INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and six months ended June 30, 2020 and 2019

FRONTERA ENERGY

Interim Condensed Consolidated Statements of (Loss) Income

(Unaudited; in thousands of U.S.$, except per share information)	Notes	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Oil and gas sales	4	$ 81,701	$ 391,049	$ 325,539	$ 704,508
Sales of oil and gas for trading	4	—	737	—	74,181
Royalties		—	(14,439)	(6,900)	(23,815)
Revenue		81,701	377,347	318,639	754,874
Oil and gas operating costs	5	82,609	175,513	275,446	319,342
Costs of oil and gas for trading		—	482	—	71,240
General and administrative		9,716	18,207	24,731	34,699
Share-based compensation		1,316	1,145	2,533	1,717
Depletion, depreciation and amortization		58,250	99,092	146,270	192,238
Impairment, exploration expenses and other	6	3,373	16,863	151,940	16,863
Restructuring, severance and other costs	7	6,302	2,048	12,710	3,488
(Loss) income from operations		(79,865)	63,997	(294,991)	115,287
Share of income from associates	11	23,336	19,753	14,930	43,251
Foreign exchange (loss) gain		(2,535)	1,681	(23,132)	2,283
Finance income		6,167	5,469	10,845	11,502
Finance expense		(11,728)	(14,644)	(26,988)	(28,322)
Gain (loss) on risk management contracts	15	3,874	4,474	48,504	(3,306)
Other (loss) income, net		(2,668)	(497)	(5,659)	10,797
Net (loss) income before income tax		(63,419)	80,233	(276,491)	151,492
Current income tax expense		(1,161)	(5,394)	(6,256)	(8,927)
Deferred income tax recovery (expense)		—	162,166	(167,979)	144,013
Income tax (expense) recovery	8	(1,161)	156,772	(174,235)	135,086
Net (loss) income for the period		$ (64,580)	$ 237,005	$ (450,726)	$ 286,578
Attributable to:					
Equity holders of the Company		(67,760)	227,809	(455,569)	273,996
Non-controlling interests		3,180	9,196	4,843	12,582
		$ (64,580)	$ 237,005	$ (450,726)	$ 286,578
(Loss) earnings per share attributable to equity					
Basic	9	$ (0.70)	$ 2.32	$ (4.72)	$ 2.79
Diluted	9	$ (0.70)	$ 2.29	$ (4.72)	$ 2.75

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 June 30		Six Months Ended June 30	
(Unaudited; in thousands of U.S.$)	**2020**	**2019**	**2020**	**2019**
Net (loss) income for the period	$ (64,580)	$ 237,005	$ (450,726)	$ 286,578
Other comprehensive income (loss) to be reclassified to net (loss) income in subsequent periods (nil tax effect)				
Foreign currency translation	23,420	(2,909)	(30,075)	794
Total comprehensive (loss) income for the period	$ (41,160)	$ 234,096	$ (480,801)	$ 287,372
Attributable to:				
Equity holders of the Company	(47,475)	225,549	$ (481,308)	$ 273,883
Non-controlling interests	6,315	8,547	507	13,489
	$ (41,160)	$ 234,096	$ (480,801)	$ 287,372

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

Interim Condensed Consolidated Statements of Financial Position

As at		June 30	December 31
(Unaudited; in thousands of U.S.$)	Notes	2020	2019
ASSETS			
Current			
Cash and cash equivalents		$ 256,135	$ 328,433
Restricted cash		66,108	37,216
Accounts receivable		61,633	132,155
Inventories		68,168	103,116
Income taxes receivable		8,636	37,592
Prepaid expenses and deposits		3,988	5,992
Risk management assets	15	8,226	10,109
Total current assets		472,894	654,613
Non-current			
Properties, plant and equipment	10	726,775	976,621
Exploration and evaluation assets		116,084	114,155
Intangible assets		—	58,311
Investments in associates	11	152,548	196,961
Deferred tax assets	8	55,009	222,988
Restricted cash		72,526	90,162
Other assets		164,354	178,940
Total assets		$ 1,760,190	$ 2,492,751
LIABILITIES			
Current			
Accounts payable and accrued liabilities	15	$ 378,934	$ 501,991
Risk management liabilities	15	1,799	36
Income taxes payable		25,846	29,048
Lease liabilities	12	26,718	28,138
Asset retirement obligations	13	2,194	24,044
Total current liabilities		435,491	583,257
Non-current			
Long-term debt		333,352	331,118
Lease liabilities	12	19,720	43,404
Asset retirement obligations	13	204,114	264,938
Total liabilities		$ 992,677	$ 1,222,717
Commitments and contingencies	17		
EQUITY			
Share capital		$ 4,710,620	$ 4,712,114
Contributed surplus		123,200	120,112
Other reserves		(206,349)	(180,610)
Retained deficit		(3,910,824)	(3,441,358)
Equity attributable to equity holders of the Company		$ 716,647	$ 1,210,258
Non-controlling interests		50,866	59,776
Total equity		$ 767,513	$ 1,270,034
Total liabilities and equity		$ 1,760,190	$ 2,492,751

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.$)	Number of Common Shares	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Fair Value Investment	Retained Deficit	Total	Non-Controlling Interests	Total Equity
	Attributable to Equity Holders of the Company								
As at January 1, 2020	96,433,257	$ 4,712,114	$ 120,112	$ (175,408)	$ (5,202)	$ (3,441,358)	$ 1,210,258	$ 59,776	$ 1,270,034
Net (loss) income for the period	—	—	—	—	—	(455,569)	(455,569)	4,843	(450,726)
Other comprehensive loss	—	—	—	(25,739)	—	—	(25,739)	(4,336)	(30,075)
Total comprehensive (loss) income	—	—	—	(25,739)	—	(455,569)	(481,308)	507	(480,801)
Dividends declared to equity holders of the Company [(1)]	2,153,633	8,581	—	—	—	(13,897)	(5,316)	—	(5,316)
Repurchase of common shares [(2)]	(1,392,314)	(10,075)	—	—	—	—	(10,075)	—	(10,075)
Share-based compensation	—	—	3,088	—	—	—	3,088	—	3,088
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(9,417)	(9,417)
As at June 30, 2020	97,194,576	$ 4,710,620	$ 123,200	$ (201,147)	$ (5,202)	$ (3,910,824)	$ 716,647	$ 50,866	$ 767,513

(Unaudited; in thousands of U.S.$)	Number of Common Shares	Share Capital	Contributed Surplus	Cumulative Translation Adjustment	Fair Value Investment	Retained Deficit	Total	Non-Controlling Interests	Total Equity
	Attributable to Equity Holders of the Company								
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	—	—	—	—	—	273,996	273,996	12,582	286,578
Other comprehensive (loss) income	—	—	—	(113)	—	—	(113)	907	794
Total comprehensive income	—	—	—	(113)	—	273,996	273,883	13,489	287,372
Acquisition of CGX Energy Inc.	—	—	—	—	—	—	—	14,598	14,598
Dividends declared to equity holders of the Company [(1)]	628,315	5,845	—	—	—	(27,913)	(22,068)	—	(22,068)
Repurchase of common shares [(2)]	(1,094,020)	(9,899)	—	—	—	—	(9,899)	—	(9,899)
Share-based compensation	—	—	2,103	—	—	—	2,103	—	2,103
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	(46,492)	(46,492)
As at June 30, 2019	97,955,374	$ 4,723,544	$ 118,828	$ (179,141)	$ (5,202)	$ (3,391,683)	$ 1,266,346	$ 66,456	$ 1,332,802

[(1)] *During the three and six months ended June 30, 2020, the Company declared dividends of $Nil and C$0.205/share, respectively, (2019: C$0.205 and C$0.165, respectively).*

[(2)] *During the three and six months ended June 30, 2020, the Company repurchased for cancellation $Nil and $10.1 million, respectively, of common shares (2019: $1.3 million and $9.9 million, respectively) under its normal course issuer bid, for an average repurchase cost of $Nil and $7.24/share, respectively, (2019: $8.77/share and $9.09/share, respectively).*

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

Interim Condensed Consolidated Statements of Cash Flows

		Three Months Ended June 30		Six Months Ended June 30	
(Unaudited; in thousands of U.S.$)	**Notes**	**2020**	**2019**	**2020**	**2019**
OPERATING ACTIVITIES					
Net (loss) income for the period		$ (64,580)	$ 237,005	$ (450,726)	$ 286,578
Items not affecting cash:					
Depletion, depreciation and amortization		58,250	99,092	146,270	192,238
Impairment	6	715	13,822	151,472	13,822
Expense (recovery) of asset retirement obligations	13	2,614	1,547	(9)	1,547
Unrealized loss (gain) on risk management	15	36,011	(6,460)	6,871	(273)
Share-based compensation		1,316	1,021	2,533	1,979
Deferred income tax (recovery) expense	8	—	(162,166)	167,979	(144,013)
Unrealized foreign exchange loss (gain)		(13,571)	(2,433)	21,234	(7,421)
Share of income from associates	11	(23,336)	(19,753)	(14,930)	(43,251)
Finance expense		11,728	14,644	26,988	28,322
Dividends from associates	11	22,892	23,296	22,892	32,704
Settlement of asset retirement obligations	13	(266)	(1,572)	(2,564)	(3,481)
Other		3,964	(324)	2,446	(11,903)
Changes in non-cash working capital	16	66,519	(9,771)	68,341	(75,745)
Cash provided by operating activities		$ 102,256	$ 187,948	$ 148,797	$ 271,103
INVESTING ACTIVITIES					
Additions to properties, plant and equipment		$ (6,715)	$ (60,062)	$ (54,756)	$ (116,670)
Additions to intangible assets		—	(48,487)	—	(48,487)
Additions to other assets, net		—	(10,900)	—	(10,453)
Additions to exploration and evaluation assets, net		(4,654)	(8,327)	(20,297)	(20,151)
Decrease (increase) in restricted cash		(34,745)	14,616	(26,424)	13,592
Acquisition of CGX Energy Inc.		—	—	—	4,296
Proceeds from the sale of non-current assets		—	—	—	890
Changes in non-cash working capital	16	(26,155)	(11,172)	(35,260)	(64,275)
Cash used in investing activities		$ (72,269)	$ (124,332)	$ (136,737)	$ (241,258)
FINANCING ACTIVITIES					
Lease payments		$ (7,486)	$ (8,386)	$ (15,829)	$ (16,679)
Dividends paid to equity holders of the Company		(10,539)	(12,124)	(20,510)	(30,830)
Dividends paid to non-controlling interests		(9,417)	(8,746)	(9,417)	(46,492)
Repurchase of common shares		—	(1,329)	(10,075)	(9,899)
Interest and other bank charges		(17,716)	(18,067)	(18,285)	(18,398)
Cash used in financing activities		$ (45,158)	$ (48,652)	$ (74,116)	$ (122,298)
Effect of exchange rate changes on cash and cash equivalents		6,297	(1,724)	(10,242)	232
Decrease in cash and cash equivalents during the period		(8,874)	13,240	(72,298)	(92,221)
Cash and cash equivalents, beginning of the period		265,009	340,671	328,433	446,132
Cash and cash equivalents, end of the period		$ 256,135	$ 353,911	$ 256,135	$ 353,911
Cash		158,878	279,982	158,878	279,982
Cash equivalents		97,257	73,929	97,257	73,929
Total cash and cash equivalents		$ 256,135	$ 353,911	$ 256,135	$ 353,911
Supplementary cash flow information					
Cash income tax paid		1,199	1,598	$ 2,348	$ 2,752
Cash interest paid		17,351	17,352	$ 17,639	$ 17,505
Cash interest received		$ 2,947	$ 2,703	$ 4,562	$ 5,147

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

1. Corporate Information

Frontera Energy Corporation (the "**Company**") is an oil and gas company formed and existing under the laws of British Columbia, Canada, that is engaged in the exploration, development and production of crude oil and natural gas in South America. The Company's common shares are listed and publicly traded on the Toronto Stock Exchange ("**TSX**") under the trading symbol **"FEC".** The Company's head office is located at 333 Bay Street, Suite 1100, Toronto, Ontario, Canada, M5H 2R2, and its registered office is 1055 West Georgia Street, 1500 Royal Centre, Vancouver, British Columbia, Canada, V6E 4N7.

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 August 5, 2020.

2. Basis of Preparation and Significant Accounting Policies

a. Statement of Compliance

These interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019 (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, 2019 (the "**2019 Annual Financial Statements**").

Certain amounts in the comparative interim condensed consolidated statements of cash flow have been reclassified from the amounts previously presented to conform to the presentation of the current consolidated financial statements. Specifically, beginning with the 2019 Annual Financial Statements, interest paid is now classified as a financing activity instead of an operating activity.

b. Significant Accounting Policies

The accounting policies used in preparation of the Interim Financial Statements are consistent with those disclosed in the 2019 Annual Financial Statements. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

Critical Judgments in Applying Accounting Policies

Coronavirus ("COVID-19") and Estimation Uncertainty

In March 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. The spread of COVID-19 has resulted in a challenging economic environment, with more volatile commodity prices, foreign exchange rates, and long-term interest rates. It is difficult to reliably estimate the length or severity of these developments and their financial impact. As there are many variables and uncertainties regarding the COVID-19 pandemic, as well as its impact on the global demand, including the duration and magnitude of the disruption in the oil and gas industry, it is not possible to precisely estimate the potential impact of the COVID-19 pandemic on the Company's financial condition and operations. There may also be effects that are not currently known as the full impact of the COVID-19 pandemic is still uncertain. This presents uncertainty and risk with respect to management's judgments, estimates and assumptions that affect the application of accounting policies, particularly those relating to assessments about liquidity and going concern, recoverable amounts and impairment, and the realization of deferred tax assets.

These interim condensed consolidated financial statements have been prepared on a going concern basis as the Company expects to have adequate liquidity to support its operations and meet its financial obligations for the foreseeable future. The Company's ability to continue as a going concern for the next twelve months involves significant judgment and is dependent on its ability to generate positive cash flows from operations, which are primarily impacted by estimates concerning future oil prices. The estimates used by management in reaching this conclusion are based on information available as of the date these financial statements were authorized for issuance, and include internally generated cash flow forecasts based on future projections of oil prices and other operational factors. Accordingly, actual results could differ from these estimates and resulting variances may be material to management's assessment.

At the end of each reporting period, the Company assesses internal and external sources of information to decide whether there is any indication that an asset or cash generating unit ("**CGU**") may be impaired. External sources of information include changes in the economic and legal environment in which the CGUs operate. Internal sources include the economic performance of the CGUs and other asset specific indicators. As at March 31, 2020, the Company concluded that there were indicators of impairment as a result of the decrease in global oil prices and performed a recoverability test on the value of its non-current assets. As at June 30, 2020, the Company determined that there were no indicators of impairment or reversal of impairments. The Company applies judgment to various assumptions included in its impairment assessment as described in Note 6, which are consistent with those used to evaluate its ability to generate positive cash flows from operations as part of the going concern assessment.

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

3. Segmented Information

The Company has two reportable segments: Colombia and Peru. The Company manages its operations to reflect differences in the regulatory environments and risk factors for each country. The “Canada & Other” segment includes the corporate office, Guyana and Ecuador 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 June 30, 2020 and December 31, 2019:

	Colombia		Peru		Canada & Other [(1)]		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Non-current assets	$ 1,197,042	$ 1,743,777	$ 5,827	$ 9,863	$ 84,427	$ 84,498	$ 1,287,296	$ 1,838,138

[(1)] *Included in Canada & Other is $80.9 million (2019: $77.6 million) of non-current assets in Guyana.*

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

	Colombia		Peru		Canada & Other		Total	
Three Months Ended June 30	2020	2019	2020	2019	2020	2019	2020	2019
Oil and gas sales and other revenue	$ 81,701	$ 338,645	$ —	$ 52,404	$ —	$ —	$ 81,701	$ 391,049
Sales of oil and gas for trading	—	737	—	—	—	—	—	737
Royalties	—	(14,257)	—	(182)	—	—	—	(14,439)
Revenue	81,701	325,125	—	52,222	—	—	81,701	377,347
Oil and gas operating costs	86,539	133,248	(3,930)	42,265	—	—	82,609	175,513
Costs of oil and gas for trading	—	482	—	—	—	—	—	482
General and administrative	7,202	12,747	521	1,368	1,993	4,092	9,716	18,207
Share-based compensation	(1,045)	942	(89)	99	2,450	104	1,316	1,145
Depletion, depreciation and amortization	57,913	98,629	120	198	217	265	58,250	99,092
Impairment, exploration expenses and other	3,036	14,527	328	1,543	9	793	3,373	16,863
Restructuring, severance and other costs	4,939	1,739	1,460	34	(97)	275	6,302	2,048
(Loss) income from operations	$ (76,883)	$ 62,811	$ 1,590	$ 6,715	$ (4,572)	$ (5,529)	$ (79,865)	$ 63,997
Non-operating income items							16,446	16,236
Income tax (expense) recovery							(1,161)	156,772
Net (loss) income for the period							$ (64,580)	$ 237,005

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

	Colombia		Peru		Canada & Other		Total	
Six Months Ended June 30	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Oil and gas sales and other revenue	$ 299,260	$ 647,616	$ 26,279	$ 56,892	$ —	$ —	$ 325,539	$ 704,508
Sales of oil and gas for trading	—	74,181	—	—	—	—	—	74,181
Royalties	(6,857)	(23,413)	(43)	(402)	—	—	(6,900)	(23,815)
Revenue	292,403	698,384	26,236	56,490	—	—	318,639	754,874
Oil and gas operating costs	226,035	268,640	49,411	50,702	—	—	275,446	319,342
Costs of oil and gas for trading	—	71,240	—	—	—	—	—	71,240
General and administrative	17,967	25,124	1,888	2,554	4,876	7,021	24,731	34,699
Share-based compensation	(1,140)	1,311	(195)	198	3,868	208	2,533	1,717
Depletion, depreciation and amortization	145,353	190,999	373	727	544	512	146,270	192,238
Impairment, exploration expenses and other	145,882	14,527	4,741	1,543	1,317	793	151,940	16,863
Restructuring, severance and other costs	10,198	2,562	1,521	110	991	816	12,710	3,488
(Loss) income from operations	$ (251,892)	$ 123,981	$ (31,503)	$ 656	$ (11,596)	$ (9,350)	$ (294,991)	$ 115,287
Non-operating income items							18,500	36,205
Income tax (expense) recovery							(174,235)	135,086
Net (loss) income for the period							$ (450,726)	$ 286,578

4. 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 3):

	Three Months Ended June 30		Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Colombia				
Crude oil sales	$ 78,578	$ 334,621	$ 292,209	$ 639,100
Gas sales	3,123	4,024	7,051	8,516
Colombia oil and gas sales	81,701	338,645	299,260	647,616
Peru total - crude oil sales	—	52,404	26,279	56,892
Oil and gas sales	$ 81,701	$ 391,049	$ 325,539	$ 704,508
Colombia - sales of oil and gas for trading	$ —	$ 737	$ —	$ 74,181

5. Oil and Gas Operating Costs

	Three Months Ended June 30		Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Transportation costs [(1)]	$ 48,997	$ 76,260	$ 117,888	$ 148,166
Production costs	34,984	75,598	107,194	145,356
Diluent costs	8,273	13,028	16,744	22,245
Overlift	90	(25)	240	(5)
Inventory valuation [(2)]	(9,735)	10,652	33,380	3,580
Total	$ 82,609	$ 175,513	$ 275,446	$ 319,342

[(1)] *Transportation cost includes non-cash charges that are under dispute related to unused ancillary facilities (Note 17).*

[(2)] *For the three months ended June 30, 2020, inventory valuation includes a recovery of $5.7 million (2019: $Nil). For the six months ended June 30, 2020, the inventory valuation includes a $14.1 million write-down of oil inventory to its net realizable value (2019: $Nil).*

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

6. Impairment and Exploration Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Impairment of:				
Properties, plant and equipment (Note 10)	$ —	$ —	$ 77,864	$ —
Intangible assets	—	—	54,881	—
Exploration and evaluation assets	715	9,664	17,839	9,664
Other	—	4,158	888	4,158
Total impairment	$ 715	$ 13,822	$ 151,472	$ 13,822
Exploration expenses	44	1,494	477	1,494
Expense (recovery) of asset retirement obligations (Note 13)	2,614	1,547	(9)	1,547
Impairment, exploration expenses and other	$ 3,373	$ 16,863	$ 151,940	$ 16,863

During the three and six months ended on June 30, 2020, the Company recorded an impairment charge of $0.7 million and $151.5 million, respectively.

As a result of a significant decline in the forecast for crude oil and gas benchmark prices, during the first quarter of 2020, compared to December 31, 2019, the Company performed an impairment test on its CGUs. The recoverable amount of each CGU was calculated using a value-in-use approach based on the Company's updated projections of future cash flows generated from proved and probable reserves and discounted using an after-tax rate of 12.0%. The discount rate was determined by reference to the Company's weighted average cost of capital taking into account market assessments of risks specific to its CGUs.

The recoverable amounts were calculated using long-term Brent oil prices of $38.10, $35.00, $53.91, $59.40, and $62.51 per barrel for 2020 to 2024, respectively, and inflated by an average of 2% per year thereafter. Forecasted oil prices were based on management's estimates using independently available market data as at March 31, 2020.

As a result of the impairment test performed by the Company, during the first quarter of 2020, the carrying amounts of certain assets exceeded their recoverable amounts resulting in an impairment charge of $149.2 million in the Colombia CGU including $77.2 million relating to properties, plant and equipment, $54.9 million to intangible assets and $17.8 million to exploration and evaluation assets. Also, during the first quarter of 2020, the Company recognized an impairment charge of $0.7 million in properties, plant and equipment relating to the Peru CGU.

The recoverable amounts of CGUs are most sensitive to the discount rate and future oil prices. A 1% variation in the discount rate would impact the impairment calculation by approximately $40.4 million and a $1 variation in the forecasted oil prices would impact the impairment calculation by approximately $68.1 million. The results of the impairment test are also sensitive to changes in other estimates such as revisions in reserves, expected production, local price differentials, future operating costs and development capital expenditures, long-term inflation and foreign exchange rates which could impact the calculation of recoverable amounts for CGUs.

As at June 30, 2020, the Company determined that there were no indicators of impairment or reversal of impairments for oil and gas properties.

7. Restructuring, Severance and Other Costs

During the three and six months ended June 30, 2020, the Company incurred:

- $2.3 million and $8.7 million, respectively, in severance costs related to personnel reductions as a result of the implementation of an organizational restructuring plan (2019: $0.1 million and $0.9 million, respectively).
- $0.6 million and $0.6 million, respectively, in costs regarding transformation activities to deliver process improvements and operational efficiencies (2019: $1.9 million and $2.6 million, respectively).
- $3.4 million and $3.4 million, respectively, relating to the write-off of right-of-use ("**ROU**") assets from the modification of certain lease contracts (2019: $Nil and $Nil, respectively).

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

8. Income Taxes

The following is a reconciliation of income tax expense calculated at the Colombian corporate tax rate with the reported income tax expense:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net (loss) income before income tax	$ (63,419)	$ 80,233	$ (276,491)	$ 151,492
Colombian statutory income tax rate	32%	33 %	32%	33%
Income tax (recovery) expense at statutory rate	(20,294)	26,477	(88,477)	49,992
Other non-deductible expenses (non-taxable income)	1,023	(2,512)	12,016	(2,697)
Share-based compensation	330	314	632	484
Differences in tax rates	(287)	—	(9,417)	(4,299)
Other (gains) losses and permanent differences	(16,917)	6,428	(790)	4,365
Minimum income tax (presumptive income tax)	805	2,859	1,486	5,429
Change in deferred income tax	36,501	(190,338)	258,520	(188,360)
Change in prior period assessments	—	—	265	—
Income tax expense (recovery)	1,161	(156,772)	174,235	(135,086)
Current income tax expense	1,161	5,394	6,256	8,927
Deferred income tax (recovery) expense:				
Relating to origination and reversal of temporary differences	—	(162,166)	167,979	(144,013)
Income tax expense (recovery)	$ 1,161	$ (156,772)	$ 174,235	$ (135,086)

The current income tax expense for the six months ended June 30, 2020 of $6.3 million includes $4.2 million of income tax on dividends and $1.5 million of presumptive income tax.

The deferred income tax expense for the three and six months ended on June 30, 2020, was $Nil and $168.0 million, respectively. The derecognition of deferred tax assets in Colombia during the first quarter of 2020 was primarily driven by the reduction in global crude oil prices.

Movement in Deferred Tax Assets	
As at January 1, 2020	$ 222,988
Recognized as deferred income tax expense	(167,979)
As at June 30, 2020	$ 55,009

9. (Loss) Earnings per Share

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net (loss) income attributable to equity holders of the Company	$ (67,760)	$ 227,809	$ (455,569)	$ 273,996
Basic weighted average number of shares outstanding	96,936,258	98,003,260	96,486,517	98,210,739
Effect of dilution from dilutive instruments	—	1,285,864	—	1,298,018
Diluted weighted average number of shares outstanding	96,936,258	99,289,124	96,486,517	99,508,757
(Loss) earnings per share attributable to equity holders of the Company				
Basic	$ (0.70)	$ 2.32	$ (4.72)	$ 2.79
Diluted	$ (0.70)	$ 2.29	$ (4.72)	$ 2.75

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

10. Properties, Plant and Equipment

Cost	Oil & Gas Properties	Plant & Equipment	Total
As at January 1, 2020	$ 7,902,864	$ 272,629	$ 8,175,493
Additions	58,279	1,582	59,861
Change in asset retirement obligations (Note 13)	(77,486)	—	(77,486)
Disposals	(6,355)	(9,847)	(16,202)
Currency translation adjustment	(12,141)	(49)	(12,190)
As at June 30, 2020	$ 7,865,161	$ 264,315	$ 8,129,476

Accumulated Depletion, Depreciation and Impairment	Oil & Gas Properties	Plant & Equipment	Total
As at January 1, 2020	$ 6,966,486	$ 232,386	$ 7,198,872
Charge for the period	136,788	3,360	140,148
Impairment (Note 6)	64,794	13,070	77,864
Disposals	(3,422)	(282)	(3,704)
Currency translation adjustment	(10,451)	(28)	(10,479)
As at June 30, 2020	$ 7,154,195	$ 248,506	$ 7,402,701

Net Book Value	Oil & Gas Properties	Plant & Equipment	Total
As at January 1, 2020	$ 936,378	$ 40,243	$ 976,621
As at June 30, 2020	$ 710,966	$ 15,809	$ 726,775

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

	Oil & Gas Properties	Plant & Equipment	Total
Properties, plant and equipment - owned	$ 679,574	$ 9,671	$ 689,245
ROU assets - leased	31,392	6,138	37,530
As at June 30, 2020	$ 710,966	$ 15,809	$ 726,775

Details of ROU assets are as follows:

	Storage Facility	Power Generation	Plant & Equipment	Total
As at January 1, 2020	$ 27,431	$ 17,044	$ 16,863	$ 61,338
Changes in estimates	—	(1,775)	$ (859)	(2,634)
Termination of lease contracts	—	(1,578)	(7,710)	(9,288)
Depreciation	(6,858)	(2,872)	(2,156)	(11,886)
As at June 30, 2020	$ 20,573	$ 10,819	$ 6,138	$ 37,530

11. Investments in Associates

	ODL	Bicentenario	IVI	Total
As at January 1, 2020	$ 115,855	$ 81,106	$ —	$ 196,961
Share of income (loss) from associates	22,294	11,135	(18,499)	14,930
Dividends	(24,489)	(17,013)	—	(41,502)
Loss allocated against net investment in IVI [1]	—	—	18,499	18,499
Currency translation adjustment	(17,025)	(19,315)	—	(36,340)
As at June 30, 2020	$ 96,635	$ 55,913	$ —	$ 152,548
Company's interest as at June 30, 2020	35.00%	43.03%	39.22%	

[1] *The Company has recorded its share of losses as a reduction to other long-term interests (long-term account receivables) that form part of its net investment in Infrastructure Ventures Inc ("**IVI**"). Please see subsequent events in Note 18.*

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.

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

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

During the three and six months ended June 30, 2020, the Company recognized gross dividends of $Nil and $24.5 million, respectively (2019: $Nil and $26.9 million, respectively) and received cash dividends of $22.9 million and $22.9 million, respectively (2019: $23.3 million and $32.7 million, respectively) from ODL. As at June 30, 2020, the carrying value of dividends receivable after withholding taxes from ODL was $Nil (2019: $Nil).

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

During the three and six months ended June 30, 2020, the Company recognized gross dividends of $Nil and $17.0 million, respectively (2019: $Nil and $17.5 million, respectively) from Bicentenario. As at June 30, 2020, the carrying value of dividends receivable after withholding taxes from Bicentenario was $49.7 million (2019: $39.1 million) and is included within Other Assets. Dividends are expected to be collected during the next two years.

12. Leases

The Company leases various properties, power generation supply, port storage facilities, vehicles and other assets.

As of June 30, 2020, the Company as part of its program to manage the Covid-19 pandemic and lower oil prices environment has reached an agreement to modify and/or partially terminate some lease contracts, which resulted in a decrease of lease liability of $8.3 million.

The Company's lease liabilities have an average discount rate of 10.69% (2019: 10.61%), and the maturity analysis by contractual undiscounted cash flows is as follows:

As at		2020		2019
Within 1 year	$	31,667	$	34,178
Year 2		14,608		31,114
Year 3		4,083		8,831
Year 4		911		7,819
Total undiscounted lease liabilities	$	51,269	$	81,942
Less amounts representing finance costs		(4,831)		(10,400)
Present value of lease liabilities	$	46,438	$	71,542
Current	$	26,718	$	28,138
Non-current		19,720		43,404
Total	$	46,438	$	71,542

13. Asset Retirement Obligations

As at January 1, 2020	$	288,982
Accretion expense		2,663
Additions		1,310
Changes in estimates		(83,224)
Liabilities settled		(2,564)
Recovery of asset retirement obligations (Note 6)		(9)
Currency translation adjustment		(850)
As at June 30, 2020	$	206,308

Current portion	$	2,194
Non-current portion		204,114
Total	$	206,308

Asset retirement obligations ("**ARO**") represent the present value of decommissioning and environmental liability costs relating to oil and gas properties. The total undiscounted ARO is $265.5 million (2019: $382.7 million) which is expected to be executed between 2020 and 2042, of which $229.5 million (2019: $346.6 million) will be incurred in Colombia and $36.0 million (2019: $36.1 million) in Peru. During the three months ended June 30, 2020 certain abandonment activities were postponed for future periods and, accordingly, the amount was reclassified from current to non-current.

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

During the six months ended June 30, 2020, the Company recognized a decrease in the ARO from changes in estimates of $83.2 million, which includes $11.1 million, relating to updating of the risk-free and inflation rates, $33.7 million, relating to updated cost estimates to abandon and reclaim wells and well sites, including environmental liabilities, and $38.4 million, due to the impact of foreign exchange rates. A total of $77.5 million of the changes in estimates were recognized in Oil & Gas Properties (Note 10).

The risk-free and inflation rate used for discounting to present value are:

- A risk-free rate between 2.69% and 8.28% and an inflation rate between 2.8% and 4.9% for cash flows expected to be settled in COP (2019: risk-free rate between 4.11% and 7.27% with inflation between 2.7% and 3.9%);
- A risk-free rate between 1.68% and 1.76% and an inflation rate between 2.3% and 2.4% for cash flows expected to be settled in U.S. dollar (2019: risk-free rate between 2.39% and 3.1% with inflation rate between 2.2% and 3%).

14. Related-Party Transactions

The following tables provide the total balances outstanding (before impairments), commitments and transactional amounts with related parties as at June 30, 2020, and December 31,2019, and for three and six months ended June 30, 2020, and 2019:

As at June 30, 2020, and December 31, 2019		Accounts Receivable [2]	Accounts Payable and Lease Obligation	Commitments (Note 17)	Cash Advance [1] [2]	Long-term Receivable [1] [2]	Interest Receivable [1] [2]
ODL	2020	$ —	$ 2,484	$ 9,673	$ —	$ —	$ —
	2019	—	4,181	30,125	—	—	—
Bicentenario	2020	8,151	—	—	87,278	56,592	—
	2019	9,677	—	36,539	87,278	45,732	—
IVI	2020	—	25,850	40,832	17,741	152,195	61,292
	2019	—	31,193	52,238	17,741	151,452	52,267

		Three Months Ended June 30		Six Months Ended June 30	
		Purchases / Services	Interest Income[2]	Purchases / Services	Interest Income[2]
ODL	2020	$ 8,467	$ —	$ 20,429	$ —
	2019	13,001	—	25,683	—
Bicentenario	2020	—	—	1,267	—
	2019	1,818	—	3,675	—
IVI	2020	9,247	4,514	19,065	9,025
	2019	6,969	3,554	15,120	6,957

(1) *Items included as Other Assets in the Interim Condensed Consolidated Statement of Financial Position.*

(2) *Amounts presented based on contractual payment obligations undiscounted and prior to impairments.*

15. Financial Instruments and Risk Management

a. Risks Associated with Financial Assets and Liabilities

The Company's activities expose it to various risks including credit risk, liquidity risk and market risk (from changes in commodity prices, foreign exchange rates and interest rates) that could have a significant impact on profitability, operating cash flows and the value of financial instruments.

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.

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

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 Company mitigates its liquidity risk by managing its capital expenditures, operational cash flows, and by maintaining adequate lines of credit and cash and cash equivalent balances on hand.

The following tables summarizes the undiscounted cash outflows relating to contractual maturities of the Company's non-derivative financial liabilities as at June 30, 2020:

Financial Liability Due In	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities [1]	$ 248,837	$ —	$ —	$ —	$ 248,837
Long-term debt	—	—	—	350,000	350,000
Interest payments on debt	16,975	33,950	33,950	16,975	101,850
Lease liabilities	15,382	27,622	5,205	3,060	51,269
Total	$ 281,194	$ 61,572	$ 39,155	$ 370,035	$ 751,956

[1] *Excludes provisions without contractual maturities.*

The Company has various guarantees in place in the normal course of business, supported by issued letters of credit (Note 17). As at June 30, 2020, the Company had issued letters of credit and guarantees for exploration and operational commitments for a total of $57.8 million (2019: $75.5 million).

Restricted Cash

As at June 30, 2020, the Company has total restricted cash of $138.6 million (2019: $127.4 million) in trust accounts primarily to cover future abandonment obligations, insurance collateral for certain contingencies and other matters. The increase in restricted cash from December 31, 2019 was primarily due to cover as collateral.

iii) Market Risk

Market risk is the risk associated with fluctuations in oil prices and foreign exchange rates. To manage this risk, the Company uses derivative commodity instruments to manage exposure to price volatility by hedging a portion of its oil production and foreign exchange hedging instruments to manage foreign currency fluctuations.

Risk Management Contracts

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

Risk Management Contracts - Crude Oil

				Avg Strike Prices	Carrying Amount	
Type of Instrument	Term	Benchmark	Notional Amount / Volume (bbl)	Put / Call; Call Spreads	Assets	Liabilities
Zero-cost collars	July to September 2020	Brent	806,000	35.00/49.40	$ 381	$ —
3-ways	October 2020 to June 2021	Brent	2,480,000	25.20/36.20/50.20	138	1,647
Put spreads	July 2020 to June 2021	Brent	6,761,000	25.00/35.00	7,707	—
Total as at June 30, 2020					$ 8,226	$ 1,647
Total as at December 31, 2019					$ 7,341	$ 36

Risk Management Contracts - Foreign Exchange

					Carrying Amount	
Type of Instrument	Term	Benchmark	Notional Amount / Volume (Thousands of U.S.$)	Avg Put / Call; Par forward (COP$)	Assets	Liabilities
Zero-cost collars	July to September 2020	COP / USD	$ 9,000	3,300 / 3,819	$ —	$ 152
Total as at June 30, 2020					$ —	$ 152
Total as at December 31, 2019					$ 2,768	$ —

	Assets	Liabilities
Total risk management contracts as at June 30, 2020	$ 8,226	$ 1,799
Total risk management contracts as at December 31, 2019	$ 10,109	$ 36

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Realized gain (loss) on risk management contracts	$ 12,589	$ (1,986)	$ 28,079	$ (3,579)
Realized gain on unwinding of risk management contracts [(1)]	27,296	—	27,296	—
Unrealized (loss) gain on risk management contracts	(36,011)	6,460	(6,871)	273
Total	$ 3,874	$ 4,474	$ 48,504	$ (3,306)

[(1)] During the second quarter of 2020, the Company recognized a gain of $27.3 million (2019: $Nil) as result of the early termination of Brent crude oil risk management contracts which were fully in-the-money.

b. Fair Value of Financial Instruments

The carrying values of the Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value.

The following table summarizes the Company's remaining financial instruments that are carried or disclosed at fair value in accordance with the classification under the fair value hierarchy as at June 30, 2020 and December 31, 2019:

			Fair Value		
	Period	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets Measured at Fair Value through Profit & Loss					
Risk management assets	2020	$ 8,226	$ —	$ 8,226	$ —
	2019	10,109	—	10,109	—
Financial Assets Measured at Fair Value through Other Comprehensive Income					
Investments in equity instruments	2020	$ 1,147	$ —	$ —	$ 1,147
	2019	1,298	—	—	1,298
Financial Assets Measured at Amortized Cost					
Long-term receivables	2020	$ 134,269	$ —	$ —	$ 134,269
	2019	126,060	—	—	126,060
Financial Liabilities Measured at Fair Value through Profit & Loss					
Risk management liabilities	2020	$ (1,799)	$ —	$ (1,799)	$ —
	2019	(36)	—	(36)	—
Financial Liabilities Measured at Amortized Cost					
Long-term debt	2020	$ (333,352)	$ —	$ (286,867)	$ —
	2019	(331,118)	—	(369,278)	—

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 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 ("**ECLs**"). ECLs 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.

c. Capital Management

The Company's objectives when managing capital are to maintain a capital structure that optimizes the cost of capital to support operating activities and sustain the development of the business while maintaining compliance with the terms and conditions of financial obligations. The Company manages its capital structure and makes adjustments in light of changes in economic conditions, operating risks and working capital requirements. To maintain or adjust its capital structure, the Company may issue or buyback shares, change its dividend policy, raise or refinance debt and/or adjust its capital spending to manage its operating and growth objectives.

Specifically, the Company's capital management objectives are to maintain compliance with debt covenant ratios, which are currently met, and to maintain sufficient liquidity to meet all contractual obligations and execute its business plan. To facilitate the management of these objectives, the Company utilizes a planning, budgeting and forecasting process to help determine and monitor the funds needed to maintain appropriate liquidity for operational, capital and financial needs.

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

The Company's capital consists of debt and total equity (less non-controlling interests) net of working capital. The following table summarizes the Company's capital structure balances:

	As at June 30 2020	As at December 31 2019
Equity attributable to equity holders of the Company	$ 716,647	$ 1,210,258
Long-term debt	333,352	331,118
Working capital surplus [1]	(37,403)	(71,356)
Total	$ 1,012,596	$ 1,470,020

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

16. Supplemental Disclosure on Cash Flows

Changes in non-cash working capital are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Decrease (increase) in accounts receivable	$ 82,872	$ 11,584	$ 69,205	$ (35,912)
(Increase) decrease in inventories	(10,989)	16,681	32,473	18,651
Decrease (increase) in income taxes receivable	34,147	(6,228)	29,148	(14,924)
(Increase) decrease in prepaid expenses and deposits	(97)	(581)	2,004	748
Decrease in accounts payable and accruals liabilities	(68,335)	(41,999)	(96,253)	(108,138)
Increase (decrease) in income taxes payable	2,766	(400)	(3,496)	(445)
Changes in non-cash working capital	$ 40,364	$ (20,943)	$ 33,081	$ (140,020)
Attributable to				
Operating activities	$ 66,519	$ (9,771)	$ 68,341	$ (75,745)
Investing activities	(26,155)	(11,172)	(35,260)	(64,275)
Changes in non-cash working capital	$ 40,364	$ (20,943)	$ 33,081	$ (140,020)

17. Commitments and Contingencies

Commitments

The Company's commitments as at June 30, 2020, undiscounted and by calendar year, are presented below:

As at June 30, 2020	2020	2021	2022	2023	2024	2025 and Beyond	Total
Transportation and storage commitments							
Ocensa P-135 ship-or-pay agreement	$ 35,966	$ 69,327	$ 69,327	$ 69,327	$ 69,327	$ 34,929	$ 348,203
Puerto Bahia take-or-pay agreement	13,595	27,237	—	—	—	—	40,832
ODL ship-or-pay agreement	4,859	4,814	—	—	—	—	9,673
Other transportation agreements [1]	5,838	16,254	3,400	2,570	3,223	—	31,285
Exploration commitments							
Minimum work commitments	60,995	149,718	93,163	39,443	—	—	343,319
Other commitments							
Operating purchases, leases and community obligations	12,412	16,965	6,254	5,929	5,057	5,082	51,699
Total	$ 133,665	$ 284,315	$ 172,144	$ 117,269	$ 77,607	$ 40,011	$ 825,011

[1] *Includes a payment of $13.0 million to Puerto Bahia under the equity contribution agreement ("**ECA**") which is due in December 2021.*

Termination of Transportation Agreements

On July 12, 2018, the Company exercised contractual rights to terminate (a) three transportation contracts (the "**BIC Transportation Agreements**") with Bicentenario to ship oil through the BIC Pipeline which operates between Araguaney and Banadia where it connects to the Caño Limón pipeline ("**CLC Pipeline**") because service had not been provided for more than six consecutive months, and (b) three related transportation agreements (the "**CLC Transportation Agreements**") with CENIT to ship oil through the CLC Pipeline because service had not been provided for more than 180 consecutive calendar days. The Company has received notice that CENIT and Bicentenario dispute the validity of those contract terminations, and that on December 3, 2018, CENIT, and on January 28, 2019, Bicentenario, commenced separate arbitration proceedings against the Company before the Centre for Arbitration and Conciliation of the Bogota Chamber of Commerce (the "**Bogota Arbitration Centre**") concerning the contract terminations.

The Company believes it was fully entitled to terminate both the BIC Transportation Agreements and the CLC Transportation Agreements and is vigorously defending the arbitration proceedings commenced by Bicentenario and CENIT and recover damages. For further information on these claims, see "Note 28 - Commitments and Contingencies" of the 2019 Annual Financial Statements.

As of June 30, 2020, the amount of tariffs claimed by CENIT under the CLC Transportation Agreements would be $111.6 million plus interest, and would be approximately $70.3 million per annum, subject to tariff adjustments from time to time, until 2028. As of June 30, 2020, the aggregate amount of monthly service payments claimed by Bicentenario under the BIC Transportation Agreements would be $130.1 million (net of credits note and SBLCs) plus interest, and would be approximately $130.6 million per annum, subject to tariff adjustments from time to time, until 2024.

On December 3, 2019 the Company and certain of its affiliates commenced arbitration proceedings before the Bogota Arbitration Centre seeking, among other things, relief from Bicentenario and CENIT that those contracts were validly terminated and for the termination of (a) three transportation ancillary contracts (the "**BIC Ancillary Agreements**") with Bicentenario for the use of ancillary facilities related to the BIC Pipeline, and (b) seven transportation ancillary contracts (the "**CLC Ancillary Agreements**") with CENIT related to the CLC Pipeline and the BIC Pipeline for offloading and maritime facilities (which were the subject of termination), and the Monterrey-Araguaney Pipeline.

During the first quarter of 2020, the Company asserted rights to stop making payments under the BIC Ancillary Agreements and the CLC Ancillary Agreements. The Company's position is that there are no further payment commitments under the agreements, and as a result, the Company has excluded $254.5 million of total commitments from the table above. As of June 30, 2020, the Company has rejected invoices for $10.7 million relating to these ancillary agreements and intends to reject all invoices hereinafter. Both Bicentenario and CENIT dispute the grounds for the termination of these contracts and the cessation of payment, but they have not filed any formal claim yet over this specific dispute.

Ocensa P-135 Ship-or-Pay Agreement

As part of the Ocensa P-135 ship-or-pay agreement, the Company is required to maintain a minimum credit rating of BB- (Fitch) and Ba3 (Moody's) or to provide evidence of compliance with the net assets and working capital test included in such agreement. The Company does not comply with the minimum credit rating criteria or capital ratio tests which could give Ocensa early termination and prepayment rights under the contract if letters of credit are not provided by the Company.

On April 29, 2020, Ocensa and the Company entered into a pledge agreement pursuant to which the Company guaranteed payment to Ocensa through a pledge of the crude oil transported in the Ocensa Pipeline. On July 6, 2020, the term of the pledge agreement was amended and extended until July 6, 2021. During the term of the pledge agreement, Ocensa has agreed not to exercise its early termination and prepayment rights. The pledge agreement will automatically terminate if the Company subsequently meets any of the minimum credit requirements as set forth in the ship-or-pay agreement.

Exploration commitments

The Company has minimum work commitments related to some exploration activities in Colombia, Peru, Ecuador, and Guyana.

Puerto Bahia Equity Contribution Agreement

As part of the agreement to fund the construction of Puerto Bahia, the Company entered into an equity contribution agreement ("**ECA**") signed on October 4, 2013. Under the ECA, the Company 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. There were no advances made during the six months ended June 30, 2020, and it is uncertain whether or not any advances will be required to be made during the balance of 2020.

Letters of Credit

The Company's unsecured letter of credit facility entered into on May 17, 2018 (the "Unsecured LC Facility") expired on May 17, 2020 and was not renewed. The Unsecured LC Facility, which was initially for $100.0 million, was reduced to $60.0 million in November 2018 and accrued interest at 3.0% per annum on any undrawn letters of credit, while amounts drawn under the facility accrued interest at 6% per annum.

The Company has replaced the guarantees covered by the Unsecured LC Facility using various uncommitted bilateral letter of credit lines (the "**Uncommitted LCs**"). As of June 30, 2020, the Company had $49.0 million of issued and outstanding Uncommitted LCs for exploratory commitments and abandonment funds in Colombia, Ecuador and Peru, with cash collateral of $34.9 million funded during the second quarter of 2020. The lenders under the Uncommitted LCs receive a fee equal to 3% per annum.

In addition to the Uncommitted LCs, the Company has outstanding letters of credit of $8.8 million under a master agreement with Banco BTG Pactual S.A. ("**BTG**"). Under the terms of this agreement, BTG has the right to demand the return and cancellation of the letters of credit, or require the Company to deposit an equivalent amount if it breaches certain covenants, including receiving a credit rating downgrade two notches or more by any rating agency. The Fitch downgrade of the Company's credit rating on March 20, 2020, by two notches resulted in a breach of this covenant. On July 28, 2020, the funding requirements associated with this agreement were reduced to $3.9 million and the Company is working with BTG on amending the outstanding letters of credit.

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 as disclosed above, no material changes have occurred regarding the matters disclosed in "Note 28 - Commitments and Contingencies" of the 2019 Annual Financial Statements.

18. Subsequent Events

IVI Acquisition

On July 6, 2020, the International Finance Corporation and related funds (collectively the **"IFC Parties"**) accepted an offer to sell to the Company all of the IFC Parties' equity interest (32.3%) and credit rights in IVI, subject to finalizing transaction documents. The total consideration to be paid by the Company is $7.0 million, of which $3.0 million will be payable at closing and the remaining $4.0 million payable on or before August 6, 2022. The transaction will close on August 6, 2020 and result in the termination of the IFC put option that became exercisable on December 1, 2019. As of June 30, 2020 the Company holds a 39.22% interest, and after the transaction will own 71.57% interest, and will consolidate IVI and the corresponding non-controlling interest.