

# **CANACOL ENERGY LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
THREE MONTHS ENDED SEPTEMBER 30, 2014**



## FINANCIAL & OPERATING HIGHLIGHTS

(in United States dollars (tabular amounts in thousands) except as otherwise noted)

Financial	Three months ended September 30,		
	2014	2013	Change
Petroleum and natural gas revenues, net of royalties	58,917	48,222	22%
Adjusted petroleum and natural gas revenues, net of royalties, including revenues related to the Ecuador IPC <sup>(2)</sup>	66,978	51,622	30%
Cash provided by operating activities	45,618	19,724	131%
Per share – basic (\$)	0.42	0.23	83%
Per share – diluted (\$)	0.42	0.23	83%
Adjusted funds from operations <sup>(1)(2)</sup>	36,784	24,278	52%
Per share – basic (\$)	0.34	0.28	21%
Per share – diluted (\$)	0.34	0.28	21%
Net income (loss)	14,110	2,981	373%
Per share – basic (\$)	0.13	0.03	333%
Per share – diluted (\$)	0.13	0.03	333%
Capital expenditures, net	47,522	17,408	173%
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC <sup>(1)(2)</sup>	56,209	23,743	137%
	September 30, 2014	June 30, 2014	Change
Cash and cash equivalents	137,426	163,729	(16%)
Restricted cash	103,718	66,827	55%
Working capital surplus, excluding the current portion of bank debt and non-cash items <sup>(1)</sup>	124,508	159,117	(22%)
Short-term and long-term bank debt	211,812	210,688	1%
Total assets	773,701	756,587	2%
Common shares, end of period (000s)	107,814	107,736	-
Operating	Three months ended September 30,		
	2014	2013	Change
Petroleum and natural gas <b>production</b> , before royalties (boepd)			
Petroleum <sup>(3)</sup>	9,922	6,110	62%
Natural gas	3,334	3,022	10%
Total <sup>(2)</sup>	13,256	9,132	45%
Petroleum and natural gas <b>sales</b> , before royalties (boepd)			
Petroleum <sup>(3)</sup>	9,997	6,307	59%
Natural gas	3,311	3,052	8%
Total <sup>(2)</sup>	13,308	9,359	42%
Realized sales prices (\$/boe)			
LLA-23 (oil)	83.97	92.40	(9%)
Esperanza (natural gas)	21.48	29.67	(28%)
Rancho Hermoso (oil and liquids)	84.72	94.18	(10%)
Ecuador (tariff oil) <sup>(2)</sup>	38.54	38.54	-
Total <sup>(2)</sup>	60.15	65.38	(8%)
Operating netbacks (\$/boe) <sup>(1)</sup>			
LLA-23 (oil)	54.03	67.27	(20%)
Esperanza (natural gas)	16.84	25.07	(33%)
Rancho Hermoso (oil and liquids)	20.18	16.92	19%
Ecuador (tariff oil) <sup>(2)</sup>	38.54	38.54	-
Total <sup>(2)</sup>	37.70	39.33	(4%)

(1) Non-IFRS measure – see “Non-IFRS Measures” section within MD&A.

(2) Inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section within MD&A.

(3) Includes tariff oil production and sales related to the Ecuador IPC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador, with non-core activities in Brazil and Peru. The Corporation's head office is located at 4500, 525 - 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, and the Bolsa de Valores de Colombia under the symbol CNEC.

### Advisories

The following management's discussion and analysis ("MD&A") is dated November 11, 2014 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three months ended September 30, 2014 and 2013 (the "financial statements"), and the audited consolidated financial statements and management's discussion and analysis for the year ended June 30, 2014. The financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Forward-Looking Statements** – Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that petroleum and natural gas production will result from such capital projects, that additional natural gas sales contracts will be secured, or that hydrocarbon-based royalties assessed will remain consistent or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development drilling and related activities; fluctuations in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; and risks associated with oil and gas operations, many of which are beyond the control of the Corporation. Accordingly, there is no representation by the Corporation that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except to the extent required by law, the Corporation assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are qualified in their entirety by these cautionary statements.

Readers are further cautioned not to place undue reliance on any forward-looking information or statements.

**Non-IFRS Measures** – Due to the nature of the equity method of accounting the Corporation applies under IFRS 11 to its interest in the incremental production contract for the Libertador and Atacapi fields in Ecuador (“Ecuador IPC”), the Corporation does not record its proportionate share of revenues and expenditures as would be typical in oil and gas joint interest arrangements. Therefore, within this MD&A, management has provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation’s operations. Such supplemental measures should not be considered as an alternative to, or more meaningful than, the measures as determined in accordance with IFRS as an indicator of the Corporation’s performance, and such measures may not be comparable to that reported by other companies.

One of the benchmarks the Corporation uses to evaluate its performance is adjusted funds from operations. Adjusted funds from operations is a measure not defined in IFRS. It represents cash provided by operating activities before changes in non-cash working capital and decommissioning obligation expenditures, and includes the Corporation’s proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. The Corporation considers adjusted funds from operations a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Adjusted funds from operations should not be considered as an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with IFRS as an indicator of the Corporation’s performance. The Corporation’s determination of adjusted funds from operations may not be comparable to that reported by other companies. The Corporation also presents adjusted funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of earnings per share. The following table reconciles the Corporation’s cash provided by operating activities to adjusted funds from operations:

	Three months ended September 30,	
	2014	2013
Cash provided by operating activities	\$ 45,618	\$ 19,724
Changes in non-cash working capital	(16,250)	1,154
Ecuador IPC revenue, net of current income taxes	7,416	3,400
<b>Adjusted funds from operations</b>	<b>\$ 36,784</b>	<b>\$ 24,278</b>

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, the current portion of convertible debentures, the current portion of warrants, and the current portion of any embedded derivatives asset/liability, and is used to evaluate the Corporation’s financial leverage. Operating netback is a benchmark common in the oil and gas industry and is calculated as total petroleum and natural gas sales, less royalties, less production and transportation expenses, calculated on a per barrel equivalent (“boe”) basis of sales volumes using a conversion. Operating netback is an important measure in evaluating operational performance as it demonstrates field level profitability relative to current commodity prices.

Working capital and operating netback as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities.

The term “boe” is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet of natural gas to barrels of oil equivalent 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 MD&A we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Ministry of Mines and Energy of Colombia.

## RESULTS OF OPERATIONS

### Producing Field Overview

For the three months ended September 30, 2014, the Corporation's production primarily consisted of crude oil and natural gas liquids from its Leono, Labrador, Pantro, Tigro and Rancho Hermoso fields in the Llanos Basin in Colombia, natural gas from its Nelson field in the Lower Magdalena Basin in Colombia, crude oil from the Ecuador IPC, and, to a lesser extent, crude oil from its Capella, VMM-2 and Santa Isabel properties in Colombia.

Over the past two years the Corporation has made four key light oil discoveries on its LLA-23 block located in the Llanos basin, those being Labrador in December 2012, Leono in December 2013, Pantro in April 2014, and most recently Tigro in August 2014. The Corporation also drilled one dry exploration well, Pointer, in September of 2014. These discoveries are currently producing approximately half of the Corporation's current production and the Corporation is focused on developing the existing discoveries to their full productive potential, at the same time continuing the exploration drilling of the remaining portfolio throughout the remainder of calendar 2014 and throughout 2015 and 2016. The Corporation has recently completed the Labrador-6 and Tigro-3 wells, and anticipates drilling up to two additional development wells and two exploration wells (Maltes-1 and Pastor-1) throughout the remainder of calendar 2014 and into early 2015 subject to the approval of the ANH. The Corporation also commenced the acquisition of a 400 square kilometer 3D seismic program in August 2014. The objective of the 3D seismic program is to firm up the portfolio of 12 currently identified exploration leads into prospects for drilling in calendar 2015 and 2016.

The Esperanza block, located in the Lower Magdalena Basin in Colombia, produces dry natural gas for sale to local customers under long-term contracts. During the quarter ended September 30, 2014, the Corporation completed the drilling of the first well of its three well gas exploration program, Palmer-1, which tested 15.5 million standard cubic feet per day ("MMcfd") (2,730 barrels of oil equivalent "boepd") of dry gas. As previously disclosed, the Corporation has executed three new gas sales contracts for a combined 65 MMcfd which will take Canacol's current daily gas production of approximately 20 MMcfd (3,509 boepd) to 83 MMcfd (14,561 boepd) in late calendar 2015. The new contracts each have a five year term, with pricing of \$ 5.40/million British thermal units ("MMbtu") escalated at 2% per year for two of the contracts totalling 35 MMcfd, and \$8.00/MMbtu escalated at approximately 3% per year for the third contract of 30 MMcfd. Canacol currently sells approximately 18 MMcfd (3,158 boepd) of gas from the Nelson Field to a local ferronickel producer under a 10 year contract that expires in 2021. That contract was linked to the Guajira price index, which changed effective October 29, 2014 from \$3.97/MMbtu (\$22.63/boe) to \$5.08/MMbtu (\$28.96/boe). Nevertheless, as mentioned above, the Corporation has diversified its future gas sales with the addition of three new fixed-price gas contracts commencing in December 2015. The Corporation has completed the drilling of the second of three planned gas exploration wells on the Esperanza contract, Corozo-1, in early October 2014, which has been cased and is awaiting production testing. The Corporation then plans to drill the third exploration well, Canandonga-1, and then plans to drill up to five development wells on the block thereafter in order to deliver the 83 MMcfd of contracted gas by the end of calendar 2015.

The Corporation, through a consortium, participates in an incremental production contract for the Libertador and Atacapi fields in Ecuador whereby the Corporation receives a tariff price of \$38.54/bbl for each incremental barrel of oil produced over a pre-determined production base curve. Such incremental production volumes are reported as production in this MD&A. As further described above, as required under IFRS 11, the Ecuador IPC is being accounted for under the equity method of accounting versus the proportionate consolidation method of accounting. For purposes of this MD&A, management has provided supplemental measures for adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations.

During the quarter ended September 30, 2014, the Corporation participated in the drilling of three new development wells and the work over of two existing wells to add new production. The consortium plans to drill two additional new development wells and work over one existing producing wells in the remainder of calendar 2014.

Under its non-tariff production sharing contract with Ecopetrol, the Corporation recognizes only 24-25% of gross non-tariff production before royalties. Consequently, average production expenses per barrel are higher at Rancho Hermoso due to this additional cost burden under the non-tariff production sharing contract. Rancho Hermoso is a mature field and the Corporation plans to undertake limited additional work over activities with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

For the three months ended September 30, 2014, the Corporation also had other crude oil production from its Capella, VMM-2 and Santa Isabel properties in Colombia. At Santa Isabel, the Corporation has drilled and completed its second

well, Oso Pardo-2, into the field in August 2014. The Oso Pardo-2 well is currently producing at a rate of 44 bopd and based on this poor result, the Corporation plans no further shallow Tertiary drilling for the remainder of calendar 2014. At VMM-2, the Corporation and its partner plan to drill an additional appraisal well into the shallow Lisama discovery prior to the end of calendar 2014. The operator of the Capella property (10% WI) is expected to continue its extensive development program for the field through calendar 2014.

In addition to its producing fields, the Corporation has interests in a number of exploration blocks in Colombia and Peru.

### Average Daily Petroleum and Natural Gas Production and Sales Volumes

Production and sales volumes in this MD&A are reported before royalties.

	Three months ended September 30,		
	2014	2013	Change
<b>Production (boepd)</b>			
LLA-23 (oil)	5,675	3,024	88%
Esperanza (gas)	3,334	3,022	10%
Rancho Hermoso (oil and liquids)	917	1,916	(52%)
Ecuador (tariff oil)	2,273	959	137%
Other (oil)	1,057	211	401%
Total production	13,256	9,132	45%
Inventory movements, power generation and other	52	227	(77%)
<b>Total sales</b>	<b>13,308</b>	<b>9,359</b>	<b>42%</b>
<b>Sales (boepd)</b>			
LLA-23 (oil)	5,735	3,303	74%
Esperanza (gas)	3,311	3,052	8%
Rancho Hermoso (oil and liquids)	949	1,609	(41%)
Ecuador (tariff oil)	2,273	959	137%
Other (oil)	1,040	436	139%
<b>Total sales</b>	<b>13,308</b>	<b>9,359</b>	<b>42%</b>

The overall increase in production volumes in the three months ended September 30, 2014 compared to the same period in 2013 is primarily due to new production from the Labrador, Leono, Pantro and Tigro discoveries on the LLA-23 block, production increase from the Libertador and Atacapi fields in Ecuador, and new production from the Oso Pardo and Morsa discoveries on the Santa Isabel block.

### Petroleum and Natural Gas Revenues

	Three months ended September 30,		
	2014	2013	Change
LLA-23	\$ 44,304	\$ 28,078	58%
Esperanza	6,542	8,330	(21%)
Rancho Hermoso	7,397	13,941	(47%)
Other	7,340	2,542	189%
Petroleum and natural gas revenues, before royalties	65,583	52,891	24%
Royalties	(6,666)	(4,669)	43%
Petroleum and natural gas revenues, after royalties, as reported	58,917	48,222	22%
Ecuador <sup>(1)</sup>	8,061	3,400	137%
<b>Adjusted petroleum and natural gas revenues, after royalties <sup>(1)</sup></b>	<b>\$ 66,978</b>	<b>\$ 51,622</b>	<b>30%</b>

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

The increase in adjusted petroleum and natural gas revenues in the three months ended September 30, 2014 compared to the same period in 2013 is primarily the result of the increased overall sales of 42% by volume, offset by the impact of lower realized average prices.



## Average Benchmark and Realized Sales Prices

	Three months ended September 30,		
	2014	2013	Change
Brent (\$/bbl)	\$ 101.90	\$ 110.23	(8%)
West Texas Intermediate (\$/bbl)	\$ 97.87	\$ 105.83	(8%)
LLA-23 (\$/bbl)	\$ 83.97	\$ 92.40	(9%)
Esperanza (\$/boe)	21.48	29.67	(28%)
Rancho Hermoso (\$/bbl)	84.72	94.18	(10%)
Ecuador (\$/bbl)	38.54	38.54	-
Other (\$/bbl)	76.71	63.37	21%
<b>Average realized sales price (\$/boe)<sup>(1)</sup></b>	<b>\$ 60.15</b>	<b>\$ 65.38</b>	<b>(8%)</b>

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

In January 2014, the Guajira Index, the natural gas reference price used as a basis for the calculation of the Corporation's current Esperanza sales contracts, was reduced to \$3.97/MMbtu (\$22.63/boe) by decree of the “Comision de Regulacion de Energia y Gas” (“CREG”) of Colombia. The decree was made by the CREG as part of temporary measures involved in bridging the time from January 1, 2014, when certain amendments to the applicable legislation in Colombia came into force, and the establishment of a “market regulator” that will be in charge of calculating and publishing a Guajira average price as mandated by such legislation. As of October 29, 2014, the market regulator has been established and the Guajira Index has been revised up to \$5.08/MMbtu (\$28.96/boe). Nevertheless, the Corporation has diversified its future gas sales with the addition of three new fixed-price gas contracts commencing in December 2015 for 65 MMcfpd (11,404 boepd) for a five year period at a fixed price of \$5.40/MMbtu for 35 MMcfpd, under contracts executed in December 2013, and \$8.00/MMbtu for 30 MMcfpd under the most recent contract executed in September 2014. Both of these contracts are escalated at approximately 3% per year during the term of each contract.

## Royalties

	Three months ended September 30,	
	2014	2013
LLA-23	\$ 4,908	\$ 2,709
Esperanza	562	662
Rancho Hermoso	607	1,127
Other	589	171
<b>Total royalties</b>	<b>\$ 6,666</b>	<b>\$ 4,669</b>

In Colombia, crude oil royalties are generally at a rate of 8% until net field production reaches 5,000 boepd, then increase on a sliding scale to 20% up to field production of 125,000 boepd. Crude oil royalties in Rancho Hermoso are taken in kind. The Corporation's LLA-23 and VMM-2 blocks are subject to an additional x-factor royalty of 3% (effectively 2.76%). Crude oil royalties in LLA-23 and VMM-2 are calculated from crude oil revenue net of transportation expenses. The Corporation's Capella heavy oil field is subject to a 6% royalty. There are no royalties on tariff production in Ecuador. Natural gas royalties are calculated from natural gas revenue, generally at a rate of 6.4%. In addition, the Corporation's natural gas production is subject to an additional overriding royalty of 2%.

## Production and Transportation Expenses

Total production and transportation expenses were as follows:

	Three months ended September 30,		
	2014	2013	Change
Production expenses	\$ 18,236	\$ 13,000	40%
Transportation expenses	2,596	4,761	(45%)
<b>Total production and transportation expenses</b>	<b>\$ 20,832</b>	<b>\$ 17,761</b>	<b>17%</b>
<b>\$/boe</b>	<b>\$ 17.01</b>	<b>\$ 20.63</b>	<b>(18%)</b>

An analysis of production expenses is provided below:

	Three months ended September 30,		
	2014	2013	Change
LLA-23	\$ 9,006	\$ 3,147	186%
Esperanza	854	630	36%
Rancho Hermoso	4,790	7,652	(37%)
Other	3,586	1,571	128%
<b>Total production expenses</b>	<b>\$ 18,236</b>	<b>\$ 13,000</b>	<b>40%</b>
<b>\$/boe</b>			
LLA-23	\$ 17.07	\$ 10.36	65%
Esperanza	\$ 2.80	\$ 2.24	25%
Rancho Hermoso	\$ 54.86	\$ 51.69	6%
<b>Total</b>	<b>\$ 14.89</b>	<b>\$ 15.10</b>	<b>(1%)</b>

Production expenses at LLA-23 increased 186% in the three months ended September 30, 2014 compared to the same period in 2013. The increase is primarily due to new production from the Labrador, Leono, Pantro and Tigro discoveries.

Production expenses at Esperanza increased 36% in the three months ended September 30, 2014 compared to the same period in 2013, primarily due to increased production and higher labour and electricity generation costs.

Production expenses at Rancho Hermoso decreased 37% in the three months ended September 30, 2014 compared to the same period in 2013. The decrease is the result of decreased production in the field. However, since much of the costs of the field are not directly variable with production volumes, per barrel production expenses have increased by 6% from the three months ended September 30, 2013 to the same period in 2014. Under its contract with Ecopetrol, the Corporation pays 100% of the production expenses at Rancho Hermoso while only recognizing non-tariff production before royalties of approximately 24-25% of gross non-tariff production. As a result, production expenses per barrel for Rancho Hermoso oil are higher than a similar operation that is subject to an ANH contract, such as LLA-23, Capella, VMM-2 and Santa Isabel. As Rancho Hermoso is a mature field, the Corporation intends to manage the operation with the objective to maintain profitable operations and maximize free cash flows until it reaches its economic limit.

The Corporation does not pay production expenses in Ecuador.



An analysis of transportation expenses is provided below:

	Three months ended September 30,		
	2014	2013	Change
LLA-23	\$ 1,885	\$ 1,782	6%
Rancho Hermoso	238	2,658	(91%)
Other	473	321	47%
<b>Total transportation expenses</b>	<b>\$ 2,596</b>	<b>\$ 4,761</b>	<b>(45%)</b>
<b>\$/boe</b>			
LLA-23	\$ 3.57	\$ 5.86	(39%)
Rancho Hermoso	\$ 2.73	\$ 17.96	(85%)
<b>Total</b>	<b>\$ 2.12</b>	<b>\$ 5.53</b>	<b>(62%)</b>

Total transportation expenses have decreased by 45% in the three months ended September 30, 2014 compared to the same period in 2013 mainly due to lower transportation rates, decreased sales volumes at Rancho Hermoso, and more delivery of crude oil at the field. The Corporation does not pay transportation costs at Esperanza or in Ecuador.

### Operating Netbacks

\$/boe	Three months ended September 30,		
	2014	2013	Change
Petroleum and natural gas revenues	\$ 60.15	\$ 65.38	(8%)
Royalties	(5.44)	(5.42)	-
Production and transportation expenses	(17.01)	(20.63)	(18%)
<b>Operating netback<sup>(1)</sup></b>	<b>\$ 37.70</b>	<b>\$ 39.33</b>	<b>(4%)</b>

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

Operating netbacks by major production categories were as follows:

\$/boe	Three months ended September 30,		
	2014	2013	Change
<b>LLA-23</b>			
Crude oil revenues	\$ 83.97	\$ 92.40	(9%)
Royalties	(9.30)	(8.91)	4%
Production and transportation expenses	(20.64)	(16.22)	27%
<b>Operating netback</b>	<b>\$ 54.03</b>	<b>\$ 67.27</b>	<b>(20%)</b>
<b>Esperanza</b>			
Natural gas revenues	\$ 21.48	\$ 29.67	(28%)
Royalties	(1.84)	(2.36)	(22%)
Production expenses	(2.80)	(2.24)	25%
<b>Operating netback</b>	<b>\$ 16.84</b>	<b>\$ 25.07</b>	<b>(33%)</b>
<b>Rancho Hermoso</b>			
Crude oil and natural gas liquids	\$ 84.72	\$ 94.18	(10%)
Royalties	(6.95)	(7.61)	(9%)
Production and transportation expenses	(57.59)	(69.65)	(17%)
<b>Operating netback</b>	<b>\$ 20.18</b>	<b>\$ 16.92</b>	<b>19%</b>
<b>Ecuador</b>			
Tariff revenues <sup>(1)</sup>	\$ 38.54	\$ 38.54	-
<b>Operating netback<sup>(1)</sup></b>	<b>\$ 38.54</b>	<b>\$ 38.54</b>	<b>-</b>

(1) Revenues related to the Ecuador IPC are not included in Petroleum and Natural Gas Revenues as reported under IFRS – see “Non-IFRS Measures” section above.

Other fields in Colombia contributed only a minor amount to total revenues (<10%) in the three months ended September 30, 2014 and 2013 and, therefore, a separate operating netback analysis is not provided.

### General and Administrative Expenses

	Three months ended September 30,		
	2014	2013	Change
Gross costs	\$ 6,831	\$ 5,899	16%
Less: capitalized amounts	(933)	(488)	91%
<b>General and administrative expenses</b>	<b>\$ 5,898</b>	<b>\$ 5,411</b>	<b>9%</b>
<b>\$/boe</b>	<b>\$ 4.82</b>	<b>\$ 6.28</b>	<b>(23%)</b>

Gross general and administrative expenses increased 16% in the three months ended September 30, 2014 compared to the same period in 2013 primarily due to a general increase in costs required to support expanded operations. General and administrative expenses have decreased by 23% on a per boe basis in the three months ended September 30, 2014 compared to the same period in 2013 primarily as a result of increased production period over period.

### Net Finance Income and Expense

	Three months ended September 30,		
	2014	2013	Change
Net financing expense paid	\$ 2,143	\$ 1,326	62%
Non-cash financing costs	1,245	617	102%
<b>Net finance expense</b>	<b>\$ 3,388</b>	<b>\$ 1,943</b>	<b>74%</b>

Net finance expense paid increased by 62% in the three months ended September 30, 2014 compared the same period in 2013 primarily due to increased interest and financing costs incurred on the \$220 million (2013 - \$140 million) Senior Secured Term Loan.

### Commodity Contracts

At September 30, 2014, the Corporation had one financial oil collars outstanding under the following terms:

Period	Volume	Type	Price Range
Jan 2014 – Dec 2014	500 bbls/day	Financial Brent Oil Collar	\$75.00 – \$123.50

Gains and losses on commodity contracts recognized in net income/loss are summarized below:

	Three months ended September 30,	
	2014	2013
Unrealized change in fair value	\$ (38)	\$ (39)
Realized cash settlement	-	231
<b>Total loss (gain)</b>	<b>\$ (38)</b>	<b>\$ 192</b>

### Stock-Based Compensation Expense

	Three months ended September 30,		
	2014	2013	Change
Gross costs	\$ 1,831	\$ 605	203%
Less: capitalized amounts	(563)	(374)	51%
<b>Stock-based compensation expense</b>	<b>\$ 1,268</b>	<b>\$ 231</b>	<b>449%</b>

Stock-based compensation expense is a non-cash expense that is based on the fair value of stock options granted. The fair value is calculated on grant date and amortized over the vesting period.

## Restricted Share Units

	Number (000s)	Amount
Balance at June 30, 2014	62	\$ 404
Unrealized gain	-	(93)
Foreign exchange gain	-	(19)
<b>Balance at September 30, 2014</b>	<b>62</b>	<b>\$ 292</b>

## Depletion and Depreciation Expense

	Three months ended September 30,		
	2014	2013	Change
Depletion and depreciation expense	\$ 19,493	\$ 7,298	167%
\$/boe	\$ 15.92	\$ 8.48	88%

Depletion and depreciation expense increased 167% in the three months ended September 30, 2014 compared to 2013 primarily as a result of the higher depletable base at LLA-23, Esperanza and Santa Isabel.

## Income Tax Expense

	Three months ended September 30,	
	2014	2013
Current income tax expense	\$ 3,627	\$ 1,622
Deferred income tax expense (recovery)	(4,817)	(406)
<b>Income tax expense (recovery)</b>	<b>\$ (1,190)</b>	<b>\$ 1,216</b>

The Corporation's pre-tax income is subject to the Colombian statutory income tax rate of 34%.

## Cash and Funds from Operations and Net Income (Loss)

	Three months ended September 30,		
	2014	2013	Change
Cash provided by operating activities	\$ 45,618	\$ 19,724	131%
Per share – basic	\$ 0.42	\$ 0.23	83%
Per share – diluted	\$ 0.42	\$ 0.23	83%
Adjusted funds from operations <sup>(1)</sup>	\$ 36,784	\$ 24,278	52%
Per share – basic	\$ 0.34	\$ 0.28	21%
Per share – diluted	\$ 0.34	\$ 0.28	21%
Net income (loss)	\$ 14,110	\$ 2,981	373%
Per share – basic	\$ 0.13	\$ 0.03	333%
Per share – diluted	\$ 0.13	\$ 0.03	333%

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

## Capital Expenditures

	Three months ended September 30,	
	2014	2013
Drilling and completions	\$ 35,865	\$ 10,868
Facilities, work overs and infrastructure	5,376	1,949
Seismic, capitalized general and administrative expenses, capitalized borrowing costs and other	6,281	4,591
Net capital expenditures	47,522	17,408
Ecuador	8,687	6,335
<b>Adjusted net capital expenditures <sup>(1)</sup></b>	<b>\$ 56,209</b>	<b>\$ 23,743</b>
<b>Net capital expenditures recorded as:</b>		
Expenditures on exploration and evaluation assets	\$ 27,102	\$ 7,036
Expenditures on property, plant and equipment	20,420	10,372
<b>Net capital expenditures</b>	<b>\$ 47,522</b>	<b>\$ 17,408</b>

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

Capital expenditures in fiscal Q1 2015 primarily related to:

- Drilling, completion and facilities costs at LLA-23 (Labrador, Leono, Pantro, Tigro and Pointer);
- Drilling and completion costs at Santa Isabel (Morsa and Oso Pardo);
- Drilling and completion costs at Esperanza (Palmer and Corozo);
- Drilling, completion and facilities costs at Capella (non-operated); and
- Drilling, completion and recompletion costs related to the Ecuador IPC (accounted for under the equity method of accounting)

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

The Corporation’s policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include common share capital, convertible debentures, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of commodity contracts, warrants and convertible debentures. In order to maintain or adjust the capital structure, from time to time the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

The Corporation monitors leverage and adjusts its capital structure based on the ratio of net debt to adjusted funds from operations. This ratio is calculated as net debt, defined as the principal amount of its outstanding bank debt plus the principal amount of its convertible debentures, unless the debentures are in-the-money or may otherwise be settled in common shares at the option of the Corporation, less working capital, as defined above and less the current portion of bank debt, convertible debentures, warrants and phantom warrants included above, divided by adjusted funds from operations. The Corporation uses the ratio of net debt to adjusted funds from operations as a key indicator of the Corporation’s leverage and to monitor the strength of its financial position.

In order to facilitate the management of this ratio, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast crude oil prices, changes in capital structure, execution of the Corporation’s business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

	September 30, 2014
Bank debt (current and long-term) – principal	\$ 220,000
Working capital surplus, excluding the current portion of bank debt and derivatives	(124,508)
Net debt	\$ 95,492
Annualized adjusted funds from operations <sup>(1)</sup>	\$ 147,140
Net debt to adjusted funds from operations	0.6

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above. Calculated as adjusted funds from operations for the three months ended September 30, 2014, annualized.

## Credit Facilities and Debt

### Senior Secured Term Loan

On April 3, 2013, the Corporation entered into a credit agreement for a \$140 million senior secured term loan with a syndicate of banks. The Senior Secured Term Loan was for a five-year term, with interest payable quarterly and principal repayable in 15 equal quarterly instalments starting in October 2014, following an initial 18 month grace period. The Senior Secured Term Loan carried interest at LIBOR plus 4.50% and was secured by all of the material assets of the Corporation.

On April 24, 2014, the Corporation completed an upsizing of its existing Senior Secured Term Loan, from \$140 million to \$220 million, with no changes to the terms of the Senior Secured Term Loan or the repayment schedule. The revised term loan carries interest at LIBOR plus 4.50-5.00%, depending on agreed leverage ratios, and is secured by all of the material assets of the Corporation. The carrying value of the Senior Secured Term Loan included \$8.2 million of transaction costs netted against the principal amount as at September 30, 2014.

The Senior Secured Term Loan includes various non-financial covenants relating to future acquisitions, indebtedness, operations, investments, capital expenditures and other standard operating business covenants. The Senior Secured Term Loan also includes various financial covenants, including a maximum consolidated leverage ratio ("Consolidated Leverage Ratio"), a minimum consolidated interest coverage ratio ("Consolidated Interest Coverage Ratio"), a minimum debt service coverage ratio ("Debt Service Coverage Ratio"), a minimum consolidated current assets to consolidated current liabilities ratio ("Consolidated Current Assets to Consolidated Current Liabilities Ratio") and other standard financial covenants.

The Consolidated Leverage Ratio is calculated on a quarterly basis as consolidated total debt ("Consolidated Total Debt") divided by consolidated EBITDAX ("Consolidated EBITDAX"). The maximum allowable Consolidated Leverage Ratio is 2.75:1.00. Consolidated Total Debt includes the principal amount of all indebtedness, which currently includes bank debt, office lease commitments, and net hedging liabilities, if any, and specifically excludes amounts with respect to the Corporation's convertible debentures or warrants; additionally, restricted cash maintained in the debt service reserve account related to the Senior Secured Term Loan is deductible against Consolidated Total Debt. Consolidated EBITDAX is calculated on a rolling 12-month basis and is defined as consolidated net income adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses, share of joint venture profit/loss and other similar non-recurring or non-cash charges. Consolidated EBITDAX is further adjusted for the contribution to adjusted funds from operations, before taxes, of the results of the Ecuador IPC as disclosed in the calculation of Adjusted Funds from Operations in the Corporation's management's discussion and analysis. The purpose of including this last amount is to capture the funds from operations of the Corporation's joint venture in Ecuador into the calculation as it is accounted for on an equity consolidation basis in the Corporation's consolidated financial statements.

The Consolidated Interest Coverage Ratio is calculated on a quarterly basis as Consolidated EBITDAX divided by consolidated interest expense ("Consolidated Interest Expense"). The minimum Consolidated Interest Coverage Ratio required is 3.50:1.00. Consolidated EBITDAX is calculated on a rolling 12-month basis as described in the above paragraph. Consolidated Interest Expense is calculated on a rolling 12-month basis and includes interest expense, amortization of upfront fees, and capitalized interest.

The Debt Service Coverage Ratio is calculated on a quarterly basis as actual cash collections deposited by customers in the Corporation's collection accounts divided by the debt service amount ("Debt Service Amount"). The minimum Debt Service Coverage Ratio required is 1.50:1.00. The Debt Service Amount is defined as the sum of all amounts in respect of principal, interest, and fees payable on the interest payment date succeeding the date of the calculation.

The Consolidated Current Assets to Consolidated Current Liabilities Ratio is calculated on a quarterly basis as consolidated current assets divided by consolidated current liabilities, excluding the current portion of any long-term indebtedness. The minimum Consolidated Current Assets to Consolidated Current Liabilities Ratio required is 1.00:1.00.

The Corporation was in compliance with its covenants as at September 30, 2014.

#### *Other Colombian Credit Facilities*

The Corporation has revolving lines of credit in place in Colombia with an aggregate borrowing base of \$35.5 million (COP\$ 72.0 billion). These lines of credit have interest rates ranging from 6% to 9% and are unsecured. The facilities were undrawn as at September 30, 2014.

#### *Letters of Credit*

At September 30, 2014, the Corporation had letters of credit outstanding totaling \$26.1 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments. The total of these letters of credit, net of amounts counter-guaranteed by other financial institutions, reduce the amounts available under the Colombian revolving lines of credit by \$9.1 million.

#### *Convertible Debentures*

The Corporation has convertible debentures outstanding with a face value of \$22.8 million (fair value – \$23.4 million) that mature on June 30, 2015, and bear an annual coupon rate of 8%, payable semi-annually. The debentures are convertible into common shares of the Corporation at the option of the holder at a conversion price of C\$10.526 per share, being the ratio of 95 common shares per C\$1,000 principal amount of the debentures. On the maturity date, the Corporation has a right to repay the outstanding principal amount and any accrued interest in common shares of the Corporation, subject to certain conditions, including customary regulatory approvals.

#### **Share Capital**

At November 11, 2014, the Corporation had 107.8 million common shares, 2.4 million warrants, 7.5 million stock options, and 0.5 million cash-settled restricted share units outstanding.

#### **Contractual Obligations**

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at September 30, 2014:

	Less than 1 year	1-3 years	Thereafter	Total
Bank debt – principal	58,667	117,333	44,000	220,000
Trade and other payables	81,861	-	-	81,861
Deferred income	-	3,731	-	3,731
Other long term obligations	-	-	219	219
Convertible debentures – principal	22,786	-	-	22,786
Phantom warrants	3,795	-	-	3,795
Warrants	1,394	306	-	1,700
Restricted share units	146	146	-	292
Exploration and production contracts	21,505	27,390	-	48,895
Office leases	991	1,674	3,460	6,125



## Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia and Peru which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2014 of \$48.9 million and has issued \$23.6 million in financial guarantees related thereto. These commitments are planned to be satisfied by means of seismic work, exploration drilling and farm-outs.

### Oleoducto Bicentenario de Colombia (“OBC”) Pipeline

The Corporation owns a 0.5% interest in OBC, which owns a pipeline system that will link Llanos basin oil production to the Cano Limon oil pipeline system. Under the terms of the OBC agreement, the Corporation may be required to provide financial support or guarantees for its proportionate equity interest in any future debt financings undertaken by OBC. The Corporation is also required to enter into ship-or-pay arrangements with OBC to guarantee pipeline revenues.

### Ecuador Incremental Production Contract

In addition to the contractual obligations described above, the Corporation has a non-operated 25% equity participation interest (27.9% capital participation interest) in a joint-venture consortium which in 2012 was awarded an incremental production contract for the Libertador and Atacapi mature oil fields in Ecuador. The consortium is committed to incur project expenditures estimated at a total of \$334 million (\$93.3 million net to the Corporation) over the 15 year term of the contract. As at September 30, 2014, the Corporation had incurred \$64.3 million of expenditures in connection with its Ecuador IPC commitment.

## SUBSEQUENT EVENTS

On October 29, 2014, the Corporation entered into a \$100 million unsecured floating rate senior note indenture agreement with Apollo Investment Corporation (the “Senior Notes”), with \$50 million drawn and funded on October 29, 2014, and a further \$50 million committed and available to be drawn at any time within 18 months at the sole discretion of Canacol, subject only to customary closing conditions. The Senior Notes are repayable in full on their maturity date of December 31, 2019 and carry interest at LIBOR plus 8.5% per annum (subject to a LIBOR floor of 1.00%), payable quarterly. The Senior Notes may be repaid at any time prior to maturity and are subject to customary financial, performance and legal covenants. Standby fees on the undrawn portion of the Senior Notes are calculated at 1% per annum.

On October 20, 2014, all 2,697,292 phantom warrant units were settled in cash for \$3.5 million.

On October 2, 2014, the Corporation granted 234,781 restricted share units to certain officers and employees with a reference price of C\$4.80 per share.

## OUTLOOK

Despite recently declining crude oil prices, production from the LLA-23 block remains highly profitable due to the high deliverability of the reservoirs and the effective cost structure. The Corporation will continue with its capital program on LLA-23 and plans to drill two additional development wells and two exploration wells (Maltes-1 and Pastor-1) throughout the remainder of calendar 2014 and into early 2015, subject to the approval of the ANH. The Corporation also commenced the acquisition of 400 square kilometer 3D seismic in August 2014. The objective of the 3D seismic program is to firm up the portfolio of 12 currently identified exploration leads into prospects for drilling in calendar 2015 and 2016.

The Corporation has completed the drilling of the second of three planned gas exploration wells on the Esperanza contract, Corozo-1, in early October 2014, which has been cased and is awaiting production testing with a work over rig. The Corporation plans to drill the third exploration well, Canandonga-1, followed by the drilling of up to five appraisal and development wells on the block thereafter in order to deliver the 83 MMcfd of contracted gas by the end of calendar 2015, subject to the approval of the ANH. The Corporation has already executed three new gas sales contracts for a combined 65 MMcfd which is expected to take Canacol's current daily gas production of approximately 20 MMcfd (3,509 boepd) to 83 MMcfd (14,561 boepd) in late calendar 2015. The new contracts each have a five year term, with pricing of \$ 5.40/MMbtu escalated at 2% per year for two of the contracts totalling 35 MMcfd, and \$8.00/MMbtu escalated at approximately 3% per year for the third contract of 30 MMcfd. Canacol currently sells approximately 18 MMcfd (3,158 barrels of oil equivalent per day) of gas from the Nelson Field to a local ferronickel producer under a 10 year contract that expires in 2021. That contract was linked to the Guajira price index, which changed effective October 29, 2014 from \$3.97/MMbtu (\$22.63/boe) to \$5.08/MMbtu (\$28.96/boe). Nevertheless, as mentioned above, the Corporation has diversified its future gas sales with the addition of three new fixed-price gas contracts commencing in December 2015.

In Ecuador, the consortium plans to drill two additional new development wells and work over one existing producing well in the remainder of calendar 2014.

In other areas of Colombia, the Corporation and its partner expect to drill an additional appraisal well into the shallow Lisama discovery on the VMM-2 block prior to the end of 2014. The operator of the Capella property is expected to continue its extensive development program for the field through calendar 2014. The operator of the VMM-3 block spudded the Pico Plata-1 exploration well in early October 2014 targeting the shale of the Cretaceous La Luna formation.

In light of recent weakness in benchmark crude oil prices, the Corporation will focus its efforts for the remainder of calendar 2014, and all of calendar 2015, on production and exploration activities on 1) high netback light oil from its LLA-23 contract, 2) development drilling on its Esperanza gas contract to bring total production up to 83 MMcfd (14,561 boepd) from the current 20 MMcfd (3,509 boepd) by calendar year end 2015, and 3) tariff oil production operations in Ecuador. As a result of this refocus, the Corporation will decrease its capital program for calendar 2014 by approximately \$20 million due to the suspension of certain planned activities for the period September through December 2014 associated with lower netback projects and facilities deferrals. As a result of this capex reduction, and as a result of the temporary shut-in of certain operated and non-operated oil production that is currently marginally economic or uneconomic due to low benchmark crude oil prices, the Corporation revises its calendar 2014 production guidance downward slightly to 12,500 to 13,000 boepd. The Corporation plans on releasing its calendar 2015 capital program and production guidance in December 2014.

## SUMMARY OF QUARTERLY RESULTS

	2015 Q1	Q4	Q3	2014 Q2	Q1	Q4	2013 Q3	Q2
<b>Financial</b>								
Petroleum and natural gas revenues, net of royalties	58,917	61,744	55,653	42,168	48,222	38,961	34,602	26,200
Adjusted petroleum and natural gas revenues, net of royalties, including revenues relate to the Ecuador IPC <sup>(1)</sup>	66,978	68,351	61,550	45,987	51,622	41,796	36,725	27,350
Cash provided by operating activities	45,618	8,715	13,099	36,406	19,724	13,829	(8,520)	6,445
Per share – basic	0.42	0.09	0.15	0.42	0.23	0.16	(0.10)	0.10
Per share – diluted	0.42	0.09	0.15	0.41	0.23	0.16	(0.10)	0.10
Adjusted funds from operations <sup>(1)</sup>	36,784	23,371	32,274	15,599	24,278	19,102	15,578	3,202
Per share – basic <sup>(1)</sup>	0.34	0.24	0.36	0.18	0.28	0.22	0.18	0.05
Per share – diluted <sup>(1)</sup>	0.34	0.23	0.35	0.18	0.28	0.22	0.18	0.05
Net income (loss)	14,110	(2,070)	19,438	(10,412)	2,981	(119,046)	(3,425)	1,820
Per share – basic	0.13	(0.02)	0.22	(0.12)	0.03	(1.38)	(0.04)	0.03
Per share – diluted	0.13	(0.02)	0.21	(0.12)	0.03	(1.38)	(0.04)	0.03
Capital expenditures, net	47,522	77,093	35,915	22,749	17,408	13,099	3,021	19,431
Adjusted capital expenditures, net, including capital expenditures related to the Ecuador IPC <sup>(1)</sup>	56,209	87,584	44,103	32,679	23,743	15,758	10,434	22,667
<b>Operations (boepd)</b>								
Petroleum and natural gas production, before royalties								
Petroleum <sup>(2)</sup>	9,922	9,271	8,260	6,998	6,110	5,390	4,785	5,035
Natural gas	3,334	2,941	2,633	3,097	3,022	2,879	2,874	319
Total <sup>(2)</sup>	13,256	12,212	10,893	10,095	9,132	8,269	7,659	5,354
Petroleum and natural gas sales, before royalties								
Petroleum <sup>(2)</sup>	9,997	9,386	8,792	5,868	6,307	5,372	4,267	4,815
Natural gas	3,311	2,937	2,626	2,953	3,052	2,914	2,874	319
Total <sup>(2)</sup>	13,308	12,323	11,418	8,821	9,359	8,286	7,141	5,134

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

(2) Includes tariff oil production related to the Ecuador IPC.

## RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended September 30, 2014 to the risks and uncertainties as identified in the MD&A for the year ended June 30, 2014.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation’s management made judgements, assumptions and estimates in the preparation of the financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Corporation’s significant accounting policies can be found in the notes to the financial statements.

## CHANGES IN ACCOUNTING POLICIES

The Corporation is currently reviewing a number of new and revised IFRSs that have been issued but are not yet effective. Detailed discussions of new accounting policies that may affect the Corporation are provided in the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months ended September 30, 2014 and the audited consolidated financial statements as at and for the year ended June 30, 2014.

## REGULATORY POLICIES

### Disclosure Controls and Procedures

Disclosure Controls and Procedures (“DC&P”) are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), along with other members of management, have designed, or caused to be designed, under the CEO and CFO’s supervision, disclosure controls and procedures and established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109. In addition to the processes that specifically fall into the category of DC&P, the Corporation has also adopted a company-wide Corporate Disclosure Policy and has additional procedures in place to provide reasonable assurance that any material information required to be disclosed by the Corporation in its interim filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. With the assistance of expert advisors and other members of management, the Corporation’s CEO and CFO have assessed the design effectiveness of the Corporation’s DC&P as at September 30, 2014 and have not identified any material weaknesses relating to the design effectiveness of the Corporation’s DC&P framework.

### Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. With the assistance of expert advisors and other members of management, the Corporation’s CEO and CFO have assessed the design effectiveness of the Corporation’s ICFR as at September 30, 2014, using the framework and criteria established in Internal Control – Integrated Framework (“1992 COSO Framework”) published by The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and have not identified any material weaknesses relating to the design effectiveness of the Corporation’s ICFR framework.

During the quarter ended September 30, 2014, there has been no change in the Corporation’s ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation’s ICFR. On May 14, 2013, COSO published an updated Internal Control - Integrated Framework and related illustrative documents which will supersede the 1992 COSO Framework as of December 15, 2014. As of September 30, 2014, the Corporation was utilizing the original framework published in 1992, but is transitioning to the COSO 2013 Framework as it relates to its Internal Control over Financial Reporting.

### Limitations of Controls and Procedures

The Corporation’s management, including its CEO and CFO, believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.