CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED SEPTEMBER 30, 2015

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2015	June 30, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 48,493	$ 45,765
Restricted cash	6	11,950	10,903
Trade and other receivables		13,833	21,770
Prepaid expenses and deposits		3,838	4,906
Investments	7	2,750	2,700
Crude oil inventory		682	1,286
		81,546	87,330
Non-current assets			
Restricted cash	6	49,366	50,869
Exploration and evaluation assets	4	155,387	152,925
Property, plant and equipment	5	371,115	363,624
Investment in joint venture	17	12,775	12,734
Investments	7	2,439	2,260
		591,082	582,412
Total assets		$ 672,628	669,742
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		16,343	15,929
Crude oil payable in kind		1,237	1,622
Deferred income	16	5,751	-
Warrants	14	2	67
Restricted share units	14	314	340
Wealth tax payable		-	630
Taxes payable		7,749	5,926
		31,396	24,514
Non-current liabilities			
Bank debt	8	247,639	267,023
Deferred income	16	3,731	3,731
Decommissioning obligations		31,541	28,278
Restricted share units	14	24	10
Other long term obligations		3,102	3,701
Deferred tax liabilities		4,372	850
Total liabilities		321,805	328,107
Equity			
Share capital	9	617,755	591,520
Other reserves		57,723	55,741
Accumulated other comprehensive loss		347	347
Deficit		(325,002)	(305,973)
Total equity		350,823	341,635
Total liabilities and equity		$ 672,628	669,742

Commitments and contingencies (note 15)

Subsequent events (notes 9, 18)

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(UNAUDITED)

(in thousands of United States dollars, except per share amounts)

Three months ended September 30,	Note		2015		2014
Revenues					
Petroleum and natural gas revenues, net of royalties	12	$	**21,958**	$	58,917
Share of joint venture (loss) profit	17		**(135)**		2,327
Expenses					
Production and transportation expenses			**7,163**		20,832
Pre-license exploration costs			**52**		90
General and administrative			**4,850**		5,898
Stock-based compensation and restricted share units	9,14		**1,632**		1,268
Depletion and depreciation	5		**12,573**		19,493
Foreign exchange loss and other			**3,061**		2,485
Gain on derivatives and financial instruments	12		**(996)**		(5,130)
			28,335		44,936
Net finance expense	10		**6,183**		3,388
(Loss) Income before income taxes			**(12,695)**		12,920
Income taxes (recovery)					
Current			**2,812**		3,627
Deferred			**3,522**		(4,817)
			6,334		(1,190)
Net (loss) income and comprehensive (loss) income			**(19,029)**		14,110
(Loss) Earnings per share					
Basic and diluted	11	$	**(0.15)**	$	0.13

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars, number of shares in thousands)

	Number of Common Shares		Share Capital		Other Reserves		Accumulated Other Comprehensive Income		Deficit		Total Equity
Balance as at June 30, 2014	107,736	$	551,049	$	48,842	$	347	$	(199,951)	$	400,287
Stock options and warrants exercised	78		541		11		-		-		552
Stock-based compensation	-		-		1,831		-		-		1,831
Net income for the period	-		-		-		-		14,110		14,110
Balance at September 30, 2014	**107,814**	**$**	**551,590**	**$**	**50,684**	**$**	**347**	**$**	**(185,841)**	**$**	**416,780**
Balance as at June 30, 2015	126,434	$	591,520	$	55,741	$	347	$	(305,973)	$	341,635
Issue of common shares, net of costs	14,490		26,226		-		-		-		26,226
Stock options and warrants exercised	2		9		(6)		-		-		3
Stock-based compensation	-		-		1,988		-		-		1,988
Net loss for the period	-		-		-		-		(19,029)		(19,029)
Balance at September 30, 2015	140,926	**$**	617,755	**$**	57,723	**$**	347	**$**	(325,002)	**$**	350,823

See accompanying notes to interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

Three months ended September 30	Note		2015		2014
Operating activities					
Net (loss) income for the period		$	(19,029)	$	14,110
Adjustments:					
Net financing expense	10		6,183		3,388
Share of joint venture loss (profit)	17		135		(2,327)
Stock-based compensation	9		1,632		1,268
Depletion and depreciation	5		12,573		19,493
Unrealized gain on derivatives and financial instruments	12		(996)		(5,130)
Unrealized foreign exchange loss and other			3,257		3,383
Deferred income tax			3,522		(4,817)
Changes in non-cash working capital	12		7,025		16,250
			14,302		45,618
Investing activities					
Expenditures on exploration and evaluation assets			(2,080)		(26,541)
Expenditures on property, plant and equipment			(17,032)		(20,420)
Investments			(492)		207
Change in restricted cash			456		(36,891)
Other long-term liabilities			(599)		-
Changes in non-cash working capital	12		7,043		13,434
			(12,704)		(70,211)
Financing activities					
Repayment of bank debt	8		(20,000)		-
Net financing expense paid	10		(5,099)		(2,144)
Issue of common shares, net of costs	9		26,229		434
			1,130		(1,710)
Change in cash and cash equivalents			2,728		(26,303)
Cash and cash equivalents, beginning of period			45,765		163,729
Cash and cash equivalents, end of period		$	48,493	$	137,426
Cash and cash equivalents consists of:					
Cash		$	48,493	$	137,426
Cash equivalents			-		-
Cash and cash equivalents, end of period		$	48,493	$	137,426

See accompanying notes to interim condensed consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

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 Peru. The Corporation's head office is located at 4500, 525 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "TSX") 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.

The Board of Directors approved these interim condensed consolidated financial statements (the "financial statements") for issuance on November 9, 2015.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended June 30, 2015.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash and cash equivalent, restricted cash, crude oil payable in kind, investments, warrants and restricted share units, which are measured at fair value with changes in fair value recorded in profit or loss ("fair value through profit or loss") and bank debt, which is measured at amortized cost.

These financial statements have been prepared on a going concern basis.

Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

The following are new IFRS pronouncements that have been issued, although not yet effective and have not been early adopted, and may have an impact on the Corporation in the future as discussed below. The Corporation is currently in process of assessing the impact to the financial statements.

(i) IAS 1 Amendment

On January 1, 2016, the Corporation will be required to adopt amendments to IAS 1 which involve applying professional judgment in determining what information to disclose in the financial statements. Furthermore, the amendments state that professional judgment should be used in determining where and in what order information is presented in the financial statement disclosures.

(ii) Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

On January 1, 2016, the Corporation will be required to adopt amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" which introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances when applying the consolidation requirements.

(iii) IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

On January 1, 2016, the Corporation will be required to adopt the clarified definition of "Acceptable method of Depreciation and Amortization" to exclude a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset.

(iv) IFRS 11 " Joint Arrangements"

On January 1, 2016, the Corporation will be required to adopt the amendment to IFRS 11 "Joint Arrangements" for accounting for acquisitions of interest in joint operations. The amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 and disclose the information required by IFRS 3 and other IFRSs for business combinations.

(v) IAS 27 "Separate Financial Statements"

On January 1, 2016, the Corporation will be required to adopt the amendment to IFRS 27 "Separate Financial Statements" for the application of the equity method in separate financial statements.

(vi) Revenue from Contracts with Customers

On January 1, 2018, the Corporation will be required to adopt IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and will replace IAS 11 "Construction Contracts", IAS 18 "Revenue Recognition", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Corporation's ordinary activities.

(vii) Financial Instruments

On January 1, 2018 , the Corporation will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Amendments to IFRS 7 "Financial Instruments: Disclosures" will also be required to be adopted by the Corporation simultaneously with IFRS 9.

Portions of the standard remain in development and the full impact of the standard on the consolidated financial statements will not be known until the project is complete.

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

NOTE 4 – EXPLORATION AND EVALUATON ASSETS

Balance at June 30, 2014	$	133,510
Additions		73,183
Property acquisitions		75,609
Dispositions and farm-out agreements		(19,963)
Transferred to D&P assets (note 5)		(107,284)
Transferred to exploration expense		(2,130)
Balance at June 30, 2015	$	152,925
Additions		2,462
Balance at September 30, 2015	**$**	**155,387**

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

		Petroleum and Natural Gas Assets		Corporate and Other Assets		Total
Cost						
Balance at June 30, 2014	$	583,043	$	8,704	$	591,747
Additions		89,437		767		90,204
Dispositions		(1,691)		-		(1,691)
Transferred from E&E assets (note 4)		107,284		-		107,284
Derecognition and other		(252)		(31)		(283)
Balance at June 30, 2015		777,821		9,440		787,261
Additions		19,802		35		19,837
Derecognition and other		-		(87)		(87)
Balance at September 30, 2015	**$**	**797,623**	**$**	**9,388**	**$**	**807,011**
Accumulated depletion and depreciation						
Balance at June 30, 2014	$	(285,729)	$	(4,620)	$	(290,349)
Depletion and depreciation		(60,643)		(619)		(61,262)
Impairment		(72,057)		-		(72,057)
Derecognition and inventory adjustments		98		(67)		31
Balance at June 30, 2015		(418,331)		(5,306)		(423,637)
Depletion and depreciation		(12,415)		(158)		(12,573)
Derecognition and inventory adjustments		267		47		314
Balance at September 30, 2015	**$**	**(430,479)**	**$**	**(5,417)**	**$**	(435,896)
Carrying value						
At June 30, 2014	$	297,314	$	4,084	$	301,398
At June 30, 2015	$	359,490	$	4,134	$	363,624
At September 30, 2015	**$**	367,144	**$**	3,971	**$**	371,115

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

NOTE 6 – RESTRICTED CASH

	September 30, 2015	June 30, 2015
Restricted cash – current	$ 11,950	$ 10,903
Restricted cash – non-current	49,366	50,869
	$ 61,316	$ 61,772

At September 30, 2015, restricted cash consisted of $48.6 million of term deposits used as collateral to secure the Ecuador IPC's borrowings ($7.7 million classified as current; $40.9 million classified as non-current), $7.9 million for work commitments and other capital commitments ($4.3 million classified as current; $3.6 million classified as non-current), and $4.8 million held in a debt reserve account as required under its senior secured term loan (classified as non-current).

NOTE 7 – INVESTMENTS

Balance at June 30, 2014	$ 7,755
Additions	2,758
Disposals	(2,740)
Realized loss	(5)
Unrealized loss	(2,126)
Foreign exchange loss	(682)
Balance at June, 2015	4,960
Additions	315
Unrealized loss	(39)
Foreign exchange loss	(47)
Balance at September 30, 2015	**$ 5,189**

During the three months ended September 30, 2015, the Corporation invested $0.3 million in shares of an industry partner.

As at September 30, 2015, investment in shares and warrants of $0.5 million and pipeline investment (see note 15) of $1.9 million were classified as non-current since they are not expected to be settled within a year as at September 30, 2015. Investment in convertible notes of $2.8 million has been classified as current as they are expected to be settled within a year as at September 30, 2015.

NOTE 8 – BANK DEBT

Balance at June 30, 2014	$ 210,688
Draw, net of transaction costs	265,966
Repayment	(220,000)
Amortization of transaction costs	10,369
Balance at June 30, 2015	267,023
Repayment	(20,000)
Amortization of transaction costs	616
Balance at September 30, 2015	**$ 247,639**

The Corporation's bank debt as at September 30, 2015 consisted of a senior secured term loan for a principal amount of $180 million ("BNP Senior Secured Term Loan") and unsecured senior notes ("Senior Notes") with a drawn principal amount of $75 million. The carrying value of the BNP Senior Secured Term Loan and Senior Notes included $4.3 million and $3.1 million of transaction costs netted against the principal amounts as at September 30, 2015, respectively.

During the three months ended September 30, 2015, the Corporation made a $20 million principal repayment of the BNP Senior Secured Term loan.

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

NOTE 9 – SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares.

Issued and Outstanding

	Number		Amount
	(000's)		
Balance at June 30, 2014	107,736	$	551,049
Issued on property acquisitions (note 4)	8,749		18,046
Issued on settlement of convertible debentures	9,757		21,248
Issued on exercise of stock options and warrants	192		640
Transfer from other reserves and warrants for stock options and warrants exercised	-		537
Balance at June 30, 2015	126,434	$	591,520
Issued on private placement, net of costs	14,490		26,226
Issued on exercise of stock options and warrants	2		3
Transfer from other reserves for stock options and warrants exercised	-		6
Balance at September 30, 2015	**140,926**	**$**	**617,755**

On September 3, 2015, the Corporation completed a private placement with Cavengas Holding S.R.L, a Barbados company ("Cavengas"), for the amount of C$78,975,000 consisting of the issuance of 17,590,000 subscription receipts issued at C$2.50 per subscription receipt of the Corporation (the "Subscription Receipts") and convertible into 17,590,000 common shares of the Corporation (the "Common Shares") upon certain Release Conditions (as such term is defined below), along with the issuance of 14,000,000 Common Shares at a price of C$2.50 per Common Share. The C$35,000,000 related to the 14,000,000 Common Shares was released to the Corporation on September 3, 2015. The gross proceeds from the sale of the Subscription Receipts were being held in escrow by an escrow agent and invested in short term obligations issued or guaranteed by the Government of Canada (or other approved investments) pending satisfactory completion of the Release Conditions. The Release Conditions were satisfied on October 16, 2015 and as such, the 17,590,000 Subscription Receipts were converted into 17,590,000 Common Shares and the associated C$43,975,000 was released from escrow to the Corporation. The Corporation engaged an exclusive advisor for this transaction, and will pay a fee of 3.5%, payable entirely in Common Shares, for their services.

Under the terms of the investment agreement entered into as between the Corporation and Cavengas, Cavengas has the right to appoint two (2) nominees to the board of directors of the Corporation (the "Director Nominees") subject to maintaining certain ownership thresholds. The Subscription Receipt agreement entered into as between the Corporation, Cavengas and the escrow agent provides that the Subscription Receipts are convertible into Common Shares, on the basis of one (1) Subscription Receipt convertible into one (1) Common Share, upon the successful appointment of the Director Nominees to the board of directors of the Corporation, contingent upon the approval of the TSX (the "Release Conditions").

Stock Options

The number and weighted-average exercise prices of stock options were as follows:

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at June 30, 2015	10,282	5.51
Granted	2,766	2.28
Exercised	(2)	2.21
Forfeited and cancelled	(802)	8.62
Balance at September 30, 2015	**12,244**	**4.58**

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

Information with respect to stock options outstanding at September 30, 2015 is presented below.

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000's)	(years)	(C$)	(000's)	(C$)
$1.00 to $3.50	7,827	4.21	2.64	4,375	2.74
$3.60 to $7.00	2,519	2.51	6.00	2,101	5.91
$7.10 to $10.50	1,297	1.13	8.94	1,297	8.94
$10.60 to $14.00	92	0.58	11.76	92	11.76
$14.10 and higher	509	0.32	14.90	509	14.90
	12,244	**3.34**	**4.58**	**8,374**	**5.33**

Stock-based compensation of $1.6 million (2014 – $1.3 million) was expensed and $0.4 million (2014 – $0.6 million) was capitalized during the three months ended September 30, 2015, respectively.

NOTE 10 – FINANCE INCOME AND EXPENSE

Three months ended September 30,	2015	2014
Finance income		
Interest and other income	$ (536)	$ (1,069)
Finance expense		
Fair value adjustment on wealth tax payable	-	5
Accretion on decommissioning obligations	469	116
Amortization of upfront fees	616	1,124
Interest and other financing costs	5,634	3,212
	6,719	4,457
Net finance expense	$ 6,183	$ 3,388

NOTE 11 – EARNINGS (LOSS) PER SHARE

Basic and diluted (loss) earnings per share were calculated as follows:

Three months ended September 30,	2015	2014
Net (loss) income, basic and diluted	$ (19,029)	$ 14,110
Weighted-average common share adjustments		
Weighted-average common shares outstanding, basic	130,846	107,812
Effect of warrants	-	410
Effect of stock options	-	1,053
Weighted-average common shares outstanding, diluted	130,846	109,275

For the three months ended September 30, 2015, warrants and stock options were anti-dilutive due to the net loss.

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

NOTE 12 – SUPPLEMENTAL INFORMATION

The Corporation records petroleum and natural gas sales net of royalties. Royalties incurred were as follows:

Three months ended September 30,	2015	2014
Petroleum and natural gas royalties	$ 2,969	$ 6,666

Income taxes and interest paid were as follows:

Three months ended September 30,	2015	2014
Income taxes paid	$ 1,568	$ -
Interest paid	$ 5,235	$ 2,657

Loss (gain) on derivatives and financial instruments:

Three months ended September 30,	Note	2015	2014
Crude oil payable in kind		$ (959)	$ -
Convertible debentures – unrealized		-	(852)
Warrants – unrealized	13	(58)	(2,335)
Warrants – realized	13	(3)	-
Phantom warrants – unrealized		-	(3,409)
Restricted share units – unrealized	13	(15)	(93)
Investments – unrealized	8	39	1,597
Commodity contracts – unrealized		-	(38)
		$ (996)	$ (5,130)

Changes in non-cash working capital are comprised of:

Three months ended September 30,	2015	2014
Change in:		
Trade and other receivables	$ 7,936	$ 23,745
Prepaid expenses and deposits	1,068	1,408
Crude oil inventory	367	520
Trade and other payables	(2,632)	971
Crude oil payable in kind	385	-
Deferred income	5,751	-
Wealth tax payable	(630)	(587)
Taxes payable	1,823	3,627
	$ 14,068	$ 29,684
Attributable to:		
Operating activities	7,025	16,250
Investing activities	7,043	13,434
	$ 14,068	$ 29,684

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

NOTE 13 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment.

The following tables show information regarding the Corporation's segments.

	Colombia (reportable)	Other Segments (non-reportable)	Total
Three months ended September 30, 2015			
Revenues	$ 21,958	$ -	$ 21,958
Share of joint venture loss	-	(135)	(135)
Expenses, excluding income taxes	(34,201)	(317)	(34,518)
Net loss before taxes	(12,243)	(452)	(12,695)
Income tax expense	6,334	-	6,334
Net loss	$ (18,577)	$ (452)	$ (19,029)
Capital expenditures, net	$ 22,264	$ 35	$ 22,299
Three months ended September 30, 2014			
Revenues	$ 58,917	$ -	$ 58,917
Share of joint venture profit	-	2,327	2,327
Expenses, excluding income taxes	(45,370)	(2,954)	(48,324)
Net income (loss) before taxes	13,547	(627)	12,920
Income tax expense (recovery)	(1,190)	-	(1,190)
Net income (loss)	$ 14,737	$ (627)	$ 14,110
Capital expenditures, net	$ 47,448	$ 74	$ 47,522
As at September 30, 2015			
Total assets	$ 581,115	$ 91,513	$ 672,628
Total liabilities	$ 72,551	$ 249,254	$ 321,805
As at June 30, 2015			
Total assets	$ 509,868	$ 159,874	$ 669,742
Total liabilities	$ 48,510	$ 279,597	$ 328,107

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

NOTE 14 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values and respective fair values of financial assets and liabilities at September 30, 2015 are summarized as follows:

	Carrying Value	Fair Value
Fair value through profit or loss		
Cash and cash equivalents	$ 48,493	$ 48,493
Restricted cash	61,316	61,316
Warrants	2	2
Restricted share units	338	338
Investments	5,189	5,189
Crude oil payable in kind	1,237	1,237
Loans and receivables		
Trade and other receivables	13,833	13,833
Other liabilities		
Bank debt	247,639	255,000
Trade and other payables	16,343	16,343
Other long term obligations	3,102	3,102

The Corporation classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial instruments have been assessed on the fair value hierarchy described above. Cash and cash equivalents, restricted cash, restricted share units and crude oil payable in kind are classified as Level 1. A portion of the Investments are classified as Level 1 ($2.8 million) and a portion are classified as Level 2 ($2.4 million). Warrants are classified as Level 3. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the three months ended September 30, 2015. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The carrying value of the bank debt includes $7.4 million of transaction costs netted against the principal amount as at September 30, 2015 which is amortized over the term of the underlying bank debt using the effective interest method.

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

Restricted Share Units

	Number		Amount
	(000's)		
Balance at June 30, 2014	62	$	404
Granted	244		1,034
Settled	(148)		(377)
Realized loss	-		25
Unrealized gain	-		(625)
Foreign exchange gain	-		(111)
Balance at June 30, 2015	158		350
Granted	15		26
Unrealized gain	-		(15)
Foreign exchange gain	-		(23)
Balance at September 30, 2015	**173**	$	**338**

On August 18, 2015, the Corporation granted 15,000 restricted shares units ("RSUs") with a reference price of C$2.28 per share. The RSUs vest as to one-half in one year and one-half two years from the grant date, and will be settled in cash.

Warrants

	Number		Amount
	(000's)		
Balance at June 30, 2014	2,492	$	4,331
Exercised	(75)		(99)
Expired	(1,638)		(27)
Unrealized gain	-		(3,871)
Foreign exchange gain	-		(267)
Balance at June 30, 2015	779		67
Expired	(515)		(3)
Unrealized gain	-		(58)
Foreign exchange gain	-		(4)
Balance at September 30, 2015	**264**	$	**2**

Information with respect to warrants outstanding at September 30, 2015 is presented below.

Expiry Date	Number of warrants	Exercise price
	(000's)	(C$)
February 9, 2016	264	5.20

On September 2, 2015, 514,988 warrants expired with an exercise price of C$3.97.

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. From time to time the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation's policy is to only enter into commodity contracts considered appropriate to a maximum of 50% of forecasted production volumes. There are no commodity contracts outstanding as at September 30, 2015.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures are denominated in Colombian pesos and Canadian dollars, and to a lesser extent, Peruvian sol. As at September 30, 2015, the United States dollar to Colombian peso exchange rate was 3,079:1 (June 30, 2015 – 2,599:1).

The Corporation had no forward exchange rate contracts in place as at or during the three months ended September 30, 2015.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk on certain variable interest rate debt instruments, to the extent they are drawn. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate swap or financial contracts in place as at or during the three months ended September 30, 2015.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares annual capital expenditure budgets which are monitored regularly and updated as considered necessary. Petroleum and natural gas production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

The following table outlines the contractual maturities of the Corporation's financial liabilities at September 30, 2015:

	Less than 1 year	1-2 years	Thereafter	Total
Bank debt – principal	$ -	-	255,000	$ 255,000
Trade and other payables	16,343	-	-	16,343
Crude oil payable in kind	1,237	-	-	1,237
Taxes payable	7,749	-	-	7,749
Deferred income	5,751		3,731	9,482
Other long term obligations	-	-	3,102	3,102
Warrants	2	-	-	2
Restricted share units	314	24	-	338
	$ 31,396	$ 24	$ 261,833	$ 293,253

In addition to the above, the Corporation has issued letters of credit totalling $65.8 million to guarantee certain obligations under its exploration contracts and to guarantee other contractual commitments. Such amounts only become payable should the Corporation not meet those obligations.

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's trade receivable balances relate to petroleum and natural gas sales. The Corporation's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables. In Colombia, a significant portion of crude oil sales are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies.

The Corporation's trade receivables primarily relate to sales of petroleum and natural gas, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers.

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 share capital, bank debt and working capital, defined as current assets less current liabilities, excluding non-cash items such as the current portion of warrants. 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, less working capital, as defined 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.

Due to the weakness in crude oil prices over recent months and the resulting impact on cash flows, the Corporation's net debt leverage ratio has increased. The Corporation has taken steps to reduce capital spending and preserve liquidity which, at September 30, 2015, had left the Corporation with $48.5 million in cash and cash equivalents and $61.3 million in restricted cash. Subsequent to September 30, 2015, the Corporation received an additional C$44 million, as described in note 9 above. Further, at September 30, 2015 the Corporation had available an additional $25 million in committed debt facilities that it can draw down at any time up to April 2016 at the sole discretion of the Corporation, subject to certain conditions. Additionally, to increase its financial flexibility, in April 2015, the Corporation completed the refinancing of its CS Senior Secured Term Loan with the BNP Senior Secured Term Loan that pushed out amortization payments to December 31, 2017. While crude oil prices are expected to remain weak for the remainder of 2015, the higher than historical leverage ratio is considered temporary since significant new contracted gas deliveries are expected to commence shortly, thereby materially increasing revenues and funds from operations by the end of calendar 2015 and significantly reducing the net debt leverage ratio. In the meantime, the Corporation plans to maintain a prudent capital spending program and to focus on cost reductions to maximize profitability of the existing producing assets.

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

		September 30, 2015
Bank debt – principal	$	255,000
Working capital surplus		(50,152)
Net debt	$	204,848
Trailing 12 months adjusted funds from operations [(1)]	$	65,450
Net debt to trailing 12 months adjusted funds from operations		3.1

(1) Non IFRS measure – inclusive of amounts related to the Ecuador IPC.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2015:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 55,773	$ 29,579	$ -	$ 85,352
Office leases	828	1,406	2,203	4,437

Ecuador Incremental Production Contract

In addition to the commitments 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 plans to incur project expenditures estimated for a total of $397 million ($107.6 million net to the Corporation) over the 15 year term of the contract. As at September 30, 2015, the Corporation had incurred $82.6 million of expenditures in connection with its Ecuador IPC commitment.

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 has also entered into ship-or-pay arrangements with OBC to guarantee pipeline revenue.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

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

NOTE 16 – DEFERRED INCOME

As at September 1, 2015 (the "Contract Date"), the Corporation received $8.9 million in proceeds for crude sales contracts (the "Contracts") to be delivered within 90 days of the Contract Date. During the month of September 2015, the Corporation delivered $3.1 million in accordance with the Contracts resulting in a deferred income balance of $5.8 million as at September 30, 2015.

Pacific Exploration & Production Corp. ("Pacific") has executed an agreement with the Corporation whereby, among other things, the Corporation has agreed to transfer operatorship of the Portofino Exploration and Production contract (the "Contract") to Pacific subject to ANH approval. Under the terms of the agreement, Pacific will operate any commercial discoveries made on the contract. In consideration for the transfer of operatorship, Pacific has agreed to pay the Corporation the sum of $3.7 million (the "Consideration") and has agreed to provide the Corporation with the option to participate pro-rata in its interest in the Contract, as well as in all pipelines and transportation infrastructure projects in which Pacific participates in respect of the evacuation of crude from the area. As at September 30, 2015, the condition of the contract has not been met and therefore the consideration remains recognized as deferred income and classified as a non-current liability.

NOTE 17 – INVESTMENT IN JOINT VENTURE AND JOINT OPERATIONS

Joint venture

The Corporation conducts its operations in Ecuador through a 25% equity interest (27.9% capital participation interest) in the Ecuador IPC, which is reported in these financial statements using the equity method of accounting. Details of the Ecuador IPC's net assets and net income are shown below along with the Corporation's share of the investment and profit.

As at	**September 30, 2015**	June 30, 2015
Ecuador IPC cash and cash equivalents (gross)	**$ 3,439**	$ 7,709
Ecuador IPC bank debt (gross)	**173,988**	176,657
Total Ecuador IPC current assets (gross)	**$ 77,293**	$ 58,836
Total Ecuador IPC non-current assets (gross)	**192,412**	203,681
Total Ecuador IPC current liabilities (gross)	**114,937**	77,657
Total Ecuador IPC non-current liabilities (gross)	**117,834**	147,387
Ecuador IPC equity (gross)	**36,934**	37,473
Investment in joint venture	**$ 12,775**	$ 12,734

Three months ended September 30,	**2015**	2014
Joint venture revenue (gross)	**$ 31,763**	$ 33,754
Joint venture depletion and depreciation (gross)	**25,744**	13,613
Joint venture interest expense (gross)	**2,090**	2,258
Joint venture income tax expense (recovery) (gross)	**-**	(2,581)

Three months ended September 30,	**2015**	2014
Joint venture net (loss) income and comprehensive (loss) income	**$ (538)**	$ 9,307
Corporation's share of joint venture (loss) profit	**(135)**	2,327

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

Joint operations

The Corporation has the following significant joint operations:

Joint operation(1)	Principal place of business	Working interest %
LLA-23	Colombia	90%
Santa Isabel	Colombia	30% (deep); 100% (shallow)
VMM-2	Colombia	66.9% (deep); 40% (shallow)
VMM-3	Colombia	20%
Ombu/Capella	Colombia	10%
Coati	Colombia	20%
Achapo	Colombia	70%
Portofino	Colombia	40%
Los Picachos	Colombia	37.5%
Macaya	Colombia	37.5%
Serrania	Colombia	37.5%

(1) The above table does not include properties, such as COR-4, COR-12, COR-11, COR-39, Esperanza, VIM-5, VIM-19 and Rancho Hermoso in which the Corporation owns a 100% working interest, since they are not considered joint operations.

NOTE 18 – SUBSEQUENT EVENT

During the three months ending September 30, 2015, Cavengas made a strategic equity investment of C$78,975,000 in the Corporation for consideration including the issuance of 17,590,000 Subscription Receipts issued at C$2.50 per Subscription Receipt and convertible into 17,590,000 Common Shares upon certain Release Conditions together with the issuance of 14,000,000 Common Shares at a price of C$2.50 per Common Share as at September 30, 2015 (see note 9). The Release Conditions were satisfied on October 16, 2015 and as such, the 17,590,000 Subscription Receipts were converted into 17,590,000 Common Shares and the associated C$43,975,000 was released from escrow to the Corporation.