INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended March 31, 2017 and 2016

Interim Condensed Consolidated Statements of Income (Loss)

(In thousands of U.S. dollars, except per share information; unaudited)	Notes	Three months ended March 31 2017	2016
Sales			
Oil and gas sales and other income		$ 291,367	$ 455,916
Trading sales		25,271	915
Total sales	3	316,638	456,831
Cost of operations			
Oil & gas operating cost	4	165,110	267,763
Purchase of oil for trading		24,972	841
Overlift (underlift)		6,408	(34,690)
Fees paid on suspended pipeline capacity		27,100	25,391
Gross earnings		93,048	197,526
Depletion, depreciation and amortization		101,794	230,592
General and administrative		27,706	32,853
Impairment and exploration (reversal) expenses	15	(10,447)	666,898
Share-based compensation (gain)	19b	20	(3,206)
Restructuring and severance costs		5,946	17,741
Loss from operations		(31,971)	(747,352)
Finance costs	16	(4,897)	(68,914)
Share of gain of equity-accounted investees	13	23,988	26,847
Equity tax	5	(11,694)	(26,901)
Foreign exchange gain (loss)		11,246	(3,339)
Gain (loss) on risk management	21d	40,145	(113,545)
Other income		2,498	42,210
Net income (loss) before income tax		29,315	(890,994)
Current income tax expense	6	(10,034)	(11,494)
Deferred income tax recovery	6	-	1,546
Total income tax expense		(10,034)	(9,948)
Net income (loss) for the period		$ 19,281	$ (900,942)
Attributable to:			
Equity holders of the parent		8,498	(900,949)
Non-controlling interests		10,783	7
		$ 19,281	$ (900,942)
Basic and diluted income (loss) per share attributable to equity holders of the parent	7	0.17	(285,996.31)

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands of U.S. dollars; unaudited)	Three months ended March 31 2017		Three months ended March 31 2016	
Net income (loss) for the period	$	19,281	$	(900,942)
Other comprehensive income (loss) to be reclassified to net earnings in subsequent periods (nil tax effect)				
Foreign currency translation		15,641		26,030
Unrealized gain on the time value of cash flow hedges		-		(99)
Realized gain on cash flow hedges transferred to earnings		-		(6,073)
		15,641		19,858
Total comprehensive income (loss) for the period	$	34,922	$	(881,084)
Attributable to:				
Equity holders of the parent	$	20,465	$	(887,379)
Non-controlling interests		14,457		6,295
	$	34,922	$	(881,084)

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statements of Financial Position

(In thousands of U.S. dollars; unaudited)	Notes	As at March 31 2017	As at December 31 2016
ASSETS			
Current			
Cash and cash equivalents		$ 469,974	$ 389,099
Restricted cash	8	37,105	61,036
Accounts receivables	21b	235,926	234,828
Inventories		38,850	38,609
Income tax receivable		57,228	59,451
Prepaid expenses		2,094	3,453
Assets held for sale	9	43,363	44,797
Risk management assets	21d	8,426	-
Total current assets		892,966	831,273
Non-current			
Oil and gas properties	10	1,141,732	1,182,668
Exploration and evaluation assets	11	9,894	9,000
Plant and equipment	12	47,675	53,402
Intangible assets		11,190	14,800
Investments in associates	13	428,284	415,198
Other assets	14	187,355	182,632
Restricted cash	8	53,327	52,746
Total assets		$ 2,772,423	$ 2,741,719
LIABILITIES			
Current			
Accounts payable and accrued liabilities	21c	$ 586,671	$ 576,350
Risk management liability	21d	265	31,985
Income tax payable		4,055	10,775
Current portion of obligations under finance lease		3,849	3,713
Asset retirement obligation	17	18,054	2,834
Total current liabilities		612,894	625,657
Non-current			
Long-term debt	16	250,000	250,000
Obligations under finance lease		18,238	19,229
Asset retirement obligation	17	254,586	245,798
Total liabilities		$ 1,135,718	$ 1,140,684
Contingencies and commitments	18		
EQUITY			
Common shares	19a	$ 4,745,355	$ 4,745,355
Contributed surplus		124,273	123,525
Other reserves		(222,913)	(234,880)
Retained deficit		(3,129,732)	(3,138,230)
Equity attributable to equity holders of the parent		1,516,983	1,495,770
Non-controlling interests		119,722	105,265
Total equity		$ 1,636,705	$ 1,601,035
		$ 2,772,423	$ 2,741,719

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statements of Changes in Equity (Deficit)

For the three months ended March 31, 2017

(In thousands of U.S. dollars; unaudited)	Note	Attributable to equity holders of parent: Common Shares	Contributed Surplus	Retained Deficit	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Equity
As at December 31, 2016		$ 4,745,355	$ 123,525	$ (3,138,230)	$ (229,678)	$ (5,202)	$ 1,495,770	$ 105,265	$ 1,601,035
Net income for the period		-	-	8,498	-	-	8,498	10,783	19,281
Other comprehensive income		-	-	-	11,967	-	11,967	3,674	15,641
Total comprehensive income		-	-	8,498	11,967	-	20,465	14,457	34,922
Shared-based compensation	19b	-	748	-	-	-	748	-	748
As at March 31, 2017		$ 4,745,355	$ 124,273	$ (3,129,732)	$ (217,711)	$ (5,202)	$ 1,516,983	$ 119,722	$ 1,636,705

For the three months ended March 31, 2016

(In thousands of U.S. dollars; unaudited)	Note	Attributable to equity holders of parent: Common Shares	Contributed Surplus	Retained Deficit	Cash flow hedge	Time Value Reserves	Foreign currency translation	Fair value Investment	Total	Non-controlling interests	Total Deficit
As at December 31, 2015		$ 2,615,788	$ 124,150	$ (5,586,753)	$ 12,146	$ 99	$ (259,414)	$ (5,392)	$ (3,099,376)	$ 109,145	$ (2,990,231)
Net loss for the period		-	-	(900,949)	-	-	-	-	(900,949)	7	(900,942)
Other comprehensive income		-	-	-	(6,073)	(99)	19,742	-	13,570	6,288	19,858
Total comprehensive income		-	-	(900,949)	(6,073)	(99)	19,742	-	(887,379)	6,295	(881,084)
Dividends paid to non-controlling interest	13	-	-	-	-	-	-	-	-	(14,618)	(14,618)
Effect of deconsolidation of subsidiary	13	-	-	-	-	-	-	-	-	19,433	19,433
As at March 31, 2016		$ 2,615,788	$ 124,150	$ (6,487,702)	$ 6,073	$ -	$ (239,672)	$ (5,392)	$ (3,986,755)	$ 120,255	$ (3,866,500)

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. dollars; unaudited)	Notes	Three months ended March 31 2017	Three months ended March 31 2016
OPERATING ACTIVITIES			
Net income (loss) for the period		$ 19,281	$ (900,942)
Items not affecting cash:			
Depletion, depreciation and amortization		101,794	230,592
Impairment and exploration (reversal) expenses	15	(10,447)	666,898
Accretion expense (income)		901	(278)
(Gain) loss on risk management	21d	(40,145)	113,545
Share-based compensation (gain)	19b	20	(3,206)
Deferred income tax (recovery)		-	(1,546)
Unrealized foreign exchange (gain) loss		(14,860)	13,979
Share of gain of equity-accounted investees	13	(23,988)	(26,847)
Gain on loss of control		-	(15,597)
Dividends from associates	13	27,600	40,839
Equity tax	5	11,694	26,901
Other		964	(713)
Deferred revenue (non-cash settlement) proceeds		-	(75,000)
Changes in non-cash working capital	22	(5,888)	(103,828)
Net cash provided (used) by operating activities		$ 66,926	$ (35,203)
INVESTING ACTIVITIES			
Additions to oil and gas properties and plant and equipment		(26,674)	(20,594)
Additions, net of production from long-term testing	11	887	(9,211)
Investment in associates and other assets		(2,138)	(8,922)
Decrease (increase) in restricted cash and others		27,071	(21,392)
Proceeds from the sale of assets held for sale		15,500	-
Net cash provided (used) in investing activities		$ 14,646	$ (60,119)
FINANCING ACTIVITIES			
Payment of debt and leases		(1,670)	(29,312)
Dividends paid to non-controlling interest	13	-	(14,618)
Net cash used in financing activities		$ (1,670)	$ (43,930)
Effect of exchange rate changes on cash and cash equivalents		973	2,466
Change in cash and cash equivalents during the period		80,875	(136,786)
Cash and cash equivalents, beginning of the period		389,099	342,660
Cash and cash equivalents, end of the period		$ 469,974	$ 205,874
Cash		$ 259,657	$ 107,384
Cash equivalents		210,317	98,490
		$ 469,974	$ 205,874

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

1. Corporate Information

Pacific Exploration & Production Corporation (the "**Company**") is an oil and gas company incorporated and domiciled in Canada that is engaged in the exploration, development, and production of crude oil and natural gas primarily in Colombia and Peru. The Company's common shares are listed and publicly traded on the Toronto Stock Exchange under the symbol "PEN." The Company's registered office is located at Suite 650 – 1188 West Georgia Street, Vancouver, British Columbia, V6E 4A2, Canada, and it also has corporate offices in Toronto, Canada and Bogota, Colombia.

These Interim Condensed Consolidated Financial Statements of the Company, which are comprised of the Company as the parent and all its subsidiaries, were approved and authorized for issuance by the Audit Committee of the Board of Directors on May 5, 2017.

Restructuring Transaction

On April 19, 2016, the Company, with the support of certain holders of its senior unsecured notes and lenders under its credit facilities, which totalled $5.3 billion, entered into an agreement with The Catalyst Capital Group Inc. ("Catalyst") with respect to a comprehensive financial Restructuring Transaction (the "Restructuring Transaction"). Under the terms of the Agreement, the claims were exchanged for new common shares of the Company post-emergence. In addition, during the restructuring transaction, Catalyst and certain affected creditors provided $480 million of debtor-in-possession financing to improve liquidity of the Company. On November 2, 2016, the Company successfully completed the Restructuring Transaction upon approval of the CCAA plan of arrangement by the Superior Court of Justice in Ontario. The Restructuring Transaction substantially changed the capital structure of the Company, reducing financial debt to $250 million, which is represented in five-year secured notes (the "**Exit Notes**") and a Letter of Credit Facility which at the time of the Restructuring Transaction totalled $115.5 million; after completion of the restructuring transaction, the shareholders of the Company are the affected creditors with 69.2% and Catalyst with 30.8% of the common shares.

Additional information is included in Note 1: Comprehensive Restructuring Transaction of the Company's annual financial statements as at December 31, 2016.

2. Basis of Preparation and Significant Accounting Policies

The Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The Interim Condensed Consolidated 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 annual financial statements as at December 31, 2016.

2.1. Significant Accounting Judgments, Estimates and Assumptions

Estimation Uncertainty and Assumptions

Oil and gas properties

Oil and gas properties are depreciated using the unit-of-production method. Starting January 1, 2017, in applying the unit-of-production method, oil and gas properties were depleted over proved and probable reserves, compared to 2016, when they were depleted over proved reserves. This change is a result of the Company's ability to finance its near-term capital programs included in the updated reserve estimates. The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecasted production based on proved and probable reserves. This would generally result from significant changes in any of the following:

- Changes in reserves;
- The effect on reserves of differences between actual commodity prices and commodity price assumptions; or
- Unforeseen operational issues.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

2.2. Changes in Accounting Policies and Disclosures

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of minor amendments and interpretations effective January 1, 2017. These amendments and interpretations had little or no impact on the interim condensed consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2.3. Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's interim financial statements that are likely to have an impact on the Company are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016. The Company intends to adopt these standards when they become effective. A summary of the standards is below.

IFRS 2 ***Classification and Measurement of Share-based Payment Transactions***

The Company plans to adopt the new standard at the effective date and is in the process of assessing the impact on its consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 9 ***Financial Instruments***

The Company previously adopted IFRS 9 (2013) and plans to adopt the amendments to IFRS 9 (2014) as of the effective date and is currently in the process of assessing the impact on its consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 15 ***Revenue from Contracts with Customers***

The Company plans to adopt the new standard as of the effective date and is in the process of assessing the impact on its consolidated financial statements. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company is evaluating by each legal entity and for each contract identified, using the five-step model included in IFRS 15. The analysis includes the investments in associates in order, to have a full inventory of all contracts on each legal entity. Additionally, the disclosures required by the standard, are being reviewed.

IFRS 16 ***Leases***

The Company plans to adopt the new standard as of the effective date and is in the process of assessing the impact on its consolidated financial statements. The standard is effective for annual periods beginning on or after January 1, 2019.

3. Segmented Information

The Company is organized into business units based on the main types of activities and has two reportable segments as at March 31, 2017, the exploration, development, and production of crude oil and gas in (1) Colombia and (2) Peru. The Company's assets and operations in other countries are in the early stages of development and are not significant and therefore are not considered a reportable segment as at March 31, 2017. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

As at March 31, 2017	Colombia	Peru	Corporate	Others	Total
Cash and cash equivalents	$ 254,971	$ 2,861	$ 196,045	$ 16,097	$ 469,974
Non-current assets	1,763,163	34,450	17,922	63,922	1,879,457
	$ 2,018,134	$ 37,311	$ 213,967	$ 80,019	$ 2,349,431

As at December 31, 2016	Colombia	Peru	Corporate	Others	Total
Cash and cash equivalents	$ 123,445	$ 4,543	$ 259,458	$ 1,653	$ 389,099
Non-current assets	1,792,200	36,751	18,933	62,562	1,910,446
	$ 1,915,645	$ 41,294	$ 278,391	$ 64,215	$ 2,299,545

The selected Interim Condensed Consolidated Statement of Income (Loss) components by reporting segment are as follows:

Three months ended March 31, 2017	Colombia	Peru	Corporate	Others	Total
Oil and gas sales and other income	$ 277,074	$ 14,293	$ -	$ -	$ 291,367
Trading sales	25,271	-	-	-	25,271
Oil & gas operating cost	150,192	14,918	-	-	165,110
Purchase of oil for trading	24,972	-	-	-	24,972
Overlift (underlift)	6,408	-	-	-	6,408
Fees paid on suspended pipeline capacity	27,100	-	-	-	27,100
Depletion, depreciation, amortization	98,033	3,484	27	250	101,794
General and administrative	19,334	1,479	6,480	413	27,706
Impairment and exploration (reversal) expenses	(1,071)	(10,362)	986	-	(10,447)
Restructuring and severance costs	4,658	1,008	280	-	5,946
Finance costs	614	356	5,479	(1,552)	4,897
Share of gain of equity-accounted investees	(25,098)	-	1,110	-	(23,988)
Current income tax expense	10,023	-	2	9	10,034
Net income (loss) for the period	29,375	3,586	(14,498)	818	19,281

Three months ended March 31, 2016	Colombia	Peru	Corporate	Others	Total
Oil and gas sales and other income	$ 446,438	$ 9,478	$ -	$ -	$ 455,916
Trading sales	915	-	-	-	915
Oil & gas operating cost	244,247	23,516	-	-	267,763
Purchase of oil for trading	841	-	-	-	841
Overlift (underlift)	(34,054)	(636)	-	-	(34,690)
Fees paid on suspended pipeline capacity	25,391	-	-	-	25,391
Depletion, depreciation, amortization	186,425	43,658	79	430	230,592
General and administrative	20,101	1,970	6,224	4,558	32,853
Impairment and exploration (reversal) expenses	587,011	78,763	-	1,124	666,898
Restructuring and severance costs	542	318	16,780	101	17,741
Finance costs	1,603	(2,025)	70,782	(1,446)	68,914
Share of gain of equity-accounted investees	(26,809)	-	(38)	-	(26,847)
Current income tax expense	9,167	-	218	563	9,948
Net income (loss) for the period	(684,037)	(135,558)	(75,960)	(5,387)	(900,942)

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

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

	Three months ended March 31	
	2017	**2016**
United States	$ 189,393	$ 327,465
China	45,442	94,705
Italy	23,994	-
Canada	22,295	-
Colombia	14,526	24,608
Peru	14,293	9,478
Other	6,695	575
Total sales	$ 316,638	$ 456,831

4. Oil & Gas Operating Costs

	Three months ended March 31	
	2017	**2016**
Oil and gas production costs	$ 67,400	$ 96,953
Transportation costs	91,252	150,787
Dilution costs	6,869	25,999
Other costs	(411)	(5,976)
Total cost	$ 165,110	$ 267,763

5. Equity Tax

Effective January 1, 2015, the Colombian Congress introduced a new wealth tax that is calculated on a taxable base (net equity) in excess of COP$1 billion ($0.4 million) as at January 1 of the applicable taxation year. The applicable rates for January 1, 2015, 2016, and 2017 are 1.15%, 1.00% and 0.40%, respectively. Based on the Company's taxable base, the Company has accrued a liability for the 2017 fiscal year. The 2017 wealth tax has been estimated at $11.7 million (2016: $26.9 million), and has been recorded as an expense in the interim condensed consolidated statement of income (loss). In May 2017, the Company will make the first payment of $5.8 million (2016: $12.8 million) and in September 2017 will make the second payment of the remaining $5.9 million (2016: $14.1 million).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

6. Income Tax

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is provided below:

	Three months ended March 31	
	2017	**2016**
Net income (loss) before income tax	$ 29,315	$ (890,994)
Colombian statutory income tax rate	40%	40%
Income tax expense (recovery) at statutory rate	$ 11,726	$ (356,398)
Increase (decrease) in income tax provision resulting from:		
Other non-deductible (non-taxable income) expenses	$ 1,243	$ 49,476
Share-based compensation (gain)	5	(901)
Differences in tax rates in foreign jurisdictions	(2,644)	14,258
Loss for which no tax benefit is recognized	2,803	233,586
Minimum income tax (presumptive income tax)	5,949	73,799
Changes in deferred income tax not recognized	(9,048)	(3,872)
Income tax expense	$ 10,034	$ 9,948
Current income tax expense	$ 10,034	$ 11,494
Deferred income tax recovery:		
Relating to origination and reversal of temporary differences	-	(1,546)
Income tax expense	$ 10,034	$ 9,948

The Canadian statutory combined income tax rate was 26.5% as at March 31, 2017 and March 31, 2016.

On December 29, 2016, the Colombian Congress enacted structural tax reform whereby it abolished the CREE tax as of January 1, 2017, while modifying the income tax rates to adjust for this change. Effectively, the Congress has maintained the previously set corporate tax rates for Colombian source income at 40% in 2017, 37% in 2018, and 33% in 2019 and subsequent taxation years. However, these rates will apply to a broader taxable base due to limitations and modifications on certain deductions. In addition, the tax reform increased the minimum tax rate (presumptive tax) from 3% to 3.5% and introduced a dividend withholding tax on previously taxed profits of 5%.

The Peruvian statutory income tax rate was 29.5% for the quarter ended March 31, 2017 and 28% for the quarter ended March 31, 2016. The Peruvian income tax rate was 22% for Block Z-1 and 32% for Block 192 for the quarters ended March 31, 2017 and 2016.

The Company’s cumulative effective tax rate (income tax expenses as a percentage of net earnings before income tax) was 34.23% for the three months ended March 31, 2017 (2016: (1.12%)).

As at March 31, 2017, non-capital losses totalled $598 million (December 31, 2016: $608 million) in Canada and expire between 2026 and 2036. Capital losses totalled $307 million as at March 31, 2017 (December 31, 2016: $307 million) these capital losses do not expire, may only be used against capital gains, and may be carried back 3 years. No deferred tax assets have been recognized with respect to the non-capital and capital losses as at March 31, 2017 (December 31, 2016: $nil).

In Colombia, non-capital losses totalled $912 million (December 31, 2016: $840 million) $782 million of accrued losses may be carried forward indefinitely and $130 million will expire after 2021. Losses generated from 2017 onwards will expire after 12 years. No deferred tax assets have been recognized with respect to these losses. In Peru, non-capital losses totalled $178 million (December 31, 2016: $175 million) and expire between 2017 and 2019. No deferred tax assets have been recognized with respect to these losses.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

7. Income (loss) Per Share

Income (loss) per share amounts are calculated by dividing the net income (loss) for the period attributable to shareholders of the Company by the weighted average number of shares outstanding during the period.

	Three months ended March 31	
	2017	2016
Net income (loss) attributable to shareholders of the Company	$ 8,498	$ (900,949)
Basic weighted average number of shares	50,002,363	3,150
Effects of dilution	23,388	-
Diluted weighted average number of shares	50,025,751	3,150
Basic and diluted income (loss) per share attributable to equity holders of the parent	$ 0.17	$ (285,996.31)

Deferred Stock Units ("**DSU**") are dilutive and have been included in the diluted weighted average number of common shares.

8. Restricted Cash

Short-term restricted cash corresponds mainly to term deposits to cover future commitments. Long-term restricted cash is related mainly to escrow accounts for future abandonment obligations. As at March 31, 2017, the Company had $37.1 million (December 2016: $61 million) and $53.3 million (December 2016: $52.7 million) in short-term and long-term restricted cash, respectively.

9. Assets Held for Sale

During the year ended December 31, 2016, the Company commenced with a plan to sell its interest in some exploration assets, oil and gas properties and lands located in Colombia, Peru, and Brazil. The Company has recognized these assets at the lower of the carrying amount and fair value less costs of disposal.

The assets held for sale are as follows:

	Exploration and evaluation assets	Oil and gas properties	Total
As at December 31, 2016	$ 20,647	$ 24,150	$ 44,797
Additions to assets held for sale	10,562	4,243	14,805
Dispositions	(16,149)	-	(16,149)
Adjustment	-	(348)	(348)
Currency translation adjustment	-	258	258
As at March 31, 2017	$ 15,060	$ 28,303	$ 43,363

On September 27, 2016, the Company reached an agreement with its partner Karoon Gas Australia Ltd. ("**Karoon**") to sell the Company's 35% working interest in its joint concession agreements in Brazil, for cash consideration of $15.5 million on closing. In addition, the Company will receive a subsequent payment of $5 million should commercial production reach 1 million barrels of oil or oil equivalents on these concessions. On January 30, 2017 the Company received Brazilian regulatory approval for the sale, and on February 2, 2017, Karoon paid $15.5 million in cash and $0.6 million of accounts payables were settled in accordance with the terms of the agreement.

On November 30, 2016, the Company and Cepsa Peruana S.A.C. ("**Cepsa**") entered into a farm-out agreement whereby Cepsa agreed to acquire the Company's participation interest in one onshore block in Peru, Lot 131, for a total cash consideration of $17.8 million and the assumption of contractual exploration obligations. The agreement received Peruvian regulatory approval on April 26, 2017.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

On March 13, 2017, a binding term sheet was signed with Maple Gas Corporation del Peru SRL to transfer the Company's participating interest in Lot 126 for $0.2 million in cash, which has already been received by the Company. In consideration for assuming all contractual exploration commitments totalling $3.6 million.

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

The recoverable amounts of the majority of the assets held for sale relate to value in excess of the asset retirement obligation being assumed by the third party on the expected closing of each transaction.

10. Oil and Gas Properties

Cost		**Amount**
Cost as at December 31, 2016	$	7,225,489
Additions		30,967
Assets held for sale (Note 9)		(230,626)
Currency translation adjustment		10,840
Change in asset retirement obligation		18,153
Cost as at March 31, 2017	$	7,054,823

Accumulated depletion and impairment		**Amount**
Accumulated depletion and impairment as at December 31, 2016	$	6,042,821
Charge for the period		91,674
Assets held for sale (Note 9)		(226,383)
Reversal of previously recognized impairments (Note 15)		(1,263)
Currency translation adjustment		6,242
Accumulated depletion and impairment as at March 31, 2017	$	5,913,091

Net book value		**Amount**
As at December 31, 2016	$	1,182,668
As at March 31, 2017		1,141,732

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

11. Exploration and Evaluation Assets

		Amount
Cost net of impairment as at December 31, 2016	$	9,000
Additions, net of production from long-term testing		(887)
Assets held for sale (Note 9)		(10,562)
Reversal of previously recognized impairments (Note 15)		10,362
Change in asset retirement obligation		1,981
Cost net of impairment as at March 31, 2017	$	9,894

Notes to the Interim Condensed Consolidated Financial Statements

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12. Plant and Equipment

Cost	Land & buildings	Other plant & equipment	Total
Cost as at December 31, 2016	$ 61,744	$ 190,609	$ 252,353
Additions	-	1,302	1,302
Disposals	(33)	-	(33)
Currency translation adjustment	-	53	53
Cost as at March 31, 2017	$ 61,711	$ 191,964	$ 253,675

Accumulated depletion and impairment	Land & buildings	Other plant & equipment	Total
Accumulated depletion and impairment as at December 31, 2016	$ 55,119	$ 143,832	$ 198,951
Charge for the period	1,505	5,527	7,032
Disposals	(7)	-	(7)
Currency translation adjustment	-	24	24
Accumulated depletion and impairment as at March 31, 2017	$ 56,617	$ 149,383	$ 206,000

Net book value			
As at December 31, 2016	$ 6,625	$ 46,777	$ 53,402
As at March 31, 2017	5,094	42,581	47,675

13. Investments in Associates

Set out below are the investments in associates as at March 31, 2017. Investments in associates are accounted for using the equity method, with the Company's share of the associates' net income or loss recognized in the Interim Condensed Consolidated Statement of Income (Loss).

	ODL	Bicentenario	PII	Interamerican	CGX	Total
As at December 31, 2016	$ 123,244	$ 190,502	$ 81,350	$ 16,086	$ 4,016	$ 415,198
Gain (loss) from equity investments	8,194	12,561	4,217	(353)	(631)	23,988
Dividends	(16,803)	(10,797)	-	-	-	(27,600)
Currency translation adjustment	8,294	7,810	594	-	-	16,698
As at March 31, 2017	$ 122,929	$ 200,076	$ 86,161	$ 15,733	$ 3,385	$ 428,284
Company´s interest as at March 31, 2017	35%	43.03%	41.77%	21.09%	45.61%	

Dividends

During the three months ended March 31, 2017, the Company recognized dividends of $27.6 million from its equity-accounted investments (2016: $40.8 million). The Company holds a 63.64% interest in Pacific Midstream Ltd. ("**PM**"), which is the holding company of two of the Company's pipelines and a power transmission asset; including a 35% interest in the ODL pipeline, a 43% interest in the Bicentenario pipeline, and a 100% interest in Petroelectrica. During the three months ended March 31, 2017, the Company distributed $Nil (2016: $14.6 million) in dividends to the minority interests in PM.

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CGX Deconsolidation

The Company was required to apply judgement to assess whether it retained control over CGX Energy Inc. ("**CGX**") after its interest was reduced to below 50% and it no longer held a majority of the voting rights. In determining control, the Company analyzed whether it held additional rights that are sufficient enough to give it the practical ability to direct the relevant activities of CGX, including potential voting rights or rights arising from any contractual agreements. Based on this analysis, it was determined that any additional rights held by the Company were not substantive and as a result the Company no longer held control over CGX and CGX was deconsolidated as at March 31, 2016 with an effect on Equity´s Non-controlling interest $19.4 million.

14. Other Assets

	As at March 31 2017	As at December 31 2016
Long-term receivables	110,040	105,460
Long-term recoverable VAT	26,796	26,989
Long-term withholding tax	27,378	27,439
Advances	22,135	21,782
Investments	1,006	962
	$ 187,355	$ 182,632

Long-Term Receivables, Investments and Advances

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

On December 7, 2016, the Company agreed to provide PII (Pacific Infrastructure Ventures Inc.) with a subordinated shareholder loan agreement of up to $4.1 million at an interest rate of 10% per annum, payable every six months. As at December 31, 2016, the amount PII had drawn down from the subordinated shareholder loan was $1.8 million. Subsequently, on March 30, 2017, PII drew down from the subordinated shareholder loan the remaining $2.2 million. Interest income recognized during the three months ended March 31, 2017 totalled $0.1 million.

Long-Term Recoverable VAT

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

15. Impairment and Exploration Expenses

Impairment

The Company assesses at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash-generating unit ("**CGU**") may be impaired or that a previous impairment has reversed. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the oil & gas and exploration and evaluation properties.

During the three months ended March 31, 2017, the Company classified certain assets as held for sale (Note 9). Assessing the fair value of those assets, the Company reversed the following impairment charges previously recognized: exploration and evaluation assets in the Peru CGU by $10.4 million and oil and gas properties in the Colombia Central CGU by $1.3 million. The majority of the reversal relates to evidence of each asset's recoverable value in excess of the asset retirement obligation being assumed by the third party on the expected closing of each transaction.

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During the first quarter of 2016, the Company determined there was an indication of impairment as at March 31, 2016. The Company performed a test of impairment and, based on the result of the test, recorded an impairment charge of $666.9 million as of March 31, 2016.

The table below summarizes the net impairment charges for the three months ended March 31:

	Three months ended March 31	
	2017	**2016**
(Reversal) impairment expenses of oil & gas properties and plant and equipment (Note 10)	$ (1,263)	$ 603,998
(Reversal) impairment expenses of exploration and evaluation assets (Note 11)	(10,362)	10,053
Impairment of other assets	-	52,595
Advances (Note 14)	-	11,621
Bicentenario prepayments (Note 14)	-	40,974
CGX loan and taxes	1,178	252
Total (reversal) impairment expenses and exploration expenses	$ (10,447)	$ 666,898

16. Interest-Bearing Loans and Borrowing

Secured Senior Notes (Exit Notes)

					As at March 31	As at December 31
	Maturity	**Principal**	**Currency**	**Interest Rate**	**2017**	**2016**
Secured Senior Notes (Exit Notes)	2021	250,000	USD	10%	$ 250,000	$ 250,000
		250,000			$ 250,000	$ 250,000

The Exit Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF. Under the terms of the notes, the Company may not incur with some exceptions, any additional indebtedness prior to November 2, 2018. Following this date, the Company is required to maintain (1) an interest coverage ratio greater than 3.25:1; and (2) a debt-to-EBITDA ratio lower than 2.5:1.The Company would otherwise continue to be restricted from incurring additional indebtedness.

Letter of Credit Facility

On June 22, 2016 the Company entered into a letter of credit facility as part of the Restructuring Transaction which was amended and restated on November 2, 2016 ("**Letter of Credit Facility**"), maturing on June 22, 2018. The Letter of Credit Facility allows the Company to renew certain letters of credit as they expire.

The Company pays a 5% annual interest on the Letter of Credit Facility. As of March 31, 2017, letters of credit totalling $111.5 million were outstanding under the Letter of Credit Facility.

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

	Three months ended March 31	
	2017	**2016**
Interest on Senior Notes	$ -	$ 58,458
Interest on other debt	-	12,819
Interest on Secured Senior Notes (Exit Notes)	6,250	-
Accretion of asset retirement obligations	2,366	2,602
Accretion income of account receivables and others	(1,518)	(3,030)
Lease financing costs	815	1,164
Interest income	(3,016)	(3,099)
	$ 4,897	$ 68,914

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17. Asset Retirement Obligation

The Company makes full provision for the future cost of decommissioning oil production facilities on a discounted basis upon the installation of those facilities.

		Amount
As at December 31, 2016	$	248,632
Accretion expense		2,366
Additions		7,462
Changes in assumptions		5,432
Foreign exchange		8,748
As at March 31, 2017	$	272,640
Current portion	$	18,054
Non-current portion		254,586
	$	272,640

The asset retirement obligation represents the present value of decommissioning and environmental liabilities costs relating to oil and gas properties, of which up to $364 million are expected to be incurred (December 31, 2016: $356 million).

The asset retirement obligation of $14.6 million related to assets held for sale, was reclassified from non-current to current liabilities as the responsibility is being assumed by each third party on the expected closing of each transaction.

18. Contingencies and Commitments

A summary of the Company's commitments, undiscounted and by calendar year, is presented below:

As at March 31, 2017	2017	2018	2019	2020	2021	Subsequent to 2022	Total
Transportation commitments							
ODL Ship-or-Pay Agreement	$ 37,374	$ 48,438	$ 47,439	$ 29,289	$ 1,157	$ -	$ 163,697
Bicentenario Ship-or-Pay Agreement	104,046	138,728	138,728	138,728	138,728	349,865	1,008,823
Transportation and processing commitments	159,075	230,463	232,721	232,721	232,903	902,004	1,989,887
Exploration commitments							
Minimum work commitments	77,803	74,116	127,143	23,386	-	-	302,448
Other commitments							
Operating purchase and leases	32,132	5,247	5,182	5,182	5,173	9,523	62,439
Community obligations	7,477	-	-	-	-	-	7,477
Total	$ 417,907	$ 496,992	$ 551,213	$ 429,306	$ 377,961	$ 1,261,392	$ 3,534,771

The Company has various guarantees in place in the normal course of business. As at March 31, 2017 the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $156.3 million (December 31, 2016: $163 million). In addition, on December 14, 2016 the Company granted a pledge (security interest) in favour of Talisman Colombia Oil & Gas Ltd. ("**TCOG**") for 50% of the production (after royalties, ANH economic rights and other applicable discounts) of the CPE-6 Block in Colombia up to $48 million. This arose from the Company's acquisition of TCOG's 50% working interest in the CPE-6 Block.

The Company has an assignment agreement with Transporte Incorporado S.A.S. ("**Transporte Incorporado**"), a Colombian company owned by an unrelated international private equity fund. Transporte Incorporado owns a 5% capacity right in the OCENSA pipeline in Colombia. Under the assignment agreement, the Company is entitled to use Transporte Incorporado's capacity to transport crude oil through the OCENSA pipeline for a set monthly premium until 2024. Pursuant to the assignment agreement, the Company is required for the duration of the agreement to maintain a minimum credit rating of Ba3 (Moody's), which was breached in September and December 2015 and January 2016 when Moody's downgraded the Company's credit rating to B3, Caa3, and C, respectively. As a result of the downgrade and in accordance with the assignment agreement, upon giving notice to the Company, Transporte Incorporado would have the right to early-terminate the assignment agreement, and the Company would be required to pay an amount determined in accordance with the agreement, estimated at $102.8 million.

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The Company did not receive such notice from Transporte Incorporado, and on January 6, 2016 the Company received a waiver from Transporte Incorporado of its right to early-terminate for a period of 45 days until February 15, 2016, which was further extended several times to March 31, 2019. The Company continues to pay monthly premiums. No provision has been recognized as at March 31, 2017 relating to the breach of the credit rating requirement.

In Colombia, the Company is participating in a project to expand the OCENSA pipeline, which is expected to be completed and commence operation in July 2017. As part of the expansion project, the Company, through its subsidiaries Meta Petroleum and Petrominerales Colombia, entered into separate crude oil transport agreements with OCENSA for future transport capacity. The Company will start paying ship-or-pay fees once the expansion project is complete and operational. As part of the transport agreements, the Company is required to maintain minimum credit ratings of BB- (Fitch) and Ba3 (Moody's). This covenant was breached in September and December 2015 and January 2016 when Moody's downgraded the Company's credit rating to B3, Caa3, and C, respectively. As a result of the downgrades and pursuant to the transport agreements, upon giving notice to the Company, OCENSA has the right to require the Company to provide a letter of credit or proof of sufficient equity or working capital within a cure period of 60 days starting from the day on which notice is received by the Company.

On November 5, 2015, the Company received a waiver from OCENSA of its right to receive a letter of credit, which will expire once the project is complete and operational.

The relevant transportation contracts also provide for the possibility of the Company providing evidence to OCENSA of compliance with the liquid assets and working capital tests, which evidence was submitted to OCENSA upon completion of the 2016 financial statements. The Company has also improved its credit rating to B stable (Fitch, Standard & Poor's) post-emergence.

Contingencies

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

Tax Review in Colombia

The Colombian tax authority ("**DIAN**") is reviewing certain income tax deductions with respect to the special tax benefit for qualifying petroleum assets as well as other exploration expenditures. As at March 31, 2017, the DIAN has reassessed $59.7 million of tax owing, including estimated interest and penalties, with respect to the denied deductions.

As at March 31, 2017, the Company believes that disagreements with the DIAN related to the denied income tax deductions will be resolved in favour of the Company. No provision with respect to the income tax deductions under dispute has been recognized in the consolidated financial statements.

High Price Royalty in Colombia

The Company has certain exploration contracts acquired through business acquisitions where there existed outstanding disagreements with the Agencia Nacional de Hidrocarburos (National Hydrocarbon Agency or "**ANH**" of Colombia) relating to the interpretation of the high-price participation clause. These contracts require high-price participation payments to be paid to the ANH once an exploitation area within a contracted area has cumulatively produced 5 million or more barrels of oil. The disagreement involves whether the exploitation areas under these contracts should be determined individually or combined with other exploration areas within the same contracted area, for the purpose of determining the 5 million barrel threshold. The ANH has interpreted that the high-price participation should be calculated on a combined basis.

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The Company disagrees with the ANH's interpretation and asserts that in accordance with the exploration contracts, the 5 million barrel threshold should be applied on each of the exploitation areas within a contracted area. The Company has several contracts that are subject to ANH high-price participation. One of these contracts is the Corcel Block, which was acquired as part of the Petrominerales acquisition, and which is the only one for which an arbitration process has been initiated. However, the arbitration process for Corcel was under suspension at the time the Company acquired Petrominerales. As at March 31, 2017, the amount under arbitration is approximately $195 million plus related interest of $49 million. The Company also disagrees with the interest rate that the ANH has used in calculating the interest cost. The Company asserts that since the high-price participation is denominated in the U.S. dollar, the contract requires the interest rate to be three-month LIBOR + 4%, whereas the ANH has applied the highest legally authorized interest rate on Colombian peso liabilities, which is over 20%.

The Company and the ANH are currently in discussion to further understand the differences in interpretation of these exploration contracts. The Company believes that it has a strong position with respect to the high-price participation based on legal interpretation of the contracts and technical data available. However, in accordance with IFRS 3, to account for business acquisitions the Company is required to record and has recorded a liability for such contingencies as of the date of acquisition, although the Company believes the disagreement will be resolved in favour of the Company. The Company does not disclose the amount recognized as required by paragraphs 84 and 85 of IAS 37, on the grounds that this would be prejudicial to the outcome of the dispute resolution.

19. Issued Capital

a) *Authorized, issued, and fully paid common shares*

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

Continuity schedule of share capital is as follows:

	Number of Shares		Amount
As at March 31, 2017 and December 31, 2016	50,002,363	$	4,745,355

b) *Deferred stock units*

The Company established a new DSU Plan for its non-employee directors on November 2, 2016. The DSU´s issued can be settled in shares or cash, based on Compensation Committee's sole discretion. Cash dividends paid by the Company are credited as additional DSU. The DSU´s granted were recognized as share-based compensation on the Interim Condensed Consolidated Statement of Income (Loss), with a corresponding amount recorded as equity on the Interim Condensed Consolidated Statement of Financial Position.

	Number of DSUs Outstanding		Amount
As at December 31, 2016	16,634	$	728
Granted during the period	6,755		20
As at March 31, 2017	23,389	$	748

The March 31, 2017 outstanding balance is based on a fair value of $31.96 per DSU, approximating the Company's share price in U.S dollars (December 31, 2016: $43.74).

For the three months ended March 31, 2017, a $0.02 million loss (2016: $3.2 million gain) was recorded as share-based compensation expenses with respect to DSU granted during the period.

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20. Related-Party Transactions

The terms and conditions of the related parties' transactions are included in the annual financial statements as at December 31, 2016; no changes occurred during the three months ended March 31, 2017.

The following table provides the total amount of transactions that have been entered into with related parties during the three months ended March 31, 2017 and March 31, 2016, as well as balances and commitments with related parties as at March 31, 2017 and December 31, 2016:

		Sales	Purchases / Services	Accounts Receivables	Accounts Payables	Commitments
Oleoducto de los Llanos (ODL)	2017	$ -	$ 8,787	$ 1,427	$ 5,522	$ 163,697
	2016	93	29,649	638	341	176,442
Oleoducto Bicentenario de Colombia S.A.S	2017	-	32,276	12,437	-	1,008,823
	2016	-	50,251	13,400	-	1,164,251
Pacific Infrastructure Ventures Inc.-Sociedad Portuaria Puerto Bahia S.A (1)	2017	-	9,989	862	1,326	181,320
	2016	2,083	10,241	828	905	199,859
Interamerican Energy - Consorcio Genser Power - Proelectrica	2017	331	-	328	556	-
	2016	5,986	5,988	174	555	-
Paye Foundation (2)	2017	-	1,715	-	67	-
	2016	-	3,557	-	1,737	-
Fupepco Foundation	2017	-	44	45	7	-

The following table provides the interest recognized during the three months ended March 31, 2017 and 2016, as well as the loans and interest balance outstanding from related parties as at March 31, 2017 and December 31, 2016:

		Cash Advance	Loans	Interest Balance	Interest Income	Convertible Debentures
Oleoducto Bicentenario de Colombia S.A.S (3)	2017	$ 87,753	$ -	$ -	$ -	$ -
	2016	87,753	-	-	-	-
Pacific Infrastructure Ventures Inc. (1)(3)	2017	-	76,551	20,084	1,987	-
	2016	-	74,279	18,097	1,264	-
CGX Energy Inc. (3)	2017	-	10,986	1,500	-	1,500
	2016	-	10,000	1,500	-	1,500

(1) Refer to Note 14: Other Assets.
(2) Formerly Pacific Rubiales Foundation.
(3) The Company recorded impairment charges related to certain amounts that may not be recoverable.

On April 26, 2017, the Company entered into a bridge loan facility with CGX. The principal amount of up to $3.1 million, is divided into tranches, payable within 12 months of the first draw down. The loan carries an annual interest rate of 5%.

21. Financial Instruments

Overview of Risk Management

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

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

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When possible and cost effective, the Company applies hedge accounting. Hedging does not guard against all risks and is not always effective. The Company could recognize financial losses as a result of volatility in the market values of these contracts.

Risks Associated with Financial Assets and Liabilities

a) Market Risks

Commodity Price Risk

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

Foreign Currency Risk

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

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

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

Interest Rate Risk

The Company does not have any financial liability that is subject to interest rate risk as of March 31, 2017.

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 gains or losses impacting pre-tax net earnings as follows:

- A 10% change in the COP/U.S.$ exchange rate would have resulted in a $1.1 million change in foreign exchange gain/loss as at March 31, 2017 (2016: $0.3 million).
- A 10% change in the COP/U.S.$ exchange rate would have resulted in a $0.7 million change in other comprehensive income/loss as at March 31, 2017 (2016: $2.0 million).

b) Credit Risk

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

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	Note	As at March 31 2017		As at December 31 2016	
Trade receivables		$	86,557	$	104,994
Advances / deposits			21,047		30,227
Other receivables			46,101		20,893
Receivable from joint arrangements			38,570		41,183
Withholding tax and others			64,312		58,102
Allowance for doubtful accounts			(20,661)		(20,571)
Short-term receivables		$	235,926	$	234,828
Long-term receivables	14		110,040		105,460
Total accounts receivables		$	345,966	$	340,288
Withholding tax and others - Not considered for credit risk			(64,312)		(58,102)
Total accounts receivables considered for credit risk		$	281,654	$	282,186

As at March 31, 2017, three of the Company's customers had accounts receivable that were greater than 10% of the total trade accounts receivable. The Company's credit exposure to these customers was $24 million, $24 million, and $16 million (see "QV Trading Litigation" below) or 27%, 27%, and 18% of trade accounts receivable, respectively (December 31, 2016: three customers at $46 million, $25 million, $16 million or 44%, 23%, 15% of trade accounts receivable). Revenues from these customers for the three months ended March 31, 2017 were $24 million, $23 million and nil, or 7%, 7%, and 0% of revenue (2016: $28 million, nil and $27 million or 6%, 0% and 6% of revenue), respectively.

The majority of the receivables from joint arrangements is due from Ecopetrol.

Included in long-term receivables as at March 31, 2017 is $57.7 million related to the Company's exit from the Papua New Guinea blocks ($56.1 million as at December 31, 2016). The carrying amount represents the discounted amount (12% discount rate) that the Company is entitled to receive from the partner following the Company's withdrawal from the blocks, and is payable over the period from the withdrawal date in 2015 until 2021 dependent on cash flows from the blocks, with 2021 representing the final due date for the payment. The Company is currently negotiating with the partner, which was recently acquired by Exxon Mobil Corporation, to potentially modify the terms of payment.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except for the loan with PII.

QV Trading Litigation

The Company is in the process of commencing legal proceedings against an unrelated customer, QV Trading LLC, with respect to an overdue accounts receivable in the amount of approximately $16 million for the sale of oil in August 2015.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's process for managing liquidity risk includes ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets that are monitored and updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital. As at March 31, 2017, the Company had $156.3 million in letters of credit outstanding, $111.5 million of which are committed under the Letter of Credit Facility (Note 16).

The following are the contractual maturities of non-derivative financial liabilities (based on calendar year and undiscounted):

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Financial liability due in	Note	2017	2018	2019	2020	2021	Total
Accounts payable and accrued liabilities		$ 586,671	$ -	$ -	$ -	$ -	$ 586,671
Secured Senior Notes (Exit Notes)	16	-	-	-	-	250,000	250,000
Obligations under finance lease		5,107	6,778	6,778	6,797	4,511	29,971
Total		$ 591,778	$ 6,778	$ 6,778	$ 6,797	$ 254,511	$ 866,642

Accounts payable and accrued liabilities consisted of the following as at March 31, 2017 and December 31, 2016:

	As at March 31 2017	As at December 31 2016
Trade and other payables	$ 111,216	$ 97,678
Accrued liabilities	154,770	170,588
Payables - JV partners	15,978	13,446
Advances, warranties, and deposits	43,584	38,074
Withholding tax and provisions	249,072	256,564
Equity tax	12,051	-
	$ 586,671	$ 576,350

d) Hedge Accounting and Risk Management Contracts

The Company has entered into a number of oil price risk management contracts, but none of these instruments were subject to hedge accounting. Any change in fair value is recorded in profit or loss as risk management gain or loss with realized amounts recorded in revenue.

The terms and conditions of the hedging instruments and expected settlement periods as at March 31, 2017 are as follows:

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike range price	Benchmark	Carrying amount Assets	Carrying amount Liabilities
Not Subject to Hedge Accounting:						
Commodities Price Risk						
Zero-cost collars	April to May 2017	1,540,000	47 / 59	BRENT	-	265
Zero-cost collars	April to October 2017	7,300,000	48.10 / 63.10	BRENT	8,426	
Total not subject to hedge accounting					$ 8,426	$ 265
Total March 31, 2017					$ 8,426	$ 265

The terms and conditions of the hedging instruments and expected settlement periods as at December 31, 2016 are as follows:

Type of Instrument	Term	Notional Amount / Volume (bbl)	Floor/ Ceiling or strike range price	Benchmark	Carrying amount Assets	Carrying amount Liabilities
Not Subject to Hedge Accounting:						
Commodities Price Risk						
Zero-cost collars	January to July 2017	8,080,000	42.5 / 61.5	BRENT	-	31,985
Total not subject to hedge accounting					$ -	$ 31,985
Total December 31, 2016					$ -	$ 31,985

For the three months ended March 31, 2017, the Company recorded risk management gains of $40.1 million on commodity price risk management contracts (2016: losses of $113.5 million). In addition, for the three months ended March 31, 2017, the Company recognized in revenue a $9 million loss, related to those instruments that were settled during the quarter (2016: gain of $161 million).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

e) Fair Value

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, risk management assets and liabilities, loans and borrowings, finance lease obligations, debentures, and fair value through other comprehensive income investments on the statement of financial position. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category.

		As at March 31, 2017		As at December 31, 2016	
	Note	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial Assets					
Financial assets measured at amortized cost					
Cash and cash equivalents		$ 469,974	$ 469,974	$ 389,099	$ 389,099
Restricted cash (short and long term)		90,432	90,432	113,782	113,782
Accounts receivable	21b	171,614	171,614	176,726	176,726
Long-term receivables	14	110,040	110,040	105,460	105,460
		842,060	842,060	785,067	785,067
Financial assets mandatorily measured at fair value through profit or loss (FVTPL)					
Held-for-trading derivatives that are not designated in hedge accounting relationships	21d	8,426	8,426	-	-
Investments in equity instruments	14	1,006	1,006	962	962
		9,432	9,432	962	962
		$ 851,492	$ 851,492	$ 786,029	$ 786,029

		As at March 31, 2017		As at December 31, 2016	
	Note	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial Liabilities					
Financial liabilities measured at amortized cost					
Accounts payable and accrued liabilities	21c	$ (586,671)	$ (586,671)	$ (576,350)	$ (576,350)
Secured Senior Notes (Exit Notes)	16	(250,000)	(283,283)	(250,000)	(250,000)
Obligations under finance lease		(22,087)	(27,827)	(22,942)	(28,904)
		(858,758)	(897,781)	(849,292)	(855,254)
Financial liabilities measured at fair value through profit or loss (FVTPL)					
Held-for-trading derivatives that are not designated in hedge accounting relationships	21d	(265)	(265)	(31,985)	(31,985)
		(265)	(265)	(31,985)	(31,985)
		$ (859,023)	$ (898,046)	$ (881,277)	$ (887,239)

The following table summarizes the Company's financial instruments that are carried or disclosed at fair value in accordance with the classification of fair value input hierarchy in *IFRS 7 Financial Instruments - Disclosures*. As at March 31, 2017:

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

	Quoted prices in active markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Financial assets at Fair Value				
Held-for-trading derivatives	$ -	$ 8,426	$ -	$ 8,426
Investments in equity instruments	-	-	1,006	1,006
Other Assets				
Long-term receivables	$ -	$ 110,040	$ -	$ 110,040
Financial liabilities at Fair Value				
Held-for-trading derivatives that are not designated in hedge accounting relationships	$ -	$ 265	$ -	$ 265
Other liabilities				
Secured Senior Notes (Exit Notes)	$ (283,283)	$ -	$ -	$ (283,283)
Obligations under finance lease	-	(27,827)	-	(27,827)

As at December 31, 2016

	Quoted prices in active markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Financial assets at Fair Value				
Investments in equity instruments	$ -	$ -	$ 962	$ 962
Other Assets				
Long-term receivables	$ -	$ 105,460	$ -	$ 105,460
Financial liabilities at Fair Value				
Held-for-trading derivatives that are not designated in hedge accounting relationships	$ -	$ 31,985	$ -	$ 31,985
Other liabilities				
Secured Senior Notes (Exit Notes)	$ (250,000)	$ -	$ -	$ (250,000)
Obligations under finance lease	-	(28,904)	-	(28,904)

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

The Company uses Level 2 inputs to measure the fair value of its risk management contracts, certain receivables, and debt balances. The fair values of the risk management contracts are estimated using internal discounted cash flows based on forward prices and quotes obtained from counterparties to the contracts, taking into account the creditworthiness of those counterparties or the Company’s credit rating when applicable. The fair value of certain receivables and debt balances are estimated based on recently observed transactions.

The Company uses Level 3 inputs to measure the fair value of certain investments that do not have an active market.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, U.S.$ thousands, except share and per share amounts or unless otherwise stated)

Valuation Techniques

The credit risks associated with the counterparties and the Company are estimated based on observable benchmark risk spreads.

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

Debt is measured at amortized cost using the effective interest rate method.

22. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Three months ended March 31 2017	2016
Decrease in accounts receivable	$ 3,041	$ 149,655
Decrease in income taxes receivable	4,728	45,692
Decrease in accounts payable and accrued liabilities	(8,629)	(295,194)
Increase in inventories	(7)	(5,536)
(Decrease) increase in income taxes payable	(6,380)	915
Decrease in prepaid expenses	1,359	640
	$ (5,888)	$ (103,828)

Other cash flow information is as follows:

	Three months ended March 31 2017	2016
Cash income taxes paid	$ 1,544	$ 2,248
Cash interest paid	6,246	3,021
Cash interest received	310	1,598

23. Comparative Financial Statements

The Comparative Interim Condensed Consolidated Financial Statements have been reclassified from the ones previously presented to conform to the presentation of the current interim condensed consolidated financial statements.

24. Subsequent Events

On April 25, 2017, the Company and CNE Oil & Gas S.A.S., a subsidiary of Canacol Energy Ltd., (“CNE Oil”) entered into a farm-out agreement whereby CNE Oil agreed to acquire the Company’s participating interest in the San Jacinto 7 Block in Colombia, in consideration for assuming all contractual exploration obligations by $7.8 million. The agreement is subject to approval by the ANH.