CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31, 2017 and 2016

FRONTERA ENERGY

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for preparing the consolidated financial statements and the notes hereto. These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards using the best estimates and judgments of management, where appropriate.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors (the "**Board**") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee of the Board. At a minimum, the Audit Committee meets quarterly with management and the internal and external auditors to satisfy itself that management's responsibilities are properly carried out and to discuss accounting and auditing matters. The Audit Committee reviews the consolidated financial statements and recommends approval of the consolidated financial statements to the Board.

The internal and external auditors have full and unrestricted access to the Audit Committee to discuss their audits and related findings as to the integrity of the financial reporting process.

"Barry Larson" (signed)
Chief Executive Officer

"Alejandro Piñeros Ospina" (signed)
Corporate Finance Director
In the capacity of chief financial officer

Toronto, Canada

March 27, 2018

Independent Auditors' Report

To the Shareholders of

Frontera Energy Corporation (formerly Pacific Exploration & Production Corporation)

We have audited the accompanying consolidated financial statements of Frontera Energy Corporation (formerly Pacific Exploration & Production Corporation), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of (loss) income, comprehensive (loss) income, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Frontera Energy Corporation as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,

March 27, 2018

Consolidated Statements of (Loss) Income

(In thousands of U.S.$, except per share information)	Notes	Year Ended December 31 2017	2016
Oil and gas sales and other income		$ 1,163,749	$ 1,399,120
Trading sales		94,767	12,591
Total sales	4	1,258,516	1,411,711
Oil and gas operating costs	5	652,914	845,885
Purchase of oil and gas for trading		93,577	11,515
Overlift (settlement)		17,008	(34,864)
Reversal of provision related to high-price clause	24	(99,622)	—
Fees paid on suspended pipeline capacity	5	108,831	105,129
Depletion, depreciation and amortization		382,246	575,985
General and administrative		104,823	144,538
Impairment	6	123,180	477,005
Share-based compensation		2,605	(7,775)
Restructuring and severance costs	1	12,617	154,855
Loss from operations		(139,663)	(860,562)
Finance costs, net	17	(24,168)	(191,245)
Share of income from associates, net of impairment	15	76,186	62,840
Equity tax	7	(11,694)	(26,901)
Foreign exchange		1,876	8,863
Loss on risk management		(71,762)	(139,457)
Other (loss) income		(5,425)	25,967
Net gain on restructuring	1	—	3,620,481
Net (loss) income before income tax		(174,650)	2,499,986
Current income tax expense	7	(36,095)	(42,522)
Deferred income tax recovery	7	20,830	6,347
Income tax expense		(15,265)	(36,175)
Net (loss) income for the year		$ (189,915)	$ 2,463,811
Attributable to:			
Equity holders of the Company		(216,703)	2,448,523
Non-controlling interests		26,788	15,288
		$ (189,915)	$ 2,463,811
Basic (loss) earnings per share attributable to equity holders of the Company	8	$ (4.33)	$ 48.97
Diluted (loss) earnings per share attributable to equity holders of the Company	8	$ (4.33)	$ 48.95

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

On behalf of the Board of Directors:

"Gabriel de Alba" (signed)
Director

"*Raymond Bromark*" *(signed)*
Director

Consolidated Statements of Comprehensive (Loss) Income

(In thousands of U.S.$)	Year Ended December 31 2017	2016
Net (loss) income for the year	$ (189,915)	$ 2,463,811
Other comprehensive income not to be reclassified to net income in subsequent periods (nil tax effect)		
Fair value adjustments	—	190
Other comprehensive income to be reclassified to net income in subsequent periods (nil tax effect)		
Foreign currency translation	3,017	32,981
Unrealized loss on the time value of cash flow hedges	—	(99)
Realized loss on cash flow hedges transferred to earnings	—	(12,146)
	3,017	20,926
Total comprehensive (loss) income for the year	$ (186,898)	$ 2,484,737
Attributable to:		
Equity holders of the Company	(213,931)	2,466,204
Non-controlling interests	27,033	18,533
	$ (186,898)	$ 2,484,737

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

Consolidated Statements of Financial Position

(In thousands of U.S.$)	Notes	As at December 31 2017	2016
ASSETS			
Current			
Cash and cash equivalents		$ 511,685	$ 389,099
Restricted cash		65,787	61,036
Accounts receivable	23	288,205	234,828
Inventories	9	60,273	38,609
Income tax receivable		10,539	59,451
Prepaid expenses		1,971	3,453
Assets held for sale	10	52,925	44,797
Total current assets		991,385	831,273
Non-current			
Oil and gas properties	11	889,636	1,182,668
Exploration and evaluation assets	12	22,229	9,000
Plant and equipment	13	34,373	53,402
Intangible assets	14	4,435	14,800
Investments in associates	15	420,983	415,198
Other assets	16	129,166	182,632
Deferred tax asset	7	20,830	—
Restricted cash		66,614	52,746
Total assets		$ 2,579,651	$ 2,741,719
LIABILITIES			
Current			
Accounts payable and accrued liabilities	23	$ 547,900	$ 576,350
Risk management liabilities	23	103,747	31,985
Income tax payable		5,328	10,775
Obligations under finance lease	17	4,284	3,713
Asset retirement obligations	18	20,109	2,834
Total current liabilities		681,368	625,657
Non-current			
Long-term debt	17	250,000	250,000
Obligations under finance lease	17	14,945	19,229
Asset retirement obligations	18	236,957	245,798
Total liabilities		$ 1,183,270	$ 1,140,684
Commitments and contingencies	24		
EQUITY			
Common shares	20	4,745,440	4,745,355
Contributed surplus		127,351	123,525
Other reserves		(232,108)	(234,880)
Retained deficit		(3,354,933)	(3,138,230)
Equity attributable to equity holders of the Company		$ 1,285,750	$ 1,495,770
Non-controlling interests	19	110,631	105,265
Total equity		$ 1,396,381	$ 1,601,035
Total liabilities and equity		$ 2,579,651	$ 2,741,719

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

Consolidated Statements of Changes in Equity (Deficit)

	Attributable to Equity Holders of the Company										
(In thousands of U.S.$)	Number of Common Shares	Common Shares	Contributed Surplus	Cash Flow Hedge	Time Value Reserves	Foreign Currency Translation	Fair Value Investment	Retained Earnings (Deficit)	Total	Non-Controlling Interests	Total Equity (Deficit)
As at January 1, 2016	315,021,198	$ 2,615,788	$ 124,150	$ 12,146	$ 99	$ (259,414)	$ (5,392)	$ (5,586,753)	$ (3,099,376)	$ 109,145	$ (2,990,231)
Net income for the year	—	—	—	—	—	—	—	2,448,523	2,448,523	15,288	2,463,811
Other comprehensive (loss) income	—	—	—	(12,146)	(99)	29,736	190	—	17,681	3,245	20,926
Total comprehensive (loss) income	—	—	—	(12,146)	(99)	29,736	190	2,448,523	2,466,204	18,533	2,484,737
Equity and warrant exercise (Note 20)	(265,018,835)	2,129,567	(625)	—	—	—	—	—	2,128,942	—	2,128,942
Dividends paid to non-controlling interests (Note 19)	—	—	—	—	—	—	—	—	—	(41,846)	(41,846)
Effect of deconsolidation of subsidiary (Note 15)	—	—	—	—	—	—	—	—	—	19,433	19,433
As at December 31, 2016	50,002,363	4,745,355	123,525	—	—	(229,678)	(5,202)	(3,138,230)	1,495,770	105,265	1,601,035
Net loss for the year	—	—	—	—	—	—	—	(216,703)	(216,703)	26,788	(189,915)
Other comprehensive income	—	—	—	—	—	2,772	—	—	2,772	245	3,017
Total comprehensive (loss) income	—	—	—	—	—	2,772	—	(216,703)	(213,931)	27,033	(186,898)
Share-based compensation (Note 20)	3,469	85	3,826	—	—	—	—	—	3,911	—	3,911
Dividends paid to non-controlling interests (Note 19)	—	—	—	—	—	—	—	—	—	(21,667)	(21,667)
As at December 31, 2017	50,005,832	$ 4,745,440	$ 127,351	$ —	$ —	$ (226,906)	$ (5,202)	$ (3,354,933)	$ 1,285,750	$ 110,631	$ 1,396,381

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

Consolidated Statements of Cash Flows

(In thousands of U.S.$)	Notes	Year Ended December 31 2017	2016
OPERATING ACTIVITIES			
Net (loss) income for the year		$ (189,915)	$ 2,463,811
Items not affecting cash:			
Depletion, depreciation and amortization		382,246	575,985
Impairment	6	123,180	477,005
Accretion expense		6,966	59,529
Loss on risk management		71,762	139,457
Share-based compensation		2,605	(7,775)
Deferred income tax recovery	7	(20,830)	(6,347)
Unrealized foreign exchange gain		(9,621)	(10,622)
Share of income from associates, net of impairment	15	(76,186)	(62,840)
Gain on loss of control	15	—	(15,597)
Other		(2,957)	(10,463)
Dividends from associates	19	68,586	120,455
Settlement of asset retirement obligations	18	(2,214)	(2,447)
Net gain on restructuring	1	—	(3,620,481)
Deferred revenue (non-cash settlement)	21	—	(75,000)
Changes in non-cash working capital	21	2,415	(144,347)
Net cash provided (used) by operating activities		$ 356,037	$ (119,677)
INVESTING ACTIVITIES			
Net additions to oil and gas properties and plant and equipment		(206,797)	(131,731)
Net additions to exploration and evaluation assets		(15,499)	(26,092)
Net additions to other assets		(2,573)	(9,412)
Increase in restricted cash and other		(15,616)	(74,775)
Proceeds from the sale of assets held for sale	10	37,070	—
Net cash used in investing activities		$ (203,415)	$ (242,010)
FINANCING ACTIVITIES			
Payment of debt and leases		(6,778)	(37,838)
Debtor in possession notes and warrants		—	480,000
Dividends paid to non-controlling interests	19	(21,667)	(41,846)
Net cash (used) provided in financing activities		$ (28,445)	$ 400,316
Effect of exchange rate changes on cash and cash equivalents		(1,591)	7,810
Increase in cash and cash equivalents during the period		122,586	46,439
Cash and cash equivalents, beginning of the period		389,099	342,660
Cash and cash equivalents, end of the period		$ 511,685	$ 389,099
Cash		$ 110,634	$ 360,530
Cash equivalents		401,051	28,569
Total cash and cash equivalents		$ 511,685	$ 389,099

Supplemental Disclosure on Cash Flows (Note 21)

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

(In thousands of U.S.$, unless otherwise stated)

1. Corporate Information

Frontera Energy Corporation (formerly Pacific Exploration & Production Corporation; the "**Company**") is an oil and gas company incorporated and domiciled in 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 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.

These consolidated financial statements of the Company, which comprise those of the Company and its subsidiaries, were approved and authorized for issuance by the Board of Directors on March 27, 2018.

Restructuring Transaction

On April 19, 2016, with the support of certain holders of the Company's previous senior unsecured notes (the "**Previous Senior Notes**") and lenders under its credit facilities, which totalled $5.3 billion, the Company entered into an agreement with The Catalyst Capital Group Inc. ("**Catalyst**"), with respect to implementing a comprehensive recapitalization and financing transaction (the "**Restructuring Transaction**"). On November 2, 2016, in accordance with the Restructuring Transaction, the Company successfully implemented its previously approved plan of compromise and arrangement (the "**Plan**"). Upon implementation of the Plan, among other things, the following occurred:

- The funding provided by certain holders of the Previous Senior Notes (the "**Funding Creditors**") in the aggregate amount of $250.0 million as part of the $500.0 million debtor-in-possession financing (the "**Creditor DIP Notes**"), was amended and restated as five-year secured notes (the "**Senior Secured Notes**").
- The funding provided by Catalyst in the aggregate amount of $250.0 million as part of the $500 million debtor-in-possession financing (the "**Catalyst DIP Notes**") as well as warrants with a nominal exercise price (the "**Warrants**") were exchanged for common shares in the Company.
- The $115.5 million letter of credit facility provided by certain lenders under the Company's previous credit facilities on June 22, 2016, was amended and restated as a secured letter of credit facility maturing on June 22, 2018 (the "**Secured LC Agreement**").
- All previously issued and outstanding common shares of the Company, together with approximately 5,000,000,000,000 common shares issued to certain creditors (the "**Affected Creditors**") as part of the Restructuring Transaction, were consolidated on the basis of 100,000 pre-consolidation common shares to one post-consolidation common share. As a result, as at November 3, 2016, there were 50,002,363 fully diluted common shares issued and outstanding, with Catalyst owning 30.8% of the common shares, and the Affected Creditors owning 69.2% of the common shares.
- The claims of all Affected Creditors were settled and effectively extinguished.

	After Restructuring	Immediately Before Restructuring
Credit facilities	$ —	$ 1,215,440
Previous Senior Notes	—	4,104,200
Catalyst & Creditor DIP Notes	—	500,000
Senior Secured Notes (due 2021) (Note 17)	250,000	—
Total	$ 250,000	$ 5,819,640

Net Gain on Completion of Restructuring Transaction

Upon completion of the Restructuring Transaction, the claims of the Affected Creditors and the Catalyst DIP Notes were extinguished, and the Warrants held by the Funding Creditors were exercised in exchange for newly issued shares of the Company. The net difference between i) the carrying amounts of the claims of the Affected Creditors, the Catalyst DIP Notes, and the Warrants, and ii) the fair value of the common shares issued, was recorded as a gain.

The fair value of the common shares issued to the Affected Creditors, Catalyst and Warrant holders was estimated using the closing share price of $42.5 (C$57) per share on November 3, 2016, the day the Company's common shares resumed trading on the TSX.

(In thousands of U.S.$, unless otherwise stated)

	Immediately Before Restructuring	Fair Value of Common Shares	Consolidated Statement of Income (Loss) Impact
Claims of Affected Creditors	$ 5,498,476	$ 1,237,836	$ 4,260,640
Catalyst DIP Notes	250,000	624,301	(374,301)
Warrants	—	265,858	(265,858)
Total	$ 5,748,476	$ 2,127,995	$ 3,620,481

Restructuring and Severance Costs

During the year ended December 31, 2016, the Company incurred $154.9 million in costs related to the Restructuring Transaction and severances for work force reductions, including costs related to retention bonuses for certain officers and employees of the Company. During the year ended December 31, 2017, the Company incurred $12.6 million in restructuring, corporate reorganization activity, and severance costs.

2. Basis of Preparation and Presentation

Statements of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and available-for-sale investments that have been measured at fair value.

Comparative Financial Statements

The comparative consolidated financial statements have been reclassified from the ones previously presented to conform to the presentation of the current consolidated financial statements.

Basis of Measurement

The consolidated financial statements are presented in United States (U.S.) dollars and all values are rounded to the nearest thousand, except where otherwise indicated.

Functional Currency and Presentation Currency

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency.

Principles of Consolidation

The results of the investees that the Company controls are consolidated in these financial statements. The Company controls an investee if, and only if, the Company has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Where the Company has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statements of (Loss) Income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Net earnings and each component of Other Comprehensive Income ("**OCI**") are attributed to the equity holders of the Company and to the Non-Controlling Interests ("**NCI**") even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full upon consolidation.

(In thousands of U.S.$, unless otherwise stated)

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCI;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the Consolidated Statements of Comprehensive (Loss) Income; and
- Reclassifies the Company’s share of components previously recognized in OCI to net earnings as appropriate and as would be required if the Company had directly disposed of the related assets or liabilities.

The following table summarizes the Company's principal subsidiaries and equity associates, the location of their registered offices, the country of principal business activity, the method of consolidation, and the Company's percentage interest.

Company	Registered Office	Country of Principal Business Activity	Recognition Method	Percentage Interest As at December 31 2017	2016
Principal Subsidiaries					
Frontera Energy Colombia AG (Formerly Meta Petroleum AG) (1)	Switzerland	Colombia	Consolidated	100%	100%
Pacific Midstream Ltd.	Bermuda	Colombia	Consolidated	63.64%	63.64%
Petroelectrica de los Llanos Ltd. (2)(3)	Bermuda	Colombia	Consolidated	100%	100%
Pacific Stratus Energy del Peru S.A.	Peru	Peru	Consolidated	100%	100%
Pacific Off Shore Peru S.R.L.	Peru	Peru	Consolidated	100%	100%
Principal Investments in Associates					
Oleoducto de los Llanos Orientales, S.A. (3)	Panama	Colombia	Equity method	35.00%	35.00%
Oleoducto Bicentenario de Colombia S.A.S. (3)	Colombia	Colombia	Equity method	43.03%	43.03%
Pacific Infrastructure Ventures Inc.	British Virgin Islands	Colombia	Equity method	39.2%	41.77%

(1) *In 2017, as part of the Company’s corporate initiative to streamline its operations and reduce legal redundancies, the 100% owned entities Petrominerales Colombia Corp., Pacific Stratus Energy Colombia Corp., Grupo C&C Energia Ltd., and Pacific E&P Holdings Corp. were merged with Frontera Energy Colombia AG. In addition, the Company liquidated a number of subsidiaries in various jurisdictions, including Barbados, Panama and Luxembourg in furtherance of this initiative.*

(2) *Petroelectrica de los Llanos Ltd. (“**PEL**”) was classified as assets held for sale as at December 31, 2017 (Notes 10,19).*

(3) *Entities held by Pacific Midstream Ltd. (Note 19).*

3. Significant Accounting Policies, Judgments, Estimates and Assumptions

a. Summary of Significant Accounting Policies

Revenue Recognition

Revenue from sales of oil and gas is recognized when the significant risks and rewards of ownership have been transferred. This generally occurs when the product is physically delivered, the title passes to the buyers and collection is reasonably assured.

Revenue is stated based on the Company’s share of production (after in-kind royalties and internal consumption) after deducting sales taxes, excise duties and similar levies.

When the share of production of a joint-interest partner is above or below the proportionate interest, the Company recognizes an adjustment to the cost of sales for the difference between the working interest and the actual volumes sold. Under this approach, revenue reflects the total volumes sold and invoiced and the adjustment to the cost of sales is recognized as “Overlift (settlement)” in the Consolidated Statements of (Loss) Income against an overlift liability.

Share-Based Compensation

The Company accounts for the granting of stock options using the fair-value method on stock options granted to officers, employees and consultants. Share-based compensation is recorded in the Consolidated Statements of (Loss) Income for options granted with a corresponding amount reflected in contributed surplus (the portion related to employees working on assets is capitalized). Share-based compensation is the fair value of stock options at the time of the grant and is estimated using the Black-Scholes option-pricing model. When the stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has no issued or outstanding stock options since the Restructuring Transaction.

In addition to stock options, the Company has deferred share unit ("**DSU**") and restricted share unit ("**RSU**") plans under which non-employee directors (only DSUs) and employees receive units in consideration for services provided to the Company.

DSUs represent a right to receive common shares (or the cash equivalent) at the time of the holder's retirement or, death, or when the holder otherwise ceases to provide services to the Company, allowing the Company to pay compensation to holders of DSUs on a deferred basis. Each DSU awarded by the Company approximates the fair market value of a common share in U.S. dollars at the time the DSU is awarded, which is generally the grant date under IFRS. Settlement may be made, at the sole discretion of the Compensation and Human Resources Committee of the Board of Directors, in common shares, cash or a combination thereof. Only directors are entitled to receive DSUs. On the grant date, the Company recognizes a share-based compensation expense for the DSU awards at fair value with a corresponding amount in contributed surplus as DSUs granted are treated as equity-settled share based arrangements.

Units awarded under the RSU plan vest in accordance with the conditions outlined in the award agreement, which can include certain market and non-market performance conditions (termed the performance adjustment factor), over the term of the agreement, which is typically three years. The grant date is set once the terms of the award are fully known and agreed upon between the recipient and the Company. As such, the grant date, as defined under IFRS, may not be the same as the date of issuance, if all substantive terms of the agreement are not set at the date of issuance. RSUs may be settled in cash, shares, or a combination of both, at the sole discretion of the Company, at the stipulated settlement date in the award agreement. There is no present obligation to settle RSUs in cash. The fair value per RSU approximates the Company's share price in U.S. dollars over the vesting period and is fixed once the grant date is set. The Company recognizes share-based compensation expense for the RSU awards based on the fair value estimated on the date of issuance, and re-values every reporting period until the grant date is set for each tranche of the award, with the corresponding amounts reflected in contributed surplus. The expense recognized includes an estimate of the number of units expected to vest based on the performance adjustment factor and forfeitures. Upon settlement, the associated amounts previously recorded as contributed surplus are reclassified to common share capital.

Foreign Currency Translation

Transactions denominated in a foreign currency are initially recorded at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates on the date of the Consolidated Statements of Financial Position. All differences are recorded in net earnings or losses. Non-monetary items are translated using the historical exchange rates as at the dates of the initial transactions.

For a foreign operation whose functional currency is not the U.S. dollar, the assets and liabilities are translated at the closing rate as at the date of the Consolidated Statements of Financial Position, while revenue and expenses are translated using the rate as at the time of the transaction. All exchange differences resulting from the translation are recognized in other comprehensive income.

Earnings (Loss) Per Share

The Company computes basic earnings per share using net earnings divided by the weighted average number of the common shares outstanding. The Company computes diluted earnings per share using net earnings adjusted for the impact of the potential dilution if outstanding stock options, DSUs and RSUs were exercised or settled and exchanged for common shares. The Company follows the treasury stock method in the calculation of diluted earnings per share. This method assumes that any proceeds received from in-the-money options would be used to buy common shares at the average market price for the period.

Interest in Joint Arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is defined as contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangements) require unanimous consent of the parties sharing control.

Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

In relation to its interest in joint operations, the Company recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from joint operation; and
- Expenses, including its share of any expenses incurred jointly.

Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Company's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in the joint venture is initially realized at cost and the carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the joint venture, computed using the consolidation method. The amount of the adjustment is included in the determination of net earnings and the carrying amount of the investment is also increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from a joint venture reduce the carrying value of the investment. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

At each reporting date, the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss in the Consolidated Statements of (Loss) Income.

Reimbursement of the joint arrangement operator's costs

When the Company is the operator of a joint arrangement and receives reimbursement of direct costs charged to the joint arrangement, such charges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on the Consolidated Statements of (Loss) Income .

In many cases, the Company also incurs certain general overhead expenses in carrying out activities on behalf of the joint arrangement. As these costs can often not be specifically identified, joint arrangement agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year. Although the purpose of this re-charge is similar to the reimbursement of direct costs, the Company is not acting as an agent in this case; therefore, the general overhead expenses and the overhead fee are recognized in the Consolidated Statements of (Loss) Income as lower expenses. The Company recognizes 100% of the accounts payables and the accruals (including the share of the joint arrangement's partners against the joint operating agreement account when it acts as the operator in the arrangement).

Business Combinations and Goodwill

On the acquisition of a subsidiary, the acquisition method of accounting is used whereby the purchase consideration transferred and any contingent consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those petroleum reserves and resources that can be reliably valued are recognized in the assessment of fair value upon acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognized.

Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities.

If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, the Company reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognizes any additional assets or liabilities identified in that review. If an excess remains after reassessment, the Company recognizes the resulting gain in net income on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's Cash Generating Units ("**CGU**") or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities from the acquisition are assigned to those units. Goodwill is tested at the level monitored by management, which is the operating segment level.

Non-Controlling Interest

Where the ownership of a subsidiary is less than 100%, an NCI exists and is accounted for and reported in equity. For each business combination, the Company elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's net assets. Net earnings and changes in ownership interests in a subsidiary attributable to NCI are identified and disclosed separately to that of the Company.

If the Company loses control over a subsidiary with NCI, it derecognizes the carrying amount of the NCI.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash, short-term cashable securities (to pay taxes within Colombia) at banks and at-hand, and short-term deposits with an original maturity of three months or less.

For the purpose of the Consolidated Statements of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Restricted Cash

Restricted cash includes mainly term deposits that have been escrowed to cover future commitments and future abandonment obligations that are not available for immediate disbursement.

Inventories

Oil and gas inventory is valued at the lower of average cost and net realizable value, and operating supplies are valued at cost. Cost is determined on a weighted-average basis of materials, labour, direct overhead, and depletion, depreciation and amortization. Previous impairment write-downs are reversed when there is a recovery of the previously impaired inventory. Costs of diluents are included in production and operating costs.

Non-Current Assets Held for Sale

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal ("**FVLCD**"), and are presented separately within the Consolidated Statements of Financial Position.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. The Company must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification. When the assets or disposal group are sold, the gains or losses on the sale are recognized in other (loss) income within the Consolidated Statements of (Loss) Income.

Plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Oil and Gas Properties, Exploration and Evaluation Assets, and Plant and Equipment

Oil and gas properties and plant and equipment

Oil and gas properties and plant and equipment are stated at cost, less accumulated depletion and depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, the ongoing estimate of the asset retirement obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within plant and equipment.

Depletion, depreciation and amortization

Oil and gas properties are depleted using the unit-of-production method. In applying the unit-of-production method, oil and gas properties are depleted over an appropriate reserve base that is reviewed and assessed periodically. The depletion base includes proved and probable reserves (2016: proved reserves). The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to-date together with approved future development expenditures required to develop reserves.

Plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which range from one to ten years. Major inspection costs are amortized over three to five years, which represents the estimated period before the next planned major inspection. Plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells and including unsuccessful development or delineation wells, is capitalized in oil and gas properties.

Exploration and evaluation costs

All licence acquisition, exploration and appraisal costs of technical services and studies, seismic acquisition, exploratory drilling and testing are initially capitalized by well, field, unit of account or specific exploration unit, as appropriate. Expenditures incurred during the various exploration and appraisal phases are carried forward until the existence of commercial reserves and the technical feasibility and commercial viability are demonstrable and approved by the appropriate regulator. The Company has certain exploration and evaluation ("**E&E**") assets that have production and sales of crude oil resulting from test wells. The Company recognizes these sales, and related operating costs, as a reduction of capitalized E&E costs. If commercial reserves have been discovered and technical feasibility and commercial viability are demonstrable, the carrying value of the E&E assets, after any impairment loss, is reclassified as an oil and gas property. If technical feasibility and commercial viability cannot be demonstrated upon completion of the exploration phase, the carrying value of the exploration and evaluation costs incurred is expensed in the period this determination is made.

E&E assets are tested for impairment when indicators of impairment are present and when E&E assets are transferred to oil and gas properties.

Pre-licence costs

Costs incurred prior to obtaining the legal rights to explore an area are expensed to the Consolidated Statements of (Loss) Income as they are incurred.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets and is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period until the next inspection. All other maintenance costs are expensed as incurred.

Carried interest and farm-in arrangements

The Company recognizes its expenditures under a farm-in or carried interest arrangement with respect to its interest and the interest retained by the other party as and when the costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred expenditures.

Intangible Assets

Intangible assets are stated as the amount initially paid less accumulated amortization and accumulated impairment losses. Following initial recognition, the intangible asset is amortized based on usage or the straight-line method over the term of the agreement. The Company does not have any intangible assets with an indefinite life that would not be subject to amortization. Internally generated intangible assets not meeting the capitalization criteria are not capitalized, and the expenditure is reflected in the Consolidated Statements of (Loss) Income in the period in which the expenditure is incurred.

Investments in Associates

When the Company determines it has significant influence over an investment, the investment is accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investee and foreign currency translation. The amount of the adjustment is included in the determination of net earnings and the investment account is increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from an investee reduce the carrying value of the investment.

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there is an indication of impairment, the Company tests the carrying amount of the investment to ensure it does not exceed the higher of the present value of cash flows expected to be generated (value-in-use; "**VIU**") and the FVLCD amount that could be realized by selling the investment. When a reduction to the carrying amount of an investment is required, an impairment loss is recognized equal to the amount of the reduction.

Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there are indicators that non-financial assets may be impaired. If indication of impairment exists, the Company estimates the recoverable amount as the higher of VIU and FVLCD. Individual assets are grouped for impairment assessment purposes at the level of CGU, the lowest level for which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. VIU is estimated as the present value of future cash flows expected to arise from the continuing use of the CGU and discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future after-tax net cash flows of proved and probable reserves using forecast prices and costs consistent with reserves reports produced by independent certified reserves evaluators.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Impairment losses and any reversals are recognized in the Consolidated Statements of (Loss) Income in the period in which they occur.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments classified as amortized cost are included with the carrying value of such instruments. Transaction costs directly attributable to the acquisition of financial instruments classified as fair value through profit or loss ("**FVTPL**") are recognized immediately in earnings.

Financial assets

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on their classification.

Financial assets that meet the following conditions are subsequently measured at amortized cost less impairment loss:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- The asset was not acquired principally for the purpose of selling in the near term or management for short-term profit taking (held for trading).

All other financial assets except equity investments as described below are subsequently measured at fair value and classified as FVTPL. The gains or losses arising on remeasurement are recognized in earnings and included in the other expenses line in the Consolidated Statements of (Loss) Income.

On the day of acquisition of an equity instrument, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("**FVTOCI**"). Designation at FVTOCI is not permitted if the equity investment is held for trading. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all investments in equity instruments as FVTOCI on initial application of IFRS 9 (2013) (Note 23).

Impairment of financial assets carried at amortized cost

At each reporting date, the Company assesses if a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and if that event has a negative impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or, if relevant, delinquencies in payments. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in the Consolidated Statements of (Loss) Income. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated as FVTPL.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in earnings. Such gains or losses recognized in profit or loss incorporate any interest paid on the financial liabilities.

Financial liabilities that are not held for trading and are not designated as FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method, which is a method of calculating the amortized cost of a financial liability and allocating interest expense over its expected life.

Fair value hierarchy

The Company uses a three-level hierarchy to categorize the significance of the inputs used in measuring or disclosing the fair value of financial instruments. The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in a frequency and volume sufficient to provide pricing information on an ongoing basis.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations that can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs that are less observable or unavailable or where the observable data does not support the majority of the instrument's fair value. Level 3 instruments may include items based on pricing services or broker quotes where the Company is unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, fair value is determined through internally developed methodologies, which primarily include extrapolation of observable future prices to similar locations, similar instruments or later time periods.

If different levels of input are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest-level input that is significant to the fair value measurement.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks and commodity price risks, including collars and forwards.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in earnings unless the derivative is designated and effective as a hedging instrument (further explained below under "Hedge Accounting"), in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (2013) (e.g., financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL. Fair value is determined in the manner described in Note 23.

Hedge Accounting

The Company may, from time to time, designate certain hedging instruments, with respect to foreign currency risk and commodity price risk, as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognized immediately within the Consolidated Statements of (Loss) Income, and is included in the foreign exchange gain or loss line item for foreign currency hedging instruments and the risk management gain or loss line item for commodity hedging instruments.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to earnings in the periods when the hedged item is recognized in earnings. These earnings are included within the same line of the Consolidated Statements of (Loss) Income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

If, upon the designation of option instruments as hedging instruments, the intrinsic and time value components are separated with only the intrinsic component designated as the hedging instrument, the aligned time value component will be deferred in OCI as a cost of hedging.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. Any gain or loss recognized in other comprehensive income (intrinsic and time value components) and accumulated in equity at that time remains in equity and is recognized in profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Borrowing Costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time as the assets are substantially ready for their intended use, i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred.

Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalized and reduced from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the Consolidated Statements of (Loss) Income using the effective interest rate method.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date based on whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets. All take-or-pay contracts are reviewed for indicators of a lease upon inception.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the Consolidated Statements of (Loss) Income.

Finance-leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognized as an expense in the Consolidated Statements of (Loss) Income on a straight-line basis.

Asset Retirement Obligations

An asset retirement obligation is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the obligation amount can be made. A corresponding amount equivalent to the asset retirement obligation is also recognized as part of the cost of the related oil and gas properties or E&E assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing or costs of decommissioning or in the discount rate are recognized prospectively by recording an adjustment to the asset retirement obligation and a corresponding adjustment to the properties. The unwinding of the discount on the decommissioning cost is included as a finance cost.

This accounting policy also applies to the costs that the Company deems to be "environmental liabilities" that include, but are not limited to, the 1% provision of the investment for the use of water sources, costs of reforestation in accordance with environmental licences, and any compensation or other costs incurred in accordance with environmental licences.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax is recognized in the Consolidated Statements of (Loss) Income except when it relates to items recognized in other comprehensive income or directly in equity. In these cases, the related current income tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the Consolidated Statements of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or losses.
- With respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits, and unused tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss.
- With respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable earnings will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the Consolidated Statements of Financial Position and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the Consolidated Statements of Financial Position and are recognized to the extent that it becomes probable that future taxable earnings will allow the deferred tax asset to be recovered.

Deferred income tax is recognized in the Consolidated Statements of (Loss) Income except when it relates to items recognized in other comprehensive income or directly in equity. In these cases, the deferred income tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

b. Changes in Accounting Policies and Disclosures, and Standards Issued but Not Yet Effective

Changes in Accounting Policies and Disclosures

There were certain standard amendments and interpretations effective from January 1, 2017, that the Company applied for the first time. The adoption of these minor amendments and interpretations had little or no impact on the consolidated financial statements. Other than the adoption of these minor amendments and interpretations, the accounting policies applied are consistent with those applied in the previous year.

Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements that are likely to have an impact on the Company are listed below.

*IFRS 9 Financial Instruments ("**IFRS 9**")*

The Company previously adopted IFRS 9 (2013) and will adopt the amendments to IFRS 9 (2014) as of the effective date of January 1, 2018. The amendments primarily relate to a new "expected credit loss" impairment model replacing the incurred loss model. Based on the assessment to date, the standard will not have a material impact on adoption given the negligible historical level of customer default and that trade receivables are almost exclusively to large organizations and governmental entities with strong credit ratings.

*IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**")*

IFRS 15, which is effective as of January 1, 2018, establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The Company will adopt IFRS 15 as of January 1, 2018 using the modified retrospective approach. The Company has completed its review of various revenue streams and underlying contracts with customers. This assessment included a detailed review of all revenue contracts, including those relating to infrastructure assets, using the five-step model under the new standard. Based on the assessment to date, the Company has concluded that there will be no material change to the timing or amount of revenue recognized under IFRS 15. The Company has identified additional presentation and disclosure requirements including disaggregating revenue by product type.

*IFRS 2 Share-based Payment Transactions ("**IFRS 2**") Amendments*

The IASB issued amendments to IFRS 2 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. Upon adoption, entities are required to apply these amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company plans to adopt the new standard at the effective date and does not expect a significant impact on its consolidated financial statements.

*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 standards IAS 17 Leases ("**IAS 17**"). The standard includes two recognition exemptions for lessees: leases of 'low-value' assets (i.e., personal computers), and short-term leases (i.e., leases with a lease term of 12 months or less), both of which may continue to be treated as operating leases. The new standard 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. The Company will adopt the standard on January 1, 2019 and is currently in the process of identifying and compiling all existing lease and service contracts as part of the scoping and diagnostic phase of the implementation project.

*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, and the Company is assessing the impact of IFRIC 23 on its consolidated financial statements.

c. Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Critical Judgments in Applying Accounting Policies

The Company has made the following critical judgments in applying accounting policies that have the most significant impact on the amounts recognized in the consolidated financial statements.

Cash-generating units

The determination of a CGU requires the Company to apply judgments, and the CGUs may change over time to reflect changes in the Company's oil and gas assets. CGUs are identified as major areas within which there are groups of producing blocks that share similar characteristics, infrastructure and cash inflows that are largely independent of cash inflows of other groups of assets. Impairment assessment is generally carried out separately for each CGU based on cash flow forecasts calculated using oil and gas reserves and resources for each CGU.

E&E assets are allocated to CGUs on the basis of several factors, including, but not limited to, proximity to existing CGUs, ability to share infrastructure and workforce, and management's grouping of these assets for decision-making and budget allocations. If the E&E property is not part of an existing operational CGU, it is assessed on the basis of a geographically similar pool of E&E assets.

Impairment indicators

The Company monitors internal and external indicators of impairment relating to its plant and equipment, oil and gas properties, and E&E assets. External sources of information include changes in the economic and legal environment in which the CGUs operate. Internal sources include the economic performance of the CGUs and other asset specific indicators. In assessing impairment for E&E assets, the Company applies judgment in considering various factors that determine technical feasibility and commercial viability.

Lot 192 agreement

The Company has entered into an agreement with the Peruvian state oil and gas company Perupetro S.A. to provide extraction services in exchange for volumes of crude oil produced in accordance with the agreement. The Company is required to apply significant judgments in relation to how it accounts for this agreement, and in particular, the point of revenue recognition. In determining when to recognize the revenue, the Company has analyzed the timing of the transfer of legal rights and when the value can be reasonably calculated. Based on this analysis, the Company has accounted for the Lot 192 agreement as a production-sharing arrangement whereby revenue is recognized at the point where the Company's share of the crude oil is sold to third parties and such sale price is used to measure the revenue.

Dilution agreement

The Company has entered into a dilution service agreement with an unrelated third party whereby the third party's natural gas or similarly light products are mixed with the Company's heavy crude oil and transported through pipelines in Colombia. The Company pays a fixed fee per barrel of diluent provided by the third party. The Company is required to apply significant judgment regarding how it accounts for this transaction and in particular the point of revenue recognition. In determining the revenue recognition point, the Company has analyzed whether the legal rights of the product are transferred. Based on this analysis, the Company has concluded it holds a legal right to its share of the blended product per the terms of the contract at the dilution point. Revenue related to the blended product is recognized by the Company upon sale to the ultimate customers.

Functional currency

The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both primary and secondary factors including the currency of the Company's revenues, operating costs in the countries in which it operates and sources of debt and equity financing.

(In thousands of U.S.$, unless otherwise stated)

Estimation Uncertainty and Assumptions

Depletion of oil and gas properties

Oil and gas properties are depleted using the unit-of-production method. During 2017, in applying the unit-of-production method, oil and gas properties were depleted over proved and probable reserves, compared to 2016, when they were depleted over proved reserves. This change is a result of the Company's ability to finance its capital expenditure programs, which are included in the updated reserve estimates. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecasted production based on proved and probable reserves. This would generally result from significant changes in any of the following:

- Changes in reserves.
- The effect on reserves due to differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.

Oil and gas properties - recoverable amounts

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. Estimates include, but are not limited to, estimates of the discounted future after-tax cash flows expected to be derived from the Company's oil and gas properties and the discount rate. Changes in oil price forecasts, reserves, estimated future costs of production, future capital costs, decommissioning costs and income taxes can result in changes in the recoverable amount of the CGUs. It is possible that the oil price assumption may change, which may then impact the estimated life of the field and require a material adjustment to the carrying value of goodwill, tangible assets and E&E assets. The Company has recognized impairments and reversal of impairments on certain oil and gas properties in the year-ended December 31, 2017 (Note 6).

Asset retirement obligations - decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change: for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the asset retirement obligations that would affect future financial results (Note 18).

Post-termination obligations related to the expired Rubiales-Piriri contracts

On June 30, 2016, the joint operating agreements for the Rubiales and Piriri fields expired. The fields were returned to Ecopetrol S.A. ("**Ecopetrol**"), and all associated contracts were terminated. In accordance with the termination rules contained in the agreements, Ecopetrol assumed direct operations and retained 100% of the rights over the fields. In prior years, in anticipation of the relinquishment of the fields, the Company recorded a provision for its termination obligation. As a result of the termination of the contracts, the Company recorded an additional $3.7 million in obligations relating to the relinquishment of the fields (2016: $9.4 million). The additional obligations relate mainly to the Company's share of environmental commitments, abandonment costs, and other operating activities. This additional obligation represents a change in estimate resulting from new information obtained during the year. The Company has identified various contingent liabilities and has determined that it is not probable that an outflow of resources will be required to settle these potential liabilities.

4. 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.

The following table provides the total balances as at December 31:

	Colombia		Peru		Canada & Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Non-current assets	1,537,377	1,792,200	30,930	36,751	19,959	81,495	1,588,266	1,910,446

(In thousands of U.S.$, unless otherwise stated)

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

	Colombia		Peru		Canada & Other		Total	
For the Year Ended December 31	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Oil and gas sales and other income	$1,113,285	$1,361,412	$ 50,464	$ 37,708	$ —	$ —	$1,163,749	$1,399,120
Trading sales	94,767	12,591	—	—	—	—	94,767	12,591
Oil and gas operating costs	604,081	785,738	48,833	60,147	—	—	652,914	845,885
Purchase of oil and gas for trading	93,577	11,515	—	—	—	—	93,577	11,515
Overlift (settlement)	17,008	(34,228)	—	(636)	—	—	17,008	(34,864)
Reversal of provision related to high-price clause	(99,622)	—	—	—	—	—	(99,622)	—
Fees paid on suspended pipeline capacity	108,831	105,129	—	—	—	—	108,831	105,129
Depletion, depreciation and amortization	369,170	518,174	12,009	54,208	1,067	3,603	382,246	575,985
General and administrative	81,315	99,790	6,268	6,995	17,240	37,753	104,823	144,538
Impairment	118,882	301,327	531	170,972	3,767	4,706	123,180	477,005
Shared-based compensation	1,468	—	90	—	1,047	(7,775)	2,605	(7,775)
Restructuring and severance costs	7,944	10,355	1,008	1,691	3,665	142,809	12,617	154,855
Loss from operations	(94,602)	(423,797)	(18,275)	(255,669)	(26,786)	(181,096)	(139,663)	(860,562)
Non-operating (loss) income items							(34,987)	3,360,548
Income tax expense							15,265	36,175
Net (loss) income for the year							$ (189,915)	$2,463,811

The Company's revenue based on the geographic location of customers is as follows:

	Year Ended December 31	
	2017	**2016**
United States	$ 920,312	$ 1,049,854
China	170,961	208,033
Colombia [(1)]	83,161	96,320
Peru	37,222	53,703
Italy	24,290	—
Canada	22,570	—
Spain	—	3,801
Total sales	$ 1,258,516	$ 1,411,711

[(1)] *Includes non-oil and gas revenues (primarily power line transmission revenues) of $27.9 million during the year ended December 31,2017 (2016: $5.8 million), with customers located in Colombia.*

5. Oil and Gas Operating Costs

	Year Ended December 31	
	2017	**2016**
Transportation costs	$ 346,300	$ 460,605
Production costs	275,717	313,496
Dilution costs	27,162	55,108
PAP and royalties paid in cash [(1)]	22,147	22,269
Rubiales post-termination [(2)]	3,664	—
Inventory valuation	(22,076)	(5,593)
Total oil and gas operating costs	$ 652,914	$ 845,885

[(1)] *Corresponds to high-price clause ("**PAP**").*
[(2)] *Corresponds with post-termination obligations related to the Rubiales-Piriri contracts, which expired on June 30, 2016. Post-termination costs incurred in 2016 were included in "production costs", consistent with operating costs incurred when the Company operated the fields during the first half of 2016.*

(In thousands of U.S.$, unless otherwise stated)

Fees Paid on Suspended Pipeline Capacity

The Bicentenario pipeline has experienced periodic suspensions following security-related disruptions in recent years. For the year ended December 31, 2017, the net fees paid relating to the periods of disrupted pipeline capacity were $108.8 million (2016: $105.1 million).

6. Impairment

	Year Ended December 31	
	2017	2016
Impairment (reversal) of oil and gas properties, exploration and evaluation assets and plant and equipment (Notes 11,12,13)	$ 72,789	$ 294,259
Impairment of assets held for sale - PEL (Note 12)	42,194	—
Impairment of other assets (advances and Bicentenario prepayments)	—	166,147
Impairment of short term receivables and others	8,197	16,599
Total impairment	$ 123,180	$ 477,005

During the year ended December 31, 2017, an impairment charge of $72.8 million (2016: $294.3 million) was recognized with respect to certain oil and gas properties, E&E assets from the Colombia CGUs and other infrastructure assets in Colombia. The carrying value was written down to a recoverable amount calculated based on the VIU.

At the end of each reporting period, the Company assesses whether there is any indication, from external and internal sources, that an asset or CGU may be impaired. The Company considers changes in the market, the economic and legal environments in which the Company operates that are not within its control, and E&E properties. The impairment tests of oil and gas and E&E assets are performed at the CGU level.

Assumptions used in the model to determine the recoverable amounts include:

- An after-tax discount rate of 14.64% (24.36% before tax) (2016: 18%, 30% before tax) as determined by the weighted average cost of capital, taking into consideration the expected return on investment by the Company's investors, the cost of debt based on the interest-bearing borrowings of the Company and segment specific risk based on publicly available market data.
- Long-term Brent oil prices of $62, $63, $66, $70 and $73 per barrel for 2018 to 2022, respectively (2016: $56, $61, $65, $68 and $72 per barrel for 2017 to 2021) and Guajira Block regulated benchmark gas prices of $4, $4, $5, $5 and $5 per thousand cubic feet for 2018 to 2022, respectively (2016: $3, $4, $4, $4 and $4 per thousand cubic feet for 2017 to 2021), inflated by approximately 2% (2016: 2%) subsequent to that period. Prices are based on futures strip prices (2016: compilation of independent industry analyst forecasts), published indices and management's own assumptions.
- Future production is based on proved developed producing, proved developed non-producing and probable reserves (2016: proved developed producing and proved developed non-producing reserves).

During the year ended December 31, 2017, a total impairment charge of $42.2 million was recognized based on bidding offers with respect to the transmission line assets of PEL. The recoverable amount was calculated using FVLCD. An agreement to sell PEL for proceeds of $56.0 million was entered into on October 25, 2017. The carrying value was ultimately written down to a recoverable amount consistent with the sale consideration. As a result of the approval of the sale transaction, the PEL assets were classified as held-for-sale (Note 10).

During the year ended December 31, 2016, the Company recorded an impairment charge of $166.1 million related to advances or pre-payments of Oleoducto Bicentenario de Colombia S.A.S and others of $106.5 million, based on updated production forecasts, and $59.6 million related to long-term recoverable valued added tax ("**VAT**") receivable balances for which the Company had determined it was more likely than not the amounts would not be recovered through future production on certain blocks.

During the year ended December 31, 2017, the Company recognized $8.2 million (2016: $16.6 million) of certain accounts receivable considered as doubtful recovery and other impairments mainly related to low rotation or obsolete inventories.

(In thousands of U.S.$, unless otherwise stated)

7. Taxes

Income Tax

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

	Year Ended December 31	
	2017	**2016**
Net (loss) income before income tax	$ (174,650)	$ 2,499,986
Colombian statutory income tax rate	40%	40%
Income tax (recovery) expense at statutory rate	(69,860)	999,994
Increase (decrease) in income tax provision resulting from:		
Other (non-taxable income) non-deductible expenses	7,725	9,710
Share-based compensation	164	(2,112)
Differences in tax rates in foreign jurisdictions	16,486	(444,831)
Losses for which no tax benefit is recognized	(11,371)	231,666
Minimum income tax (presumptive income tax)	31,337	218,256
Debt extinguishment and conversion	—	(960,517)
Changes in deferred income tax not recognized	40,784	(15,991)
Income tax expense	15,265	36,175
Current income tax expense	36,095	42,522
Deferred income tax recovery		
Relating to origination and reversal of temporary differences	(20,830)	(6,347)
Income tax expense	$ 15,265	$ 36,175

The Canadian statutory combined income tax rate was 26.5% as at December 31, 2017 (2016: 26.5%). The Company's cumulative effective tax rate (income tax expenses as a percentage of net earnings before income tax) was (-8.74%) for the year ended December 31, 2017 (2016: 1.45%)

Effective January 1, 2017, the Colombian Congress enacted structural tax reform whereby it abolished the fairness tax ("**CREE**"), while modifying the income tax rates to adjust for this change. The Colombian Congress maintained the previously set corporate tax rates for Colombian source income at 40% in 2017, 37% in 2018, and 33% in 2019 and subsequent taxation years. However, these rates will apply to a broader taxable base due to limitations and modifications on certain deductions. In addition, the tax reform increased the minimum tax (presumptive tax) from 3% to 3.5% and introduced a dividend withholding tax on previously taxed profits of 5%.

Effective January 1, 2017, the Peruvian statutory income tax rate increased to 29.5% from 28% as at December 31, 2016. The Peruvian income tax rate for Block Z-1 was 22% as at December 31, 2017 (2016: 22%).

	Year Ended December 31	
Deferred Tax Balances	**2017**	**2016**
Oil and gas properties and equipment	$ 20,830	$ —
Deferred tax asset	$ 20,830	$ —

	Year Ended December 31	
Movement in the Net Deferred Tax Balances	**2017**	**2016**
Opening balance	$ —	$ (6,308)
Oil and gas properties	20,830	10,120
Other	—	(3,812)
Closing balance	$ 20,830	$ —

A deferred income tax asset in the amount of $20.8 million (2016 - $nil) has been recorded in Colombia. The deferred income tax asset consists of deductible temporary differences which arose primarily from undepreciated capital expenses related to oil and gas properties. 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.

(In thousands of U.S.$, unless otherwise stated)

As at December 31, 2017, non-capital losses totalled $761.8 million (2016: $607.9 million) in Canada and expire between 2025 and 2037. Capital losses, which do not expire, totalled $184.5 million as at December 31, 2017 (2016: $307.1 million). No deferred tax assets have been recognized with respect to the non-capital and capital losses as at December 31, 2017 (2016: $nil).

In Colombia, non-capital losses totalled $761.4 million as at December 31, 2017 (2016: $840.0 million). No deferred tax assets have been recognized in respect of these losses. In Peru, non-capital losses totalled $184.6 million as at December 31, 2017 (2016: $174.8 million) and expire between 2018 and 2021. No deferred tax assets have been recognized in respect of these losses.

The temporary differences associated with investment in subsidiaries and joint ventures, for which a deferred tax asset has not been recognized, totalled approximately $6.4 billion as at December 31, 2017 (2016: $8.1 billion).

Equity Tax

Effective January 1, 2015, the Colombian Congress introduced a new temporary wealth tax calculated on a taxable base (net equity) in excess of COP$1 billion ($0.4 million) as at January 1 of the applicable taxation year; the rate for January 1, 2017 was 0.40%. During 2017, the Company paid $11.7 million (2016: $26.9 million) related to the Colombian wealth tax. As of January 1, 2018, the wealth tax has been withdrawn.

8. (Loss) Earnings Per Share

	Year Ended December 31	
	2017	2016
Net (loss) income attributable to equity holders of the Company	$ (216,703)	$ 2,448,523
Basic weighted average number of shares outstanding	50,005,832	50,002,363
Effects of dilution	—	16,634
Basic and diluted weighted average number of shares outstanding	50,005,832	50,018,997
Basic (loss) earnings per share attributable to equity holders of the Company	$ (4.33)	$ 48.97
Diluted (loss) earnings per share attributable to equity holders of the Company	$ (4.33)	$ 48.95

For the year ended December 31, 2016, DSUs were determined to be dilutive instruments, and were included in the calculation of the diluted weighted average number of common shares.

9. Inventories

	As at December 31	
	2017	2016
Crude oil and gas	$ 33,539	$ 8,049
Materials and supplies	26,734	30,560
Total	$ 60,273	$ 38,609

As at December 31,2017, materials and supplies inventory was net of impairment of $3.1 million (2016: $nil).

(In thousands of U.S.$, unless otherwise stated)

10. Assets Held for Sale

	Exploration and Evaluation Assets	Oil and Gas Properties	Other Assets	Total
As at January 1, 2016	$ —	$ —	$ —	$ —
Additions to assets held for sale (Notes 11,12)	20,647	24,150	—	44,797
As at December 31, 2016	20,647	24,150	—	44,797
Additions to assets held for sale (Note 11)	—	4,243	—	4,243
PEL additions to assets held for sale (Notes 11,19)	—	36,094	6,385	42,479
Disposals	(20,647)	(17,768)	—	(38,415)
Adjustment	—	(217)	—	(217)
Currency translation adjustment	—	38	—	38
As at December 31, 2017	$ —	$ 46,540	$ 6,385	$ 52,925

In 2016, the Company commenced a plan to divest non-core assets, including its interest in certain exploration assets, oil and gas properties and land located in Colombia, Peru and Brazil. As the sales were considered highly probable, the assets were reclassified as held for sale and recognized at the lower of their carrying amount and FVLCD, which resulted in an impairment loss of $1.2 million. The divestment of these assets in 2017 is described below.

Exploration and Evaluation Assets

On September 26, 2016, the Company reached an agreement with its partner, Karoon Gas Australia Ltd., to sell the Company's 35% working interest in its joint concession agreements in Brazil. The agreement included a conditional payment of $5.0 million if commercial production on the concessions achieved 1 million barrels of oil or oil equivalents. On January 30, 2017, the Company completed the sale for total consideration of $16.1 million, comprised of $15.5 million in cash and the settlement of $0.6 million of payables.

On March 10, 2017, the Company and Amerisur Exploración Colombia Limitada ("**Amerisur**") entered into four farm-out agreements pursuant to which Amerisur agreed to acquire the following participating interests in certain of the Company's exploration and production of hydrocarbons contracts (collectively, the "**Participating Interests**"): (i) 60% participating interest in the Putumayo-9 Block; (ii) 50.5% participating interest in the Tacacho Block; (iii) 58% participating interest in the Mecaya Block; and (iv) 100% participating interest in the Terecay Block. The aggregate purchase price for the Participating Interests was $4.9 million, plus a royalty calculated and payable on a monthly basis equal to 2% of all the hydrocarbons produced in the Terecay Block, and a royalty calculated and payable on a monthly basis equal to 1.2% of all the hydrocarbons produced in the Putumayo-9 Block, subject to certain terms and conditions. The Agencia Nacional de Hidrocarburos ("**ANH**") approved the assignment of interests, rights and obligations under the Putumayo-9 Block on August 13, 2017, and the Tacacho, Terecay and Mecaya blocks on August 31, 2017. The amendments to formalize the transfer of the Company's interests were executed on October 20, 2017, with respect to the contracts governing the Putumayo-9, Tacacho and Terecay blocks and on November 10, 2017, with respect to the contract governing the Mecaya Block.

Oil and Gas Properties

On November 30, 2016, the Company and Cepsa Peruana S.A.C. ("**Cepsa**") entered into a farm-out agreement whereby Cepsa agreed to acquire the Company's participation interest in Lot 131 in Peru for $17.8 million and the assumption of contractual exploration obligations. On April 26, 2017, the Company received Peruvian regulatory approval. On May 12, 2017 the amendment to formalize the transfer was executed, and on May 19, 2017, the sale was completed with total cash proceeds of $17.1 million and the settlement of $0.7 million of payables.

On March 30, 2017, the Company executed a farm-out agreement with Gold Oil PLC Sucursal Colombia for the transfer of its participating interest and operatorship in the Casanare Este Block for a net cash consideration of $0.2 million, subject to Colombian regulatory approval. Once the ANH approves the transaction, the Company will reduce its commitments on this Block by $7.9 million.

Other Assets - Sale of PEL

On October 25, 2017, the Company entered into an agreement to sell its interest in PEL to an affiliate of Eléctricas de Medellín - Ingeniería y S.A.S, for total cash consideration of $56.0 million. At December 31, 2017, oil and gas properties of $36.1 million and $6.4 million in other assets of PEL (excluding $16.3 million in cash, which was reclassified to Restricted Cash) were classified as held for sale. As a consequence, a loss of $1.0 million was recognized as the FVLCD was lower than the carrying amount of the assets based on the net proceeds expected from the sale. Subsequent to year end, the Company received $20.0 million, as an advance on the purchase price with the remaining consideration due upon closing the transaction. For the year ended December

(In thousands of U.S.$, unless otherwise stated)

31, 2017, a total impairment charge of $42.2 million was also recognized with respect to PEL's transmission line assets prior to the completion of the sale (Note 6).

11. Oil and Gas Properties

Cost		Amount
As at January 1, 2016	$	11,065,566
Additions		125,330
Transferred to assets held for sale (Note 10)		(29,575)
Relinquishment of properties and disposals		(3,958,908)
Change in asset retirement obligation		11,368
Currency translation adjustment		11,708
As at December 31, 2016		7,225,489
Additions		203,738
Transferred to assets held for sale (Note 10)		(387,635)
Change in asset retirement obligation		6,755
Disposal of properties		(21,057)
Currency translation adjustment		1,679
As at December 31, 2017	$	7,028,969

Accumulated Depletion and Impairment		Amount
As at January 1, 2016	$	9,246,847
Charge for the year		515,141
Relinquishment of properties and disposals		(3,958,908)
Impairment (Note 6)		878,793
Reversal of previously recognized impairments (Note 6)		(631,401)
Transferred to assets held for sale (Note 10)		(5,425)
Currency translation adjustment		(2,226)
As at December 31, 2016		6,042,821
Charge for the year		349,843
Transferred to assets held for sale (Note 10)		(347,298)
Impairment (Note 6)		113,392
Disposal of properties		(20,141)
Currency translation adjustment		716
As at December 31, 2017	$	6,139,333

Net Book Value		Amount
As at December 31, 2016	$	1,182,668
As at December 31, 2017	$	889,636

On June 30, 2016, the Rubiales-Piriri joint operating agreements expired, the fields were returned to Ecopetrol, and all associated contracts were terminated. All net book values associated with these fields have been fully depleted, and the Company has recorded obligations related to the termination using management's best estimates and judgments.

During the year ended December 31, 2017, oil and gas assets were depleted over the Company's proved and probable reserves (2016: proved reserves) to align with the Company's ability to fund oil and gas production.

Included in the amount subject to depletion is $1.1 billion (2016: $0.7 billion) of estimated future development costs required to bring proved undeveloped and probable reserves to production (2016: proved undeveloped reserves). At December 31, 2017, $104.8 million of assets under construction were included in oil and gas properties and are not currently subject to depletion (2016: $144.1 million).

(In thousands of U.S.$, unless otherwise stated)

12. Exploration and Evaluation Assets

		Amount
As at January 1, 2016	$	—
Additions, net of production from long-term testing		31,202
Effect of subsidiary deconsolidation		(245)
Impairment of exploration and evaluation assets (Note 6)		(42,950)
Reversal of previously recognized impairments (Note 6)		29,648
Transferred to assets held for sale (Note 10)		(20,647)
Change in asset retirement obligations		12,208
Disposals		(216)
As at December 31, 2016	$	9,000
Additions, net of production from long-term testing		16,370
Impairment of exploration and evaluation assets (Note 6)		(1,591)
Change in asset retirement obligations		4,277
Disposals		(5,827)
As at December 31, 2017	$	22,229

For the year ended December 31, 2017, the Company recognized a reduction in E&E assets (offset against additions) of $23.1 million related to the sale of production from long-term testing at exploration properties (2016: $13.7 million).

13. Plant and Equipment

Cost		Land and Buildings		Assets Under Construction		Other Plant and Equipment		Total
As at January 1, 2016	$	63,235	$	7,251	$	197,157	$	267,643
Additions		405		—		3,825		4,230
Disposals		(1,832)		—		(7,783)		(9,615)
Relinquishment of properties		—		—		(2,813)		(2,813)
Effect of subsidiary deconsolidation		—		(7,251)		—		(7,251)
Currency translation adjustment		(64)		—		223		159
As at December 31, 2016	$	61,744	$	—	$	190,609	$	252,353
Additions		—		—		5,347		5,347
Disposals		(33)		—		(3,061)		(3,094)
Transferred to assets held for sale (Note 10)		—		—		(962)		(962)
Currency translation adjustment		—		—		(196)		(196)
As at December 31, 2017	$	61,711	$	—	$	191,737	$	253,448
Accumulated Depletion and Impairment								
As at January 1, 2016	$	48,050	$	4,200	$	97,163	$	149,413
Charge for the year		8,412		—		22,908		31,320
Disposals		(1,130)		—		(7,131)		(8,261)
Impairment (Note 6)		—		—		33,565		33,565
Relinquishment of properties		—		—		(2,813)		(2,813)
Effect of subsidiary deconsolidation		—		(4,200)		—		(4,200)
Currency translation adjustment		(213)		—		140		(73)
As at December 31, 2016	$	55,119	$	—	$	143,832	$	198,951
Charge for the year		3,541		—		19,594		23,135
Disposals		(7)		—		(2,544)		(2,551)
Impairment (Note 6)		—		—		642		642
Transferred to assets held for sale (Note 10)		—		—		(1,164)		(1,164)
Currency translation adjustment		—		—		62		62
As at December 31, 2017	$	58,653	$	—	$	160,422	$	219,075
Net Book Value								
As at December 31, 2016	$	6,625	$	—	$	46,777	$	53,402
As at December 31, 2017	$	3,058	$	—	$	31,315	$	34,373

(In thousands of U.S.$, unless otherwise stated)

14. Intangible Assets

Cost		Amount
Cost as at December 31, 2015, 2016 and 2017	$	190,000

Accumulated Amortization		Amount
Accumulated amortization as at December 31, 2015	$	149,123
Charge for the year		26,077
Accumulated amortization as at December 31, 2016		175,200
Charge for the year		10,365
Accumulated amortization as at December 31, 2017	$	185,565

Net Book Value		Amount
As at December 31, 2016	$	14,800
As at December 31, 2017	$	4,435

Intangible assets relate to capacity rights on the available capacity of the Oleoducto Central S.A. ("**OCENSA**") pipeline system in Colombia, and the right to available capacity at the crude blending station. The OCENSA right is amortized based on the higher of the usage of the 160 million barrel capacity or straight-line method over the term of the agreement, which expires on January 31, 2020, if the total capacity is not used.

15. Investments in Associates

	ODL	Bicentenario	PII	Interamerican	CRC	CGX	Total
As at January 1, 2016	$135,072	$ 198,287	$ 93,905	$ 20,952	$ 50	$ —	$448,266
Income (loss) from associates	39,125	60,717	(27,436)	(1,412)	—	(2,332)	68,662
Dividends	(58,832)	(61,623)	—	—	—	—	(120,455)
Investment	—	—	25	2,318	—	6,348	8,691
Impairment of equity investments	—	—	—	(5,772)	(50)	—	(5,822)
Currency translation adjustment	7,879	(6,879)	14,856	—	—	—	15,856
As at December 31, 2016	$123,244	$ 190,502	$ 81,350	$ 16,086	$ —	$ 4,016	$415,198
Dilution	—	—	(4,694)	—	—	—	(4,694)
Income (loss) from associates	37,193	53,274	(11,442)	(431)	—	(2,408)	76,186
Dividends	(34,643)	(38,402)	—	—	—	—	(73,045)
Currency translation adjustment	4,808	814	(485)	2,201	—	—	7,338
As at December 31, 2017	$130,602	$ 206,188	$ 64,729	$ 17,856	$ —	$ 1,608	$420,983
Company´s interest as at December 31, 2017	35.00%	43.03%	39.22%	21.19%	1.00%	45.61%	

The Company equity accounts for the above associates (further described below) as the criteria to exert significant influence was met given the significance of the Company's percentage holdings and ability to appoint directors to the investee's board of directors.

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

The Company holds a 63.64% interest in consolidated subsidiary Pacific Midstream Limited ("**PML**"), which has equity accounted investments in two pipelines, ODL and Bicentenario, by virtue of PML's percentage holdings and ability to appoint directors to each investee's board of directors.

ODL is a Panamanian company with a Colombian branch that has constructed an oil pipeline for the transportation of heavy crude oil produced from the Rubiales and Quifa blocks. The Company has a 35% participation through PML; the remaining 65% interest is owned by Ecopetrol, the national oil company of Colombia. ODL's functional currency is the Colombian peso and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

Bicentenario is a corporation established and owned by a consortium of oil producers operating in Colombia, led by Ecopetrol, which operates a private-use oil pipeline in Colombia that runs from the Araguaney station in the Casanare department to the Banadia station in the Arauca department. The Company's interest in the investee totals 43.03% as at December 31, 2017, with 41.5% held through PML. Bicentenario's functional currency is the Colombian peso, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

Pacific Infrastructure Ventures Inc. ("PII")

PII is a BVI company established for the purpose of developing an export terminal, an industrial park and a free-trade zone in Cartagena, Colombia. The functional currency of PII is the Colombian peso, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

Pursuant to a warrant agreement dated November 7, 2013, International Finance Corporation ("**IFC**") and certain of its affiliates, upon meeting certain conditions included in the agreement, exercised warrants for shares of PII for nominal consideration during the year ended December 31, 2017. As a result, the Company's ownership interest in PII was diluted to 39.2% from 41.8%, resulting in a dilution loss of $4.7 million.

Interamerican Energy Corp. ("Interamerican")

The Company's investment in Interamerican represents a 21.19% (December 2016: 21.09%) indirect interest in Promotora de Energia Electrica de Cartagena & Cia, S.C.A. E.S.P. ("**Proelectrica**"). Proelectrica is a private Colombia-based 90-megawatt electrical utility peak-demand supplier to the local Cartagena utility. The functional currency of Interamerican is the Colombian peso, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

No impairment charges were recognized in the year ended December 31, 2017. During the year ended December 31, 2016, the Company recognized an impairment charge of $5.8 million when it determined the carrying value of its investment in Interamerican was in excess of the fair value calculated with reference to a market-based transaction between independent parties.

CGX Energy Inc. ("CGX")

CGX is a company listed on the TSX Venture Exchange and is involved in the exploration of petroleum and natural gas in Guyana. The Company had control of CGX by way of a 53.7% interest, and accounted for it as a fully consolidated subsidiary, until January 21, 2016, when the interest was reduced to 45.61% pursuant to a contract settlement agreement. The Company derecognized a non-controlling interest of $19.4 million as at December 31, 2016, as it was determined that the Company no longer held control over CGX, and the assets and liabilities of CGX were derecognized from the Consolidated Statements of Financial Position. Following the deconsolidation, the CGX investment was fair valued and then equity accounted. A gain of $15.6 million was recognized in other (loss) income during December 31, 2016, upon recognition as an equity-accounted investee.

On April 26, 2017, the Company entered into a secured bridge loan facility with CGX. The principal amount of up to $3.1 million is divided into tranches payable within 12 months of the first draw-down. The Company amended this facility to increase the principal amount from $3.1 million to $4.0 million, as at December 31, 2017, with all other terms unchanged. The loan carries an annual interest rate of 5% and is secured by the assets of CGX. As at December 31, 2017, the Company had advanced $3.7 million under this facility. No impairment indicators were identified for the bridge loan facility at that time.

The Company has previously provided CGX with a series of loans and facilities totalling $4.0 million (issued in 2016) and C$7.5 million (issued in 2014), due April 25, 2018. CGX has drawn down $4.0 million and C$7.5 million, respectively, of these loans as at December 31, 2017 (2016: $3.0 million and C$7.5 million, respectively). The amounts drawn under these loans were fully impaired as at December 31, 2017 and 2016.

In addition, in November 2015, CGX issued convertible debentures to the Company in an amount of $1.5 million, due April 25, 2018.

As at December 31, 2017, the fair value of the equity investment in CGX common shares, estimated using the last traded price of C$0.165 (2016: C$0.13) per common share, was $6.6 million (2016: $5.0 million).

Caribbean Resources Corporation ("CRC")

CRC is engaged in the acquisition and development of coal mining assets and related businesses in Colombia. During the year ended December 31, 2016, CRC voluntarily delisted from the TSX Venture Exchange, and in October 2016, the Company's equity interest was diluted to 1% and it lost the right to nominate a director to the board of directors of CRC. Given these factors, it was determined that the Company no longer had significant influence over CRC, and the equity interest was reclassified to Other Assets as an investment measured at FVTPL.

(In thousands of U.S.$, unless otherwise stated)

Summarized financial information for the Company's significant investments in associates, on a 100% basis, is as follows:

As at December 31, 2017	ODL	Bicentenario	PII
Current assets	$ 126,578	$ 146,737	$ 41,570
Non-current assets	511,174	1,056,258	597,105
Current liabilities	(115,590)	(166,424)	(194,359)
Non-current liabilities	(149,013)	(557,398)	(279,276)
Equity	$ 373,149	$ 479,173	$ 165,040
Company's interest in associate	35.00%	43.03%	39.22%
Carrying amount of the investment	$ 130,602	$ 206,188	$ 64,729
For the Year Ended December 31, 2017			
Revenue	$ 323,383	$ 352,679	$ 71,412
Expenses	(217,117)	(228,869)	(100,586)
Net income (loss)	106,266	123,810	(29,174)
Company´s share of the income (loss) for the year	$ 37,193	$ 53,274	$ (11,442)

As at December 31, 2016	ODL	Bicentenario	PII
Current assets	$ 105,042	$ 171,086	$ 57,380
Non-current assets	572,505	1,108,399	625,431
Current liabilities	(128,744)	(231,603)	(179,436)
Non-current liabilities	(196,676)	(605,162)	(308,619)
Equity	$ 352,127	$ 442,720	$ 194,756
Company's interest in associate	35.00%	43.03%	41.77%
Carrying amount of the investment	$ 123,244	$ 190,502	$ 81,350
For the Year Ended December 31, 2016			
Revenue	$ 338,577	$ 384,737	$ 69,820
Expenses	(226,790)	(243,632)	(135,503)
Net income (loss)	111,787	141,105	(65,683)
Company´s share of the income (loss) for the year	$ 39,125	$ 60,717	$ (27,436)

16. Other Assets

	As at December 31	
	2017	2016
Long-term receivables	$ 59,079	$ 109,501
Long-term recoverable VAT	24,743	26,989
Long-term withholding tax	26,473	27,439
Advances	17,741	17,741
Investments	1,130	962
Total	$ 129,166	$ 182,632

Long-Term Receivables and Advances

These assets include a variety of items such as non-trade receivables from associates, advances for pipeline usage, and other long-term financial assets.

The Company has a loan receivable from PII of $76.6 million with a carrying value of $43.0 million (representing the present value) as at December 31, 2017 (2016: $38.9 million). The loan receivable from PII is guaranteed by PII's pipeline project and port, and bears interest that ranges from LIBOR + 2% to 7% per annum. Accretion income of $1.4 million was recognized during the year ended December 31, 2017 (2016: loss of $35.3 million). The loss in 2016 related to changes in assumptions for the timing of repayment of principal and amount of future interest cash flows expected to be realized from the loan (Note 23c).

(In thousands of U.S.$, unless otherwise stated)

In the second quarter of 2017, the Company executed an Assignment Deed and Termination Deed with the purchaser of certain interests located in Papua New Guinea. As a result of this agreement, $57.0 million was reclassified from long–term receivables to accounts receivable. The Company received the $57.0 million on February 20, 2018.

During the year ended December 31, 2017, the Company recorded impairment charges of $nil (2016: $19.3 million) relating to certain advances for port and through put services that would not be recovered (Note 6).

Long-Term Recoverable VAT

This amount includes recoverable VAT that the Company expects to receive more than one year after the end of the reported period.

Long-Term Withholding Tax

Amounts included under long-term withholding tax relate to withholding taxes incurred in Colombia and Peru. These balances are expected to be recovered in 2019.

17. Loans and Borrowings, Finance Leases

Loans and Borrowings

Senior Secured Notes

The Senior Secured Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Pursuant to the indenture governing the Senior Secured Notes (the "**Indenture**"), the Company may not incur, with some exceptions, any additional indebtedness prior to November 2, 2018. Following this date, should the Company wish to incur additional indebtedness, the Company is required to maintain (as such terms are defined in the Indenture) the following: (1) a consolidated fixed charge ratio greater than 3.25:1, and (2) a consolidated debt-to-consolidated adjusted EBITDA ratio lower than 2.5:1 while complying with other conditions in the indenture. If such ratios are not met, the Company would continue to be restricted from incurring additional indebtedness. Other covenants under the Indenture limit, with some exceptions, the Company's ability to sell assets, incur liens, declare dividends, and enter into lease-back transactions. The Senior Secured Notes are secured by substantially all the assets of the Company and its material subsidiaries.

					As at December 31	
	Maturity	Principal	Currency	Interest Rate	2017	2016
Senior Secured Notes	November 2021	$ 250,000	U.S. dollars	10%	$ 250,000	$ 250,000

Finance Leases

The Company has entered into a power generation arrangement to supply electricity for one of its oil fields in Colombia until August 2021. In addition, the Company has leased IT equipment and another power generation arrangement (Rubiales and Piriri fields) that were accounted as finance leases. These finance leases have an average effective interest rate of 14.39% (2016: 14.39%). The Company's minimum lease payments are as follows:

	As at December 31	
	2017	2016
Within 1 year	$ 6,778	$ 6,777
Year 2	6,778	6,778
Year 3	6,797	6,778
Year 4	4,514	6,797
Year 5	—	4,514
Total minimum lease payments	$ 24,867	$ 31,644
Amounts representing interest	(5,638)	(8,702)
Present value of net minimum lease payments	$ 19,229	$ 22,942
Current portion	$ 4,284	$ 3,713
Non-current portion	14,945	19,229
Total obligations under finance lease	$ 19,229	$ 22,942

(In thousands of U.S.$, unless otherwise stated)

Finance Costs, net

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

	Year Ended December 31	
	2017	2016
Interest on Senior Secured Notes	$ 25,000	$ 4,027
Accretion of asset retirement obligations	8,505	10,261
Letters of credit fees and other bank charges	5,244	4,247
Lease financing costs	3,065	3,898
Accretion (income) expense of account receivables	(4,604)	37,030
Interest income	(13,042)	(7,972)
Interest on Previous Senior Notes	—	76,599
Catalyst & Creditor DIP Notes	—	21,666
Interest on other debt	—	21,486
Accretion of deferred transaction costs	—	20,003
Total	$ 24,168	$ 191,245

Interest on Previous Senior Notes and Other Debt

During the year ended December 31, 2016, as part of the Restructuring Transaction, the Company's existing Previous Senior Notes, Catalyst & Creditor DIP Notes and other debt ceased to accrue interest as at April 27, 2016. Refer to Note 1 for further details with respect to the Restructuring Transaction and the balances for Previous Senior Notes and Catalyst & Creditor DIP Notes that were exchanged and restructured in 2016.

18. Asset Retirement Obligations

	Amount
As at January 1, 2016	$ 210,597
Accretion expense	10,261
Changes during the year (1)	22,584
Liabilities settled	(2,447)
Currency translation adjustment	7,637
As at December 31, 2016	$ 248,632
Accretion expense	8,505
Additions	13,380
Changes during the year (1)	(5,631)
Liabilities settled	(2,214)
Derecognition and disposal	(2,379)
Recovery of asset retirement obligation	(3,770)
Currency translation adjustment	543
As at December 31, 2017	$ 257,066

(1) Changes correspond mainly to variation in discount rate, inflation rate and cost of abandonment

	As at December 31	
	2017	2016
Current portion	$ 20,109	$ 2,834
Non-current portion	236,957	245,798
Total	$ 257,066	$ 248,632

Asset retirement obligations represent the present value of decommissioning and environmental liability costs relating to oil and gas properties, of which $328.0 million, on an undiscounted basis, is expected to be incurred between 2018 and 2032 (2016: $309.0 million), with $280.3 million (2016: 252.2 million) in Colombia and $47.7 million (2016: 56.8 million) in Peru.

(In thousands of U.S.$, unless otherwise stated)

Cash flows are expected to occur in a variety of countries and currencies, and the discount rates and inflation rates are chosen in association with the currencies in which the liabilities are expected to be settled. The future decommissioning costs and environmental liabilities are discounted to arrive at the present value using:

- A risk-free rate between 2.89% and 4.45% and an inflation rate of 2.12% for cash flows expected to be settled in U.S. dollar (2016: U.S. dollar risk-free rate of 2.95% - 4.40% with inflation of 2.5%);
- A risk-free rate between 4.61% and 7.29% and an inflation rate of 4.12% for cash flows expected to be settled in COP (2016: COP risk-free rate 6.17% - 7.93% with inflation of 2.99% - 4.10%); and
- A risk-free rate between 2.42% and 6.14% and an inflation rate of 1.54% for cash flows expected to be settled in Peruvian Soles (2016: Peruvian Sol risk-free rate of 4.33% - 7.07% with inflation of 3.23%).

During the year ended December 31, 2017, $1.1 million related to assets held for sale was reclassified from non-current to current liabilities, as the responsibility for these liabilities will be assumed by third parties on the expected closing of each transaction (2016: $nil).

19. Non-Controlling Interest

PML is the holding company for a number of the Company's pipeline and power transmission assets, including a 35% interest in the ODL pipeline, a 41.5% interest in the Bicentenario pipeline and a 100% interest in PEL, a power transmission entity. The Company has fully consolidated PML and has recognized a non-controlling interest in the Consolidated Statements of Financial Position as a result of the minority interest held by the International Finance Corporation and its related parties (collectively, the "**IFC Parties**").

The financial information of PML is provided below:

	As at December 31	
	2017	2016
Current assets [1]	$ 100,638	$ 16,704
Assets held for sale	59,744	—
Non-current assets	248,791	385,241
Total assets	$ 409,173	$ 401,945
Current liabilities [2]	$ 104,908	$ 111,084
Non-current liabilities	—	1,354
Total liabilities [3]	$ 104,908	$ 112,438
Equity	$ 304,265	$ 289,507
Total liabilities and equity	$ 409,173	$ 401,945

	Year Ended December 31	
	2017	2016
Revenue	$ 31,133	$ 30,956
Other income, net	42,540	33,911
Net income	$ 73,673	$ 64,867

[1] *Includes $16.3 million of cash of PEL reclassified to Restricted Cash as at December 31, 2017 (2016: $nil).*

[2] *Includes the associated liabilities of PEL assets (classified as held for sale), which totalled $1.6 million as at December 31, 2017.*

[3] *Includes an inter-company payable balance directly between PEL and the Company, which totalled $100.8 million as at December 31, 2017 (2016: $105.4 million).*

As at December 31, 2017, the carrying value of the non-controlling interest for PML was $110.6 million (2016: $105.3 million). During the year ended December 31, 2017, PML recognized dividends of $68.6 million (2016: $120.4 million), with $21.7 million distributed to the minority interest in PML (2016: $41.8 million).

Sale of PEL

On October 25, 2017, the Company entered into an agreement to sell its interest in PEL to an affiliate of Eléctricas de Medellín - Ingeniería y S.A.S, for a total cash consideration of $56.0 million. Accordingly, PEL assets were classified as held for sale as of

(In thousands of U.S.$, unless otherwise stated)

December 31, 2017 (Note 10). The completion of the transaction is subject to certain closing conditions that are expected to be met in the second quarter of 2018.

A total impairment charge of $41.2 million was also recognized with respect to the transmission line assets of PEL prior to the completion of the sales transaction (Note 6).

Agreement to Acquire PML

On October 13, 2017, the Company entered into an agreement to acquire the outstanding 36.4% ownership of PML from the IFC Parties. Following the acquisition, the Company will own 100% of PML. Consideration for the acquisition will be $225.0 million in cash, to be paid in instalments over a 36-month period, plus accrued interest over unpaid amounts. Following the acquisition, PML will be a 100% consolidated entity of the Company and non-controlling-interest-related balances will be eliminated.

The completion of the transaction is subject to obtaining modifications to take-or-pay contracts the Company has in place with Bicentenario, and other customary conditions of closing. Pursuant to the agreement, should the transaction fail to close as a result of the Company failing to satisfy certain conditions precedent, the Company will be required to pay a break fee in the aggregate amount of $5 million to the IFC Parties. The transaction is also subject to consent from the holders of the Company's Senior Secured Notes and lenders under the Secured LC Agreement. Following the closing of this transaction, PML will be a 100% consolidated entity of the Company.

20. Share Capital and Share-Based Arrangements

a. Authorized, Issued, and Fully Paid Common Shares

The Company has an authorized capital of an unlimited number of common shares with no par value.

Continuity schedule of share capital is as follows:

	Number of Shares	Amount
As at January 1, 2016	315,021,198	$ 2,615,788
Equity and warrant exercise per the Restructuring Transaction	(265,018,835)	2,129,567
As at December 31, 2016	50,002,363	4,745,355
Issued on exercise of DSUs	3,469	85
As at December 31, 2017	50,005,832	$ 4,745,440

Upon implementation of the Restructuring Transaction on November 2, 2016, all previously issued and outstanding common shares of the Company, together with the common shares issued as part of the Restructuring Transaction, were consolidated on the basis of 100,000 pre-consolidation shares to one post-consolidation share. As a result, the Company's common shares issued and outstanding prior to November 2, 2016 have been subsequently diluted. Refer to Note 1 for details on the share capital resulting from the Restructuring Transaction.

b. Stock Options

Prior to November 2, 2016, the Company had a rolling Stock Option Plan in compliance with the applicable TSX policy for granting stock options. On November 2, 2016 upon implementation of the Restructuring Transaction, all 16,521,117 outstanding stock options, with a weighted average exercise price of C$23.76, were duly cancelled.

c. Deferred Share Units

Pursuant to the Security Based Compensation Plan (the **"Plan"**), dated November 2, 2016, the Company established a new DSU plan, for its non-employee directors. Each DSU represents the right to receive a cash payment, shares or a combination of both upon retirement or termination equal to the volume-weighted average market price of the Company's shares at the time of surrender. Each DSU awarded by the Company approximates the fair market value of a common share in U.S. dollars at the time the DSU is awarded, and the fair value of the DSUs granted were recognized as share-based compensation on the Consolidated Statements of (Loss) Income, with a corresponding amount recorded in Contributed Surplus.

The Company's previous DSU plan for non-employee directors and employees entitled the holder to a cash payment on retirement or termination equal to the volume-weighted average market price of the Company's shares at the time of surrender. As a result of satisfying all the terms of the Restructuring Transaction, all DSUs under this plan were cancelled on November 2, 2016.

(In thousands of U.S.$, unless otherwise stated)

	Number of DSUs Outstanding	Amount
As at January 1, 2016	6,880,425	$ 8,500
Granted during the year	1,899,955	1,420
Fair value adjustment for the year	—	(8,862)
Settled during the year	(107,278)	(95)
Cancelled during the year	(8,656,468)	—
Currency translation adjustment	—	(235)
As at December 31, 2016	16,634	$ 728
Granted during the year	30,027	716
Settled during the year	(3,469)	(85)
As at December 31, 2017	43,192	$ 1,359

For the year ended December 31, 2017, the average fair value of DSU grants was $32.38 and is approximated using the Company's share price in U.S. dollars (2016: $42.74).

d. Restricted Share Units

Pursuant to the Plan, the Company issued RSUs on November 15, 2017, totalling 380,886 units that vest in three equal tranches on August 8, 2018, August 8, 2019, and August 8, 2020, respectively, settling on August 8, 2020 (2016: nil grants).

Subject to adjustment in accordance with the Plan, an RSU represents the right to receive a common share of the Company at settlement, or at the election of the Company, to receive the cash equivalent of a common share at the time of settlement, less applicable tax-related withholdings. The number of RSUs that will ultimately vest is determined by the performance adjustment factor applicable for each tranche of the issuance and may result in RSUs vesting and settling at higher or lower amounts than the number of RSUs originally granted to a participant, capped at a maximum of 30% above the issued amount. The adjustment factor is based on the Company's business performance metrics and total shareholder return performance compared to peer companies over the applicable period. Under the terms of the Plan, the Board of Directors is authorized to determine and set the adjustment factor for each issuance. The Compensation and Human Resources Committee of the Board of Directors also approved the issuance of an additional 114,265 RSUs (reflecting the 30% cap amount described above), which are subject to exceptional business performance as determined by such committee in its sole discretion.

The total return performance adjustment factor was calculated using a Monte Carlo simulated option pricing model. The Monte Carlo simulated option pricing model requires the use of assumptions, including expected share price volatility of the Company and peer group. Historical data for the Company and peer group is considered in setting the assumptions.

The estimated unit fair value was C$36.85 (November 15, 2017), and revalued at C$39.60 at December 31, 2017. The expense is recognized using the graded vesting method, where the estimated fair value of RSUs is amortized, by tranche, on a straight-line basis over the vesting period. A total of $2.5 million in expense was recognized in the year ended December 31, 2017 (2016: $nil), of which $2.3 million was charged to Consolidated Statements of (Loss) Income, and $0.2 million capitalized to the Company's property assets.

There were 376,086 RSUs unvested and outstanding as at December 31, 2017 (2016: nil). A total of 4,800 units were forfeited due to employee departures.

21. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Year Ended December 31	
	2017	2016
Decrease in accounts receivable	$ 1,925	$ 203,048
Decrease in income taxes receivable	55,675	114,711
Increase (decrease) in accounts payable and accrued liabilities	(30,576)	(463,351)
Increase in inventories	(20,621)	(11,524)
(Decrease) increase in income taxes payable	(5,058)	10,875
Decrease in prepaid expenses	1,070	1,894
Total	$ 2,415	$ (144,347)

(In thousands of U.S.$, unless otherwise stated)

Other cash flow information is as follows:

	Year Ended December 31 2017	2016
Cash income and equity taxes paid	$ 18,160	$ 35,410
Cash interest paid	25,000	30,729
Cash interest received	$ 7,205	$ 11,212

Deferred Revenue

In 2015, the Company received $350 million for the delivery of 12 million barrels of crude oil between April 2015 and March 2016. The cash was recognized as a deferred revenue liability and was amortized and recognized as revenue upon the monthly delivery of the crude oil. As at December 31, 2016, the deferred revenue balance of $75 million was fully amortized.

22. Related-Party Transactions

The following tables provide the transaction amounts, total balances outstanding (before impairments) and commitments with related parties, as at and for the years ended December 31, 2017, and December 31, 2016:

As at December 31,		Accounts Receivable	Accounts Payable	Commitments	Cash Advance	Loans Receivable[(2)]	Interest Receivable[(2)]	Convertible Debentures[(2)]
Oleoducto de los Llanos (ODL)	2017	$ 421	$ 231	$ 130,303	$ —	$ —	$ —	$ —
	2016	639	342	176,442	—	—	—	—
Bicentenario	2017	12,660	469	902,375	87,278	—	—	—
	2016	13,400	433	1,164,251	87,278	—	—	—
Pacific Infrastructure Ventures Inc. - Sociedad Portuaria Puerto Bahia S.A	2017	5,926	1,598	158,179	17,741	76,552	26,331	—
	2016	828	905	199,859	17,741	74,279	18,097	—
Interamerican Energy - Consorcio Genser Power - Proelectrica - Termomorichal	2017	145	72	—	—	2,224	362	—
	2016	174	600	—	—	2,224	24	—
CGX Energy Inc.	2017	120	—	—	—	14,622	1,516	1,500
	2016	—	—	—	—	10,000	800	1,500
Paye Foundation [(1)]	2016	$ 4	$ 1,737	$ —	$ —	$ —	$ —	$ —

For the Year Ended December 31,		Sales	Purchases / Services	Interest Income[(2)]
Oleoducto de los Llanos (ODL)	2017	$ 3,973	$ 50,135	$ —
	2016	4,224	89,513	—
Bicentenario	2017	—	127,333	—
	2016	—	168,813	—
Pacific Infrastructure Ventures Inc.-Sociedad Portuaria Puerto Bahia S.A	2017	—	35,600	8,234
	2016	—	36,687	9,417
Interamerican Energy - Consorcio Genser Power - Proelectrica - Termomorichal	2017	407	24	338
	2016	8,720	17,200	24
CGX Energy Inc.	2017	526	—	716
	2016	—	—	470
Paye Foundation [(1)]	2016	$ 94	$ 4	$ —

[(1)] The Paye Foundation (formerly Pacific Rubiales Foundation) was in liquidation as at December 31, 2017. The Company established the new Frontera Foundation charity in Colombia in 2017, which is a consolidated subsidiary of the Company.

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

The following sets out the details of the Company's related-party transactions as summarized in the tables above:

- **ODL** - Services expense relate to take-or-pay contracts the Company has with ODL for the transportation of crude oil from the Company's fields to Colombia's oil transportation system for a total commitment of $130.3 million from 2018 to 2021. The Company also earned revenue with respect to power transmission sales to ODL.

(In thousands of U.S.$, unless otherwise stated)

- **Bicentenario** - Services expense relate to ship-or-pay contracts the Company has with Bicentenario for the transportation of crude oil from the Company's fields to Colombia's oil transportation system for a total commitment of $0.9 billion from 2018 to 2025. The Bicentenario pipeline has experienced periodic suspensions following security-related disruptions. The Company also has advances with Bicentenario as a prepayment of transport tariff, which are to be amortized against future barrels transported above the Company's contract capacity, and trade receivables and payables related to transportation taxes.
- **PII** - The Company has loans receivable from PII that are guaranteed by PII's pipeline project and bear interest that ranges from LIBOR 6M + 3% to 10% per year (Notes 16, 23). The Company also has take-or-pay contracts for the transfer, loading, and unloading of hydrocarbons at its port facilities, for a total commitment of $158.2 million from 2018 to 2021, for which the Company recognizes associated purchases and service expenses and related payable balances. The Company also has a receivables balance in 2017 associated with fuel tanks under lease by the Company, that was subleased by PII to another operator.
- **CGX** - The Company has a series of loans with CGX (Note 15). The Company also has service arrangements with respect to certain corporate administrative services and technical service support provided for CGX's operations in Guyana.
- **Interamerican** - The Company entered into a loan agreement with Interamerican for an amount of $2.2 million bearing an annual interest of 15% on December 13, 2016. The Company also purchases energy supply services from Interamerican, and recognizes gas sales supplied from the La Creciente fields.
- **Dividends** - The Company, as shareholder, received dividends from associate investees ODL and Bicentenario (Note 15).

The Company's key management personnel include its Board of Directors and the executive officers. Compensation for key management personnel is summarized below:

	As at December 31	
	2017	**2016**
Short-term employee benefits	$ 4,184	$ 26,610
Termination benefits	2	20,603
Post-employment pension and medical benefits	—	3,295
Share-based payments	1,643	1,571
Total compensation	$ 5,829	$ 52,079

23. Financial Instruments

The Company explores, develops, and produces oil and gas and enters into contracts to sell its oil and gas production. The Company also enters into supply agreements and purchases goods and services denominated in non-functional currencies such as Colombian pesos for its Colombian-based activities. These activities expose the Company to market risk from changes in commodity prices, foreign exchange rates, interest rates and credit and liquidity risks that affect the Company's earnings and the value of associated financial instruments it holds.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge its risk exposures. The Company's strategy, policies and controls are designed to ensure that the risks it assumes comply with the Company's internal objectives and its risk tolerance. It is the Company's policy that no speculative trading in derivatives shall be undertaken.

When possible and cost effective, the Company applies hedge accounting; however, hedging does not guard against all risks and is not always effective. The Company could recognize financial losses as a result of volatility in the market values of these contracts. As at December 31, 2017, and 2016, none of the Company's outstanding financial derivative positions were subject to hedge accounting.

a. Risks Associated with Financial Assets and Liabilities

i) Market Risks

Commodity price risk

Commodity price risk is the risk that the cash flows and operations of the Company will fluctuate as a result of changes in commodity prices associated with oil pricing. Significant changes in commodity prices can also impact the Company's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by global economic events that dictate the levels of supply and demand. While the Company does not engage in speculative financial instrument trading, it may enter into various hedging strategies such as zero-cost-collars, swaps, and forwards to minimize its commodity price risk exposure to oil pricing.

(In thousands of U.S.$, unless otherwise stated)

Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company operates primarily in Colombia, fluctuations in the exchange rate between the Colombian peso and the U.S. dollar can have a significant effect on the Company's reported results.

To mitigate the exposure to the fluctuating COP/U.S.dollar exchange rate associated with operating and general and administrative expenses incurred in COP, the Company may enter into various hedging strategies such as currency zero-cost-collars, swaps and forwards. In addition, the Company may also enter into currency derivatives to manage the foreign exchange risk on financial assets that are denominated in CAD.

The Company's foreign exchange income/loss primarily includes unrealized foreign exchange incomes and losses on the translation of COP-denominated risk management assets and liabilities held in Colombia.

Interest rate risk

The Company does not have any financial liabilities that are subject to interest rate risk at December 31, 2017 (Note 17).

Sensitivity analysis on market risks

The details below summarize the sensitivities of the Company's risk management positions to fluctuations in the underlying benchmark prices, with all other variables held constant. Fluctuations in the underlying benchmark could have resulted in unrealized incomes or losses impacting pre-tax net earnings as follows:

- A 10% change in the COP/U.S.dollar exchange rate would have resulted in a $0.8 million change in foreign exchange income/loss as at December 31, 2017 (2016: $1.1 million).

ii) Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligations in accordance with agreed terms. The Company actively limits the total exposure to individual client counterparties and holds a trade credit insurance policy for indemnification for losses from non-collection of trade receivables.

As at December 31, 2017, 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 $31.2 million and $30.2 million or 34% and 33% of trade accounts receivable, respectively (December 31, 2016: two customers at $46.0 million and $25.0 million or 44% and 23% of trade accounts receivable). Revenues from these customers for the year ended December 31, 2017, were $250.0 million and $30.2 million, or 20% and 2% of revenue (2016: $245.0 million and $147.0 million or 17% and 10% of revenue), respectively.

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

	As at December 31	
	2017	**2016**
Trade receivables	$ 106,262	$ 104,994
Short-term advances/deposits	16,679	28,040
Other receivables [(1)]	79,624	20,893
Receivables from joint arrangements	52,674	41,183
Withholding tax and others	54,060	58,102
Allowance for doubtful trade receivables	(15,676)	(15,848)
Allowance for doubtful advances/deposits	(857)	(866)
Allowance for other receivables	(4,545)	(1,178)
Allowance for joint arrangements	(16)	(492)
Current receivables	$ 288,205	$ 234,828
Long-term receivables (Note 16)	59,079	109,501
Total	$ 347,284	$ 344,329
Withholding tax and others, short-term advances/deposits - not considered for credit risk	(69,882)	(85,276)
Total current and non-current receivables exposed to credit risk	$ 277,402	$ 259,053

[(1)] *Includes $57.0 million that was reclassified from long-term receivables during the year ended December 31, 2017 (Note 16).*

(In thousands of U.S.$, unless otherwise stated)

The majority of the receivables from joint arrangements is due from Ecopetrol. During the year ended December 31, 2017, the Company recognized impairment charges of $nil for certain receivables related to joint operations (2016: $5.0 million).

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 for the sale of oil in August 2015. The receivable was fully impaired as at December 31, 2017 and 2016.

iii) Liquidity Risk

As at December 31, 2017, the Company had $86.3 million in letters of credit outstanding (2016: $162.8 million), $82.3 million of which is committed under the Secured LC Agreement (2016: $111.7 million) (Note 24).

The following are the maturities of non-derivative financial liabilities (based on calendar year and undiscounted) as at December 31, 2017:

Financial liability due in	Note	2018	2019	2020	2021	2022	Subsequent to 2023	Total
Accounts payable and accrued liabilities		$ 547,900	$ —	$ —	$ —	$ —	$ —	$ 547,900
Senior Secured Notes	17	—	—	—	250,000	—	—	250,000
Obligations under finance lease	17	6,778	6,778	6,797	4,514	—	—	24,867
Total		$ 554,678	$ 6,778	$ 6,797	$ 254,514	$ —	$ —	$ 822,767

The following table shows the summary of Accounts Payable and Accrued Liabilities:

	As at December 31	
	2017	2016
Trade and other payables [1]	$ 158,613	$ 97,678
Accrued liabilities	190,778	170,588
Payables to JV partners	2,145	13,446
Advances, warranties, and deposits	37,217	38,074
Provisions and withholding tax	159,147	256,564
Total	$ 547,900	$ 576,350

[1] *Includes the liabilities of PEL (classified as held for sale), which totalled $1.6 million as at December 31, 2017 (Notes 10, 19).*

b. Risk Management Contracts

The Company has entered into a number of oil price risk management contracts, but none of these instruments are subject to hedge accounting. Any change in fair value is recorded in profit or loss as risk management gain or loss with realized amounts recorded in revenue. The terms and conditions of the hedging instruments and expected settlement periods as at December 31, 2017 and 2016 are as follows:

Type of Instrument	Term	Benchmark	Notional Amount / Volume (bbl/d)	Put/ Call Strike	Carrying Amount Assets	Carrying Amount Liabilities
Commodities price risk contracts						
Zero-cost collars	January 2018 to October 2018	Brent	12,000,000	49.11 / 61.63	$ —	$ (102,104)
Put spreads	October 2018	Brent	600,000	52.92 / 59.22	—	(1,643)
Total December 31, 2017					$ —	$ (103,747)
Zero-cost collars	January to July 2017	Brent	8,080,000	42.5 / 61.5	—	(31,985)
Total December 31, 2016					$ —	$ (31,985)

For the year ended December 31, 2017, the Company recognized a loss of $21.3 million in revenue, related to the contracts that were settled in the period (2016: gain in revenues of $152.1 million).

c. Fair Value of Financial Instruments

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management derivative assets and liabilities, long-term receivables, loans and borrowings, finance lease obligations, long-term debt and FVTOCI investments on the Consolidated Statements of Financial Position.

(In thousands of U.S.$, unless otherwise stated)

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

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 December 31, 2017 and 2016:

			Fair Value			
	Period	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)						
Investments in equity instruments (Note 16)	2017	$ 1,130	$ —	$ —	$ 1,130	$ 1,130
	2016	962	—	—	962	962
Financial Assets Measured at Amortized Cost						
Long-term receivables (Note 16)	2017	$ 59,079	$ —	$ 16,107	$ 42,972	$ 59,079
	2016	109,501	—	70,523	38,978	109,501
Financial Liabilities Measured at Fair Value Through Profit or Loss (FVTPL)						
Risk management liabilities	2017	$ (103,747)	$ —	$ (103,747)	$ —	$ (103,747)
	2016	(31,985)	—	(31,985)	—	(31,985)
Financial Liabilities Measured at Amortized Cost						
Long-term debt	2017	$ (250,000)	$ —	$ (280,803)	$ —	$ (280,803)
	2016	(250,000)	—	(250,000)	—	(250,000)
Obligations under finance lease	2017	(19,229)	—	(24,226)	—	(24,226)
	2016	$ (22,942)	$ —	$ (28,904)	$ —	$ (28,904)

Valuation Techniques

The Company uses level 1 inputs, being the last quoted price of the traded investments, to measure the fair value of its financial assets at FVTOCI, with the exception of certain investments that do not have an observable market.

The Company uses level 2 inputs to measure the fair value of its risk management contracts, certain receivables and debt balances. The fair values of the risk management contracts are estimated using internal discounted cash flows based on forward prices and quotes obtained from counterparties to the contracts, taking into account the creditworthiness of those counterparties or the Company's credit rating when applicable. The fair value of certain receivables and debt balances is estimated based on recently observed transactions, or calculated by discounting the expected future contractual cash flows using a discount rate based on either contractual terms or market rates for instruments of similar maturity and credit risk.

The Company uses level 3 inputs to measure the fair value of certain investments that do not have an active market, and long-term loan receivable balances with PII.

The fair value of the Company's long-term loan receivable with PII, which approximates the carrying value, was measured using a discounted cash flow methodology based on a projection of the future cash flows expected to be realized from the loan discounted at the contractual LIBOR 6M + 3% to 7% interest rates (Note 16). The significant unobservable inputs relate to the expected timing of repayment of principal and the expected interest cash flows under the loan. There were no changes in these assumptions in the calculation since December 31, 2016. During the year end December 31, 2016, the estimated fair value reduced, from $72.4 million as at December 31, 2015, to $38.9 million, primarily due to an update in the assumptions related to timing of repayment and projected cash flows.

Commodity risk management contracts are measured at observable spot and forward crude oil prices.

d. Capital Management

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; (ii) to maintain investor, creditor and market confidence to sustain the future development of the business; and (iii) ensure compliance with the terms and conditions of the Senior Secured Notes and Secured LC Agreement while undertaking any capital management strategies and initiatives.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

(In thousands of U.S.$, unless otherwise stated)

The Company monitors capital based on the following non-standardized IFRS measures: current and projected ratios of debt to cash flow from operations and debt to capital employed. The Company's objective (which is currently met), is to maintain a debt to cash flow from operations ratio of less than three times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to external restrictions. The Company finished the process of negotiating with its stakeholders for a restructuring of its capital structure in 2016, including its long-term debts (Note 1).

The following table summarizes the Company's capital structure balances:

	As at December 31	
	2017	2016
Equity attributable to equity holders of the Company	$ 1,285,750	$ 1,495,770
Long-term debt	250,000	250,000
Working capital surplus	310,017	205,616
Total	$ 1,845,767	$ 1,951,386

24. Commitments and Contingencies

Commitments

The Company's commitments as at December 31, 2017, undiscounted and by calendar year, are presented below:

As at December 31, 2017	2018	2019	2020	2021	2022	2023 and Beyond	Total
Transportation Commitments							
ODL Ship-or-Pay Agreement	$ 50,034	$ 49,052	$ 30,073	$ 1,144	$ —	$ —	$ 130,303
Bicentenario Ship-or-Pay Agreement	138,447	138,447	138,447	138,447	138,447	210,140	902,375
Transportation and processing commitments	233,982	232,575	232,575	232,610	191,712	720,041	1,843,495
Exploration Commitments							
Minimum work commitments	126,194	31,413	54,615	27,546	—	—	239,768
Other Commitments							
Operating purchases and leases	47,183	5,297	4,982	4,982	4,982	4,281	71,707
Community obligations	8,863	1,099	—	—	—	—	9,962
Total	$ 604,703	$ 457,883	$ 460,692	$ 404,729	$ 335,141	$ 934,462	$ 3,197,610

Letters of Credit

The Company also has various guarantees in place in the normal course of business. As at December 31, 2017, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $86.3 million (2016: $162.8 million), of which $82.3 million was under the Secured LC Agreement. The Secured LC Agreement, which was amended and restated on November 2, 2016 (Note 1), matures on June 22, 2018. The Company pays a credit facility fee of 5% per annum on the issued and maintained amounts, and will pay 8% per annum on amounts drawn under any issued letters of credit. If any event of default exists, the applicable rate will increase by an additional 2% per annum until such default is cured. As at December 31, 2017, letters of credit totalling $82.3 million were issued and maintained under the Secured LC Agreement (2016: $111.7 million). The Secured LC Agreement is secured by substantially all the assets of the Company and its material subsidiaries, in second ranking to the Senior Secured Notes (Note 17).

OCENSA Pipeline

Minimum credit rating requirement

In Colombia, the Company is participating as a shipper in a project to expand the OCENSA pipeline (Project P-135), which commenced operations in July 2017. As part of the expansion project, the Company, through its Colombian branches, entered into two crude oil transport agreements with OCENSA for future transport capacity. The Company started paying ship-or-pay fees once the expansion project was completed and operational. As part of the expansion project agreements, the Company is required to maintain minimum credit ratings of BB- (Fitch) and Ba3 (Moody's) or to evidence compliance with net assets and working capital tests. The Company met the net assets and working capital tests as at December 31, 2017.

Transporte Incorporado-minimum credit rating requirement and guarantees

Pursuant to an assignment agreement with Transporte Incorporado, an entity owned by the Darby Private Equity Fund, the Company is entitled to Transporte Incorporado's transport capacity rights through the OCENSA pipeline at a set monthly premium through March 1, 2024. As part of this assignment agreement, the Company is required to maintain a minimum credit rating of B1 as determined by Moody's and B+ by both Standard and Poor's and Fitch. In 2015, ratings downgrades resulted in the triggering of an early-termination right in favour of Transporte Incorporado that requires the Company to immediately pay an early-termination payment set forth in the assignment agreement upon receiving notice from Transporte Incorporado. The Company has received a waiver from Transporte Incorporado of its right to early-terminate for a period of time, which has been extended several times and is currently set to expire on March 31, 2019.

Transporte Incorporado maintains a unilateral put right under the assignment agreement that is available from April 2019 until March 2020. If the put right is exercised, the assignment agreement would be terminated, the transport capacity rights would be transferred to the Company and the Company would be required to pay Transporte Incorporado an estimated amount of $47 million at the commencement of the put period or $30 million by the end of the put period.

Under the assignment agreement, the Company also has a call right, available from April 2020 until March 2021. If the Company exercises such call right the assignment agreement would be terminated, the transport capacity rights would be transferred to the Company and the Company would be required to pay Transporte Incorporado an estimated amount of $69 million at the commencement of the call period or $45 million by the end of the call period.

Transportation tariffs and monetary conditions

On April 25, 2017, the Company commenced arbitration proceedings against OCENSA with the Centre for Arbitration and Conciliation of the Bogota Chamber of Commerce. The proceedings were initiated in relation to the standard transportation tariff and monetary conditions included in certain contracts entered into with OCENSA in 2014 relating to crude transport services. These contracts were entered into in connection with the expansion of the OCENSA Pipeline. On October 30, 2017, OCENSA filed a counterclaim against the Company. On February 6, 2018, the Company and OCENSA entered into an agreement of intent outlining a resolution to the claim. On February 19, 2018, the Company and OCENSA amended their respective claims. The Company and OCENSA are in the process of submitting their settlement agreement to the arbitrators for approval. Upon approval of the terms by the arbitration tribunal, the parties will execute the corresponding amendments to the contracts to include the revised transport tariff and monetary conditions. Without approval from the arbitrators, the arbitration proceedings will continue with it being understood that the parties have not waived any of their rights or claims.

Other Guarantees and Pledges

On December 14, 2016, the Company granted a security interest in favour of Talisman Colombia Oil & Gas Ltd. (**"TCOG"**) for 50% of the production (after royalties, ANH economic rights and other applicable discounts) of the CPE-6 Block in Colombia up to $48.0 million. This arose from the Company's acquisition of TCOG's 50% working interest in the CPE-6 Block.

On October 4, 2013, the Company's subsidiary Pacinfra Holding Ltd., Pacific Infrastructure Ventures, Inc., Puerto Bahia (owned by PII; Note 15) and Wilmington Trust, National Association (as Collateral and Administrative Agent), entered into an equity contribution agreement, pursuant to which Pacinfra Holding Ltd. and PII agreed to jointly and severally cause equity contributions (via debt or equity, at the option of the Company) 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. PII's other minority shareholder, International Finance Corporation, has the contractual right to subscribe, at its discretion, up to 50% of the Company's obligations under the agreement. On February 27, 2018, Wilmington Trust, National Association, issued a deficiency notice to Pacinfra Holding Ltd. and PII requesting both companies fund, or cause to be funded, a total amount of $26.9 million to Puerto Bahia.

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. Since the outcome of these matters is 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 which it may be required to pay by reason thereof, would have a material impact on its financial position, results of operations, or cash flows.

Tax Review in Colombia

The Colombian tax authority (**"DIAN"**) is reviewing certain income tax deductions with respect to the special tax benefit for qualifying petroleum assets as well as other exploration expenditures. As at December 31, 2017, the DIAN has reassessed $85.8 million of tax owing, including estimated interest and penalties, with respect to the denied deductions (2016: $56.6 million).

The Company believes that disagreements with the DIAN related to the denied income tax deductions will be resolved in favour of the Company. No provision with respect to income tax deductions under dispute has been recognized as at December 31, 2017 and 2016.

Tax Review in Peru

The Peruvian tax authority, the SUNAT completed a tax audit for the 2013 taxation year, which resulted in the denial of certain expenses of approximately $22.4 million, including estimated interest and penalties, claimed by Pacific Off Shore del Perú S.R.L as part of the carry agreement with BPZ Exploration & Production with respect to the joint investment in Block Z-1.

The Company believes that the disagreements with the SUNAT related to the denial of expenses will be resolved in favour of the Company. No provision with respect to the expenses under dispute has been recognized as at December 31, 2017 and 2016.

PAP Disagreement with the ANH

The Company has certain exploration and production contracts acquired through business acquisitions where outstanding disagreements with the ANH existed relating to the interpretation of the PAP clause. These contracts require high-price participation payments be made to the ANH for each designated exploitation area within a block under contract, which has cumulatively produced five million or more barrels of oil. The disagreement involves whether the cumulative production amounts in an exploitation area should be calculated individually (as each exploitation area represents independent reservoirs) or combined with other exploration areas within the same block for the purpose of determining the five-million-barrel threshold. The ANH has interpreted that the high-price participation should be calculated on a combined basis versus the Company's interpretation of utilizing the individual calculation.

The Company and the ANH are currently in discussions to further understand the differences in interpretation of these exploration and production contracts (excluding the Corcel Block, discussed below). However, in accordance with IFRS 3 *Business Combinations*, under business acquisitions accounting the Company was required to recognize a provision for such contingencies at the date of acquisition, even though the Company believed the disagreement would be resolved in its favour. The Company does not disclose the amount recognized as required by paragraphs 84 and 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("**IAS 37**"), on the grounds that this would be prejudicial to the outcome of potential disputes.

Reversal of provision related to high-price clause - the Corcel Block

The Corcel Block, which was acquired as part of the Petrominerales acquisition in 2013, is the only block for which a binding arbitration process was initiated, and in which the ANH claimed in 2013 that it was owed $167.2 million plus interest as at December 2012. On December 6, 2017, an arbitration panel delivered a ruling in favour of the Company's interpretation. As a result, given the settlement of the matter by the competent judge (the arbitration panel), the contingent liability previously recorded for the Corcel Block was reversed and a recovery of $99.6 million was recognized in the Consolidated Statements of (Loss) Income during the year ended December 31, 2017.

On December 14, 2017, the ANH filed a request for annulment of the arbitration panel's decision with the Consejo de Estado (Colombia's highest administrative court), and the matter is currently being reviewed by this Court. Subsequent actions, including the annulment request, was assessed under IAS 37, and no provision was recognized as at December 31, 2017 given the initial stages of this new request and the existing ruling from the binding arbitration process in favour of the Company.