IPC current liabilities (gross)	77,657	63,124
Total Ecuador IPC non-current liabilities (gross)	147,387	168,483
Ecuador IPC equity (gross)	37,473	18,648
Investment in joint venture	$ 12,734	$ 8,046

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

Year ended		June 30, 2015		June 30, 2014
Joint venture revenue (gross)	$	**115,555**	$	33,754
Joint venture depletion and depreciation (gross)		**60,003**		13,613
Joint venture interest expense (gross)		**8,294**		2,258
Joint venture income tax expense (recovery) (gross)		**4,458**		2,401

During the year ended June 30, 2015, the Corporation contributed $nil (2014 - $2.6 million) into the Ecuador IPC.

Year ended		June 30, 2015		June 30, 2014
Joint venture net income	$	**18,758**	$	14,128
Corporation's share of joint venture profit	$	**4,689**	$	3,532

Joint operations

The Corporation has the following significant joint operations:

Joint operation[(1)]	Principal place of business	Working interest
LLA-23	Colombia	90%
Santa Isabel	Colombia	30% (deep); 100% (shallow)
VMM-2	Colombia	66.9% (deep); 40% (shallow)
Ombu/Capella	Colombia	10%
Coati	Colombia	20%
Achapo	Colombia	70%
Portofino	Colombia	40%
Los Picachos	Colombia	37.5%
Macaya	Colombia	37.5%
Serrania	Colombia	37.5%

(1) The above table does not include properties, such as COR-4, COR-12, COR-11, COR-39, Esperanza, VIM-5, VIM-19 and Rancho Hermoso in which the Corporation owns a 100% working interest, as well as the back-in rights to VMM-3, since they are not considered joint operations.

NOTE 24 – SUBSEQUENT EVENTS

On September 3, 2015, the Corporation completed a private placement with Cavengas Holding S.R.L, a Barbados company ("Cavengas"), for the amount of C$78,975,000 consisting of the issuance of 17,590,000 subscription receipts issued at $2.50 per subscription receipt of the Corporation and convertible into 17,590,000 common shares of the Corporation upon certain Release Conditions (as such term is defined below), along with the issuance of 14,000,000 common shares of the Corporation at a price of $2.50 per common share. The C$35,000,000 related to the 14,000,000 common shares was released to the Corporation on September 3, 2015. The gross proceeds from the sale of the subscription receipts are being held in escrow by an escrow agent and invested in short term obligations issued or guaranteed by the Government of Canada (or other approved investments) pending satisfactory completion of the Release Condition. The Corporation engaged an exclusive advisor for this transaction, and will pay a fee of 3.5%, payable entirely in the common shares of the Corporation, for their services.

Under the terms of the investment agreement entered into as between Canacol and Cavengas, Cavengas has the right to appoint two (2) nominees to the board of directors of the Corporation (the "Director Nominees") subject to maintaining certain ownership thresholds. The subscription receipt agreement entered into as between Canacol, Cavengas and the escrow agent provides that the subscription receipts are convertible into common shares, on the basis of one (1) subscription receipt convertible into one (1) common share, upon the successful appointment of the Director Nominees to the board of directors of the Corporation, contingent upon the approval of the TSX (the "Release Condition").

Subsequent to June 30, 2015, the Corporation granted 2,716,000 and 50,000 stock options to certain directors, officers and employees at an exercise price of C$2.28 and C$2.37 per share, respectively.