CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED SEPTEMBER 30, 2013

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(in thousands of United States dollars)

As at	Note		September 30, 2013		June 30, 2013 (restated) (note 17)		July 1, 2012 (restated) (note 17)
ASSETS							
Current assets							
Cash and cash equivalents		$	**61,623**	$	52,290	$	30,789
Restricted cash	6		**6,539**		7,127		6,072
Trade and other receivables			**50,350**		38,141		31,810
Prepaid expenses and deposits			**12,600**		11,331		4,630
Embedded derivatives asset			**1,875**		1,875		3,156
Crude oil inventory			**1,895**		3,261		8,136
			134,882		114,025		84,593
Non-current assets							
Restricted cash	6		**21,758**		19,267		483
Embedded derivatives asset			**427**		839		3,942
Exploration and evaluation assets	4		**99,789**		92,753		126,295
Property, plant and equipment	5		**241,928**		238,278		183,838
Investment in joint venture	16		**2,133**		1,963		4,361
Investments			**2,664**		2,467		2,690
Deferred tax assets			**-**		-		626
			368,699		355,567		322,235
Total assets		$	**503,581**	$	469,592	$	406,828
LIABILITIES AND EQUITY							
Current liabilities							
Bank debt		$	**-**	$	-	$	12,000
Trade and other payables			**58,513**		37,219		47,602
Commodity contracts	14		**241**		280		303
Warrants	8		**343**		37		-
Restricted share units	14		**4,014**		3,914		-
Equity tax payable			**1,113**		1,294		1,236
Taxes payable			**1,858**		575		3,893
			66,082		43,319		65,034
Non-current liabilities							
Bank debt			**134,730**		134,316		15,986
Deferred income			**3,731**		3,731		-
Commodity contracts	14		**-**		-		124
Decommissioning obligations			**8,503**		7,995		6,642
Convertible debentures	7		**24,874**		22,091		25,381
Warrants	8		**4,446**		1,834		896
Phantom warrants	14		**3,785**		1,866		-
Equity tax payable			**-**		512		1,671
Other long term obligations			**10,764**		10,764		-
Deferred tax liabilities			**3,456**		3,861		-
Total liabilities			**260,371**		230,289		115,734
Equity							
Share capital	9		**409,263**		408,770		340,775
Other reserves			**40,507**		40,074		32,053
Accumulated other comprehensive loss			**347**		347		347
Deficit			**(206,907)**		(209,888)		(82,081)
Total equity			**243,210**		239,303		291,094
Total liabilities and equity		$	**503,581**	$	469,592	$	406,828

Commitments and contingencies (note 15)
See accompanying notes to interim condensed consolidated financial statements.

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

(UNAUDITED)

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

Three months ended September 30	Note		2013		2012
					(restated) (note 17)
Revenues					
Petroleum and natural gas revenues, net of royalties	12	$	48,222	$	41,592
Share of joint venture profit (loss)	16		170		(774)
Expenses					
Production and transportation expenses			17,761		25,727
Pre-license exploration costs			27		224
General and administrative			5,411		4,723
Stock-based compensation	9		231		1,181
Depletion and depreciation	5		7,298		13,246
Foreign exchange loss and other			1,807		1,386
Loss on derivatives and financial instruments	12		9,717		3,714
			42,252		50,201
Net finance expense	10		1,943		211
Income (loss) before income taxes			4,197		(9,594)
Income taxes (recovery)					
Current			1,622		(885)
Deferred			(406)		(1,553)
			1,216		(2,438)
Net income (loss) and comprehensive income (loss)			2,981		(7,156)
Earnings (loss) per share					
Basic and diluted	11	$	0.03	$	(0.12)

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

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(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, 2012	61,898	$	340,775	$	32,053	$	347	$	(82,081)	$	291,094
Stock-based compensation	-		-		2,074		-		-		2,074
Net loss for the period	-		-		-		-		(7,156)		(7,156)
Balance at September 30, 2012	**61,898**		**340,775**		**34,127**		**347**		**(89,237)**		**286,012**
Balance as at June 30, 2013	86,506	$	408,770	$	40,074	$	347	$	(209,888)	$	239,303
Stock options exercised	109		493		(198)		-		-		295
Stock-based compensation	-		-		631		-		-		631
Net income for the period	-		-		-		-		2,981		2,981
Balance at September 30, 2013	**86,615**		**409,263**		**40,507**		**347**		**(206,907)**		**243,210**

Effective December 20, 2012, the Corporation completed a 10:1 consolidation of its common shares. Consequently, all previous share information was restated to a post-consolidation basis.

See accompanying notes to interim condensed consolidated financial statements.

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

Three months ended September 30	Note	2013	2012
			(restated) (note 17)
Operating activities			
Net income (loss) for the period		$ 2,981	$ (7,156)
Adjustments:			
Net financing expense		1,943	211
Share of joint venture (profit) loss		(170)	774
Stock-based compensation	9	231	1,181
Depletion and depreciation	5	7,298	13,246
Unrealized loss on derivatives and financial instruments	12	8,868	3,197
Unrealized foreign exchange loss and other		1,454	1,469
Deferred income		-	2,500
Settlement of restricted share units liability	14	(1,321)	-
Deferred income tax		(406)	(1,553)
Changes in non-cash working capital	12	(1,154)	(7,478)
		19,724	6,391
Investing activities			
Expenditures on exploration and evaluation assets		(7,036)	(4,781)
Expenditures on property, plant and equipment		(9,632)	(9,352)
Investments		(294)	-
Change in restricted cash		(1,903)	(3,823)
Changes in non-cash working capital	12	9,505	(2,189)
		(9,360)	(20,145)
Financing activities			
Net financing (expense) income (paid) received		(1,326)	53
Issue of common shares		295	-
Draw on bank debt		-	17,000
Repayment of bank debt		-	(3,000)
		(1,031)	14,053
Change in cash and cash equivalents		9,333	299
Cash and cash equivalents, beginning of period		52,290	30,789
Cash and cash equivalents, end of period		$ 61,623	$ 31,088
Cash and cash equivalents consists of:			
Cash		$ 61,603	$ 23,699
Cash equivalents		20	7,389
Cash and cash equivalents, end of period		$ 61,623	$ 31,088

See accompanying notes to interim condensed consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. ("Canacol" or the "Corporation") and its subsidiaries are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Brazil, Guyana and Peru. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE and the Bolsa de Valores de Colombia under the symbol CNEC.

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on November 8, 2013.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended June 30, 2013.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for commodity contracts, convertible debentures, embedded derivatives, investments, warrants, phantom warrants, restricted share units and overlifted volumes payable, which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss").

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

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared using the same accounting policies and methods of computation as disclosed in note 3 of the annual consolidated financial statements as of and for the year ended June 30, 2013 except as follows.

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

The International Accounting Standards Board released the following new standards: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosures of Interests in Other Entities" and IFRS 13 "Fair Value Measurement". These standards have been adopted in the Corporation's financial statements for the fiscal period beginning July 1, 2013. The following describes the impact as a result of the application of the new and revised standards.

(i) Consolidated Financial Statements

IFRS 10 "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees, including special purpose entities.

The adoption of this standard had no impact on the Corporation's financial statements.

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

(ii) Joint Arrangements

IFRS 11 "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

Upon the adoption of IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Corporation's investments in joint arrangements. The adoption of IFRS 11 resulted in a change in the method of accounting for the Corporation's interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador (the "Ecuador IPC") from a jointly-controlled entity, using the proportionate consolidation method, to being accounted for using the equity method. This change in accounting for the Corporation's investment in the Ecuador IPC has been applied in accordance with the relevant IFRS transitional provisions. The initial investment in the Ecuador IPC as at July 1, 2012 for the purposes of applying the equity method was measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. The change in accounting method has affected the amounts previously reported in the Corporation's financial statements (see note 17).

(iii) Disclosure of Interests in Other Entities

IFRS 12 "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

The adoption of this standard had no impact on the Corporation's financial statements for interim disclosures.

(iv) Fair Value Measurement

IFRS 13 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The adoption of this standard had no impact on the Corporation's financial statements.

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at July 1, 2012	$	126,295
Acquisition of Shona Energy Company, Inc ("Shona")		6,523
Additions		24,813
Dispositions		(6,249)
Transferred to D&P assets		(8,377)
Transferred to exploration expense		(50,252)
Balance at June 30, 2013		92,753
Additions		7,036
Balance at September 30, 2013	**$**	**99,789**

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

		Crude Oil Assets		Gas Processing Facilities		Corporate and Other Assets		Total
Cost or deemed cost								
Balance at July 1, 2012	$	238,212	$	31,745	$	5,456	$	275,413
Acquisition of Shona		162,063		-		-		162,063
Net additions		30,726		(22)		1,272		31,976
Transferred from E&E assets		8,377		-		-		8,377
Reclassifications		3,860		(1,964)		-		1,896
Balance at June 30, 2013		443,238		29,759		6,728		479,725
Additions		10,187		45		140		10,372
Balance at September 30, 2013	**$**	**453,425**	**$**	**29,804**	**$**	**6,868**	**$**	**490,097**
Accumulated depletion and depreciation								
Balance at July 1, 2012	$	(88,085)	$	(847)	$	(2,643)	$	(91,575)
Depletion and depreciation		(38,852)		(6,547)		(1,511)		(46,910)
Impairment		(106,755)		-		-		(106,755)
Reclassifications		(1,893)		-		-		(1,893)
Derecognition, inventory adjustments and other		5,663		-		23		5,686
Balance at June 30, 2013		(229,922)		(7,394)		(4,131)		(241,447)
Depletion and depreciation		(5,951)		(931)		(416)		(7,298)
Inventory adjustments and other		576		-		-		576
Balance at September 30, 2013	**$**	**(235,297)**	**$**	**(8,325)**	**$**	**(4,547)**	**$**	**(248,169)**
Carrying amounts								
At July 1, 2012 (restated) (note 17)	$	150,127	$	30,898	$	2,813	$	183,838
At June 30, 2013 (restated) (note 17)	$	213,316	$	22,365	$	2,597	$	238,278
At September 30, 2013	**$**	**218,128**	**$**	**21,479**	**$**	**2,321**	**$**	**241,928**

During the three months ended September 30, 2013, $0.9 million (2012 - $1.4 million) of compensation and other costs were capitalized, which reduced general and administrative expense and stock-based compensation expense for the period.

NOTE 6 – RESTRICTED CASH

		September 30, 2013		June 30, 2013 (restated) (note 17)		July 1, 2012
Restricted cash – current	**$**	**6,539**	$	7,127	$	6,072
Restricted cash – long term		**21,758**		19,267		483
	$	**28,297**	$	26,394	$	6,555

At September 30, 2013, restricted cash consisted of $14.4 million of term deposits used as collateral to secure the Ecuador IPC's borrowings, $9.2 million for work commitments and other capital commitments, and $4.7 million held in a debt reserve account as required under its senior secured term loan.

NOTE 7 – CONVERTIBLE DEBENTURES

Convertible Debentures

Convertible debentures are 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 profit or loss. A reconciliation of convertible debentures is provided below.

Balance at July 1, 2012	$	25,381
Unrealized gain		(2,614)
Foreign exchange gain		(676)
Balance at June 30, 2013		22,091
Unrealized loss		2,295
Foreign exchange loss		488
Balance at September 30, 2013	**$**	**24,874**

NOTE 8 – WARRANTS

	Number		Amount
	(000s)		
Balance at July 1, 2012	329	$	896
Issued on Shona acquisition	5,053		2,231
Unrealized gain	-		(1,085)
Foreign exchange gain	-		(171)
Balance at June 30, 2013	5,382		1,871
Unrealized loss	-		2,877
Foreign exchange loss	-		41
Balance at September 30, 2013	**5,382**	**$**	**4,789**

NOTE 9 – SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Number		Amount
	(000s)		
Balance at July 1, 2012	61,898	$	340,775
Issued on Shona acquisition	24,601		68,346
Issued on exercise of stock options	7		7
Transfer from other reserves for stock options exercised	-		3
Share issuance costs	-		(361)
Balance at June 30, 2013	86,506		408,770
Issued on exercise of stock options	109		295
Transfer from other reserves for stock options exercised	-		198
Balance at September 30, 2013	**86,615**	**$**	**409,263**

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000s)	(C$)
Balance at June 30, 2013	7,451	6.61
Exercised	(109)	2.64
Forfeited and cancelled	(467)	9.69
Balance at September 30, 2013	**6,875**	**6.46**

Information with respect to stock options outstanding at September 30, 2013 is presented below.

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000s)	(years)	(C$)	(000s)	(C$)
$1.00 to $3.50	2,602	3.14	3.08	1,743	2.93
$3.60 to $7.00	1,435	2.53	5.33	1,257	5.41
$7.10 to $10.50	2,164	2.62	8.84	1,858	8.86
$10.60 to $14.00	136	2.43	12.10	118	12.11
$14.10 and higher	538	2.32	14.90	499	14.90
	6,875	**2.77**	**6.46**	**5,475**	**6.80**

Stock-based compensation of $0.2 million (2012 – $1.2 million) was expensed and $0.4 million (2012 – $0.9 million) was capitalized during the three months ended September 30, 2013.

NOTE 10 – FINANCE INCOME AND EXPENSE

Three months ended September 30,	2013	2012
Finance income		
Interest and other income	$ (695)	$ (269)
Finance expense		
Fair value adjustment on equity tax payable	10	34
Accretion on decommissioning obligations	128	63
Amortization of upfront fees	470	167
Interest and other financing costs	2,030	216
	2,638	480
Net finance expense	$ 1,943	$ 211

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

NOTE 11 – EARNINGS (LOSS) PER SHARE

Basic and diluted earnings per share were calculated as follows:

Three months ended September 30,	2013	2012
		(restated) (note 17)
Net income (loss), basic and diluted	$ 2,981	$ (7,156)
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	86,560	61,898
Effect of stock options	549	-
Weighted-average common shares outstanding, diluted	87,109	61,898

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

For the three months ended September 30, 2013 and 2012, the effect of the convertible debentures was anti-dilutive. For the three months ended September 30, 2012, all other items were anti-dilutive due to the net loss.

NOTE 12 – SUPPLEMENTAL INFORMATION

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

Three months ended September 30,	2013	2012
Petroleum and natural gas royalties	$ 4,669	$ 3,508

Income taxes and interest paid were as follows:

Three months ended September 30,	2013	2012
Income taxes paid	$ -	$ -
Interest paid	$ 1,983	$ 260

Loss (gain) on derivatives and financial instruments:

Three months ended September 30,	2013	2012
Embedded derivatives – unrealized	$ 412	$ 37
Convertible debentures – unrealized	2,295	(223)
Warrants – unrealized	2,877	(349)
Phantom warrants – unrealized	1,879	-
Restricted share units – unrealized	1,347	-
Restricted share units - realized	618	-
Share investments – unrealized	97	-
Commodity contracts – unrealized	(39)	3,732
Commodity contracts – realized	231	517
	$ 9,717	$ 3,714

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

Changes in non-cash working capital are comprised of:

Three months ended September 30,		2013		2012
Change in:				
Trade and other receivables	$	(12,209)	$	2,305
Prepaid expenses and deposits		(1,269)		(1,036)
Crude oil inventory		804		4,672
Trade and other payables		20,454		(14,139)
Equity tax payable		(712)		(606)
Taxes payable		1,283		(863)
		8,351		(9,667)
Attributable to:				
Operating activities		(1,154)		(7,478)
Investing activities		9,505		(2,189)
	$	8,351	$	(9,667)

NOTE 13 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia" (previously "Colombia" and "Ecuador"). As a result of the adoption of IFRS 11, "Ecuador" no longer meets the definition of a reportable segment under IFRS 8. Consequently, "Ecuador" has been removed from the composition of the Corporation's reportable segments during the three months ended September 30, 2013. The Corporation's investment and its share of profit in the Ecuador IPC (the unconsolidated joint venture that was previously proportionately consolidated as "Ecuador") have been added to "Other Segments". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment. The Corporation's chief operating decision maker is its executive officers.

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

		Colombia (reportable)		Other Segments (non-reportable)		Total
Three months ended September 30, 2013						
Revenues	$	48,222	$	-	$	48,222
Share of joint venture profits		-		170		170
Expenses, excluding income taxes		(32,791)		(11,404)		(44,195)
		15,431		(11,234)		4,197
Income taxes		1,216		-		1,216
Net income (loss)	$	14,215	$	(11,234)	$	2,981
Capital expenditures, net	$	17,268	$	140	$	17,408
Three months ended September 30, 2012						
Revenues	$	41,592	$	-	$	41,592
Share of joint venture loss		-		(774)		(774)
Expenses, excluding income taxes		(50,065)		(347)		(50,412)
		(8,473)		(1,121)		(9,594)
Income taxes recovery		(2,438)		-		(2,438)
Net loss	$	(6,035)	$	(1,121)	$	(7,156)
Capital expenditures, net	$	14,626	$	345	$	14,971

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

		Colombia		Other Segments		Total
		(reportable)		(non-reportable)		
As at September 30, 2013						
Total assets	$	425,923	$	77,658	$	503,581
Total liabilities	$	154,217	$	106,154	$	260,371
As at June 30, 2013 (restated) (note 17)						
Total assets	$	383,651	$	85,941	$	469,592
Total liabilities	$	123,625	$	106,664	$	230,289
As at July 1, 2012						
Total assets	$	314,394	$	92,434	$	406,828
Total liabilities	$	64,658	$	51,076	$	115,734

NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at September 30, 2013 are summarized as follows:

		Carrying Value		Fair Value
Fair value through profit or loss				
Cash and cash equivalents	$	61,623	$	61,623
Restricted cash		28,297		28,297
Convertible debentures		24,874		24,874
Commodity contracts liabilities		241		241
Embedded derivatives asset		2,302		2,302
Phantom warrants		3,785		3,785
Warrants		4,789		4,789
Restricted share units		4,014		4,014
Investments		2,664		2,664
Loans and receivables				
Bank debt		134,730		140,000
Trade and other receivables		50,350		50,350
Other liabilities				
Trade and other payables		58,513		58,513
Equity tax payable		1,113		1,113
Other long term obligations		10,764		10,764
Deferred income		3,731		3,731

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

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

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash and cash equivalents, restricted share units and convertible debentures are classified as Level 1. Commodity contracts liabilities and investments are classified as Level 2. Warrants, phantom warrants and embedded derivatives asset are classified as Level 3. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Restricted Share Units

	Number (000s)		Amount
Balance at July 1, 2012	-	$	-
Granted	1,404		3,592
Unrealized loss	-		468
Foreign exchange gain	-		(146)
Balance at June 30, 2013	1,404		3,914
Settled	(468)		(1,321)
Unrealized loss	-		1,347
Foreign exchange loss	-		74
Balance at September 30, 2013	**936**	**$**	**4,014**

Phantom Warrants

	Number (000s)		Amount
Balance at July 1, 2012	-	$	-
Issued	2,697		1,906
Unrealized loss	-		120
Foreign exchange gain	-		(160)
Balance at June 30, 2013	2,697		1,866
Unrealized loss	-		1,879
Foreign exchange loss	-		40
Balance at September 30, 2013	**2,697**	**$**	**3,785**

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

The fair value of the phantom warrants was estimated using the Black-Scholes option pricing model with the following inputs:

	Three months ended September 30, 2013	Year ended June 30, 2013
Fair value at grant date (C$)	**0.70**	0.70
Share price (C$)	**4.41**	2.93
Exercise price (C$)	**4.50**	4.50
Volatility	**56.26%**	60.76%
Warrant life	**2.2 years**	3 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.19%**	1.22%

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.

At September 30, 2013, the Corporation had two financial oil collars outstanding under the following terms:

Period	Volume	Type	Price Range
Jul 2013 – Dec 2013	500 bbls/day	Financial Brent Oil Collar	$85.00 – $107.50
Jul 2013 – Dec 2013	500 bbls/day	Financial Brent Oil Collar	$85.00 – $106.80

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars, and to a lesser extent, Brazilian reais and Peruvian sol.

The Corporation had no forward exchange rate contracts in place as at or during the three months ended September 30, 2013.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three months ended September 30, 2013.

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

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 September 30, 2013:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	$ -	$ 37,333	$ 102,667	$ 140,000
Trade and other payables	58,513	-	-	58,513
Deferred income	-	3,731	-	3,731
Equity tax payable – undiscounted	1,113	-	-	1,113
Other long term obligations	-	10,764	-	10,764
Convertible debentures – principal	-	24,812	-	24,812
Commodity contracts	241	-	-	241
Phantom warrants	-	-	3,785	3,785
Warrants	343	4,118	328	4,789
Restricted share units	4,014	-	-	4,014
	$ 64,224	$ 80,758	$ 106,780	$ 251,762

In addition to the above, the Corporation has issued letters of credit totalling $30.5 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 common share capital, convertible debentures, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, warrants and any embedded derivatives asset/liability. In order to maintain or adjust the capital structure, from time to time the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

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

The Corporation monitors leverage and adjusts its capital structure based on the ratio of net debt to funds from operations. This ratio is calculated as net debt, defined as the principal amount of its outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money or may otherwise be settled in common shares at the option of the Corporation, less working capital, as defined above and less the current portion of bank debt and convertible debentures included above, divided by annualized adjusted funds from operations, defined as cash flows from operating activities, excluding changes in non-cash working capital, and adjusted for the Corporation's share of operating funds flows under the Ecuador IPC, which was previously proportionately consolidated and is now accounted for under the equity method (see note 16). The Corporation uses the ratio of net debt to adjusted funds from operations as a key indicator of the Corporation's leverage and to monitor the strength of its financial position.

In order to facilitate the management of this ratio, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

		September 30, 2013
Bank debt (current and long-term) – principal	$	140,000
Working capital surplus, excluding the current portion of bank debt, warrants, and derivatives		(67,509)
Net debt	$	72,491
Annualized adjusted funds from operations (1)	$	97,112
Net debt to adjusted funds from operations		0.7

(1) Adjusted funds from operations for the three months ended September 30, 2013, annualized, and inclusive of amounts related to the Ecuador IPC.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2013:

		Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	$	28,633	$	9,562	$	-	$	38,195
Office lease	$	1,057	$	1,784	$	4,683	$	7,524

Ecuador Incremental Production Contract

In addition to the commitments described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital participation interest) in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium is committed to incur project expenditures for a total of $334 million ($93.3 million net to the Corporation) over the 15 year term of the contract. As at September 30, 2013, the Corporation had incurred $27.0 million of expenditures in connection with its Ecuador IPC commitment.

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 16 – INVESTMENT IN JOINT VENTURE

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

As at	September 30, 2013	June 30, 2013	July 1, 2012
Total assets	$ 142,388	$ 94,878	$ 21,154
Total liabilities	152,162	105,334	21,926
Equity	(9,774)	(10,456)	(772)
Investment in joint venture	2,133	1,963	4,361

For the three months ended	September 30, 2013	September 30, 2012
Joint venture net income (loss)	$ 682	$ (3,097)
Corporation's share of joint venture profit (loss)	$ 170	$ (774)

NOTE 17 – EFFECT OF IFRS 11 ADOPTION AND CHANGE OF COMPARATIVE STATEMENT OF CASH FLOWS

The adoption of IFRS 11 affected the Corporation's previously reported Consolidated Statement of Financial Position as at June 30, 2013 and the Consolidated Statement of Operations and Comprehensive Income (Loss), and Consolidated Statement of Cash Flows for the three months ended September 30, 2012. Prior to the adoption of IFRS 11, the Ecuador IPC was accounted for using the proportionate consolidation method and is now being accounted for using the equity method of accounting.

Impact on Consolidated Statements of Financial Position

As at July 1, 2012	As Previously Reported	Effect of IFRS 11 Adoption	Restated
Trade and other receivables	$ 32,801	$ (991)	$ 31,810
Property, plant and equipment	187,208	(3,370)	183,838
Investment in joint venture	-	4,361	4,361

As at June 30, 2013	As Previously Reported	Effect of IFRS 11 Adoption	Restated
Trade and other receivables	$ 41,957	$ (3,816)	$ 38,141
Restricted cash – non-current	4,849	14,418	19,267
Property, plant and equipment	257,586	(19,308)	238,278
Investment in joint venture	-	1,963	1,963
Deferred tax liabilities	3,409	452	3,861
Deficit	(202,693)	(7,195)	(209,888)

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

Impact on Consolidated Statements of Operations and Comprehensive Income (Loss)

For the three months ended September 30, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Restated
Petroleum and natural gas revenue, net of royalties	$	41,795	$	(203)	$	41,592
Share of joint venture loss		-		(774)		(774)
Depreciation and depreciation		13,299		(53)		13,246
Deferred tax expense (recovery)		(1,571)		18		(1,553)
Net loss and comprehensive loss		(6,214)		(942)		(7,156)

Further, at June 30, 2013, the Corporation changed the presentation of its statements of cash flows whereby interest expense paid was reclassified from operating activities to financing activities. The Corporation believes that this approach provides more reliable and relevant information on its operating activities and funds from operations. For the three months ended September 30, 2012, the effect of such reclassification was an increase in cash flows from operating activities, offset by a decrease of the same amount in cash flows from financing activities.

Impact on Consolidated Statements of Cash Flows

For the three months ended September 30, 2012		As Previously Reported		Effect of IFRS 11 Adoption		Effect of Reclassification		Restated
Cash flows from operating activities	$	10,404	$	(3,960)	$	(53)	$	6,391
Cash flows from investing activities		(24,105)		3,960		-		(20,145)
Cash flows from financing activities		14,000		-		53		14,053
Change in cash and cash equivalents	$	299	$	-	$	-	$	299