CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED DECEMBER 31, 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"	*(signed) "Jason Bednar"*
Charle Gamba President and Chief Executive Officer	Jason Bednar Chief Financial Officer

March 23, 2016

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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 December 31, 2015 and June 30, 2015, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended December 31, 2015, and the twelve months ended June 30, 2015, 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 December 31, 2015 and June 30, 2015, and its financial performance and its cash flows for the six months ended December 31, 2015 and the twelve months ended June 30, 2015 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants

March 23, 2016
Calgary, Alberta

CANACOL ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2015	June 30, 2015
ASSETS			
Current assets			
Cash		$ 43,257	$ 45,765
Restricted cash	6	8,147	10,903
Trade and other receivables		11,682	21,770
Prepaid expenses and deposits		4,015	4,906
Investments	7	2,800	2,700
Crude oil inventory		465	1,286
		70,366	87,330
Non-current assets			
Restricted cash	6	53,574	50,869
Exploration and evaluation assets	4	149,906	152,925
Property, plant and equipment	5	331,995	363,624
Investment in equity	21,22	15,802	12,734
Investments	7	13,679	2,260
Deferred tax assets	13	33,027	-
		597,983	582,412
Total assets		$ 668,349	$ 669,742
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		12,704	15,929
Crude oil payable in kind		721	1,622
Deferred income	19	2,216	-
Warrants	17	-	67
Restricted share units	17	100	340
Wealth tax payable		-	630
Taxes payable		8,315	5,926
		24,056	24,514
Non-current liabilities			
Bank debt	8	248,228	267,023
Deferred income	19	3,731	3,731
Decommissioning obligations	9	39,989	28,278
Restricted share units	17	55	10
Other long term obligations		2,801	3,701
Deferred tax liabilities	13	46,202	850
Total liabilities		365,062	328,107
Equity			
Share capital	10	652,202	591,520
Other reserves		60,206	55,741
Accumulated other comprehensive loss		343	347
Deficit		(409,464)	(305,973)
Total equity		303,287	341,635
Total liabilities and equity		$ 668,349	$ 669,742

Commitments and contingencies (note 18)

Subsequent events (note 23)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Jason Bednar"
Director

(signed) "Michael Hibberd"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Note		Six months ended December 31, 2015		Twelve months ended June 30, 2015
Revenues					
Petroleum and natural gas revenues, net of royalties	15	$	38,430	$	149,047
Other income			930		-
Equity (loss) income	21,22		(328)		4,689
Expenses					
Production and transportation expenses			12,796		58,214
Pre-license and exploration costs	4		8,848		4,517
General and administrative			13,475		24,050
Stock-based compensation and restricted share units	10,17		3,966		5,887
Depletion and depreciation	5		26,479		61,262
Foreign exchange loss and other			7,081		183
Gain on derivatives and financial instruments	15		(1,790)		(9,304)
Change in provision and other settlements			-		(1,865)
Wealth tax expense			-		1,501
Impairment on D&P assets	5		44,599		72,057
(Gain) Loss on sale of assets			(168)		7,982
			115,286		224,484
Net finance expense	11		11,453		27,807
Loss before income taxes			(87,707)		(98,555)
Income taxes (recovery)					
Current	13		3,459		7,671
Deferred	13		12,325		(204)
			15,784		7,467
Net loss			(103,491)		(106,022)
Other comprehensive loss	21		(4)		-
Comprehensive loss			(103,495)		(106,022)
Net loss per share					
Basic and diluted	12	$	(0.72)	$	(0.96)
Comprehensive loss per share					
Basic and diluted	12	$	(0.72)	$	(0.96)

See accompanying notes to the 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 as 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 period	-		-		-		-		(106,022)		(106,022)
Balance at June 30, 2015	**126,434**	**$**	**591,520**	**$**	**55,741**	**$**	**347**	**$**	**(305,973)**	**$**	**341,635**
Balance as at June 30, 2015	126,434	$	591,520	$	55,741	$	347	$	(305,973)	$	341,635
Issue of common shares, net of costs	32,696		60,112		-		-		-		60,112
Stock options and warrants exercised	136		570		(337)		-		-		233
Stock-based compensation	-		-		4,802		-		-		4,802
Other comprehensive loss	-		-		-		(4)		-		(4)
Net loss for the period	-		-		-		-		(103,491)		(103,491)
Balance at December 31, 2015	**159,266**	**$**	**652,202**		**60,206**	**$**	**343**	**$**	**(409,464)**	**$**	**303,287**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

	Note	Six months ended December 31,2015	Twelve months ended June 30, 2015
Operating activities			
Comprehensive loss for the period		$ (103,495)	$ (106,022)
Adjustments:			
Other comprehensive loss	21	4	-
Net financing expense	11	11,453	27,807
Equity loss (income)	21,22	328	(4,689)
Stock-based compensation and restricted share units	10,17	3,966	5,887
Depletion and depreciation	5	26,479	61,262
Unrealized gain on derivatives and financial instruments	15	(1,815)	(9,150)
Unrealized foreign exchange loss and other		5,999	1,196
Settlement of restricted share units liability		(225)	(377)
Deferred income tax expense (recovery)	13	12,325	(204)
Exploration costs	4	8,651	3,954
Impairment of D&P assets	5	44,599	72,057
Loss on sale of assets		-	7,982
Changes in non-cash working capital	15	11,007	4,742
		19,276	64,445
Investing activities			
Expenditures on exploration and evaluation assets		(4,703)	(120,989)
Expenditures on property, plant and equipment		(28,467)	(69,548)
Disposition of exploration and evaluation assets	4	-	12,275
Investment in Ecuador	22	(176)	-
Investment in Interoil	21	(3,225)	-
Investments	7	(11,796)	(18)
Change in restricted cash		51	5,055
Other long-term liabilities		(599)	-
Changes in non-cash working capital	15	(3,943)	(35,529)
		(52,858)	(208,754)
Financing activities			
Repayment of bank debt	8	(20,000)	(220,000)
Net financing expense paid	11	(9,263)	(16,761)
Issue of common shares, net of costs	10	60,337	640
Settlement of phantom warrants		-	(3,500)
Draw on bank debt, net financing fees	8	-	265,966
		31,074	26,345
Change in cash		(2,508)	(117,964)
Cash, beginning of period		45,765	163,729
Cash, end of period		$ 43,257	$ 45,765

See accompanying notes to the 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. 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 financial year end of the Corporation was changed from June 30 to December 31 in order to align the Corporation's year end with its peer group to allow for easier comparisons. Accordingly, the comparative figures for the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity, consolidated statements of cash flows and the related notes to the consolidated financial statements (the "financial statements") are for the twelve month period ended June 30, 2015.

The Board of Directors approved these financial statements for issuance on March 22, 2016.

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 equivalents, restricted cash, commodity contracts, convertible debentures, 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 22). 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 agreement with rights to the net assets of the jointly-controlled entity under the arrangements.

The Corporation holds 49% of the voting rights of its investment in Andes Interoil Limited ("Interoil"). The Corporation has significant influence over Interoil based on its 49% voting rights and presence on the Interoil Board of Directors.

Amounts recorded for depletion, depreciation, amortization, accretion, provisions for decommissioning obligations, the valuation of convertible debentures, phantom warrants, 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

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 and comprehensive loss.

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 and comprehensive loss.

Investment in Interoil – The Corporation's investment in Interoil is accounted for using the equity method whereby the investment is originally recognized at cost and the Corporation's share of Interoil's comprehensive loss is included in the Corporation's consolidated statements of operations and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss.

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.

Warrants – 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 and comprehensive loss.

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 and comprehensive loss 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 and comprehensive loss.

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 and comprehensive loss 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 and comprehensive loss as incurred.

Depletion and depreciation – The net carrying value of D&P 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 and comprehensive loss 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 and comprehensive loss.

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 and comprehensive loss.

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 and comprehensive loss. 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 and comprehensive loss.

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings, amortization of upfront fees 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 and comprehensive loss 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.

Net Income (Loss) per Share and Comprehensive Income (Loss) per Share

Basic net income (loss) per share and comprehensive income (loss) per share is calculated by dividing the net income (loss) and comprehensive income (loss) attributable to common shareholders of the Corporation by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share and comprehensive income (loss) per share is determined by adjusting the net income (loss) and comprehensive income (loss) 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

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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.

(viii) IFRS 16: Leases

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

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

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

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
Additions		5,632
Exploration expense		(8,651)
Balance at December 31, 2015	**$**	**149,906**

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 totaling $7.9 million.

During the six months ended December 31, 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 written off to exploration expense. In addition to the $8.7 million (twelve months ended June 30, 2015 – $3.9 million) of relinquishment related costs, $0.2 million (twelve months ended June 30, 2015 – $0.6

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million) of pre-license costs were also included in pre-license and exploration costs for the six months ended December 31, 2015.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

		Petroleum and Natural Gas Assets		Corporate and Other Assets		Total
Cost						
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
Additions		38,863		198		39,061
Derecognition and other		(56)		(87)		(143)
Balance at December 31, 2015	**$**	**816,628**	**$**	**9,551**	**$**	**826,179**
Accumulated depletion and depreciation						
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)
Depletion and depreciation		(26,185)		(294)		(26,479)
Impairment		(44,599)		-		(44,599)
Derecognition and inventory adjustments		488		43		531
Balance at December 31, 2015	**$**	**(488,627)**	**$**	**(5,557)**	**$**	**(494,184)**
Carrying value						
At June 30, 2014	$	297,314	$	4,084	$	301,398
At June 30, 2015	$	359,490	$	4,134	$	363,624
At December 31, 2015	**$**	**328,001**	**$**	**3,994**	**$**	**331,995**

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 six months ended December 31, 2015, a write-down of $44.6 million (twelve months ended June 30, 2015 – $72.1 million) was recorded based primarily on the estimated recoverable amount of the LLA-23, Capella and Santa Isabel 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 December 31, 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 December 31, 2015 and June 30, 2015 were based on value-in-use calculations, using pre-tax discount rates ranging from 10% to 15% and the following forward commodity price estimates:

Year	WTI Oil (US$/bbl) as at December 31, 2015	WTI Oil (US$/bbl) as at June 30, 2015
2015	-	60.00
2016	48.00	66.30
2017	56.10	72.83
2018	60.34	79.59
2019	66.86	84.43
2020	72.52	86.12
2021	77.29	90.09
2022	84.46	91.89
2023	86.15	93.73
2024	87.87	95.61
2025	89.63	97.52
2026	91.42	99.47
2027	93.25	101.46
Remainder	+2.0% per year	+2.0% per year

The following table summarizes the impairments, recoverable amount and discount rate used for each CGU that was impaired.

CGU	Recoverable Amount ($)	Risk Adjusted Discount Rate (%)	Impairment Recorded ($)
LLA-23	59,725	15%	40,021
Capella	17,302	15%	3,613
Santa Isabel	717	15%	965
Total	**77,744**		**44,599**

The following table demonstrates the effect of the assumed discount rate and the effect of forecast benchmark commodity prices estimates on impairment charges for each CGU recorded for the six months ended December 31, 2015. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and $5/bbl increase and $5/bbl decrease in the forecast benchmark commodity price estimate.

CGU	Impairment + 1% Discount Rate ($)	Impairment - 1% Discount Rate ($)	Impairment + $5/bbl Forward Prices ($)	Impairment -$5/bbl Forward Prices ($)
LLA-23	1,301	(1,301)	(10,924)	10,924
Capella	2,091	(2,091)	(3,613)	10,023
Santa Isabel	17	(17)	(343)	343
Total	**3,409**	**(3,409)**	**(14,880)**	**21,290**

NOTE 6 – RESTRICTED CASH

	December 31, 2015	June 30, 2015
Restricted cash – current	$ 8,147	$ 10,903
Restricted cash – non-current	53,574	50,869
	$ 61,721	$ 61,772

At December 31, 2015, restricted cash consisted of $48.6 million of term deposits used as collateral to secure the Ecuador IPC's borrowings ($7.7 million classified as current; $40.9 million classified as non-current), $8.3 million for work commitments and other capital commitments ($0.4 million classified as current; $7.9 million classified as non-current), and $4.8 million held in a debt reserve account as required under its bank debt (classified as non-current).

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NOTE 7 – INVESTMENTS

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, 2015		4,960
Additions		12,006
Disposals		(211)
Unrealized gain		166
Foreign exchange loss		(442)
Balance at December 31, 2015	**$**	**16,479**

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.

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 December 31, 2015 and 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.

During the six months ended December 31, 2015, the Corporation invested $11.6 million in Pacific Power Generation Corporation ("PPG"), consisting of $10.8 million for 15% of PPG's outstanding shares; $0.6 million in additional capital contribution and $0.2 million in capitalized fees. The Corporation also invested $0.3 million in shares of an industry partner, accrued $0.1 million interest on convertible notes and settled $0.2 million of the pipeline investment (see note 18).

The investment in PPG of $11.6 million, investment in shares and warrants of $0.5 million and pipeline investment (see note 18) of $1.5 million were classified as non-current since they are not expected to be settled within a year as at December 31, 2015. Investment in convertible notes of $2.8 million has been classified as current as they are expected to be settled within a year as at December 31, 2015.

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

NOTE 8 – BANK DEBT

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
Repayment		(20,000)
Amortization of transaction costs		1,205
Balance at December 31, 2015	**$**	**248,228**

The Corporation's bank debt as at December 31, 2015 consisted of a senior secured term loan for a principal amount of $180 million ("BNP Senior Secured Term Loan") and unsecured senior notes ("Senior Notes") with a drawn principal amount of $75 million. The carrying value of the BNP Senior Secured Term Loan and Senior Notes included $3.9 million and $2.9 million of transaction costs netted against the principal amount as at December 31, 2015, respectively.

During the six months ended December 31, 2015, the Corporation made a $20 million principal repayment of the BNP Senior Secured Term loan.

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 beginning on December 31, 2017, following an initial grace period. As such, the BNP Senior Secured Term Loan is classified as non-current at December 31, 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. On September 30, 2015, the Corporation prepaid $20 million on the 2015 Credit Facility, thereby reducing the balance outstanding at December 31, 2015 to $180 million.

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, except for the period ended December 31, 2015 whereby the allowable Consolidated Leverage Ratio was increased from 3.50:1.00 to 4.00:1.00. 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 22). 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.

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

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 December 31, 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 27, 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 BNP Senior Secured Term Loan. Standby fees on the undrawn portion of the Senior Notes are calculated at 1% per annum. As at December 31, 2015, the amount drawn of $75 million has been classified as non-current.

Other Colombian Credit Facilities

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of $39.4 million (COP$ 124 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 December 31, 2015.

Letters of Credit

At December 31, 2015, the Corporation had letters of credit outstanding totaling $66.5 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the Colombian revolving lines of credit by $34.9 million to $4.5 million at December 31, 2015.

NOTE 9 – DECOMMISSIONING OBLIGATIONS

Balance at June 30, 2014	$	10,518
Accretion		674
Additions		3,034
Change in estimate		14,052
Balance at June 30, 2015		28,278
Accretion		985
Additions		269
Change in estimate		10,457
Balance at December 31, 2015	**$**	**39,989**

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

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 $40 million at December 31, 2015 (June 30, 2015 - $28.3 million) based on an undiscounted total future liability of $75.5 million (June 30, 2015 - $51.5 million). These payments are expected to be made over the next 15 years. The average discount factor, being the risk-free rate related to the liability, is 7.7% (June 30, 2015 – 7.2%) and the average inflation rate is 6.8% (June 30, 2015 – 3.5%).

NOTE 10 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number (000's)		Amount
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	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
Issued on private placement, net of costs	32,696		60,112
Issued on exercise of stock options	136		225
Transfer from other reserves for stock options	-		345
Balance at December 31, 2015	**159,266**	**$**	**652,202**

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.

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 C$2.50 per subscription receipt of the Corporation (the "Subscription Receipts") and convertible into 17,590,000 common shares of the Corporation (the "Common Shares"), along with the issuance of 14,000,000 Common Shares at a price of C$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. On October 16, 2015, the 17,590,000 Subscription Receipts were converted into 17,590,000 Common Shares and the associated C$43,975,000 was released from escrow to the Corporation. The Corporation engaged an exclusive advisor for this transaction, and paid a fee of 3.5%, payable entirely in Common Shares, for their services.

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

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at 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
Granted	6,136	2.69
Exercised	(136)	2.25
Forfeited and cancelled	(947)	8.04
Balance at December 31, 2015	**15,335**	**4.26**

Information with respect to stock options outstanding at December 31, 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$)	(000's)	(years)	(C$)	(000's)	(C$)
$1.00 to $3.50	10,952	4.2	2.76	6,005	2.83
$3.60 to $7.00	2,501	2.3	5.99	2,123	5.90
$7.10 to $10.50	1,293	0.9	8.94	1,293	8.94
$10.60 to $14.00	81	0.4	11.69	81	11.69
$14.10 and higher	508	0.1	14.90	508	14.90
	15,335	**3.5**	**4.26**	**10,010**	**4.95**

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

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Weighted-average fair value at grant date (C$)	**1.40**	1.12
Share price (C$)	**2.28 – 3.26**	2.21 – 3.70
Exercise price (C$)	**2.28 – 3.26**	2.21 – 3.70
Volatility	**61% – 62%**	62% – 63%
Option life	**5 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**0.72%–0.90%**	0.73%– 1.15%

A forfeiture rate of 5% (twelve months ended June 30, 2015 – 5%) was used when recording stock-based compensation for six months ended December 31, 2015. Stock-based compensation of $3.9 million (twelve months ended June 30, 2015 – $4.9 million) was expensed and $0.9 million (twelve months ended June 30, 2015 – $2.5 million) was capitalized during the six months ended December 31, 2015.

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

NOTE 11 – FINANCE INCOME AND EXPENSE

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Finance income		
Interest and other income	$ (1,357)	$ (3,139)
Finance expense		
Fair value adjustment on wealth tax payable	-	5
Accretion on decommissioning obligations	985	674
Amortization of upfront fees	1,208	4,212
Accelerated amortization of upfront fees	-	6,157
Interest and other financing costs	10,617	19,898
	12,810	30,946
Net finance expense	$ 11,453	$ 27,807

During the twelve months ended June 30, 2015, 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.

NOTE 12 – NET LOSS AND COMPREHENSIVE LOSS PER SHARE

Basic and diluted comprehensive loss per share is calculated as follows:

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Net loss, basic and diluted	$ (103,491)	$ (106,022)
Comprehensive loss, basic and diluted	$ (103,495)	$ (106,022)
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	143,538	110,346
Effect of warrants	-	-
Effect of stock options	-	-
Weighted-average common shares outstanding, diluted	143,538	110,346

For the six months ended December 31, 2015 and twelve months ended June 30, 2015, warrants and stock options were anti-dilutive due to the comprehensive loss.

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

NOTE 13 – INCOME TAXES

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

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Net loss before taxes	$ (87,707)	$ (98,555)
Statutory rates	27%	25%
Expected income taxes	$ (23,681)	$ (24,639)
Effect on taxes resulting from:		
Non-deductible share-based payments and other permanent differences	1,393	1,803
Tax differential on foreign jurisdictions	(8,794)	444
Change in unrecognized tax benefit	34,726	(5,350)
Foreign exchange and other	12,140	35,209
Provision for income taxes	15,784	7,467
Current	3,459	7,671
Deferred	12,325	(204)
	15,784	7,467

The net deferred tax liability is comprised of:

	December 31, 2015	June 30, 2015
Net book value of property, plant and equipment in excess of asset tax base	$ (32,221)	$ (29,024)
Non-capital losses carried forward	58,698	41,780
Decommissioning liabilities and other provision	14,474	10,798
Timing differences on revenue and expense recognition and other	751	(918)
Deferred tax asset	41,702	22,636
Deferred tax asset not recognized	(54,877)	(23,486)
Net deferred tax liability	(13,175)	(850)

At December 31, 2015, the Corporation had non-capital losses carried forward of approximately $59.5 million (June 30, 2015 - $41.2 million) available to reduce future years taxable income. At December 31, 2015, the Corporation had available deferred income tax assets of $54.9 million (June 30, 2015 – $23.5 million) related to Canada, Brazil and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

NOTE 14 – 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:

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

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Salaries and director fees	$ 2,211	$ 3,742
Severance	1,744	-
Benefits	309	680
Stock-based compensation	2,792	4,797
Restricted share units	-	477
Key management personnel compensation	7,056	$ 9,696

NOTE 15 – SUPPLEMENTAL INFORMATION

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

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Petroleum and natural gas royalties	$ 4,989	$ 16,266

Income taxes and interest paid were as follows:

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Income taxes paid	$ 1,994	$ 10,544
Interest paid	$ 9,812	$ 19,606

Loss (gain) on derivatives and financial instruments:

	Note	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Crude oil payable in kind		$ (1,568)	$ (1,630)
Convertible debentures – unrealized		-	(1,611)
Convertible debentures – realized		-	202
Warrants – unrealized	17	(62)	(3,871)
Warrants – realized	17	(3)	(27)
Phantom warrants – unrealized		-	(5,703)
Phantom warrants – realized		-	2,025
Restricted share units – unrealized	17	(15)	(625)
Restricted share units – realized	17	24	25
Investments – unrealized	7	(166)	2,126
Investments – realized	7	-	5
Commodity contracts – unrealized		-	(38)
Commodity contracts – realized		-	(182)
		$ (1,790)	$ (9,304)

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

Changes in non-cash working capital are comprised of:

	Six months ended December 31, 2015	Twelve months ended June 30, 2015
Change in:		
Trade and other receivables	$ 10,088	$ 38,865
Prepaid expenses and deposits	891	7,499
Crude oil inventory	566	891
Trade and other payables	(7,555)	(68,713)
Crude oil payable in kind	(901)	671
Deferred income	2,216	-
Wealth tax payable	(630)	43
Taxes payable	2,389	(10,043)
	$ 7,064	$ (30,787)
Attributable to:		
Operating activities	11,007	4,742
Investing activities	(3,943)	(35,529)
	$ 7,064	$ (30,787)

NOTE 16 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment.

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

	Colombia (reportable)	Other Segments (non-reportable)	Total
Six months ended December 31, 2015			
Revenues and other income	$ 39,360	$ -	$ 39,360
Equity loss	-	(328)	(328)
Expenses, excluding income taxes and impairments	(50,225)	(23,264)	(73,489)
Impairment on E&E assets	(8,651)	-	(8,651)
Impairment on D&P assets	(44,599)	-	(44,599)
Net loss before taxes	(64,115)	(23,592)	(87,707)
Income tax expense	15,784	-	15,784
Net loss	$ (79,899)	$ (23,592)	$ (103,491)
Capital expenditures, net	$ 44,495	$ 198	$ 44,693
Twelve months ended June 30, 2015			
Revenues	$ 149,047	$ -	$ 149,047
Share of joint venture profit	-	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 loss before taxes	(61,106)	(37,449)	(98,555)
Income tax expense	7,467	-	7,467
Net loss	$ (68,573)	$ (37,449)	$ (106,022)
Capital expenditures, net	$ 216,575	$ 767	$ 217,342

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

	Colombia (reportable)	Other Segments (non-reportable)	Total
As at December 31, 2015			
Total assets	$ 568,672	$ 99,677	$ 668,349
Total liabilities	$ 113,616	$ 251,446	$ 365,062
As at June 30, 2015			
Total assets	$ 509,868	$ 159,874	$ 669,742
Total liabilities	$ 48,510	$ 279,597	$ 328,107

NOTE 17 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at December 31, 2015 are summarized as follows:

	Carrying Value	Fair Value
Fair value through profit or loss		
Cash	$ 43,257	$ 43,257
Restricted cash	61,721	61,721
Warrants	-	-
Restricted share units	155	155
Investments	16,479	16,479
Crude oil payable in kind	721	721
Loans and receivables		
Trade and other receivables	11,682	11,682
Other liabilities		
Bank debt	248,228	255,000
Trade and other payables	12,704	12,704
Other long term obligations	2,801	2,801

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

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

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash, restricted cash, restricted share units and crude oil payable in kind are classified as Level 1. A portion of the investments are classified as Level 1 ($2.8 million) and a portion are classified as Level 2 ($13.7 million). Warrants are classified as Level 3. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three months ended December 31, 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.

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

The carrying value of the bank debt includes $6.8 million of transaction costs netted against the principal amount as at December 31, 2015 which is amortized over the term of the underlying bank debt using the effective interest method.

Restricted Share Units

	Number (000's)		Amount
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
Granted	45		94
Settled	(125)		(273)
Realized loss			24
Unrealized gain	-		(15)
Foreign exchange gain	-		(25)
Balance at December 31, 2015	**78**	$	**155**

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.

On August 18, 2015 and November 27, 2015, the Corporation granted 15,000 and 30,000 restricted shares units ("RSUs") with a reference price of C$2.28 and C$2.77 per share, respectively. The RSUs vest as to one-half in one year and one-half two years from the grant date, and will be settled in cash.

On October 2, 2015 and October 7, 2015, 117,388 and 8,000 RSUs were settled with a reference price of C$4.80 and C$4.70 per share, respectively.

Phantom warrants

	Number (000's)		Amount
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 and December 31, 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 warrants holders had the right to demand the phantom warrants be settled partially or in full at any time for a period of three years.

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

During the year ended June 30, 2015, all 2,697,292 phantom warrants 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.

Warrants

	Number (000's)		Amount
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
Expired	(515)		(3)
Unrealized gain	-		(62)
Foreign exchange gain	-		(2)
Balance at December 31, 2015	**264**	$	-

Information with respect to warrants outstanding at December 31, 2015 is presented below.

Expiry Date	Number of warrants (000's)	Exercise price (C$)
February 9, 2016	264	5.20

On September 2, 2015, 514,988 warrants expired with an exercise price of C$3.97. Subsequent to December 31, 2015, the remaining 264,192 warrants expired with an exercise price of C$5.20.

Market Risk

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. The Corporation had no commodity contracts in place as at or during the six months ended December 31, 2015.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars. As at December 31, 2015, the United States dollar to Colombian peso exchange rate was 3,149:1 (June 30, 2015 – 2,599:1).

The Corporation had no forward exchange rate contracts in place as at or during the six months ended December 31, 2015.

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

(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 six months ended December 31, 2015.

Liquidity Risk

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

The following table outlines the contractual maturities of the Corporation's financial liabilities at December 31, 2015:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	$ -	$ 22,500	$ 232,500	$ 255,000
Trade and other payables	12,704	-	-	12,704
Crude oil payable in kind	721	-	-	721
Taxes payable	8,315	-	-	8,315
Deferred income	2,216	-	3,731	5,947
Other long term obligations	-	-	2,801	2,801
Restricted share units	100	55	-	155
	$ 24,056	$ 22,555	$ 239,032	$ 285,643

In addition to the above, the Corporation has issued letters of credit totalling $66.5 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 customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables. In Colombia, a significant portion of crude oil sales are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies.

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

Capital Management

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

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

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

During the six months ended December 31, 2015, the Corporation took certain measures to counteract the weakness in crude oil prices over recent months and the resulting impact on cash flows. These measures include the strategic Cavengas financing and steps to reduce capital spending and preserve liquidity which, at December 31, 2015, had left the Corporation with $43.4 million in cash and $61.7 million in restricted cash. Further, at December 31, 2015 the Corporation had available an additional $25 million in committed debt facilities that it can draw down at any time up to April 27, 2016 at the sole discretion of the Corporation, subject to certain conditions. While crude oil prices are expected to remain weak into early 2016, significant new contracted gas deliveries are expected to commence shortly, thereby materially increasing revenues and funds from operations in early 2016 and significantly increasing the Corporation's revenues and field netbacks. In the meantime, the Corporation plans to maintain a prudent capital spending program and to focus on cost reductions to maximize profitability of the existing producing assets.

		December 31, 2015
Bank debt – principal	$	255,000
Working capital surplus		(46,310)
Net debt	**$**	**208,690**

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2015:

		Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	$	26,963	$	84,751	$	-	$	111,714
Office leases		799		1,363		1,947		4,109
Finance lease		7,519		19,793		20,990		48,302

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 plans to incur project expenditures estimated for a total of $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at December 31, 2015, the Corporation had incurred $83.0 million of expenditures in connection with its Ecuador IPC commitment.

Oleoducto Bicentenario de Colombia ("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 has also entered into ship-or-pay arrangements with OBC to guarantee pipeline revenue.

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.

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

NOTE 19 – DEFERRED INCOME

As at September 1, 2015 (the "Contract Date"), the Corporation received $8.9 million in proceeds for crude sales contracts (the "Contracts") to be delivered within 90 days of the Contract Date. During the six months ended December 31 2015, the Corporation delivered $7.8 million in accordance with the Contracts resulting in a deferred income balance of $1.1 million as at December 31, 2015.

During the six months ended December 31, 2015, the Corporation received an additional $7.2 million in proceeds for gas contracts and delivered $6 million resulting in a deferred income balance of $1.1 million as at December 31, 2015.

Pacific Exploration & Production Corp. ("Pacific") 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 subject to ANH approval. Under the terms of the agreement, Pacific will operate any commercial discoveries made on the contract. In consideration for the transfer of operatorship, Pacific has paid the sum of $3.7 million (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 participates in respect of the evacuation of crude from the area. As at December 31, 2015, the condition of the contract has not been met and therefore the consideration remains recognized as deferred income and classified as a non-current liability.

NOTE 20 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of Incorporation	Fiscal year end	Ownership Interest December 31, 2015	Ownership Interest June 30, 2015
Canacol Energy Inc.	Canada	December 31	100%	100%
Canacol Energy Ltd. (British Columbia)	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 21 – INVESTMENT IN INTEROIL

On October 28, 2015, the Corporation invested $3.2 million in Interoil to acquire 49% of Interoil's outstanding shares. Due to the Corporation's ownership and governance participation, the Corporation has significant influence over Interoil and therefore has accounted for Interoil using the equity method. The investment has initially been recognized at cost and subsequently reduced for Interoil's comprehensive loss in the pro-rated period from the acquisition date of October 28, 2015 to December 31, 2015 ("Pro-rated period ended December 31, 2015").

As at	December 31, 2015
Interoil cash and cash equivalents (gross)	$ 15,558
Interoil bank debt (gross)	43,892
Total Interoil current assets (gross)	$ 21,098
Total Interoil non-current assets (gross)	39,948
Total Interoil current liabilities (gross)	12,008
Total Interoil non-current liabilities (gross)	38,685
Interoil equity (gross)	10,353
Investment in Interoil	$ 2,491

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

		Pro-rated period ended December 31, 2015
Interoil revenue (gross)	$	**2,570**
Interoil depletion and depreciation (gross)		**1,444**
Interoil interest expense (gross)		**1,078**
Interoil income tax expense (recovery) (gross)		**(1,437)**

		Pro-rated period ended December 31, 2015
Interoil net loss	$	**2,918**
Interoil other comprehensive loss		**17**
Corporation's share of Interoil net loss		**730**
Corporation's share of Interoil other comprehensive loss		**4**

NOTE 22 – 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. Details of the Ecuador IPC's net assets and net income are shown below along with the Corporation's share of the investment and profit.

As at		**December 31, 2015**		June 30, 2015
Ecuador IPC cash and cash equivalents (gross)	$	**7,412**	$	7,709
Ecuador IPC bank debt (gross)		**174,065**		176,657
Total Ecuador IPC current assets (gross)	$	**91,781**	$	58,836
Total Ecuador IPC non-current assets (gross)		**170,717**		203,681
Total Ecuador IPC current liabilities (gross)		**105,297**		77,657
Total Ecuador IPC non-current liabilities (gross)		**118,124**		147,387
Ecuador IPC equity (gross)		**39,078**		37,473
Investment in joint venture	$	**13,311**	$	12,734

		Six months ended December 31, 2015		Twelve months ended June 30, 2015
Joint venture revenue (gross)	$	**61,689**	$	115,555
Joint venture depletion and depreciation (gross)		**46,722**		60,003
Joint venture interest expense (gross)		**4,030**		8,294
Joint venture income tax expense (recovery) (gross)		**1,300**		4,458

		Six months ended December 31, 2015		Twelve months ended June 30, 2015
Joint venture net income and comprehensive income	$	**1,608**	$	18,758
Corporation's share of joint venture profit		**402**		4,689

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

Joint operations

The Corporation has the following significant joint operations:

Joint operation	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)
VMM-3	Colombia	20%
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%

NOTE 23 – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, the Corporation entered into a lease agreement with Promisol SAS to construct and operate a natural gas processing plant commencing operation in 2016. Upon commencement of operation, the Corporation is expected to recognize a finance lease asset and liability of approximately $28.3 million.