

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

*For the three and nine months ended  
September 30, 2019 and 2018*



# Interim Condensed Consolidated Statements of (Loss) Income

		Three Months Ended September 30		Nine Months Ended September 30	
(Unaudited; in thousands of U.S.\$, except per share information)	Notes	2019	2018	2019	2018
Oil and gas sales and other revenue	5	\$ 289,641	\$ 382,189	\$ 994,149	\$1,090,283
Sales of oil and gas for trading	5	86	224	74,267	2,717
Royalties		(12,051)	(15,902)	(35,866)	(37,624)
Revenue		277,676	366,511	1,032,550	1,055,376
Oil and gas operating costs	6	130,775	193,591	450,117	510,668
Costs of oil and gas for trading		135	206	71,375	2,112
Fees paid on suspended pipeline capacity		—	5,633	—	82,372
Payments under terminated pipeline contracts		—	15,578	—	15,578
General and administrative		18,476	22,962	53,175	71,183
Share-based compensation		1,314	1,042	3,031	3,876
Depletion, depreciation and amortization		94,019	78,041	286,257	236,290
Impairment, exploration expenses and other	7	46,391	59,071	63,254	189,348
Reversal of provision related to high-price clause		—	(21,832)	—	(21,832)
Restructuring, severance and other costs		5,463	2,108	8,951	6,500
(Loss) income from operations		(18,897)	10,111	96,390	(40,719)
Share of income from associates	13	17,183	19,239	60,434	74,649
Foreign exchange (loss) gain		(3,735)	(1,094)	(1,452)	9,712
Finance income		5,580	7,567	17,082	18,251
Finance expense		(19,732)	(13,626)	(48,054)	(38,056)
Gain (loss) on risk management contracts	19	2,203	5,533	(1,103)	(91,358)
Other (loss) income, net		(1,359)	(2,606)	9,438	(3,909)
Reclassification of currency translation adjustments		—	—	—	(50,847)
Loss on extinguishment of debt		—	—	—	(25,628)
Net (loss) income before income tax		(18,757)	25,124	132,735	(147,905)
Current income tax expense		(28,744)	(8,787)	(37,671)	(24,570)
Deferred income tax (expense) recovery		(1,155)	28,604	142,858	21,916
Income tax (expense) recovery	8	(29,899)	19,817	105,187	(2,654)
Net (loss) income for the period		\$ (48,656)	\$ 44,941	\$ 237,922	\$ (150,559)
Attributable to:					
Equity holders of the Company		(49,117)	45,105	224,879	(142,452)
Non-controlling interests		461	(164)	13,043	(8,107)
		\$ (48,656)	\$ 44,941	\$ 237,922	\$ (150,559)
(Loss) earnings per share attributable to equity holders of the Company					
Basic	9	\$ (0.50)	\$ 0.45	\$ 2.29	\$ (1.42)
Diluted	9	\$ (0.50)	\$ 0.45	\$ 2.26	\$ (1.42)

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

# Interim Condensed Consolidated Statements of Comprehensive (Loss) Income

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(Unaudited; in thousands of U.S.\$)</i>	2019	2018	2019	2018
Net (loss) income for the period	\$ (48,656)	\$ 44,941	\$ 237,922	\$ (150,559)
<b>Other comprehensive (loss) income to be reclassified to net (loss) income in subsequent periods (nil tax effect)</b>				
Foreign currency translation	(22,946)	(7,508)	(22,152)	5,685
Reclassification of currency translation adjustments	—	—	—	50,847
	(22,946)	(7,508)	(22,152)	56,532
<b>Total comprehensive (loss) income for the period</b>	<b>\$ (71,602)</b>	<b>\$ 37,433</b>	<b>\$ 215,770</b>	<b>\$ (94,027)</b>
<b>Attributable to:</b>				
Equity holders of the Company	(68,225)	40,469	205,658	(84,528)
Non-controlling interests	(3,377)	(3,036)	10,112	(9,499)
	<b>\$ (71,602)</b>	<b>\$ 37,433</b>	<b>\$ 215,770</b>	<b>\$ (94,027)</b>

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

# Interim Condensed Consolidated Statements of Financial Position

As at (Unaudited; in thousands of U.S.\$)	Notes	September 30 2019	December 31 2018
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$ 313,957	\$ 446,132
Restricted cash		36,458	39,541
Accounts receivable	19	151,250	205,518
Inventories		115,338	108,015
Income taxes receivable		27,168	7,071
Prepaid expenses and deposits		5,120	5,309
Risk management assets	19	19,280	9,380
Total current assets		668,571	820,966
Non-current			
Properties, plant and equipment	10	970,600	972,035
Exploration and evaluation assets	11	80,719	15,100
Intangible assets	12	61,740	—
Investments in associates	13	188,102	191,111
Deferred tax assets	8	175,474	32,616
Restricted cash		91,878	102,764
Other assets		146,420	156,686
Total assets		\$ 2,383,504	\$ 2,291,278
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		\$ 460,518	\$ 575,166
Risk management liabilities	19	3,231	4,318
Income taxes payable		27,151	3,124
Lease liabilities	14	26,575	7,151
Asset retirement obligations		26,098	15,509
Total current liabilities		543,573	605,268
Non-current			
Long-term debt		329,897	326,784
Lease liabilities	14	48,343	20,428
Asset retirement obligations		253,768	231,610
Total liabilities		\$ 1,175,581	\$ 1,184,090
Commitments and contingencies	20		
<b>EQUITY</b>			
Share capital		\$ 4,723,565	\$ 4,727,598
Contributed surplus		122,495	116,725
Other reserves		(203,451)	(184,230)
Retained deficit		(3,495,630)	(3,637,766)
Equity attributable to equity holders of the Company		\$ 1,146,979	\$ 1,022,327
Non-controlling interests		60,944	84,861
Total equity		\$ 1,207,923	\$ 1,107,188
Total liabilities and equity		\$ 2,383,504	\$ 2,291,278

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

# Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited; in thousands of U.S.\$)	Attributable to Equity Holders of the Company							Non-Controlling Interests	Total Equity
	Number of Common Shares	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Fair Value Investment	Retained Deficit	Total		
As at January 1, 2019	98,421,079	\$ 4,727,598	\$ 116,725	\$ (179,028)	\$ (5,202)	\$ (3,637,766)	\$ 1,022,327	\$ 84,861	\$ 1,107,188
Net income for the period	—	—	—	—	—	224,879	224,879	13,043	237,922
Other comprehensive loss	—	—	—	(19,221)	—	—	(19,221)	(2,931)	(22,152)
Total comprehensive (loss) income	—	—	—	(19,221)	—	224,879	205,658	10,112	215,770
Acquisition of CGX Energy Inc. (Note 3)	—	—	—	—	—	—	—	14,598	14,598
Acquisition of non-controlling interests (Note 15)	—	—	2,135	—	—	—	2,135	(2,135)	—
Dividends declared to equity holders of the Company (Note 16)	630,447	5,866	—	—	—	(82,743)	(76,877)	—	(76,877)
Repurchase of common shares (Note 16)	(1,094,020)	(9,899)	—	—	—	—	(9,899)	—	(9,899)
Share-based compensation	—	—	3,635	—	—	—	3,635	—	3,635
Dividends paid to non-controlling interests (Note 15)	—	—	—	—	—	—	—	(46,492)	(46,492)
As at September 30, 2019	97,957,506	\$ 4,723,565	\$ 122,495	\$ (198,249)	\$ (5,202)	\$ (3,495,630)	\$ 1,146,979	\$ 60,944	\$ 1,207,923

(Unaudited; in thousands of U.S.\$)	Attributable to Equity Holders of the Company							Non-Controlling Interests	Total Equity
	Number of Common Shares	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Fair Value Investment	Retained Deficit	Total		
As at January 1, 2018	100,011,664	\$ 4,745,440	\$ 127,351	\$ (226,906)	\$ (5,202)	\$ (3,354,933)	\$ 1,285,750	\$ 110,631	\$ 1,396,381
Net loss for the period	—	—	—	—	—	(142,452)	(142,452)	(8,107)	(150,559)
Other comprehensive income (loss)	—	—	—	57,924	—	—	57,924	(1,392)	56,532
Total comprehensive income (loss)	—	—	—	57,924	—	(142,452)	(84,528)	(9,499)	(94,027)
Share-based compensation	—	—	2,945	—	—	—	2,945	—	2,945
Dividends paid to non-controlling interests (Note 15)	—	—	—	—	—	—	—	(17,818)	(17,818)
Increase in non-controlling interest	—	—	(13,284)	4,497	—	—	(8,787)	8,787	—
Repurchase of common shares (Note 16)	(307,912)	(4,526)	—	—	—	—	(4,526)	—	(4,526)
As at September 30, 2018	99,703,752	\$ 4,740,914	\$ 117,012	\$ (164,485)	\$ (5,202)	\$ (3,497,385)	\$ 1,190,854	\$ 92,101	\$ 1,282,955

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

# Interim Condensed Consolidated Statements of Cash Flows

		Three Months Ended September 30		Nine Months Ended September 30	
(Unaudited; in thousands of U.S.\$)	Notes	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>					
Net (loss) income for the period		\$ (48,656)	\$ 44,941	\$ 237,922	\$ (150,559)
Items not affecting cash:					
Depletion, depreciation and amortization		94,019	78,041	286,257	236,290
Impairment	7	45,239	58,292	59,061	188,569
Change in asset retirement obligations	7	(417)	—	1,130	—
Accretion expense		8,429	2,418	12,734	10,085
Unrealized gain on risk management contracts	19	(4,338)	(61,830)	(4,611)	(75,945)
Share-based compensation		1,314	1,042	3,293	2,751
Deferred income tax expense (recovery)	8	1,155	(28,604)	(142,858)	(21,916)
Unrealized foreign exchange (gain) loss		(1,592)	6,525	(9,013)	(3,798)
Share of income from associates	13	(17,183)	(19,239)	(60,434)	(74,649)
Reclassification of currency translation adjustments		—	—	—	50,847
Loss on extinguishment of debt		—	—	—	25,628
Other		2,194	(566)	(8,604)	(4,002)
Dividends from associates	13	—	—	32,704	48,449
Settlement of asset retirement obligations		(6,148)	(65)	(9,629)	(115)
Changes in non-cash working capital	17	39,026	96,672	(36,717)	83,862
Cash provided by operating activities		\$ 113,042	\$ 177,627	\$ 361,235	\$ 315,497
<b>INVESTING ACTIVITIES</b>					
Additions to properties, plant and equipment		\$ (56,538)	\$ (92,230)	\$ (173,208)	\$ (218,563)
Additions to intangible assets	12	—	—	(48,487)	—
Additions to other assets, net		—	(1,051)	(9,563)	(31,068)
Additions to exploration and evaluation assets, net		(6,847)	(30,384)	(26,998)	(70,025)
Decrease (increase) in restricted cash		576	(22,746)	14,168	(97,381)
Acquisition of CGX Energy Inc.	3	—	—	4,296	—
Proceeds from the sale of non-current assets		—	—	—	119,083
Changes in non-cash working capital	17	(27,266)	12,776	(91,681)	13,108
Cash used in investing activities		\$ (90,075)	\$ (133,635)	\$ (331,473)	\$ (284,846)
<b>FINANCING ACTIVITIES</b>					
Principal payments of lease liabilities		\$ (6,267)	\$ (1,708)	\$ (18,294)	\$ (5,069)
Dividends paid to equity holders of the Company		(54,809)	—	(85,639)	—
Dividends paid to non-controlling interests	15	—	—	(46,492)	(17,818)
Repurchase of common shares		—	(4,526)	(9,899)	(4,526)
Long-term debt - repayment at a premium		—	—	—	(275,628)
Long-term debt - net proceeds from issuance		—	—	—	335,614
Changes in non-cash working capital	17	—	(1,178)	—	—
Cash (used) provided in financing activities		\$ (61,076)	\$ (7,412)	\$ (160,324)	\$ 32,573
Effect of exchange rate changes on cash and cash equivalents		(1,845)	(842)	(1,613)	11,669
(Decrease) increase in cash and cash equivalents during the period		(39,954)	35,738	(132,175)	74,893
Cash and cash equivalents, beginning of the period		353,911	550,840	446,132	511,685
Cash and cash equivalents, end of the period		\$ 313,957	\$ 586,578	\$ 313,957	\$ 586,578
Cash		258,488	349,131	258,488	349,131
Cash equivalents		55,469	237,447	55,469	237,447
Total cash and cash equivalents		\$ 313,957	\$ 586,578	\$ 313,957	\$ 586,578
<b>Supplementary cash flow information</b>					
Cash income tax paid		1,688	1,594	4,440	10,843
Cash interest paid		540	—	18,045	12,152
Cash interest received		\$ 3,023	\$ 3,460	\$ 8,170	\$ 9,726

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



# Notes to the Interim Condensed Consolidated Financial Statements

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

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## 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 interim condensed consolidated financial statements of the Company, comprising those of the Company and its subsidiaries, were approved and authorized for issuance by the Audit Committee of the Board of Directors on November 6, 2019.

## 2. Basis of Preparation and Significant Accounting Policies

### a. Statement of Compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 (the “**Interim Financial Statements**”), have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“**IASB**”). The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2018 (the “**2018 Annual Financial Statements**”). Certain amounts in the comparative interim condensed consolidated financial statements have been reclassified from the amounts previously presented to conform to the presentation of the current Interim Financial Statements. Additional details of these reclassifications are disclosed in “Note 2 - Basis of Preparation and Significant Accounting Policies” of the 2018 Annual Financial Statements.

### b. Significant Accounting Policies

The accounting policies used in preparation of the Interim Financial Statements are consistent with those disclosed in the 2018 Annual Financial Statements, except as outlined below. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

#### Changes in Accounting Policies and Disclosures

The Company applied the following new standards, amendments and interpretations effective from January 1, 2019.

##### *Adoption of 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 previous effective standards IAS 17 *Leases* (“**IAS 17**”) and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* (“**IFRIC 4**”). Under the previous guidance, lessees were required to determine if a lease was a finance or operating lease, based on specified criteria. The present value of finance leases was recognized on the Statements of Financial Position while operating leases were recognized in the Statement of Income (loss) when the expense was incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use (“**ROU**”) asset for both finance and operating lease contracts.

The Company adopted the standard effective January 1, 2019, applying the modified retrospective transition approach and therefore the comparative period information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of those accounting policies are described in “Note 3 - Significant Accounting Policies, Judgments, Estimates and Assumptions” of the 2018 Annual Financial Statements.

As a result of adopting the standard on January 1, 2019, the Company recognized an increase of \$64.1 million to both properties, plant and equipment, and lease liabilities on the Consolidated Statements of Financial Position. The impact of the adoption in the Consolidated Statements of (Loss) Income for the three and nine months ended September 30, 2019, was a net gain of \$2.9 million and \$2.5 million, respectively, as a result of unrealized foreign exchange gains (mainly related to lease liabilities, in Colombian Pesos), decreases in oil and gas operating costs and general and administrative, partially offset by an increase in depletion, depreciation and amortization (due to the ROU asset) and finance expense (due to the accretion of lease liabilities).

The Company applied the following optional expedients on the date of transition:

- ROU assets and liabilities for short-term leases (ending within 12 months) and leases of low value assets identified were not recognized on the Consolidated Statements of Financial Position.
- In the initial measurement upon transition, a single discount rate was applied to a portfolio of leases with similar characteristics.
- For certain leases, initial direct costs were excluded from the measurement of the ROU asset.

# Notes to the Interim Condensed Consolidated Financial Statements

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

- Elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4, and to use hindsight in determining the lease term.
- Relied upon any prior analysis of onerous contracts as an alternative to an impairment assessment for ROU assets under IAS 36 *Impairment of Assets*.

At the date of transition, the Company recognized ROU assets and lease liabilities primarily relating to take-or-pay arrangements in Colombia for power generators, storage facilities and corporate office leases. These leases were previously classified as operating leases under IAS 17.

## *Reconciliation of condensed consolidated statement of financial position as at January 1, 2019*

Below is the effect of transition to IFRS 16 on the Condensed Consolidated Statement of Financial Position as at January 1, 2019.

	Reported as at December 31, 2018	Effect of IFRS 16 Transition	Subsequent to Transition as at January 1, 2019
<b>Assets</b>			
Properties, plant and equipment	\$ 972,035	\$ 64,111	\$ 1,036,146
<b>Liabilities</b>			
Current portion of lease liabilities	7,151	12,623	19,774
Non-current portion of lease liabilities	20,428	51,488	71,916
<b>Total lease liabilities</b>	<b>\$ 27,579</b>	<b>\$ 64,111</b>	<b>\$ 91,690</b>

The ROU assets recognized on adoption were measured at an amount equal to the related lease liabilities. The lease liabilities were measured at the present value of remaining lease payments, discounted at the incremental borrowing rate of 10.0% at January 1, 2019. The incremental borrowing rate was determined based on the Company's own borrowings and bond yield data available at the date of transition.

The lease liabilities recognized on adoption of IFRS 16 as at January 1, 2019, are reconciled to the operating lease commitments as at December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018	\$ 81,377
Less:	
Commitments relating to short-term leases	(6,783)
Commitments relating to leases of low-value assets	(3,692)
Gross lease liabilities	70,902
Weighted average incremental borrowing rate as at January 1, 2019	10.0%
Discounted operating lease liabilities as at January 1, 2019	64,111
Add:	
Obligations relating to leases previously classified as finance leases	27,579
<b>Total lease liabilities as at January 1, 2019</b>	<b>\$ 91,690</b>

## *IFRS 16 Summary of Accounting Policies*

### *Right-of-use assets*

The Company recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

### *Lease liabilities*

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.



# Notes to the Interim Condensed Consolidated Financial Statements

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

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In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

In June 2017, the IASB issued IFRIC 23 to clarify accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019, and the adoption of IFRIC 23 did not result in significant changes in the estimates and judgments applied regarding uncertainty over income tax treatments, and no adjustments were recognized upon transition in the Interim 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 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Adoption of the amendments on January 1, 2019, did not have an impact in the Interim Financial Statements.

## **c. Significant Accounting Judgments, Estimates and Assumptions**

In preparing the Interim Financial Statements, the significant judgments, estimates and assumptions in applying the Company's accounting policies and the key sources of estimation uncertainty were consistent with those disclosed in the 2018 Annual Financial Statements, except as described below for the adoption of IFRS 16:

- *Lease vs. non-lease components:* determining whether a contract includes a lease (ROU asset) or a service component can be complex, particularly when stand-alone prices are not readily available. Significant judgment was required in the assessment of the ROU asset and lease liability relating to storage facilities where the contract included an "all-in" tariff. The Company's determination included separating amounts for the use of the storage tanks, other facility equipment and infrastructure (which may not be for the exclusive use of the Company), and services.
- *Incremental borrowing rate:* the incremental borrowing rates are based on judgments including the Company's own credit risk, economic environment, term, currency and risks specific to the underlying assets. The carrying balance of the right-of-use assets, lease liabilities, and the resulting depletion, depreciation and amortization and finance expenses, may differ due to changes in the market conditions and lease term.

## **3. Acquisition of CGX Energy Inc.**

On March 13, 2019, the Company acquired control of CGX Energy Inc. ("**CGX**") through its participation in an equity rights offering, whereby the Company acquired 101,316,916 common shares of CGX for cash consideration of \$19.0 million. The Company's equity interest in CGX prior to the acquisition was 48.2% and was accounted for as an associate using the equity method. As a result of the share purchase, the Company's equity interest increased to 67.8%. CGX is a company listed on the TSX Venture Exchange and is involved in the exploration and development of petroleum and natural gas in Guyana.

This transaction was accounted for as a business combination through a step acquisition in accordance with IFRS 3. As a result, the Company recognized a gain of \$10.9 million in Other Income (loss) relating to the remeasurement of its previously held 48.2% equity interest to fair value immediately prior to the acquisition. As a result of the acquisition, pre-existing relationships between the Company and CGX were effectively settled, resulting in an adjustment to the purchase price for the fair value of loans and advances totaling \$19.6 million. The Company elected to measure the non-controlling interest in CGX at fair value.

The total consideration paid and the preliminary estimate of fair value of the assets and liabilities acquired at the date of acquisition are outlined below. The identification and measurement of the assets and liabilities acquired, including any potential deferred taxes, is preliminary and subject to adjustment as additional information is obtained. The purchase price allocation will be finalized no later than one year from the date of acquisition. Differences between the preliminary amounts and the final accounting may occur.

# Notes to the Interim Condensed Consolidated Financial Statements

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

	CGX	
<b>Purchase price</b>		
Fair value of previously held equity interest before acquisition	\$	10,939
Fair value of pre-existing balances effectively settled on the acquisition		19,588
Cash consideration		19,007
<b>Total purchase price</b>	<b>\$</b>	<b>49,534</b>
<b>Fair value of assets acquired and liabilities acquired</b>		
Cash and cash equivalents	\$	23,303
Accounts receivable		453
Accounts payable and accrued liabilities		(20,818)
Exploration and evaluation assets		54,040
Properties, plant and equipment		7,154
<b>Net assets</b>		<b>64,132</b>
Non-controlling interest (at fair value)		(14,598)
<b>Purchase consideration</b>	<b>\$</b>	<b>49,534</b>
Cash paid	\$	(19,007)
<b>Net cash acquired</b>		<b>23,303</b>
<b>Net consolidated cash inflow</b>	<b>\$</b>	<b>4,296</b>

These Interim Financial Statements include the results of CGX for the period following the acquisition date of March 13, 2019. Since the date of acquisition, CGX contributed revenues and a net loss of \$Nil and \$2.0 million, respectively, to the financial results of the Company. If the acquisition of CGX occurred on January 1, 2019, the Company's results for the nine months ended September 30, 2019 would have included revenues and a net loss of \$Nil and \$3.3 million, respectively.

On September 25, 2019, the Company converted the principal amount outstanding of \$8.8 million under its bridge loan facility with CGX resulting in the acquisition of an additional 40,000,000 common shares and increasing its interest on a non-diluted basis to 72.51% (Note 15).

## 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, Guyana assets and other non-operating entities that have been aggregated, as they do not generate revenue for the Company.

The following table provides the total balances as at September 30, 2019 and December 31, 2018:

	Colombia		Peru		Canada & Other <sup>(1)</sup>		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Non-current assets	\$ 1,635,473	\$ 1,448,530	\$ 7,145	\$ 19,668	\$ 72,315	\$ 2,114	\$ 1,714,933	\$ 1,470,312

<sup>(1)</sup> Included in Canada & Other, is \$69.2 million (2018: \$Nil) of non-current assets in Guyana related to the acquisition of CGX (Note 3) and subsequent additions.

# Notes to the Interim Condensed Consolidated Financial Statements

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

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

For the Three Months Ended September 30	Colombia		Peru		Canada & Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Oil and gas sales and other revenue	\$ 286,356	\$ 361,357	\$ 3,285	\$ 20,832	\$ —	\$ —	\$ 289,641	\$ 382,189
Sales of oil and gas for trading	86	224	—	—	—	—	86	224
Royalties	(11,889)	(15,612)	(162)	(290)	—	—	(12,051)	(15,902)
Revenue	274,553	345,969	3,123	20,542	—	—	277,676	366,511
Oil and gas operating costs	128,844	180,793	1,931	12,798	—	—	130,775	193,591
Costs of oil and gas for trading	135	206	—	—	—	—	135	206
Fees paid on suspended pipeline capacity	—	5,633	—	—	—	—	—	5,633
Payments under terminated pipeline contracts	—	15,578	—	—	—	—	—	15,578
General and administrative	12,805	17,945	1,637	1,789	4,034	3,228	18,476	22,962
Share-based compensation	552	605	125	89	637	348	1,314	1,042
Depletion, depreciation and amortization	93,497	77,403	284	134	238	504	94,019	78,041
Impairment, exploration expenses and other	46,543	29,372	(417)	28,920	265	779	46,391	59,071
Reversal of provision related to high-price clause	—	(21,832)	—	—	—	—	—	(21,832)
Restructuring, severance and other costs	4,851	1,304	3	—	609	804	5,463	2,108
(Loss) income from operations	\$ (12,674)	\$ 38,962	\$ (440)	\$ (23,188)	\$ (5,783)	\$ (5,663)	\$ (18,897)	\$ 10,111
Non-operating income items							140	15,013
Income tax (expense) recovery							(29,899)	19,817
Net (loss) income for the period							\$ (48,656)	\$ 44,941

For the Nine Months Ended September 30	Colombia		Peru		Canada & Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Oil and gas sales and other revenue	\$ 933,972	\$ 1,011,551	\$ 60,177	\$ 78,732	\$ —	\$ —	\$ 994,149	\$ 1,090,283
Sales of oil and gas for trading	74,267	2,717	—	—	—	—	74,267	2,717
Royalties	(35,302)	(36,926)	(564)	(698)	—	—	(35,866)	(37,624)
Revenue	972,937	977,342	59,613	78,034	—	—	1,032,550	1,055,376
Oil and gas operating costs	397,484	459,375	52,633	51,293	—	—	450,117	510,668
Costs of oil and gas for trading	71,375	2,112	—	—	—	—	71,375	2,112
Fees paid on suspended pipeline capacity	—	82,372	—	—	—	—	—	82,372
Payments under terminated pipeline contracts	—	15,578	—	—	—	—	—	15,578
General and administrative	37,929	54,725	4,191	4,995	11,055	11,463	53,175	71,183
Share-based compensation	1,863	1,814	323	267	845	1,795	3,031	3,876
Depletion, depreciation and amortization	284,496	235,094	1,011	396	750	800	286,257	236,290
Impairment, exploration expenses and other	61,070	148,433	1,126	28,920	1,058	11,995	63,254	189,348
Reversal of provision related to high-price clause	—	(21,832)	—	—	—	—	—	(21,832)
Restructuring, severance and other costs	7,413	3,683	113	—	1,425	2,817	8,951	6,500
Income (loss) from operations	\$ 111,307	\$ (4,012)	\$ 216	\$ (7,837)	\$ (15,133)	\$ (28,870)	\$ 96,390	\$ (40,719)
Non-operating income (loss) items							36,345	(107,186)
Income tax recovery (expense)							105,187	(2,654)
Net income (loss) for the period							\$ 237,922	\$ (150,559)

# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited; 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 a reconciliation with the amounts disclosed in the segmented information (Note 4):

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Colombia				
Crude oil sales	\$ 282,039	\$ 350,634	\$ 919,101	\$ 970,371
Gas sales	3,896	9,317	12,412	28,891
Colombia oil and gas sales	285,935	359,951	931,513	999,262
Power transmission and other revenues <sup>(1)</sup>	421	1,406	2,459	12,289
Colombia total	286,356	361,357	933,972	1,011,551
Peru total - crude oil sales	3,285	20,832	60,177	78,732
Oil and gas sales and other revenue	\$ 289,641	\$ 382,189	\$ 994,149	\$ 1,090,283
Colombia - sales of oil and gas for trading	\$ 86	\$ 224	\$ 74,267	\$ 2,717

<sup>(1)</sup> Power transmission revenue was recognized until April 19, 2018, when the assets were sold.

## 6. Oil and Gas Operating Costs

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Production costs	\$ 74,939	\$ 84,560	\$ 220,295	\$ 239,959
Transportation costs	70,960	74,210	219,126	218,723
Diluent costs	9,238	10,647	31,483	30,253
Overlift	164	37,212	159	42,732
Inventory valuation	(24,526)	(13,038)	(20,946)	(20,999)
Total oil and gas operating costs	\$ 130,775	\$ 193,591	\$ 450,117	\$ 510,668

## 7. Impairment, Exploration Expenses and Other

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Impairment of other assets (Note 19)	\$ 36,628	\$ —	\$ 36,628	\$ —
Impairment of exploration and evaluation assets (Note 11)	8,024	24,735	17,688	26,742
Other impairment	587	5,475	4,745	5,744
Impairment of investments in associates	—	23,296	—	142,172
Impairment of assets held for sale - transmission line assets	—	—	—	9,125
Impairment of properties, plant and equipment	—	4,786	—	4,786
Total impairment	\$ 45,239	\$ 58,292	\$ 59,061	\$ 188,569
Exploration - pre-license costs	1,569	779	3,063	779
Change in asset retirement obligations	(417)	—	1,130	—
Impairment, exploration expenses and other	\$ 46,391	\$ 59,071	\$ 63,254	\$ 189,348

### Impairment of Other Assets

During third quarter, the Company reviewed the recoverability of an unsecured long-term receivable from Infrastructure Ventures Inc. ("IVI") due to changes in the underlying cash flow forecasts on contracts originating from the operating subsidiary of IVI, Sociedad Portuaria Puerto Bahia S.A. ("Puerto Bahia"), as a result, the Company increased its provision for expected credit losses and recorded an impairment charge of \$36.6 million representing the difference between the carrying value of the long-term receivable prior to the impairment and the discounted value of the future cash flows expected to be recovered under the loan.

# Notes to the Interim Condensed Consolidated Financial Statements

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

## Impairment of E&E Assets

For the three and nine months ended September 30, 2019, the Company recorded an impairment charge of \$8.0 million and \$17.7 million (2018: \$24.7 million and \$26.7 million), respectively, relating to exploration and evaluation assets in Colombia as a result of negative exploratory test results and plans to abandon further work on these assets.

## Other Impairment

For the three and nine months ended September 30, 2019, the Company recognized an impairment charge of \$0.6 million and \$4.7 million (2018: \$5.5 million and \$5.7 million), respectively, mainly related to low rotation or obsolete inventories.

## Impairment of Investments in Associates

### *Oleoducto Bicentenario de Colombia S.A.S. ("Bicentenario")*

The Company recognized an impairment charge of \$23.3 million and \$131.0 million for the three and nine months ended September 30, 2018, respectively, for associate investee Bicentenario, where the recoverable amount of the investment was calculated based on its value-in-use ("VIU") using a discounted dividends cash flow model.

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

During the first quarter of 2018, the Company recognized an impairment charge of \$11.2 million, when it determined 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.

## Impairment of Properties, Plant and Equipment

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 (based on its VIU), and an impairment charge of \$4.8 million was recognized.

## 8. Income Taxes

Reconciliation between income tax expense (recovery) and the product of accounting profit multiplied by the Colombian statutory corporate income tax rate is provided below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net (loss) income before income tax	\$ (18,757)	\$ 25,124	\$ 132,735	\$ (147,905)
Colombian statutory income tax rate	33%	37%	33%	37%
Income tax (recovery) expense at statutory rate	(6,190)	9,296	43,802	(54,725)
Other non-deductible expenses (non-taxable income)	10,325	2,822	7,628	(207)
Share-based compensation	517	1,148	1,001	1,148
Differences in tax rates	(10,848)	(7,481)	(15,147)	(14,816)
Losses for which no tax benefit is recognized	(2,310)	(14,031)	2,055	24,700
Minimum income tax (presumptive income tax)	2,120	7,134	7,549	22,307
Changes in deferred income tax	10,924	(18,705)	(177,436)	24,247
Change in prior period assessments	25,361	—	25,361	—
Income tax expense (recovery)	29,899	(19,817)	(105,187)	2,654
Current income tax expense	28,744	8,787	37,671	24,570
Deferred income tax expense (recovery):				
Relating to origination and reversal of temporary differences	1,155	(28,604)	(142,858)	(21,916)
Income tax expense (recovery)	\$ 29,899	(19,817)	\$ (105,187)	\$ 2,654

The Colombian statutory income tax rate was 33.0% as at September 30, 2019 (2018: 37.0%) and the presumptive income tax base is 1.5% in 2019 (2018: 3.5%). The Peruvian statutory income tax rate was 29.5% as at September 30, 2019 (2018: 29.5%). The Canadian statutory combined income tax rate was 26.5% as at September 30, 2019 (2018: 26.5%). The Peruvian income tax rate for Block Z-1 was 22.0% as at September 30, 2019 (2018: 22.0%). For the three months ended September 30, 2019, the Company recognized a non-recurring charge of \$25.4 million (including interest of \$17.7 million) in current income tax expense relating to changes in prior year tax assessments in Colombia. The Company was required to make certain judgments as to the substance of the interest incurred in Colombia, and determined that the amounts met the definition of an income tax under IAS 12.

# Notes to the Interim Condensed Consolidated Financial Statements

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

Movement in Deferred Tax Balances	Amount
As at January 1, 2019	32,616
Recognized as deferred income tax asset	176,629
Recognized as deferred income tax expense	(33,771)
As at September 30, 2019	175,474

For the nine months ended September 30, 2019, the Company recognized a deferred income tax asset in the amount of \$176.6 million in Colombia consisting of deductible temporary differences that arose primarily from undepreciated capital expenses related to oil and gas properties. Projections of taxable profits were used to support the deferred tax recognition. Future projected income could be affected by oil prices and quantities of proved and probable reserves. If these factors or other circumstances change, the Company would reassess its ability to record any increase or decrease in its deferred income tax asset.

On October 16, 2019, the Constitutional Court of Colombia ruled against the 2018 tax reform bill due to procedural errors that occurred during its ratification process. As a result of the ruling, the Government of Colombia has until December 31, 2019 to pass a new bill or the tax legislation that was in place prior to the 2018 tax reform law would be reenacted on January 1, 2020. A failure to pass such law by December 31, 2019 would cause a reassessment of approximately \$150 million on the recoverability of the Company's deferred tax asset. On October 22, 2019, the Government of Colombia presented an amended tax reform bill to Congress on similar terms as the 2018 tax reform law.

## 9. (Loss) Earnings per Share

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net (loss) income attributable to equity holders of the Company	\$ (49,117)	\$ 45,105	\$ 224,879	\$ (142,452)
Basic weighted average number of shares outstanding	97,956,379	99,931,626	98,125,020	99,984,692
Effect of dilution from dilutive instruments	—	684,653	1,523,857	—
Diluted weighted average number of shares outstanding	97,956,379	100,616,279	99,648,877	99,984,692
(Loss) earnings per share attributable to equity holders of the Company				
Basic	\$ (0.50)	\$ 0.45	\$ 2.29	\$ (1.42)
Diluted	\$ (0.50)	\$ 0.45	\$ 2.26	\$ (1.42)

## 10. Properties, Plant and Equipment

Cost	Oil & Gas Properties	Plant & Equipment	Amount
As at December 31, 2018	\$ 7,580,183	\$ 251,597	\$ 7,831,780
Effect of IFRS 16 transition (Note 2)	44,759	19,352	64,111
As at January 1, 2019	\$ 7,624,942	\$ 270,949	\$ 7,895,891
Additions	172,619	4,367	176,986
Acquisition of CGX (Note 3)	—	7,154	7,154
Change in asset retirement obligations <sup>(1)</sup>	40,686	—	40,686
Disposals	(23,513)	(1,078)	(24,591)
Currency translation adjustment	(5,848)	(24)	(5,872)
As at September 30, 2019	\$ 7,808,886	\$ 281,368	\$ 8,090,254

Accumulated Depletion, Depreciation and Impairment	Oil & Gas Properties	Plant & Equipment	Amount
As at January 1, 2019	\$ 6,629,426	\$ 230,319	\$ 6,859,745
Charge for the period	278,765	6,924	285,689
Disposals	(19,567)	(1,078)	(20,645)
Currency translation adjustment	(5,133)	(2)	(5,135)
As at September 30, 2019	\$ 6,883,491	\$ 236,163	\$ 7,119,654

<sup>(1)</sup> Asset retirement obligations increased during the nine months ended September 30, 2019 due to announced regulations that will be applied in future abandonments.



# Notes to the Interim Condensed Consolidated Financial Statements

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

Net Book Value	Oil & Gas Properties	Plant & Equipment	Amount
As at December 31, 2018	\$ 950,757	\$ 21,278	\$ 972,035
As at September 30, 2019	\$ 925,395	\$ 45,205	\$ 970,600

Properties, plant and equipment comprise owned and leased assets, as follows:

	Oil & Gas Properties	Plant & Equipment	Amount
Properties, plant and equipment owned	\$ 877,105	\$ 27,422	\$ 904,527
ROU assets	48,290	17,783	66,073
As at September 30, 2019	\$ 925,395	\$ 45,205	\$ 970,600

Details of ROU assets are as follows:

	Storage Facility	Power Generation	Properties & Others	Total
As at December, 2018	\$ —	\$ 16,851	\$ —	\$ 16,851
Effect of IFRS 16 transition	41,147	3,057	19,907	64,111
As at January 1, 2019	41,147	19,908	19,907	80,962
Additions	—	1,685	1,752	3,437
Depreciation charge for the period	(10,287)	(4,299)	(3,740)	(18,326)
As at September 30, 2019	\$ 30,860	\$ 17,294	\$ 17,919	\$ 66,073

## 11. Exploration and Evaluation Assets

	Amount
As at January 1, 2019	\$ 15,100
Additions, net of income from long-term testing	26,998
Acquisition of CGX (Note 3)	54,040
Impairment of exploration and evaluation assets (Note 7)	(17,688)
Change in asset retirement obligations	3,676
Disposals	(1,407)
As at September 30, 2019	\$ 80,719

## 12. Intangible Assets

### Transporte Incorporado S.A.S. - Assignment Agreement

On November 28, 2018, Transporte Incorporado S.A.S (“**Transporte Incorporado**”) informed the Company of its intention to exercise the unilateral right to terminate the assignment agreement with the Company. Effective April 1, 2019, as a result of the exercise, Transporte Incorporado’s transportation capacity rights related to the Oleoducto Central S.A. pipeline were transferred back to the Company. The Company paid \$48.5 million and settled receivables with Transporte Incorporado of \$20.1 million in exchange for the capacity rights, with a value of \$68.6 million. The transportation rights are being amortized as of April 1, 2019, based on the straight-line method over five years.

With the termination of the assignment agreement, the Company is no longer required to pay the monthly contractual fee of \$1.5 million to Transporte Incorporado from April 1, 2019, through March 31, 2024. The effect of this transaction has reduced other transportation commitments in the aggregate amount of \$90.0 million.

	Cost	Accumulated Amortization	Net Book Value
As at January 1, 2019	\$ —	\$ —	\$ —
Additions	68,601	—	68,601
Charge for the period	—	(6,861)	(6,861)
As at September 30, 2019	\$ 68,601	\$ (6,861)	\$ 61,740

# Notes to the Interim Condensed Consolidated Financial Statements

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

## 13. Investments in Associates

	ODL	Bicentenario	IVI <sup>(1)</sup>	CGX	Total
As at January 1, 2019	\$ 117,368	\$ 73,743	\$ —	\$ —	\$ 191,111
Share of income (loss) from associates	41,325	33,796	(14,687)	—	60,434
Dividends	(26,922)	(34,413)	—	—	(61,335)
Gain on revaluation of investment in CGX	—	—	—	10,939	10,939
Acquisition of CGX (Note 3)	—	—	—	(10,939)	(10,939)
Allocated against net investment in IVI	—	—	14,687	—	14,687
Currency translation adjustment	(6,898)	(9,897)	—	—	(16,795)
As at September 30, 2019	\$ 124,873	\$ 63,229	\$ —	\$ —	\$ 188,102
Company's interest as at September 30, 2019	35.00%	43.03%	39.22%	—%	

<sup>(1)</sup> Formerly Pacific Infrastructure Ventures Inc.

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")

During the three and nine months ended September 30, 2019, the Company recognized gross dividends of \$Nil and \$26.9 million (2018: \$22.1 million and \$42.0 million), respectively, and received cash dividends of \$Nil and \$32.7 million (2018: \$Nil and \$20.9 million), respectively, from ODL. As at September 30, 2019, the Company had dividends receivable of \$Nil (December 31, 2018: \$9.0 million).

### Bicentenario

During the three and nine months ended September 30, 2019, the Company recognized gross dividends of \$16.9 million and \$34.4 million (2018: \$Nil and \$28.6 million), respectively, from Bicentenario. As at September 30, 2019, the carrying value of the dividends receivable is \$36.9 million (December 31, 2018: \$14.4 million), after withholding tax, included in Other Assets.

### IVI

During the three and nine months ended September 30, 2019, the share of losses from IVI was \$10.8 million and \$14.7 million (2018: \$2.5 million and \$3.5 million), respectively. As the carrying amount of the equity investment in IVI was reduced to \$Nil at December 31, 2018, the Company has recorded its share of losses during 2019 as a reduction to its net investment in IVI. As of September 30, 2019, the carrying value of the Company's net investment in IVI was \$78.4 million (December 31, 2018: \$110.8 million) after applying its share of equity losses, which includes advances and long term receivables recorded within Other Assets.

### IVI put option

Pursuant to a put option agreement, the International Finance Corporation and related funds ("IFC") has an option, exercisable at the discretion of the IFC, to require the Company to purchase their interest in IVI in the event that: (i) the Company violates certain representations and covenants (relating principally to criminal offenses, sanctionable practices, environmental compliance, insurance and the furnishing of information) under the transaction documents related to the IFC investment in IVI, or (ii) IVI has not conducted an initial public offering by December 1, 2019. An initial public offering of IVI is not expected to occur by December 1, 2019. If the option is exercised as a result of (i) above, the put price is set at the amount that would give the IFC the greater of the market value of their shares or 15% annual return on their investment. If the option is exercised as a result of (ii) above, the put price would be the current market price of IVI's common shares at the time of the exercise of the put option.

# Notes to the Interim Condensed Consolidated Financial Statements

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

## 14. Leases

The Company leases various properties, power generation supply, port storage facilities, vehicles and other assets. These lease liabilities have an average discount rate of 10.66% (2018: 12.38%), and the maturity analysis (contractual undiscounted cash flows) is as follows:

As at	September 30 2019	December 31 2018
Within 1 year	\$ 33,122	\$ 10,100
Year 2	32,222	10,119
Year 3	12,177	7,836
Year 4	7,990	3,322
Year 5	1,104	2,485
Total undiscounted lease liabilities	\$ 86,615	\$ 33,862
Less amounts representing finance costs	(11,697)	(6,283)
Present value of lease liabilities	\$ 74,918	\$ 27,579
Current	\$ 26,575	\$ 7,151
Non-current	48,343	20,428
Total lease liabilities	\$ 74,918	\$ 27,579

### Amounts recognized in the Interim Condensed Consolidated Statements of (Loss) Income

	Three Months Ended September 30, 2019	Nine Months ended September 30, 2019
Interest on lease liabilities	\$ (2,061)	\$ (6,713)
Variable lease payments not included in the measurement of lease liabilities	(1,238)	(4,144)
Income from sub-leasing ROU assets	1,309	5,056
Expenses relating to short-term leases	(1,846)	(4,804)
Expenses relating to leases of low-value assets	\$ (560)	\$ (1,517)

### Amounts recognized in the Interim Condensed Consolidated Statements of Cash Flows

	Three Months Ended September 30, 2019	Nine Months ended September 30, 2019
Total cash outflow for leases <sup>(1)</sup>	\$ 11,972	\$ 35,472

<sup>(1)</sup> Includes principal payments of lease liabilities.

## 15. Non-Controlling Interest

### Acquisition of Additional Shares in CGX

On September 25, 2019, the Company converted the principal amount outstanding of \$8.8 million under its bridge loan facility with CGX expiring on September 30, 2019. As a result of this conversion, the Company acquired an additional 40,000,000 common shares of CGX increasing its interest on a non-diluted basis to 72.51% from 67.78%. The reduction in non-controlling interests of \$2.1 million was reclassified to contributed surplus as changes in the Company's ownership of subsidiaries that do not result in a loss of control are recorded entirely as equity transactions.

### Pacific Midstream Ltd. ("PML") Bicentenario Put Option

Pursuant to an agreement among the shareholders of PML in 2014, PML had an option that was exercisable solely in the event that the Company terminated its transportation agreement with Bicentenario because the pipeline was non-operational for six consecutive months ("**Bicentenario Put Option**"). Additional details on the termination of the transportation agreement with Bicentenario are disclosed in "Note 26 - Commitments and Contingencies" of the 2018 Annual Financial Statements.

On September 11, 2018, the IFC, on behalf of PML, provided notice to the Company exercising the Bicentenario Put Option. On March 22, 2019, the Company increased its net ownership interest (after non-controlling interest) in Bicentenario from 26.4% to the current 43.0% through the acquisition of PML's ownership interest in Bicentenario, in accordance with the Bicentenario Put Option, for approximately \$84.8 million. The net cost of the acquisition was approximately \$34.0 million after the proceeds of the transaction were distributed by PML to its shareholders, including the Company.

# Notes to the Interim Condensed Consolidated Financial Statements

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

## Dividends Paid to Non-Controlling Interests

During the three and nine months ended September 30, 2019, the Company paid to IFC \$Nil and \$46.5 million (2018: \$Nil and \$17.8 million), respectively, of dividends distributed to the minority non-controlling interest from PML.

## 16. Share Capital

### Dividends

The following table provides a summary of the dividends declared and paid to equity holders of the Company in 2019.

Declaration Date	Record Date	Payment Date	Dividend (C\$/Share)	Dividends Amount	Number of DRIP Shares <sup>(1)</sup>
December 6, 2018	January 3, 2019	January 17, 2019	0.330 \$	24,464	625,923
March 13, 2019	April 2, 2019	April 16, 2019	0.165	12,144	2,393
May 30, 2019	July 3, 2019	July 17, 2019	0.205	15,351	244
August 1, 2019	August 9, 2019	August 23, 2019	0.535	39,371	1,887
August 1, 2019	October 2, 2019	October 16, 2019	0.205 \$	15,106	497

<sup>(1)</sup>The Company adopted a Dividend Reinvestment Plan ("DRIP") to provide shareholders of the Company who are resident in Canada with the option to have the cash dividends declared on their common shares reinvested automatically back into additional Common Shares, without the payment of brokerage commissions or service charges.

On November 6, 2019, the Company declared a regular dividend of C\$0.205/share, which will be paid on or about January 17, 2020 to shareholders of record at the close of business on January 3, 2020.

### Renewal of Normal Course Issuer Bid

On October 16, 2019, the Toronto Stock Exchange ("TSX") approved the Company's notice of intention to renew its normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company can purchase for cancellation up to 6,532,400 of its common shares during the twelve-month period commencing October 18, 2019 and ending October 17, 2020. Under its previous NCIB that expired on July 17, 2019, the Company repurchased 1,094,020 common shares for \$9.9 million during the nine months ended September 30, 2019 (2018: 307,912 common share for \$4.5 million), for an average repurchase cost per common share of \$9.05 (2018: \$14.70).

## 17. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Decrease in accounts receivable	\$ 46,726	\$ 59,797	\$ 10,813	\$ 5,855
Increase in inventories	(24,867)	(13,274)	(6,216)	(20,241)
(Increase) decrease in income taxes receivable	(5,159)	2,983	(20,083)	3,895
(Increase) decrease in prepaid expenses and deposits	(559)	16,023	189	12,578
(Decrease) increase in accounts payable, accruals and other liabilities	(26,889)	43,686	(135,164)	97,413
Increase (decrease) in income taxes payable	22,508	(945)	22,063	(2,530)
Changes in non-cash working capital	\$ 11,760	\$ 108,270	\$ (128,398)	\$ 96,970
Operating activities	\$ 39,026	\$ 96,672	\$ (36,717)	\$ 83,862
Investing activities	(27,266)	12,776	(91,681)	13,108
Financing activities	—	(1,178)	—	—
Changes in non-cash working capital	\$ 11,760	\$ 108,270	\$ (128,398)	\$ 96,970

# Notes to the Interim Condensed Consolidated Financial Statements

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

## 18. Related-Party Transactions

The following tables provide the total balances outstanding, commitments and transactional amounts with related parties as at September 30, 2019, December 31, 2018, and for the three and nine months ended September 30, 2019, and 2018:

As at September 30, 2019 and December 31, 2018	Accounts Receivable	Accounts Payable	Commitments	Cash Advance <sup>(1) (2)</sup>	Long-term Receivable <sup>(1) (2)</sup>	Interest Receivable <sup>(1) (2)</sup>
ODL	2019 \$ 516	\$ 581	\$ 42,029	\$ —	\$ —	\$ —
	2018 9,116	1,481	82,073	—	—	—
Bicentenario	2019 1,025	—	36,416	87,278	46,435	—
	2018 8,065	—	43,200	87,278	12,112	—
IVI	2019 —	2,708	58,631	17,741	136,191	48,137
	2018 —	1,104	123,330	17,741	123,036	37,158
CGX <sup>(3)</sup>	2018 \$ —	\$ —	\$ —	\$ —	\$ 25,945	\$ 2,186

		Three Months Ended September 30			Nine Months Ended September 30		
		Sales	Purchases / Services	Interest Income <sup>(2)</sup>	Sales	Purchases / Services	Interest Income <sup>(2)</sup>
ODL	2019 \$	—	\$ 12,366	\$ —	\$ —	\$ 38,050	\$ —
	2018	—	12,572	—	1,359	34,118	—
Bicentenario	2019	—	1,441	—	—	5,116	—
	2018	—	5,344	—	—	58,142	—
IVI	2019	—	8,947	4,021	—	24,067	10,978
	2018	—	7,946	3,187	—	20,750	7,670
Interamerican <sup>(4)</sup>	2018	—	—	84	3	2	251
CGX <sup>(3)</sup>	2019	—	—	—	—	—	363
	2018 \$	149	\$ —	\$ 247	\$ 458	\$ —	\$ 690

<sup>(1)</sup> Items included as other assets in Consolidated Statement of Financial Position.

<sup>(2)</sup> Amounts presented based on contractual payment obligations undiscounted, prior to impairments.

<sup>(3)</sup> Balances shown reflect transactions before the Company acquired control of CGX on March 13, 2019 (Note 3).

<sup>(4)</sup> Interamerican was sold, effective October 2018 (refer to "Note 13 Assets Held for Sale" of the 2018 Annual Financial Statements), and was determined to no longer be a related party as at December 31, 2018.

## 19. 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 results and the value of financial instruments it holds.

#### i) Credit Risk

Credit risk relates to the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligations, and arises primarily from trade customers, loans and advances to associates, receivables from joint arrangements and other financial counterparties. 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 in order to mitigate losses from non-collection of trade receivables. The Company monitors the credit quality of associates, and where appropriate, structures its loans and advances to include collateral or security. Credit risk arising on receivables from joint arrangements and risk management assets is not significant given the counterparties are large institutions with strong credit ratings.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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

As at	September 30	December 31
	2019	2018
Trade receivables	\$ 87,750	\$ 64,364
Other receivables	17,614	66,540
Receivables from joint arrangements	44,958	58,733
Withholding tax and others	33,449	36,093
Short-term loan receivables <sup>(1)</sup>	—	24,994
Allowance for expected credit losses	(32,521)	(45,206)
Accounts receivable	\$ 151,250	\$ 205,518
Long-term receivables, before loss allowances	180,244	134,842
Allowance for expected credit losses	(71,930)	(35,302)
Long-term receivables <sup>(2)</sup>	\$ 108,314	\$ 99,540
Withholding tax and others- not considered for credit risk	(33,449)	(36,093)
Total financial assets carried at amortized cost	\$ 226,115	\$ 268,965

<sup>(1)</sup> Corresponds to pre-existing loans and advances with CGX before its acquisition (Note 3).

<sup>(2)</sup> Included within Other Assets.

### Reconciliation of ECL 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	Receivables Simplified Approach	Total
As at January 1, 2019	\$ 12,657	\$ 4,188	\$ 47,987	\$ 15,676	\$ 80,508
Reduction due to acquisition of CGX	—	—	(12,685)	—	(12,685)
Impairment of long-term receivables (Note 7)	—	—	36,628	—	36,628
As at September 30, 2019	\$ 12,657	\$ 4,188	\$ 71,930	\$ 15,676	\$ 104,451

### ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The following are the maturities of non-derivative financial liabilities (based on calendar year and undiscounted) as at September 30, 2019:

Financial liability due in	2019	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	\$ 460,518	\$ —	\$ —	\$ —	\$ —	\$ 460,518
Long-term debt	—	—	—	—	350,000	350,000
Interest payments on debt	16,975	33,950	33,950	33,950	16,975	135,800
Lease liabilities	8,331	33,121	30,112	7,950	7,101	86,615
Total	\$ 485,824	\$ 67,071	\$ 64,062	\$ 41,900	\$ 374,076	\$ 1,032,933

The Company has various guarantees in place in the normal course of business, supported by issued letters of credit. As at September 30, 2019, the Company issued letters of credit and guarantees for exploration and operational commitments for a total of \$59.3 million (December 31, 2018: \$33.5 million). During the nine months ended September 30, 2019 the Company was granted two new credit lines for a total of \$22.2 million.

As at September 30, 2019, the Company is in compliance with financial covenants under the Company's unsecured notes due 2023.



# Notes to the Interim Condensed Consolidated Financial Statements

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

## b. Risk Management Contracts

The terms of the outstanding instruments and settlement periods are as follows:

### Risk Management Contracts - Crude Oil

Type of Instrument	Term	Benchmark	Notional Amount / Volume (bbl)	Avg Strike Prices	Carrying Amount	
				Put / Call; Call Spreads	Assets	Liabilities
Put options	October 2019 to March 2020	Brent	2,124,000	59.05	\$ 6,860	\$ —
Zero cost collars	October 2019 to March 2020	Brent	1,880,000	57.82 / 75.50	5,994	—
Three-way collar	April 2020 to June 2020	Brent	960,000	45 / 55 / 74.68	2,324	—
Put spread	January 2020 to June 2020	Brent	1,170,000	47/57	4,102	—
Total as at September 30, 2019					\$ 19,280	\$ —
Put options	January 2019 to September 2019	Brent	2,220,000	55	9,380	—
Total as at December 31, 2018					\$ 9,380	\$ —

### Risk Management Contracts - Foreign Exchange

Type of Instrument	Term	Benchmark	Notional Amount / Volume (Thousands of U.S.\$)	Avg Put / Call; Par forward (COP\$)	Carrying Amount	
					Assets	Liabilities
Zero cost collars	October 2019 to June 2020	COP / USD	\$ 209,500	3,156 / 3,556	\$ —	\$ 3,231
Total as at September 30, 2019					\$ —	\$ 3,231
Zero cost collars	January 2019 to June 2019	COP / USD	\$ 172,500	3,032 / 3,273	—	3,299
Forward	January 2019 to March 2019	COP / USD	\$ 22,500	3,109	—	1,019
Total as at December 31, 2018					\$ —	\$ 4,318
					<b>Assets</b>	<b>Liabilities</b>
Total risk management contracts as at September 30, 2019					\$ 19,280	\$ 3,231
Total risk management contracts as at December 31, 2018					\$ 9,380	\$ 4,318

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Realized loss on risk management contracts	\$ (2,135)	\$ (56,297)	\$ (5,714)	\$ (167,303)
Unrealized gain on risk management contracts	4,338	61,830	4,611	75,945
Total gain (loss) on risk management contracts	\$ 2,203	\$ 5,533	\$ (1,103)	\$ (91,358)

## c. Fair Value of Financial Instruments

A detailed description of the Company's financial assets and financial liabilities and its associated risk management in respect thereof is provided in "Note 25 - Financial Instruments" of the 2018 Annual Financial Statements. There have been no significant changes in the business and economic circumstances and the related financial risks that affect the Company's valuation of financial assets and financial liabilities since December 31, 2018.

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.

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

The following table summarizes the Company's remaining financial instruments that are carried or disclosed at fair value in accordance with the classification under the fair value hierarchy as at September 30, 2019 and December 31, 2018:

			Fair Value				
	Period	Carrying Value	Level 1	Level 2	Level 3	Total	
Financial Assets Measured at Fair Value through Profit & Loss							
Risk management assets	2019	\$ 19,280	\$ —	\$ 19,280	\$ —	\$ 19,280	
	2018	9,380	—	9,380	—	9,380	
Financial Assets Measured at Fair Value through Other Comprehensive Income							
Investments in equity instruments	2019	\$ 1,407	\$ —	\$ —	\$ 1,407	\$ 1,407	
	2018	1,130	—	—	1,130	1,130	
Financial Assets Measured at Amortized Cost							
Long-term receivables	2019	\$ 108,314	\$ —	\$ —	\$ 108,314	\$ 108,314	
	2018	99,540	—	—	99,540	99,540	
Financial Liabilities Measured at Fair Value through Profit & Loss							
Risk management liabilities	2019	\$ (3,231)	\$ —	\$ (3,231)	\$ —	\$ (3,231)	
	2018	(4,318)	—	(4,318)	—	(4,318)	
Financial Liabilities Measured at Amortized Cost							
Long-term debt	2019	\$ (329,897)	\$ —	\$ (371,714)	\$ —	\$ (371,714)	
	2018	(326,784)	—	(346,654)	—	(346,654)	

### Level 3 financial assets measured at amortized cost

The Company uses level 3 inputs to measure the long-term receivable balances with IVI and Puerto Bahia and recorded in Other Assets. The fair value of these balances was measured using the effective interest method (discounted at the contractual interest rates included in the loans) less a provision for any impairment from expected credit losses. Expected credit losses were determined using a discounted cash flow methodology based on a projection of the expected future cash flows to be realized from the loans. The significant unobservable inputs relate to the expected timing of repayment of principal and the expected interest cash flows under the loans.

## 20. Commitments and Contingencies

### Commitments

The Company's commitments as at September 30, 2019, undiscounted and by calendar year, are presented below:

As at September 30, 2019	2019	2020	2021	2022	2023	2024 and Beyond	Total
<b>Transportation and storage commitments</b>							
Ocensa P-135 ship-or-pay agreement	\$ 19,055	\$ 64,481	\$ 66,141	\$ 67,842	\$ 69,588	\$ 107,687	\$ 394,794
Puerto Bahia take-or-pay agreement <sup>(1)</sup>	6,339	25,860	26,432	—	—	—	58,631
ODL ship-or-pay agreement	11,804	29,075	1,150	—	—	—	42,029
Bicentenario take-or-pay storage agreements	1,813	7,254	7,254	7,254	7,254	5,587	36,416
Other transportation agreements	9,227	30,906	30,357	30,285	29,444	133,491	263,710
<b>Exploration commitments</b>							
Minimum work commitments	20,658	101,202	125,175	48,035	12,950	—	308,020
<b>Other commitments</b>							
Operating purchases and leases <sup>(2)</sup>	18,984	8,388	7,032	7,005	6,632	11,014	59,055
Community obligations	5,255	70	—	—	—	—	5,325
<b>Total</b>	<b>\$ 93,135</b>	<b>\$ 267,236</b>	<b>\$ 263,541</b>	<b>\$ 160,421</b>	<b>\$ 125,868</b>	<b>\$ 257,779</b>	<b>\$ 1,167,980</b>

<sup>(1)</sup> Excludes the lease component for ROU assets, which were recognized as lease liabilities upon the adoption of IFRS 16 (Note 2).

<sup>(2)</sup> Excludes lease liabilities recognized on the Consolidated Statement of Financial Position upon the adoption of IFRS 16 (Note 2). Operating purchases and leases represent contractual commitment for service contracts and other short-term and low-value leases.

## Notes to the Interim Condensed Consolidated Financial Statements

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

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### **Puerto Bahia Equity Contribution Agreement (“ECA”)**

On October 4, 2013, Pacintra Holding Ltd. (“**Pacinfra**” a subsidiary of the Company), IVI, Puerto Bahia (a subsidiary of IVI, Note 13) and Wilmington Trust, National Association (as Collateral and Administrative Agent), entered into an equity contribution agreement, pursuant to which Pacinfra and IVI agreed to jointly and severally cause equity contributions (via debt or equity) to Puerto Bahia up to the aggregate amount of \$130.0 million. During the first half of 2019, Pacinfra and IVI received a request under the ECA requiring both companies to fund a total amount of \$10.9 million (2018: \$30.5 million) to Puerto Bahia. On June 14, 2019, Pacinfra disbursed \$10.9 million to Puerto Bahia under a new loan agreement. As of September 30, 2019, the Company has disbursed via loan agreements a total of \$52.1 million to Puerto Bahia under the ECA.

### **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 outcome of adverse decisions in any pending or threatened proceedings related to these and other matters could have a material impact on the Company's financial position, results of operations or cash flows. Other than changes to tax contingencies as disclosed in Note 8 of the Interim Financial Statements, no material changes have occurred regarding the matters disclosed in “Note 26 - Commitments and Contingencies” of the 2018 Annual Financial Statements.