CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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 fulfils 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.

"Richard Herbert" (signed)
Chief Executive Officer

"David Dyck" (signed)
Chief Financial Officer

Toronto, Canada

March 13, 2019

Independent Auditor's Report

To the Shareholders of **Frontera Energy Corporation**

Opinion

We have audited the consolidated financial statements of Frontera Energy Corporation and its subsidiaries (the "**Company**"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("**IFRS**").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Kerr.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 13, 2019

Consolidated Statements of Loss

(In thousands of U.S.$, except per share information)	Notes	Year Ended December 31 2018	2017
Oil and gas sales and other revenue	5	$ 1,368,227	$ 1,185,040
Sales of oil and gas for trading	5	3,479	94,767
Royalties		(51,221)	(25,382)
Revenue		1,320,485	1,254,425
Oil and gas operating costs	6	609,189	640,876
Purchase of oil and gas for trading		2,796	93,577
Fees paid on suspended pipeline capacity	26	82,372	108,831
Payments under terminated pipeline contracts	26	74,618	—
General and administrative		93,022	104,823
Share-based compensation	22	4,042	2,605
Depletion, depreciation and amortization		316,751	382,246
Impairment, exploration expenses and other	7	315,292	126,844
Reversal of provision related to high-price clause	26	(62,911)	(99,622)
Restructuring, severance and other costs	8	14,592	12,617
Loss from operations		(129,278)	(118,372)
Share of income from associates	16	83,601	76,186
Equity tax		—	(11,694)
Foreign exchange (loss) gain		(3,375)	1,876
Finance income		25,832	17,646
Finance expense	18	(52,724)	(41,814)
Loss on risk management contracts	25	(85,633)	(93,053)
Other loss, net		(4,741)	(5,425)
Reclassification of currency translation adjustments	13	(48,094)	—
Loss on extinguishment of debt	18	(25,628)	—
Net loss before income tax		(240,040)	(174,650)
Current income tax expense	10	(30,507)	(36,095)
Deferred income tax recovery	10	11,786	20,830
Income tax expense		(18,721)	(15,265)
Net loss for the year		$ (258,761)	$ (189,915)
Attributable to:			
Equity holders of the Company		(259,083)	(216,703)
Non-controlling interests		322	26,788
		$ (258,761)	$ (189,915)
Basic and diluted loss per share attributable to equity holders of the Company	11	$ (2.59)	$ (2.17)

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

(In thousands of U.S.$)	Notes	Year Ended December 31 2018	2017
Net loss for the year		$ (258,761)	$ (189,915)
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods (nil tax effect)			
Foreign currency translation		(14,107)	3,017
Reclassification of currency translation adjustments	13	48,094	—
		33,987	3,017
Total comprehensive loss for the year		$ (224,774)	$ (186,898)
Attributable to:			
Equity holders of the Company		(215,702)	(213,931)
Non-controlling interests		(9,072)	27,033
		$ (224,774)	$ (186,898)

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 2018	2017
ASSETS			
Current			
Cash and cash equivalents		$ 446,132	$ 511,685
Restricted cash	25	39,541	65,787
Accounts receivable	25	205,518	272,383
Inventories	12	108,015	60,273
Income taxes receivable		7,071	10,539
Prepaid expenses and deposits		5,309	17,793
Assets held for sale	13	—	52,925
Risk management assets	25	9,380	—
Total current assets		820,966	991,385
Non-current			
Properties, plant and equipment	14	972,035	924,009
Exploration and evaluation assets	15	15,100	22,229
Investments in associates	16	191,111	420,983
Deferred tax asset	10	32,616	20,830
Restricted cash	25	102,764	66,614
Other assets	17	156,686	133,601
Total assets		$ 2,291,278	$ 2,579,651
LIABILITIES			
Current			
Accounts payable and accrued liabilities	25	$ 575,166	$ 547,900
Risk management liabilities	25	4,318	103,747
Income taxes payable		3,124	5,328
Obligations under finance leases	19	7,151	4,284
Asset retirement obligations	20	15,509	20,109
Total current liabilities		605,268	681,368
Non-current			
Long-term debt	18	326,784	250,000
Obligations under finance leases	19	20,428	14,945
Asset retirement obligations	20	231,610	236,957
Total liabilities		1,184,090	1,183,270
Commitments and contingencies	26		
EQUITY			
Share capital		4,727,598	4,745,440
Contributed surplus		116,725	127,351
Other reserves		(184,230)	(232,108)
Retained deficit		(3,637,766)	(3,354,933)
Equity attributable to equity holders of the Company		1,022,327	1,285,750
Non-controlling interests	21	84,861	110,631
Total equity		1,107,188	1,396,381
Total liabilities and equity		$ 2,291,278	$ 2,579,651

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

Consolidated Statements of Changes in Equity

	Attributable to equity holders of Company									
(In thousands of U.S.$)	Number of Common Shares [1]	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Fair Value Investment	Retained Deficit	Total	Non-Controlling Interests	Total Equity
As at January 1, 2017	100,004,726	$ 4,745,355	$ 123,525	$ (229,678)	$ (5,202)	$ (3,138,230)	$ 1,495,770	$ 105,265	$ 1,601,035
Net (loss) income for the year	—	—	—	—	—	(216,703)	(216,703)	26,788	(189,915)
Other comprehensive income	—	—	—	2,772	—	—	2,772	245	3,017
Total comprehensive income (loss)	—	—	—	2,772	—	(216,703)	(213,931)	27,033	(186,898)
Share-based compensation	6,938	85	3,826	—	—	—	3,911	—	3,911
Dividends paid to non-controlling interests (Note 21)	—	—	—	—	—	—	—	(21,667)	(21,667)
As at December 31, 2017	100,011,664	4,745,440	127,351	(226,906)	(5,202)	(3,354,933)	1,285,750	110,631	1,396,381
Net (loss) income for the year	—	—	—	—	—	(259,083)	(259,083)	322	(258,761)
Other comprehensive income (loss)	—	—	—	43,381	—	—	43,381	(9,394)	33,987
Total comprehensive income (loss)	—	—	—	43,381	—	(259,083)	(215,702)	(9,072)	(224,774)
Share-based compensation	—	—	2,658	—	—	—	2,658	—	2,658
Dividends paid to non-controlling interest (Note 21)	—	—	—	—	—	—	—	(25,485)	(25,485)
Dividends declared (Note 22)	—	—	—	—	—	(23,750)	(23,750)	—	(23,750)
Increase in non-controlling interests (Note 21)		—	(13,284)	4,497	—	—	(8,787)	8,787	—
Repurchase of common shares (Note 22)	(1,590,585)	(17,842)	—	—	—	—	(17,842)	—	(17,842)
As at December 31, 2018	98,421,079	$ 4,727,598	$ 116,725	$ (179,028)	$ (5,202)	$ (3,637,766)	$ 1,022,327	$ 84,861	$ 1,107,188

[1] *On June 26, 2018, the Company completed a two-for-one share split on its issued and outstanding common shares, which was applied retrospectively. As a result, the common share amounts are stated on an adjusted post-split basis (Note 22).*

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 2018	2017
OPERATING ACTIVITIES			
Net loss for the year		$ (258,761)	$ (189,915)
Items not affecting cash:			
Depletion, depreciation and amortization		316,751	382,246
Impairment	7	321,480	123,180
Recovery of asset retirement obligation	7	(15,894)	—
Accretion, net		12,176	6,966
Unrealized (gain) loss on risk management contracts	25	(107,337)	71,762
Share-based compensation		2,545	2,605
Deferred income tax recovery	10	(11,786)	(20,830)
Unrealized foreign exchange gain		(3,572)	(9,621)
Share of income from associates	16	(83,601)	(76,186)
Reclassification of currency translation adjustments	13	48,094	—
Other		(1,168)	(2,957)
Dividends from associates	16	67,583	68,586
Settlement of asset retirement obligations	20	(4,384)	(2,214)
Loss on extinguishment of debt	18	25,628	—
Changes in non-cash working capital	2, 23	4,249	(39,199)
Cash provided by operating activities		312,003	314,423
INVESTING ACTIVITIES			
Additions to properties, plant and equipment		(363,183)	(206,797)
Additions to exploration and evaluation assets, net		(90,296)	(15,499)
Additions to other assets and short-term loans	17, 25	(49,416)	(2,573)
Proceeds from sale of power transmission line assets	13	55,649	—
Increase in restricted cash		(47,754)	(15,616)
Proceeds from the sale of assets held for sale and others		10,741	37,070
Proceeds from the sale of interests in Papua New Guinea	23	57,000	—
Changes in non-cash working capital	2, 23	43,969	41,614
Cash used in investing activities		(383,290)	(161,801)
FINANCING ACTIVITIES			
Payment of finance leases		(7,615)	(6,778)
Long-term debt - repayment at a premium	18	(275,628)	—
Long-term debt - gross proceeds from issuance prior to transaction costs	18	345,947	—
Transaction costs on issuance of long-term debt	18	(20,758)	—
Repurchase of common shares	22	(17,842)	—
Dividends paid to non-controlling interests	21	(25,485)	(21,667)
Cash used in financing activities		(1,381)	(28,445)
Effect of exchange rate changes on cash and cash equivalents		7,115	(1,591)
(Decrease) increase in cash and cash equivalents during the year		(65,553)	122,586
Cash and cash equivalents, beginning of the year		511,685	389,099
Cash and cash equivalents, end of the year		$ 446,132	$ 511,685
Cash		342,190	110,634
Cash equivalents		103,942	401,051
Total cash and cash equivalents		$ 446,132	$ 511,685
Cash income tax paid		$ 12,163	$ 18,160
Cash interest paid		$ 28,947	$ 25,000
Cash interest received		$ 12,343	$ 7,205

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

1. Corporate Information

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

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 (the "**Board**") on March 13, 2019.

2. Basis of Preparation and Significant Accounting Policies

Statement 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 (risk management assets and liabilities) and investments that have been measured at fair value.

Presentation of Comparative Amounts

The comparative consolidated financial statements have been reclassified from the amounts previously presented to conform to the presentation of the current consolidated financial statements. Certain presentation changes were made to align with the Company's peers and to better reflect management's approach to reviewing financial and operational results. The following are the key changes as at and for the year ended December 31, 2017:

- Royalties, which represents high-price participation payments and cash royalties totalling $22.1 million, and royalty amounts paid to previous owners of certain blocks in Colombia totalling $3.3 million, was reclassified from Oil and Gas Operating Costs and recognized within Revenue on the Consolidated Statements of Loss.
- Realized loss on risk management contracts of $21.3 million was reclassified from Oil and Gas Sales and Other Revenue to Loss on Risk Management Contracts on the Consolidated Statements of Loss (Notes 3, 25).
- Finance Income of $17.6 million, which represents interest and accretion income on financial assets, was reclassified from Finance Expense and presented separately on the Consolidated Statements of Loss.
- Short-term prepaid advances and deposits of $15.8 million was reclassified from Accounts Receivable to Prepaid Expenses and Deposits in the Consolidated Statements of Financial Position.
- Properties, Plant and Equipment includes both oil and gas properties and plant and equipment long-lived assets in the Consolidated Statements of Financial Position (Note 14).

Revised 2017 Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows for the year ended December 31, 2017, has been revised to reflect the reclassification of $41.6 million in Changes in Non-Cash Working Capital from operating activities to investing activities. The reclassified amount relates to non-cash working capital movements for capital expenditure additions, which are now reflected as investing activities (Note 23), and had the following effect:

- Cash Provided by Operating Activities decreased from $356.0 million to $314.4 million.
- Cash Used in Investing Activities decreased from $203.4 million to $161.8 million.

There was no other impact on the consolidated financial statements as a result of this reclassification.

Functional and Presentation Currency

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

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.

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

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 financial statements from the date the Company acquires control until the date the Company ceases to control the subsidiary.

Net income (loss) and each component of other comprehensive income (loss) ("**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 subsidiaries of the Company are eliminated in full upon consolidation.

The Company ceases to consolidate a subsidiary at the date control is lost, and then derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in net income (loss). Any investment retained is recognized at fair value.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction.

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.

	Registered Office	Country of Principal Business Activity	Recognition Method	Percentage Interest As at December 31 2018	2017
Principal Subsidiaries					
Frontera Energy Colombia AG	Switzerland	Colombia	Consolidated	100%	100%
Pacific Midstream Ltd. [(1)]	Bermuda	Colombia	Consolidated	59.93%	63.64%
Petroelectrica de los Llanos Ltd. [(2)]	Bermuda	Colombia	Consolidated	—%	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. [(2)]	Panama	Colombia	Equity method	35.00%	35.00%
Oleoducto Bicentenario de Colombia S.A.S. [(2)]	Colombia	Colombia	Equity method	43.03%	43.03%
Pacific Infrastructure Ventures Inc.	British Virgin Islands	Colombia	Equity method	39.22%	39.22%
CGX Energy Inc.	Canada	Guyana	Equity method	48.29%	45.61%

*[(1)] A minority NCI in Pacific Midstream Ltd. ("**PML**") is held by the International Finance Corporation and its related parties (collectively, the "**IFC**") (Note 21).*

*[(2)] Entities held by PML. Petroelectrica de los Llanos Ltd. ("**PEL**") was sold on April 19, 2018 (Note 13). Percentage interest ownership in the associate investees are presented gross, prior to the minority NCI share (Note 21).*

3. Significant Accounting Policies, Judgments, Estimates and Assumptions

a. Summary of Significant Accounting Policies

Revenue Recognition

Oil and gas revenues from contracts with customers are determined by reference to consideration specified in the contracts and recognized when control of the product is transferred to the customer. This transfer of control typically occurs at a point in time when the following conditions are satisfied:

- The title and physical possession has been transferred;
- The significant risks and rewards of ownership have been transferred to the buyer; and
- The Company has the present right to payment.

For crude oil and natural gas sales, control of the product transfers when the customer obtains legal title to the product, which is when the Company satisfies its performance obligations. This transfer of control typically occurs at a point in time when the product is physically discharged at the point of unloading, which can be a shipping port or customer storage facility, unless an alternative transportation method is agreed upon. Revenue represents the Company's share of oil and gas sales after deducting royalties, sales taxes, excise duties and similar levies. The Company does not have contracts where the period between the transfer of the product to the customer and payment by the customer exceeds one year and, therefore, the Company does not adjust its revenue transactions for the time value of money.

Overlift, or settlement, corresponds to a short-term imbalance between the Company's production and sales volumes. In these instances, the Company lifts barrels from the pipeline system, resulting in more volumes sold than produced, which is considered "overlift". During overlift, the Company recognizes the sales and an equivalent cost with no margin, when the overlift is settled, this expense is reversed to recognize the gross margin earned on the related sale in the period of production.

Share-Based Compensation

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 ("**CHRC**"), 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 CHRC, at the stipulated settlement date in the award agreement. 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 or the full award (if no tranches), 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 share capital.

The Company can also grant stock options to officers, employees and consultants, which are accounted for using the fair-value method, estimated using the Black-Scholes option-pricing model. The Company has no issued or outstanding stock options as at December 31, 2018 (2017: Nil).

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 income (loss). 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 transactions. 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 income (loss) divided by the weighted average number of common shares outstanding. The Company computes diluted earnings per share using net income (loss) 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 the 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. 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 and any impairments. The Company does not currently have investment in joint ventures.

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 net income (loss).

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 net income (loss) as lower expenses. The Company recognizes 100% of the accounts payables and the accruals (including the share of the joint arrangement's partners 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 oil and gas 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 excess remains after reassessment, the Company recognizes the resulting gain in net income (loss) 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%, a 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 income (loss) 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 at banks and at-hand, and short-term deposits with an original maturity of three months or less.

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 materials and 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 diluent is included in production 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 as a current asset separately within the Consolidated Statements of Financial Position.

The criteria for held for sale classification is met only when the sale is highly probable and the assets are 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 assets and the sale is expected to be completed within one year from the date of the classification. When the assets or disposal groups are sold, the gains or losses on the sale are recognized as other income or loss within net income (loss).

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

Properties, Plant and Equipment, and Exploration and Evaluation Assets

Properties, plant and equipment

Oil and gas properties and plant and equipment are stated at cost, less accumulated depletion, depreciation and impairment. 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 asset retirement obligations, 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 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 the lease term and estimated useful life.

Development costs

Expenditures on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties under properties, plant and equipment.

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 an impairment review, is reclassified as an oil and gas properties. 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 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 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 impairment. 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, impairment and cumulative translation adjustments ("**CTA**"). Profit distributions received or receivable from an investee reduce the carrying value of the investment.

Each reporting period, the Company 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 an 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 net income (loss) 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 net income (loss).

Financial assets

All recognized financial assets are subsequently measured 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:

- 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 re-measurement are recognized in net income (loss).

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 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 (Note 25).

Finance income

Finance income recognized within net income (loss) relates to interest and accretion income earned on loan assets carried at amortized cost, cash and cash equivalents and restricted cash.

Impairment of financial assets carried at amortized cost - Expected credit loss allowances

At each reporting date, the Company assesses if a financial asset or group of financial assets is impaired under the expected credit loss ("**ECL**") model.

For short-term trade receivables, the Company has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on historical normalized credit loss experience (Note 25). The loss rate under the provision matrix is based on the payment profiles of sales and trade receivables aging over a period of 24 months before December 31, 2018, or January 1, 2018, respectively, and the corresponding normalized historical credit losses experienced within this period. The rates are adjusted to reflect current and forwardlooking information on macroeconomic factors, and historical losses are normalized for impairment events unrelated to credit risk deterioration of the trade customer.

For long-term receivables, joint arrangement receivables, and short-term loan assets, the ECL is based on the 12-month ECL and lifetime ECL approach. The 12-month ECL is the portion of lifetime ECLs that result from default events that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Company evaluates for credit risk increases based on a variety of indicators, including credit risk rating agency assessments, available counterparty internal and external information, and macroeconomic factors. The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past the contractual due date. The Company considers a financial asset in default when contractual payments are more than 90 days past the due date. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The carrying amount of the asset is reduced, with the amount of the loss recognized in the Consolidated Statements of (Loss) Income. The lifetime ECLs of a credit impaired financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the credit impairment was recognized.

Under the previous accounting policy, a financial asset was determined to be impaired and impairment losses were 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.

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 from re-measurement of held-for-trading financial liabilities are recognized in net income (loss). 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 puts, collars and forwards.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in net income (loss) unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company has not formally designated any derivatives as hedging instruments.

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 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 net income (loss) 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 fulfilment 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. Finance 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 net income (loss). Operating lease payments are recognized as an expense in net income (loss) as they occur.

Assets under finance leases 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.

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 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 related properties. The unwinding of the discount on the decommissioning cost is included as a finance expense.

This accounting policy also applies to the costs the Company deems to be “environmental liabilities”, which 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 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.

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 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.

The carrying amount of deferred income tax assets is reviewed at each reporting date 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 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 Effective January 1, 2018

The Company has adopted the following new standards, amendments and interpretations that had an impact on the consolidated financial statements. Other than the adoption of these items, the accounting policies applied are consistent with those applied in the previous year.

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

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

IFRS 15 requires revenue recognized from contracts with customers to be disclosed separately from other sources of revenue. As a result, the Company has changed its presentation of realized risk management gains and losses, which are not derived from contracts with customers. These amounts are now presented within Gain (Loss) on Risk Management Contracts; previously they were included within Oil and Gas Sales and Other Revenue. This change had no impact on net income (loss) for the period and on the Consolidated Statements of Cash Flows. The comparative period has been reclassified to reflect the updated presentation for risk management contracts. IFRS 15 also requires additional disclosures, including the disaggregation of revenues from customers and any outstanding material performance obligations (Note 5).

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

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

Upon adoption, no additional ECL allowance adjustments were recognized at the transition date on short-term trade receivables with customers and partners in joint operations given that such receivables (i) have a negligible historical level of default; and (ii) are almost exclusively with large organizations and governmental entities with strong credit ratings. For loans and other receivable balances within the scope of IFRS 9, the Company did not recognize any additional ECL allowance adjustments at the transition date. The Company has included additional disclosures as per the requirements of the new standard, including an ECL allowance continuity schedule that reflects incurred losses already recognized in previous years as part of the opening January 1, 2018 balance (Note 25).

*Adoption of IFRS 2 Share-based Payment Transactions ("**IFRS 2**") amendments*

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

Standards Issued but not yet Effective

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

*IFRS 16 Leases ("**IFRS 16**")*

IFRS 16 requires lessees to account for all leases, with certain exceptions, under a single on-balance sheet model, similar to finance leases under the current standard IAS 17 *Leases* ("**IAS 17**"). Under the current IAS 17 guidance, lessees are required to determine if the lease is a finance or operating lease, based on specified criteria. Finance leases are recognized on the balance sheet while operating leases are recognized in net income (loss) when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use ("**ROU**") asset for both finance and operating lease contracts. IFRS 16 is applicable for annual periods beginning on or after January 1, 2019.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. There are also practical expedients available under the standard, such as recognition exemptions available for short-term leases with a remaining term of less than 12 months, and leases where the underlying ROU asset is of a low dollar value. Such expedients are either available on a lease-by-lease basis or by classes of underlying assets. The impact of applying the standard for the Company primarily depends on the composition of the lease portfolio at the date of adoption, and the extent of the application of practical expedients and recognition exemptions.

The Company will adopt the standard effective January 1, 2019, applying the modified retrospective transition approach, and has compiled and reviewed existing lease and service contracts with impact on the transition date. The impact of the standard has a material quantitative impact at transition date, with increases in non-current assets and liabilities, and net income (loss) impacted for the amortization of ROU asset and lease finance expense with corresponding decreases in general and administrative and oil and gas operating costs. The actual impact of applying the standard will primarily depend on the final review of the composition of the lease portfolio at the date of adoption, and the extent of the application of practical expedients available under the standard (further described below).

Based on analysis to date, the Company intends to apply the following optional expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- Certain short-term leases and leases of low value assets that have been identified at January 1, 2019, will not be recognized on the Consolidated Statements of Financial Position. Payments for these leases will be disclosed in the notes to the consolidated financial statements.
- At January 1, 2019, the Company will recognize leases with terms ending within 12 months as short-term leases.
- In the initial measurement upon transition, some leases having similar characteristics will be measured as a portfolio by applying a single discount rate.
- For certain leases having associated initial direct costs, the Company will, at initial measurement on transition, exclude these directs costs from the measurement of the ROU asset.
- At January 1, 2019, any provision for onerous contracts previously recognized will be applied to the associated ROU asset recognized upon transition to IFRS 16. In these cases, there will be no impairment assessment made under IAS 36 *Impairment of Assets*.
- The Company will elect to retain the classification of contracts previously identified as leases under the previous guidance.
- The Company will elect to use hindsight in determining lease term.

The Company's leases identified to-date relate to take-or-pay arrangements in Colombia related to field energy generators and port storage facilities, corporate office leases and armoured vehicle leases. On January 1, 2019, the cumulative effect of initially applying the standard, prior to tax impacts, is anticipated to be $63 - $69 million increase to lease obligations.

The quantified impacts disclosed herein are not final and are subject to change pending completion of the final phases of the project related to finalization of the January 1, 2019 lease portfolio analysis, and implementation of new policies, processes and controls, as required.

*IFRIC 23 Uncertainty over Income Tax Treatments ("**IFRIC 23**")*

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

*IAS 28 Investments in Associates and Joint Ventures ("**IAS 28**") amendments*

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

c. Key Accounting Estimates and Judgments

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 properties, plant and equipment, 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.

Block 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 control and the variable consideration. Based on this analysis, the Company has accounted for the Block 192 agreement as a production-sharing arrangement whereby revenue is recognized at the point when the Company's share of the crude oil is sold to third parties and the sales price is used to measure the revenue.

Diluent agreement

The Company has entered into a diluent service agreement with an unrelated third party whereby the third party's natural gas or light oil 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 that 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.

Estimation Uncertainty and Assumptions

Depletion of oil and gas properties

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 proved and probable reserves. 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.

Recoverable amounts - oil and gas properties, E&E assets

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 properties, plant, equipment and E&E assets. The Company has recognized impairments on certain oil and gas properties and E&E assets in the year ended December 31, 2018 (Note 7).

Asset retirement obligations - environmental and decommissioning costs

Environmental and decommissioning costs will be incurred by the Company at the end of the operating life of certain facilities and properties. The ultimate environmental and decommissioning costs are uncertain and 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, or environmental . 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 decommissioning asset retirement obligations and environmental liabilities that would affect future financial results (Note 20).

*Impairment of investment in associates - Oleoducto Bicentenario de Colombia S.A.S. ("**Bicentenario**") and Pacific Infrastructure Ventures Inc. ("**PIV**")*

During the year ended December 31, 2018, impairments were recognized on the Company's investments in Bicentenario and PIV, and the calculation of the recoverable amount involved significant judgment and estimation uncertainty (Note 7). Changes in the assumptions and factors considered could result in significant adjustments to the carrying value of these associate investees that would affect future financial results.

Deferred Tax Assets

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused temporary differences can be utilized. Management judgment is exercised in assessing whether this is the case. To the extent that actual outcomes differ from management's estimates, taxation charges or credits may arise in future periods.

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**"), owned by the Government of Colombia, 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 2016, in anticipation of the relinquishment of the fields, the Company recorded a provision for termination obligations. Since the termination of the contracts, the Company has recognized post-termination obligations of $11.6 million as at December 31, 2018 (2017: $13.1 million). The obligations relate mainly to the Company's share of environmental commitments, abandonment costs and other operating costs. The Company has identified other 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 the corporate office and other non-operating entities that have been aggregated as they do not generate revenues for the Company.

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

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

	Colombia		Peru		Canada & Other		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-current assets	$1,448,530	$1,537,377	$ 19,668	$ 30,930	$ 2,114	$ 19,959	$1,470,312	$1,588,266

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

	Colombia		Peru		Canada & Other		Total	
Year ended December 31	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Oil and gas sales and other revenue	$1,239,753	$1,134,576	$ 128,474	$ 50,464	$ —	$ —	$1,368,227	$1,185,040
Sales of oil and gas for trading	3,479	94,767	—	—	—	—	3,479	94,767
Royalties	(50,253)	(22,978)	(968)	(2,404)	—	—	(51,221)	(25,382)
Revenue	1,192,979	1,206,365	127,506	48,060	—	—	1,320,485	1,254,425
Oil and gas operating costs	525,197	594,446	83,992	46,430	—	—	609,189	640,876
Purchase of oil and gas for trading	2,796	93,577	—	—	—	—	2,796	93,577
Fees paid on suspended pipeline capacity	82,372	108,831	—	—	—	—	82,372	108,831
Payments under terminated pipeline contracts	74,618	—	—	—	—	—	74,618	—
General and administrative	71,957	81,315	6,685	6,268	14,380	17,240	93,022	104,823
Share-based compensation	2,216	1,468	326	90	1,500	1,047	4,042	2,605
Depletion, depreciation and amortization	315,259	369,170	442	12,009	1,050	1,067	316,751	382,246
Impairment, exploration expenses and other	278,834	122,546	23,630	531	12,828	3,767	315,292	126,844
Reversal of provision related to high-price clause	(62,911)	(99,622)	—	—	—	—	(62,911)	(99,622)
Restructuring, severance and other costs	10,563	7,944	869	1,008	3,160	3,665	14,592	12,617
(Loss) income from operations	$ (107,922)	$ (73,310)	$ 11,562	$ (18,276)	$ (32,918)	$ (26,786)	$ (129,278)	$ (118,372)
Non-operating loss items							(110,762)	(56,278)
Income tax expense							(18,721)	(15,265)
Net loss for the year							$ (258,761)	$ (189,915)

The Company's Oil and Gas Sales and Other Revenue and Sales of Oil and Gas for Trading, based on the geographic location of external customers, is as follows:

	Year Ended December 31	
	2018	**2017**
United States	$ 842,191	$ 937,529
China	219,647	174,159
Canada	101,895	22,992
Peru	61,161	37,222
Chile	51,025	—
Colombia [(1)]	44,916	83,161
India	34,583	—
South Korea	16,288	—
Italy	—	24,744
Total oil and gas sales, trading sales and other revenue	$ 1,371,706	$ 1,279,807

[(1)] *Includes non-oil and gas revenues (primarily power transmission revenue related to PEL) of $13.4 million during the year ended December 31, 2018 (2017: $28.1 million), with customers located in Colombia.*

For the year ended December 31, 2018, three of the Company's external customers had revenue greater than 10%, totalling $324.6 million, $220.1 million and $167.1 million, arising from sales in Colombia (2017: three customers, totalling $250.0 million, $177.0 million and $161.4 million, respectively, arising from sales in Colombia).

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

5. Revenue from Contracts with Customers

The following table provides the disaggregation of the Company's revenue from contracts with customers, including reconciliation with the amounts disclosed in the segment information (Note 4):

	Year Ended December 31 2018	2017
Colombia		
Colombia crude oil sales	$ 1,189,698	$ 1,062,656
Gas sales	36,612	43,775
Colombia oil and gas sales	1,226,310	1,106,431
Power transmission and other revenues [1]	13,443	28,145
Colombia total	1,239,753	1,134,576
Peru total - Crude oil sales	128,474	50,464
Oil and gas sales and other revenue	$ 1,368,227	$ 1,185,040
Colombia - Sales of oil and gas for trading	$ 3,479	$ 94,767

[1] Power transmission revenue recognized until April 19, 2018, when the assets were sold (Note 13).

As at December 31, 2018, there were no material performance obligations outstanding under contracts with customers.

6. Oil and Gas Operating Costs

	Year Ended December 31 2018	2017
Production costs	$ 324,400	$ 272,482
Transportation costs	294,471	346,300
Diluent costs	40,544	27,162
(Settlement) overlift	(16,961)	17,008
Inventory valuation	(33,265)	(22,076)
Total oil and gas operating costs	$ 609,189	$ 640,876

7. Impairment, Exploration Expenses and Other

	Year Ended December 31 2018	2017
Impairment of investment in associates (Note 16)	$ 189,988	$ —
Impairment of exploration and evaluation assets (Note 15)	93,874	1,591
Impairment of properties, plant and equipment (Note 14)	18,685	71,840
Impairment of VAT receivable and other assets	9,808	7,555
Impairment of PEL power transmission line assets (Note 13)	9,125	42,194
Total impairment	$ 321,480	$ 123,180
Exploration - pre-licence costs [1] and minimum commitment payments[2]	9,706	—
Rubiales-Piriri contracts - post-termination obligation [3]	—	3,664
Recovery of asset retirement obligations (Note 20)	(15,894)	—
Total impairment, exploration expense and other	$ 315,292	$ 126,844

[1] Costs incurred prior to having obtained the legal rights to explore, and thus were expensed.

[2] Payments made to fulfil remaining balance of minimum exploration work commitment for certain blocks in Colombia.

[3] Related to the Rubiales-Piriri contracts, which expired on June 30, 2016 (Note 3).

Impairment of Investment in Associates

PIV

During the year ended December 31, 2018, the Company recognized an aggregate impairment charge of $47.8 million, with respect to the net investment in PIV (2017: $Nil).

In the fourth quarter of 2018, the Company identified an impairment indicator related to uncertainties with respect to the timing of future project opportunities at the port subsidiary of PIV, Sociedad Portuaria Puerto Bahía S.A. ("**Puerto Bahia**"), which would impact the cash generation of Puerto Bahia. In performing the impairment test, the recoverable amount was calculated based on the present value of the free cash flow ("**FCF**"), including the terminal value of Puerto Bahia and the assumption of repayment of the loan assets with PIV and Puerto Bahia (Note 17). Key assumptions used in the determination of the recoverable amount under the FCF model:

- Revenue and costs until 2031, which is the date until when Puerto Bahia has the right to the port concession.
- All take-or-pay agreements are assumed to continue until 2031, with terms, tariff rates and volumes forecasted unchanged.
- An after-tax discount rate of 14.02% as determined by the 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 Puerto Bahia, and the increased risks related to the uncertainties described above.
- 1% increase (decrease) in the discount rate would result in an increase (decrease) in the present value of the FCF model by $14.5 million.

An impairment charge of $47.8 million was recognized when comparing the recoverable amount as calculated under the model to the carrying value of the Company's net investment in PIV, resulting in the associate investee balance being fully impaired as at December 31, 2018.

Bicentenario

During the year ended December 31, 2018, the Company recognized an impairment charge of $131.0 million, with respect to associate investee Bicentenario (2017: $Nil).

On July 13, 2018, the Company announced that it had exercised its rights to terminate existing contracts to transport oil through the Bicentenario pipeline, given that Bicentenario had not transported the Company's oil for more than six uninterrupted months due to a justifiable event (Note 26). After the termination, the Company received notice from IFC of exercise of a put option held by subsidiary PML, requiring the Company to purchase PML's 41.53% interest in Bicentenario for gross price of $84.8 million (Note 21). The Company identified these events as potential impairment indicators, and performed an impairment test. In performing the impairment test, the recoverable amount was calculated based on a VIU discounted dividends cash flow model.

Key assumptions used in the determination of the recoverable amount under the VIU model:

- The Bicentenario board approved budget made available to shareholders, which includes related operating and capital costs assumptions, and a forecast period until 2024, the year all ship-or-pay agreements were originally scheduled to terminate.
- An after-tax discount rate of 12.41% as determined by the 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 Bicentenario and increased risks associated with timing and receipt of dividends from Bicentenario.
- Terms, tariff rates and volumes forecasted under Bicentenario's other major ship-or-pay agreements remain unchanged.
- 1% increase (decrease) in the discount rate would result in an increase (decrease) in the present value of the VIU model by $4.5 million.

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

*Interamerican Energy Corp. ("**Interamerican**")*

In 2018, the Company recognized an impairment charge of $11.2 million (2017: $Nil), when it was determined that the carrying value of its investment in Interamerican was in excess of the fair value less costs to sell calculated with reference to a bid offer for the sale of the net investment (Note 13).

Impairment of E&E Assets and Properties, Plant and Equipment

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 assets. The impairment tests of oil and gas and E&E assets are performed at the CGU level.

During the year ended December 31, 2018, an impairment charge of $112.6 million (2017: $73.4 million) was recognized with respect to certain oil and gas properties, E&E assets from the Colombia and Peru CGUs. The carrying value was written down to a recoverable amount calculated based on the VIU.

Colombia CGUs

The Company incurred $83.2 million of impairment charges related to Colombia CGUs during the year ended December 31, 2018 (2017: $70.2 million), with $69.2 million related to E&E assets in these CGU blocks.

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

- An after-tax discount rate of 13.91% (22.43% before tax) (2017:14.64%, 24.36% 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 $66, $69, $72, $74, $76 and $77 per barrel for 2019 to 2024, respectively (2017: $62, $63, $66, $70 and $73 per barrel for 2018 to 2022). Prices are based on futures strip prices, published indices and management's own assumptions. $1 per barrel increase (decrease) in Brent oil prices would result in an increase (decrease) in the present value of the model by $0.5 million.
- Future production is based on proved developed producing, proved developed non-producing and probable reserves (2017: proved developed producing and proved developed non-producing reserves and probable reserves).

Peru CGUs

The Company incurred $24.6 million of impairment charges related to Peru's offshore CGU E&E assets during the year ended December 31, 2018 (2017: $Nil), which was recognized based on the calculated recoverable amount of the CGU. The Company identified an indicator of impairment when results of exploratory drilling work in the offshore block did not justify further evaluation and was abandoned.

Agro Cascada S.A.S.

During the third quarter of 2018, upon cancellation of the bid offer under negotiation, the carrying value of the water treatment facilities of Agro Cascada S.A.S., a wholly owned subsidiary, was written down (under a VIU model approach), and an impairment charge of $4.8 million (2017: $3.3 million) was recognized.

Impairment of Assets Held for Sale - PEL Power Transmission Line Assets

During the year ended December 31, 2018, an additional impairment expense of $9.1 million was recognized on the PEL power transmission line assets (2017: $42.2 million). The PEL assets were reclassified to Assets Held for Sale in 2017 at the recoverable amount (calculated using FVLCD), which resulted in an impairment charge of $42.2 million during the year ended December 31, 2017 (Note 13).

Other Impairments

During the year ended December 31, 2018, the Company recognized an impairment charge of $7.0 million related to long-term value-added taxes (**"VAT"**) receivable balances for which the Company determined that the amounts are unlikely to be recovered through future production on certain blocks (2017: $0.1 million).

During the year ended December 31, 2018, the Company recognized $2.8 million (2017: $7.5 million) of certain accounts receivable considered as doubtful recovery and other impairments mainly related obsolete inventories.

8. Restructuring, Severance and Other Costs

During the year ended December 31, 2018, the Company incurred:

- $4.5 million in costs with respect to 2018 transformation activities to deliver process improvements and operational efficiencies (2017: $Nil).
- $10.1 million in severance costs related to personnel reductions as a result of transformation activities described above and the implementation of an organizational restructuring plan in the fourth quarter of 2018 (2017: $12.6 million).

Costs incurred during the year ended December 31, 2017, related to 2017 corporate reorganization activities, and continuing restructuring and severance costs for personnel reductions in 2017 related to the Company's 2016 restructuring transaction, which was completed on November 2, 2016.

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

9. Employee Salaries and Benefit Expenses

	Year Ended December 31	
	2018	2017
Salaries, bonuses and other short term benefits	$ 90,421	$ 92,833
Share-based compensation outstanding	2,545	2,605
Share-based compensation - cash settled	1,497	—
	$ 94,463	$ 95,438

Employees (including directors), salaries, bonuses and short-term benefits are included in General and Administrative and Oil and Gas Operating Costs. Share-based compensation relates to RSUs and DSUs issued to employees and directors (Note 22).

10. Income Taxes

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	
	2018	2017
Net loss before income tax	$ (240,040)	$ (174,650)
Colombian statutory income tax rate	37%	40%
Income tax recovery at statutory rate	(88,815)	(69,860)
Other (non-taxable income) non-deductible expenses	58	7,725
Share-based compensation	1,078	164
Differences in tax rates	(20,551)	(14,352)
Losses for which no tax benefit is recognized	5,529	4,693
Minimum income tax (presumptive income tax)	27,236	31,337
Changes in deferred income tax not recognized	94,186	55,558
Income tax expense	18,721	15,265
Current income tax expense	30,507	36,095
Deferred income tax recovery		
Relating to origination and reversal of temporary differences	(11,786)	(20,830)
Income tax expense	$ 18,721	$ 15,265

The Canadian statutory combined income tax rate was 26.5% as at December 31, 2018 (2017: 26.5%).

The Colombian statutory income tax rate was 37% as at December 31, 2018 (2017: 40%). The Peruvian statutory income tax rate was 29.5% as at December 31, 2018 (2017: 29.5%). The Peruvian income tax rate for Block Z-1 was 22% as at December 31, 2018 (2017: 22%).

Movement in Deferred Tax balances	Amount
As at January 1, 2017	$ —
Recognized as deferred income tax asset	20,830
As at December 31, 2017	$ 20,830
Recognized as deferred income tax expense	(20,830)
Recognized as deferred income tax asset	32,616
As at December 31, 2018	$ 32,616

Deferred income tax asset in the amount of $32.6 million (2017: $20.8 million) 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 and tax losses. Projections of taxable profits were used to support the deferred tax recognition. Future projected income could be affected by oil prices and quantities of proved and probable reserves. If these factors or other circumstances change, the Company will reassess its ability to record any increase or decrease in its deferred income tax asset.

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

The following table summarizes the Company's non-capital and capital losses, and other tax pools by jurisdiction as at December 31, 2018:

		Amount
Canada	$	1,110,700
Colombia		2,930,600
Peru		742,300
Total	$	4,783,600

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

- Canada: non-capital losses totalled $894.9 million (2017: $761.8 million) and expire between 2028 and 2038. Capital losses, which do not expire, totalled $215.8 million (2017: $185.4 million).
- Colombia: non-capital losses totalled $883.3 million (2017: $761.4 million) of which $572.9 million in losses do not expire, and $310.4 million expire between 2020 and 2029. Undepreciated capital expenditures totalled $2.0 billion, which do not expire (2017: $2.2 billion).
- Peru: non-capital losses totalled $337.5 million (2017: $178.0 million) and expire between 2019 and 2023. Undepreciated capital expenditures totalled $404.8 million, which do not expire (2017: $493.2 million).

Tax Legislation Changes

Enacted on December 28, 2018, and effective on January 1, 2019, the Colombian Congress issue tax reform whereby income tax rates were modified to 33% in 2019, 32% in 2020, 31% in 2021 and 30% in 2022 onwards. In addition, the tax reform will progressively phase out the minimum tax (presumptive tax) from 3.5% to 1.5% in 2019 and 2020, and 0% as from 2021. The dividend withholding tax on previously taxed profits of 5.0% increased to 7.5%. VAT paid on acquisition or construction of productive fixed assets can be used as a tax credit for income tax purposes.

Effective January 1, 2019, a new equity tax for years 2019, 2020 and 2021 was introduced for non-resident entities in relation to certain assets owned in Colombia. The equity tax rate is 1.0%, and this tax expense cannot be taken as a deduction or credit for income tax purposes. We are reviewing what companies are subject to the new equity tax.

11. Loss per Share

	Year Ended December 31			
		2018		2017
Net loss attributable to equity holders of the Company	$	(259,083)	$	(216,703)
Basic weighted average number of shares outstanding		99,841,652		100,007,826
Diluted weighted average number of shares outstanding		99,841,652		100,007,826
Basic and diluted loss per share attributable to equity holders of the Company [1]	$	(2.59)	$	(2.17)

[1] *The basic and diluted loss per share are the same, as there are no instruments that have a dilutive effect.*

12. Inventories

	Year Ended December 31			
		2018		2017
Crude oil and gas	$	82,340	$	33,539
Materials and supplies		25,675		26,734
Total	$	108,015	$	60,273

As at December 31, 2018, materials and supplies inventory was net of impairment of $1.0 million (2017: $3.1 million).

As at December 31, 2018, crude oil and gas inventory includes $54.7 million in Peru (2017: $27.8 million). The inventory build-up relates to unsold production from Block 192 in Peru due to a pipeline (third-party operated) force majeure event that resulted in Block 192 production being shut down. The inventory build-up is expected to be sold once Block 192 restarts operations in 2019.

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

13. Assets Held for Sale

	Power Transmission Line Assets	Properties, Plant and Equipment	Exploration and Evaluation Assets	Other Assets	Total
As at January 1, 2017	—	24,150	20,647	—	44,797
Additions	42,479	4,243	—	—	46,722
Disposals	—	(17,768)	(20,647)	—	(38,415)
Adjustment	—	(217)	—	—	(217)
Currency translation adjustment	—	38	—	—	38
As at December 31, 2017	$ 42,479	$ 10,446	$ —	$ —	$ 52,925
Additions	7,063	—	—	10,000	17,063
Disposals	(40,417)	(5,686)	—	(10,000)	(56,103)
Impairments (Note 7)	(9,125)	—	—	—	(9,125)
Reversal	—	(5,145)	—	—	(5,145)
Currency translation adjustment	—	385	—	—	385
As at December 31, 2018	$ —	$ —	$ —	$ —	$ —

PEL - Power Transmission Line Assets

On October 25, 2017, the Company entered into an agreement to sell its interest in PEL, which holds the Company's investment in the power transmission line assets, to an affiliate of Eléctricas de Medellín - Ingeniería y S.A.S., for total cash consideration of $56.0 million. As at December 31, 2017, power transmission line assets of $36.1 million and other assets of $6.4 million (excluding $16.3 million in cash, which was reclassified to Restricted Cash) were classified as held for sale. The Company continued to consolidate the results of PEL, including additional assets of $7.1 million (classified as held for sale) and $22.0 million in restricted cash until the sale was completed on April 19, 2018. During the year ended December 31, 2018, an additional impairment expense of $9.1 million was recognized (2017: $42.2 million) (Note 7).

Upon close of the transaction on April 19, 2018, the Company received, net of transaction costs, $55.6 million in cash consideration. In accordance with IFRS requirements with respect to accounting for disposal of a foreign subsidiary, the Company recognized a non-cash loss of $50.8 million from the reclassification of CTA from Other Reserves to Net Loss before Income Tax. The CTA loss primarily related to historical functional currency Colombian Peso ("**COP**") to U.S. dollar presentation currency translation differences on PEL's power transmission line assets.

As per the terms of the 2017 PML share sale agreement ("**PML Share Sale Agreement**") with the IFC, of the $55.6 million cash consideration received for the PEL sale, $50.0 million was held in escrow to fund the purchase price consideration to be paid by the Company to the IFC. Upon termination of the PML Share Sale Agreement, this amount was released from escrow to the Company on October 19, 2018, net of the $5.0 million termination break fee paid to the IFC (Note 21).

Associate Investee - Interamerican

In April 2018, the Company accepted a bid offer for cash consideration of $10.0 million, for the sale of the Company's net investment in Interamerican, comprised of the equity interest of $7.3 million and a loan receivable of $2.7 million (in Accounts Receivable), and accordingly reclassified the net investment to Assets Held for Sale (Note 16). The Company closed the transaction on November 20, 2018, and $8.3 million of the sales proceeds was receivable as at December 31, 2018. The Company recognized a non-cash gain of $2.7 million from the reclassification of CTA from Other Reserves to Net Loss before Income Tax. During the year ended December 31, 2018, an impairment expense of $11.2 million (2017: $Nil) was recognized against the equity interest (Note 7).

Reversal

As at December 31, 2018, the expected period of close on the sales process for certain assets classified as held for sale in 2017, was determined to be longer than a year, and as such the investments were reclassified to Properties, Plant and Equipment under oil and gas properties.

Other Disposals

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

Divestment of Assets in 2017

In 2016, the Company commenced a plan to divest non-core assets, including its interest in certain exploration assets, and oil and gas properties located in Colombia, Peru and Brazil. The divestment of certain assets in 2017 is summarized below.

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

E&E assets

- *Brazil concession agreements* - In 2017, the Company sold its 35% working interest in its joint concession agreements in Brazil for total consideration of $16.1 million, comprised of $15.5 million in cash and the settlement of $0.6 million of payables. The agreement included a conditional payment of $5.0 million if commercial production on the concessions achieved 1 million barrels of oil or oil equivalent.
- *Putumayo-9, Tacacho, Terecay and Mecaya Blocks* - In 2017, the Company obtained the relevant regulatory approvals to farm-out its participating interests in the Putumayo-9, Tacacho, Terecay and Mecaya blocks in Colombia. The aggregate purchase price was $4.9 million, plus a royalty calculated and payable on a monthly basis equal to a prescribed percentage for each block.

Property, Plant and Equipment - oil and gas properties

- *Lot 131 Peru* - In 2017, upon receipt of regulatory approval, the Company farmed out its participating interest in Lot 131 in Peru, and transferred its contractual exploration obligations, for total consideration of $17.8 million, comprised of $17.1 million in cash and the settlement of $0.7 million of payables.

14. Properties, Plant and Equipment

Cost	Oil & Gas Properties	Plant & Equipment	Amount
As at January 1, 2017	$ 7,225,489	$ 252,353	$ 7,477,842
Additions	203,738	5,347	209,085
Transferred to assets held for sale (Note 13)	(387,635)	(962)	(388,597)
Change in asset retirement obligation	6,755	—	6,755
Disposals	(21,057)	(3,094)	(24,151)
Currency translation adjustment	1,679	(196)	1,483
As at December 31, 2017	$ 7,028,969	$ 253,448	$ 7,282,417
Additions	371,122	6,651	377,773
Transfer from exploration and evaluation assets (Note 15)	189,512	—	189,512
Transferred to assets held for sale	244	—	244
Change in asset retirement obligations	1,419	—	1,419
Disposals	(5,817)	(8,419)	(14,236)
Currency translation adjustment	(5,266)	(83)	(5,349)
As at December 31, 2018	$ 7,580,183	$ 251,597	$ 7,831,780

Accumulated Depletion, Depreciation and Impairment	Oil & Gas Properties	Plant & Equipment	Amount
As at January 1, 2017	$ 6,042,821	$ 198,951	$ 6,241,772
Charge for the year	349,843	23,135	372,978
Transferred to assets held for sale (Note 13)	(347,298)	(1,164)	(348,462)
Impairment (Note 7)	113,392	642	114,034
Disposals	(20,141)	(2,551)	(22,692)
Currency translation adjustment	716	62	778
As at December 31, 2017	$ 6,139,333	$ 219,075	$ 6,358,408
Charge for the year	298,482	19,331	317,813
Transfer from exploration and evaluation assets (Note 15)	184,494	—	184,494
Impairment (Note 7)	18,685	—	18,685
Disposals	(5,717)	(7,517)	(13,234)
Currency translation adjustment	(5,851)	(570)	(6,421)
As at December 31, 2018	$ 6,629,426	$ 230,319	$ 6,859,745

Net Book Value			Amount
As at December 31, 2017	$ 889,636	$ 34,373	$ 924,009
As at December 31, 2018	$ 950,757	$ 21,278	$ 972,035

During the year ended December 31, 2018 and 2017, oil and gas assets were depleted over the Company's proved and probable reserves. Included in the amount subject to depletion is $1.2 billion (2017: $1.1 billion) of estimated future development costs required to bring proved undeveloped and probable reserves to production.

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

As at December 31, 2018, $162.0 million of assets under construction were included in oil and gas properties and are not currently subject to depletion (2017: $104.8 million).

15. Exploration and Evaluation Assets

		Amount
As at January 1, 2017	$	9,000
Additions, net of income from long-term testing		16,370
Impairment (Note 7)		(1,591)
Change in asset retirement obligations		4,277
Disposals		(5,827)
As at December 31, 2017	$	22,229
Additions, net of income from long-term testing		90,296
Transfer to properties, plant and equipment (Note 14)		(5,018)
Impairment of exploration and evaluation assets (Note 7)		(93,874)
Change in asset retirement obligations		1,821
Disposals		(354)
As at December 31, 2018	$	15,100

For the year ended December 31, 2018, the Company recognized, within additions, an offsetting reduction of $23.0 million in income related to the sale of production from long-term testing at exploration properties (2017: $23.1 million).

During the year ended December 31, 2018, $5.0 million in E&E assets (net of impairment) related to the CPE-6 block in Central CGU, Colombia, was transferred to oil and gas properties under Properties, Plant and Equipment (2017: $Nil).

16. Investments in Associates

		ODL [(1)]		Bicentenario [(1)]		PIV		CGX		Interamerican		Total
As at January 1, 2017	$	123,244	$	190,502	$	81,350	$	4,016	$	16,086	$	415,198
Dilution		—		—		(4,694)		—		—		(4,694)
Share of income (loss) from associates		37,193		53,274		(11,442)		(2,408)		(431)		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	$	1,608	$	17,856	$	420,983
Investment				—		—		1,200		—		1,200
Share of income (loss) from associates		48,934		54,631		(17,295)		(2,808)		139		83,601
Dividends		(55,044)		(47,144)		—		—		—		(102,188)
Transferred to assets held for sale		—		—		—		—		(7,331)		(7,331)
Impairment (Note 7)		—		(130,956)		(47,816)		—		(11,216)		(189,988)
Currency translation adjustment		(7,124)		(8,976)		382		—		552		(15,166)
As at December 31, 2018	$	117,368	$	73,743	$	—	$	—	$	—	$	191,111
Company's interest as at December 31, 2018		35.00%		43.03%		39.22%		48.29%		—%		

[(1)] Investments held through subsidiary PML (Note 21). The results and percentage interest ownership of these associates is presented gross, prior to the impact of the minority NCI of 40.07% as at December 31, 2018 (2017: 36.36%).

The Company accounts for the above associates using the equity method 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")

ODL is a Panamanian company with a Colombian branch that constructed an oil pipeline for the transportation of heavy crude oil produced from the Rubiales and Quifa blocks. The Company has 35% (20.98% after NCI) participation through PML; the remaining 65% interest is owned by Ecopetrol. ODL's functional currency is COP and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

During the year ended December 31, 2018, the Company recognized gross dividends of $55.0 million (2017: $34.6 million) from ODL, of which $9.0 million was receivable as at December 31, 2018 (2017: $Nil).

Bicentenario

Bicentenario is a corporation established and owned by a consortium of oil producers operating in Colombia, led by Ecopetrol, which operates an 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 Bicentenario totals 43.03% (26.39% after NCI) as at December 31, 2018, with 41.53% held through PML, and the remaining 1.5% held directly by the Company. Bicentenario's functional currency is COP, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

During the year ended December 31, 2018, the Company recognized gross dividends of $47.1 million (2017: $38.4 million) from Bicentenario, of which $14.4 million was receivable as at December 31, 2018 (2017: $Nil).

In July 2018, the Company terminated its transportation contract commitments with Bicentenario (Note 26). As a result of the termination of the transportation contract commitments, Bicentenario has drawn on issued and outstanding letters of credit (Note 18) and has also requested shareholder funding to support Bicentenario's operations (Note 26).

PIV

PIV is a BVI company established for the purpose of developing an export terminal, an industrial park and a free-trade zone in Cartagena, Colombia. PIV's subsidiary, Puerto Bahia, operates a large-scale multipurpose port facility in the Bay of Cartagena. The functional currency of PIV is COP, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income.

The Company also has loans receivable from PIV related to funds advanced to support infrastructure projects (Note 17).

Interamerican

The Company's investment in Interamerican represents an indirect interest in a private Colombia-based electrical utility peak-demand supplier. The functional currency of Interamerican is COP, and the currency translation adjustment upon conversion to U.S. dollars has been recorded in other comprehensive income. During the year ended December 31, 2018, the Company sold its net investment in Interamerican for a total cash consideration of $10.0 million (Note 13).

CGX Energy Inc. ("CGX")

CGX is a listed and publicly traded company on the TSX Venture Exchange involved in the exploration of petroleum and natural gas in Guyana. On December 20, 2018, CGX issued 5,714,285 of its own common shares to the Company to settle $1.2 million in outstanding receivables and debt interest. The Company's ownership interest in CGX was 48.29% as at December 31, 2018 (2017: 45.61%).

As at December 31, 2018, the fair value of the equity investment in CGX common shares, estimated using the last traded price of C$0.42 (2017: C$0.165) per common share, was $17.3 million (2017: $6.6 million).

On April 25, 2018, the Company amended and restated the 2017 secured bridge loan facility with CGX and increased the aggregate principal amount available to $14.1 million, with an extended maturity date to March 31, 2019 ("**CGX 2018 Bridge Loan**"). The loan carries an annual interest rate of 5.0%, and is secured by the assets of CGX. As at December 31, 2018, the Company had advanced $11.3 million under the facility (2017: $3.7 million). No impairment or expected credit loss impacts were identified for the CGX 2018 Bridge Loan as at December 31, 2018.

The Company also extended the maturity dates of a series of loans, facilities and debentures previously issued in 2014 to 2016 (which were fully impaired as at December 31, 2017) to March 31, 2019.

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

Subsequent to year-end, the Company entered into a joint venture farm-in arrangement with CGX, amended the CGX 2018 Bridge Loan, and committed to participating in CGX's rights offering transaction (Note 27).

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

Summarized financial information for the Company's significant associate investees, on a 100% basis, is as follows:

	ODL		Bicentenario		PIV	
As at December 31	**2018**	**2017**	**2018 (1)**	**2017**	**2018 (2)**	**2017**
Assets	$ 572,518	$ 637,752	$ 854,067	$1,202,995	$ 486,668	$ 638,675
Liabilities	237,181	264,603	682,691	723,822	486,668	473,635
Equity	$ 335,337	$ 373,149	$ 171,376	$ 479,173	$ —	$ 165,040
Company's interest in associate	35.00%	35.00%	43.03%	43.03%	39.22%	39.22%
Carrying amount of the investment	$ 117,368	$ 130,602	$ 73,743	$ 206,188	$ —	$ 64,729

(1) *Total assets adjusted by $304.3 million for the gross impact of the impairment recognized during 2018.*
(2) *Total assets adjusted by $121.9 million for the gross impact of the impairment recognized during 2018.*

Year ended December 31	**2018**	**2017**	**2018 (3)**	**2017**	**2018**	**2017**
Revenue	$ 345,776	$ 323,383	$ 341,296	$ 352,679	$ 72,561	$ 71,412
Expenses	(205,964)	(217,117)	(214,335)	(228,869)	(116,660)	(100,586)
Net income (loss)	$ 139,812	$ 106,266	$ 126,961	$ 123,810	$ (44,099)	$ (29,174)
Company's share of the income (loss) for the year	$ 48,934	$ 37,193	$ 54,631	$ 53,274	$ (17,295)	$ (11,442)

(3) *Reduced by $37.4 million to exclude revenues, net of tax, related to terminated BIC pipeline transportation commitments.*

17. Other Assets

	As at December 31	
	2018	**2017**
Long-term receivables	$ 99,540	$ 59,079
Long-term recoverable VAT	19,921	24,743
Long-term withholding tax	18,354	26,473
Advances (1)	17,741	17,741
Investments	1,130	1,130
Intangible assets	—	4,435
Total	$ 156,686	$ 133,601

(1) *Related to long-term advances paid for services under the take-or-pay agreement with Puerto Bahia.*

PIV Long-term receivables

The Company has loans receivable from PIV of $72.9 million (2017: 76.6 million) in aggregate principal, with a carrying value of $44.0 million (representing the present value) as at December 31, 2018 (2017: $43.0 million). The loans bear interest that ranges from LIBOR+3.0% to 10.0% per annum.

For the year ended December 31, 2018, the Company also advanced funds under the terms of an equity contribution agreement of $41.3 million, by way of shareholder loans, directly to PIV's port subsidiary, Puerto Bahia (Note 26) ("**Puerto Bahia ECA Loans**"). The loans bear interest of 14.00%, and a default interest rate of 16.00% in the event of non-payment upon maturity, and had a carrying value of $43.8 million as at December 31, 2018 (2017: $Nil).

Total Finance Income of $7.3 million was recognized during the year ended December 31, 2018 with respect to the loans receivable from PIV and the Puerto Bahia ECA Loans (2017: $1.7 million).

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

18. Loans and Borrowings

Long-term Debt

	Maturity	Principal	Currency	Interest Rate	As at December 31 2018	2017
Unsecured Notes	June 2023	$ 350,000	U.S. dollars	9.70%	$ 326,784	$ —
Secured Notes	November 2021	$ 250,000	U.S. dollars	10.00%	$ —	$ 250,000
					$ 326,784	$ 250,000

On June 25, 2018, the Company completed the offering of $350.0 million 9.70% senior unsecured notes due 2023 ("**Unsecured Notes**"). The interest is payable semi-annually in arrears on June 25 and December 25 of each year, beginning on December 25, 2018. On November 26, 2018, the Company amended the indenture terms of the Unsecured Notes, and reduced certain restrictions in place over the Company's capital allocation strategies.

Certain proceeds from this offering were used to repurchase, at a premium of $25.3 million, the existing $250.0 million 10.00% senior secured notes due 2021 ("**Secured Notes**") pursuant to a cash tender offer and consent solicitation. The Secured Notes were settled and extinguished on June 25, 2018, and a loss of $25.6 million was recognized during the year ended December 31, 2018, comprised of the premium, and $0.3 million in transaction costs.

The Unsecured Notes were recognized net of an original issue discount of $4.1 million, and directly attributable transaction costs of $20.8 million, primarily related to underwriter fees, legal and other professional fees. The unamortized portion of the deferred finance costs described above totalled $23.2 million as at December 31, 2018, (2017: $Nil).

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

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

As at December 31, 2018, the Company is in compliance with such covenants.

Letter of Credit Facility

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

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

During the year ended December 31, 2018, $33.5 million were issued and outstanding as standby letters of credit ("**SBLCs**"), (2017: $82.3 million).

Finance Expense

The following table summarizes the main components of Finance Expense:

	Year Ended December 31 2018	2017
Interest on Senior Secured Notes	$ 29,732	$ 25,000
Deferred financing fees amortization	1,426	—
Accretion of asset retirement obligations	7,618	8,505
Transaction costs on Unsecured LC Facility	1,728	—
Letters of credit fees and other bank charges	4,565	5,244
Lease financing costs	2,805	3,065
Accretion expense of other assets	4,850	—
Total	$ 52,724	$ 41,814

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

19. Finance Leases

The Company has existing finance lease arrangements for power generation supply for certain oil fields in Colombia, including a new arrangement in 2018 to supply electricity generators to oil fields in the Colombia Central CGU until August 2021.

These finance leases have an average discount rate of 12.38% (2017: 14.39%), and the minimum lease payments are as follows:

	As at December 31	
	2018	2017
Within 1 year	$ 10,100	$ 6,778
Year 2	10,119	6,778
Year 3	7,836	6,797
Year 4	3,322	4,514
Year 5	2,485	—
Total minimum lease payments	$ 33,862	$ 24,867
Less amounts representing finance costs	(6,283)	(5,638)
Present value of minimum lease payments	$ 27,579	$ 19,229
Current portion	$ 7,151	$ 4,284
Non-current portion	20,428	14,945
Total obligations under finance lease	$ 27,579	$ 19,229

20. Asset Retirement Obligations

	Amount
As at January 1, 2017	$ 248,632
Accretion expense	8,505
Additions	13,380
Changes during the year [(1)]	(5,631)
Liabilities settled	(2,214)
Derecognition and disposal	(6,149)
Currency translation adjustment	543
As at December 31, 2017	$ 257,066
Accretion expense	7,618
Additions	26,520
Changes during the year [(1)]	(581)
Liabilities settled	(4,384)
Derecognition and disposal	(1,251)
Recovery of asset retirement obligation	(15,894)
Currency translation adjustment	(21,975)
As at December 31, 2018	$ 247,119

[(1)] *Changes correspond mainly to variations in the discount rate, inflation rate and cost of abandonment.*

	As at December 31	
	2018	2017
Current portion	$ 15,509	$ 20,109
Non-current portion	231,610	236,957
Total	$ 247,119	$ 257,066

Asset retirement obligations represent the present value of decommissioning and environmental liability costs relating to oil and gas properties, of which $334.1 million, on an undiscounted basis, is expected to be incurred between 2019 and 2032 (2017: $328.0 million), with $290.9 million (2017: $280.3 million) in Colombia and $43.2 million (2017: $47.7 million) in Peru.

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 3.94% and 4.34% and an inflation rate of 1.86% for cash flows expected to be settled in U.S. dollar (2017: U.S. dollar risk-free rate of 2.89%- 4.45% with inflation of 2.12%);

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

- A risk-free rate between 4.68% and 7.82% and an inflation rate of 2.30% - 2.60% for cash flows expected to be settled in COP (2017: COP risk-free rate 4.61%- 7.29% with inflation of 2.99%- 4.12%).

When a decrease in the asset retirement obligation exceeds the carrying amount of the asset, this excess is recognized in the Consolidated Statements of Loss as a recovery of asset retirement obligation (Note 7). As at December 31, 2018, the Company has recognized $15.9 million in recoveries under Impairment, Exploration Expenses and Other (2017: $Nil).

21. Non-Controlling Interest

PML is the holding company for the Company's pipelines and infrastructure assets, with a 35.00% interest in ODL and 41.53% interest in Bicentenario, and power transmission line assets, with a 100% in PEL subsidiary, which was sold in 2018 (Note 13). The Company fully consolidates PML and recognizes a non-controlling interest in the Consolidated Statements of Financial Position as a result of the minority interest held by the IFC, which was 40.07% as at December 31, 2018 (2017: 36.36%).

During the year ended December 31, 2018, PML paid dividends to shareholders with $25.5 million distributed to the IFC (2017: $21.7 million).

As at December 31, 2018, the carrying value of the non-controlling interest for PML was $84.9 million (2017: $110.6 million).

The financial information of PML is provided below. Results as at and for the year ended December 31, 2018, reflect the impact of the sale of PEL in 2018 (Note 13):

	As at December 31	
	2018	**2017**
Current assets [(1)]	$ 23,386	$ 100,638
Assets held for sale	—	59,744
Non-current assets	188,686	248,791
Total assets	$ 212,072	$ 409,173
Current liabilities [(2)]	$ 290	$ 104,908
Total liabilities	$ 290	$ 104,908
Equity	$ 211,782	$ 304,265
Total liabilities and equity	$ 212,072	$ 409,173

	Year Ended December 31	
	2018	**2017**
Revenue	$ 9,554	$ 31,133
Other (expense) income, net [(3)]	(8,751)	42,540
Net income	$ 803	$ 73,673

[(1)] As at December 31, 2017, $16.3 million of cash balances of PEL was classified as Restricted Cash upon the reclassification of PEL assets to Assets Held for Sale (Note 13).

[(2)] As at December 31, 2017, current liabilities included an inter-company payable balance between PEL and the Company, which totalled $100.8 million.

[(3)] Includes dividends received from associate investees ODL and Bicentenario (Note 16).

PML Share Sale Agreement and Subsequent Termination

On October 13, 2017, the Company entered into an agreement to acquire the outstanding 36.40% ownership of PML from the IFC for cash consideration of $225.0 million. The completion of the transaction was subject to obtaining modifications to take-or-pay contracts the Company had in place with Bicentenario, and other customary conditions of closing.

On July 9, 2018, the Company announced, effective July 6, 2018, the termination of the PML Share Sale Agreement. On October 19, 2018, pursuant to the termination conditions in the PML Share Sale Agreement, a $5 million break fee was paid to the IFC out of the proceeds of the PEL sale (Note 13), and the expense was recognized under Other Income (Loss), Net.

Dilution of Ownership Interest in PML

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

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

PML Bicentenario Put Option

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

On September 11, 2018, after the termination of the PML Share Sale Agreement, the IFC, on behalf of PML, provided notice to exercise the PML Bicentenario Put Option.

As at December 31, 2018, the put option value was $84.8 million, and the completion of the transaction was pending certain close conditions. If the transaction is completed, the expected net cash outflow will be approximately $34.0 million to the IFC after the proceeds are distributed by PML to its shareholders.

22. 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.

On June 26, 2018, the Company completed a two-for-one share split on its issued and outstanding common shares (the "**Share Split**"), with common shares trading on a post–split basis commencing on June 27, 2018. The Share Split has been applied retrospectively and as a result, all common shares, share-based units, and per share amounts are stated on an adjusted post-split basis for all periods presented.

The continuity schedule of share capital, adjusted for the Share Split, is as follows:

	Number of Common Shares [1]		Amount
As at January 1, 2017	100,004,726	$	4,745,355
Share-based compensation	6,938		85
As at December 31, 2017	100,011,664		4,745,440
Repurchase of shares	(1,590,585)		(17,842)
As at December 31, 2018	98,421,079	$	4,727,598

Purchase of Common Shares for Cancellation

On July 13, 2018, the Company received TSX regulatory approval to purchase up to 3,543,270 common shares over a twelve-month period commencing on July 18, 2018, under a normal course issuer bid ("**NCIB**"). The amount eligible for purchase under the NCIB represented approximately 3.5% of the issued and outstanding common shares as at July 9, 2018. On December 18, 2018, the Company received TSX regulatory approval to amend the NCIB to increase the maximum number of shares it is authorized to purchase to 5,000,583 common shares, representing approximately 5% of issued and outstanding common shares as at July 9, 2018.

The Company repurchased $17.8 million of shares during the year ended December 31, 2018 (2017: $Nil), for an average repurchase cost per share, excluding transaction costs, of $11.20 (C$14.81).

Dividends

On December 5, 2018, the Company adopted a dividend policy to implement a quarterly dividend payment during periods in which Brent oil prices sustain an average price of $60/bbl or higher. The declaration and payment of any specific dividend, the actual amount, the declaration date, the record date and the payment date of each quarterly dividend will be at the discretion of the Board. The Company also adopted a Dividend Reinvestment Plan ("**DRIP**"), effective December 17, 2018, with the option to have the cash dividends declared on the shareholders' common shares reinvested automatically back into additional common shares, without the payment of brokerage commissions or service charges.

On December 6, 2018, the Company declared an initial dividend of C$0.33 per common share, which was subsequently paid on January 17, 2019, to shareholders of record at the close of business on January 3, 2019. Accordingly, dividend payable of $23.8 million was recognized as at December 31, 2018 (2017: $Nil). On January 17, 2019, under the DRIP, $5.8 million of the dividend was reinvested through the issuance of 625,963 common shares of the Company.

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

b. Share-Based Compensation

The Company recognized total share-based compensation of $4.1 million during the year ended December 31, 2018, related to RSUs and DSUs (2017: $2.8 million). Of these amounts, $0.1 million was capitalized during the year ended December 31, 2018 (2017: $0.2 million).

Deferred Share Units

	Number of DSUs Outstanding[(1)]		Amount		Weighted Average Value per Unit (C$)[(1)]
As at January 1, 2017	33,268	$	728	$	29.34
Granted during the year	60,054		716		15.22
Settled during the year	(6,938)		(85)		16.28
As at December 31, 2017	86,384		1,359		22.91
Granted during the year	60,079		895		19.05
As at December 31, 2018	146,463	$	2,254	$	21.38

[(1)] *Units and per unit amounts are stated on an adjusted post-split basis to reflect the Share Split.*

Pursuant to the Security Based Compensation Plan (the "**Plan**"), dated November 2, 2016, the Company established a 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 settlement. 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, with a corresponding amount recorded in Contributed Surplus.

For the year ended December 31, 2018, the average fair value of DSU grants was $14.90 and is approximated using the Company's share price in U.S. dollars at the time of the grant (2017: $11.93).

Restricted Share Units

	Number of RSUs Outstanding[(1)]		Weighted Average Value per Unit (C$)[(1)]
As at January 1, 2017	—	$	—
Granted during the year	761,772		—
Forfeited/cancelled during the year	(9,600)		—
As at January 1, 2018	752,172	$	19.34
Granted during the year	785,388		—
Forfeited/ cancelled during the year	(306,584)		—
Settled during the year - cash	(112,010)		18.11
As at December 31, 2018	1,118,966	$	14.91

[(1)] *Units and per unit amounts are stated on an adjusted post-split basis to reflect the Share Split.*

Pursuant to the Plan, the Company issued RSUs in 2018 totalling 785,388 units that fully vest and settle on April 19, 2021 (2017: 761,772 units, vest annually in three equal tranches, and settle on August 8, 2020).

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 certain maximum 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 CHRC is authorized to determine and set the adjustment factor for each issuance, and the maximum caps by RSU issuance. The CHRC also approved an additional 357,254 RSUs (reflecting the maximum cap amount) to be issued for exceptional business performance, as determined solely by the committee (2017: 228,530 RSUs).

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 expense is recognized based on the estimated fair value of RSUs, amortized on a straight-line basis over the vesting period of the tranche (if graded vesting) or award (if cliff vesting).

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

The total share-based compensation expense for RSUs was $3.1 million during the year ended December 31, 2018 (2017: $1.9 million). RSUs cash settlements totalled $1.5 million during the year ended December 31, 2018 (2017: $Nil), of which $1.5 million settlements related to personnel departures resulting from transformation and corporate restructuring activities undertaken in 2018 (Note 8).

There were 163,088 RSUs vested and outstanding as at December 31, 2018 (2017: Nil), with an estimated unit fair value of C$18.11 (2017: C$Nil).

23. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Year Ended December 31	
	2018	2017
Decrease in accounts receivable	$ 68,338	$ 1,925
Decrease in income taxes receivable	3,510	55,675
Decrease in prepaid expenses and deposits	12,610	1,070
Increase in inventories	(42,487)	(20,621)
Increase (decrease) in accounts payable, accruals and other liabilities	10,969	(30,576)
Decrease in income taxes payable	(4,722)	(5,058)
Changes in non-cash working capital	$ 48,218	$ 2,415
Operating activities	$ 4,249	$ (39,199)
Investing activities (Note 2)	$ 43,969	$ 41,614
Changes in non-cash working capital	$ 48,218	$ 2,415

Sale of Certain Interests in Papua New Guinea

In 2017, the Company executed an Assignment Deed and Termination Deed with the purchaser of certain interests located in Papua New Guinea for $57.0 million, which was received in 2018.

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

24. 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, 2018, and 2017:

As at December 31		Accounts Receivable	Accounts Payable	Commitments	Cash Advance [1]	Loans / Debentures Receivable[1]	Interest Receivable[1]
ODL [2]	2018	$ 9,116	$ 1,481	$ 82,073	$ —	$ —	$ —
	2017	421	231	130,303	—	—	—
Bicentenario [2]	2018	15,522	1	43,200	87,278	—	—
	2017	13,380	469	902,375	87,278	—	—
PIV	2018	4,624	1,104	123,330	17,741	114,134	37,158
	2017	5,926	1,598	158,179	17,741	76,552	26,331
Interamerican [3]	2018	—	—	—	—	—	—
	2017	145	72	—	—	2,224	362
CGX	2018	—	—	—	—	25,945	2,186
	2017	120	—	—	—	16,122	1,516

For the Year Ended December 31		Sales	Purchases / Services	Interest Income[1]
ODL	2018	$ 1,359	$ 46,472	$ —
	2017	3,973	50,135	—
Bicentenario	2018	—	59,448	—
	2017	—	127,333	—
PIV	2018	23	29,162	10,828
	2017	—	35,600	8,234
Interamerican	2018	—	—	83
	2017	407	24	338
CGX	2018	459	—	1,026
	2017	526	—	716

[1] *Amounts presented based on contractual payment obligations, prior to impairments.*

[2] *The Company receives dividends from associate investees, ODL and Bicentenario. Accounts receivable balances for the parties include $22.8 million of dividends receivable (December 31, 2017: $Nil) (Note 16).*

[3] *The sale of Interamerican was closed in November 2018 (Note 13), and it was no longer considered a related party as at December 31, 2018.*

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

- *ODL* - Services relate to ship-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 $82.1 million from 2019 to 2021. The Company also earned revenue with respect to power transmission sales to ODL prior to the sale of PEL in 2018 (Note 13).
- *Bicentenario* - Services relate to ship-or-pay/take-or-pay contracts the Company has with Bicentenario for the transportation and storage of crude oil from the Company's fields to Colombia's oil transportation system. Total commitment of $43.2 million from 2019 to 2024 relates to the storage take-or-pay contracts in place with the Company. The Bicentenario pipeline has experienced periodic suspensions following security-related disruptions. The Company terminated its transportation contract commitments with Bicentenario in July 2018 (Note 26). 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.
- *PIV* - The Company has loans receivable from PIV and its port subsidiary Puerto Bahia in relation to funds advanced for infrastructure projects (Note 17). 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 $123.3 million from 2019 to 2021, for which the Company recognizes purchases, services and payable balances, as well as long-term advances (Note 17). The Company also has a receivables balance in 2018 associated with sublease arrangements for storage tanks under the take-or-pay contract described above. The sublease arrangements are with Ecopetrol and other third party operators.
- *CGX* - The Company has a series of loans with CGX (Note 16). The Company also has service arrangements with respect to certain corporate administrative services and technical service support provided for CGX's operations in Guyana. During

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

the year ended December 31, 2018, the Company also settled certain outstanding receivables and interest on the bridge loan facility in exchange for CGX shares (Note 16).

- *Interamerican* - In 2018, the Company's net investment in Interamerican, comprised of the equity interest and the loan receivable of $2.7 million, was sold (Note 13). The Company also purchases energy supply services from Interamerican, and recognizes gas sales supplied from the La Creciente fields. Upon the sale of the investment on November 20, 2018, Interamerican was no longer designated as a related party.

Key Management Compensation

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

	As at December 31	
	2018	2017
Short-term employee benefits	$ 6,579	$ 6,263
Termination benefits	2,073	2
Share-based compensation	2,724	1,643
Total compensation	$ 11,376	$ 7,908

25. Financial Instruments

a. Risks Associated with Financial Assets and Liabilities

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 net income (loss) and the value of financial instruments it holds.

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, particularly related to crude oil. Significant changes in crude oil prices can also impact the Company's ability to raise capital or obtain additional debt financing. Crude oil prices are impacted by global economic events that dictate the levels of supply and demand. While the Company does not engage in speculative trading, it may enter into various hedging strategies such as puts, calls, zero-cost-collars and forwards to minimize its commodity risk exposure to oil prices.

Foreign currency risk

Foreign currency 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 rates, the Company may enter into various hedging strategies such as currency zero-cost-collars, swaps and forwards.

Interest rate risk

The Company does not have any financial liabilities that are subject to interest rate risk as at December 31, 2018.

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 Net Loss before Income Tax as at December 31, 2018 as follows:

- A 10% change in the COP/U.S. dollar exchange rate would have resulted in a $0.4 million change in foreign exchange gain/loss, and an $18.1 million loss (if 10% increase) and $7.0 million gain (if 10% decrease) in Loss on Risk Management Contracts.
- An increase in commodity prices by $5/bbl would have resulted in a loss of $1.5 million in Loss on Risk Management Contracts, while a decrease by $5/bbl would have resulted in a gain of $10.7 million.

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

ii) Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a non-derivative financial asset fails to meet its obligations. Credit risk arising on risk management assets is not significant given the counterparties are large financial institutions, with strong credit ratings.

The Company actively limits the total exposure to individual client counterparties by maintaining a credit policy, which sets forth prepayment or letters of credit requirements for trade customers, to mitigate losses from non-collection of trade receivables.

The following table shows the maximum credit risk exposure of financial assets carried at amortized cost, presented at the gross carrying amounts, prior to ECL allowances and other impairments:

	As at December 31	
	2018	**2017**
Trade receivables	$ 64,364	$ 106,262
Other receivables	66,540	73,349
Receivables from joint arrangements	58,733	60,287
Withholding tax and others	36,093	54,067
Short-term loan receivables (Note 16)	24,994	18,937
Allowance for doubtful trade receivables	(15,676)	(15,676)
Allowance for short term loan receivables	(12,685)	(12,685)
Allowance for receivables from joint arrangements	(7,613)	(7,613)
Allowance for short-term other receivables	(9,232)	(4,545)
Accounts receivable	$ 205,518	$ 272,383
Long-term receivables, before loss allowances	134,842	94,381
Allowance for long-term receivables	(35,302)	(35,302)
Long-term receivables (Note 17)	$ 99,540	$ 59,079
Withholding tax and others- not considered for credit risk	(36,092)	(54,060)
Total financial assets carried at amortized cost	$ 268,966	$ 277,402

Trade receivables - simplified approach

As at December 31, 2018, $Nil trade receivables balances were past 30 days or in default (more than 90 days from due date). Given negligible normalized historical loss rates calculated under the provision matrix (Note 3), the ECL allowance for trade receivables was nominal as at December 31, 2018 and January 1, 2018.

Reconciliation of ECLs allowance

The following table shows the continuity of ECL allowances:

	Lifetime ECLs				
	Not Credit Impaired Stage 2	**Receivables Credit Impaired Stage 3**	**Loan Assets Credit Impaired Stage 3** [1]	**Receivables Simplified Approach** [2]	**Total**
As at January 1, 2018 [1]	$ 8,550	$ 3,608	$ 47,987	$ 15,676	$ 75,821
Changes in risk parameters	4,107	580	—	—	4,687
As at December 31, 2018	$ 12,657	$ 4,188	$ 47,987	$ 15,676	$ 80,508

[1] Stage 3 loan assets have an aggregate gross carrying amount of $147.5 million as at December 31, 2018 (January 1, 2018: $91.0 million) and relate to loans with PIV and CGX. Certain loans receivable from PIV and CGX were previously credit-impaired in 2016 and 2017 with an ECL allowance of $35.3 million, and $12.7 million, respectively (Notes 16, 17). No ECL allowance was recognized for PIV's Puerto Bahia ECA Loans as the gross carrying amount approximated the present value of contractual cash flows expected to be received (Notes 17).

[2] Simplified approach - the Company is in legal proceedings against a customer in respect of an overdue accounts receivable balance of $15.7 million from the sale of oil in August 2015. The receivable was fully impaired in 2015.

iii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The management of financial obligations is also further discussed below under the capital management section.

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

The following are the maturities of non-derivative financial liabilities (based on calendar year and undiscounted) as at December 31, 2018:

Financial liability due in	2019	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	$ 575,166	$ —	$ —	$ —	$ —	$ 575,166
Long-term debt	—	—	—	—	350,000	350,000
Interest payments	33,950	33,950	33,950	33,950	16,975	152,775
Obligations under finance lease	10,100	10,119	7,836	3,322	2,485	33,862
Total	$ 619,216	$ 44,069	$ 41,786	$ 37,272	$ 369,460	$ 1,111,803

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

	As at December 31	
	2018	2017
Accrued liabilities	$ 256,742	$ 190,778
Trade and other payables	175,316	160,758
Provisions and withholding tax	96,060	159,147
Supplier holdback and advances	47,048	37,217
Total	$ 575,166	$ 547,900

As at December 31, 2018, the Company had $33.5 million in standby letters of credit outstanding (2017: $82.3 million). The Company is also in compliance with financial covenants under the Unsecured Notes (Note 18).

Restricted Cash

As at December 31, 2018, restricted cash classified as current consisted of $31.8 million in funds held in trust for the Caño Limón pipeline tariff overcharges disagreement (2017: $21.8 million) (Note 26), $7.7 million in cash held for various agreements related to insurance, tax and exploration commitments (2017: $27.8 million), and $Nil cash of assets held for sale (2017: $16.2 million, related to PEL).

As at December 31, 2018, restricted cash classified as non-current consisted of $86.4 million of trust accounts and term deposits to cover future abandonment obligations, and $16.4 million of insurance collateral for certain contingencies (2017: $66.6 million related to future abandonment obligations).

b. Risk Management Contracts

The Company seeks to minimize the effects of commodity and foreign exchange 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 risk tolerance. It is the Company's policy that no speculative trading in derivatives shall be undertaken. The Company does not apply hedge accounting to any of its financial derivatives.

The Company uses derivative commodity and foreign exchange instruments as economic hedges to manage exposure to price and exchange rate volatility by hedging a portion of crude oil production and foreign currency amounts, respectively. The terms of the outstanding instruments and expected settlement periods as at December 31, 2018 and 2017, are as follows:

Risk Management Contracts - Crude Oil

Type of Instrument	Term	Benchmark	Notional Amount / Volume (bbl)	Strike Prices Put /Call; Call Spreads	Carrying Amount Assets	Carrying Amount Liabilities
Put options	January 2019 to September 2019	Brent	2,220,000	55.00	$ 9,380	$ —
As at December 31, 2018					$ 9,380	$ —
Zero-cost collars	January 2018 to October 2018	Brent	12,000,000	49.11 / 61.63	$ —	$ (102,104)
Call spreads	October 2018	Brent	600,000	59.00 / 63.88	—	(1,643)
As at December 31, 2017					$ —	$ (103,747)

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

Risk Management Contracts - Foreign Exchange

Type of Instrument	Term	Benchmark	Notional Amount / Volume (U.S.$)	Put/ Call; Par forward (COP$)	Carrying Amount Assets	Carrying Amount Liabilities
Zero-cost collars	January to June 2019	COP$ / U.S.$	$ 172,500	3,032 / 3,273	$ —	$ (3,299)
Forward	January to March 2019	COP$ / U.S.$	$ 22,500	3,109	—	(1,019)
As at December 31, 2018					—	(4,318)
As at December 31, 2017					$ —	$ —

	Assets	Liabilities
Total risk management contracts as at December 31, 2018	$ 9,380	$ (4,318)
Total risk management contracts as at December 31, 2017	$ —	$ (103,747)

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

	Year Ended December 31 2018	2017
Realized loss on risk management contracts	$ (192,970)	$ (21,291)
Unrealized gain (loss) on risk management contracts	107,337	(71,762)
Total loss on risk management contracts	$ (85,633)	$ (93,053)

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 assets and liabilities, long-term receivables, loans and borrowings, and finance lease obligations on the Consolidated Statements of Financial Position.

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.

The following table summarizes the Company's remaining financial instruments that are carried or disclosed at fair value in accordance with the classification under the fair value hierarchy as at December 31, 2018 and 2017:

	Period	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Financial Assets Measured at FVTPL						
Risk management assets	2018	$ 9,380	$ —	$ 9,380	$ —	$ 9,380
	2017	—	—	—	—	—
Financial Assets Measured at FVTOCI						
Investments in equity instruments (Note 17)	2018	$ 1,130	$ —	$ —	$ 1,130	$ 1,130
	2017	1,130	—	—	1,130	1,130
Financial Assets Measured at Amortized Cost						
Long-term receivables (Note 17)	2018	$ 99,540	$ —	$ 11,577	$ 87,963	$ 99,540
	2017	59,079	—	16,107	42,972	59,079
Financial Liabilities Measured at FVTPL						
Risk management liabilities	2018	$ (4,318)	$ —	$ (4,318)	$ —	$ (4,318)
	2017	(103,747)	—	(103,747)	—	(103,747)
Financial Liabilities Measured at Amortized Cost						
Long-term debt	2018	$ (326,784)	$ —	$ (346,654)	$ —	$ (346,654)
	2017	(250,000)	—	(280,803)	—	(280,803)
Obligations under finance lease	2018	(27,579)	—	(34,746)	—	(34,746)
	2017	$ (19,229)	$ —	$ (24,226)	$ —	$ (24,226)

Valuation Techniques

The Company uses level 2 inputs to measure the fair value of its risk management contracts, certain receivables and debt balances. 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.

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

Commodity and foreign exchange risk management contracts are measured at observable spot and forward crude oil prices. The fair values of the risk management contracts are estimated using 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 Company uses level 3 inputs to measure the fair value of certain investments, and long-term loan receivable balances with PIV and Puerto Bahia.

The fair value, which approximates the carrying value, of the Company's long-term loan receivable balances with PIV, including the Puerto Bahia ECA Loans, 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 interest rates included in the loans (Note 17). The significant unobservable inputs relate to the expected timing of repayment of principal and the expected interest cash flows under the loan.

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 Unsecured Notes and Unsecured LC Facility 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.

The Company monitors capital based on the working capital and cash and cash equivalents balances, and current and projected ratios of debt to cash flow from operations and debt to capital employed. The Company's objectives (which are currently met), is to maintain debt covenant ratios (Note 18) and minimum cash and cash equivalent balances of $200 million, which may be adjusted at certain times as a result of acquisitions. To facilitate the management of these objectives, the Company prepares annual budgets, updated depending on varying factors such as general market conditions and successful capital deployment.

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

	As at December 31	
	2018	**2017**
Equity attributable to equity holders of the Company	$ 1,022,327	$ 1,285,750
Long-term debt	326,784	250,000
Working capital surplus [1]	(215,698)	(310,017)
Total	$ 1,133,413	$ 1,225,733

[1] Working capital surplus represents the excess of Total Current Assets after deducting Total Current Liabilities.

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

26. Commitments and Contingencies

Commitments

The Company's commitments as at December 31, 2018, undiscounted and by calendar year, are presented below:

As at December 31, 2018	2019	2020	2021	2022	2023	2024 and beyond	Total
Transportation Commitments							
Ocensa P-135 ship-or-pay agreement	$ 67,520	$ 67,520	$ 67,520	$ 67,520	$ 67,520	$ 101,469	$ 439,069
Puerto Bahia take-or-pay agreements	39,996	41,653	41,681	—	—	—	123,330
ODL ship-or-pay agreement	50,197	30,732	1,144	—	—	—	82,073
Bicentenario take-or-pay storage agreements	7,489	7,489	7,489	7,489	7,489	5,755	43,200
Other transportation agreements	55,982	49,116	49,116	49,041	48,203	138,887	390,345
Exploration Commitments							
Minimum work commitments	25,526	118,093	26,886	—	—	—	170,505
Other Commitments							
Operating purchases and leases	22,528	14,784	13,898	12,566	11,234	11,724	86,734
Community obligations	8,330	310	—	—	—	—	8,640
Total	$ 277,568	$ 329,697	$ 207,734	$ 136,616	$ 134,446	$ 257,835	$ 1,343,896

Oleoducto Central S.A. ("Ocensa") Pipeline

In Colombia, the Company is participating as a shipper in a project to expand the Ocensa pipeline ("**P-135 Project**"), 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 in 2017 once the expansion project was completed and operational.

Ocensa P-135 Project Arbitration Settlement

The Company and Ocensa reached a successful settlement agreement in an arbitration on tariffs and monetary conditions relating to transportation contracts entered into with Ocensa concerning the P-135 Project (the "**P-135 Settlement Agreement**"). As a result of the P-135 Settlement Agreement, total commitments for the Ocensa P-135 ship-or-pay agreement of $648.3 million (prior to settlement date in July 2018) were reduced to $470.0 million to reflect the settlement tariff terms, and is $439.1 million as at December 31, 2018.

During the year ended December 31, 2018, the Company also recognized a recovery of $5.2 million in transportation costs related to the difference between the rates under a temporary payment agreement with Ocensa and the P-135 Settlement Agreement (2017: $Nil).

Minimum credit rating requirement

As part of the expansion project and take-or-pay 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, 2018.

Termination of Transportation Agreements

On July 13, 2018, the Company announced that it had exercised its rights to terminate its contracts with Cenit Transporte y Logistica de Hidrocarburos S.A.S ("**CENIT**") to transport oil through the Caño Limón pipeline ("**CLC Pipeline**"), and with Bicentenario to transport oil through Bicentenario pipeline ("**BIC Pipeline"**):

- The CLC Pipeline, which connects the BIC Pipeline to the Coveñas Export Terminal, had suspended transport rendered to the Company for more than 180 consecutive calendar days, which was a termination event under the Company's transportation contract with CENIT.
- The BIC Pipeline, which operates between Araguaney and Banadia where it connects to the CLC Pipeline, did not transport the Company's oil for more than six uninterrupted months due to a justifiable event, which was a termination event under the transportation contract with Bicentenario.

As a consequence of these terminations, the Company is no longer contractually committed to payments of ship-or-pay fees between July 12, 2018 and October 2028 through the CLC Pipeline, and between July 12, 2018 and June 2024 through the BIC Pipeline. Commitments totalling $1.35 billion, which was the balance at the date of termination under these contracts,were excluded from the commitments table above.

On July 16, 2018 and July 17, 2018, the Company received notices from Bicentenario and CENIT, respectively, disputing the grounds for the termination of the above-referenced agreements. As at December 31, 2018, a total of $80.2 million in disputed ship-or-pay payments were not made by the Company since the termination of these contracts, and SBLCs of $64.3 million was drawn by Bicentenario on account of the disputed payments attributable to the BIC Pipeline contract.

Notice of arbitration proceedings concerning the validity of the termination of the CLC Pipeline and the BIC Pipeline contracts were received on December 3, 2018 and January 28, 2019, respectively. The Company is unaware of any factual basis to support the position of Bicentenario and CENIT. Therefore, the Company intends to defend itself vigorously and claim recovery of damages.

The Company continues to have existing take-or-pay contracts for storage in Coveñas with Bicentenario for $43.2 million, and offloading facilities in Araguaney and usage of maritime facilities in Coveñas with CENIT for $153.2 million. In addition, the Company also has take-or-pay commitments for the Monterey-Araguaney pipeline, which connects the ODL and Bicentenario pipelines, totalling $111.4 million.

Payments under Terminated Pipeline Contracts

For the year ended December 31, 2018, the net amounts paid to Bicentenario post termination of the BIC Pipeline contract, totalled $74.6 million. The amount comprises $64.3 million drawn under SBLCs, $6.8 million of advance payment for services in July related to the period after the termination date of July 12, 2018, and $3.5 million in credit notes receivable for June 2018 activity.

As described above, during the year ended December 31, 2018, Bicentenario had fully drawn $64.3 million under the SBLCs originally issued to guarantee obligations under the BIC Pipeline contract. These SBLCs were autonomous and irrevocable, and thus did not automatically terminate upon early termination of the pipeline contract.

Fees Paid on Suspended Pipeline Capacity

For the year ended December 31, 2018, and prior to the termination of the transportation contracts, the net fees paid relating to the periods of disrupted/suspended pipeline capacity were $82.4 million (2017: $108.8 million).

Transporte Incorporado S.A.S. - Assignment Agreement

Pursuant to an assignment agreement with Transporte Incorporado S.A.S (“**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 31, 2024. Transporte Incorporado also maintains a unilateral right under the assignment agreement, effective April 1, 2019, under which the assignment agreement would be terminated, and the transport capacity rights would be transferred to the Company and the Company would be required to pay Transporte Incorporado an estimated $47.0 million, after netting the receivable balance (described further below) at the effective date.

The receivable balance is in relation to the remaining proceeds to be received from the Company’s 2014 sale of its share of the Ocensa pipeline system transportation rights to Transporte Incorporado, and had a carrying value of $19.4 million as at December 31, 2018 (2017: $16.9 million).

On November 28, 2018, Transporte Incorporado informed the Company of its intention to exercise the unilateral right to terminate the assignment agreement, effective April 1, 2019. Upon transfer of the transportation capacity rights, the Company will no longer be required to pay the set monthly premium to Transporte Incorporado, which totalled $18.0 million during the year ended December 31, 2018 (2017: $18.0 million). The effect of this termination will be to reduce future transportation payments made by the Company from April 1, 2019 to March 31, 2024 in the aggregate amount of $90.0 million.

Puerto Bahia Equity Contribution Agreement

In 2013, Pacinfra Holding Ltd. (“**Pacinfra**”, a subsidiary of the Company), PIV, Puerto Bahia (PIV subsidiary, Note 16) and Wilmington Trust, National Association (as Collateral and Administrative Agent), entered into an equity contribution agreement, pursuant to which Pacinfra and PIV agreed to jointly and severally cause equity contributions (via debt or equity) to Puerto Bahia up to the aggregate amount of $130.0 million, when it is determined that there are certain deficiencies related to operation and maintenance of the port facility and Puerto Bahia’s ability to make payments towards its bank debt obligations.

During the year ended December 31, 2018, the Company funded $41.3 million under the Puerto Bahia ECA Loans (2017: $Nil) (Note 17).

Letters of Credit Facility

The Company has various guarantees in place in the normal course of business, supported by issued letters of credit. As at December 31, 2018, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $33.5 million under the Unsecured LC Facility (2017: $82.3 million under Secured LC Facility) (Note 18).

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 and other applicable deductions and 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.

Contingencies

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

Reversal of Provision Related to High-Price Clause

The Company has certain exploration and production contracts acquired through business acquisitions where outstanding disagreements with the Agencia Nacional de Hidrocarburos ("**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.

Upon acquisition of these contracts via business combination transactions in prior years, in accordance with IFRS 3 *Business Combinations*, a contingent liability provision was recognized with respect to disagreements with the ANH.

As at December 31, 2017, the Company reversed $99.6 million in contingent liability provisions related to the Corcel Block upon receipt of a ruling on December 6, 2017, from an arbitration panel in favour of the Company's position. Subsequently, the ANH filed requests for annulment of the arbitration panel's decision with the Consejo de Estado (Colombia's highest administrative court), which were rejected by such court on November 21, 2018 and January 18, 2019. As such, the arbitrators ruling in favour of the Company remains upheld.

In 2018, the Company commenced a process to review other contingent liability provisions previously recognized, and reversed a further $62.9 million for two blocks. The reversal was supported by external legal and technical opinions supporting the Company's technical interpretation that the clause would not apply to a certain designated exploitation area within these blocks. The reversal was recognized in the Consolidated Statements of Loss during the year ended December 31, 2018. The Company and the ANH continue to be in discussions to review the differences in interpretation for the remaining exploitation areas.

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

Tax Review in Colombia

The Colombian tax authority 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, 2018, the tax authority reassessed $111.2 million of tax owing, including estimated interest and penalties, with respect to the denied deductions (2017: $85.2 million).

The Company believes that disagreements 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, 2018 and 2017.

Tax Review in Peru

The Peruvian tax authority completed a tax audit for the 2013 and 2014 taxation years, which resulted in the denial of certain expenses; the SUNAT has reassessed $21.5 million of tax owing, including estimated interest and penalties, claimed by subsidiary Pacific Off Shore Perú S.R.L, as part of the carry agreement with BPZ Exploration & Production with respect to the joint investment in Block Z-1 (2017: $22.4 million).

The Company believes that the disagreements 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, 2018 and 2017.

27. Subsequent Events

CGX Transactions

CGX farm-out agreement

On January 30, 2019, the Company and CGX entered into a farmout agreement covering CGX's two shallow water offshore Petroleum Prospecting Licenses in Guyana, with CGX as the operator of the blocks. Subject to governmental approval, the Company will acquire a 33.333% working interest in the two blocks in exchange for a $33.3 million signing bonus. The Company has also agreed to pay one-third of the applicable costs plus an additional 8.333% of CGX's direct drilling costs for the initial exploratory commitment wells in the two blocks. Upon closing, CGX will repay the Company approximately $17 million of debt, by way of an offset against the $33.3 million signing bonus.

CGX rights offering

Concurrent with the farmout agreement described above, on February 1, 2019, CGX announced an equity rights offering to existing CGX shareholders for total proceeds of approximately $22 million (at subscription price of C$0.25/share). The Company agreed to subscribe for its basic rights and to backstop the offering. The offering closed on March 12, 2019 but the results have not yet been announced.

CGX 2018 Bridge Loan amendment

On February 1, 2019, CGX and the Company announced the execution of an amended and restated bridge loan agreement, pursuant to which the maturity date of the CGX 2018 Bridge Loan was extended from March 31, 2019 to September 30, 2019, and an option was added whereby the Company can convert at any point on or before maturity date, up to $8.8 million principal amount into CGX common shares at a conversion price of $0.22 per share (being the US dollar equivalent of C $0.29).

Farm-In Agreement with Parex Resources Inc. ("Parex")

On January 29, 2019, the Company signed a farm-in agreement with Parex, which is subject to regulatory approval, whereby the Company will receive a 50% working interest in the VIM-1 Block in the Lower Magdalena Valley basin in Colombia in exchange for funding 100% of the first $10 million of the drilling, testing and completion costs of an exploration well, after which costs on the block will be split 50% with Parex's subsidiary, Parex Resources (Colombia) Ltd.

Ecuador Bid Round

On March 12, 2019, the Company and GeoPark Limited, as part of a consortium, were awarded production sharing contracts on two blocks in Ecuador's Intracampos Bid Round. The blocks were acquired under an initial four-year exploration period, with the option to extend the exploration period by an additional two years, for a total estimated investment commitment of $64 million, or $32 million net to the Company. The final award is contingent upon regulatory approvals which are expected in April 2019.

Dividends

On March 13, 2019, the Company declared a dividend of C$0.165 per common share, which will be paid in cash on or about April 16, 2019, to shareholders of record at the close of business on April 2, 2019.