



**FRONTERA ENERGY CORPORATION**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2017**

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## ABBREVIATIONS AND DEFINITIONS

bbl	barrels	MMboe	million barrels of oil equivalent
bbl/d	barrels per day	MD	measured depth
boe	barrels of oil equivalent	Mcf	thousand cubic feet
boe/d	barrels of oil equivalent per day	Mcf/d	thousand cubic feet per day
Mbbl	thousand barrels	U.S.\$	United States dollars
Mboe	thousand barrels of oil equivalent	WI	working interest
MMbbl	million barrels		

**NOTE:** The term “boe” is used in this Annual Information Form. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet to barrels is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this Annual Information Form, boe has been expressed using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Colombian Ministry of Mines and Energy. The Company has expressed boe using the Peruvian conversion standard of 5.626 Mcf: 1 bbl required by Perupetro for properties in Peru.

## GLOSSARY OF TERMS

The following terms used but not otherwise defined in this Annual Information Form have the meanings set out below. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

### Non-Technical Terms

“**Acuerdo 2, 2015**” means the accord implemented by the ANH, adopted to help mitigate the adverse effects of the fall of international oil prices by allowing companies to transfer certain exploratory obligations from non-prospective blocks to prospective blocks.

“**Affected Creditors**” means collectively, Previous Noteholders, lenders under the Previous Credit Facilities and all other creditors for which the Company commenced a claims process pursuant to the CCAA Proceedings.

“**Alfa**” means Alfa S.A.B. de C.V.

“**Amended Articles**” has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

“**ANH**” means Agencia Nacional de Hidrocarburos, the governmental entity in Colombia responsible for the granting of exploration and exploitation agreements with respect to hydrocarbons.

“**Annual Information Form**” means this Annual Information Form dated March 27, 2018 for the fiscal year that ended December 31, 2017.

“**ANP**” means the Agencia Nacional do Petróleo Gás Natural e Biocombustíveis, the Brazilian governmental entity responsible for the granting of exploration and exploitation agreements with respect to hydrocarbons.

“**Audit Committee**” means the audit committee of the Board of Directors.

“**Awards**” has the meaning given to such term under the heading entitled “Description of Capital Structure – General Description of the Capital Structure – Incentive Plan.”

“**BCBCA**” means the *Business Corporations Act* (British Columbia) including the regulations promulgated thereunder, as amended.

“**Bicentenario**” means Oleoducto Bicentenario de Colombia S.A.S.

“**Bicentenario Pipeline**” means the Colombian pipeline that runs from the Araguaney Station, in the Casanare Department, to the Banadia Station in the Arauca Department.

**“Blue Pacific”** means Blue Pacific Assets Corp., a British Virgin Islands corporation, which to the best of the Company’s knowledge, Miguel de la Campa, Serafino Iacono, Laureano von Siegmund and José Francisco Arata, all former directors or executive officers of the Company, control, or provide investment advice to, the holders of approximately 88% of the outstanding common shares of the company.

**“Board of Directors”** means the board of directors of the Company.

**“Business Day”** means a day, other than a Saturday, Sunday or a statutory or civic holiday, on which banks are generally open for business in Toronto, Ontario and New York, New York.

**“Catalyst”** means The Catalyst Capital Group Inc. or any funds managed or administered by it or its affiliates.

**“CCAA”** means the *Companies’ Creditors Arrangement Act* (Canada) and the regulations thereto, as in effect up to November 2, 2016.

**“CCAA Proceedings”** has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

**“CGU”** has the meaning given to such term under the heading entitled “Risk Factors – Risk Related to the Company conducting business in the Oil and Natural Gas Industry – Accounting impairments.”

**“CGX Energy”** means CGX Energy Inc.

**“CNE Oil”** means CNE Oil & Gas S.A.S., a subsidiary of Canacol Energy Ltd.

**“Common Shares”** means the common shares in the capital of the Company.

**“Company”** means Frontera Energy Corporation.

**“Compensation and Human Resources Committee”** means the compensation and human resources committee of the Board of Directors.

**“D&M”** means DeGolyer and MacNaughton, of Dallas, Texas, an independent petroleum engineering consulting firm.

**“Delegated Authority”** has the meaning given to such term under the heading entitled “Audit Committee Information – Pre-Approval Policies and Procedures.”

**“DIAN”** means Dirección de Impuestos y Aduanas Nacionales de Colombia, which is the Colombian tax authority.

**“DIP Note Financing”** means the U.S.\$500 million debtor-in-possession note financing that closed on June 22, 2016, which was provided by certain Previous Noteholders and Catalyst to the Company.

**“Directors”** means members of the Board of Directors.

**“DSU”** has the meaning given to such term under the heading entitled “Description of Capital Structure – General Description of Capital Structure – Incentive Plan.”

**“E&P”** means exploration and production.

**“EBITDA”** means earnings before interest, taxes, depreciation and amortization.

**“Ecopetrol”** means Ecopetrol S.A., a company majority-owned by the Government of Colombia and involved in the exploration and exploitation of hydrocarbons.

**“ELN”** means National Liberation Army, a left-wing rebel group operating in Colombia.

**“Equity Contribution Agreement”** has the meaning given to such term under the heading entitled “Description of the Business – Contractual Contingencies – Puerto Bahia – Contributions via equity or loans in the event of certain deficiencies.”

**“FARC”** means Colombian Armed Revolutionary Forces.

**“FEC Colombia”** means Frontera Energy Colombia AG (formerly, Meta Petroleum AG), a company duly incorporated under the laws of Schaffhausen, Switzerland.

**“Fitch”** means Fitch Ratings Inc.

**“Forbearance Agreements”** has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – Major Transactions and Events other than the Restructuring.”

**“forward-looking information”** has the meaning given to such term under the heading entitled “Forward-Looking Information.”

**“Funding Creditor DIP Notes”** means the U.S.\$240 million of notes issued by the Company to certain Previous Noteholders for the purchase of notes and warrants (after taking into account the original issue discount) pursuant to the DIP Note Financing.

**“IDR”** has the meaning given to such term under the heading entitled “Description of Capital Structure – Credit Ratings.”

**“IFC”** means International Finance Corporation.

**“IFRS”** means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

**“Incentive Plan”** has the meaning given to such term under the heading entitled “Description of Capital Structure – General Description of Capital Structure – Incentive Plan.”

**“Interamerican Energy”** means Interamerican Energy Corp.

**“Itau”** means Itaú BBA Colombia S.A. Corporación Financiera.

**“Karoon”** means Karoon Petroleo & Gas Ltda.

**“Karoon Blocks”** means the Company’s former 35% WI in the following exploration blocks offshore in the Santos Basin, Brazil: S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166.

**“Material Subsidiary”** means: (i) a direct or indirect subsidiary of the Company which has total assets that exceed 10% of the consolidated assets of the Company; (ii) a direct or indirect subsidiary of the Company which has revenues that exceed 10% of the consolidated revenue of the Company; and (iii) direct or indirect subsidiaries of the Company that do not satisfy (i) and (ii) individually but in the aggregate would have total assets and revenues that exceed 20% of the Company’s consolidated assets and revenues.

**“Moody’s”** means Moody’s Investors Service, Inc.

**“Note Indenture”** has the meaning given to such term under the heading entitled “Description of Capital Structure – Material Debt Facilities – Senior Secured Notes.”

**“Note Guarantors”** means Pacific Guatemala Energy Corp., Pacific Off Shore Peru S.R.L., Pacific E&P International Holdings S.á.r.l., FEC Colombia, Pacific Stratus Energy S.A., Pacific Marketing International Corp., Pacific Stratus Energy del Peru S.A., Petrominerales Peru Ltd., Petro International Ltd., Petrominerales Bermuda Ltd., PRE Corporate Services Corp., PRE-PSIE Coöperatief U.A., Pacific Midstream Holding, Pacinfra Holding Ltd., Major

International Oil S.A., Agro Cascada S.A.S., Pacific Rubiales PNG Limited and Frontera Petroleum International Holdings B.V.

“**Ocensa**” means Oleoducto Central S.A.

“**Ocensa Pipeline**” means the Colombian pipeline which runs from the Cuisana and Cupiagua oilfields in the Casanare Department to the Coveñas terminal, on the Colombia Caribbean coastline in Sucre Department.

“**ODC Pipeline**” means the Colombian pipeline that runs from the Vasconia Station in Puerto Boyacá (Boyacá Department) to the Caribbean Port of Coveñas (Sucre Department).

“**ODL**” means Oleoducto de los Llanos Orientales S.A.

“**ODL Pipeline**” means the Colombian pipeline between the Rubiales Field and the Monterrey or Cusiana Station in Casanare.

“**OGD Pipeline**” means the Guaduas-La Dorada pipeline in Colombia.

“**Pacific Brasil**” means Pacific Brasil Exploração e Produção de Óleo e Gás Ltda., a wholly-owned subsidiary of the Company.

“**Pacific Infrastructure**” means Pacific Infrastructure Ventures Inc.

“**Pacific Infrastructure Put Option Agreement**” means the put option agreement dated November 7, 2013 among Pacific Infrastructure, the Company, Blue Pacific Investments Group Ltd., IFC, and certain funds affiliated with the IFC.

“**Pacific Midstream**” means Pacific Midstream Ltd.

“**Pacific Midstream Acquisition Agreement**” has the meaning given to such term under the heading entitled “General Development of Business – Three-Year History – Period ending December 31, 2017.”

“**Pacific Midstream Put Option Agreement**” means the put option agreement dated December 17, 2014 between the Company, Pacific Midstream, Pacific Midstream Holding Corp., the IFC and certain funds managed by the IFC.

“**Pacific Stratus**” means Pacific Stratus Energy Colombia Corp.

“**PEL**” means Petroeléctrica de los Llanos Ltd. which owns an electrical power transmission line.

“**Perupetro**” means Perupetro S.A., the Peruvian governmental entity responsible for promoting, negotiating, underwriting and monitoring contracts for exploration and exploitation of hydrocarbons in Peru.

“**Plan**” means the plan of compromise and arrangement proposed by the Company pursuant to the Restructuring, and any amendments, restatements, modifications or supplements thereto, made in accordance with the terms thereof or made at the direction of the Ontario Superior Court of Justice (Commercial List).

“**Port Credit Agreement**” means the credit agreement dated October 4, 2013, between Puerto Bahia, Itau, and other lenders for a debt facility of up to U.S.\$370 million for the construction of the Port Facility.

“**Port Facility**” means the large scale multi-purpose port facility in Cartagena Bay in Colombia developed by Puerto Bahia.

“**Preferred Shares**” has the meaning given to such term under the heading entitled “Description of Capital Structure – Preferred Shares.”

“**Previous Credit Facilities**” means collectively, the previous: (i) U.S.\$1 billion revolving credit and guaranty agreement dated April 30, 2014 (as amended or supplemented) with a syndicate of lenders and Bank of America, N.A. as administrative agent; (ii) U.S.\$250 million credit and guaranty agreement dated April 8, 2014 (as amended or supplemented) provided by HSBC Bank USA, N.A.; (iii) U.S.\$75 million master credit agreement with Banco

Latinoamericano de Comercio Exterior, S.A. dated April 2, 2014 (as amended or supplemented); and (iv) U.S.\$109 million credit and guaranty agreement with Bank of America, N.A. dated May 2, 2013 (as amended or supplemented).

**“Previous Noteholders”** means the holders of Previous Senior Notes.

**“Previous Senior Notes”** means collectively, the previous: (i) U.S.\$300 million 7.25% senior unsecured notes due 2021 as governed by an indenture dated December 12, 2011 between the Company as issuer, certain subsidiaries of the Company as note guarantors and the Bank of New York Mellon as trustee, security registrar and paying agent (as amended or supplemented); (ii) U.S.\$1 billion 5.125% senior unsecured notes due 2023 as governed by an indenture dated March 28, 2013 between the Company as issuer, certain subsidiaries of the Company as note guarantors and the Bank of New York Mellon as trustee, security registrar and paying agent (as amended or supplemented); (iii) U.S.\$1.3 billion 5.375% senior unsecured notes due 2019 as governed by an indenture dated November 26, 2013 between the Company as issuer, certain subsidiaries of the Company as note guarantors and the Bank of New York Mellon as trustee, security registrar and paying agent (as amended or supplemented); and (iv) U.S.\$750 million 5.625% senior unsecured notes due 2025 as governed by an indenture dated September 19, 2014 between the Company as issuer, certain subsidiaries of the Company as note guarantors and the Bank of New York Mellon as trustee, security registrar and payment agent (as amended or supplemented).

**“Proelectrica”** means Promotora de Energia Electrica de Cartagena & Cia, S.C.A. E.S.P.

**“Puerto Bahia”** means Sociedad Portuaria Puerto Bahia S.A., a wholly-owned subsidiary of Pacific Infrastructure.

**“Queiroz Blocks”** means Pacific Brasil’s participating interests in the following contracts: (i) 30% of FZA-M-90; (ii) 50% of PAMA-M-337; and (iii) 70% of PAMA-M-265.

**“RCL Proposed Director”** means the independent individual proposed by certain lenders under the Previous Credit Facilities, being Russell Ford, who was appointed to the Board of Directors on November 2, 2016.

**“RCN Proposed Director”** means the independent individual proposed by certain Previous Noteholders, being Barry Larson, who was appointed to the Board of Directors on November 2, 2016. However, effective January 27, 2017, Barry Larson resigned from the Board of Directors. Effective February 20, 2017, Mr. Larson was appointed Chief Executive Officer of the Company. Subsequently, on March 27, 2018, the Company announced that Mr. Larson will resign as Chief Executive Officer of the Company, effective April 2, 2018.

**“Restricted Subsidiaries”** means all of the subsidiaries of the Company other than CGX Energy, Pacific Infrastructure, Pacific Midstream, Pacific Brasil, and their respective subsidiaries.

**“Restructuring”** has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

**“Right”** has the meaning given to such term under the heading entitled “Description of Capital Structure – General Description of Capital Structure – Shareholder Rights Plan.”

**“Rights Plan”** has the meaning given to such term under the heading entitled “Description of Capital Structure – General Description of Capital Structure – Shareholder Rights Plan.”

**“RPS”** means RPS Energy Canada Ltd., of Calgary, Alberta, an independent petroleum engineering consulting firm.

**“RSU”** has the meaning given to such term under the heading entitled “Description of Capital Structure – General Development of Capital Structure – Incentive Plan.”

**“S&P”** means Standard & Poor’s Financial Services LLC.

**“Secured LC Agreement”** has the meaning given to such term under the heading entitled “Description of Capital Structure – Material Debt Facilities – Secured LC Facility.”

**“Secured LC Facility”** has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

“**Senior Secured Notes**” has the meaning given to such term under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

“**SFC**” means Superintendencia Financiera de Colombia.

“**SFC Reviews**” has the meaning given to such term under the heading entitled “Legal Proceedings and Regulatory Actions – Disputes with Local Authorities in Colombia – SFC Reviews.”

“**Shareholder**” means a holder of Common Shares.

“**Superintendencia**” means Superintendencia de Sociedades, the Colombian authority responsible for monitoring and controlling business entities that may be, or are, insolvent or bankrupt.

“**Talisman**” means Talisman Colombia Oil & Gas Ltd.

“**Transporte Incorporado**” means Transporte Incorporado S.A.S.

“**TSX**” means the Toronto Stock Exchange (including any predecessor exchange thereto).

“**WTI**” means West Texas Intermediate.

#### Technical Terms

“**API**” means the American Petroleum Institute measure of specific gravity of crude oil measured on the institute’s gravity scale. Liquid petroleum with a specified gravity of 28°API or higher is generally referred to as light crude oil.

“**barrel**” means the volume unit of measure of liquid hydrocarbons equivalent to forty-two (42) U.S. gallons, corrected to standard conditions (a temperature of sixty degrees Fahrenheit (60°F) and one (1) atmosphere of absolute pressure).

“**hydrocarbons**” means all the organic compounds mainly composed of the natural mixture of carbon and hydrogen, as well as of those substances that accompany them or are derived from them.

“**natural gas**” means the mixture of hydrocarbons in a gaseous state, under standard conditions (a temperature of sixty degrees Fahrenheit (60° F) and one (1) atmosphere of absolute pressure), composed of the most volatile members of the paraffin series of hydrocarbons.

“**reserves**” are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: (i) analysis of drilling, geological, geophysical and engineering data; (ii) the use of established technology; and (iii) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

“**undeveloped reserves**” means reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Such reserves must fully meet the requirements of the reserves classification (proved or probable) to which they are assigned.

### **FORWARD-LOOKING INFORMATION**

This Annual Information Form may contain or incorporate by reference information that constitutes “forward-looking information” or “forward-looking statements” (collectively, “**forward-looking information**”) within the meaning of applicable securities legislation, which involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Annual Information Form, such information uses words such as “may,” “will,” “expect,” “believe,” “plan,” “intend” and other similar terminology. Forward-looking information contained herein, reflects current expectations regarding future events and operating performance and speaks only as of the date of this Annual Information Form.



Forward-looking information involves significant risks and uncertainties, and therefore, should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not such results will be achieved. Accordingly, undue reliance should not be placed on such statements. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed under the heading entitled "Risk Factors." Although the forward-looking information contained in this Annual Information Form is based upon what management of the Company believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with the forward-looking information.

In particular, this Annual Information Form contains, or incorporates by reference, forward-looking information pertaining to the following:

- performance characteristics of the Company's oil and natural gas properties;
- drilling plans, including completion and testing, and the anticipated timing thereof;
- supply and demand for oil and natural gas;
- the focus of capital expenditures;
- future debt levels and annual interest costs;
- the Company's future financial and operational situation;
- plans for facility construction and completion and the timing and method of funding thereof;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- the Company's oil and natural gas production levels;
- projections of market prices and costs;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- treatment under governmental regulatory regimes, labour, environmental and tax laws;
- capital expenditure programs and the timing and method of financing thereof;
- limitations on the Company's access to sources of financing or competitive terms and compliance with covenants; and
- the Company's expectations and plans with respect to any contractual contingencies and current litigation proceedings.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks which could cause actual results to vary and in some instances to differ materially from those anticipated by the Company and described in this Annual Information Form. The material risk factors include, but are not limited to:

- volatility in market prices for oil and natural gas;
- liabilities inherent with the exploration and development of oil and natural gas;
- increases or changes to transportation costs;
- restrictions imposed on the Company's operations by the Note Indenture and Secured LC Agreement;
- guerilla activity in Colombia and Peru;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development;
- political developments in Colombia and Peru;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- the outcome of litigation and arbitration proceedings;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- delays in obtaining required environmental and other licences;
- uncertainty of estimates of capital and operating costs, production estimates and estimated economic return;
- the possibility that actual circumstances will differ from estimates and assumptions;
- changes in tax laws, accounting principles and incentive programs relating to the oil and gas industry; and
- the other factors discussed under the heading entitled "Risk Factors."

Statements relating to “reserves” or “resources” are by their nature forward-looking information, as they involve the implied assessment of such assets based on certain estimates and assumptions. The reserves information that is incorporated in this Annual Information Form are estimates only. In general, estimates of crude oil, natural gas liquids and conventional natural gas reserves are based upon a number of variable factors and assumptions, such as production rates, ultimate reserves recovery, timing and amount of capital expenditures, ability to transport production, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the crude oil, natural gas liquids and conventional natural gas reserves attributable to any particular group of properties, as well as the classification of such reserves prepared by different engineers (or by the same engineers at different times) may vary. The actual reserves of the Company may be greater or less than those calculated. In addition, the Company’s actual production, revenues, development and operating expenditures will vary from estimates thereof and such variations could be material.

Disclosure of well test results in this Annual Information Form should be considered preliminary until analyzed or interpreted and are not necessarily indicative of long-term performance or ultimate recovery.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking information contained in this Annual Information Form is expressly qualified by this cautionary statement. Forward-looking information contained herein is made as of the date of the Annual Information Form, and the Company assumes no obligation to update or revise it to reflect new events or circumstances, other than as required by applicable securities laws.

## **GENERAL MATTERS**

In this Annual Information Form, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

The industry and other statistical data presented in this Annual Information Form, except where otherwise noted, have been compiled from sources and participants which, although not independently verified by the Company, are considered by the Company to be reliable sources of information. References in this Annual Information Form to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article, and such reports or articles are expressly not incorporated by reference into this Annual Information Form unless otherwise explicitly incorporated by reference herein.

## **CORPORATE STRUCTURE**

### Name, Address and Incorporation

The full legal name of the Company is Frontera Energy Corporation (formerly “Pacific Exploration & Production Corporation”). The head office of the Company is located at 333 Bay Street, Suite 1100, Toronto, Ontario, M5H 2R2 and its registered office is located at Suite 650 - 1188 West Georgia Street, Vancouver, British Columbia, V6E 4A2. The Company also has offices in Calgary, Alberta, Bogota, Colombia and Lima, Peru.

The Company was incorporated under the laws of the Province of British Columbia on April 10, 1985, pursuant to the BCBCA. Since its inception, the Company has undergone a number of amalgamations as a result of various corporate transactions, including the acquisitions C&C Energia Ltd. in 2012 and Petrominerales Ltd. in 2013.

Recently, the Company has undergone a number of name changes. Effective August 14, 2015, the Company changed its name from “Pacific Rubiales Energy Corp.” to “Pacific Exploration & Production Corporation”. Subsequently, effective June 12, 2017, the Company changed its name from “Pacific Exploration & Production Corporation” to “Frontera Energy Corporation”.

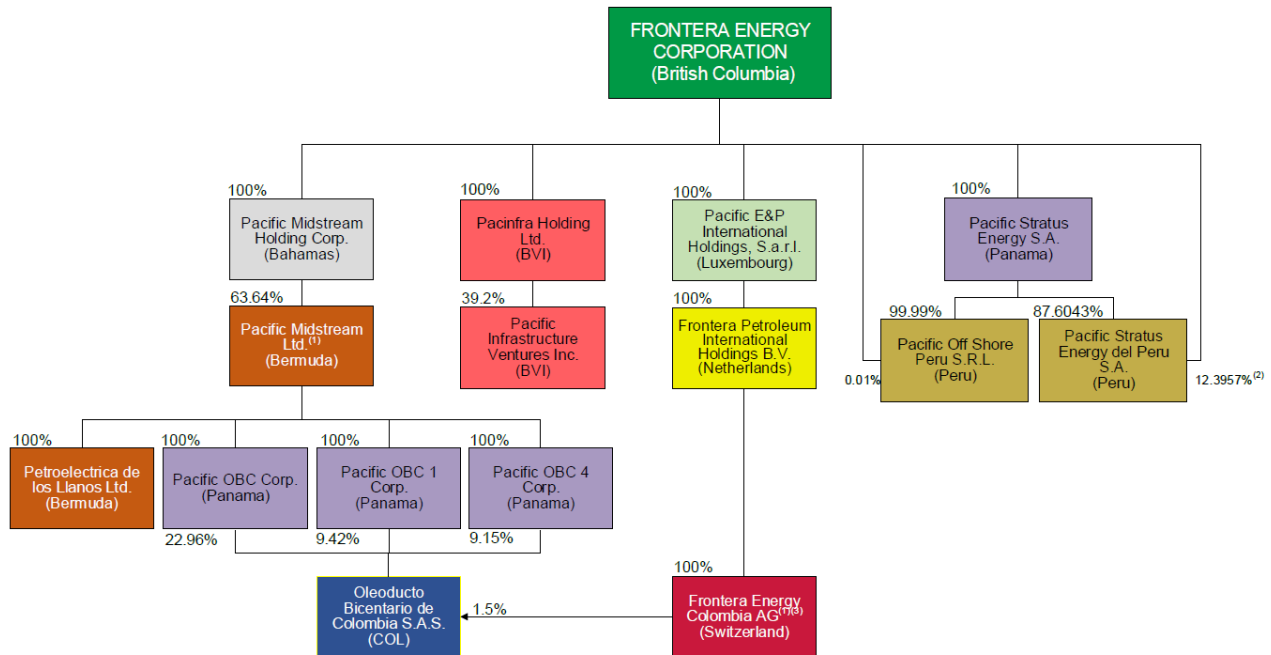
On November 2, 2016, the Company amended and restated its articles. Further information can be found under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – the Restructuring.”

On November 2, 2016, the Company consolidated the Common Shares on a 1:100,000 basis. Additional information can be found under the heading entitled “General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring.”

## Intercorporate Relationships

The Company's organizational structure facilitates its business as a global company whose operations are primarily located in Latin America. In 2017, the Company completed an internal reorganization of its Colombian business units in an effort to streamline its operations and eliminate legal entity redundancies. Further information can be found under the heading entitled "Description of the Business – Reorganizations."

The following chart illustrates the Material Subsidiaries and certain other subsidiaries of the Company, together with the jurisdiction of incorporation of each subsidiary and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company as at December 31, 2017.



### Notes:

- (1) Material Subsidiary
- (2) Represents the Company's aggregate interest through its other wholly-owned subsidiaries.
- (3) On January 30, 2018, Meta Petroleum AG changed its name to Frontera Energy Colombia AG.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Recent Developments

*Period beginning on January 1, 2018 and ending on March 27, 2018*

On March 27, 2018, the Company announced the appointment of Director, Richard Herbert as Chief Executive Officer, effective April 2, 2018. Mr. Herbert will replace Barry Larson, who will step down as Chief Executive Officer effective April 2, 2018 but will remain with the Company until April 30, 2018 to assist with Mr. Herbert's transition into the role. Concurrently with his appointment, Mr. Herbert has resigned from the Board of Directors. In addition, the Company announced the appointment of David Dyck as Chief Financial Officer, effective April 2, 2018. Finally, the Company announced that Peter Volk has resigned as General Counsel and Secretary of the Company. Mr. Volk will be replaced by Margaret McNee, a senior partner at McMillan LLP, who has agreed to a secondment as the Company's acting general counsel, while the Company pursues the recruitment of a permanent replacement.

On February 18, 2018, the Company announced that Camilo McAllister, its Chief Financial Officer, had resigned effective March 9, 2018, to pursue other career opportunities. Alejandro Piñeros Ospina, Corporate Finance Director, will act in the capacity of Chief Financial Officer until April 2, 2018.

On January 30, 2018, Meta Petroleum AG changed its name to “Frontera Energy Colombia AG”. Subsequently, on March 8, 2018, FEC Colombia’s Colombian branch changed its name from “Meta Petroleum Corp., Sucursal Colombia” to “Frontera Energy Colombia Corp., Sucursal Colombia.”

On January 2, 2018, the ANH approved the transfer of U.S.\$6 million in exploratory investment commitments from the La Creciente block to the Guatiquia block. This transfer was requested in accordance with Acuerdo 2, 2015. The transfer is still subject to the execution of amendments to the requisite licence agreements to reflect such transfer.

### Three-Year History

The following is a description of major transactions and events that have influenced the general development of the business of the Company and its Material Subsidiaries during the years ended December 31, 2015, 2016 and 2017.

#### *Period ending December 31, 2017*

In December 2017, the Company completed an internal reorganization of its Colombian business units in an effort to streamline its operations and eliminate legal entity redundancies. Further information on the internal reorganization can be found under the heading entitled “Description of the Business – Reorganizations.”

This past year, operations on Block 192 in Peru were suspended and declared in force majeure on several occasions. Between November 7, 2017 and December 29, 2017, the block was declared in force majeure due to the NorPeruano pipeline being shut down. Between September 18, 2017 and November 9, 2017, the block was declared in force majeure as a result of a field blockade by certain indigenous communities in surrounding areas in an effort to persuade the Peruvian government to clean up oil pollution in the region caused primarily by the previous operators and to engage such communities in discussions relating to the long-term oil drilling plans for the block. Furthermore, between February 24, 2016 and August 12, 2017, the block was declared in force majeure due to a rupture of the NorPeruano pipeline. As a result of these declarations, the term of the agreement governing the Company’s right to exploit Block 192 has been extended to June 10, 2019.

On December 21, 2017, the Board of Directors appointed Richard Herbert to the Board of Directors. In addition, the Company announced the appointments of Duncan Nightingale as Corporate Vice President of Development and Reservoir Management, Jorge Fonseca Chaumer as Corporate Vice President of Business Development and Alejandra Bonilla as Corporate Vice President of Legal and Head of Legal Colombia.

On December 15, 2017, the Company and the ANH entered into a mutual termination agreement relating to the exploration and production contract governing the SSJN-3 block. The Company is currently in process of formalizing the termination. With the termination of the contract, the Company reduced its exploration commitments related to this block by approximately U.S.\$17.8 million.

On December 6, 2017, an arbitration panel delivered a ruling in favour of the Company’s interpretation that the Corcel block is comprised of independent reservoirs. The Company and the ANH have been in arbitration proceedings since 2013 relating to the interpretation of the high-price PAP clause under the Corcel exploration and production contract. On December 14, 2017, the ANH filed a request for annulment of the arbitration panel’s decision with the *Consejo de Estado* (Colombia’s highest administrative court), which is still pending review. Further information on the high-price PAP clause dispute with the ANH can be found under the heading entitled “Legal Proceedings and Regulatory Actions – Disputes with Local Authorities in Colombia.”

On December 5, 2017, the Company received regulatory approval of its withdrawal and transfer of its interest in the petroleum prospect licence PPL 475 and petroleum retention licence PRL 39 in Papua New Guinea to InterOil Corporation (now ExxonMobil Canada Holdings ULC). On June 22, 2017, the Company entered into various agreements with ExxonMobil Canada Holdings ULC pursuant to which the Company withdrew from and transferred its interest in the licences for the aggregate purchase price of U.S.\$57 million. The transaction subsequently closed on February 20, 2018.

On October 25, 2017, Pacific Midstream entered into an agreement to sell its interest in PEL to Transportadora Electrica del Oriente S.A.S., an affiliate of Electricas de Medellin-Ingenieria y Servicios S.A.S. for an aggregate purchase price of U.S.\$56 million, of which U.S.\$50 million will be held in escrow pursuant to the Pacific Midstream Acquisition Agreement, pending the closing of such transaction. On February 9, 2018, the Company received U.S.\$20 million of the purchase price, which is currently being held in escrow.

On October 20, 2017, the Company entered into amendment agreements to the CPO-14 field contracts to formalize the transfer of its interest to Cepsa Colombia S.A. On July 26, 2017, the ANH approved the assignment of the Company's 62.5% interest, rights, and obligations in the CPO-14 field contracts in accordance with a transfer agreement with Cepsa Colombia S.A. dated December 12, 2016. Pursuant to the transfer agreement, the Company agreed to: (i) assume pending obligations under the CPO-14 license agreement corresponding to its participating interest by transferring them to another licence agreement with the ANH; and (ii) transfer its participating interest in CPO-14 to Cepsa Colombia S.A. The pending obligations under the CPO-14 licence were subsequently transferred to the LLA-25 block.

On October 13, 2017, the Company entered a share sale agreement with the IFC and funds related to the IFC pursuant to which the Company agreed to acquire the outstanding 36.36% of common shares in Pacific Midstream for the aggregate purchase price of U.S.\$225 million, to be paid in installments over a 36-month period, including accrued interest on unpaid amounts (the "**Pacific Midstream Acquisition Agreement**"). The completion of the transaction is subject to obtaining modifications to certain ship-or-pay contracts the Company has in place relating to the Bicentenario Pipeline, among other customary closing conditions. Pursuant to the Pacific Midstream Acquisition Agreement, should the transaction fail to close as a result of the Company failing to satisfy certain conditions to closing, the Company will be required to pay a break fee in the aggregate amount of U.S.\$5 million to the IFC and funds related to the IFC. The transaction is also subject to consent from the holders of the Company's Senior Secured Notes and lenders under the Secured LC Facility. Following the closing of this transaction Pacific Midstream will be a 100% consolidated entity of the Company.

On October 3, 2017, the ANH approved the transfer of the Company's interest in the SSJN-7 Block to CNE Oil pursuant to a farm-out agreement between the parties dated April 25, 2017 under which CNE Oil acquired the Company's participating interest in the block in consideration for assuming the remaining U.S.\$7.8 million of contractual obligations. The closing of this transaction is still subject to the execution of amendments to the corresponding licence agreement to reflect CNE Oil as the new operator and contractor of the block.

On September 26, 2017, the Company spud the Alligator 1x exploration well on the Guatiquia block, which reached a total depth of 12,810 feet on November 11, 2017. Further information can be found under the heading entitled "Description of the Business – Exploration – Guatiquia block."

On September 22, 2017, the ANH approved the transfer of U.S.\$6 million in exploratory investment commitments from the CPO-12 block to two exploration wells in the CPE-6 block. This transfer was requested in accordance with Acuerdo 2, 2015. The Company formalized the transfer on October 30, 2017 through the execution of an amendment to the CPE-6 licence agreement.

On August 13, 2017, the ANH approved the assignment of the Company's interest in the PUT-9 block contract. Subsequently, on August 31, 2017, the ANH approved the assignment of the Company's interest in the Mecaya, Tacacho and Terecay block contracts. These assignments were made in accordance with the Company's farm-out agreements with Amerisur Exploracion Colombia Limitada dated March 10, 2017. Pursuant to the farm-out agreements, the Company agreed to sell to Amerisur Exploracion Colombia Limitada its: (i) 60% participating interest in the licence agreement for the PUT-9 block; (ii) 50.5% participating interest in the Tacacho block; (iii) 58% participating interest in the Mecaya block; and (iv) 100% participating interest in the Terecay block, for the aggregate purchase price of U.S.\$4.8 million, plus a royalty calculated and payable on a monthly basis equal to 2% of all the hydrocarbons produced on the Terecay block, and a royalty calculated and payable on a monthly basis equal to 1.2% of all the hydrocarbons produced on the PUT-9 block. The amendments to formalize the transfer of the Company's interests were executed on October 20, 2017 with respect to the contracts governing the PUT-9, Tacacho and Terecay blocks and on November 10, 2017 with respect to the contract governing the Mecaya block. With the sale of these interests, the Company reduced its exploration commitments related to these blocks by approximately U.S.\$26.3 million.

On August 22, 2017, the Company announced the appointments of Grayson Andersen as its new Corporate Vice President of Capital Markets and Jeremy Kaliel as its new Corporate Vice President of Corporate Strategy & Communications.

On June 23, 2017, the Company entered into amendments to certain exploration and production contracts with the ANH pursuant to which the Company transferred the aggregate amount of U.S.\$19 million in exploratory investment commitments from the LLA-19, Topoyaco, Sabanero and CPO-14 blocks to the LLA-25 block. This transfer of investment was initially approved by the ANH on November 22, 2016.

On June 16, 2017, the Company entered into a framework agreement and ancillary documents with Les Etablissements Maurel & Prom, Maurel & Prom Colombia B.V. and M&P Peru Holdings S.A.S., pursuant to which the parties agreed to: (i) authorize Maurel & Prom Colombia B.V. to execute and deliver a withdrawal and assignment agreement to effectuate the transfer of Maurel & Prom Colombia B.V.'s interest in the CPO-17 block to Hocol S.A.; (ii) convert the COR-15 technical evaluation agreement into an exploration and production agreement; (iii) settle any carry dispute; (iv) transfer all participating interest in Lot 116 to the Company pursuant to a purchase and sale agreement and trust agreement; and (v) terminate the carry funding agreement relating to the exploration license contract for Lot 116, and the Company's parent company guarantee. Subsequently, on June 12, 2017, Maurel & Prom Colombia B.V. entered into an exploration and production agreement with the ANH relating to the COR-15 block. In addition, on December 1, 2017, the ANH approved the transfer of Maurel & Prom Colombia B.V.'s interest in the CPO-17 block to Hocol S.A. As of December 31, 2017, the transfer of all participating interest in Lot 116 to the Company was still pending regulatory approval from the Government of Peru.

On June 12, 2017, the Company changed its corporate name to "Frontera Energy Corporation" from "Pacific Exploration & Production Corporation."

On June 2, 2017, the ANP approved the transfer of the Company's participating interest in the Queiroz Blocks in Brazil to Queiroz Galvão Exploração e Produção S.A. Subsequently, on September 12, 2017, certain standby letters of credit issued to the ANP in connection with the Queiroz Blocks were released. This was the final step in closing this transaction. In connection with the transfer of the Company's participating interest in the Queiroz Blocks, the Company also entered into a farm-out agreement with Queiroz Galvão Exploração e Produção S.A. pursuant to which the Company agreed to pay Queiroz Galvão Exploração e Produção S.A. the aggregate amount of U.S.\$16 million to cover the remaining cash calls outstanding for these blocks. The sale of the Queiroz Blocks was part of the Company's overall strategy to streamline its operations and exit Brazil.

On May 12, 2017, the Company entered into an amendment agreement to the exploration and production contract governing Block 131 in Peru to formalize the transfer of its interest to Cepsa Peruana S.A.C. On April 26, 2017, the Company received Peruvian regulatory approval for the farm-out agreement with Cepsa Peruana S.A.C. dated November 30, 2016, pursuant to which the Company sold its 30% working interest in Block 131 for the aggregate purchase price of U.S.\$17.8 million and the assumption of contractual exploration obligations of U.S.\$7.2 million.

On April 26, 2017, the Company entered into a secured bridge loan facility with CGX Energy pursuant to which the Company agreed to loan CGX Energy the aggregate amount of up to U.S.\$3.1 million. The loan carries an annual interest rate of 5% and is secured by the assets of CGX Energy. The bridge loan facility matures on April 25, 2018. The secured loan facility has been amended on several occasions to increase the principal amount available to CGX Energy. As of the date hereof, the principal amount available under the facility is U.S.\$5.3 million, all of which has been advanced to CGX Energy. As of December 31, 2017, U.S.\$0.1 million in interest was accrued on the secured loan facility.

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

On March 17, 2017, Resguardo Domo Planas, an indigenous community, blocked the access road to the Sabanero block. They claimed that, among other things, the environmental licence provided to the Company to conduct activities on the block was null due to the ineffectiveness of the prior consultation conducted with the group. The Company has been in discussions with the Ministry of Interior and the Resguardo Domo Planas to amicably resolve the issue.

However, due to various acts of vandalism and theft, which endangered the employees working on the block, the Company ceased operations on the block indefinitely. As a result, since May 2017, the Company's interest in the Sabanero block has been declared under force majeure.

On March 13, 2017, the Superintendencia issued a decision to terminate the CCAA Proceedings under Ley 1116 in Colombia. As a result, all liens imposed by the Superintendencia on the Company's Colombian Subsidiaries and branches were lifted, including the termination of the trust agreement in place for guaranteeing payment to trade creditors in Colombia. All remaining amounts held in trust under the agreement were released to the Company.

On March 13, 2017, the Company entered into a binding term sheet with Maple Gas Corporation del Peru SRL pursuant to which the Company agreed to transfer its participating interest in Lot 126 located in Peru for U.S.\$0.2 million. However, on November 27, 2017, Perupetro denied the transfer in accordance with the terms and conditions of the term sheet. On December 18, 2017, Perupetro and the Company agreed to terminate the licence agreement relating to Lot 126. As a consequence of relinquishing its interest in the block without fulfilling the agreed upon commitments, the Company paid Perupetro the aggregate amount of U.S.\$2.8 million and corresponding abandonment costs of U.S.\$10.3 million.

On February 22, 2017, the Company received a letter from Perupetro finalizing the termination of the Block 135 contract, effective March 13, 2017. The block was previously in force majeure due to delays in receiving an approval of the environmental impact study conducted on the block. As a result of this decision, the Company reduced its exploration commitments by U.S.\$15 million.

On February 1, 2017, the Bicentenario Pipeline decreased its transportation tariff from \$8.54/bbl to \$7.56/bbl. In addition, in 2017, the Company was able to mitigate losses related to unused pipeline ship-or-pay transportation commitments by reversing the direction of the Bicentenario Pipeline and transferring some of its required capacity to other shippers. As a result of these transfers, the Company received U.S.\$11.3 million in cost reimbursements for 2017.

On January 31, 2017, the Company renewed its commercial agreement with HidroCasanare, the local refinery in Casanare. As a result, the Company has been able to produce its own fuel oil and naphtha, generating savings of approximately U.S.\$11 million in 2017.

Effective January 27, 2017, Barry Larson resigned from the Board of Directors. Effective February 20, 2017, Mr. Larson was appointed Chief Executive Officer of the Company. Subsequently, on March 27, 2018, the Company announced that Barry Larson will resign as Chief Executive Officer of the Company, effective April 2, 2018.

*Period ending December 31, 2016*

#### *The Restructuring*

On April 19, 2016, with the support of certain Previous Noteholders and lenders under its Previous Credit Facilities, the Company entered into an agreement with Catalyst with respect to a comprehensive recapitalization and financing transaction (the "**Restructuring**"). The Restructuring was implemented pursuant to a proceeding under the CCAA, together with appropriate proceedings in Colombia under Ley 1116 of 2006 and in the United States under Chapter 15 of title 11 of the United States Code (collectively, the "**CCAA Proceedings**").

On November 2, 2016, the Company successfully implemented the Plan. Upon implementation of the Plan, among other things:

- i. All previously issued and outstanding Common Shares of the Company, together with the approximately 5,000,000,000 Common Shares issued to the Affected Creditors and Catalyst pursuant to the Plan, were consolidated on the basis of 100,000 pre-consolidation Common Share to one-post consolidation Common Share. As a result, as of November 3, 2016, there were 50,002,363 fully diluted Common Shares, with Catalyst owning approximately 30.8% of the issued and outstanding Common Shares and the Affected Creditors owning approximately 69.2% of the issued and outstanding Common Shares.
- ii. The Funding Creditor DIP Notes were amended and restated as five-year secured notes (the "**Senior Secured Notes**"). Further information on the Senior Secured Notes can be found under the heading entitled "Description of Capital Structure – Material Debt Facilities – Senior Secured Notes."

- iii. The U.S.\$115,532,794 letter of credit facility provided by certain lenders under the Company's Previous Credit Facilities on June 22, 2016 was amended and restated as a secured letter of credit facility maturing on June 22, 2018 (the "**Secured LC Facility**"). Further information on the Secured LC Facility can be found under the heading entitled "Description of Capital Structure – Material Debt Facilities – Secured LC Facility."
- iv. The claims of all Affected Creditors were settled and effectively extinguished.
- v. A new Board of Directors was affirmed, comprising Messrs. Gabriel de Alba (Chair), Luis F. Alarcon, W. Ellis Armstrong, Raymond Bromark, Russell Ford, Barry Larson and Camilo Marulanda. In connection with the appointment of the new Board of Directors, all previous members (Messrs. Serafino Iacono, Miguel de la Campa, Ronald Pantin, Augusto Lopez, Hernan Martinez, Dennis Mills, Francisco Solé and Ms. Monica de Greiff) resigned from the Board of Directors.
- vi. The Company amended and restated its articles (the "**Amended Articles**"). The Amended Articles contain, among other things, certain special approval rights and provisions requiring that the Board of Directors be comprised of a majority of "Independent Directors" (as defined in the Amended Articles), which provisions shall apply until the earlier of (i) the date Catalyst owns less than 10% of the issued and outstanding voting securities of the Company and (ii) the date of the annual general meeting of Shareholders of the Company to be held in 2019.
- vii. The Company entered into a voting agreement with Catalyst, pursuant to which Catalyst has agreed to vote all of its Common Shares in favour of the RCN Proposed Director and the RCL Proposed Director (if they consent to election) at the two annual general meetings of Shareholders immediately following November 2, 2016, which provisions shall also cease to apply if Catalyst owns less than 10% of the outstanding Common Shares. The RCN Proposed Director, being Barry Larson, resigned from the Board of Directors on January 27, 2017 and was subsequently appointed Chief Executive Officer of the Company, effective February 20, 2017. On March 27, 2018, the Company announced that Barry Larson has resigned as Chief Executive Officer of the Company, effective April 2, 2018.

#### *Major Transactions and Events other than the Restructuring*

On November 2, 2016, the Company deposited U.S.\$39 million in a trust account established at the request of the Superintendencia in order to guarantee the payment of certain trade payables of the Company's Colombian branches. On March 13, 2017, the Superintendencia issued an order to terminate the proceedings under Ley 1116 in Colombia and lift any and all liens ordered during the CCAA Proceedings, including the trust account.

On November 22, 2016, the Company transferred its pending investment of U.S.\$1 million in the Llanos 19 block contract to the Llanos 25 block in accordance with Acuerdo 2, 2015.

On October 18, 2016, Puerto Bahia obtained a waiver of its defaults under the Port Credit Agreement from Itau, among other lenders. The waivers were in relation to, among other things, Puerto Bahia's failure to complete the construction of the Port Facility by the agreed upon project and terminal completion dates. The construction of the Port Facility was subsequently completed on November 16, 2017.

On September 26, 2016, the Company and Karoon entered into an agreement pursuant to which the Company agreed to sell Karoon its 35% participating interest in the joint operating agreements and contracts with respect to the Karoon Blocks, subject to certain terms and conditions. In connection with the disposition, Karoon agreed to pay the Company U.S.\$15.5 million, and a contingent payment of U.S.\$5 million payable upon gross production of the first MMboe from any of the contracts relating to the Karoon Blocks. The agreement was approved by the ANP on January 30, 2017.

On June 30, 2016, the Rubiales and Piriri fields were returned to Ecopetrol upon the expiration of the respective exploration and production contracts. At the time of the expiration, the Rubiales field was the Company's largest producing field. Upon termination of the Rubiales and Piriri contracts, all wells in production, all buildings, and other assets associated with the Rubiales and Piriri fields reverted to Ecopetrol free of charge and without compensation to the Company. Certain real estate rights held by Major International Oil S.A connected to the Rubiales operation were also transferred to Ecopetrol.

On March 21, 2016, the Company elected to not make the interest payments due on March 28, 2016 under the indenture governing its previous U.S.\$1 billion 5.125% senior unsecured notes. The Company had a 30-day period



from the scheduled payment date to make such payment, after which the failure to make such payment would be an event of default under the respective indenture. On March 24, 2016, certain holders of these notes agreed to enter into forbearance agreements with the Company on substantially the same terms as the Forbearance Agreements (as defined below) until April 29, 2016.

On March 3, 2016, the Company and Exmar N.V. entered into a settlement agreement pursuant to which the Company agreed to pay Exmar N.V. the aggregate sum of U.S.\$20 million in consideration for Exmar N.V. agreeing to terminate a liquefaction, storage and loading services agreement between Exmar N.V. and the Company's subsidiary, Pacific Stratus. The Company availed itself of its right to compromise the remaining balance owed to Exmar N.V. pursuant to the CCAA Proceedings. Consequently, Exmar N.V. received equity in the Company pursuant to the Plan.

In February 2016, operations in Block 192 were suspended and declared to be in force majeure due to a rupture of the NorPeruano pipeline. Operations were reactivated on January 31, 2017. During the period in which the pipeline was in force majeure, the Company used trucking transportation to avoid total production shutdown. A total of 213,000 bbl were produced and transported through trucking services during the force majeure period.

On February 19, 2016, the Company announced that it had entered into forbearance agreements with certain holders of its Previous Senior Notes and lenders under the Previous Credit Facilities (the "**Forbearance Agreements**"). Pursuant to the Forbearance Agreements, certain Previous Noteholders and lenders under the Previous Credit Facilities agreed to forbear from declaring the principal amounts of certain Previous Senior Notes or the Previous Credit Facilities, as the case may be, due and payable until March 31, 2016. The Forbearance Agreements were subsequently extended until April 29, 2016.

On or about January 14, 2016, the Company elected to utilize the 30-day grace period pursuant to the indentures governing certain Previous Senior Notes rather than make the scheduled interest payments due on such notes.

*Period ending December 31, 2015*

On December 28, 2015, the Company received waivers under its Previous Credit Facilities, including an extension of the previous waivers granted on September 29, 2015.

On December 21, 2015, the Company announced that FEC Colombia had entered into a farm-out agreement with Talisman to acquire the remaining 50% working interest held by Talisman in the CPE-6 block in Colombia for the aggregate purchase price of U.S.\$48 million. The acquisition of the remaining 50% interest was approved by the ANH in December 2016. Pursuant to the farm-out agreement, the Company granted a pledge in favour of Talisman over 50% of the production (after royalties, the ANH's economic rights and other applicable discounts) from the CPE-6 block up to U.S.\$48 million.

On December 11, 2015, the Company and the other shareholders of Interamerican Energy, including Proenergy Corp. (a subsidiary of Blue Pacific), entered into a share purchase agreement with the Faustia Development S.A., Tusca Equities Inc., and Associated Ventures Corp. for the sale of 70% of the shares of Interamerican Energy. As part of the transaction, the Company agreed to sell the aggregate amount of 4% of the Company's 24.9% equity interest in Interamerican Energy to Faustia Development S.A., Tusca Equities Inc., and Associated Ventures Corp. for approximately U.S.\$5 million. As of December 31, 2017, the Company owned approximately 21.19%.

On November 5, 2015, the Company was granted a waiver by Ocesa with respect to breaching the minimum credit rating requirement under certain oil transport agreements with Ocesa as a result of the various credit downgrades the Company received in 2015. Further information on the Ocesa agreements can be found under the heading entitled "Description of the Business – Contractual Contingencies – Ocesa – Standby letter of credit or early termination payment."

On September 29, 2015, the Company received waivers from its lenders under its Previous Credit Facilities of the covenant requiring the Company to maintain a consolidated net worth above U.S.\$1 billion.

On September 28, 2015, the Company received a waiver from Transporte Incorporado of its right to early-terminate a certain assignment agreement between the parties as a result of the Company's failure to maintain the minimum credit rating required under the agreement. Further information on the Transporte Incorporado assignment agreement can be found under the heading entitled "Description of the Business – Contractual Contingencies – Transporte Incorporado – Minimum credit rating requirement and put option under the assignment agreement."

On September 1, 2015, the Company announced that its wholly-owned subsidiary, Pacific Stratus Energy del Peru S.A., had been awarded a two-year contract by Perupetro to operate Block 192. Further information on the Company's operations on Block 192 can be found under the heading entitled "Oil and Natural Gas Contracts and Properties – Principal Exploration and Production Agreements – Block 192 contract."

On August 31, 2015, the Company, Alfa, O'Hara Administration Co. S.A. and the various previous shareholders that the O'Hara Administration Co. S.A. represented entered into a nomination agreement with respect to the appointment of four new directors to the Board of Directors. Pursuant to the terms of the agreement, Alfa and O'Hara Administration Co. S.A. were each entitled to nominate two individuals to the Board of Directors. Alfa nominated Messrs. José de Jesús Valdez Simancas and Raul Millares and the O'Hara Administration Co. S.A. nominated Messrs. Alejandro Betancourt (who represented a group of Shareholders that beneficially owned approximately 19% of the Common Shares prior to the implementation of the Plan) and Orlando Alvarado. Each nominee was appointed to the Board of Directors. In connection with such nominations, Messrs. Miguel Rodriguez, Neil Woodyer, Victor Rivera and German Efromovich resigned from the Board of Directors on August 31, 2015. Messrs. Valdez, Millares, Betancourt and Alvarado resigned from the Board of Directors on April 27, 2016. The agreement is no longer in effect.

On August 26, 2015, José Francisco Arata resigned as President and Director of the Company. Ronald Pantin, the Company's previous Chief Executive Officer, assumed the additional responsibilities of President, and Mónica De Greiff was appointed as an independent Director of the Board of Directors.

Effective August 14, 2015, the Company changed its name from "Pacific Rubiales Energy Corp." to "Pacific Exploration & Production Corporation."

On July 8, 2015, the Company, Alfa, Harbour Energy Ltd. and Harbour Energy, L.P. entered into a termination agreement to terminate the arrangement agreement entered between the parties pursuant to which all the issued and outstanding Common Shares not owned by Alfa were offered to be purchased for a price of \$6.50 per Common Share. The arrangement agreement was terminated as proxy returns suggested that Shareholders holding a significant number of shares would vote against the proposed transaction.

In June 2015, Pacific Infrastructure commenced operations at Puerto Bahia, a greenfield liquids import-export terminal with a 2.4 MMbbl storage and cargo handling facility located on the Bay of Cartagena, one of the largest trade hubs in Latin America.

## **DESCRIPTION OF THE BUSINESS**

### General

The Company is a Canadian public company involved in the exploration, development and production of crude oil and natural gas, with operations focused in Latin America. The Company has a diversified portfolio of assets with interests in numerous exploration and production blocks in Colombia and Peru. The Company is committed to conducting business safely in a socially and environmentally responsible manner. As of December 31, 2017, the Company had interests in 38 exploration and production blocks in Colombia and Peru.

### Exploration and Development Strategy

In 2017, the Company's philosophy and business strategy was to grow its production and reserves through the development and optimization of its existing producing fields. The Company focused its development and appraisal drilling activities and expenditures in areas that the Company believed would provide the greatest economic return. In addition, the Company also identified value-added near-field, low risk production potential that assisted with increasing production and reserves.

The Company has been achieving enhanced value creation by applying capital investments towards the development of existing fields, minimizing operating costs associated with such producing assets, and shortening the time to development and early production from new exploration discoveries. The Company remains committed to using its technical expertise to maximize production while minimizing development and operating costs.

## Summary

### *Colombia*

Through its wholly-owned subsidiaries, the Company holds indirect interests in certain hydrocarbon properties in Colombia through contracts with Ecopetrol and the ANH.

The Company's diversified asset base in Colombia includes over 4.25 million net acres, which is divided into working interests in 35 blocks of which 13 blocks are in the exploration phase, nine blocks are in the exploration and production phase and 13 blocks are in the production phase.

### *Peru*

The Company's asset base in Peru includes over 2.35 million net acres, which is divided into working interests in three blocks of which one block is in the exploration phase, one block is in the exploration and production phase and one block is in the production phase.

## Production

The Company's average daily net production after royalties and internal consumption in 2017 totalled 70,082 boe/d (100,108 boe/d average daily gross production), representing a reduction of 33,450 boe/d from the average net production of 103,532 boe/d reported for the same period in 2016. The reduction was largely due to the expiration of the Rubiales and Piriri contracts in June 2016, which governed the Company's right to exploit the Rubiales field, the Company's largest producing field in 2016. In addition, the Company faced a reduction in production as a result of the Company's largest producing field in Peru, Block 192, being declared in force majeure on numerous occasions, which in turn suspended production operations on the block for a significant portion of 2017. Further information on the declarations of force majeure on Block 192 can be found under the heading entitled "Oil and Natural Gas Contracts and Properties – Principal Exploration and Production Agreements – Block 192 contract."

In Colombia, for the year ended December 31, 2017, net production after royalties and internal consumption decreased to 65,551 boe/d (92,470 boe/d gross production) for the year from 100,426 boe/d (176,543 boe/d gross production) in the same period of 2016. The reduction was largely due to the relinquishment of the Rubiales field.

In Peru, net production after royalties and internal consumption for the year ended December 31, 2017 increased to 4,531 boe/d (7,638 boe/d gross production) from 3,106 boe/d (6,542 boe/d gross production) during the year ended December 31, 2016. The increase in production was mainly attributable to the increase in the total number of operational days on Block 192 in 2017 as compared to 2016.

### *Heavy Oil Production*

For the year ended December 31, 2017, heavy oil net production from Quifa SW and other fields located in Colombia averaged 26,879 boe/d compared to 28,195 boe/d in the previous year (excluding the Rubiales and Piriri fields). This was largely due to the Company's focus on development drilling, which has partially compensated for the natural decline in production of its heavy oil assets. In 2017, the Company completed the drilling of 81 development wells at its Quifa and CPE-6 blocks. Of the 81 wells, the Company successfully completed the drilling of nine vertical wells which resulted in an increase to the areal extent of the Quifa field. The vertical wells are also expected to assist in identifying the location for new drilling pads from which multiple horizontal developmental wells can be drilled.

### *Light and Medium Oil Production*

For the year ended December 31, 2017, light and medium oil net production from Colombia and Peru totalled 37,419 boe/d, a reduction of 12% in comparison to 42,713 boe/d in 2016 (excluding equivalent barrels of net gas production). The reduction in production is mainly attributable to the natural decline of the Llanos oil fields in Colombia. In 2017, the Company completed the drilling of 13 development wells at its Guatiquia, Cubiro, Mapache, Orito and Cravo Viejo blocks.

### *Natural Gas Production*

For the year ended December 31, 2017, natural gas net production totalled 5,784 boe/d (32.9 mcf/d), a reduction of 34% in comparison to 8,763 boe/d (49.9 mcf/d) in 2016. The reduction is mainly attributable to significant decline of production at the La Creciente block.

### Exploration

The Company's exploration portfolio currently consists of assets located in Colombia and Peru covering approximately 1,161,286 net hectares (2,869,600 net acres). In 2017, as part of the Company's corporate strategy to monetize non-core assets and reduce commitments, the Company relinquished and/or divested approximately 1,666,618 net hectares (4,118,302 net acres) of exploration assets. Further information on the Company's recent divestitures can be found under the heading entitled "General Development of the Business – Three-Year History."

In 2017, the Company began optimizing economic production and recovery of its reserves through more rigorous development drilling in its producing assets. As of December 31, 2017, the Company completed the drilling of 94 development wells and three exploration wells. Of the development wells, 79 wells were drilled in the Quifa block, five wells in the Guatiquia block, three wells in the Cubiro block, three wells in the Mapache block, two wells in the CPE-6 block, one well in the Orito block and one well at the Cravo Viejo block. Of the exploration wells, two were drilled in the CPE-6 block and one in the Guatiquia block.

#### *Quifa block*

In 2017, the Company completed several studies on the Quifa reservoir to assist the Company with the selection of new development well locations and to enhance the potential of encountering better quality reservoirs with higher oil cuts. In addition, the Company implemented changes to its drilling and completion practices which have contributed to achieving improved well productivity. The Company recently drilled an exploration well testing a prospect located in the northwest corner of the Quifa block called Jaspe 6D. The well has reached total depth and is undergoing testing.

#### *Llanos 25 block*

The Company has secured a rig to be used to spud its Acorazado-1 prospect in the Llanos 25 Block and pre-drilling preparation is underway. The Company anticipates that it will spud its Acorazado-1 well in the second quarter of 2018.

#### *Guatiquia block*

The Alligator 1x exploration well, on the Guatiquia block, was spud on September 26, 2017 and reached a total depth of 12,810 feet on November 11, 2017. The Company encountered 18 feet of net pay in the Gacheta and Lower Sand 1 formations. As a result, the well was tested in both formations.

The Gacheta-B zone was tested between November 29, 2017 and December 2, 2017, at an average oil rate of 310 bbl/d, at a 15°API and 8% water cut. An electrical submersible pump was utilized for the test and ran at an 85% drawdown rate. After the production test, the well was shut-in for a three-day buildup test.

The Lower Sand-1A zone was tested between December 9, 2017 and December 12, 2017, at an average oil rate of 230 bbl/d at a 15°API and 8% water cut. An electrical submersible pump was utilized for the test and ran at an 85% drawdown rate. After the production test, the well was shut-in for a 14-day buildup test.

On December 27, 2017, the well was put back on production in the Lower Sand-1A formation. The well is currently undergoing a pressure build-up test to assist with the evaluation of reservoir performance.

The Company has planned to drill a follow-up well during the first quarter of 2018 with the objective of further evaluating the discovery and targeting enhanced reservoir quality.

#### *CPE-6 block*

On October 24, 2017, the CPE6-B exploration well was spud. The well reached a total depth of 3,550 feet MD on October 28, 2017. No hydrocarbons were encountered in the target zones and the decision was made to drill two sidetracks to gain additional geological information. Sidetrack-1 reached a total depth of 3,550 feet MD on November

10, 2017, and found three feet of oil pay. The zone was not tested. Sidetrack-2 reached a total depth of 5,471 feet MD on November 14, 2017. It did not encounter any potential pay zones and was abandoned.

On November 20, 2017, the CPE6-2X exploration well was spud. The well reached a total depth of 3,147 feet MD on November 25, 2017, and encountered 12 feet of net oil pay in a Carbonera C7 sand. The well was tested and flowed at 154 bbl of fluid per day consisting of 54 bbl/d of oil at 10.2° API. The Company is currently reviewing its exploration strategy given these results.

#### Commercial Activity

During 2017, the Company's revenue decreased to U.S.\$1,258.5 million from U.S.\$1,411.7 million in 2016. The decrease was largely due to lower volumes sold caused by the expiration of the Company's right to exploit the Rubiales field and lower realized gains from oil hedging contracts.

During the year ended December 31, 2017, average oil and gas sales totalled 65,980 boe/d, a decrease from 94,716 boe/d in the same period of 2016. The combined realized price per barrel of crude oil and natural gas for the year ended December 31, 2017, was U.S.\$48.32/boe, U.S.\$7.96/boe higher than the same period of 2016.

#### Specialized Skill and Knowledge

The Company's operations in the oil and natural gas industry require professionals with skills and knowledge in diverse fields of expertise. In the course of its exploration, development and production operations, the Company requires the expertise of drilling engineers, exploration geophysicists and geologists, petrophysicists, petroleum engineers, petroleum geologists and production and completion engineers. To date, the Company has not experienced any difficulties in hiring and retaining the professionals and experts it requires for its operations. Further information is provided under the heading entitled "Risk Factors – Ability to attract and retain qualified personnel."

#### Competitive Conditions

The oil and natural gas industry is inherently competitive. The Company faces competition in the areas of finance, technical facilities and acquisition of assets. While the Company has been successful in its ability to acquire properties from other organizations in the industry, there is no guarantee that it will continue to be able to do so. Further information is provided under the heading entitled "Risk Factors – Competition." Nonetheless, management of the Company believes that it will be able to be competitive with other local and foreign oil and gas companies in Colombia and in other countries in which the Company operates.

#### Business Cycles

The oil and natural gas business is subject to commodity price cycles. Therefore, the Company's ability to market its oil and natural gas is subject to these cycles. The Company's operations are related and sensitive to the market price of oil and natural gas and these prices fluctuate widely and are affected by numerous factors such as global supply, demand, inflation, exchange rates, interest rates, forward selling by producers, central bank sales and purchases, production, global or regional political, economic or financial situations and other factors beyond the control of the Company. Further information is provided under the heading entitled "Risk Factors – Risks Related to the Company conducting business in the Oil and Natural Gas Industry."

#### Contractual Contingencies

The Company is subject to certain contractual contingencies, which if they were to occur, could have a material adverse effect on the Company's business, results of operations and financial condition. Certain of the Company's commercial agreements include provisions that require it, upon the occurrence of certain specific events, to contribute capital, repurchase shares from joint venture partners, suffer dilution or provide financial guarantees. If any of these contingencies were to occur and/or if the Company's counterparties were to demand the exercise of their rights, the Company may not have the ability to raise the funds necessary to finance such contingent obligations.

The following are the Company's most significant contractual contingencies:

*Puerto Bahia – Contributions via equity or loans in the event of certain deficiencies*

On October 4, 2013, Pacinfra Holding Ltd. (a wholly-owned subsidiary of the Company), Pacific Infrastructure, Puerto Bahia and Wilmington Trust, National Association (as Administrative Agent) entered into an equity contribution agreement pursuant to which Pacinfra Holding Ltd. and Pacific Infrastructure agreed to both jointly and severally cause equity contributions to be made in Puerto Bahia up to the aggregate amount of U.S.\$130 million in circumstances where it is determined that there are certain deficiencies related to the operation and maintenance of the Port Facility and Puerto Bahia's ability to make payments towards its debt obligations under the Port Credit Agreement (the "**Equity Contribution Agreement**").

In connection with the Equity Contribution Agreement, Pacinfra Holding Ltd. and the Company entered into an equity call agreement dated October 4, 2013, pursuant to which the Company has agreed to provide certain capital support to help fund any amounts that Pacinfra Holding Ltd. may be required to contribute to Puerto Bahia to satisfy its portion of the equity contribution.

On February 27, 2018, in accordance with the Equity Contribution Agreement, Wilmington Trust, National Association issued a deficiency notice to Pacinfra Holding Ltd. and Pacific Infrastructure requesting both companies to fund, or cause to be funded, the aggregate amount of U.S.\$26.9 million to Puerto Bahia in satisfaction of certain deficiencies related to the operation and maintenance of the Port Facility.

Shares in the equity of Puerto Bahia and all significant assets of Puerto Bahia, including its rights to the required equity contribution from Pacinfra Holding Ltd. and Pacific Infrastructure and all other contracts relating to the ownership, development, operation, maintenance and commercialization of the Port Facility, have been pledged in favour of the lenders under the Port Credit Agreement.

#### *Ocensa - Standby letter of credit or early termination payment*

The Company participates as a shipper in a project to expand the Ocensa pipeline, which commenced operations in July 2017. As part of the expansion project, the Company, through its Colombian branch, entered into two crude oil transport agreements with Ocensa for future transport capacity. As part of these agreements, 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 tests included in such agreements. These requirements were breached by the Company in 2015 as a result of various downgrades throughout that year. The Company did not receive a notice of breach and on October 2, 2015, it pre-emptively requested a waiver of these requirements until the project to expand the Ocensa Pipeline was completed. The Company was granted this waiver on November 5, 2015. The Company began paying ship-or-pay fees once the expansion project was completed and operational. As of December 31, 2017, the Company has provided sufficient evidence of meeting these tests.

#### *Transporte Incorporado – Minimum credit rating requirement and put option under the assignment agreement*

Pursuant to an assignment agreement with Transporte Incorporado, an entity owned by the Darby Private Equity Fund, the Company is entitled to Transporte Incorporado's transport capacity rights through the Ocensa Pipeline at a set monthly premium through March 1, 2024. As part of this assignment agreement, the Company is required to maintain a minimum credit rating of B1 as determined by Moody's and B+ by S&P and Fitch, which was breached in 2015 due to various downgrades throughout that year. These downgrades resulted in the triggering of an early-termination right in favour of Transporte Incorporado which upon giving notice to the Company, would require the Company to immediately pay an early-termination payment set forth in the assignment agreement. The Company has received a waiver from Transporte Incorporado of its right to early-terminate for a period of time, which has been extended several times and is currently set to expire on March 31, 2019. The Company continues to negotiate with Transporte Incorporado regarding amending the terms of the agreement.

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

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

#### *IFC – Put options for its Pacific Midstream shares*

The IFC and certain funds managed by the IFC have a put option pursuant to the Pacific Midstream Put Option Agreement to sell its Pacific Midstream shares to the Company in the event that the Company violates certain representations and covenants (relating principally to criminal offences, sanctionable practices, environmental compliance, insurance and the furnishing of information) under the transaction documents related to the IFC's investment in Pacific Midstream. The put price is set at the amount that would give the IFC the greater of the market price or 15% annual return on their investment.

In addition, pursuant to the Pacific Midstream shareholders agreement, Pacific Midstream Holding Corp. has an option, exercisable at the discretion of the IFC and solely in the event that (i) the Bicentenario Pipeline is non-operational for six consecutive months and (ii) as a result the ship-or-pay contracts to which Bicentenario is a party with any of the Company's affiliates or Ecopetrol's affiliates is terminated, to require the Company to purchase Pacific Midstream's interest in Bicentenario. The option price is an amount equal to U.S.\$280 million, reduced by (i) the amount of any cash dividends paid by Bicentenario to Pacific Midstream (U.S.\$124 million as of December 31, 2017), and (ii) any repayments by Bicentenario to Pacific Midstream of existing shareholders' subordinated loans (U.S.\$42 million as of December 31, 2017).

In addition, pursuant to the Pacific Midstream shareholders agreement, as of December 31, 2016, the IFC and certain funds managed by the IFC were entitled to the aggregate amount of U.S.\$1.05 million as a result of the incompleteness of the expansion of the PEL electricity transport to not less than 262 MW. On October 13, 2017, pursuant to the Pacific Midstream Acquisition Agreement, the Company agreed to pay the IFC and certain of its affiliates the aggregate amount of U.S.\$1.05 million in full satisfaction of this requirement and others related to the expansion of the PEL electricity line.

#### *IFC – Put options for its Pacific Infrastructure shares*

The IFC and certain funds managed by the IFC have a put option pursuant to the Pacific Infrastructure Put Option Agreement to sell their Pacific Infrastructure shares to the Company. This put option is exercisable at the discretion of the IFC and solely in the event that: (i) the Company violates certain representations and covenants (relating principally to criminal offences, sanctionable practices, environmental compliance, insurance and the furnishing of information) under the transaction documents related to the IFC's investment in Pacific Infrastructure, or (ii) Pacific Infrastructure has not conducted an initial public offering by December 1, 2019.

If exercised as a result of (i) above, the put price is set at the amount that would give IFC the greater of the market value of the shares or 15% annual return on their investment. If exercised as a result of (ii) above, the put price would be the current market price of Pacific Infrastructure's common shares.

#### Environmental Protection

The oil and natural gas industry in Colombia and Peru is subject to environmental laws and regulations. Compliance with such obligations and requirements can mean significant expenditures and constraints on the Company's operations in the applicable jurisdiction. Breach of environmental obligations could lead to suspension or revocation of requisite environmental licences and permits, civil liability for damages caused and possible fines and penalties, all of which may significantly and negatively impact the Company's position and competitiveness.

The Company is committed to operating under strict compliance with all material environmental laws and regulations, and has adopted implementation and mitigation plans in order to address the environmental risks identified by the Company. In 2017, the Company had incurred approximately U.S.\$45 million in capital and operational expenditures in connection with complying with applicable environmental legislation.

For further details regarding this risk factor see, "Risk Factors – Environmental Factors."

#### Employees

As at December 31, 2017, the Company had 20 employees at its head office in Toronto, Canada, and 1,075 employees in its project offices and field offices throughout Colombia. At its project offices in Lima, Peru, the Company had 137 employees. In addition, the Company also had 15 employees in Calgary, Alberta and one employee in Switzerland.

## Foreign Operations

The Company's revenues are primarily generated through the sale of hydrocarbons. The Company's hydrocarbon production activity is located in Colombia and Peru and all of the Company's exploration properties are located in Colombia. The Company has an interest in 38 blocks in total, comprising 35 blocks in Colombia and three blocks in Peru.

## Bankruptcy and Similar Procedures

In 2016, the Company implemented the Restructuring in accordance with the Plan in an effort to significantly reduce its debt, improve liquidity and position the Company to navigate the oil price environment at the time. The implementation of the Plan significantly changed the Company's Shareholder base and long-term debt structure. Further information on the Restructuring can be found under the heading entitled "General Development of Business – Three-Year History – Period ending December 31, 2016 – The Restructuring" and the Company's annual audited financial statements and management discussion and analysis for the year ended December 31, 2016 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Reorganizations

In 2017, the Company initiated a corporate initiative to optimize its organizational structure by streamlining its operations and eliminating legal entity redundancies. The Company merged several operating entities - Pacific Stratus, Petrominerales Colombia Corp. and Grupo C&C Energia Ltd. - into FEC Colombia. In addition, the Company consolidated its four Colombian branches, which held the majority of the Company's Colombian operational assets, into one Colombian branch. As of December 31, 2017, FEC Colombia and its Colombian branch hold the majority of the Company's operational assets in Colombia.

On January 30, 2018, Meta Petroleum Corp. changed its name to "Frontera Energy Colombia Corp." Subsequently, on March 8, 2018, FEC Colombia's Colombian branch changed its name from "Meta Petroleum Corp., Sucursal Colombia" to "Frontera Energy Colombia Corp., Sucursal Colombia."

## Social and Environmental Policies

The Company devotes significant time and resources to comply with the commitments made in its sustainability model and all matters affecting its stakeholders, the environment and local communities.

The Company has established guidelines and management systems to ensure compliance with all applicable laws. In 2017, the Company received recertification of its business continuity systems under ISO 22301 which certifies that the Company has implemented systems to address risks that may, without such systems, be detrimental to the Company's operations. In 2016 and 2017, the Company completed internal follow-up audits of its environmental, health and safety management systems under ISO 9001, ISO 14001 and OHSAS 18001 standards to ensure compliance with applicable laws. The Company anticipates obtaining recertification of such systems in 2018, thereby reinforcing the Company's commitment to have zero major accidents within its operations. Additionally, the Company received recertification in energy efficiency under ISO 50001.

In 2017, the Company continued to implement its social investment framework in a manner that encouraged local community engagement and involvement. The Company's social investment framework aims to protect, respect, preserve and strengthen traditional practices and cultural heritage.

During 2015, the Company actively worked with the UN Global Network Canada in developing a published guidance document for auditing the implementation by companies of principles relating to security and human rights. The guidance also included information on the Company's community engagement practices and human rights training with security forces. In 2017, the Company received recognition by the Global Compact Network of Canada for its ethnic community engagement and social investment strategy.

In addition, the Company was recognized for the fourth consecutive year as one of the Best 50 Corporate Citizens in Canada by Corporate Knights, a magazine which produces corporate rankings, research reports and financial product ratings based on corporate sustainability performance. The ranking transparently measures a diverse range of Canadian enterprises on a set of 12 sustainability metrics, including greenhouse gas productivity, percentage of taxes paid, and health and safety, among others.



Furthermore, the Company has adopted Declarations on Human Rights and Gender Equality. The Company remains committed to the promotion and protection of human rights, including among other things, freedom of association, eradication of child and forced labour, security, and the economic, social and cultural rights of local communities. Similarly, the Company's Gender Equality Declaration recognizes the importance of diversity and inclusion and the fundamental right of women to be treated equally as men in all aspects of business.

Further information on the Company's social, environmental and human rights policies can be found in the Company's 2016 Sustainability Report, a copy of which can be found on the Company's website at [www.fronteraenergy.ca](http://www.fronteraenergy.ca). The Company anticipates issuing its 2017 Sustainability Report, which will discuss the Company's sustainability strategy in 2017 and moving forward, in mid-2018.

## OIL AND NATURAL GAS CONTRACTS AND PROPERTIES

The following is a description of the Company's oil and gas properties and operations as at December 31, 2017.

	Working Interest	Operated	Gross Acres	Net Acres
<b><u>Colombia Central</u></b>				
Quifa	60%	Operated	265,954	159,572
Guatiquia	100%	Operated	9,274	9,274
Cubiro	100%	Operated	44,360	44,360
Cravo Viejo	100%	Operated	35,429	35,429
Casimena	100%	Operated	6,850	6,850
Arrendajo	97.5%	Operated	33,280	32,448
Neiva	55.6%	Non-operated	2,395	1,332
Corcel	100%	Operated	25,141	25,141
Cachicamo	100%	Operated	28,471	28,471
Canaguaro	87.5%	Operated	6,289	5,503
Dindal	45%	Operated	32,400	14,677
Rio Seco	45%	Operated	25,267	11,370
Sabanero	100%	Operated	67,896	67,896
Llanos 7	100%	Operated	152,674	152,674
Llanos 55	100%	Operated	101,466	101,466
Llanos 83	100%	Operated	35,755	35,755
Llanos 25	100%	Operated	169,805	169,805
Casanare Este <sup>(1)</sup>	100%	Operated	18,476	18,476
Rio Ariari	100%	Operated	307,036	307,036
Mapache	100%	Operated	57,904	57,904
CPE-6 <sup>(4)</sup>	100%	Operated	593,018	593,018
Abanico	25%	Operated	62,560	15,640
Buganvilles	49%	Operated	77,754	38,100
Cordillera-24	100%	Operated	619,817	619,817
Cordillera-15 <sup>(2)</sup>	50%	Non-operated	141,308	70,654
Muisca <sup>(2)</sup>	50%	Non-operated	585,126	292,563
<b><u>Colombia North</u></b>				
La Creciente	100%	Operated	26,653	26,653
Guama	100%	Operated	70,995	70,995
SSJN-7 <sup>(3)</sup>	50%	Operated	668,919	334,460
CR-1	60%	Operated	307,384	184,431
<b><u>Colombia South</u></b>				
Orito	79%	Non-operated	42,492	33,569
Caguan-5	50%	Operated	919,321	459,661
Caguan-6	60%	Operated	119,048	71,429
Portofino	40%	Non-operated	258,676	103,470
Tinigua	50%	Non-operated	105,467	52,734
<b><u>Peru</u></b>				
Block Z1	49%	Non-operated	554,443	271,677
Lot 116 <sup>(5)</sup>	50%	Operated	1,628,126	814,063
Lot 192 <sup>(6)</sup>	N/A	Operated	1,266,037	1,266,037

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Notes:

- (1) On March 30, 2017, the Company entered into a farm-out agreement with Gold Oil PLC Sucursal Colombia pursuant to which the Company agreed to transfer its participating interest and operatorship in the Casanare Este block for the aggregate purchase price of U.S.\$0.2 million. The transfer is still subject to ANH approval.
- (2) This also includes the Company's investment in Maurel & Prom Colombia B.V. fields.
- (3) The Company has agreed to transfer its participating interest in the SSJN-7 block to CNE Oil. The ANH approved the transfer on October 3, 2017. The closing of this sale is subject to the execution of the appropriate amendments to reflect CNE Oil as the new operator and contractor of the block. Further information on the sale of the Company's interest in the SSJN-7 block can be found under the heading entitled "General Development of Business – Three-Year History – Period ending December 31, 2017."
- (4) The Company has granted a pledge in favour of Talisman over 50% of the production (after royalties, the ANH's economic rights and other applicable discounts) from the CPE-6 block up to U.S.\$48 million. Further information on the pledge can be found under the heading entitled "General Development of the Business – Three-Year History – Period ending December 31, 2015."
- (5) The Company has entered into a purchase and sale agreement and trust agreement with Les Etablissements Maurel & Prom, Maurel & Prom Colombia B.V. and M&P Peru Holdings S.A.S., pursuant to which the parties agreed to, among other things the transfer of all the participating interest in Lot 116 to the Company, which is still pending regulatory approval from the Government of Peru.
- (6) The Company does not hold a working interest in Block 192 as the Company had entered into a service contract for the operation of the block and not a licence contract. The Company receives payment in-kind from Perupetro, which ranges from 44% - 84% of production.

#### Principal Exploration and Production Agreements

The following is a summary of the terms of the Company's material oil and gas properties:

##### *Quifa block*

The Company holds a 60% interest in the Quifa contract relating to exploration, development and exploitation of the Quifa block, which covers 159,572 acres, on a net basis, and is contiguous to the Rubiales field. Ecopetrol holds the remaining 40% working interest over joint production in commercial fields in the Quifa area. The Company holds 70% of the working interest for expenditures under the Quifa contract, and the remaining 30% is held by Ecopetrol. The Quifa contract was entered into on December 22, 2003 between Meta Petroleum Ltd. (a predecessor of FEC Colombia) and Ecopetrol (as amended), and expires in December 2031. The Quifa block includes the Quifa Norte, Quifa SW and Cajua fields.

The Quifa contract provides for an initial six year period for exploration, extendable for up to five years, with a 22 year exploitation period commencing as of the end of the exploration period. In respect of the gas field, the Quifa contract has a maximum of 30 years for the exploitation period.

During the exploitation period, the Company pays as royalties to Ecopetrol a percentage of the production of liquid hydrocarbons ranging from 6% to 25% depending on production levels and price, as established by Colombian Law 756 of 2002.

Ecopetrol has the right to receive additional economic compensation in a high price scenario, according to the following rules:

- in respect of liquid hydrocarbons, in the event that (i) the accumulated production of a commercial field exceeds five MMbbl (including royalties), and (ii) the price of WTI crude during any month exceeds the base price for crude oil in U.S. dollars set forth in the contract; and
- in respect of gaseous hydrocarbons, after the initial five year exploitation period, in the event that the price of U.S. Gulf Coast Henry Hub natural gas in British thermal units exceeds the average price in U.S. dollars for natural gas.

The additional participation percentage of Ecopetrol when the high price clause is triggered until depletion is calculated using the equation below:

$$\text{PAP} = \{(P - P_0) / P\} \times 30\%$$

Where **PAP** = Additional participation percentage in production for Ecopetrol.

**P** = current oil price (WTI) in U.S.\$.

**P<sub>0</sub>** = a base price determined by the exploration and production contract governing the Quifa block, which is adjusted on a yearly basis on a formula included in the contract which uses the U.S. Producer Price Index as a reference.

During the first half of 2011, the cumulative production of the Quifa SW commercial field exceeded the 5 MMbbl threshold, thereby triggering additional compensation to the ANH. However, in February 2015, due to significant downturn in global oil prices, the high price clause was not triggered (except for June and July, 2015). In December 2017, the Company began paying additional compensation again as a result of higher oil prices.

Upon termination of the Quifa contract, any wells in production, any buildings and other real estate possessions in the Quifa block will revert to Ecopetrol free of charge. If the Company decides to terminate its working interest prior to the end of the 17-year exploitation period, the Company must sell its interest to Ecopetrol.

The Company is currently in the exploration and production period of the Quifa contract, and has developed two commercial fields, Quifa SW and Cajua. As at December 31, 2017, the Company has 290 producing wells for Quifa SW and 47 producing wells for Cajua, and the Company's facilities currently have the capacity to process 1.4 million bbl/d of total fluids. The Company's production is currently sent by flow lines to the production facilities at the Rubiales field and to the ODL Pipeline, which connects to the national pipeline system.

As of December 31, 2017, the average total gross production for the Quifa SW field was 24,231 bbl/d (25,094 bbl/d for the year ended December 31, 2016) and the average total gross production for the Cajua field was 1,265 bbl/d (1,402 bbl/d for the year ended December 31, 2016).

#### *Guatiquia block*

The Company holds a 100% interest in the Guatiquia contract relating to exploration, development and exploitation of the Guatiquia block, which covers 9,274 acres, on a net basis. The Guatiquia exploration and production contract was entered into on August 28, 2007 between Petrominerales Colombia Corp. (a predecessor to FEC Colombia) and the ANH and includes the Candelilla, Yatay, Ceibo, Ardilla and Avispa fields.

The Guatiquia contract provides for an initial five year and nine month exploration period and a 24 year exploitation period which begins upon a declaration of commerciality of the relevant commercial field. This declaration occurred in 2011 for the Candelilla field, 2012 for the Yatay field, 2014 for the Ceibo and Avispa fields and 2015 for the Ardilla field.

During the exploitation period, the Company pays as royalties to the ANH, a percentage of the production of liquid hydrocarbons ranging from 6% to 25% depending on production levels and price as established by Colombian Law 756 of 2002.

The ANH has the right to receive additional economic compensation in a high price scenario, according to the following rules:

- in respect of liquid hydrocarbons, in the event that (i) the accumulated production of a commercial field exceeds five MMbbl (including royalties), and (ii) the price of WTI crude during any month exceeds the base price for crude oil in U.S. dollars set forth in the contract; and
- in respect of natural gas, after the initial five year exploitation period, in the event that the price of U.S. Gulf Coast Henry Hub natural gas exceeds the base price in U.S. dollars for natural gas.

The amount to be paid for this additional compensation for high prices for each commercial area governed by the Guatiquia contract is determined by the following formula:

**Additional Compensation = Price of Hydrocarbons x Volume of Hydrocarbons x  $\{(P-P_0)/P\} \times 30\%$**

Where:

Price of hydrocarbons = price of the hydrocarbons at the delivery point, which is determined as set forth in the exploration and exploitation contract governing the Guatiquia block.

Volume of hydrocarbons = the volume of hydrocarbons that correspond to the Company pursuant to the exploration and exploitation contract governing the Guatiquia block, during any determined calendar month.

**P** = current oil price (WTI) or natural gas price (U.S. Gulf Coast Henry Hub) in U.S.\$.

**P<sub>0</sub>** = a base price determined by the exploration and exploitation contract governing the Guatiquia block, which is adjusted on a yearly basis on a formula included in the contract which uses the U.S. Producer Price Index as a reference.

The cumulative production of the following production fields have exceeded the 5 MMbbl threshold: Candelilla field (July, 2010), Yatay field (July 2012), and Ceibo and Avispa fields (April, 2016), thereby triggering additional compensation to the ANH.

Any facilities, materials or equipment of the Company that are used for the development of exploitation activities in the respective exploration and exploitation contract will revert to the ANH free of charge if the contract terminates at any moment after the first 18 years of the exploitation period.

If termination occurs within the first 18 years of the exploitation period, the Company shall transfer to the ANH free of charge all the rights derived from the corresponding project finance contracts.

For the year ended December 31, 2017, the net production on the Guatiquia block was 15,544 boe/d (16,251 boe/d for the year ended December 31, 2016).

#### *Cubiro block*

The Company holds a 100% interest in the Cubiro contract for the exploration, development and exploitation of the Cubiro block, which covers 44,360 acres, on a net basis. The contract was entered into on October 8, 2004 between the ANH and Montecz S.A. and was acquired by Pacific Stratus (a predecessor of FEC Colombia) on August 22, 2013. The Company has an obligation to pay an overriding royalty interest to Montecz S.A equivalent to 3% of the sale price of the produced volume after royalties.

The Cubiro contract provides for an initial five year and nine month exploration period and a 24 year exploitation period which is counted as from the declaration of commerciality of the relevant commercial field, which occurred in 2008 for the Careto and Arauca fields; 2012 for the Barranquero field (includes the Cernicalo and Tijereto Sur fields); 2013 for the Copa, Copa A, Copa B, Copa C, Copa D, Petirrojo and Petirrojo Sur fields; and 2014 for the Yopo field.

During the exploitation period, the Company pays as royalties to the ANH, a percentage of the production of liquid hydrocarbons ranging from 6% to 25% depending on production levels and price, as established by Colombian Law 756 of 2002.

ANH has the right to receive additional economic compensation in a high price scenario, according to the following rules:

- in respect of liquid hydrocarbons, in the event that (i) the accumulated production of a commercial field exceeds five MMbbl (including royalties), and (ii) the price of WTI crude during any month exceeds the base price for crude oil in U.S. dollars set forth in the contract; and
- in respect of natural gas, after the initial five year exploitation period in the event that the price of U.S. Gulf Coast Henry Hub natural gas exceeds the base price in U.S. dollars for natural gas.

The amount to be paid for this additional compensation for high prices for each commercial area is determined by the following formula:

$$\text{Additional Compensation} = \text{Price of Hydrocarbons} \times \text{Volume of Hydrocarbons} \times \{(P-P_0)/P\} \times 30\%$$

Where:

Price of hydrocarbons = price of the hydrocarbons at the delivery point, which is determined as set forth in the exploration and exploitation agreement governing the Cubiro block.

Volume of hydrocarbons = the volume of hydrocarbons that correspond to the Company pursuant to the exploration and exploitation agreement governing the Cubiro block, during any determined calendar month.

**P** = Current oil price (WTI) or natural gas price (U.S. Gulf Coast Henry Hub) in U.S.\$.

**P<sub>0</sub>** = a base price determined by the exploration and production contract governing the Cubiro block, which is adjusted on a yearly basis on a formula included in the contract which uses the U.S. Producer Price Index as a reference.

During June 2017, the cumulative production of the Copa field exceeded the 5 MMbbl threshold, thereby triggering additional compensation to the ANH.

Any facilities, materials or equipment of the Company that are used for the development of exploitation activities in the Cubiro contract will revert to the ANH free of charge if the Cubiro contract terminates at any moment after the first 18 years of the exploitation period. If termination occurs within the first 18 years of the exploitation period, the Company shall transfer to the ANH, free of charge, all the rights derived from project finance contracts.

As of December 31, 2017, the average net production of the Cubiro block was 4,299 boe/d (5,332 boe/d for the year ended December 31, 2016).

#### *Block 192 contract*

On September 1, 2015, Pacific Stratus Energy del Peru S.A., a wholly-owned subsidiary of the Company, was awarded by Perupetro, a two-year contract to operate Block 192 in the Northern Marañón Basin of Peru. The temporary services agreement was signed by the Government of Peru by way of Presidential decree on August 29, 2015 and was initially set to expire on August 20, 2017. However, the term of the agreement has been extended as a result of the block being declared in force majeure throughout the majority of the term.

Between September 16, 2015 and September 25, 2015, the block was declared in force majeure as a result of a field blockade caused by certain indigenous communities in surrounding areas in an effort to persuade the Peruvian government to comply with certain commitments. From February 24, 2016 to August 12, 2017, the block was declared in force majeure as a result of a rupture of the NorPeruano pipeline. Subsequently, between September 18, 2017 and November 9, 2017, the block was declared in force majeure as a result of a field disruption caused by certain indigenous communities in an effort to persuade the Peruvian government to clean up oil pollution in the region caused primarily by the previous operators and to engage such communities in discussions relating to the long-term oil drilling plans for the block. Most recently, the block was declared in force majeure between November 7, 2017 and December 29, 2017 due to the NorPeruano pipeline being shut down.

The contract is currently set to expire on June 10, 2019, which ensures that the Company will be able to operate the block for the agreed upon two-year term. The Company does not hold a working interest in Block 192 as the Company had entered into a service contract for the operation of the block and not a licence contract. The Company receives payment in-kind from Perupetro, which ranges from 44%-84% of production. This percentage is subject to adjustments related to income and expenses in accordance with the temporary services agreement. As of December 31, 2017, the Company has received payment in-kind in the amount of 84% of production from the block since entering into the temporary services agreement.

For the year ended December 31, 2017, the average net production of Block 192 was approximately 3,108 boe/d (1,094 boe/d for the year ended December 31, 2016).

## Other Exploration and Production Agreements

The following table sets forth the principal terms of the Company's other principal blocks:

<b>Licence</b>	<b>Type of Contract</b>	<b>Date of Contract</b>	<b>Counterparty</b>	<b>Working Interest</b>	<b>Royalty</b>	<b>Exploration/Evaluation Period<sup>(1)</sup></b>	<b>Minimum Exploration Requirements Status<sup>(2)</sup></b>	<b>Exploitation Period<sup>(3)</sup></b>
<b>Colombia</b>								
Arrendajo	E&P	12/16/05	ANH	97.5%	6-25% <sup>(4)</sup>	6 years	Production	24 years
Cachicamo	E&P	07/12/06	ANH	100%	6-25% <sup>(4)</sup>	6 years	Production	24 years
Canaguaro	E&P	06/12/06	ANH	87.5%	6-25% <sup>(4)</sup>	6 years	Production	24 years
Casanare Este	E&P	02/06/05	ANH	100%	6-25% <sup>(4)</sup>	6 years	Ongoing	24 years
Casimena	E&P	11/03/05	ANH	100%	6-25% <sup>(4)</sup>	6 years	Production	24 years
Corcel	E&P	06/20/05	ANH	100%	6-25% <sup>(4)</sup>	6 years	Production	24 years
CPE-6	E&P	09/26/11	ANH	100%	2%+ <sup>(4)</sup>	6 years	Ongoing	24 years
Cravo Viejo	E&P	05/27/05	ANH	100%	6-25% <sup>(4)</sup>	6 years	Production	24 years
Guama	E&P	04/10/07	ANH	100%	6-25% <sup>(4)</sup>	6 years	Ongoing	24 years
Guatiquia	E&P	08/28/07	ANH	100%	6-25% <sup>(4)</sup>	6 years	Ongoing	24 years
Llanos 25	E&P	03/16/09	ANH	100%	1%+ <sup>(4)</sup>	6 years	Ongoing	24 years
Neiva	CPI <sup>(6)</sup>	05/31/01	Ecopetrol	55.6%	8%	N/A	Production	22 years
Orito	CPI <sup>(6)</sup>	04/01/01	Ecopetrol	79%	8%	N/A	Production	22 years
Rio Ariari	E&P	04/20/07	ANH	100%	6-25% <sup>(4)</sup>	6 years	Ongoing	24 years
Sabanero	E&P	07/13/07	ANH	100%	6-25% <sup>(4)</sup>	6 years	Suspended	24 years
<b>Peru</b>								
Block Z-1	E&P	01/29/02	Perupetro	49%	5-20% <sup>(5)</sup>	7 years	Ongoing	40 years

### Notes:

- (1) Includes a phase zero, which may last six months to one year, during which the contractor agrees to obtain from the Ministry of Interior verification and certification of the presence of ethnic communities or groups in the area of influence of the exploration activities and to carry out prior consultations.
- (2) The minimum exploration requirements for these contracts generally cover periods up to six years. The minimum exploration requirements include the acquisition, processing and interpretation of seismic data by using 2D or 3D technology covering a minimum acreage and the drilling of exploratory and appraisal wells.
- (3) The exploitation period is generally applied separately to each exploitation area within the same block.
- (4) Colombian Law 756 of 2002 provides for royalties between 6% and 25% depending on production levels and type of hydrocarbons, but may be lower under certain circumstances. Percentages included in the table refer to economic rights of ANH in addition to the royalties set forth in Colombian Law 756 of 2002.
- (5) The royalty rates vary depending on production volumes.
- (6) Incremental production agreement.

## INFRASTRUCTURE ASSETS

### Pipelines

The Company has equity interests in five operating pipelines. The Company's current strategy is to monetize its equity interests in the pipelines while maintaining rights to use transportation capacity.

#### *Bicentenario Pipeline*

The Company holds a 41.5% indirect interest in the Bicentenario Pipeline through Pacific Midstream's interest in Bicentenario. Bicentenario was responsible for the financing, design and construction of this pipeline; operations have been contracted to Ecopetrol.

The pipeline runs from Araguaney, in the Casanare Department, to the Banadia pumping station.

The pipeline was planned to be executed in four phases; phases 0 and 1 have been completed. Phases 2 and 3 were designed to further increase capacity by 330,000 bbl/d; however they have been suspended indefinitely.

- Phase 0: Truck off-loading facility in Banadia with a capacity of 40,000 bbl/d.
- Phase 1: Construction of a 42-inch diameter and 226-kilometre pipeline connecting Araguaney to Banadia with a capacity to transport 120,000 bbl/d. In addition, the Araguaney station has a storage capacity of 800 Mbbbl and pumping capacity up to 450,000 bbl/d. The Company has the right to transport 47,333 bbl/d out of the 120,000 bbl/d transportation capacity. The pipeline became operational on November 3, 2013.
- Phase 2: Construction of a 387-kilometre pipeline connecting Banadia and the Ayacucho station. This pipeline will have a 30-inch diameter.
- Phase 3: Construction of a 310-kilometre pipeline connecting the Ayacucho station with the Coveñas terminal. The pipeline will have a 36-inch diameter.

Phases 0 and 1 required an aggregate investment of U.S.\$1.9 billion, excluding financing costs. The shareholders of Bicentenario financed the pipeline through project financing, with a debt/equity ratio of 70/30. Under the terms of the participation agreement, the Company has the option to maintain its investment in Bicentenario or have its interest diluted by the time the investment decision is made for Phases 2 and 3, which as of December 31, 2017 are not expected to be constructed. With Phase 1, the Company can transport crude oil through the Bicentenario Pipeline to Banadia. The Company has entered into ship-or-pay contracts with Bicentenario for such transportation services for a total commitment of approximately U.S.\$900 million from 2018 to 2025. The Company's ship-or-pay capacity for such period is 47,333 bbl/d. Subsequently, the crude oil is transported through the Caño Limon Pipeline to the Coveñas Terminal Export Terminal.

Due to guerrilla activity, since November 2013, the Bicentenario or Caño Limón pipelines have been inoperative around approximately 50% of the time. These disruptions have increased transportation costs, as the Company has had to transport crude through other transportation systems. See "Risk Factors."

In 2016, the Company successfully renegotiated a decrease in pipeline transportation tariffs to U.S.\$7.56/bbl, which has resulted in savings of U.S.\$15.5 million for the year ended December 31, 2017.

#### *ODL Pipeline*

The Company has a 35% indirect interest in ODL Pipeline through Pacific Midstream's interest in the ODL Pipeline; the owner of the pipeline.

The ODL Pipeline, which is 235 kilometres in length and 24 inches in diameter, allows for the transportation of heavy crude oil produced at the Quifa SW and Cajua fields. With the objective of reducing diluent usage, ODL built facilities at the Cusiana station which allows for the blending of heavy crude oil pumped through the ODL Pipeline with light and medium oil trucked to the Cusiana blending station. As a result, the API gravity in the ODL Pipeline may be reduced from 18°API to 15°API, resulting in significant savings in diluent transportation costs. Currently, the Company has flexibility at Cusiana to complete dilution from 18°API to 21.5°API, taking advantage of Castilla and Vasconia price differentials.

The Company has entered into two ship-or-pay agreements with ODL, which provides the Company with transportation rights for up to 119,000 bbl/d at U.S.\$4.27 per barrel. Beginning July 2016, the ship-or-pay capacity was reduced to 29,265 bbl/d and expires in July 2020.

#### *OGD Pipeline*

The Company operates and holds a 90.6% WI in the OGD Pipeline through a joint venture agreement with Cimarrona LLC. The OGD Pipeline is a 10-inch diameter pipeline that runs approximately 63.7 kilometres from the Company's production facilities at the Guaduas field to the OAM pipeline at La Dorada Station and has a capacity of 40,000 bbl/d. Under the terms of the OGD Pipeline joint venture, the Company has the right to transport its crude oil production using all available capacity.

#### *OAM Pipeline*

The Company holds a 1.2% WI in the OAM pipeline through a construction and operation contract. The OAM pipeline is a 20-inch diameter pipeline that runs approximately 391.4 kilometres from Tenay to Vasconia and has a capacity of 110,000 bbl/d. Crude oil production is transported via the OAM pipeline to Vasconia and from Vasconia to the Coveñas terminal via the ODC Pipeline. Under the terms of the OAM pipeline contract, the Company has transportation rights up to 1,200 bbl/d into capacity and up to 30,000 bbl/d out of capacity at preferential rates.

#### *ODC Pipeline*

The Company holds a 1.0% WI in the ODC Pipeline through an equity interest in Oleoducto de Colombia S.A., the owner of the pipeline. The ODC Pipeline runs approximately 483 kilometres from Vasconia to the Coveñas terminal and has a 24-inch diameter pipeline with a capacity of 236,000 bbl/d. As a shareholder, the Company has transportation rights of up to 2,000 bbl/d and additional capacity subject to available capacity from the other owners.

#### Other Infrastructure Assets

##### *Puerto Bahia Terminal*

The Company has a 39.22% indirect interest in the Port Facility through Pacific Infrastructure's interest in Puerto Bahia. The Port Facility is a greenfield liquids import-export terminal with a 2.4 MMbbl storage and cargo handling facility located on the Bay of Cartagena, one of the largest trade hubs in Latin America. The port is adjacent to the Bocachica access channel of the Cartagena Bay, with a depth of approximately 20.5 metres. Existing facilities offer deep-water capability, which makes the Port Facility the only multi-purpose terminal in Colombia capable of receiving Panamax ships (large cargo vessels) and Suezmax tanks (liquid purpose vessels) simultaneously.

The Port Facility consists of two terminals: a hydrocarbon terminal and a dry cargo terminal. The hydrocarbon terminal has an initial operational capacity of 2.6 million bbl, distributed amongst eight storage tanks, each of which, is capable of storing up to 330,000 bbl of hydrocarbons. The hydrocarbon terminal includes a barges platform with four berths and a truck terminal that is interconnected with the storage tanks and provides eight loading and unloading stations. The dry cargo terminal has a berthing platform which is 290 metres long and 44 metres wide. The dry cargo facilities have a total area of 16 hectares and are used to store dry cargo, vehicles, containers and livestock, among other things.

##### *PEL Transmission Line*

The Company has a 63.64% indirect interest in PEL through Pacific Midstream's interest in PEL. PEL, an indirect subsidiary of the Company, is responsible for the design, construction and operation of a power transmission line of 230 kilovolts that connects the Rubiales and Quifa fields and the ODL Pipeline to Colombia's national energy grid. PEL was a strategic piece of infrastructure for the Company as it assisted in the development of the Quifa block and other nearby blocks in the Llanos Basin, including the Sabanero block and CPE-6 block.

On October 25, 2017, Pacific Midstream entered into an agreement to sell its interest in PEL for the aggregate purchase price of U.S.\$56 million. Further information on the sale can be found under the heading entitled "General Development of Business – Three-Year History – Period ending December 31, 2017."



## RISK FACTORS

An investment in the securities of the Company involves a high degree of risk due to the nature of the Company's business of the exploration and production of crude oil and natural gas. The Company considers the risks set out below to be the most significant to potential investors in the Company, but this list does not contain all of the risks associated with an investment in the securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers not to be material in relation to the Company's business actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Common Shares may decline and investors may lose all or part of their investment.

**Investors should carefully consider the risk factors set out below and all other information contained in this Annual Information Form and in the Company's other public filings before making an investment decision. An investment in the Common Shares is speculative and involves a high degree of risk due to the nature of the Company's business. It is recommended that investors consult with their own professional advisors before investing in the Common Shares.**

### Risks associated with the Company Being a Public Company

#### *Risks related to the Common Shares*

An active public market for the Common Shares may not develop or be sustained. If an active public market does not develop, the liquidity of the Common Shares may be limited and the value of the Common Shares may decline.

The trading price of the Common Shares may be subject to large fluctuations, which may result in losses to investors. The trading price of the Common Shares may increase or decrease in response to a number of events and factors, including: the price of natural gas and crude oil; the Company's financial condition, financial performance and future prospects; the public's reaction to the Company's news releases, other public announcements and the Company's filings with the various securities regulatory authorities; changes in earnings estimates or recommendations by research analysts who track the Company's equity securities or the securities of other companies in the natural gas and crude oil sector; changes in general economic conditions and the overall condition of the financial markets; the number of Common Shares that are publicly traded, including upon issuance of convertible equity securities by the Company; the arrival or departure of key personnel; and acquisitions, strategic alliances or joint ventures involving the Company or its competitors.

#### *Restrictions imposed by the Note Indenture and Secured LC Agreement*

The Note Indenture and Secured LC Agreement impose significant operating and financial restrictions on the Company. These restrictions limit the Company and its Subsidiaries ability to, among other things, incur additional indebtedness, make investments, sell assets, incur liens, enter into certain agreements, enter into transactions with affiliates and consolidate or merge or sell substantially all of the Company's assets. Such covenants are even more restrictive for Subsidiaries who are located in Switzerland, such as FEC Colombia, which currently holds the Company's interest in its main operational Colombian branch.

These restrictions could limit the Company's ability to seize attractive growth opportunities for its business or otherwise engage in activities that may be in the Company's long-term best interests that are currently unforeseeable, particularly if the Company is unable to incur financing or make investments to take advantage of such opportunities.

The failure of the Company to comply with these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of substantially all amounts outstanding under the Note Indenture and Secured LC Agreement. The Company may not have sufficient working capital to satisfy such debt obligations in the event of an acceleration of all or significant portion of the Company's outstanding indebtedness.

The Secured LC Agreement will mature on June 22, 2018. In light of the significant financial restrictions imposed by the Note Indenture, there can be no assurances that the Company will be successful in its efforts to obtain replacement letters of credit on terms satisfactory to the Company.

#### *Failure to obtain additional capital*

The Company expects that its cash balances and cash flow from operations will be sufficient to provide a limited amount of working capital, and the revenues generated from the Company's properties in Colombia and Peru will be sufficient to fund its operational development strategy. The Company may require additional capital to continue to operate its business, to expand its exploration and production programs to additional properties (including meeting minimum exploration requirements under the Company's contracts and licences), and to undertake future acquisitions, if any.

There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The Company's ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as its business performance. Economic uncertainty and illiquidity in capital markets may increase the risk that additional financing will only be available on terms and conditions unacceptable to the Company, or not at all. In addition, the recent significant downturn in global oil prices affected the Company's business and made access to capital more difficult, and even impossible.

Furthermore, the Company's ability to incur indebtedness is significantly restricted until November 2018 under the Note Indenture, subject to certain exceptions. Similarly, the Company is subject to restrictions on its ability to incur additional indebtedness under the Secured LC Agreement, which if breached, could be grounds for acceleration of the Company's indebtedness.

Failure to obtain such financing on a timely basis could cause the Company to forfeit its interests in certain properties, miss certain business opportunities and reduce or terminate its operations or contracts. The inability to obtain capital may damage the Company's reputation and credibility with industry participants in the event it cannot close previously announced transactions.

#### *Control environment*

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and harm the trading price of the Common Shares.

#### *Changing investor sentiment about the oil and gas industry*

A number of factors, including the concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns about indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, management and employees of the Company. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Company or not investing in the Company at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, the Company, may result in limiting the Company's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

#### *Catalyst holds a significant portion of the Company's common shares*

Catalyst holds approximately 30.9% of the Company's issued and outstanding Common Shares. As a result, Catalyst has the ability to exercise substantial influence over the policies and management of the Company, which could prove to be contrary to the interests of the other stakeholders of the Company.

It cannot be assumed that Catalyst will remain a Shareholder for the long term. Catalyst may be interested in disposing its interest in the Common Shares in the near or medium term, and may therefore be unwilling to pursue certain long-term policies to the extent they may have short-term goals. In addition, if Catalyst decides to dispose of some or all of its Common Shares, this event will trigger change of control provisions under the Note Indenture, at which point the

Company may have an obligation to offer to redeem the Senior Secured Notes at 101% of the principal amount thereof plus accrued and unpaid interest.

If, as a result of the disposition of Common Shares by Catalyst, a controlling shareholder is created, the new controlling shareholder could have a different vision and strategy for the Company's business, which the Company cannot predict, but which may be adverse to the interests of other stakeholders of the Company.

#### *Global financial conditions*

In recent years, global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy, creditor protection or have had to be rescued by governmental authorities. Market event conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of Petroleum Exporting Countries, slowing growth in China and other emerging economies, market volatility and sanctions imposed on certain oil producing nations by other countries have caused a significant decrease in the valuation of oil and gas companies, affected equity investor sentiment and decreased market confidence in the oil and gas industry in general. If these conditions were to continue and commodity prices remain volatile, this may have an adverse effect on the Company's Common Shares, business, financial condition or results of operations.

#### *Changes in the Company's management structure*

The Company is dependent on the business and technical expertise of its management team. Since November 2, 2016, there has been a significant number of executive departures and appointments. In 2017, the Company appointed five new executives. However, in 2018, the Company's Chief Financial Officer resigned to pursue other opportunities. There can be no assurance that further changes to management will not occur and that such change to management will not have an adverse effect on the Company's business, financial condition or results of operations.

#### *Reduction of costs through corporate initiatives*

During 2017, as part of its ongoing cost reduction efforts, the Company implemented a corporate initiative to eliminate legal redundancies and streamline its operations by consolidating four Colombian operating branches into one Colombian operating branch. There can be no assurances that the Company's recent corporate reorganization initiative will achieve its primary goals of reducing costs and improving corporate efficiency. Rather, the required integration of operations, technologies and personnel from these various branches may result in unanticipated operational problems, expenses, liabilities and diversion of management's attention from other strategic opportunities and operational matters.

While the Company's cost and capital expenditure reduction efforts have reduced, or are expected to reduce, the Company's operating costs, the Company cannot be certain that all efforts will be successful or that the Company will not be required to implement additional actions to structure its business to operate in a cost-effective manner in the future.

#### *Managing growth through acquisitions and dispositions*

Historically, the Company has developed its operations through various acquisitions. As a result, the Company depended significantly on its management's ability to integrate the operations, technologies and personnel of such acquired companies. Since the Restructuring and in 2017, the Company implemented a corporate strategy to monetize non-core assets and reduce ongoing costs and capital expenditures.

In 2017, the Company reached agreements with third parties to divest its interest in nine blocks for an aggregate amount of approximately U.S.\$64 million, which will result in a reduction in work commitments in the aggregate amount of U.S.\$42 million, environmental liabilities of U.S.\$5.2 million and exposure to open stand-by letter of credit instruments of U.S.\$6.2 million. Although the Company has reached definitive agreements to divest these assets, some agreements include specific conditions to closing. There can be no assurances that the Company will be able to meet these conditions and therefore close such transactions. Failure of the Company to close any disposition transaction may have an adverse effect of the Company's business, financial condition or results of operations.

### *Ratings downgrade*

Credit ratings are important to the Company's borrowing costs and ability to raise funds. Rating downgrades could potentially affect existing agreements of the Company, result in higher financing costs, reduce access to capital markets, suppliers or counterparties, impair the Company's ability to enter certain transactions, and increase borrowing costs under credit facilities. A downgrade could also limit the Company's access to short-term debt markets, increase the cost of borrowing in the short-term and long-term debt markets, and trigger collateralization requirements related to facility construction contracts, and pipeline and midstream service providers, which may have a material adverse effect on the Company.

### *Enforcement of civil liabilities*

Substantially all of the assets of the Company are located outside of Canada, and certain directors and officers of the Company are residents outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

### Risks Related to the Company Conducting Business in the Oil and Natural Gas Industry

#### *Fluctuating prices and markets*

The Company's financial performance is closely linked to oil and natural gas prices. The Company is significantly vulnerable when crude oil and natural gas prices decline below the necessary levels to fund its operating costs and general and administrative expenses, planned non-discretionary capital programs, taxes and debt service. The price of these two commodities can be influenced by, among other things, global supply and demand factors, political developments (particularly in the Middle East), oil demand growth from emerging markets (such as China and India), inflation expectations, currency exchange fluctuations, evolution of stocks of oil and related products, circumstantial effects of climate change and meteorological phenomena, political instability, and threat of terrorism, all of which are beyond the Company's control and can result in a high degree of price volatility. Any substantial decline in the prices of oil and natural gas could have a material adverse effect on the Company's earnings.

Decreases in oil and natural gas prices typically result in a reduction of the Company's net production revenue and may change the economics of operating some wells, which could result in a reduction in the volume of the Company's reserves. Any further substantial declines in prices of crude oil or natural gas could also result in the delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. A sustained material decline in prices of oil or natural gas from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt, if any at that time, be repaid.

#### *Exploration, development and production*

The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas. A future increase in the Company's reserves will depend on both the ability of the Company to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Company will be able continue to find satisfactory properties to acquire or participate in. Moreover, management of the Company may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Company will discover or acquire further commercial quantities of oil and natural gas.

It is also difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various adverse drilling conditions, such as over-pressurized zones and tools lost in the drill hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. The individual impact generated by these factors cannot be predicted with any certainty and, once combined, may result in non-economical reserves. If the Company's operations or investments in Colombia or Peru are disrupted or the economic integrity of these projects is threatened for unexpected reasons, the Company's business may experience a setback. These unexpected events may be due to technical difficulties, operational difficulties which impact the production, transportation or sale of its products, geographic and weather conditions, business reasons or otherwise.

In addition, the Company is subject to the normal risks inherent to the oil and natural gas exploration and development, such as unusual and unexpected geological changes in the parameters and variables of the petroleum system and operations. If exploration costs exceed the Company's estimates, or if the Company's exploration efforts do not produce results which meet its expectations, the Company's future exploration efforts may not be commercially successful, which could adversely impact the Company's ability to generate future revenues from its operations.

To the extent that the Company succeeds in discovering additional oil or natural gas reserves, these reserves may not achieve the production levels the Company projects or be available in sufficient quantities to be commercially viable. On a long-term basis, the Company's viability depends on its ability to find or acquire, develop and commercially produce additional oil and gas reserves. Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are produced and the Company's exploration and exploitation contracts expire. We have previously experienced declines in the average daily total oil and gas production from fields the Company operates and may continue to experience further declines in the future. The Company's future reserves will depend not only on its ability to develop then existing properties, but also on the Company's ability to identify and acquire additional suitable producing properties or prospects, to find markets for the oil and natural gas it develops and to effectively distribute the Company's production into the markets.

There are risks associated with the Company's business and operations that may result in production growth uncertainty, which include the following: (i) the expiration of joint venture and operating contracts; (ii) high competition for attractive reserves and resources acquisitions; (iii) limitations on oil recovery, including water production increases and environmental permitting delays relating to water disposal; (iv) access to sufficient capital to fund exploration activities; and (v) undue delays in obtaining environmental permits.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut downs of connected wells resulting from extreme weather conditions, problems in storage and distribution, and adverse geological and mechanical conditions. While the Company may obtain liability insurance in an amount which is expected to be adequate to cover most of such adverse conditions, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. While the Company will endeavour to effectively manage these conditions, the Company cannot be assured of doing so optimally, and the Company will not be able to eliminate them completely in any case. Therefore, these conditions could diminish the Company's revenue and cash flow levels and result in the impairment of its oil and natural gas interests.

#### *Transportation costs*

To sell the oil and natural gas that the Company is able to produce, it must make arrangements for transportation, storage and distribution to the market. The industry depends on trucking, ocean-going vessels, pipeline facilities, and barge transportation to deliver shipments, and transportation costs are a significant component of the total cost of supplying oil and natural gas to the market. Transporting crude oil, crude oil products and derivatives and gas involves specific operating risks, some of which are beyond the Company's control. Disruptions of these transportation services because of weather-related problems, strikes, lockouts, delays, terrorist acts or other events could temporarily impair the ability to supply oil and natural gas to customers and may result in lost sales. In addition, increases in transportation costs, or changes in transportation costs for oil and natural gas produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations, forcing the Company to incur closure or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of the Company's properties, and the Company may be required to use more expensive transportation alternatives.

#### *Reserves estimates*

The Company's financial projections are based on oil and natural gas reserves estimates. The Company makes these reserve estimates using various assumptions, including assumptions as to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and the availability of funds. Some of these assumptions are inherently subjective, and the accuracy of the Company's reserve estimates relies in part on the ability of its

management team, engineers and other advisors to make accurate assumptions. Economic factors beyond the Company's control, such as interest rates and exchange rates, will also impact the value of its reserves. The process of estimating oil and gas reserves is complex, and requires the Company to make significant assumptions in the evaluation of available geological, geophysical, engineering and economic data for each property. As a result, the Company's reserve estimates will be inherently imprecise. The reserves disclosed by the Company should not be interpreted as assurances of property life or of the profitability of current or future operations. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from those the Company estimates. If actual production results vary substantially from the Company's reserve estimates, this could materially reduce its revenues and result in the impairment of its oil and natural gas interests.

#### *Expiration of contracts*

The Company's contracts for the exploration and production of its oil and natural gas properties are subject to set expiration dates. In June 2016, the contract governing the Rubiales field, which was the Company's largest producing field, expired. The Company may be unable to find alternative revenue sources to replace the revenue that it has lost upon the expiration of certain exploration and exploitation contracts. Although the Company may want to extend its exploration and production contracts with Ecopetrol, ANH and Perupetro beyond their original expiration date, there is no assurance that either Ecopetrol, ANH, or Perupetro would agree to such extension or, if they do so agree, that they would agree to terms that are acceptable to the Company. If the contracts are terminated, any wells in production, buildings and other real estate possessions related to the fields subject to such contracts will revert to Ecopetrol, ANH, and Perupetro, as the case may be, without any additional compensation to the Company.

#### *Hedging arrangements*

The Company periodically enters into hedging transactions with respect to a portion of its expected future production to offset the risk of revenue losses if commodity prices decline. The Company may enter into a variety of derivative financial instruments to manage its exposure to commodity price risks, including zero cost collars, swaps, forwards, swap participation, put spreads and call spreads. However, to the extent that the Company engages in hedging transactions to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Company's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which: production falls short of the hedged volumes or prices fall significantly lower than projected; there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement; the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or a sudden unexpected event materially impacts oil and natural gas prices.

There is no assurance that the Company will always be able to enter into hedging agreements or reduce the risk or minimize the effect of any future decline in oil or natural gas prices. As a result, any substantial or extended decline in the prices of or demand for oil or natural gas would have a material adverse effect on the Company's financial condition, liquidity, ability to meet its financial obligations and results of operations.

#### *Operating hazards and risks*

Oil and gas drilling and producing operations at the Company's onshore and offshore properties are subject to many risks, including the risk of fire, explosions, mechanical failure, pipe or well cement failure, well casing collapse, pressure or irregularities in formations, chemical and other spills, unauthorized access to hydrocarbons, accidental flows of oil, natural gas or well fluids, sour gas releases, contamination of oil and gas, vessel collision, structural failure, loss of buoyancy, storms, earthquakes, hurricanes, floods or other adverse weather conditions and other occurrences. Even a combination of experience, knowledge and careful evaluation may not be able to overcome the existence of such risks. The Company's operations are also subject to the hazards and risks normally incidental to exploration, development and production of natural resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. If any of these risks should materialize, the Company could incur legal defence costs and remedial costs and could suffer substantial losses due to injury or loss of life; human health risks; severe damage to or destruction of oil and gas wells, formations, production facilities or other properties; natural resources and equipment; pollution or other environmental damage; unplanned production outage; cleanup responsibilities; regulatory investigation and penalties; increased public interest in the Company's operational performance; and suspension of operations.

Although the Company maintains liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. The Company believes that its coverage is aligned with customary industry practices and in amounts and at costs that the Company believes to be prudent and commercially practicable. A loss not fully covered by insurance could have a material adverse effect on the Company's financial position, results of operations and cash flows. The insurance coverage that the Company maintains may not be sufficient to cover every claim made against the Company in the future. In addition, a major incident could impact the Company's reputation in such a way that it could have a material adverse effect on the Company's business, financial condition or results of operations.

In addition, certain risks may not in all circumstances be insurable. The payment of such uninsured liabilities would reduce the funds available to the Company. If the Company suffers a significant event or occurrence that is not fully insured, or if the insurer of such event is not solvent, the Company could be required to divert funds from capital investment or other uses towards covering liability for such events.

#### *Exploration commitments*

Government contracts such as exploration and production agreements require that minimum investments be made as a condition to maintaining the rights under the agreements. In addition, it is common for such agreements to require that penalties be paid if the contractual right is to be returned to the government before the designated minimum work program is completed. As of December 31, 2017, the Company has certain minimum work program commitments in the aggregate of approximately U.S.\$126.2 million for 2018. If the Company fails to satisfy the minimum investments required by its exploration and production agreements, the Company could be subject to significant monetary penalties of up to 100% of the minimum work program commitment, among other penalties or sanctions which could have a material adverse effect on the Company's business, financial condition and results of operations.

#### *Necessary facilities*

Oil and natural gas exploration and production activities are dependent on the availability of drilling and related equipment, transportation, power and technical support in the particular areas where these activities will be conducted, and the Company's access to these facilities may be limited. To the extent that the Company conducts its activities in remote areas, required facilities may not be proximate to its operations, which will increase its expenses. Demand for such limited equipment and other facilities or access restrictions may affect the availability of such equipment to the Company and may delay exploration and production activities. The quality and reliability of necessary facilities may also be unpredictable, and the Company may be required to make efforts to standardize its facilities, which may entail unanticipated costs and delays. Shortages or the unavailability of necessary equipment or other facilities will impair the Company's activities, either by delaying its activities, increasing its costs, or otherwise.

#### *Reliance on foreign subsidiaries*

The Company conducts all of its operations through foreign Subsidiaries and foreign branches. Therefore, the Company will be dependent on the funds flow from operations of these Subsidiaries and branches to meet its obligations excluding any additional equity or debt the Company may issue from time to time. The ability of its subsidiaries to make payments and transfer cash to the Company may be constrained by, among other things: the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates; and the introduction of foreign exchange and/or currency controls or repatriation restrictions, or the availability of hard currency to be repatriated.

The implementation of a restrictive exchange control policy, including the imposition of restrictions on the repatriation of earnings to foreign entities, could affect the Company's ability to engage in foreign exchange activities and could also have a material adverse effect on its business, financial condition and results of operations.

In particular, Colombian law provides that the Central Bank of Colombia may intervene in the foreign exchange market if the Colombian peso experiences significant volatility. The Company cannot provide assurance that the Central Bank of Colombia will not intervene in the future, and the Company may be temporarily unable to convert Colombian pesos to U.S. dollars.

Furthermore, there can be no assurance that the governmental authorities of the countries where the Company operates will not require prior authorization or will grant such authorization for the Company's non-Canadian subsidiaries or branch offices of non-Canadian subsidiaries to make dividend payments to the Company, and there can be no assurance that there will not be a tax imposed with respect to the expatriation of the proceeds from the Company's foreign subsidiaries or branch offices of non-Canadian subsidiaries.

Currently, there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

#### *Litigation and other proceedings*

In the normal course of the Company's operations, it may become involved in litigation relating to, among other things, labour, health and safety matters, environmental matters, regulatory, tax and administrative proceedings, governmental investigations, arbitration, and contractual claims and disputes. The Company is subject to risks related to litigation, arbitration and administrative proceedings that could adversely affect the Company's business and financial performance in the event of an unfavourable ruling. Litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome, among other matters. In the past, the Company has been subject to proceedings or investigations of actual or potential litigation. Although the Company has established provisions as it deems necessary, the amounts that it reserves could vary significantly from any amounts the Company actually pays due to the inherent uncertainties in the estimation process. If the Company were to receive an unfavourable decision through such proceedings, the Company may suffer reputational damage as a result of these decisions, which could have an adverse effect on the Company's business and its ability to grow. The Company cannot be certain that the proceedings described under the heading entitled "Legal Proceedings and Regulatory Actions" or other legal proceedings will not materially affect the Company's business.

#### *Contractual contingent obligations*

The Company is subject to certain contingencies, which, if they were to occur, could have a material adverse effect on the Company's business, financial condition or results of operations.

Certain of the Company's commercial agreements include provisions that require the Company, upon the occurrence of certain specific events, to contribute capital, repurchase shares from the Company's partners, suffer dilution or provide financial guarantees. If any of these contingencies were to occur or if the Company's counterparties were to demand the exercise of their rights, the Company may not have the ability to raise the funds necessary to finance such contingent obligations. In addition, such occurrences and exercises would likely have a material adverse effect on the Company's business results, operations and financial condition. Further information on the Company's most significant contractual contingencies can be found under the heading entitled "Description of the Business – Contractual Contingencies."

#### *Decommissioning costs*

The Company may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines that it uses for production of oil and gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as "decommissioning." If decommissioning is required before economic depletion of the Company's properties, or if its estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time, it may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could impair the Company's ability to focus capital in other areas of its business.

#### *Operating costs*

Exploration, development, production, marketing (including distribution costs) and regulatory compliance costs (including taxes) substantially impact the net revenues the Company derives from the oil and natural gas that it produces. These costs are subject to fluctuations and variation, and the Company may not be able to predict or control these costs. If these costs exceed the Company's expectations, this may adversely affect the Company's results of operations. In addition, the Company may not be able to earn net revenue at its predicted levels, which may impact the Company's ability to satisfy its obligations.



### *Permits and licences*

The Company's exploration, development and production activities may require licences and permits from regional and national governmental authorities, and as such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licences and permits that the Company may require to carry out exploration and development of its projects will be obtained on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

In the recent past, the Company and other oil and gas companies in Colombia have experienced significant delays from regional and national Colombian authorities with respect to the issuance of such licences. Unanticipated licencing delays can result in significant delays and cost overruns in the exploration and development of blocks and could affect the Company's financial condition and results of operations. The Company cannot assure that these delays will not continue or worsen in the future.

### *Data management and information security*

The Company is subject to a variety of information technology and system risks as a part of its normal course of operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Company's information technology systems by third parties or Company personnel. Although the Company has security measures and controls in place that are designed to mitigate these risks, a breach of its security measures or a loss of information could occur and result in a loss of material and confidential information, breach of privacy laws and a disruption to its business activities.

The Company is dependent on the use of computer hardware and software systems in order to properly operate its business. In the event the Company is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of its information systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data. In addition, information systems could be damaged or interrupted by natural disasters, force majeure events, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical or sensitive data or similar effects, which could have a material adverse impact on the protection of intellectual property, confidential and proprietary information, and on the Company's business, financial condition, results of operations and funds flow from operations.

### *Labour disruptions*

The Company operates in countries that have large state-sponsored or owned oil and gas companies that have traditionally employed unionized personnel. From time to time, the unions attempt or threaten to disrupt field operations and crude oil transportation activities of their employers which may directly or indirectly affect the operations of the Company. The Company has previously experienced significant labour unrest which resulted in higher operating costs even though it did not have a significant impact on the Company's production output. The Company cannot provide any assurances that it will not face labour disruptions in the future which may have a material adverse effect on the Company's operations.

### *Customer counterparty risk*

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 accounts receivable related to local sales in Colombia, but not for international sales. As at December 31, 2017, the Company's largest credit exposure in accounts receivables to a single party was for U.S.\$31.2 million, or 34% of trade accounts receivable, and as at December 31, 2016, was for U.S.\$46 million, or 44% of trade accounts receivable outstanding at such date. If the Company suffers a significant loss resulting from the non-payment of a trade receivable that is not fully insured in the local market, or if the insurer of such event is not solvent, the Company could be required to divert funds from capital investment or other uses towards covering its liability for such events.

In addition, the Company's domestic oil and natural gas sales in Colombia are made to Ecopetrol, a state-owned oil company. While oil and natural gas prices in Colombia are related to international market prices, lack of competition for sales of oil and natural gas may diminish prices and depress the Company's financial results.

#### *Environmental factors*

All phases of the Company's operations are subject to environmental regulation in the countries in which it operates. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures, and a breach may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner that the Company expects may result in stricter standards and enforcement, increased fines and liability and potentially increased capital and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. The application of environmental laws to the Company's business may cause the Company to curtail its production or increase the costs of its production, development or exploration activities.

#### *Strategic relationships*

To develop the Company's business, the Company may use the business relationships of its management to enter into strategic relationships, which may take the form of joint ventures with other private parties or with local government bodies or contractual arrangements with other oil and gas companies, including those that supply equipment and other resources that the Company will use in its business. The Company may not be able to establish these strategic relationships or, if established, the Company may not be able to maintain them. If the Company's strategic relationships are not established or maintained, its business prospects may be limited, which could diminish the Company's ability to conduct its operations.

As a result of the Restructuring, the Company has had to prioritize high yield over low yield investments. This has resulted in strained relationships with certain of the Company's strategic partners as the Company has had to seek to renegotiate contractual terms or sought to terminate the Company's contractual relationships. In some cases, the Company's financial hardship caused the Company to default under certain commercial contracts with joint venture partners and suppliers. Some of these commercial contracts were compromised as a result of the Restructuring. Although the Company deemed these actions to be necessary in order to ensure the viability of the Company and the consummation of the Restructuring, the Company could have suffered reputational damage as a result of these actions, which could have an adverse effect on the Company's business and its ability to grow.

#### *Conflicting interest with joint venture partners*

In the development of the Company's business, the Company has entered into various joint venture activities to explore for or develop certain hydrocarbon or infrastructure assets. The success and timing of the Company's activities that are developed through these joint venture arrangements depend on a number of factors that are outside the Company's control, including the approval of other participants on major decisions concerning the direction and operation of the assets and the development of certain projects, the timing and amount of capital expenditures to meet minimum work commitments, and the objectives and interests of other participants. Failure to satisfactorily meet demands or expectations by all of the parties may affect the Company's participation in the operation of a joint venture asset and may result in the Company losing the contractual right to the hydrocarbon asset or project. As a result, the Company may assume significant additional costs that it would not otherwise be inclined to undertake to fulfill the obligations to meet certain work commitments to maintain its contractual rights for certain hydrocarbon or infrastructure assets that are considered material to the Company's business and operations.

#### *Health hazards and personal safety incidents*

The employees and contractor personnel involved in exploration and production activities and operations of the Company are subject to many inherent health and safety risks and hazards, which could result in occupational illness or health issues, personal injury and loss of life, facility quarantine or facility and personnel evacuation. In particular, employees and contractors working in well-drilling operations are subject to the possibility of loss of containment. This

could lead to exposure to the release of high-pressure materials as well as collateral shrapnel from piping or vessels, which could result in personal injury and loss of life.

#### *Accounting impairments*

The presentation of financial information in accordance with IFRS requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the Company's consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the consolidated financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the Common Share price.

Lower oil and gas prices may increase the risk of write-downs of the Company's oil and gas property investments. Under IFRS, property, plant and equipment costs are aggregated into groups known as Cash Generation Units ("**CGUs**") for impairment testing. CGUs are reviewed for indicators that the carrying value of the CGU may exceed its recoverable amount. If an indication of impairment exists, the CGUs' recoverable amount is then estimated. A CGU's recoverable amount is defined as the higher of the fair value less costs to sell and its value in use. If the carrying amount exceeds its recoverable amount an impairment loss is recorded to comprehensive net income in the period to reduce the carrying value of the CGU to its recoverable amount. While these impairment losses would not affect funds flow from operations, the charge to comprehensive net income could be viewed unfavourably in the market and therefore may have an adverse effect on the Company's business and operations.

#### *No assurance of title*

The acquisition of title to oil and natural gas properties in the jurisdictions in which the Company operates is a detailed and time-consuming process. Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. The Company's properties may be subject to unforeseen title claims, including, among others, claims by indigenous communities. While the Company intends to make appropriate inquiries into the title of properties and other development rights it acquires, title defects may exist. If title defects do exist, it is possible that the Company may lose all or a portion of its right, title and interest in and to the properties to which the title defects relate.

#### *Foreign currency exchange rates*

The Company mainly sells the oil it produces in the international markets under agreements that are denominated in U.S. dollars and foreign currencies. Many of the operational and other expenses the Company incurs are paid in the local currency of the countries where the Company conducts its operations. The Company's production is primarily invoiced in U.S. dollars. As a result, the Company may be exposed to translation risk when local currency financial statements are translated to U.S. dollars, the Company's functional currency. Exchange rates between the Colombian Peso and U.S. dollar have fluctuated significantly in the past and may do so in the future. The Peruvian nuevos soles have also fluctuated significantly in the past as compared to the U.S. dollar. As currency exchange rates fluctuate, translation of the statements of income of international businesses into U.S. dollars will affect comparability of revenues and expenses between periods.

#### *Corruption*

The Company's operations are governed by the laws of many jurisdictions, which prohibit bribery and other forms of corruption. To prevent any form of corruption or bribery, the Company has policies in place that prohibit the giving or accepting money or gifts in certain circumstances and require an annual certification from each employee confirming that such employee has not violated any applicable anti-corruption or bribery legislation. Despite the training and policies, it is possible that the Company, or its employees or contractors, could be charged with bribery or corruption as a result of the unauthorized actions of its employees or contractors. If the Company is found guilty of such a violation, the Company could be subject to onerous penalties and reputational damage. A mere investigation itself could lead to significant corporate disruption, high legal costs and forced settlements (such as the imposition of an internal monitor). In addition, bribery allegations or bribery or corruption convictions could impair the Company's ability to work with governments or non-governmental organizations including the formal exclusion of the Company from a country or area, national or international lawsuits, government sanctions or fines, project suspension or delays, reduced market capitalization and increased investor concern.

#### *Interest rates*

The Company's consolidated debt may accrue interest at a floating rate, and therefore the Company may be exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates. In addition, the Company may be exposed to variations in Colombian interest rate indices in respect of ship-or-pay obligations under certain of the Company's transportation agreements.

### *Competition*

The oil and natural gas industry is competitive in all its phases. Other oil and gas companies will compete with the Company by bidding for exploration and production licences and other properties and services that the Company will need to operate its business. Additionally, other companies engaged in the Company's line of business may compete with the Company from time to time in obtaining capital from investors. Competitors include larger, foreign-owned companies which, in particular, may have access to greater resources than the Company, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

### *Ability to attract and retain qualified personnel*

The Company's success will depend in large measure on the ability, expertise, judgment, discretion, integrity and good faith of the Company's management and other personnel in conducting the business of the Company. The number of persons skilled in the acquisition, exploration, development and operation of oil and gas properties in the jurisdictions in which the Company operates is limited, and competition for such persons is intense. The loss of any of the Company's executive officers or key employees or the Company's inability to attract suitably qualified staff could materially adversely impact the Company's business. The Company may also experience difficulties in certain jurisdictions in its efforts to obtain suitably qualified staff and to retain staff that are willing to work in that jurisdiction.

The Company's success depends on the ability of its management and employees to interpret market and geotechnical data successfully and to interpret and respond to economic, market and other business conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. The Company has sought to and will continue to ensure that management and any key employees are appropriately compensated; however, their services cannot be guaranteed. If the Company is unable to attract, develop or retain key personnel, its business may be adversely affected due to weakened organizational capability. The Company's recent financial difficulties (although resolved), the corresponding need to reduce administrative expenses and the resurgence of the competitive labour market in Colombia, particularly in the oil and gas industry, may adversely affect its ability to hire and retain employees.

### *Technology*

The Company relies on technology, including geologic and seismic interpretation and economic models, to develop its reserve estimates and to guide its exploration, development and production activities. The Company is required to continually enhance and update its technology to maintain its efficacy and to avoid obsolescence. The costs of doing so may be substantial and may be higher than the costs that the Company anticipates. If the Company is unable to maintain the efficacy of its technology, its ability to manage its business and to compete may be impaired in which case the Company may incur higher operating costs than it would if the Company's technology was more efficient.

## Risks Related to Operations in Colombia and the Company's Other Markets

### *Guerrilla activity in Colombia and Peru*

#### *i. Colombia*

Any terrorist activity in Colombia may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations.

Colombia is home to South America's largest and longest running insurgency. During the 50-year course of armed conflict between government forces and anti-government insurgent groups and illegal paramilitary groups, both funded by the drug trade, Colombia has experienced significant social upheaval and criminal activity relating to drug trafficking. Insurgents have attacked and kidnapped civilians, and violent guerrilla activity exists in many parts of the country. Since 2014, there was an increase in the attacks by rebels against oil and gas infrastructure in Colombia.

These attacks were focused in the regions of Arauca, Caquetá, and Putumayo, departments where the FARC, ELN and the Popular Liberation Army maintain a greater presence and influence. In particular, the Caño Limon pipeline near Venezuela, to which the Bicentenario Pipeline connects, has been inoperative approximately 50% of the time due to these attacks. Disruptions in key pipelines, including the Bicentenario Pipeline, have previously reduced the Company's revenue and increased its transportation costs, as the Company had to use alternate methods of transportation, including trucking.

In recent years, the government and FARC had been negotiating an agreement to end the conflict. On September 26, 2016, the Colombian government and FARC entered into a peace agreement which was subsequently ratified on November 30, 2016 by the Colombian government. Pursuant to the agreement, FARC agreed to demobilize its troops and urban militia members and hand over any weapons to the United Nations mission within 180 days.

In addition, on March 31, 2016, the ELN together with the Colombian government made official the commencement of a public phase of dialogue and negotiation between such parties. In February 2017, after the release of what is thought to be the last prisoner, the Colombian government began negotiations with the ELN in Ecuador.

#### *ii. Peru*

The Shining Path, or *Sendero Luminoso*, is a terrorist organization active in Peru. While not as active as the Colombian terrorist groups, they too have attacked pipeline operators in the past.

In both Colombia and Peru, the Company has security protocols in place to enable contingency plans in order to prevent damage to its infrastructure or to avoid its production from being compromised. It has agreements with military and police to supervise the areas of operation and private security forces to guarantee the safety of its installations. The Company also has whistleblower mechanisms in place so that community members can report beforehand if they gather knowledge about possible criminal activities against the Company's assets.

There can be no assurance that continuing attempts to reduce or prevent guerrilla activity will be successful or that guerrilla activity will not disrupt the Company's operations in the future. There can also be no assurance that the Company can maintain the safety of its operations and personnel in Colombia and Peru or that this violence will not affect the Company's operations in the future. Continued or heightened security concerns in these countries could also result in a significant loss to the Company.

#### *Security risks*

The Company's operations may be adversely affected by security incidents that are not within the control of the Company, including, among other things, kidnappings, extortion or criminal activity. In particular, the Company faces increased security risks in certain countries in which it operates or has investments. A significant security incident could result in the deferral of or termination of Company activity within the impacted areas of operations, thus adversely impacting execution of the Company's business strategy, which could adversely affect the Company's financial position, results of operations and cash flows.

#### *Economic and political developments*

The Company's projects are located in emerging market countries such as Colombia and Peru. Consequently, the Company is dependent upon these countries' respective economic and political developments. As a result, the Company's business, financial position and results of operations may be affected by the general conditions of these economies, economic instabilities, price instabilities, currency fluctuations, inflation, interest rates, regulation, taxation, social instabilities, political unrest and other developments in or affecting these countries, over which the Company has no control. In addition, the Company's exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the oil and gas industry.

In the past, these countries have experienced periods of weak economic activity and deterioration in economic conditions. The Company cannot assure investors that such conditions will not return or that such conditions will not have a material adverse effect on its business, financial condition or results of operations.

The Company's financial condition and results of operations may also be affected by changes in the political climate in these countries to the extent that such changes affect the nation's economic policies, growth, stability or regulatory environment. Specifically, exploration may be affected in varying degrees by government regulations with respect to

restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, wealth taxes, expropriation of property, environmental legislation and site safety. There can be no assurance that the governments of the countries where the Company operates and has investments will continue to pursue business friendly and open-market economic policies or policies that stimulate economic growth and social stability. Any changes in these economies or the respective governments' economic policies, in particular as they relate to the oil and gas industries, may have a negative impact on the Company's business, financial condition and results of operations. Any of these factors, as well as volatility in the markets, may adversely affect the value of the securities of the Company.

In 2018, there will be a national elections in Colombia, which will result in the election of a new president. A new president and national government may take positions on policies related to the oil and gas industry that may be contrary to the Company's interests. Any such changes are beyond the Company's control and may significantly reduce the Company's ability to expand its operations or operate a profitable business.

#### *Legislative and regulatory developments*

The oil and natural gas industry in Colombia and the other countries where the Company operates is subject to extensive controls and regulations imposed by various levels of government. Additional legislation, regulations or amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations that are evolving in these countries, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations, or require it to abandon or delay the development of new oil and natural gas properties.

#### *Local legal and regulatory systems*

The Company exists under the laws of the Province of British Columbia and is subject to Canadian laws and regulations. The jurisdictions in which the Company operates its exploration, development and production activities may have different legal systems than Canada or the United States, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; and (v) relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial systems to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for the Company's business. These licences and agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurances that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others.

#### *Vulnerability of the Colombian economy*

The Colombian economy is vulnerable to external shocks, including with respect to prices for exports, prices for commodities, trade with foreign nations and broader worldwide economic trends. Exports in the Colombian economy have recently become more dependent upon raw materials, particularly oil and coal, which has exposed the Colombian economy to fluctuations in the prices of these commodities. Concerns of protectionist measures being implemented in the United States and Europe could result in trade barriers and curb global economic growth. Under these circumstances, the Colombian economy could be adversely affected in various ways, including a decline in commodity prices, lower demand for its export products, lower remittances from Colombian workers overseas and reduced capital inflows in the form of foreign direct investment, which in turn could lead to a lack of liquidity, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower commercial activity.

#### *United States' relations with Colombia*

Colombia is among several nations which is subject to annual certification by the President of the United States of America based on the progress it has made in respect to halting the production and transit of illegal drugs. Although Colombia has received a current certification, there can be no assurance that, in the future, Colombia will continue to

receive certification or a national interest waiver. The failure to receive certification or a national interest waiver may result in any of the following: all bilateral aid, except anti-narcotics and humanitarian aid, would be suspended; the Export-Import Bank of the United States and the Overseas Private Investment Corporation would not approve financing for new projects in Colombia; United States representatives at multilateral lending institutions would be required to vote against all loan requests from Colombia, although such votes would not constitute vetoes, and the President of the United States and Congress would retain the right to apply future trade sanctions.

Any sanctions imposed on Colombia by the United States government could threaten the Company's ability to obtain any necessary financing to develop its Colombian properties. There can be no assurance that the United States will not impose sanctions on Colombia in the future, nor can the effect in Colombia that these sanctions might cause be predicted. In addition, any changes in the holders of significant government offices, including its regulatory bodies such as the ANH, could have an adverse effect on the Company's operations and business.

#### *Seizure or expropriation of assets*

Pursuant to Article 58 of the Colombian Constitution, the Colombian government can, through a judicial order and prior compensation for damages, expropriate the Company's private property in the event such action is required in order to protect public interests. According to Law 388 of 1997, eminent domain powers may be exercised through (i) an ordinary expropriation proceeding; (ii) an administrative expropriation; or (iii) as provided for in Article 59 of the Colombian Constitution, an expropriation for war reasons. In all cases, the Company would be entitled to a fair indemnification for the expropriated assets. As a general rule (with the exception of expropriation for reasons of war, in which case compensation may be quantified and paid later), compensation must be paid before the asset is effectively expropriated. However, indemnification may be paid in some cases years after the asset is effectively expropriated and the indemnification may be lower than the price for which the expropriated asset could be sold in a free market sale or the value of the asset as part of an ongoing business.

In the other countries where the Company operates or has investments, the state can also generally exercise eminent domain powers in respect of the Company's assets based on principles somewhat similar to those that apply in Colombia.

#### *The Superintendencia's ability to assert unilateral control over the Company and its assets*

Under the Restructuring, the Superintendencia was granted the ability to assert control over the Company and its subsidiaries and branches in Colombia and has not to date relinquished such control. The control measure may be exercised under certain circumstances, which includes if the Company fails to obtain approval from the Superintendencia prior to amending the by-laws of its Colombian entities or disposing of any Colombian assets that are not considered in the ordinary course of business. If the Company has been deemed to be non-compliant with any of the Superintendencia's orders, bylaws or applicable Colombian law, the Superintendencia may, among other actions, remove the administrators of the Company's Colombian entities. There can be no assurance as to the steps the Superintendencia will take which, given the significance of the Company's operations in Colombia, could have an adverse effect on the Company.

## **RESERVES DATA AND OTHER INFORMATION**

The Company's reserves were evaluated by RPS and D&M (each of which is an independent petroleum engineering consulting firm) and are effective as of December 31, 2017, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. RPS and D&M are each independent qualified reserves evaluators appointed pursuant to such instrument.

Concurrently with the filing of this Annual Information Form, the Company has filed the following: (i) the *Statement of Reserves Data and Other Oil and Gas Information* on Form 51-101F1; (ii) *Report on Reserves Data by Independent Qualified Reserves Evaluator* on Form 51-101F2 by each of RPS and D&M; and (iii) the *Report of Management and Directors on Oil and Gas Disclosure* on Form 51-101F3. These reports have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and are incorporated by reference into this Annual Information Form.

## **DIVIDENDS**

The Board of Directors has not adopted a formal dividend policy. Although the Company has paid dividends to its Shareholders in the past, the Company has not paid any dividends since 2014.

Covenants in the Note Indenture, as well as under the Secured LC Agreement, restrict the Company's ability to declare and pay dividends under certain circumstances. Pursuant to the Note Indenture, the Company cannot pay any dividends up to and until November 1, 2018, subject to certain exceptions.

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

#### *Common Shares*

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value. As of December 31, 2017, 50,005,832 Common Shares were issued and outstanding as fully paid and non-assessable. The holders of the Common Shares are entitled to receive notice of and to vote at every meeting of the Shareholders and are entitled to one vote for each Common Share held. Subject to the rights attached to any other class of shares, the holders of the Common Shares are entitled to receive dividends, if and when declared by the Board of Directors. Upon liquidation, dissolution or wind-up, whether voluntary or involuntary, or any other distribution of assets of the Company, Shareholders share equally in such assets of the Company as are distributable to the holders of Common Shares under applicable laws.

#### *Preferred Shares*

The Company is authorized to issue an unlimited number of preferred shares ("**Preferred Shares**") without nominal or par value. As of December 31, 2017, no Preferred Shares were issued or outstanding. The Preferred Shares may be issued from time to time in one or more series, each series consisting of a number of Preferred Shares as determined by the Board of Directors. The Preferred Shares of each series shall, with respect to dividends, if any, and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its Shareholders for the purpose of winding-up its affairs, be entitled to preference over holders of Common Shares and the shares of any other class ranking junior to the Preferred Shares, and on parity with the Preferred Shares of every other series. At this time, the Company has no plans to issue any Preferred Shares.

#### *Shareholder Rights Plan*

On November 2, 2016, in accordance with the Restructuring, the Company adopted a new customary shareholder rights plan which was subsequently amended and restated on November 20, 2017 (the "**Rights Plan**"). The purpose of the amendments were to address certain minor housekeeping changes. Pursuant to the Rights Plan, one right ("**Right**") is attached to each voting share (which as defined under the Rights Plan includes Common Shares). The Rights will separate from the voting shares to which they are attached and will become exercisable upon the occurrence of certain events in accordance with the Rights Plan. Pursuant to the terms of the Rights Plan, any bid that meets certain criteria intended to protect interests of all Shareholders will be deemed to be a "permitted bid" and will not trigger the Rights Plan. In the event of a take-over bid that does not meet the permitted bid requirements of the Rights Plan, the Rights issued under the Rights Plan will entitle Shareholders, other than any Shareholder involved in the take-over bid, to purchase additional Common Shares at a discount to the market price.

Catalyst, which currently owns approximately 30.9% of the Common Shares, is grandfathered under the Rights Plan and will not, under the terms of the Rights Plan, be restricted from acquiring additional Common Shares in any manner.

The TSX accepted notice of filing of the Rights Plan, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Incentive Plan*

On November 2, 2016, the Company approved and implemented a security-based compensation plan (the "**Incentive Plan**") in accordance with the Restructuring. On March 14, 2017, certain amendments were made to the Incentive Plan for the purposes of curing ambiguity regarding the treatment of Awards (as defined below) under applicable tax laws. The Incentive Plan allows for the issuance of stock options, restricted stock units ("**RSUs**"), and deferred stock units ("**DSUs**") (collectively, the "**Awards**"). The aggregate number of Common Shares reserved for issuance in respect of which Awards may be granted shall not exceed 2,500,150. Common Shares subject to any Award (or any



portion thereof) that have expired or are forfeited, surrendered, cancelled or otherwise terminated prior to the issuance or transfer of such Common Shares will again be available for grant under the Incentive Plan.

*i. Stock Options*

Stock options allow holders to receive Common Shares at a future date. Stock options are granted with vesting conditions (typically based on continued service or achievement of personal or corporate objectives). The exercise price per Common Share for stock options is fixed by the Compensation and Human Resources Committee, but under no circumstances can the exercise price at the time of grant be less than the fair market value (as defined in the Incentive Plan) of the Common Shares. Vesting of stock options is determined by the Compensation and Human Resources Committee in its sole discretion and specified in the Award agreement pursuant to which the stock option is granted. Directors are not entitled to receive stock options.

As of December 31, 2017, no stock options were issued or outstanding.

*ii. Restricted Stock Units*

RSUs are granted with vesting conditions (typically based on continued service or achievement of personal or corporate objectives). The value of a RSU increases or decreases as the price of the Common Shares increases or decreases, thereby promoting alignment of interests of an RSU holder with Shareholders. Settlement may be made, in the sole discretion of the Compensation and Human Resources Committee, in Common Shares, cash or a combination thereof. Vesting of RSUs is determined by the Compensation and Human Resources Committee in its sole discretion and specified in the Award agreement pursuant to which the RSU is granted.

As of December 31, 2017, the Company had 376,087 RSUs issued and outstanding.

*iii. Deferred Stock Units*

DSUs represent a future right to receive Common Shares (or the cash equivalent) at the time of the holder's retirement, death, or the holder otherwise ceasing to provide services to the Company. Each DSU awarded by the Company is initially equal to the fair market value of a Common Share at the time the DSU is awarded. The value of a DSU increases or decreases as the price of the Common Shares increases or decreases, thereby promoting alignment of interests of a DSU holder with Shareholders. DSU settlements may be made, in the sole discretion of the Compensation and Human Resources Committee, in Common Shares, cash or a combination thereof. Only directors are entitled to receive DSUs.

As of December 31, 2017, the Company had 30,027 DSUs issued and outstanding.

Material Debt Facilities

*Senior Secured Notes*

As part of the Restructuring, the Company entered into an amended and restated note indenture on November 2, 2016 (the "**Note Indenture**") with respect to the Senior Secured Notes, which carry a fixed interest rate of 10% per annum. The Company may redeem any or all of the notes prior to the maturity date, being November 2, 2021, subject to certain terms.

The Note Indenture includes various restrictive covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. Generally, the Company and certain subsidiaries may not incur any debt prior to November 2, 2018. After November 2, 2018, the Company may incur additional indebtedness provided that it maintains a consolidated fixed charge ratio of no less than 3.25:1.0 and the debt-to-adjusted EBITDA ratio of no less than 2.5:1.0, while complying with additional conditions outlined in the Note Indenture. However, certain subsidiaries who are not Note Guarantors are restricted from incurring indebtedness in excess of U.S.\$10 million. As of December 31, 2017, the Company is in compliance with such covenants.

Notwithstanding the foregoing limitations, the Company and certain subsidiaries may incur certain indebtedness at any time, including but not limited to: (i) unsecured letters of credit; (ii) secured letters of credit up to U.S.\$200 million, which cannot be secured by cash collateral in excess of U.S.\$25 million; or (iii) indebtedness of up to U.S.\$50 million, subject to the restriction noted above for subsidiaries who are not Note Guarantors.

The Senior Secured Notes are guaranteed by all of the significant subsidiaries of the Company, other than certain subsidiaries, including Pacific Midstream. The Senior Secured Notes are secured on a first lien basis through a package of liens, pledges, mortgages and charges that extend directly or indirectly to most of the assets of the Company and its subsidiaries. All significant bank accounts are subject to certain springing blocked account agreements and may be brought under the control of the creditors in the event of default caused by the Company under the Note Indenture or the Secured LC Agreement, which share on a first and second lien basis the same pool of security.

In 2017, the Note Indenture was supplemented numerous times to release certain Note Guarantors and to include new Note Guarantors in connection with the Company's corporate initiative to streamline its operations and reduce legal redundancies.

Additional information on the calculation of the financial covenants can be found in the audited financial statements and management's discussion and analysis for the year ended December 31, 2017, both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com). A copy of the Note Indenture and the supplemental indentures are also available on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### *Secured LC Facility*

The Company entered into an amended and restated revolving credit agreement on November 2, 2016 (the "**Secured LC Agreement**") with a maturity date of June 22, 2018. As of December 31, 2017, lenders under the Secured LC Facility have provided commitments in the aggregate principal amount of approximately U.S.\$82.3 million for the maintenance, extension and renewal of certain letters of credit.

The lenders under the Secured LC Facility will receive an amount equal to 5% per annum, computed on a quarterly basis in advance and due and payable on the first Business Day of each fiscal quarter, calculated on the undrawn portion of outstanding letters of credit, as a letter of credit fee for their risk of drawing. If an event of default exists, the letter of credit fee will increase by an additional 2% per annum of default interest. In addition, interest will be payable in cash on the aggregate amount of outstanding and unreimbursed letters of credit drawn, if any, at a rate equal to 8% per annum, plus an additional 2% per annum of default interest, if applicable.

The Secured LC Agreement contains covenants and events of default substantially similar to those in the Note Indenture. As of the date hereof, the Company is in compliance with such covenants. Failure to reimburse a letter of credit drawing within two Business Days of any drawing of a letter of credit will constitute an event of default under the Secured LC Agreement.

The Secured LC Facility is guaranteed by the same Note Guarantors that guarantee the Senior Secured Notes and is secured by the same collateral as the Senior Secured Notes but with a second priority ranking.

A copy of the Secured LC Agreement is available on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

#### Credit Ratings

The following information regarding the Company's credit ratings is provided as it relates to the Company's financing cost of funds, liquidity and operations. In particular, the Company's ability to access unsecured funding markets and to engage in certain collateralized business activities on a cost-effective basis is primarily dependent upon maintaining competitive credit ratings.

The following table shows the ratings issued by the rating agencies noted therein as of December 31, 2017. The credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities.

**The credit ratings are not a recommendation to purchase, hold or sell any of the Company's Senior Secured Notes or Common Shares given that such ratings are not indicative of market price or suitability for a particular investor. Credit ratings may be revised or withdrawn entirely by any of the respective rating agencies in the future, if in its judgment circumstances so warrant.**

	Fitch Ratings	S&P Ratings
<b>Corporate Credit Rating</b>	-	BB-
<b>Long-Term Foreign Currency IDRs</b>	B+	-
<b>Long-Term Local Currency IDRs</b>	B+	-
<b>Senior Secured Notes</b>	BB-/RR3	BB-
<b>Outlook</b>	Stable	Stable

A description from the rating agency for each credit rating listed in the table above is set out below.

Fitch issuer default ratings (“IDRs”) provide an ordinal ranking of issuers based on the agency’s view of their relative vulnerability to default, rather than a prediction of a specific percentage of likelihood of default. IDRs are on a rating scale that ranges from AAA (highest) to D (lowest). A rating of B by Fitch is the sixth highest of 11 categories. A rating of B indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment. The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories.

Fitch ratings of financial obligations are on a scale that ranges from AAA (highest) to C (lowest). A rating of BB by Fitch is the fifth highest of nine categories. A rating of BB indicates an elevated vulnerability of credit risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met. The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Recovery ratings are assigned to selected individual securities and obligations. The recovery ratings are on a scale that ranges from RR1 (outstanding recovery prospects given default) to RR6 (poor recovery prospects given default). RR3 rated securities have characteristics consistent with historically recovering 51%-70% of current principal and related interest.

S&P long-term credit ratings are on a rating scale that ranges from AAA (highest) to D (lowest). A rating of BB- is the fifth highest of 10 categories. An obligor rated BB is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the obligor’s inadequate capacity to meet its financial commitments. The addition of a plus (+) or minus (-) designation after the rating indicates the relative standing within the major rating categories.

The Company has paid each of Fitch and S&P their customary fees in connection with the provision of the above ratings. The Company has not made any payments to Fitch and S&P in the past two years for services unrelated to the provision of such ratings.

## MARKET FOR SECURITIES

### Listed Securities

#### *Common Shares*

The Common Shares are listed on the TSX under the trading symbol “FEC”. The closing price on the TSX on March 26, 2018, was \$38.03.

The following table sets out the high and low trading prices of the Common Shares for the periods indicated, as reported by the TSX. The trading history below should not be used as an indication of the trading prices or volume of the Common Shares in the future.

<b>Period (2017)</b>	<b>High</b>	<b>Low</b>	<b>Trading Volume</b>
December	41.00	34.00	405,661
November	40.39	34.80	211,350
October	42.91	36.05	200,276
September	43.66	36.01	560,041
August	36.01	31.50	272,385
July	37.00	32.01	344,925
June	40.00	31.00	547,816
May	45.00	37.00	563,020
April	45.00	36.11	177,878
March	52.92	39.65	348,703
February	55.00	50.52	214,201
January	60.50	49.50	481,554

#### *Senior Secured Notes*

The Senior Secured Notes are listed on the Official List of the Luxembourg Stock Exchange and trade on its Euro MTF market with the ISIN number USC70835AB69 and commenced trading on November 9, 2016.

The trading activity for the Senior Secured Notes, as reported by the Luxembourg Stock Exchange, is insufficient to provide meaningful trading data for the purposes of this Annual Information Form.

#### Unlisted Securities

The following table summarizes the issuance of unlisted securities for the year ended December 31, 2017:

<b>Date of Issuance</b>	<b>Security Type</b>	<b>Number of Common Shares Issued/Issuable or Aggregate Amount</b>	<b>Price/Exercise Price per Security</b>
January 15, 2017	Deferred Stock Unit	6,805	\$52.9789
April 17, 2017	Deferred Stock Unit	7,104	\$43.2785
July 17, 2017	Deferred Stock Unit	8,796	\$33.2534
October 16, 2017	Deferred Stock Unit	7,102	\$40.5928
November 15, 2017	Restricted Stock Unit	380,886 <sup>(1)</sup>	N/A <sup>(2)</sup>

#### Notes:

- <sup>(1)</sup> In 2017, as a result of departures of certain employees granted RSUs, certain awarded RSUs that have yet to vest were subsequently forfeited pursuant to the corresponding Award agreement and the Incentive Plan.
- <sup>(2)</sup> RSUs may be settled in cash, Common Shares, or a combination thereof, at the sole discretion of the Compensation and Human Resources Committee at the stipulated settlement date included in the corresponding Award agreement.

## **DIRECTORS AND OFFICERS**

### Directors and Officers of the Company

As of December 31, 2017, the directors and executive officers of the Company (as a group) owned, or exerted direction or control over, a total of 5,038 Common Shares, representing less than 1% of the Company's total issued and outstanding Common Shares on a non-fully diluted basis.

The information provided below is given with respect to each of the current directors and executive officers of the Company. The following table sets forth the name, municipality of residence of each director and executive officer of the Company, as well as such individual's position within the Company, principal occupation within the five (5) preceding years and number of Common Shares beneficially owned or controlled (directly or indirectly) by each such director or executive officer. Information as to residence, principal occupation and Common Shares owned is based upon information furnished by the person concerned and is as at the date hereof.

<b>Name, Municipality of Residence and Current Position with the Company</b>	<b>Director Since</b>	<b>Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships</b>	<b>Common Shares Owned<sup>(1)</sup></b>
<b>Gabriel de Alba</b> <sup>(3)(5)</sup> Toronto, Ontario Chairman, Director	November 2, 2016	Gabriel de Alba has been the Managing Director and Partner of Catalyst since 2002. Mr. de Alba is currently the chairman of the board of directors' of Therapure Biopharma Inc., Gateway Casinos & Entertainment, Sonar Entertainment and Advantage Rent A Car.	Nil <sup>(5)</sup>
<b>Luis F. Alarcon Mantilla</b> <sup>(4)</sup> Bogotá, Colombia Director	November 2, 2016	Luis F. Alarcon currently serves as Chairman of the Board of Directors of Grupo Sura and Almacenes Exito and is a member of the Board of Riopaila-Castilla.  From 2007 through 2015, Mr. Alarcon served as Chief Executive Officer of Interconexión Eléctrica S.A. E.S.P.	Nil
<b>W. Ellis Armstrong</b> <sup>(2)(4)</sup> Houston, Texas Director	November 2, 2016	Ellis Armstrong currently serves as an independent director of Lamprell plc, Interoil Plc and Lloyds Register Group. From 1981 through 2013, he held various senior strategy, commercial, technical and operational roles with BP and was also the Chief Financial Officer for the group's global exploration and production business.	Nil
<b>Raymond Bromark</b> <sup>(2)</sup> Sarasota, Florida Director	November 2, 2016	Raymond Bromark currently serves as Director and Chair of the Audit and Ethics Committee for YRC Worldwide Inc. and the Audit Committee for Tesoro Logistics GP LLC and CA, Inc. In addition, Mr. Bromark is a member of the Conflicts Committee for Tesoro Logistics GP LLC and CA, Inc.  Mr. Bromark is a certified public accountant and retired partner of PricewaterhouseCoopers LLP where he served for almost 40 years. Mr. Bromark joined PricewaterhouseCoopers LLP's staff in Chicago in 1967 and held various senior roles until his retirement in 2006.	Nil
<b>Russell Ford</b> <sup>(2)(3)</sup> Austin, Texas Director	November 2, 2016	Russell Ford served as Chairman of the Board of AeraEnergy from 2012 to 2015. He led Royal Dutch Shell Group's global supply chain activities as Executive Vice President of Contracting and Procurement from 2013 to 2015 and prior to that was the Executive Vice President Onshore from 2009 to 2012.	Nil
<b>Richard Herbert</b> London, United Kingdom Director	December 21, 2017	Richard Herbert is a petroleum geologist with over 37 years of experience in the global upstream industry. Mr. Herbert currently serves as an independent director of Petroleum Geo-Services. From 2013 to 2016, Mr. Herbert served as Chief Operating Officer, Exploration at BP. Prior to that, from 2009 to 2013, he served as Exploration, Vice President at Talisman Energy.	Nil
<b>Camilo Marulanda Lopez</b> <sup>(4)</sup> Bogotá, Colombia Director	November 2, 2016	Camilo Marulanda currently serves as President and Chief Executive Officer for Ashmore-CAF Asset Management in Colombia. In addition, he currently serves as Chief Executive Officer for Isagen S.A. E.S.P. From 2014 through 2015, Mr. Marulanda served as Chief Operating Officer for Ecopetrol and from 2012 through 2014, he was the Chief Executive Officer for Cenit Transporte y Logística de Hidrocarburos S.A.S. (hydrocarbons logistics and transportation), a subsidiary of Ecopetrol that manages all the midstream assets of the group. Mr. Marulanda had an extensive career with	Nil

Name, Municipality of Residence and Current Position with the Company	Director Since	Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships	Common Shares Owned <sup>(1)</sup>
<b>Barry Larson</b> Calgary, Alberta Chief Executive Officer	N/A	Ecopetrol from 2003 through 2013 occupying several different managerial positions.  Barry Larson will serve as the Chief Executive Officer until April 2, 2018. Prior to Barry Larson's appointment as Chief Executive Officer, he served on the Board of Directors of the Company from November 2016 to January 2017. He is currently a member of the board of directors for Madalena Energy Inc. and has also served as the as Vice President of Operations and Chief Operating Officer of Petro Andina Resources Inc. (which was later taken over by Parex Resources Inc.). He held the same position for Parex Resources Inc. from 2009 to 2016.	3,469 <sup>(6)</sup>
<b>Camilo McAllister</b> Bogotá, Colombia Chief Financial Officer	N/A	Camilo McAllister served as the Chief Financial Officer of the Company from November 2, 2016 to March 9, 2018. From 2012 to 2016, Mr. McAllister worked as operating partner for private equity funds and held several chief executive officer positions at portfolio companies. Prior to joining the Company, Mr. McAllister was the Chief Executive Officer for Vetra Exploration and Production from 2014 to 2016.	Nil
<b>Peter Volk</b> Toronto, Ontario General Counsel & Secretary	N/A	Peter Volk served as the General Counsel of the Company from January 23, 2008 to March 27, 2018 and Secretary of the Company from November 2016 to March 27, 2018 (and also from January 2008 to May 2012). He also previously served as the Company's Executive VP, Communications, North America from May 2014 to November 2016.	969
<b>Grayson Andersen</b> Berkhamsted, United Kingdom Corporate Vice President, Capital Markets	N/A	Grayson Andersen has over 18 years of oil and gas and capital markets industry experience. Prior to joining the Company, from April 2014 to July 2017, Mr. Andersen was the Managing Director of Andersen Securities Limited, a financial services advisory firm based in the United Kingdom. Prior to that role, from April 2010 to January 2014, Mr. Andersen was a Senior Manager with Macquarie Securities Europe Limited.	600
<b>Alejandra Bonilla</b> Bogotá, Colombia Corporate Vice President of Legal and Head of Legal Colombia	N/A	Alejandra Bonilla is a lawyer with over 15 years of experience in the oil and gas sector, specializing in transnational mergers and acquisitions, corporate law and finance. She has been with the Company for the past seven years and prior to her current role, has held various positions, including Deputy General Counsel & Head of the Colombian Legal Team and Corporate Legal Manager.	Nil
<b>Renata Campagnaro</b> Bogotá, Colombia Corporate Vice President, Supply, Transportation & Trading	N/A	Renata Campagnaro has over 37 years of experience in the oil and gas industry. Ms. Campagnaro has been with the Company since 2010. Prior to her current role, she has held a number of positions with the Company, including Corporate Vice President of Supply, Transport and Trading and Executive Vice President of Supply and Transport.	Nil
<b>Jorge Fonseca</b> Bogotá, Colombia Corporate Vice President, Business Development	N/A	Jorge Fonseca has over 23 years of finance and investment banking experience. Mr. Fonseca has been with the Company for the past five years. Prior to his current role, Mr. Fonseca has held a number of positions with the Company, including Vice President of Corporate Development and Corporate	Nil

<b>Name, Municipality of Residence and Current Position with the Company</b>	<b>Director Since</b>	<b>Principal Occupation or Employment for the Past Five Years or more, and Other Current Public Directorships</b>	<b>Common Shares Owned<sup>(1)</sup></b>
		Finance Manager.	
<b>Jeremy Kaliel</b> Calgary, Alberta Corporate Vice President, Corporate Strategy & Communications	N/A	Jeremy Kaliel has over 12 years of experience in equity research at CIBC, Scotia Capital, and Raymond James. Prior to joining the Company, in 2016, Mr. Kaliel worked as a capital markets & communications advisor to Cona Resources Ltd. (TSX: CONA) in Calgary, Canada. Prior to that role, from 2011 – 2016, Mr. Kaliel worked as a sell-side analyst at CIBC in Calgary, Canada.	Nil
<b>Erik Lyngberg</b> Calgary, Alberta Corporate Vice President, Exploration	N/A	Erik Lyngberg joined the Company in 2013 as Vice President, Technical and was appointed Corporate Vice President, Exploration in November 2016. Prior to joining the Company, Mr. Lyngberg held various senior executive roles with Petrominerales Ltd. from August 2008 to November 2013. He is also the Company's representative on the board of directors of CGX Energy Inc.	Nil
<b>Duncan Nightingale</b> Bogotá, Colombia Corporate Vice President, Development and Reservoir Management	N/A	Duncan Nightingale has over 30 years of oil and gas exploration and development experience. Prior to joining the Company, Mr. Nightingale held various executive management positions with Gran Tierra Energy from 2009 to 2017. These included President, interim CEO, Chief Operating Officer and Vice President of Exploration.	Nil
<b>Camilo Valencia</b> Bogotá, Colombia Corporate Vice President, Operations	N/A	Camilo Valencia has been with the Company since 2002. Prior to his current role, he has served in a number of positions with the Company, including Corporate Vice President, Operations, Executive Vice-President, Colombia Business Unit, President, Pacific Mexico and President, Pacific Peru.	Nil

**Notes:**

- (1) Common Shares beneficially owned, or controlled or directed, directly or indirectly, or over which control or direction is exercised.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation and Human Resources Committee.
- (4) Member of the Corporate Governance, Nominating and Sustainability Committee.
- (5) Mr. de Alba is the Managing Director and Partner of Catalyst, which owns, through its funds, approximately 30.9% of the Company's Common Shares.
- (6) Mr. Larson received his Common Shares pursuant to the settlement of his DSUs previously awarded to him as compensation for being a member of the Board of Directors.

**Corporate Cease Trade Orders**

No director or executive officer of the Company, is, or within the ten years prior to the date hereof, has been a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemptions under securities legislation for a period of more than 30 consecutive days while such director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the company being the subject of such order, or that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer in the company being the subject of such order and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of the subject company.

### Corporate Bankruptcies

Except as disclosed herein, no director or executive officer, or a shareholder holding a sufficient number of securities in the capital of the Company to affect materially the control of the Company, is or within ten years prior to the date hereof, has been a director or executive officer of any company, that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Messrs. Peter Volk, Camilo Valencia and Ms. Renata Campagnaro were all officers of the Company during the Restructuring, pursuant to which the Company completed proceedings under the CCAA. Further information can be found under the section entitled "General Development of the Business – Three-Year History – Period ending December 31, 2016 – The Restructuring."

### Penalties or Sanctions

Except as disclosed herein, no director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

### Personal Bankruptcies

No director or executive officer of the Company, and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, nor any personal holding company of any such person, has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

### Conflicts of Interest

There may be potential conflicts of interest to which the directors or officers of the Company may be subject in connection with the operations of the Company. Conflicts of interest, if any, will be subject to the procedures and remedies as provided under the BCBCA, which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company disclose his or her interest and in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the BCBCA.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, no director or executive officer of the Company or any Shareholder controlling, directly or indirectly, more than 10% of the issued and outstanding Common Shares, or any of their respective associates or affiliates, has any material interest in any transactions or any proposed transactions that has materially affected or will materially affect the Company or any of its subsidiaries.

According to IFRS, parties are considered to be related if one party has the ability to "control" (financially or by share capital) the other party or have significant influence (management) on the other party in making financial, commercial and operational decisions.

The Company's internal audit and legal compliance departments monitor related party transactions. The audit and legal compliance departments work together to compose a list of potential related parties. This list is cross-checked against the Company's list of suppliers and other creditors.

The related party transactions listed below were in the normal course of operations and were measured at fair value, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management and the Board of Directors, are considered similar to those negotiable with third parties.



All directors who are related in a particular transaction, as determined by independent legal counsel, recuse themselves from discussion at meetings of the Board of Directors or any committee thereof and from voting in their capacity as directors of the Company on any matter to be approved by the Board of Directors relating to the transaction.

#### CGX Energy

As of December 31, 2017, the Company held 50,351,929 common shares of CGX Energy, representing approximately 45.61% of the issued and outstanding common shares of CGX Energy on a non-diluted basis. Furthermore, Erik Lyngberg is the Company's representative on the board of directors of CGX Energy. In addition, Peter Volk, the Company's previous General Counsel and Secretary, is the General Counsel of CGX.

On December 29, 2017, the Company and CGX Energy entered into an exclusivity agreement pursuant to which the parties agreed to work together to review and evaluate strategic corporate initiatives for CGX Energy, including potential investment and restructuring opportunities. Pursuant to the exclusivity agreement, if CGX Energy were to enter into an alternative proposal, such as a letter of intent or definitive agreement with a third party relating to certain corporate initiatives described in the exclusivity agreement, CGX Energy would have to pay the Company a break fee of U.S.\$5 million, subject to certain terms and conditions.

On April 26, 2017, the Company entered into a secured bridge loan facility with CGX Energy pursuant to which the Company agreed to loan CGX Energy the principal amount of up to U.S.\$3.1 million payable within 12 months of the first draw-down. The loan carries an annual interest rate of 5% and is secured by the assets of CGX Energy. The loan matures on April 25, 2018. Subsequently, the loan has been amended on several occasions to increase the principal amount of the facility with all other terms remaining unchanged. As of the date hereof, the principal amount has been fully drawn down, being U.S.\$5.3 million. As at December 31, 2017, U.S.\$0.1 million in interest has accrued on the facility.

On October 13, 2016, the Company agreed to provide CGX Energy with a bridge loan of up to U.S.\$2 million at an interest rate of 5% per annum and payable within twelve months of the first draw down. As at December 31, 2017, CGX Energy had drawn down U.S.\$2 million. On May 24, 2017, the Company and CGX Energy entered into a letter agreement to extend the maturity date of this loan to April 25, 2018. As at December 31, 2017, U.S.\$0.1 million in interest has accrued on the facility.

On February 29, 2016, the Company agreed to provide CGX with a bridge loan of up to U.S.\$2 million at an interest rate of 2% per annum and payable within 12 months of the first draw down. As at December 31, 2017, CGX Energy had drawn down U.S.\$2 million from the bridge loan. On May 24, 2017, the Company and CGX Energy entered into a letter agreement to extend the maturity date of this loan to April 25, 2018. As at December 31, 2017, U.S.\$0.2 million in interest has accrued on the facility.

In October 2014, the Company extended a bridge loan to CGX Energy of \$7.5 million with an interest rate of 5% per annum and as at December 31, 2017 the full amount is still outstanding. On May 24, 2017, the Company and CGX Energy entered into a letter agreement to extend the maturity date of this loan to April 25, 2018. As at December 31, 2017, U.S.\$1.3 million in interest has accrued on the bridge loan.

In November 2015, CGX Energy issued convertible debentures to the Company in an amount of U.S.\$1.5 million with a conversion price of \$0.335. As at December 31, 2017, U.S.\$0.2 million in interest has accrued on the debentures.

#### Pacific Infrastructure

As of December 31, 2017, certain directors and officers of the Company - Gabriel de Alba, Barry Larson, Camilo McAllister and Alejandra Bonilla - are on the board of directors of Pacific Infrastructure. Blue Pacific holds a minority interest in Pacific Infrastructure and certain former directors and officers of the Company are individual shareholders. Former officer, Peter Volk and current officer Camilo Valencia, own in the aggregate less than 1% of the outstanding shares of Pacific Infrastructure. In addition, Renata Campagnaro, Jorge Fonseca, and Alejandra Bonilla, each an officer of the Company, hold stock options in Pacific Infrastructure, which if exercised would represent in the aggregate less than 1% of the outstanding shares of Pacific Infrastructure.

As a principal shareholder of Pacific Infrastructure and an indirect sponsor of the Port Facility, the Company has entered into certain contractual arrangements with Puerto Bahia, a company in which Pacific Infrastructure holds, directly and indirectly, 100% of the issued and outstanding common shares.

In December 2012, FEC Colombia entered into a take-or-pay agreement with Puerto Bahia. Pursuant to the terms of the agreement, Puerto Bahia will provide for the storage, transfer, loading and unloading of hydrocarbons at its port facilities. The contract term commenced in 2014 and will continue for seven years, renewable in one-year extensions thereafter, if the parties so agree. During the year ended December 31, 2017, the Company paid U.S.\$45.5 million to Puerto Bahia (U.S.\$39.4 million in 2016 and U.S.\$28.6 million in 2015) for storage, transfer and unloading of hydrocarbons. In addition, during 2017, the Company paid U.S.\$Nil in advances to Puerto Bahia in relation to services rendered (U.S.\$Nil in 2016 and U.S.\$28.6 million in 2015).

As at December 31, 2017, the Company has a demand loan receivable outstanding to Pacific Infrastructure for U.S.\$76.6 million (U.S.\$74.3 million as at December 31, 2016, and U.S.\$72.4 million as at December 31, 2015), which bears interest at ranges from LIBOR + 3% to 10% per annum. The loans are guaranteed by Pacific Infrastructure's pipeline project, the Olecar pipeline, which was admitted into judicial liquidation on December 2, 2016. Interest income of U.S.\$7.9 million for the year ended December 31, 2017 with respect to the loan was realized (U.S.\$9.4 million in 2016 and U.S.\$5 million in 2015).

On December 7, 2016, the Company agreed to provide Pacific Infrastructure with a subordinated shareholder loan of up to U.S.\$4.1 million. The loan carries an interest rate of 10% per annum, payable every six months. As at December 31, 2017, the loan has been fully drawn down. Interest income of U.S.\$0.3 million was recognized for the year ended December 31, 2017.

In addition, the Company received U.S.\$1.6 million during the year ended December 31, 2017 (U.S.\$2.7 million in 2016 and U.S.\$3.7 million in 2015) from Pacific Infrastructure with respect to contract fees for advisory services and technical assistance in the construction of the Olecar pipeline. In addition, as at December 31, 2017, the Company had an accounts receivable of U.S.\$5.9 million (U.S.\$0.8 million in 2016 and U.S.\$0.5 million in 2015) from a branch of Pacific Infrastructure. As at December 31, 2017, the Company had accounts payable of U.S.\$1.6 million (U.S.\$0.9 million in 2016 and U.S.\$0.5 million in 2015) to Pacific Infrastructure.

#### Pacific Midstream

As of December 31, 2017, the Company owns 63.64% of the common shares of Pacific Midstream and certain directors and officers of the Company - Gabriel de Alba, Camilo McAllister and Alejandra Bonilla - are on the board of directors of Pacific Midstream.

#### *Bicentenario*

As of December 31, 2017, Renata Campagnaro is one of the Pacific Midstream's representatives on the board of directors of Bicentenario.

In 2011, the Company, along with other shareholders of Bicentenario, entered into a loan agreement with Bicentenario, a company in which Pacific Midstream currently holds a 41.53% direct interest. Pursuant to the agreement, the Company will make subordinated loans to Bicentenario for up to U.S.\$160.3 million. The principal of the subordinated loan will be repaid in 10 equal semi-annual installments starting in 2025. The loans carry an annual interest rate of 7.32% with semi-annual interest payments. During the year ended December 31, 2017, the Company recognized U.S.\$Nil in interest income from the loan agreement as it has been repaid (U.S.\$Nil million in 2016 and U.S.\$1.3 million in 2015).

For the year ended December 31, 2017, the Company paid U.S.\$121.1 million (U.S.\$168.9 million in 2016 and U.S.\$155.6 million in 2015) to Bicentenario for crude oil transport services under a pipeline ship-or-pay agreement.

Additionally, as at December 31, 2017, the Company has advanced U.S.\$87.3 million (U.S.\$87.3 million in 2016 and U.S.\$87.9 million in 2015) to Bicentenario as a prepayment of transport tariffs, which will be amortized against the barrels transported now that Bicentenario is operational.

As of December 31, 2017, the Company has trade accounts receivable from Bicentenario of U.S.\$12.7 million (U.S.\$13.4 million in 2016 and U.S.\$0.4 million in 2015) representing a short term advance.

### *Oleoducto de los Llanos Orientales S.A.*

As of December 31, 2017, Renata Campagnaro is one of Pacific Midstream's representatives on the board of directors of ODL.

On May 19, 2010, the Company entered into a pipeline ship-or-pay agreement with ODL, a company in which Pacific Midstream currently holds a 35% interest. The contract provided for crude oil transport services by ODL. The Company paid U.S.\$51.7 million in 2017 (U.S.\$89.5 million in 2016 and U.S.\$108.5 million in 2015) under this agreement and had accounts payable of U.S.\$0.2 million as at December 31, 2017 (U.S.\$0.3 million in 2016 and U.S.\$13.1 million in 2015).

In 2011, the Company entered into an arrangement with ODL whereby the Company agreed to provide administrative services and rentals of equipment and machinery to ODL. In connection with this contract, the Company has received U.S.\$Nil in 2017 (U.S.\$0.6 million in 2016 and U.S.\$2.9 million in 2015), and has accounts receivable of U.S.\$0.4 million as at December 31, 2017 (U.S.\$0.6 million in 2016 and U.S.\$0.1 million in 2015).

### Charitable Foundations

The Company's previous non-profit charitable foundation, PAYE Foundation, is currently in liquidation. For the year ending December 31, 2017, the Company contributed U.S.\$0.012 million (U.S.\$9.6 million in 2016 and U.S.\$15.3 million in 2015) to the PAYE Foundation. Three of the Company's former directors (Ronald Pantin, Serafino Iacono, and Miguel de la Campa) and an officer of the Company (Federico Restrepo) sat on the board of directors of the PAYE Foundation.

In 2017, the Company established a new non-profit charitable foundation, which is a fully consolidated subsidiary of the Company.

### Pacific Green Energy Corp.

As of December 31, 2017 the Company had accounts payable of U.S.\$1.9 million (U.S.\$1.9 million in 2016 and U.S.\$1.9 million in 2015) outstanding to Pacific Green Energy Corp. with respect to contributions made previously by Pacific Green Energy Corp. to Promotora Agricola, an agricultural project associated with the Company's operations in the Llanos Basin. Pacific Green Energy Corp.'s contributions to the project are expected to be capitalized in the near term. A minority interest in Pacific Green Energy Corp. is held by two former executive directors and one former officer of the Company (Serafino Iacono, Miguel de la Campa and Laureano von Siegmund). As of December 31, 2016, Pacific Green Energy Corp. was no longer a related party.

### Interamerican Energy

As of December 31, 2017, the Company has a 21.19% interest in Interamerican Energy. On December 13, 2016, the Company entered into a loan agreement with Interamerican Energy pursuant to which the Company agreed to lend Interamerican Energy the aggregate amount of U.S.\$2.2 million. The loan has an annual interest rate of 15%. As at December 31, 2017, the Company recorded interest income of U.S.\$0.3 million (U.S.\$Nil in 2016).

Pursuant to the loan agreement, the Company has an option, under certain circumstances, to convert any amount outstanding into shares in Interamerican.

On April 17, 2017, Blue Pacific sold its interest in Interamerican Energy.

### *Proelectrica*

Interamerican Energy owns 100% of Proelectrica, a private Colombia-based 90-megawatt electric utility company. The Company has entered into several take-or-pay agreements as well as interruptible gas sales and transport agreements to supply gas from the La Creciente natural gas field to Proelectrica's gas-fired plant. The Company recorded revenues of U.S.\$0.5 million as at December 31, 2017 (U.S.\$8.7 million in 2016 and U.S.\$9.3 million in 2015) from such agreements. As at December 31, 2017, the Company had trade accounts receivables of U.S.\$0.1 million (U.S.\$0.2 million in 2016 and U.S.\$12.3 million in 2015) from Proelectrica.

In October 2012, the Company and Ecopetrol entered into two agreements to build, own, manage, and transfer power generation assets for the Rubiales field to Genser Power Inc. On March 1, 2013, these contracts were assigned to

TermoMorichal SAS, the company created to perform the agreements, in which Interamerican Energy has a 51% indirect interest. Total commitment under these agreements is U.S.\$229.7 million over ten years. In April 2013, the Company and Ecopetrol entered into another agreement with Consorcio Genser Power-Proelectrica (a joint venture between Proelectrica and Genser Power Inc.) to acquire additional assets for a total commitment of U.S.\$57 million over 10 years. At the expiration of the Rubiales and Piriri contracts in June 2016, the Company's obligations thereunder along with the power generation assets were transferred to Ecopetrol. During the year ended December 31, 2017, the Company made payments of U.S.\$0.3 million (U.S.\$20.2 million in 2016 and U.S.\$30.6 million in 2015) under these agreements. As at December 31, 2017, the Company had an advance of U.S.\$Nil (U.S.\$Nil in 2016 and U.S.\$3.3 million in 2015). The Company had accounts payable due to Consorcio Genser Power-Proelectrica of U.S.\$0.1 million for the year ended December 31, 2017 (U.S.\$0.6 million in 2016 and U.S.\$3.6 million in 2015).

In January 2014, FEC Colombia entered into connection agreements with PEL and energy supply agreements with Proelectrica for the supply of power to the oil fields in the Llanos basin. The connection agreements authorize FEC Colombia and Agro Cascada S.A.S. to use the connection assets of PEL to transport power supply to the Quifa and Rubiales fields. The energy supply agreement is for a term of 13 years. During the years ended December 31, 2017, the Company made payments in the aggregate amount of U.S.\$0.2 million (U.S.\$17.2 million in 2016 and U.S.\$46.3 million in 2015) under this agreement.

#### Loans and Severance Payments to Directors and Executive Officers

Previously, the Company had provided loans to its directors and employees for education, relocation, medical services and the purchase of homes or automobiles. The Company's advances were generally interest-free and repayments were automatically withdrawn from the employee's pay over a 48-month period. The amount of the loan or advance did not exceed three times the employee's monthly salary (five times in the case of managers). Prior to the Restructuring, the Company had also subsidized half of the interest payments that its directors and employees made on their home loans. As at December 31, 2017, the Company had U.S.\$Nil (U.S.\$Nil in 2016 and U.S.\$0.5 million in 2015) in loans outstanding.

During August 2015, the Company agreed to pay U.S.\$8.3 million as severance to a former director and officer, Jose Francisco Arata. On November 2, 2016, the outstanding amount of U.S.\$1.4 million remaining to be paid as part of Mr. Arata's severance package was compromised pursuant to the Plan.

In 2016 and 2017, the Company underwent significant changes to its corporate governance, including the termination and resignation of a number of its executives and key management personnel. As of December 31, 2016 and 2017, the Company incurred the following costs in connection with these corporate governance changes, which included payments to the following former officers, among others: Messrs. Serafino Iacono, Miguel de la Campa, Ronald Pantin, Carlos Perez, Jairo Lugo, Luis Pacheco, Luis Andres Rojas, and Laureano von Siegmund:

<b>(U.S.\$ in thousands)</b>	<b>For the year ended December 31, 2017</b>	<b>For the year ended December 31, 2016</b>
Short-term employment benefits	4,184	26,610
Termination benefits	2	20,603
Post-employment pension and medical benefits	-	3,295
Share-based payments	1,643	1,571
<b>Total</b>	<b>5,829</b>	<b>52,079</b>

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

From time to time, the Company is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation may be material or may be indeterminate, and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation.

Except as disclosed below, there are no legal proceedings or regulatory actions pending or known by the Company to which it is a party or in respect of which any of the properties of the Company are subject that are anticipated to be material to the Company and its subsidiaries taken as a whole. In the summary provided below, the Company has provided the estimates with respect to each claim where such an estimate is available; however, the estimates provided are not indicative of the probability of the final outcome.

## Disputes with Local Authorities in Colombia

### *Tax Disputes with DIAN – Special Tax Benefits*

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

As at December 31, 2017, the Company believes that the disagreements with the DIAN related to the denied income tax deductions will be resolved in favour of the Company.

### *ANH Disputes*

The Company is in a dispute with the ANH relating to the interpretation of a high-price PAP clause under a number of exploration contracts with ANH.

The Company and the ANH entered into an arbitration for the Corcel block regarding the differences in interpretation of the high-price PAP clause. The Company believed that it had a strong position with respect to the high participation based on: (i) the legal interpretation of the contracts; and (ii) the technical data available supporting the Company's view that the Corcel block is comprised of eight independent reservoirs. On December 6, 2017, an arbitration panel delivered a ruling in favour of the Company's interpretation that the Corcel block is comprised of independent reservoirs. On December 14, 2017, the ANH filed a request for annulment of the arbitration panel's decision with the *Consejo de Estado* (Colombia's highest administrative court administrative matters). The matter is currently being reviewed by such court.

The Company is also in discussions with ANH with respect to another block which has a similar PAP clause; however, no arbitration proceeding has been commenced.

### *Ecopetrol*

The Company and Ecopetrol have had a disagreement over the interpretation as to how production from the Quifa SW region of the Quifa block should be split in certain circumstances. On September 27, 2011, the Company agreed to begin an arbitration process to clarify the interpretation. On March 13, 2013, an arbitration panel delivered a ruling in favour of Ecopetrol. On June 28, 2013, the Company filed a request for annulment of the arbitration panel's decision with the *Consejo de Estado*, which was denied in February 2014.

On April 15, 2013, the Company began to deliver to Ecopetrol its share of the daily net production from the Quifa SW region calculated in accordance with the arbitration decision, as well as an additional 6,500 bbl/d beginning in July 2013, to make up for the shortfall between what the Company effectively delivered and what the ruling ordered (a shortfall that totalled 1,651,844 bbl of oil for the period from April 3, 2011, to April 15, 2013). By March 2014, the Company had delivered all outstanding amounts of oil to Ecopetrol.

In November 2016, the Company received a notification of a claim from Ecopetrol requesting an indemnification for the "losses suffered by Ecopetrol as a consequence of the late delivery of the crude." Ecopetrol is claiming the payment of approximately U.S.\$8.4 million. The dispute will be resolved by national courts, pending a ruling over the competent judge to have jurisdiction over the matter.

### *SFC Reviews*

The SFC is the Colombian agency responsible for regulating local securities markets and issuers. One of the SFC's powers is to impose a "requirement" on an issuer, obliging it to make public disclosures on whatever matter the SFC has deemed "relevant" or material.

Moreover, the SFC requires the appointment of a legal representative for each listed company. Under Colombian law, Colombian entities act through their legal representatives and, accordingly, the legal representative, rather than the issuer, may be personally subjected to reviews by and, possibly, sanctions from, the SFC for actions of the issuer. Over the past two and a half years, Peter Volk, in his capacity as legal representative of the Company before the SFC, has been the subject of two SFC reviews (collectively, the "**SFC Reviews**") relating to purported violations of SFC

“requirements” concerning disclosure to the Colombian market. No similar administrative or regulatory reviews exist in Canada.

The Company and Mr. Volk have submitted evidence that the actions complained of in the SFC Reviews were executed in compliance with applicable Canadian securities and were not undertaken by Mr. Volk personally or for any personal reason or benefit. Notwithstanding this evidence, on September 5, 2016 and August 2, 2017, the SFC rendered final decisions regarding the SFC Reviews, fining Mr. Volk the aggregate amount of approximately U.S.\$200,000 and suspending him from acting as the legal representative of the Company before the SFC for a period of six months, effective September 24, 2016 and August 25, 2017, respectively. Mr. Volk has challenged these decisions before the judicial authorities. No final decision has yet been rendered in the SFC Reviews, which Mr. Volk is vigorously defending.

#### Disputes with Counterparties

##### *QV Trading*

In 2016, the Company filed a criminal complaint against a customer, QV Trading LLC, in Colombia, with the General Prosecutor’s Office in respect of overdue accounts receivable in the amount of approximately U.S.\$16 million for the sale of oil in August 2015. The claim is still under investigation and criminal proceedings have not yet commenced. The Company cannot assure investors that it will be successful in collecting any part of this receivable.

##### *Ocensa*

On April 25, 2017, the Company commenced arbitration proceedings against Ocensa with the Centre for Arbitration and Conciliation of the Bogota Chamber of Commerce. Further information on the proceedings can be found under the heading entitled “General Development of Business of the Business – Three-Year History – Period ending December 31, 2017.”

#### Disputes with local authorities in Peru

The Peruvian tax authority, SUNAT, completed a tax audit for the taxation year 2013, which resulted in the denial of certain expenses in the aggregate amount of approximately U.S.\$22.4 million (included estimated interest and penalties), claimed by the Company’s wholly-owned subsidiary, Pacific Off Shore Peru S.R.L. The Company has appealed this ruling. No decision has yet been rendered on the appeal.

### **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada through its offices in Toronto, Ontario.

### **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business not otherwise required to be disclosed, that have been entered into by the Company within the most recently completed fiscal year or before the most recently completed fiscal year but still in effect:

- (a) the Note Indenture (as amended, restated, supplemented or otherwise modified) in connection with the issuance of the Senior Secured Notes pursuant to the Plan;
- (b) the Secured LC Agreement (as amended, restated, supplemented or otherwise modified) in connection with the Secured LC Facility entered into pursuant to the Plan;
- (c) the Rights Plan between the Company and Computershare Investor Services Inc. (further information can be found under the heading entitled “Description of Capital Structure – General Description of Capital Structure – Shareholders Rights Plan”);
- (d) the Pacific Midstream Acquisition Agreement (further information can be found under the heading entitled “Description of the Business – Three-Year History – Period ending December 31, 2017”);

- (e) the Pacific Midstream Put Option Agreement (further information can be found under the heading entitled “Description of the Business – Contractual Contingencies - IFC – Put options for its Pacific Midstream shares”); and
- (f) the Pacific Infrastructure Put Option Agreement (further information can be found under the heading entitled “Description of the Business – Contractual Contingencies – IFC – Put options for its Pacific Infrastructure shares”).

### **INTERESTS OF EXPERTS**

The auditors of the Company are Ernst & Young LLP, Chartered Accountants, Vancouver, British Columbia. Ernst & Young LLP are independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. Ernst & Young LLP were first appointed auditors of the Company on August 8, 2007.

To management’s knowledge, as of the date hereof, none of the independent petroleum experts, RPS or D&M, nor the designated professionals of each of RPS or D&M, directly or indirectly owned any of the outstanding Common Shares or other securities of the Company. No director, officer or employee of RPS or D&M is to be or has been elected, appointed or employed by the Company.

### **AUDIT COMMITTEE INFORMATION**

#### The Audit Committee’s Charter

The full text of the Company’s Audit Committee Charter is appended hereto as Appendix “A”.

#### Composition of the Audit Committee and Relevant Education and Experience

As of December 31, 2017, the Audit Committee was comprised of the following three directors of the Company: Raymond Bromark (Chairman), Ellis Armstrong and Russell Ford.

All of the members of the Audit Committee are independent and financially literate for purposes of National Instrument 52-110 – *Audit Committees*. Each has a minimum of 30 years’ business experience and each has held or currently holds executive positions that require oversight and understanding of the accounting principles underlying the preparation of the Company’s financial statements and is aware of the controls and other procedures necessary for financial control and reporting.

Raymond Bromark is a certified public accountant and retired partner of PricewaterhouseCoopers LLP where he served for almost 40 years. Mr. Bromark joined PricewaterhouseCoopers LLP’s staff in Chicago in 1967 and was later transferred to the National Office (New York) in 1977. Afterwards, he was appointed to the Boston Office (1983) and in 1990 he was selected as Deputy Vice Chairman of Auditing and Business Advisory Services (ABS) for the firm. From 1994 through 2000, he was the Global Engagement Partner responsible for reporting on E.I. DuPont de Nemours and Company’s financial statements. During the five years prior to his retirement in 2006, he led the PricewaterhouseCoopers Professional, Technical, Risk and Quality Group. Mr. Bromark was a member of the board of World Color Press (commercial and industrial printing) from 2009 to 2010 when the company merged into another company. He currently serves as Director and Chair of the Audit and Ethics Committee for YRC Worldwide Inc. (a transportation service provider), the Ethics Committee for Tesoro Logistics GP LLC (an operator, developer and acquirer of crude oil, refined products and natural gas logistics assets) and CA Inc. (a leading provider of information technology management software and solutions). In addition, Mr. Bromark is a member of the Conflicts Committee for Tesoro Logistics GP LLC. Mr. Bromark earned a BSc degree in Business Management from Quincy University and is a Member of the American Institute of Certified Public Accountants. He is also a member of the National Association of Corporate Directors’ (NACD) Audit Committee Chair Advisory Group.

Ellis Armstrong is a chartered engineer with over 35 years international oil and gas industry with BP in Argentina, Colombia, Venezuela, Trinidad, Alaska and the North Sea. He held senior strategy, commercial, technical and operational roles with BP and was also the Chief Financial Officer for the group’s global exploration and production business. Dr. Armstrong is an independent director of Lamprell plc, InterOil Plc and Lloyds Register Group, a leading international risk assurance firm. Dr. Armstrong has a BSc and PhD in Civil Engineering from Imperial College, and a Master’s degree in Business Administration from Stanford Business School.

Russell Ford is a senior executive with more than 35 years of experience within the global oil and gas industry. He started his career at Shell's E&P business in 1981 as a production engineer working in upstream. Afterwards, he served in a series of technical, operational and leadership roles across a number of onshore and deep-water assets, in upstream research, and as head of M&A for North America. More recently, he led Royal Dutch Shell Group's global supply chain activities as Executive Vice President of Contracting and Procurement (2013-2015). Prior to that he was Executive Vice President Onshore (2009-2012) with responsibility for drilling, development, and producing operations for the North American onshore unconventional/shale portfolio. This followed assignments as a Vice President over upstream onshore and offshore development in the Western Hemisphere (2005-2009), Private Assistant to Shell's Chief Executive (2004-2005), and Head of EP Strategy and Portfolio (2003-2004). Mr. Ford has a BS in Mechanical Engineering from the University of Michigan and an MBA from California State University. He served as Chairman of the Board of AeraEnergy from 2012 until 2015, and is currently a member of the University of Michigan's Energy Institute External Advisory Board. Since retiring from Shell in June 2015, he has advised companies and financial institutions on project-specific matters.

#### Audit Committee Oversight

The Audit Committee is mandated to monitor audit functions, the preparation of financial statements, the integrity of the Company's internal controls, the Company's compliance activities relating to accounting and financial reporting, the Company's ethics and compliance program, review press releases on financial results, review other regulatory documents as required, and meet with outside auditors independently of management. In addition, the Audit Committee is further mandated to review the Company's externally disclosed oil and gas reserves, including reviewing the qualification of, and procedures used by, the independent engineering firms responsible for evaluating the Company's reserves.

#### Pre-Approval Policies and Procedures

The Company has adopted policies and procedures with respect to the pre-approval of audit and permitted non-audit services by Ernst & Young LLP. The Audit Committee has established a budget for the provision of a specified list of audit and permitted non-audit services that the Audit Committee believes to be typical, recurring or otherwise likely to be provided by Ernst & Young LLP. The budget generally covers the period between the adoption of the budget and the next meeting of the Audit Committee, but at the option of the Audit Committee it may cover a longer or shorter period. The list of services is sufficiently detailed as to the particular services to be provided to ensure that: (i) the Audit Committee knows precisely what services it is being asked to pre-approve; and (ii) it is not necessary for any member of management to make a judgment as to whether a proposed service fits within the pre-approved services.

Subject to the next paragraph, the Audit Committee has delegated authority to the Chair of the Audit Committee (or if the Chair is unavailable, any other member or subcommittee of the Audit Committee) to pre-approve the provision of permitted services by Ernst & Young LLP that have not otherwise been pre-approved by the Audit Committee, including the fees and terms of the proposed services ("**Delegated Authority**"). All pre-approvals granted pursuant to Delegated Authority must be presented by the member(s) or subcommittee who granted the pre-approvals to the full Audit Committee at its next meeting.

All proposed services, or the fees payable in connection with such services, that have not already been pre-approved must be pre-approved by either the Audit Committee or pursuant to Delegated Authority. Prohibited services may not be pre-approved by the Audit Committee or pursuant to Delegated Authority.

#### External Auditor Service Fees (By Category)

The following are the aggregate fees incurred by the Company for services provided by its external auditors during fiscal years 2016 and 2017 (in U.S.\$ in thousands):



	<b>2017</b>	<b>2016</b>
Audit Fees <sup>(1)</sup>	1,936	2,360
Audit-Related Fees <sup>(2)</sup>	448	23
Tax Fees <sup>(2)</sup>	188	184
All Other Fees	-	-
<b>Total</b>	<b>2,572</b>	<b>2,567</b>

Notes:

- (1) Includes fees related to the fiscal year audit and interim reviews, notwithstanding when the fees were billed or when the services were rendered.
- (2) Includes fees for services rendered from January through December of the fiscal year, notwithstanding when the fees were billed. Canadian and Colombian fees for 2016 and 2017 have been converted to U.S.\$ using the average exchange rate for each year.

#### **ADDITIONAL INFORMATION**

Additional financial information is provided in the audited annual financial statements and management's discussion and analysis for the year ended December 31, 2017. For additional information relating to the Company's directors and officers, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under its Incentive Plan, among other things, is contained in the Company's information circulate for its most recent annual meeting of shareholders that involved the election of the Directors. This information and other pertinent information regarding the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**APPENDIX "A"**

**AUDIT COMMITTEE CHARTER**



## FRONTERA ENERGY CORPORATION

### AUDIT COMMITTEE CHARTER

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#### **GENERAL**

The purpose of this Charter is to set forth the composition, authority and responsibilities of the Audit Committee (the "**Committee**") of the Board of Directors of Frontera Energy Corporation (the "**Corporation**").

#### **COMPOSITION**

The members of the Committee are designated by the Board in accordance with the Corporation's Articles, and serve at the discretion of the Board. The Board appoints one member of the Committee as Chair of the Committee.

The Committee consists of at least three members, all of whom must be independent<sup>1</sup> and be "financially literate"<sup>2</sup>. No member of the Committee may simultaneously serve on the audit committees of more than three other publicly traded companies, unless service on any such additional audit committee is approved by the Board of Directors upon recommendation of the Corporate Governance, Nominating and Sustainability Committee. No member of the Committee will have participated in the preparation of the financial statements of the Corporation or any of its subsidiaries (as such term is defined in the Code of Business Conduct and Ethics) at any time during the three year period prior to becoming a member.

#### **AUTHORITY AND RESPONSIBILITIES**

*General.* The general purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

1. the Corporation's financial reporting, including the audits of the Corporation's financial statements and the integrity of the Corporation's financial statements and internal controls;
2. the qualifications and independence of the Corporation's independent auditor (including the Committee's direct responsibility for the engagement of the independent auditor);
3. the performance of the Corporation's internal audit function and independent auditor;
4. the Corporation's compliance activities relating to accounting and financial reporting;
5. the Corporation's Ethics and Compliance Program;
6. the qualifications and independence of the Corporation's independent reserves evaluator(s) or auditor(s); and
7. the Corporation's oil and gas reserves estimates.

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<sup>1</sup> A member is "independent" if he or she would be independent for the purposes of Sections 1.4 and 1.5 of *National Instrument 52-110 – Audit Committees*.

<sup>2</sup> A "financially literate" individual is an individual who has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

To carry out this purpose, the Committee must serve as a focal point for communication among the Board, the independent auditor, the Corporation's internal audit department, the Corporation's independent qualified reserves evaluators or auditors, the Corporation's Ethics & Compliance Department and the Corporation's management, as their respective duties relate to accounting, financial reporting, internal controls, and compliance with *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"), *National Instrument 52-110 – Audit Committees* ("NI 52-110") and all related Canadian Securities Administrators instruments, policies and rules. In particular, the independent auditor, members of the internal audit department, the Chief Financial Officer, the Senior Manager of Financial Reporting, the General Counsel, and the Ethics & Compliance Officer will have unrestricted access to the Committee or its members, other directors or the entire Board, as needed.

*Financial Statement and Disclosure Matters.* The Committee will:

1. Meet to review and discuss with management and the independent auditor the Corporation's annual audited financial statements and financial and other data to be filed on an annual basis under *National Instrument 51-102 – Continuous Disclosure* ("NI 51-102"), including reviewing the specific disclosures made in the "Management's Discussion and Analysis" and the results of the independent auditor's audit of such financial statements, and recommending to the Board whether the audited financial statements should be approved for filing.
2. Meet to review and discuss with management and the independent auditor the Corporation's quarterly financial statements and financial and other data to be filed on a quarterly basis under NI 51-102, including reviewing the specific disclosures made in the "Management's Discussion and Analysis," and the results of the independent auditor's review of such financial statements.
3. Meet to review and discuss with management and the independent auditor the Corporation's annual information form and the financial and other data contained therein to be filed on an annual basis under NI 51-102.
4. Review and discuss with management and the independent auditor the following:
  - (a) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including analyses of the effects on the financial statements of alternative methods under International Financial Reporting Standards ("IFRS");
  - (b) any major issues as to the adequacy of the Corporation's internal controls, and any steps adopted in light of any material weakness or significant deficiencies; and
  - (c) management's annual evaluation of internal controls over financial reporting and quarterly evaluation of any material changes in such controls, and the internal auditor's annual review of the effectiveness of internal control over financial reporting.
5. Review and discuss in a timely manner (but at least annually) reports from the independent auditor regarding:
  - (a) all critical accounting policies and practices to be used;
  - (b) all alternative treatments of financial information within IFRS that have been discussed with management, ramifications of the use of such alternative treatments and related disclosures, and the treatment preferred by the independent auditor; and
  - (c) all other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted audit differences.
6. Generally review and discuss with management the type and presentation of information to be disclosed in the Corporation's earnings press releases, including the use of pro forma or "adjusted" non-IFRS information, as well as the type and presentation of financial information and earnings guidance to be provided to analysts and rating agencies; such discussions may be of a general nature and need not cover the specific information or presentations to be given.

7. Review and discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Corporation's financial statements.
8. Discuss with the independent auditor the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
9. Review disclosures made to the Committee by the Corporation's Chief Executive Officer and Chief Financial Officer in connection with their certification process under *National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") regarding any significant deficiencies or material weaknesses in the design or operation of internal controls, or any fraud involving management or other employees having a significant role in the Corporation's internal controls.
10. Review related party transactions.

*Oversight of Independent Auditor.* The Committee has the sole authority to appoint or replace the independent auditor; provided, however, that this is performed in compliance with NI 51-102. The Committee will be directly responsible for the compensation and oversight of the independent auditor (including the resolution of any disagreements between management and the independent auditor) and the Committee will review and assess the effectiveness of the independent auditor on an annual basis. The independent auditor will report directly to the Committee.

In addition, the Committee will:

1. Review and evaluate the lead partner of the independent auditor team.
2. Obtain on an annual basis a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Corporation and review and discuss with the independent auditor any disclosed relationships or services that may impact the independent auditor's objectivity and independence.
3. Consider whether the independent auditor's provision of permissible non-audit services is consistent with the auditor's independence. As necessary, pre-approve non-audit services to be provided by the independent auditor, as further described in "Delegation of Authority" below.
4. Take appropriate action to oversee the independence of the independent auditor.
5. Obtain and review a report from the independent auditor at least annually regarding:
  - (a) the independent auditor's internal quality control procedures;
  - (b) any material issues raised by the most recent internal quality control review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years relating to one or more independent audits carried out by the firm; and
  - (c) any steps taken to deal with any such issues.
6. Evaluate and report to the Board on its conclusions as to the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal audit department.
7. Ensure the regular rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit.
8. Establish clear policies regarding the Corporation's hiring of employees or former employees of the independent auditor.

9. Meet with the independent auditor to discuss the planning and staffing of the audit.
10. Obtain acknowledgment from the independent auditor that it will inform the Committee if the independent auditor detects or becomes aware of any illegal act.

*Oversight of Internal Audit Department.* The Committee has adopted the Institute of Internal Auditors' definition of Internal Auditing as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Committee will engage in general oversight with respect to the internal audit department. The head of Internal Audit will report directly to the Chair of the Committee and administratively to the Corporation's General Counsel. The Chair of the Committee will be involved in the hiring and evaluation of the head of Internal Audit. In addition, the Committee will:

1. Monitor and examine the organization and performance of the internal audit department.
2. Review significant reports to management prepared by the internal audit department, as well as management's responses to the reports, any significant difficulties or disagreements with management, and any scope restrictions encountered in the course of the function's work.
3. Discuss with the independent auditor and management the responsibilities, budget and staffing of the internal audit department, its charter and the scope of the internal audit plan.

*Oversight of Compliance Activities Relating to Accounting and Financial Reporting.* The Committee will assist the Board in fulfilling its oversight responsibilities with respect to the Corporation's compliance activities relating to accounting and financial reporting.

The Committee will also establish, maintain and periodically review procedures for the receipt, retention and proper treatment of complaints regarding accounting, internal controls (including internal accounting controls) or auditing matters, which procedures will include provision for the confidential, anonymous submission of reports or complaints concerning potential violations of law or other misconduct and concerns regarding accounting, auditing or internal control matters.

*Committee Report.* The Committee will prepare the audit committee report required by NI 51-102 to be included in the Corporation's annual information circular.

*Oversight of Ethics and Compliance Program.* The Committee will assist the Board in fulfilling its oversight responsibilities with respect to the Corporation's Ethics and Compliance program, including the Corporation's compliance with legal and regulatory requirements.

In particular, the Committee will:

1. Oversee the activities of the Ethics and Compliance function. The Ethics & Compliance Officer will report directly to the Chair of the Committee and administratively to the General Counsel (unless the Ethics & Compliance Officer is also the General Counsel).
2. Oversee the adoption and maintenance of procedures to ensure that all compliance and ethics matters receive prompt review by or under the authority of the Ethics & Compliance Officer and the Chair of the Committee.
3. Oversee the establishment and maintenance of a comprehensive compliance and ethics program, including an ethics and compliance training program for all employees and the establishment and operation of the Ethics Committee comprising certain members of management.
4. Monitor the process for communicating to employees the Corporation's Code of Business Conduct and Ethics and Conflicts of Interest Policy and the importance of compliance therewith, including: (a) the

maintenance and periodic review of the Code of Business Conduct and Ethics and Conflicts of Interest Policy; (b) assuring employees that no retaliation or other negative action will be taken against any employee because that employee submits any report or complaint under (but subject to the provisions of) the Whistle Blower Policy concerning potential violations of law or other misconduct and concerns regarding accounting, auditing or internal control matters; and (c) conducting reviews of complaints and investigations made pursuant to the Whistle Blower Policy.

The General Counsel and the Ethics & Compliance Officer will at all times have unrestricted access to the Chair of the Committee or any other member of the Committee or the Board for any purpose he or she deems appropriate.

To help ensure that the Ethics & Compliance Officer preserves the requisite, ongoing authority and independence to maintain an effective compliance program, the Chair of the Committee will be involved in any action to appoint, replace, reassign or terminate the Ethics & Compliance Officer.

*Oversight of the Corporation's Reserves Reporting Process.* The Committee will assist the Board in fulfilling its oversight responsibility to review and approve the Corporation's externally disclosed oil and gas reserves estimates, and any material changes to such reserves estimates, in accordance with NI 51-101, including reviewing the qualifications of, and procedures used by, the independent engineering firm(s) responsible for evaluating the Corporation's reserves. In particular, the Committee will:

1. Consult with the Corporation's senior reserves evaluation personnel, and consider, review and report to the Board in respect of the following:
  - appointment of, or any changes to, qualified reserves evaluator(s) or auditor(s); and
  - determination of reasons for any proposed change in appointment of the qualified reserves evaluator(s) or auditor(s) and, in particular, in the event there is a change of qualified reserves evaluator(s) or auditor(s), whether there have been any disputes between the qualified reserves evaluator(s) or auditor(s) and the Corporation's management.
2. Consider and review, with reasonable frequency, the Corporation's internal procedures relating to the disclosure of oil, gas and reserves data, with special attention given to the following:
  - the adequacy of such procedures for fulfillment of applicable regulatory and disclosure requirements and restrictions;
  - the Corporation's procedures for providing information to the qualified reserves evaluator(s) or auditor(s) who report on reserves data, and whether any restrictions affect the ability of the qualified reserves evaluator(s) or auditor(s) to report without reservation; and
  - the scope of the annual evaluation of the reserves by the qualified reserves evaluator(s) or auditor(s) having regard to applicable securities legislation, regulations and related requirements.
3. Annually review, assess, and approve the fees for any independent reserves evaluator(s) or auditor(s).
4. Review all reserve audit reports prepared by the Corporation's reserves evaluation personnel or any independent reserves evaluator(s) or auditor(s) for the Corporation.
5. Meet with the Corporation's management and each of the chief qualified reserves evaluators, prior to approval and filing of reserves data and the report of the qualified reserves evaluator(s) or auditor(s) thereon, to review the Corporation's annual reserves data, including the following:
  - review the scope of work of the qualified reserves evaluator(s) or auditor(s);
  - review the reserves estimates of the qualified reserves evaluator(s) or auditor(s); and
  - determine whether any restrictions affected the ability of the qualified reserves evaluator(s) or auditor(s) to report on the Corporation's reserves data without reservation.
6. Meet with the Corporation's management and qualified reserves evaluator(s) and auditor(s), as may be required, to address matters of mutual concern in respect of the Corporation's evaluation of oil and gas reserves. However, in the normal course, the Corporation's Chief Executive Officer and Corporate Vice-

President of Exploration shall be the Committee's liaison with the independent qualified reserves evaluator(s) or auditor(s).

7. Receive timely reports from management on the status of the Corporation's response to matters of concern raised in reports prepared by the Corporation's reserves evaluation personnel or any independent reserves evaluator(s) or auditor(s) for the Corporation.
8. Meet with the Corporation's management, prior to public disclosure of the Corporation's annual reserves data, to review and provide recommendations regarding approval of the content and filing of information as required under applicable securities legislation, regulations and related requirements, including the following:
  - the content and filing of the statement of reserves data and related information;
  - the filing of the report of the qualified reserves evaluator(s) or auditor(s); and
  - the content and filing of the related report of management and the Board.

### **DELEGATION OF AUTHORITY**

The Committee may delegate authority to one or more members or subcommittees when deemed appropriate, provided that the actions of any such members or subcommittees must be reported to the full Committee no later than at its next scheduled meeting. In addition, the Chair of the Committee is authorized to approve fees for the performance of all audit, audit-related and other services; however, in respect of tax-related services, the Chair of the Committee is authorized to approve fees of up to \$100,000 and fees over this amount must be approved by the full Committee. The foregoing approval of fees for audit, audit-related, tax-related and other services shall be reported to the full Committee at its next scheduled meeting.

### **COUNSEL AND OTHER DELEGATION OF AUTHORITY; CORPORATION FUNDING OBLIGATIONS**

The Committee has the authority, to the extent it deems necessary or appropriate, to retain and terminate independent legal counsel or other advisors to assist the Committee in carrying out its responsibilities. The Corporation will provide for appropriate funding, as determined by the Committee, to pay any such counsel or other advisors retained by the Committee and to pay ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### **MEETINGS; IN CAMERA SESSIONS**

The Committee meets as often as it deems necessary, but no less frequently than quarterly. The Committee meets periodically and separately with management, the internal auditors, and the independent auditor. Each regularly scheduled Committee meeting may include an in camera session of the members of the Committee. In addition, the Committee may request any officer or other employee of the Corporation, counsel to the Corporation, or any representative of the independent auditor, to meet with the Committee, with one or more members of the Committee, or with counsel or another advisor to the Committee. Meeting agendas will be prepared and provided in advance to the Committee Chair for his review and approval. Briefing materials will be provided to the Committee in advance of the meeting.

The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to and to hear each other. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present.



## **REPORTS TO THE BOARD; MINUTES**

The Committee will make regular reports to the Board regarding the Committee's activities, including issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements relating to accounting and financial reporting, the performance and independence of the independent auditor, the performance of the internal audit function, ethics and compliance matters and the Committee's work relating to the oversight of the reserves reporting process. Minutes of the meetings and other actions of the Committee will be prepared and submitted for approval by the Committee and will be furnished to the Board at regular intervals.

## **COMMITTEE SELF-ASSESSMENT**

The Committee will conduct an annual self-assessment of its performance with respect to its purposes and the authority and responsibilities set forth in this Charter. The results of the self-assessment will be reported to the Board.

## **COMMITTEE CHARTER**

This Charter is subject to review and approval by the Board. The Committee will review this Charter annually and adopt any changes deemed appropriate, subject to approval by the Board.

## **LIMITATION OF COMMITTEE'S ROLE**

Each member of the Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and the accuracy of the information provided to the Corporation by such other persons or organizations. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and in accordance with IFRS and applicable rules and regulations, each of which is the responsibility of management and the Corporation's external auditors.

## **CURRENCY OF CHARTER**

A charter of the Committee was initially adopted by the Board on November 16, 2007 and was last revised and approved by the Board on December 6, 2017 and adopted by the Committee on December 6, 2017.