

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

*For the three and nine months ended
September 30, 2018 and 2017*



Interim Condensed Consolidated Statements of Income (Loss)

<i>(Unaudited; in thousands of U.S.\$, except per share information)</i>	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2018	2017	2018	2017
Oil and gas sales and other revenue	4	\$ 382,189	\$ 276,345	\$ 1,090,283	\$ 846,531
Sales of oil and gas for trading	4	224	28,943	2,717	80,289
Royalties		(15,280)	(4,047)	(35,629)	(14,842)
Revenue		367,133	301,241	1,057,371	911,978
Oil and gas operating costs	5	194,213	141,860	512,663	463,597
Purchase of oil and gas for trading		206	28,719	2,112	79,174
Fees paid on suspended pipeline capacity	20	5,633	34,838	82,372	84,175
Payments under terminated pipeline contracts	20	15,578	—	15,578	—
General and administrative		22,962	26,569	71,183	80,373
Share-based compensation	16	1,042	233	3,876	486
Depletion, depreciation and amortization		78,041	87,802	236,290	287,184
Impairment and exploration expenses	6	59,071	74,000	189,348	86,712
Reversal of provision related to high-price clause	20	(21,832)	—	(21,832)	—
Restructuring, severance and other costs	7	2,108	2,393	6,500	10,181
Income (loss) from operations		10,111	(95,173)	(40,719)	(179,904)
Share of income from associates	13	19,239	27,452	74,649	61,377
Equity tax		—	—	—	(11,694)
Foreign exchange (loss) gain		(1,094)	6,511	9,712	5,348
Finance costs, net	15	(6,059)	(7,207)	(19,805)	(18,690)
Gain (loss) on risk management contracts	19	5,533	(41,775)	(91,358)	5,362
Other loss, net		(2,606)	(8,487)	(3,909)	(639)
Reclassification of currency translation adjustments	10	—	—	(50,847)	—
Loss on extinguishment of debt	15	—	—	(25,628)	—
Net income (loss) before income tax		25,124	(118,679)	(147,905)	(138,840)
Current income tax expense	8	(8,787)	(12,134)	(24,570)	(25,703)
Deferred income tax recovery	8	28,604	—	21,916	—
Income tax recovery (expense)		19,817	(12,134)	(2,654)	(25,703)
Net income (loss) for the period		\$ 44,941	\$ (130,813)	\$ (150,559)	\$ (164,543)
Attributable to:					
Equity holders of the Company		45,105	(141,115)	(142,452)	(184,159)
Non-controlling interests		(164)	10,302	(8,107)	19,616
		\$ 44,941	\$ (130,813)	\$ (150,559)	\$ (164,543)
Basic earnings (loss) per share attributable to equity holders of the Company	9	\$ 0.45	\$ (1.41)	\$ (1.42)	\$ (1.84)
Diluted earnings (loss) per share attributable to equity holders of the Company	9	\$ 0.45	\$ (1.41)	\$ (1.42)	\$ (1.84)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

<i>(Unaudited; in thousands of U.S.\$)</i>	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2018	2017	2018	2017
Net income (loss) for the period		\$ 44,941	\$ (130,813)	\$ (150,559)	\$ (164,543)
Other comprehensive (loss) income items that may be reclassified to net income (loss) in a subsequent period (nil tax effect)					
Foreign currency translation		(7,508)	20,163	5,685	12,944
Reclassification of currency translation adjustments	10	—	—	50,847	—
		(7,508)	20,163	56,532	12,944
Total comprehensive income (loss) for the period		\$ 37,433	\$ (110,650)	\$ (94,027)	\$ (151,599)
Attributable to:					
Equity holders of the Company		40,469	(125,679)	(84,528)	(173,795)
Non-controlling interests		(3,036)	15,029	(9,499)	22,196
		\$ 37,433	\$ (110,650)	\$ (94,027)	\$ (151,599)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position

As at (Unaudited; in thousands of U.S.\$)	Notes	September 30 2018	December 31 2017
ASSETS			
Current			
Cash and cash equivalents		\$ 586,578	\$ 511,685
Restricted cash		91,773	65,787
Accounts receivable	19	237,058	272,383
Inventories		87,009	60,273
Income taxes receivable		6,686	10,539
Prepaid expenses and deposits		5,341	17,793
Assets held for sale	10	14,865	52,925
Risk management assets	19	1,412	—
Total current assets		1,030,722	991,385
Non-current			
Properties, plant and equipment	11	905,462	924,009
Exploration and evaluation assets	12	65,762	22,229
Investments in associates	13	272,628	420,983
Deferred tax asset	8	42,746	20,830
Restricted cash		108,133	66,614
Other assets	14	156,851	133,601
Total assets		\$ 2,582,304	\$ 2,579,651
LIABILITIES			
Current			
Accounts payable, accruals and other liabilities	19	\$ 647,641	\$ 547,900
Risk management liabilities	19	28,113	103,747
Income taxes payable		3,088	5,328
Obligations under finance lease		4,770	4,284
Asset retirement obligations		15,929	20,109
Total current liabilities		699,541	681,368
Non-current			
Long-term debt	15	336,241	250,000
Obligations under finance lease		11,319	14,945
Asset retirement obligations		252,248	236,957
Total liabilities		\$ 1,299,349	\$ 1,183,270
Commitments and contingencies	20		
EQUITY			
Share capital		4,740,914	4,745,440
Contributed surplus		117,012	127,351
Other reserves		(169,687)	(232,108)
Retained deficit		(3,497,385)	(3,354,933)
Equity attributable to equity holders of the Company		\$ 1,190,854	\$ 1,285,750
Non-controlling interests		92,101	110,631
Total equity		\$ 1,282,955	\$ 1,396,381
Total liabilities and equity		\$ 2,582,304	\$ 2,579,651

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity

<i>(Unaudited; in thousands of U.S.\$)</i>	Attributable to Equity Holders of the Company							Non-Controlling Interests	Total Equity
	Number of Common Shares ⁽¹⁾	Share Capital	Contributed Surplus	Currency Translation Adjustments	Fair Value Investment	Retained Deficit	Total		
As at January 1, 2018	100,011,664	\$ 4,745,440	\$ 127,351	\$ (226,906)	\$ (5,202)	\$ (3,354,933)	\$ 1,285,750	\$ 110,631	\$ 1,396,381
Net loss for the period	—	—	—	—	—	(142,452)	(142,452)	(8,107)	(150,559)
Other comprehensive income (loss)	—	—	—	57,924	—	—	57,924	(1,392)	56,532
Total comprehensive income (loss)	—	—	—	57,924	—	(142,452)	(84,528)	(9,499)	(94,027)
Share-based compensation	—	—	2,945	—	—	—	2,945	—	2,945
Dividends paid to non-controlling interests (Note 13)	—	—	—	—	—	—	—	(17,818)	(17,818)
Increase in non-controlling interests (Note 13)	—	—	(13,284)	4,497	—	—	(8,787)	8,787	—
Purchase of common shares for cancellation (Note 16)	(307,912)	(4,526)	—	—	—	—	(4,526)	—	(4,526)
As at September 30, 2018	99,703,752	\$ 4,740,914	\$ 117,012	\$ (164,485)	\$ (5,202)	\$ (3,497,385)	\$ 1,190,854	\$ 92,101	\$ 1,282,955

<i>(Unaudited; in thousands of U.S.\$)</i>	Attributable to Equity Holders of the Company							Non-Controlling Interests	Total Equity
	Number of Common Shares ⁽¹⁾	Share Capital	Contributed Surplus	Currency Translation Adjustments	Fair Value Investment	Retained Deficit	Total		
As at January 1, 2017	100,004,726	\$ 4,745,355	\$ 123,525	\$ (229,678)	\$ (5,202)	\$ (3,138,230)	\$ 1,495,770	\$ 105,265	\$ 1,601,035
Net (loss) income for the period	—	—	—	—	—	(184,159)	(184,159)	19,616	(164,543)
Other comprehensive income	—	—	—	10,364	—	—	10,364	2,580	12,944
Total comprehensive income (loss)	—	—	—	10,364	—	(184,159)	(173,795)	22,196	(151,599)
Share-based compensation	6,938	85	1,129	—	—	—	1,214	—	1,214
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(8,219)	(8,219)
As at September 30, 2017	100,011,664	\$ 4,745,440	\$ 124,654	\$ (219,314)	\$ (5,202)	\$ (3,322,389)	\$ 1,323,189	\$ 119,242	\$ 1,442,431

(1) On June 26, 2018, the Company completed a two-for-one share split on its issued and outstanding common shares, which was applied retrospectively. As a result, the common share amounts are stated on an adjusted post-split basis (Note 1).

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

<i>(Unaudited; in thousands of U.S.\$)</i>	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2018	2017	2018	2017
OPERATING ACTIVITIES					
Net income (loss) for the period		\$ 44,941	\$ (130,813)	\$ (150,559)	\$ (164,543)
Items not affecting cash:					
Depletion, depreciation and amortization		78,041	87,802	236,290	287,184
Impairment	6	58,292	74,000	188,569	86,712
Accretion expense		2,418	2,474	10,085	5,157
Unrealized (gain) loss on risk management contracts		(62,931)	43,567	(77,046)	(9,012)
Share-based compensation		1,042	233	2,751	486
Deferred income tax recovery	8	(28,604)	—	(21,916)	—
Unrealized foreign exchange loss (gain)		6,525	(6,705)	(3,798)	(9,994)
Loss on disposal of plant and equipment		—	195	—	195
Share of income from associates	13	(19,239)	(27,452)	(74,649)	(61,377)
Reclassification of currency translation adjustments	10	—	—	50,847	—
Other		(566)	3,162	(3,539)	(4,666)
Dividends from associates	13	—	5,519	48,449	33,119
Settlement of asset retirement obligations		(65)	(1,565)	(115)	(1,847)
Loss on extinguishment of debt	15	—	—	25,628	—
Changes in non-cash working capital	17	109,498	59,889	97,020	27,873
Cash provided by operating activities		\$ 189,352	\$ 110,306	\$ 328,017	\$ 189,287
INVESTING ACTIVITIES					
Additions to properties, plant and equipment, net		\$ (92,230)	\$ (41,944)	\$ (218,563)	\$ (108,672)
Additions to exploration and evaluation assets, net		(30,384)	(5,469)	(70,025)	(4,234)
Additions to other assets, net	14	—	—	(30,480)	(2,573)
Proceeds from sale of power transmission line assets	10	—	—	55,649	—
(Increase) decrease in restricted cash		(22,746)	6,047	(97,381)	19,102
Proceeds from the sale of assets held for sale		—	—	6,434	32,572
Proceeds from the sale of interests in Papua New Guinea	19	—	—	57,000	—
Cash used in investing activities		\$ (145,360)	\$ (41,366)	\$ (297,366)	\$ (63,805)
FINANCING ACTIVITIES					
Payment of leases		(1,708)	(1,709)	(5,069)	(5,069)
Long-term debt - repayment and consent payment	15	—	—	(275,628)	—
Long-term debt - gross proceeds from issuance prior to transaction costs	15	—	—	345,947	—
Transaction costs on issuance of long-term debt	15	—	—	(10,333)	—
Repurchase of common shares	16	(4,526)	—	(4,526)	—
Dividends paid to non-controlling interests	13	—	(8,219)	(17,818)	(8,219)
Changes in non-cash working capital		(1,178)	—	—	—
Cash (used in) provided by financing activities		\$ (7,412)	\$ (9,928)	\$ 32,573	\$ (13,288)
Effect of exchange rate changes on cash and cash equivalents		(842)	2,152	11,669	(650)
Increase in cash and cash equivalents during the period		35,738	61,164	74,893	111,544
Cash and cash equivalents, beginning of the period		550,840	439,479	511,685	389,099
Cash and cash equivalents, end of the period		\$ 586,578	\$ 500,643	\$ 586,578	\$ 500,643
Cash		\$ 349,131	\$ 168,558	\$ 349,131	\$ 168,558
Cash equivalents		237,447	332,085	237,447	332,085
Total cash and cash equivalents		\$ 586,578	\$ 500,643	\$ 586,578	\$ 500,643
Cash income tax paid		\$ 1,594	\$ 1,521	\$ 9,249	\$ 4,848
Cash interest paid		\$ —	\$ 6,250	\$ 12,152	\$ 18,750
Cash interest received		\$ 3,460	\$ 1,989	\$ 6,266	\$ 5,692

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

1. Corporate Information

Frontera Energy Corporation (the “**Company**”) is an oil and gas company formed and existing under the laws of British Columbia, Canada, that is engaged in the exploration, development, and production of crude oil and natural gas in Colombia and Peru. The Company’s common shares are listed and publicly traded on the Toronto Stock Exchange (“**TSX**”) under the trading symbol “FEC”. The Company’s head office is located at 333 Bay Street, Suite 1100, Toronto, Ontario, Canada, M5H 2R2 and its registered office is 1188 West Georgia Street, Suite 650, Vancouver, British Columbia, Canada, V6E 4A2.

On June 26, 2018, the Company completed a two-for-one share split on its issued and outstanding common shares (the “**Share Split**”). The Share Split has been applied retrospectively and as a result, all common shares, share-based units, and per share amounts are stated on an adjusted post-split basis for all periods presented.

These interim condensed consolidated financial statements of the Company, which comprise those of the Company and its subsidiaries, were approved and authorized for issuance by the Audit Committee of the Board of Directors on November 7, 2018.

2. Basis of Preparation and Significant Accounting Policies

a. Statement of Compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 (the “**Interim Financial Statements**”) have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“**IASB**”). The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2017 (the “**2017 Annual Financial Statements**”).

Presentation of Comparative Period Amounts

The comparative period amounts have been reclassified from the ones previously presented to conform to the presentation of the Interim Financial Statements. Certain presentation changes were made to align with the Company’s peers, and to better reflect management’s approach to reviewing financial and operational results. The following are the key changes:

- Royalties, which represents high-price participation payments and cash royalties, was reclassified from Oil and Gas Operating Costs and recognized within Revenue.
- As at December 31, 2017, short-term prepaid advances and deposits of \$15.8 million was reclassified from Accounts Receivable to Prepaid Expenses and Deposits in the Interim Condensed Consolidated Statements of Financial Position.
- Property, Plant and Equipment includes both oil and gas properties and plant and equipment assets in the Interim Condensed Consolidated Statements of Financial Position.

b. Significant Accounting Policies

The accounting policies used in preparation of the Interim Financial Statements are consistent with those disclosed in the 2017 Annual Financial Statements, except as outlined below. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

Changes in Accounting Policies and Disclosures

Certain new standards, amendments and interpretations effective from January 1, 2018, were applied by the Company for the first time. The most significant are outlined below.

Adoption of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

Effective January 1, 2018, the Company adopted IFRS 15, which supersedes all previous accounting standards for revenue including IAS 18 Revenue, using the modified retrospective method without the use of any practical expedients. Under this method, prior year financial statements have not been restated and the cumulative effect of any change to net income would have been recognized at January 1, 2018. The adoption of IFRS 15 resulted in no changes to the timing or amount of revenue recognized from the Company’s major revenue streams and significant contracts and as a result, no adjustment to retained earnings was recorded on transition.

Oil and gas revenues from contracts with customers are determined by reference to consideration specified in the contracts and recognized when control of the product is transferred to the customer. For crude oil and natural gas sales, control of the product transfers when the customer obtains legal title to the product, which is when the Company satisfies its performance obligations. This transfer of control typically occurs when the product is physically discharged at the point of unloading, which can be a shipping

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

port or customer storage facility, unless an alternative transportation method is agreed upon. Significant estimates and judgments for revenue recognition are consistent with those described in the 2017 Annual Financial Statements.

IFRS 15 requires revenue recognized from contracts with customers to be disclosed separately from other sources of revenue. As a result, the Company has changed its presentation of realized risk management gains and losses, which are not derived from contracts with customers. These amounts are now presented within Gain (Loss) on Risk Management Contracts whereas previously they were included within Oil and Gas Sales and Other Revenue. This change in presentation had no impact on net income (loss) for the period and on the Interim Condensed Consolidated Statements of Cash Flows. The comparative period has been reclassified to reflect the updated presentation for risk management contracts. IFRS 15 also requires additional disclosures for interim reporting, including the disaggregation of revenues from customers, included in Note 4.

Adoption of IFRS 9 Financial Instruments (“IFRS 9”)

The Company previously adopted IFRS 9 (2013) and has adopted the amendments to IFRS 9 (2014) as of the effective date of January 1, 2018. The most relevant impact of the amendments relates to a new forward-looking “expected credit loss” (“ECL”) impairment model, which replaces the previous incurred loss model.

Upon adoption, the Company did not recognize any additional ECL allowance adjustments at the transition date on short-term trade receivables with customers and partners in joint operations given that such receivables (i) have a negligible historical level of default; and (ii) are almost exclusively to large organizations and governmental entities with strong credit ratings. For long-term receivable balances within the scope of IFRS 9, the Company did not recognize any additional ECL allowance adjustments at the transition date.

The Company has included additional disclosures as per the requirements of the new standard, including an ECL allowance continuity schedule that reflects incurred losses already recognized in previous years as part of the opening January 1, 2018 balance (Note 19).

Adoption of IFRS 2 Share-based Payment Transactions (“IFRS 2”) amendments

The IASB issued amendments to IFRS 2, effective January 1, 2018, that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The Company adopted these amendments as at January 1, 2018, without significant impact on existing share-based payment arrangements and activity.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Interim Financial Statements that are likely to have an impact on the Company are listed below.

IFRS 16 Leases (“IFRS 16”)

IFRS 16 requires lessees to account for all leases, with certain exceptions, under a single on-balance sheet model, similar to finance leases under the current standard IAS 17 Leases. IFRS 16 will apply for annual periods beginning on or after January 1, 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. There are also practical expedients available under the standard, such as recognition exemptions available for short-term leases with remaining term of less than 12 months, and leases where the underlying right of use asset is of a low dollar value. Such expedients are either available on a lease-by-lease basis or by classes of underlying assets. The Company will adopt the standard on January 1, 2019, applying the modified retrospective transition approach, and is currently in the process of compiling and reviewing all existing lease and service contracts with impact on the transition date.

While the Company is still reviewing the full impact of the standard, management expects the quantitative impact of the adoption to be material, with increases in non-current assets and liabilities, and net income (loss) impacted for the amortization of right-of-use of assets and lease finance expense with corresponding decreases in general and administrative, and oil and gas operating expenses. The actual impact of applying the standard will primarily depend on the composition of the lease portfolio at the date of adoption, and extent of the application of practical expedients.

IFRIC 23 Uncertainty over Income Tax Treatments (“IFRIC 23”)

In June 2017, the IASB issued IFRIC 23 to clarify accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019. The adoption of IFRIC 23 is not expected to have a material impact on the Company’s consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

IAS 28 Investments in Associates and Joint Ventures (“IAS 28”) amendments

In October 2017, the IASB issued amendments to IAS 28 to clarify that a company applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are effective from January 1, 2019, with early application permitted. The Company is assessing the impact of the amendments on its consolidated financial statements.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Interim Financial Statements in accordance with IFRS requires the Company to make judgments in applying its accounting policies, estimates and assumptions about the future. These judgments, estimates, and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and other items in net income or loss, and the related disclosure of contingent liabilities included in the consolidated financial statements. The Company’s estimates are evaluated on an ongoing basis and are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

In preparing the Interim Financial Statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were consistent with those applied in the 2017 Annual Financial Statements, except as described below.

Carrying value of Oleoducto Bicentenario de Colombia S.A.S. (“Bicentenario”)

During the three and nine months ended September 30, 2018, the Company recognized an impairment expense of \$23.3 million and \$131.0 million, respectively, on the Company’s investment in Bicentenario. The calculation of the recoverable amount involved significant judgment and estimation uncertainty related to Bicentenario’s future operational plans and activities after existing transportation agreements expire in 2024, and liquidity risk with respect to receipt and timing of dividends distribution (Note 6).

3. Segmented Information

The Company has two reportable segments: Colombia and Peru. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country. The “Canada & Other” segment includes corporate office and other non-operating entities that have been aggregated, as they do not generate revenues for the Company.

Segmented information for the Interim Condensed Consolidated Statements of Income (Loss) is as follows:

For the Three Months Ended September 30	Colombia		Peru		Canada & Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Oil and gas sales and other revenue	\$ 361,357	\$ 256,640	\$ 20,832	\$ 19,705	\$ —	\$ —	\$ 382,189	\$ 276,345
Sales of oil and gas for trading	224	28,943	—	—	—	—	224	28,943
Royalties	(14,990)	(3,747)	(290)	(300)	—	—	(15,280)	(4,047)
Revenue	346,591	281,836	20,542	19,405	—	—	367,133	301,241
Oil and gas operating costs	181,415	134,518	12,798	7,342	—	—	194,213	141,860
Purchase of oil and gas for trading	206	28,719	—	—	—	—	206	28,719
Fees paid on suspended capacity	5,633	34,838	—	—	—	—	5,633	34,838
Payments under terminated pipeline contracts	15,578	—	—	—	—	—	15,578	—
General and administrative	17,945	21,084	1,789	1,560	3,228	3,925	22,962	26,569
Share-based compensation	605	—	89	—	348	233	1,042	233
Depletion, depreciation and amortization	77,403	85,878	134	1,708	504	216	78,041	87,802
Impairment and exploration expenses	29,372	74,000	28,920	—	779	—	59,071	74,000
Reversal of provision related to high-price clause	(21,832)	—	—	—	—	—	(21,832)	—
Restructuring, severance and other costs	1,304	1,132	—	—	804	1,261	2,108	2,393
Income (loss) from operations	38,962	(98,333)	(23,188)	8,795	(5,663)	(5,635)	10,111	(95,173)
Non-operating items							15,013	(23,506)
Income tax recovery (expense)							19,817	(12,134)
Net income (loss) for the period							\$ 44,941	\$ (130,813)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

For the Nine Months Ended September 30	Colombia		Peru		Canada & Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Oil and gas sales and other revenue	\$1,011,551	\$ 801,251	\$ 78,732	\$ 45,280	\$ —	\$ —	\$1,090,283	\$ 846,531
Sales of oil and gas for trading	2,717	80,289	—	—	—	—	2,717	80,289
Royalties	(34,931)	(12,692)	(698)	(2,150)	—	—	(35,629)	(14,842)
Revenue	979,337	868,848	78,034	43,130	—	—	1,057,371	911,978
Oil and gas operating costs	461,370	427,287	51,293	36,310	—	—	512,663	463,597
Purchase of oil and gas for trading	2,112	79,174	—	—	—	—	2,112	79,174
Fees paid on suspended capacity	82,372	84,175	—	—	—	—	82,372	84,175
Payments under terminated pipeline contracts	15,578	—	—	—	—	—	15,578	—
General and administrative	54,725	61,919	4,995	4,586	11,463	13,868	71,183	80,373
Share-based compensation	1,814	—	267	—	1,795	486	3,876	486
Depletion, depreciation and amortization	235,094	277,331	396	9,082	800	771	236,290	287,184
Impairment and exploration expenses	148,433	96,088	28,920	(10,362)	11,995	986	189,348	86,712
Reversal of provision related to high-price clause	(21,832)	—	—	—	—	—	(21,832)	—
Restructuring, severance and other costs	3,683	6,773	—	1,008	2,817	2,400	6,500	10,181
Income (loss) from operations	(4,012)	(163,899)	(7,837)	2,506	(28,870)	(18,511)	(40,719)	(179,904)
Non-operating items							(107,186)	41,064
Income tax expense							(2,654)	(25,703)
Net loss for the period							\$ (150,559)	\$ (164,543)

The following table provides segmented information as at September 30, 2018, and December 31, 2017:

	Colombia		Peru		Canada & Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Non-current assets	1,526,355	1,537,377	21,279	30,930	3,948	19,959	1,551,582	1,588,266

4. Revenue from Contracts with Customers

The following table provides the disaggregation of the Company's revenue from contracts with customers:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Colombia				
Colombian crude oil sales	\$ 350,634	\$ 239,091	\$ 970,371	\$ 746,788
Gas sales	9,317	10,474	28,891	33,459
Colombia oil and gas sales	359,951	249,565	999,262	780,247
Power transmission and other revenues ⁽¹⁾	1,406	7,075	12,289	21,004
Colombia total	361,357	256,640	1,011,551	801,251
Peru total - crude oil sales	20,832	19,705	78,732	45,280
Oil and gas sales and other revenue	\$ 382,189	\$ 276,345	\$ 1,090,283	\$ 846,531

(1) Power transmission revenue recognized until April 19, 2018, the date the transmission line assets were sold (Note 10).

Revenue from contracts with customers also include Sales of Oil and Gas for Trading, earned in Colombia, which totalled \$0.2 million and \$2.7 million for the three and nine months ended September 30, 2018, respectively (2017: \$28.9 million and \$80.3 million, respectively).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

5. Oil and Gas Operating Costs

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Production costs	\$ 85,182	\$ 70,940	\$ 241,954	\$ 197,857
Transportation costs	74,210	76,931	218,723	261,618
Overlift	37,212	106	42,732	81
Diluent costs	10,647	7,052	30,253	21,146
Inventory valuation	(13,038)	(17,527)	(20,999)	(21,463)
Rubiales post-termination	—	4,358	—	4,358
Total oil and gas operating costs	\$ 194,213	\$ 141,860	\$ 512,663	\$ 463,597

6. Impairment and Exploration Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Impairment of investment in associates	\$ 23,296	\$ —	\$ 142,172	\$ —
Impairment of assets held for sale - transmission line assets (Note 10)	—	18,000	9,125	41,159
Impairment of properties, plant and equipment	4,786	56,000	4,786	56,000
Impairment (reversal) of exploration and evaluation assets	24,735	—	26,742	(11,625)
Impairment of other assets - VAT receivable	4,287	—	4,556	1,178
Other	1,188	—	1,188	—
Total impairment	58,292	74,000	188,569	86,712
Exploration expenses	779	—	779	—
Total impairment and exploration expenses	\$ 59,071	\$ 74,000	\$ 189,348	\$ 86,712

Impairment of Investment in Associates

Interamerican Energy Corp. ("Interamerican")

During the first quarter of 2018, the Company recognized an impairment charge of \$11.2 million (2017: \$ Nil), when it was determined that the carrying value of its investment in Interamerican was in excess of the fair value less costs to sell calculated with reference to a bid offer under negotiation (categorized as level 2 inputs under the fair value hierarchy). The investment was reclassified to Assets Held for Sale during the second quarter of 2018 (Note 10).

Bicentenario

The Company recognized an impairment charge of \$23.3 million and \$131.0 million (2017: \$ Nil) during the three and nine months ended September 30, 2018, for associate investee Bicentenario.

As at June 30, 2018, the Company identified a long period of suspended capacity on the Bicentenario pipeline ("**BIC**") as a potential impairment indicator, and on July 13, 2018, the Company announced that it had exercised its rights to terminate existing contracts to transport oil through the BIC pipeline, given that Bicentenario had not transported the Company's oil for more than six uninterrupted months due to a justifiable event (Note 20). An impairment of \$107.7 million was recognized in the second quarter of 2018.

In performing the impairment test, the recoverable amount was calculated based on the value-in-use ("**VIU**") discounted dividends cash flow model. Key assumptions used in the determination of the recoverable amount under the VIU model include:

- A Bicentenario board approved budget made available to shareholders, which includes related operating and capital costs assumptions, and a forecast period until 2024, the year all ship-or-pay agreements were originally scheduled to terminate.
- An after-tax discount rate as determined by the cost of capital, taking into consideration the expected return on investment by the Company's investors, and the cost of debt based on the interest-bearing borrowings of Bicentenario.
- Terms, tariff rates and volumes forecasted under Bicentenario's other major ship-or-pay agreements remain unchanged.

The Company does not have access to planned future operations and activities of Bicentenario to forecast beyond 2024.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

During the third quarter of 2018, the Company received notice of exercise of a put option held by subsidiary Pacific Midstream Limited (“PML”), requiring the Company to purchase PML’s 41.53% interest in Bicentenario for \$84.8 million (Note 13). The Company identified this new event as an additional potential impairment indicator, and performed an updated impairment test with a higher discount rate to reflect the increased risks associated with timing and receipt of dividends from Bicentenario. An additional impairment charge of \$23.3 million was recognized in the third quarter of 2018.

Impairment of Exploration and Evaluation Assets

Peru exploration and evaluation assets

The Company incurred \$24.6 million in impairment charges related to Peru’s cash generating units (“CGU”) during the three and nine months ended September 30, 2018, respectively (2017: \$ Nil and \$10.4 million in impairment recovery, respectively).

During the third quarter of 2018, the Company identified an indicator of impairment when results of exploratory drilling work in the offshore block did not justify further evaluation and was abandoned. An impairment expense was recognized, which was determined based on the recoverable amount of the underlying Peru offshore CGU.

Impairment of Property, Plant and Equipment

Agro Cascada S.A.S.

During the third quarter of 2018, upon cancellation of the bid offer under negotiation, the carrying value of the water treatment facilities of Agro Cascada S.A.S. (a wholly owned subsidiary) was written down (under a VIU model approach), and an impairment charge of \$4.8 million was recognized.

Impairment of Other Assets - Valued Added Tax (“VAT”) Receivable

During the three and nine months ended September 30, 2018, the Company recognized an impairment charge of \$4.3 million related to long-term VAT receivable balances for which the Company had determined that the amounts would not be recovered through future production on certain blocks (2017: \$ Nil).

Exploration Expenses

During the three and nine months ended September 30, 2018, the Company incurred \$0.8 million in costs related to exploration data for potential new targets. The amounts were expensed as the costs were incurred prior to having obtained the legal rights to explore.

7. Restructuring, Severance and Other Costs

During the three and nine months ended September 30, 2018, the Company incurred:

- \$0.6 million and \$4.2 million, respectively, in costs associated with continuing restructuring and severance related to personnel reductions (2017: \$2.4 million and \$10.2 million, respectively).
- \$1.5 million and \$2.3 million, respectively, in other costs with respect to transformation activities to deliver process improvements and operational efficiencies (2017: \$ Nil).

Subsequent to September 30, 2018, the Company implemented an organizational restructuring plan as a result of the above described transformation activities. This plan is expected to cost approximately \$10.0 million, and will primarily relate to severance and other payroll charges.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

8. Income Taxes

A reconciliation between income tax expense and the product of accounting profit multiplied by the Colombian statutory corporate income tax rate is provided below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net income (loss) before income tax	\$ 25,124	\$ (118,679)	\$ (147,905)	\$ (138,840)
Colombian statutory income tax rate	37%	40%	37%	40%
Income tax expense at statutory rate	9,296	(47,472)	(54,725)	(55,536)
Other non-deductible (non-taxable income) expenses	2,822	117	(207)	2,423
Share-based compensation	1,148	35	1,148	102
Differences in tax rates	(7,481)	3,792	(14,816)	448
(Gain) loss for which no tax benefit is recognized	(14,031)	16,430	24,700	28,720
Minimum income tax (presumptive income tax)	7,134	9,018	22,307	24,451
Change in unrecognized deferred income tax	(18,705)	30,214	24,247	25,095
Income tax (recovery) expense	(19,817)	12,134	2,654	25,703
Current income tax expense	8,787	12,134	24,570	25,703
Deferred income tax recovery:				
Relating to origination and reversal of temporary differences	(28,604)	—	(21,916)	—
Income tax (recovery) expense	\$ (19,817)	\$ 12,134	\$ 2,654	\$ 25,703

The Canadian statutory combined income tax rate was 26.5% as at September 30, 2018 (2017: 26.5%). The Colombian statutory income tax rate was 37.0% as at September 30, 2018 (2017: 40.0%). The Peruvian statutory income tax rate was 29.5% as at September 30, 2018 (2017: 29.5%). The Peruvian income tax rate for Block Z-1 was 22.0% as at September 30, 2018 (2017: 22.0%).

Movement in Deferred Tax Balances	Amount
As at January 1, 2018	\$ 20,830
Recognized as deferred income tax expense	(15,884)
Recognized as deferred income tax recovery - change in unrecognized temporary differences	37,800
As at September 30, 2018	\$ 42,746

A deferred income tax asset in the amount of \$37.8 million (2017: \$20.8 million) has been recorded in Colombia. The asset consists of deductible temporary differences which arose primarily from undepreciated capital expenses related to oil and gas properties and tax losses. Projections of taxable profits were used to support the deferred tax recognition. Future projected income could be affected by oil prices and quantities of proved and probable reserves. If these factors or other circumstances change, the Company would reassess its ability to record any increase or decrease in its deferred income tax asset.

The following table summarizes the Company's non-capital and capital losses, and other tax pools, by jurisdiction as at September 30, 2018:

	Amount
Canada	\$ 1,154,200
Colombia	3,086,400
Peru	876,200
Total	\$ 5,116,800

The following summarizes the non-capital and capital losses of the Company as at September 30, 2018, and December 31, 2017:

- *Canada*: non-capital losses totalled \$885.0 million (2017: \$761.8 million) and expire between 2028 and 2038. Capital losses, which do not expire, totalled \$269.2 million (2017: \$185.4 million).
- *Colombia*: non-capital losses totalled \$876.7 million (2017: \$761.4 million), of which \$626.9 million in losses do not expire, and \$249.8 million expire between 2020 and 2029. Undepreciated capital expenditures totalled \$2,209.7 million, which do not expire (2017: \$2,155.3 million).
- *Peru*: non-capital losses totalled \$382.0 million (2017: \$178.0 million) and expire between 2018 and 2023. Undepreciated capital expenditures totalled \$494.2 million, which do not expire (2017: \$493.2 million).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

9. Earnings (Loss) per Share

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net income (loss) attributable to equity holders of the Company	\$ 45,105	\$ (141,115)	\$ (142,452)	\$ (184,159)
Basic weighted average number of shares outstanding	99,931,626	100,011,664	99,984,692	100,007,826
Effect of dilution from dilutive instruments	684,653	—	—	—
Diluted weighted average number of shares outstanding	100,616,279	100,011,664	99,984,692	100,007,826
Basic earnings (loss) per share attributable to equity holders of the Company	\$ 0.45	\$ (1.41)	\$ (0.70)	\$ (1.84)
Diluted earnings (loss) per share attributable to equity holders of the Company	\$ 0.45	\$ (1.41)	\$ (0.70)	\$ (1.84)

10. Assets Held for Sale

	Oil and Gas Properties	Other	Total
As at January 1, 2018	\$ 46,540	\$ 6,385	\$ 52,925
Additions of transmission line assets	—	7,064	7,064
Additions of investments - Interamerican (Note 13)	—	10,000	10,000
Disposal of transmission line assets	(36,093)	(4,324)	(40,417)
Other disposals	(5,686)	—	(5,686)
Impairment	—	(9,125)	(9,125)
Transfers	(244)	—	(244)
Currency translation adjustments	348	—	348
As at September 30, 2018	\$ 4,865	\$ 10,000	\$ 14,865

Transmission Line Assets - Sale of Petroeléctrica de los Llanos Ltd. ("PEL")

On October 25, 2017, the Company entered into an agreement to sell its interest in PEL, which holds the Company's investment in the power transmission line assets, to an affiliate of Eléctricas de Medellín- Ingeniería y S.A.S. ("EDEMSA"), for total cash consideration of \$56.0 million. At December 31, 2017, transmission line assets of \$36.1 million and other assets of \$6.4 million (excluding \$16.3 million in cash, which was reclassified to Restricted Cash) were classified as held for sale. The Company continued to consolidate the results of PEL, including additional assets of \$7.1 million (classified as held for sale) and \$22.0 million in restricted cash until the sale was completed on April 19, 2018. During the three and nine months ended September 30, 2018, an additional impairment expense of \$ Nil and \$9.1 million, respectively, was recognized (2017: \$23.2 million).

Upon close of the transaction on April 19, 2018, the Company received, net of transaction costs, \$55.6 million in cash consideration. In accordance with requirements under IFRS with respect to accounting for disposal of a foreign subsidiary, the Company recognized a non-cash loss of \$50.8 million from the reclassification of cumulative translation adjustments ("CTA") to net income from equity. The CTA loss primarily related to historical functional currency Colombian Peso to U.S. Dollar presentation currency translation differences on PEL's transmission line assets.

As per the terms of the PML share sale agreement with International Finance Corporation and related funds ("IFC"), entered into as of October 13, 2017 ("PML Share Sale Agreement"), of the \$55.6 million cash consideration received, \$50.0 million was held in escrow to fund the purchase price consideration to be paid by the Company to the IFC under this PML Share Sale Agreement, and this amount was released from escrow on October 19, 2018 (Note 13).

Other Disposals

In 2018, the Company completed the title transfer of certain land packages in Colombia, which were classified as held for sale as at December 31, 2017, and recognized \$5.7 million in disposals during the period ended September 30, 2018.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

11. Properties, Plant and Equipment

Cost	Oil and Gas Properties	Plant and Equipment	Total
As at January 1, 2018	\$ 7,028,969	\$ 253,448	\$ 7,282,417
Additions	212,320	6,525	218,845
Transfers from assets held for sale (Note 10)	244	—	244
Change in asset retirement obligations	3,707	—	3,707
Disposals	(6,536)	(8,403)	(14,939)
Currency translation adjustments	145	(3)	142
As at September 30, 2018	\$ 7,238,849	\$ 251,567	\$ 7,490,416

Accumulated Depletion and Impairment	Oil and Gas Properties	Plant and Equipment	Total
As at January 1, 2018	\$ 6,139,333	\$ 219,075	\$ 6,358,408
Charge for the period	220,258	16,253	236,511
Impairment	4,786	—	4,786
Disposals	(5,717)	(7,393)	(13,110)
Currency translation adjustments	(1,648)	7	(1,641)
As at September 30, 2018	\$ 6,357,012	\$ 227,942	\$ 6,584,954

Net Book Value			
As at January 1, 2018	\$ 889,636	\$ 34,373	\$ 924,009
As at September 30, 2018	881,837	23,625	905,462

12. Exploration and Evaluation Assets

	Amount
As at January 1, 2018	\$ 22,229
Additions, net of sales from long-term testing	70,025
Impairment of exploration and evaluation assets (Note 6)	(26,742)
Change in asset retirement obligations	604
Disposals	(354)
As at September 30, 2018	\$ 65,762

For the nine months ended September 30, 2018, the Company recognized, within additions, an offsetting reduction of \$5.5 million in sales resulting from long-term testing at exploration properties.

13. Investments in Associates

	ODL	Bicentenario	PIV	Interamerican	CGX	Total
As at January 1, 2018	\$ 130,602	\$ 206,188	\$ 64,729	\$ 17,856	\$ 1,608	\$ 420,983
Share of income (loss) from associates	35,236	44,410	(3,528)	139	(1,608)	74,649
Dividends	(42,020)	(28,569)	—	—	—	(70,589)
Impairment	—	(130,956)	—	(11,216)	—	(142,172)
Transferred to assets held for sale (Note 10)	—	—	—	(7,331)	—	(7,331)
Currency translation adjustments	(184)	(3,286)	6	552	—	(2,912)
As at September 30, 2018	\$ 123,634	\$ 87,787	\$ 61,207	\$ —	\$ —	\$ 272,628
Company's interest as at September 30, 2018	35.00%	43.03%	39.22%	21.19%	45.61%	

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

	ODL	Bicentenario	PIV	Interamerican	CGX	Total
As at January 1, 2017	\$ 123,244	\$ 190,502	\$ 81,350	\$ 16,086	\$ 4,016	\$ 415,198
Share of income (loss) from associates	28,291	40,179	(6,104)	886	(1,875)	61,377
Dividends	(34,643)	(10,797)	—	—	—	(45,440)
Dilution	—	—	(4,558)	—	—	(4,558)
Currency translation adjustments	6,567	3,762	260	2,838	—	13,427
As at September 30, 2017	\$ 123,459	\$ 223,646	\$ 70,948	\$ 19,810	\$ 2,141	\$ 440,004
Company's interest as at September 30, 2017	35.00%	43.03%	39.22%	21.19%	45.61%	

Oleoducto de los Llanos Orientales S.A. ("ODL") and Bicentenario

Ownership interests

As at September 30, 2018, the Company held a 59.93% interest in consolidated subsidiary PML, which has associate investments in two Colombian pipeline infrastructure entities, ODL (35%) and Bicentenario (41.53%). The remaining 1.5% in Bicentenario is held outside of PML within the Company structure.

On October 13, 2017, the Company entered into the PML Share Sale Agreement to acquire the remaining ownership interest in PML from the IFC, the non-controlling interest shareholder of PML, for cash consideration of \$225.0 million. Pursuant to the PML Share Sale Agreement, should the transaction be terminated or fail to close before the outside date of October 18, 2018, the Company would be required to pay a break fee of \$5.0 million to the IFC.

On July 9, 2018, the Company announced, effective July 6, 2018, the termination of the PML Share Sale Agreement. The Company accrued for the break fee expense during the second quarter of 2018, under Other loss, Net. The break fee was paid out of the proceeds of PEL sale (Note 10), which were released from escrow on October 19, 2018.

During the quarter ended September 30, 2018, and after termination of the PML Share Sale Agreement, the IFC provided notice of exercise of its rights under the 2014 PML shareholders agreement to receive without further payment additional shares in PML, as a result of certain historical PEL milestones not being met. The additional shares diluted the Company's interest to 59.93% (previously 63.64%) in PML, as well as, indirectly, the associate investments in ODL and Bicentenario, resulting in a non-cash dilution loss of \$8.8 million. As the dilution did not result in a loss of control, the loss was recognized entirely within equity.

PML Bicentenario Put Option

Pursuant to an agreement among the shareholders of PML in 2014, PML has an option, that is exercisable at the discretion of the IFC and solely in the event that the Bicentenario pipeline is non-operational for six consecutive months, and, as a result, Bicentenario take or pay contracts with the Company's affiliates or Ecopetrol S.A. affiliates are terminated ("**PML Bicentenario Put Option**"). The option requires the Company to purchase PML's interest in Bicentenario at a price equal to \$280.0 million, adjusted for Bicentenario's cash dividends payments to PML, and repayment of existing subordinated loans with the Company.

On September 11, 2018, the IFC provided notice to exercise the PML Bicentenario Put Option, valued at \$84.8 million.

Impairment in Bicentenario

An impairment charge of \$107.7 million was recognized on the Bicentenario investment during the second quarter of 2018, and an additional amount of \$23.3 million was recognized during the third quarter of 2018 (Note 6). This resulted in a carrying value of \$87.8 million as at September 30, 2018, with \$84.8 million allocated to the 41.53% investment held by PML.

Dividends from ODL and Bicentenario

During the three and nine months ended September 30, 2018, the Company recognized gross dividends as follows:

- \$22.1 million and \$42.0 million, respectively (2017: \$17.8 million and \$34.6 million, respectively) from ODL, of which \$22.1 million was receivable as at September 30, 2018 (2017: \$12.3 million).
- \$ Nil and \$28.6 million, respectively (2017: \$ Nil and \$10.8 million, respectively) from Bicentenario, of which \$ Nil was receivable as at September 30, 2018 (2017: \$ Nil).

During the three and nine months ended September 30, 2018, \$ Nil and \$17.8 million, respectively, of dividends was distributed (via subsidiary PML) to the minority non-controlling interest, the IFC (2017: \$8.2 million).

Pacific Infrastructure Ventures Inc. ("PIV")

The Company has loans receivable from PIV (Note 14), including \$30.5 million advanced under the equity contribution arrangement on May 31, 2018 in relation to PIV's Puerto Bahia port facility project (Note 20).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

Interamerican

During the first quarter of 2018, an impairment of \$11.2 million was recognized related to the Company's associate investee Interamerican (Note 6). In April 2018, the Company accepted a bid offer for the sale of the Company's net investment in Interamerican, comprised of the equity interest of \$7.3 million and loan receivable of \$2.7 million (in Accounts Receivable), and accordingly, was reclassified to Assets Held for Sale (Note 10).

The Company entered into an agreement, effective October 9, 2018, to sell the investment to an affiliate of EDEMSA for a total cash consideration of \$10.0 million. The completion of the transaction is subject to certain closing conditions.

CGX Energy Inc. ("CGX")

On April 25, 2018, the Company amended and restated the 2017 secured bridge loan facility with CGX and increased the aggregate principal amount available to \$14.1 million, and extended the maturity date to October 31, 2018. The loan carries an annual interest rate of 5.0%, and is secured by the assets of CGX. As at September 30, 2018, the Company had advanced \$8.4 million under the facility (2017: \$3.7 million). No impairment or expected credit loss impacts were identified for the amended and restated bridge loan facility as at September 30, 2018.

The Company also extended the maturity dates of a series of loans, facilities and debentures previously issued in 2014 to 2016 (which were fully impaired as at December 31, 2017) to October 31, 2018. Additional information on the Company's loans to CGX is included in "Note 15 - Investments in Associates" of the 2017 Annual Financial Statements.

On October 31, 2018, all of these facilities, loans and debentures matured, and the Company is in ongoing discussions with CGX.

During the third quarter of 2018, the Company also purchased, at a discount from the face value of \$3.6 million, certain outstanding indebtedness from debtors of CGX.

Summarized financial information for the Company's significant investments in associates, on a 100% basis, as at September 30, 2018, and December 31, 2017, and for three and nine months ended September 30, 2018 and 2017:

As at September 30, 2018 and December 31, 2017	ODL		Bicentenario		PIV	
	2018	2017	2018 ⁽¹⁾	2017	2018	2017
Total assets	\$ 634,024	\$ 637,752	\$ 864,564	\$ 1,202,995	\$ 650,443	\$ 638,675
Total liabilities	280,783	264,603	660,550	723,822	494,382	473,635
Equity	\$ 353,241	\$ 373,149	\$ 204,014	\$ 479,173	\$ 156,061	\$ 165,040
Company's interest in associate	35.00%	35.00%	43.03%	43.03%	39.22%	39.22%
Carrying amount of the investment	\$ 123,634	\$ 130,602	\$ 87,787	\$ 206,188	\$ 61,207	\$ 64,729

(1) Total assets adjusted by \$304.3 million for the gross impact of the impairment recognized during the second quarter of 2018.

Three Months Ended September 30	ODL		Bicentenario		PIV	
	2018	2017	2018 ⁽²⁾	2017	2018	2017
Revenue	\$ 89,070	\$ 84,675	\$ 62,021	\$ 88,001	\$ 17,804	\$ 14,190
(Expense) and other income, net	(51,287)	(53,575)	(42,172)	(54,892)	(24,246)	(13,650)
Net income (loss)	37,783	31,100	19,849	33,109	(6,442)	540
Company's share of net income (loss) for the period	\$ 13,224	\$ 10,885	\$ 8,541	\$ 14,247	\$ (2,527)	\$ 212

Nine Months Ended September 30	ODL		Bicentenario		PIV	
	2018	2017	2018	2017	2018	2017
Revenue	\$ 253,939	\$ 241,518	\$ 264,217	\$ 266,708	\$ 54,026	\$ 50,711
(Expense) and other income, net	(153,264)	(160,686)	(161,010)	(173,334)	(63,019)	(65,291)
Net income (loss)	100,675	80,832	103,207	93,374	(8,993)	(14,580)
Company's share of net income (loss) for the period	\$ 35,236	\$ 28,291	\$ 44,410	\$ 40,179	\$ (3,528)	\$ (6,104)

(2) Reduced by \$17.5 million to exclude revenues, net of tax, related to terminated BIC pipeline transportation commitments.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

14. Other Assets

	September 30	December 31
	2018	2017
Long-term receivables	\$ 77,651	\$ 59,079
Long-term recoverable VAT (Note 6)	21,472	24,743
Long-term withholding tax	38,590	26,473
Advances	17,741	17,741
Investments	1,397	1,130
Intangible assets	—	4,435
Total	\$ 156,851	\$ 133,601

Long-Term Receivables

PIV

On May 31, 2018, the Company advanced funds under the terms of an equity contribution agreement for \$30.5 million, bearing interest of 14.0%, and a default interest rate of 16.0% in the event of non-payment upon maturity (Note 20).

The Company also has loans receivable from PIV of \$72.9 million in aggregate principal, and a carrying value of \$41.5 million as at September 30, 2018 (2017: \$42.2 million). The loans receivable from PIV bears interest that ranges from LIBOR+3.0% to 10.0% per annum. Accretion income of \$0.7 million and \$2.0 million was recognized during the three and nine months ended September 30, 2018 (2017: accretion income of \$0.6 million and \$0.7 million, respectively).

Transporte Incorporado S.A.S. (“Transporte Incorporado”)

In the first quarter of 2018, the Company reclassified the remaining \$17.5 million owing from Transporte Incorporado, relating to the Company’s 2014 sale of its share of the Oleoducto Central S.A. (“Ocensa”) pipeline system transportation rights, from Other Assets (as at December 31, 2017) to short-term Accounts Receivable as the balance is due in March 2019.

15. Loans and Borrowings

Long-term Debt

					September 30	December 31
	Maturity	Principal	Currency	Coupon Rate	2018	2017
Unsecured Notes	June 2023	\$ 350,000	U.S. dollars	9.7%	\$ 336,241	\$ —
Secured Notes	November 2021	\$ 250,000	U.S. dollars	10.0%	—	250,000
					\$ 336,241	\$ 250,000

On June 25, 2018, the Company completed the offering of \$350.0 million 9.7% senior unsecured notes due 2023 (“Unsecured Notes”). The interest is payable semi-annually in arrears on June 25 and December 25 of each year, beginning on December 25, 2018.

Certain proceeds from this offering were used to repurchase, at a premium of \$25.3 million, the existing \$250.0 million 10.0% senior secured notes due 2021 (“Secured Notes”) pursuant to a cash tender offer and consent solicitation. The Unsecured Notes were recognized net of original issue discount of \$4.1 million, and directly attributable transaction costs of \$10.3 million primarily related to underwriter fees, and legal and other professional fees.

The Secured Notes were settled and extinguished, and a loss of \$25.6 million was recognized during the three and nine months ended September 30, 2018, comprised of the premium, and \$0.3 million in transaction costs.

The Unsecured Notes rank equal in right of payment with all the Company’s existing and future senior unsecured debt and are guaranteed by the Company’s principal subsidiaries. Under the terms of the Unsecured Notes, the Company may, among other things, incur indebtedness provided that the following ratios, as defined under the indenture, are in compliance:

- Consolidated debt to consolidated adjusted EBITDA ratio is less than or equal to 3.0:1.0.
- Consolidated fixed charge is greater than or equal to 2.5:1.0.

As at September 30, 2018, the Company is in compliance with such covenants.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

Additional information on the terms of the Secured Notes is included in “Note 17 - Loans and Borrowings, Finance Leases” of the 2017 Annual Financial Statements.

Letter of Credit Facility

On May 17, 2018, the Company replaced its November 2016 amended and restated secured letter of credit facility (the “**Secured LC Facility**”) with a new \$100.0 million unsecured letter of credit facility (“**Unsecured LC Facility**”) with a maturity date of May 17, 2020. Under the Unsecured LC Facility, the guarantors are limited to the Company’s principal subsidiaries and subject to the same covenant terms as the Unsecured Notes (Note 15).

The lenders receive an amount equal to 3.0% per annum on any undrawn issued and outstanding amounts of the letters of credit, due and payable in arrears on the last business day of each calendar month. If any amounts are drawn under the Unsecured LC Facility, interest accrues at 6.0% per annum. If any event of default exists, the applicable rate will increase by an additional 2.0% per annum until such default is cured. The Company incurred \$1.7 million in transaction costs to replace the previous facility and secure the Unsecured LC Facility.

As at September 30, 2018, of the Unsecured LC Facility, \$87.4 million were issued and outstanding as standby letters of credit (“**SBLCs**”), (2017: \$82.3 million under Secured LC Facility). SBLCs totalling \$5.3 million was drawn by Bicentenario in the third quarter of 2018, upon the termination of the BIC pipeline contract (Note 20).

Finance Costs, Net

The following table summarizes the main components of finance costs for the period:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Interest on Secured Notes and Unsecured Notes	\$ 8,551	\$ 6,250	\$ 21,175	\$ 18,750
Deferred financing fees amortization	458	—	458	—
Accretion of asset retirement obligations	1,993	2,340	5,712	6,686
Transaction costs on Unsecured LC Facility	—	—	1,728	—
Letters of credit fees and other bank charges	1,636	1,907	3,672	3,931
Lease financing costs	605	750	1,929	2,349
Accretion expense (income) of other assets, net	(637)	(616)	1,122	(3,878)
Interest income	(6,547)	(3,424)	(15,991)	(9,148)
Total	\$ 6,059	\$ 7,207	\$ 19,805	\$ 18,690

16. Share Capital and Share-Based Arrangements

Purchase of Common Shares for Cancellation

On July 13, 2018, the Company received TSX regulatory approval to purchase up to 3,543,270 common shares over a twelve-month period commencing on July 18, 2018, under a normal course issuer bid (“**NCIB**”). The amount eligible for purchase under the NCIB represented 3.5% of the issued and outstanding common shares at July 9, 2018.

The Company’s share repurchase activity totalled \$4.5 million during the three and nine months ended September 30, 2018 (2017: \$Nil), for an average repurchase cost per share, excluding transaction costs, of \$14.63 (CAD \$18.66).

Share-Based Compensation

The Company recognized total share-based compensation of \$1.1 million and \$4.1 million during the three and nine months ended September 30, 2018, respectively, related to restricted share units (“**RSUs**”) and deferred share units (“**DSUs**”) (2017: \$0.2 million and \$0.5 million, respectively). Of these amounts, \$0.1 million and \$0.2 million was capitalized during the three and nine months ended September 30, 2018 (2017: \$Nil).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

17. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Decrease in accounts receivable	\$ 59,847	\$ 38,760	\$ 5,905	\$ 51,058
Decrease in income taxes receivable	2,983	29,108	3,895	27,893
Increase (decrease) in accounts payable, accruals and other liabilities	44,864	10,174	97,413	(26,712)
Increase in inventories	(13,274)	(18,185)	(20,241)	(19,095)
Increase (decrease) in income taxes payable	(945)	1,612	(2,530)	(5,848)
Decrease (increase) in prepaid expenses and deposits	16,023	(1,580)	12,578	577
Total	\$ 109,498	\$ 59,889	\$ 97,020	\$ 27,873

18. Related-Party Transactions

The following tables provide the transaction amounts, total balances outstanding (before impairments), and commitments with related parties as at September 30, 2018, and December 31, 2017, and for the three and nine months ended September 30, 2018, and 2017:

		Accounts Receivable & Deposits	Accounts Payable	Commitments ⁽¹⁾	Cash Advance ⁽²⁾	Loans/ Debentures Receivable ⁽²⁾	Interest Receivable ⁽²⁾
ODL ⁽³⁾	2018	\$ 22,437	\$ 693	\$ 94,728	\$ —	\$ —	\$ —
	2017	421	231	130,303	—	—	—
Bicentenario	2018	1,126	—	49,301	87,278	—	—
	2017	12,660	469	902,375	87,278	—	—
PIV	2018	8,511	903	134,644	17,741	103,230	34,000
	2017	5,926	1,598	158,179	17,741	76,552	26,331
Interamerican	2018	145	—	—	—	2,224	613
	2017	145	72	—	—	2,224	362
CGX	2018	848	—	—	—	23,087	2,206
	2017	\$ 120	\$ —	\$ —	\$ —	\$ 16,122	\$ 1,516

		Three Months Ended September 30			Nine Months Ended September 30		
		Sales	Purchases / Services	Interest Income ⁽²⁾	Sales	Purchases / Services	Interest Income ⁽²⁾
ODL	2018	\$ —	\$ 12,572	\$ —	\$ 1,359	\$ 34,118	\$ —
	2017	995	12,035	—	2,995	36,384	—
Bicentenario	2018	—	5,344	—	—	58,142	—
	2017	—	30,549	—	—	98,212	—
PIV	2018	—	7,946	3,187	—	20,750	7,670
	2017	—	6,980	2,094	—	21,082	6,144
Interamerican	2018	—	—	84	3	2	251
	2017	—	2	84	333	23	251
CGX	2018	149	—	247	458	—	690
	2017	\$ —	\$ —	\$ 177	\$ —	\$ —	\$ 508

(1) Excludes commitments related to terminated transportation agreements (Note 20).

(2) Amounts presented based on contractual payment obligations, prior to impairments.

(3) Accounts Receivable balances for ODL include \$22.1 million of dividends receivable (December 31, 2017: \$Nil) (Note 13).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

19. Financial Instruments

a. Risk Management Contracts

The Company uses derivative commodity and foreign exchange instruments as economic hedges to manage exposure to price and exchange rate volatility by hedging a portion of crude oil production and currency amounts, respectively. The terms of the outstanding instruments and expected settlement periods are as follows:

Type of Instrument	Term	Benchmark	Notional Amount / Volume (bbl)	Strike Prices Put /Call; Call Spreads	Carrying Amount	
					Assets	Liabilities
Zero-cost collars	October 2018	Brent	1,200,000	52.00 / 64.75	\$ —	\$ (25,380)
Call spreads	October 2018	Brent	600,000	59.00 / 63.88	—	(2,733)
Put options	January 2019 to September 2019	Brent	1,890,000	55.00	502	—
As at September 30, 2018					\$ 502	\$ (28,113)
Zero-cost collars	January 2018 to October 2018	Brent	12,000,000	49.11 / 61.63	\$ —	\$ (102,104)
Call spreads	October 2018	Brent	600,000	59.00 / 63.88	—	(1,643)
As at December 31, 2017					\$ —	\$ (103,747)

Type of Instrument	Term	Benchmark	Notional Amount (U.S.\$)	Put/ Call; Par forward (COP\$)	Carrying Amount	
					Assets	Liabilities
Zero-cost collars	October 2018 to December 2018	COP\$ / U.S.\$	\$ 15,000	3,000 / 3,007	\$ 141	\$ —
Forward	October 2018 to December 2018	COP\$ / U.S.\$	\$ 64,500	3,010	769	—
As at September 30, 2018					910	—
As at December 31, 2017					\$ —	\$ —

	Assets	Liabilities
Total risk management contracts as at September 30, 2018	\$ 1,412	\$ (28,113)
Total risk management contracts as at December 31, 2017	—	(103,747)

The following table provides the disaggregation of the Company's gain (loss) on risk management contracts:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Realized (loss) gain on risk management contracts	\$ (56,297)	\$ 1,792	\$ (167,303)	\$ (3,650)
Unrealized gain (loss) on risk management contracts	61,830	(43,567)	75,945	9,012
Gain (loss) on risk management contracts	\$ 5,533	\$ (41,775)	\$ (91,358)	\$ 5,362

b. Fair Value of Financial Instruments

The fair value of the Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities is approximated by the carrying value and categorized under level 2 of the fair value hierarchy.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

The following table summarizes the Company's remaining financial instruments that are carried or disclosed at fair value in accordance with the classification of fair value input hierarchy in IFRS 7 Financial Instruments: Disclosures as at September 30, 2018 and December 31, 2017:

		Carrying Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial Assets Measured at Fair Value Through Profit or Loss						
Risk management assets	2018	\$ 1,412	\$ —	\$ 1,412	\$ —	\$ 1,412
	2017	—	—	—	—	—
Investments in equity instruments (Note 14)	2018	\$ 1,397	\$ —	\$ —	\$ 1,397	\$ 1,397
	2017	1,130	—	—	1,130	1,130
Financial Assets Measured at Amortized Cost						
Long-term receivables (Note 14)	2018	\$ 77,651	\$ —	\$ 4,198	\$ 73,453	\$ 77,651
	2017	59,079	—	16,107	42,972	59,079
Financial Liabilities Measured at Fair Value Through Profit or Loss						
Risk management liabilities (Note 19)	2018	\$ (28,113)	\$ —	\$ (28,113)	\$ —	\$ (28,113)
	2017	(103,747)	—	(103,747)	—	(103,747)
Financial Liabilities Measured at Amortized Cost						
Long-term debt (Note 15)	2018	\$ (336,241)	\$ —	\$ (368,004)	\$ —	\$ (368,004)
	2017	(250,000)	—	(280,803)	—	(280,803)
Obligations under finance lease	2018	(16,089)	—	(20,270)	—	(20,270)
	2017	\$ (19,229)	\$ —	\$ (24,226)	\$ —	\$ (24,226)

A detailed description of the Company's financial assets and financial liabilities and its associated risk management in respect thereof is provided in "Note 23 - Financial Instruments" of the 2017 Annual Financial Statements. There have been no significant changes in the business and economic circumstances and the related financial risks that affect the Company's valuation of financial assets and financial liabilities since December 31, 2017.

c. Risks Associated with Financial Assets and Liabilities

i) Credit Risk

As at September 30, 2018, two of the Company's customers had accounts receivable that were greater than 10% of the total trade accounts receivable. The Company's credit exposure to these customers was \$36.9 million and \$36.4 million, or 44% and 43% of trade accounts receivable, respectively (2017: two customers with \$27.7 million and \$25.6 million or 37% and 34% of trade accounts receivable). Revenues from these customers for the nine months ended September 30, 2018, were \$36.9 million and \$238.6 million, or 4% and 26% of revenue.

Expected Credit Losses ("ECLs") Allowances

For short-term trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on historical normalized credit loss experience, and no additional impairment loss allowance was recognized on the transition date of January 1, 2018, and as at September 30, 2018.

For long-term receivables, joint arrangement receivables, and short-term loan assets, the ECL is based on the 12-month ECL and lifetime ECL approach. The 12-month ECL is the portion of lifetime ECLs that result from default events that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company evaluates for credit risk increases based on a variety of indicators, including credit risk rating agency assessments, internal and external information related to the counterparty, and macroeconomic factors. The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past the contractual due date.

The Company considers a financial asset in default when contractual payments are more than 90 days past the due date. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

Reconciliation of ECL allowance	Lifetime ECLs Not Credit Impaired	Lifetime ECLs Credit Impaired	Lifetime ECLs Simplified Approach	Total
As at January 1, 2018 ^{(1) (2)}	\$ —	\$ 53,276	\$ 15,676	\$ 68,952
Changes in model/risk parameters ⁽³⁾	—	4,083	—	4,083
As at September 30, 2018	\$ —	\$ 57,359	\$ 15,676	\$ 73,035

(1) Credit-impaired lifetime ECLs include balances related to long-term receivables with PIV that were previously credit-impaired in 2016 (Note 14) and loans and facilities with CGX that were also credit-impaired in prior years (Note 13). These amounts are directly netted against long-term receivables within Other Assets.

(2) Lifetime ECLs include the Company is in legal proceedings against an unrelated customer, QV Trading LLC, in respect of an overdue accounts receivable in the amount of \$15.7 million from the sale of oil in August 2015. The receivable was fully impaired as at December 31, 2017.

(3) Includes provision for \$3.5 million in credit notes receivable from Bicentenario, which is recognized as Payments Under Terminated Pipeline Contracts (Note 20).

The following table shows the maximum credit risk exposure of financial assets:

	September 30 2018	December 31 2017
Trade receivables	\$ 99,514	\$ 106,262
Other receivables ⁽¹⁾	70,992	79,624
Receivables from joint arrangements	52,269	52,658
Withholding tax and others	35,131	54,060
Allowance for doubtful trade receivables	(15,676)	(15,676)
Allowance for other receivables	(5,172)	(4,545)
Accounts receivable	\$ 237,058	\$ 272,383
Long-term receivables (Note 14)	77,651	59,079
Total	\$ 314,709	\$ 331,462
Withholding tax and others- not considered for credit risk	(35,131)	(54,060)
Total current and non-current receivables exposed to credit risk	\$ 279,578	\$ 277,402

(1) In 2017, the Company executed an Assignment Deed and Termination Deed with the purchaser of certain interests located in Papua New Guinea for \$57.0 million, recorded as a short-term Accounts Receivable. The Company received the \$57.0 million on February 20, 2018.

ii) Liquidity Risk

As at September 30, 2018, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of \$87.4 million (2017: \$86.3 million) (Note 20). The Company is also in compliance with the financial covenants under the Unsecured Notes (Note 15).

The following table shows the summary of Accounts Payable, Accruals and Other liabilities:

	September 30 2018	December 31 2017
Trade and other payables	\$ 190,281	\$ 158,613
Accrued liabilities	247,191	190,778
Payables to joint ventures partners	3,222	2,145
Advances, warranties, and deposits	46,033	37,217
Provisions and withholding tax	160,914	159,147
Total	\$ 647,641	\$ 547,900

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; in thousands of U.S.\$, unless otherwise stated)

20. Commitments and Contingencies

Commitments

The Company's commitments as at September 30, 2018, undiscounted and by calendar year, are presented below:

As at September 30, 2018	2018	2019	2020	2021	2022	2023 and Beyond	Total
Transportation Commitments							
ODL ship-or-pay agreement	\$ 12,549	\$ 50,197	\$ 30,831	\$ 1,151	\$ —	\$ —	\$ 94,728
Bicentenario ship-or-pay agreements ⁽¹⁾	2,047	8,189	8,189	8,189	8,189	14,498	49,301
Ocensa P-135 ship-or-pay agreement	16,822	67,287	67,287	67,287	67,287	168,548	454,518
PIV take-or-pay agreements	9,571	41,653	41,653	41,768	—	—	134,645
Transportation and processing commitments	12,910	49,334	48,791	48,791	48,720	185,473	394,019
Exploration Commitments							
Minimum work commitments	77,299	39,109	55,510	27,546	—	—	199,464
Other Commitments							
Operating purchases and leases	58,873	21,549	18,377	17,519	10,769	8,063	135,150
Community obligations	4,305	1,471	—	—	—	—	5,776
Total	\$ 194,376	\$ 278,789	\$ 270,638	\$ 212,251	\$ 134,965	\$ 376,582	\$ 1,467,601

(1) Excludes commitments related to terminated transportation agreements (see below).

Ocensa P-135 Project Arbitration Settlement

The Company and Ocensa reached a successful settlement agreement in an arbitration on tariffs and monetary conditions relating to transportation contracts entered into with Ocensa concerning the P-135 Project (the "**P-135 Settlement Agreement**"). Under the terms of the P-135 Settlement Agreement, which was approved by the arbitrators, the Company has committed to ship 30,000 barrels of oil per day at \$6.3601 per barrel (adjusted at 2.57% inflation per year until 2023 and thereafter, pursuant to applicable regulation), on the Ocensa P-135 Project through June 2025.

The original terms of the contract were for the shipment of 30,000 barrels of oil per day at \$8.7729 per barrel (adjusted at 2.57% inflation per year), and \$6.91 per barrel under a temporary payment agreement that was in effect during the arbitration process. During the quarter ended June 30, 2018, the Company recognized a recovery of \$5.2 million in transportation costs related to the difference between the rates under this temporary payment agreement and the P-135 Settlement Agreement (2017: \$ Nil). As a result of the P-135 Settlement Agreement, total commitments for the Ocensa P-135 Project of \$648.3 million (as at June 30, 2018) were reduced to \$470.0 million to reflect the settlement tariff terms.

Additional information on the Ocensa P-135 Project and the arbitration process are included in "Note 24 - Commitments and Contingencies" of the 2017 Annual Financial Statements.

Termination of Transportation Agreements

On July 13, 2018, the Company announced that it had exercised its rights to terminate its contracts with Cenit Transporte y Logística de Hidrocarburos S.A.S ("**CENIT**") to transport oil through the Caño Limón ("**CLC**") pipeline, and with Bicentenario to transport oil through the BIC pipeline. As a consequence of these terminations, the Company is no longer contractually committed to payments of ship-or-pay fees between July 12, 2018 and October 2028 through the CLC pipeline, and between July 12, 2018 and June 2024 through the BIC pipeline. On the date of termination, commitments under contracts totalled \$1.35 billion and were excluded from the commitments table above.

- The CLC pipeline, which connects the BIC pipeline to the Coveñas Export Terminal, had suspended transport rendered to the Company for more than 180 consecutive calendar days, which was a termination event under the Company's transportation contract with CENIT. Under the agreement, the Company had a commitment to ship 47,333 barrels of oil per day through the pipeline at \$3.19 per barrel from the termination date until October 2028.
- The BIC pipeline, which operates between Araguaney and Banadia where it connects to the CLC pipeline, did not transport the Company's oil for more than six uninterrupted months due to a justifiable event, which was a termination event under the transportation contract with Bicentenario. Under the contract, the Company had a commitment to ship 47,333 barrels of oil per day through the BIC pipeline at \$7.56 per barrel from the termination date until June 2024.

The Company continues to have existing take-or-pay contracts for storage and offloading facilities in Araguaney, Banadia and Coveñas, for \$49.3 million and \$154.3 million with Bicentenario and CENIT, respectively. In addition, the Company also has take-or-pay commitments for the Monterey-Araguaney pipeline, which connects the ODL and BIC pipelines, totalling \$114.3 million.

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On July 16, 2018 and July 17, 2018, the Company received notices from Bicentenario and CENIT, respectively, disputing the grounds for the termination of the above-referenced agreements. As at September 30, 2018, a total of \$33.4 million in disputed payments were not made since the termination of these contracts.

Suspended pipeline capacity fees

For the three and nine months ended September 30, 2018, the net fees paid relating to the periods of disrupted/suspended pipeline capacity were \$5.6 million and \$82.4 million, respectively (2017: \$34.8 million and \$84.2 million, respectively).

Payments under Terminated Pipeline Contracts

For the three and nine months ended September 30, 2018, the net amounts paid to Bicentenario post termination of the BIC pipeline contract, totalled \$15.6 million. The amount comprises of \$5.3 million drawn under SBLCs, \$6.8 million of advance payment for services in July related to the period after the termination date of July 12, 2018, and \$3.5 million in credit notes receivable for June 2018 activity.

During the third quarter of 2018, Bicentenario had drawn \$5.3 million under the SBLCs issued to guarantee obligations under the terminated BIC pipeline contract. These SBLCs are autonomous and irrevocable, and thus did not automatically terminate upon early termination of the BIC pipeline contract.

On October 23, 2018, the Company provided notice that it intends not to renew the SBLCs, which expire in November 2018. Subsequent to September 30, 2018, the remaining issued and outstanding SBLCs of \$59.1 million were drawn by Bicentenario and will be recognized as an expense in the fourth quarter of 2018.

The Company intends to pursue the recovery of the amounts drawn under the issued SBLCs and the other payments described above.

Puerto Bahia Equity Contribution Agreement

On October 4, 2013, Pacintra Holding Ltd. ("**Pacinfra**", a subsidiary of the Company), PIV, Sociedad Portuaria Puerto Bahia S.A. ("**Puerto Bahia**") (a subsidiary of PIV, Note 13) and Wilmington Trust, National Association (as Collateral and Administrative Agent), entered into an equity contribution agreement, pursuant to which Pacintra and PIV agreed to jointly and severally cause equity contributions (via debt or equity) to Puerto Bahia up to the aggregate amount of \$130.0 million, when it is determined that there are certain deficiencies related to operation and maintenance of the port facility and Puerto Bahia's ability to make payments towards its bank debt obligations.

During the period ended June 30, 2018, Pacintra and PIV received deficiency notices, requiring both companies to fund a total amount of \$30.5 million to Puerto Bahia. On May 31, 2018, Pacintra advanced these funds under a new shareholder loan agreement (Note 14).

Subsequent to September 30, 2018, new deficiency notices were received that require Pacintra and PIV to fund an additional \$11.1 million in December 2018.

Letters of Credit Facility

The Company has various guarantees in place in the normal course of business, supported by issued letters of credit. As at September 30, 2018, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of \$87.4 million under the Unsecured LC Facility (2017: \$82.3 million under Secured LC Facility) (Note 15).

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. Since the outcomes of these matters are uncertain, there can be no assurance that such matters will be resolved in the Company's favour. The Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters, or any amount that it may be required to pay by reason thereof, would have a material impact on its financial position, results of operations, or cash flows.

Except as noted below, no material changes have occurred with respect to the matters disclosed in "Note 24 - Commitments and Contingencies" of the 2017 Annual Financial Statements.

Reversal of Provision Related to High-Price Clause

Upon acquisition of certain exploration and production contracts via business combination transactions in prior years, in accordance with IFRS 3 Business Combinations, a contingent liability provision was recognized with respect to disagreements with the Agencia

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited; in thousands of U.S.\$, unless otherwise stated)

Nacional de Hidrocarburos (“**ANH**”) on interpretations of the high-price participation clause for each designated exploitation area within a block under contract.

As at December 31, 2017, the Company reversed \$99.6 million in contingent liability provisions related to the Corcel Block upon receipt of a ruling from an arbitration panel in favour of the Company’s position. In 2018, the Company commenced a process to review other contingent liability provisions previously recognized, and reversed a further \$21.8 million for an additional block in the third quarter of 2018. The reversal was supported by an external legal opinion supporting the Company’s technical interpretation that the clause would not apply to a certain designated exploitation area within this block. The reversal was recognized as a recovery in the Consolidated Statements of (Loss) Income during the three and nine months ended September 30, 2018.

The Company continues to not disclose the provision amounts recognized, as required by paragraphs 84 and 85 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, on the grounds that this would be prejudicial to the outcome of potential disputes with the ANH.

Additional information on the Company’s disagreements with the ANH is included in “Note 24 - Commitments and Contingencies” of the 2017 Annual Financial Statements.