(Thousands of U.S. Dollars)	Six Months Ended June 30, 2019	2018
Cash paid for income taxes	**$ 29,339**	$ 21,032
Cash paid for interest	**$ 13,545**	$ 3,788
Non-cash investing activities:		
Net liabilities related to property, plant and equipment, end of period	**$ 96,320**	$ 62,009

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our financial condition and results of operations should be read in conjunction with the "Financial Statements" as set out in Part I, Item 1 of this Quarterly Report on Form 10-Q as well as the "Financial Statements and Supplementary Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Items 8 and 7, respectively, of our 2018 Annual Report on Form 10-K. Please see the cautionary language at the beginning of this Quarterly Report on Form 10-Q regarding the identification of and risks relating to forward-looking statements, as well as Part I, Item 1A "Risk Factors" in our 2018 Annual Report on Form 10-K.

Financial and Operational Highlights

Key Highlights for the second quarter of 2019

- Net after royalties production ("NAR") was 29,193 BOEPD, 4% higher than the second quarter of 2018. Production increased largely due to production from development activities in the Acordionero Field, a decrease in royalties driven by lower oil prices and the acquisition of additional working interest ("WI") in Suroriente Block
- The production increases were partially offset by the temporary suspension of Suroriente production due to community blockades from June17 through July 9, 2019, and, starting late May 2019, downtime from ESP failures in Acordionero and the temporary shut-in of two large producers in Acordionero with high gas oil ratio ("GOR"). The successful commissioning of water injection facilities in Acordionero in July 2019 and associated increase in water injection is expected to reduce the GOR in the field and the planned transition to gas to power in August 2019 is expected to reduce ESP failures due to unreliable power. Both activities in Acordionero are expected to allow us to restore production in the coming months
- Oil and natural gas sales volumes were 29,277 BOEPD, 5% higher than the second quarter of 2018. The quarter's increase in oil and gas sales volumes was due to the reduction of inventory
- Net income was $38.5 million compared with $20.3 million in the second quarter of 2018
- Funds flow from operations[(2)] decreased by 7% to $88.3 million compared with the second quarter of 2018, while Brent price decreased 9% from the second quarter of 2018
- EBITDA[(2)] was $115.3 million compared with $102.3 million in the second quarter of 2018
- Q2 2019 was an active quarter with capital expenditures of $99.6 million
- Oil and gas sales per BOE were $59.30, 8% lower than the second quarter of 2018
- Operating netback[(2)] per BOE was $40.02 for the second quarter 2019
- Operating expenses per BOE were $12.66, 20% higher than the second quarter of 2018 as a result of higher power generation, field operations maintenance and equipment rental costs
- Workover expenses per BOE were $4.79, 46% higher compared to the second quarter of 2018 as a result of submersible pump failures during the second quarter of 2019
- Quality and transportation discount per BOE was $9.02 compared with $10.53 in the second quarter of 2018; this $1.51 per BOE reduction resulted from renegotiation of several sales agreements which use Castilla differential and

smaller fixed discount during the second quarter of 2019 opposed to using Vasconia and higher fixed discount in the sales agreements during the second quarter of 2018

- Transportation expenses per BOE were $1.83, compared to $2.57 per BOE for the second quarter of 2018

(Thousands of U.S. Dollars, unless otherwise indicated)	Three Months Ended June 30,			Three Months Ended March, 31	Six Months Ended June 30,		
	2019	2018	% Change	2019	2019	2018	% Change
Average Daily Volumes (BOEPD)							
Consolidated							
Working Interest Production Before Royalties	**35,340**	35,400	—	38,163	**36,744**	35,239	4
Royalties	**(6,147)**	(7,202)	15	(6,499)	**(6,322)**	(7,045)	10
Production NAR	**29,193**	28,198	4	31,664	**30,422**	28,194	8
Decrease (Increase) in Inventory	**84**	(296)	128	169	**127**	(639)	120
Sales[1]	**29,277**	27,902	5	31,833	**30,549**	27,555	11
Net Income	**$ 38,540**	$ 20,300	90	$ 1,979	**$ 40,519**	$ 38,161	6
Operating Netback							
Oil and Natural Gas Sales	**$ 157,993**	$ 163,446	(3)	$ 152,565	**$ 310,558**	$ 301,674	3
Operating Expenses	**(33,733)**	(26,732)	26	(34,783)	**(68,516)**	(48,508)	41
Workover Expenses	**(12,757)**	(8,327)	53	(6,289)	**(19,046)**	(12,816)	49
Transportation Expenses	**(4,885)**	(6,522)	(25)	(8,103)	**(12,988)**	(13,519)	(4)
Operating Netback[2]	**$ 106,618**	$ 121,865	(13)	$ 103,390	**$ 210,008**	$ 226,831	(7)
G&A Expenses Before Stock-Based Compensation	**$ 9,268**	$ 5,593	66	$ 7,869	**$ 17,137**	$ 13,575	26
G&A Stock-Based Compensation (Recovery)	**(627)**	6,609	(109)	1,727	**1,100**	9,787	(89)
G&A Expenses, Including Stock-Based Compensation	**$ 8,641**	$ 12,202	(29)	$ 9,596	**$ 18,237**	$ 23,362	(22)
EBITDA[2]	**$ 115,269**	$ 102,278	13	$ 92,524	**$ 207,793**	$ 190,866	9
Funds Flow From Operations[2]	**$ 88,269**	$ 94,549	(7)	$ 75,450	**$ 163,719**	$ 169,297	(3)
Capital Expenditures	**$ 99,595**	$ 84,394	18	$ 94,489	**$ 194,084**	$ 157,088	24

	As at		
(Thousands of U.S. Dollars)	**June 30, 2019**	**December 31, 2018**	**% Change**
Cash and Cash Equivalents and Current Restricted Cash and Cash Equivalents	**$ 148,411**	$ 52,309	184
Working Capital, Including Cash and Cash Equivalents	**$ 151,384**	$ 33,145	357
7.75% Senior notes	**$ 300,000**	$ —	100
6.25% Senior notes	**$ 300,000**	$ 300,000	—
Convertible Notes	**$ 115,000**	$ 115,000	—

(1) Sales volumes represent production NAR adjusted for inventory changes.

(2) Non-GAAP measures

Operating netback, EBITDA and funds flow from operations are non-GAAP measures which do not have any standardized meaning prescribed under GAAP. Management views these measures as financial performance measures. Investors are cautioned that these measures should not be construed as alternatives to net income or other measures of financial performance as determined in accordance with GAAP. Our method of calculating these measures may differ from other companies and, accordingly, may not be comparable to similar measures used by other companies. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure.

Operating netback, as presented, is defined as oil and natural gas sales less operating, workover and transportation expenses. Management believes that operating netback is a useful supplemental measure for management and investors to analyze financial performance and provides an indication of the results generated by our principal business activities prior to the consideration of other income and expenses. A reconciliation from oil and natural gas sales to operating netback is provided in the table above.

EBITDA, as presented, is defined as net income adjusted for depletion, depreciation and accretion ("DD&A") expenses, interest expense and income tax expense. Management uses this supplemental measure to analyze performance and income generated by our principal business activities prior to the consideration of how non-cash items affect that income, and believes that this financial measure is useful supplemental information for investors to analyze our performance and our financial results. A reconciliation from net income to EBITDA is as follows:

	Three Months Ended June 30,		Three Months Ended March, 31	Six Months Ended June 30,	
(Thousands of U.S. Dollars)	**2019**	**2018**	**2019**	**2019**	**2018**
Net income	**$ 38,540**	$ 20,300	$ 1,979	**$ 40,519**	$ 38,161
Adjustments to reconcile net income to EBITDA					
DD&A expenses	**51,697**	46,607	62,921	**114,618**	86,068
Interest expense	**10,564**	7,375	7,938	**18,502**	12,870
Income tax expense	**14,468**	27,996	19,686	**34,154**	53,767
EBITDA (non-GAAP)	**115,269**	102,278	92,524	**207,793**	190,866

Funds flow from operations, as presented, is defined as net income adjusted for DD&A expenses, deferred tax expense, stock-based compensation expense, amortization of debt issuance costs, cash settlement of RSUs, non-cash lease expense, lease payments, unrealized foreign exchange gains and losses, financial instruments gains or losses and cash settlement of financial instruments. Management uses this financial measure to analyze performance and income generated by our principal business activities prior to the consideration of how non-cash items affect that income or loss, and believes that this financial measure is also useful supplemental information for investors to analyze performance and our financial results. A reconciliation from net income to funds flow from operations is as follows:

(Thousands of U.S. Dollars)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Three Months Ended March, 31 2019	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net income	**$ 38,540**	$ 20,300	$ 1,979	**$ 40,519**	$ 38,161
Adjustments to reconcile net income to funds flow from operations					
DD&A expenses	**51,697**	46,607	62,921	**114,618**	86,068
Deferred tax expense	**14,957**	23,169	8,323	**23,280**	36,651
Stock-based compensation expense (recovery)	**(627)**	6,893	1,727	**1,100**	10,202
Amortization of debt issuance costs	**947**	843	838	**1,785**	1,513
Cash settlement of RSUs	**—**	(240)	—	**—**	(360)
Non-cash lease expense	**894**	—	—	**894**	—
Lease payments	**(848)**	—	—	**(848)**	—
Unrealized foreign exchange (gain) loss	**2,174**	1,875	(3,283)	**(1,109)**	831
Financial instruments (gain) loss	**(18,340)**	4,768	3,165	**(15,175)**	11,714
Cash settlement of financial instruments	**(1,125)**	(9,666)	(220)	**(1,345)**	(15,483)
Funds flow from operations (non-GAAP)	**$ 88,269**	$ 94,549	$ 75,450	**$ 163,719**	$ 169,297

Additional Operational Results

	Three Months Ended June 30,			Three Months Ended March, 31	Six Months Ended June 30,		
	2019	**2018**	**% Change**	**2019**	**2019**	**2018**	**% Change**
(Thousands of U.S. Dollars)							
Oil and natural gas sales	**$ 157,993**	$ 163,446	(3)	$ 152,565	**$ 310,558**	$ 301,674	3
Operating expenses	**33,733**	26,732	26	34,783	**68,516**	48,508	41
Workover expenses	**12,757**	8,327	53	6,289	**19,046**	12,816	49
Transportation expenses	**4,885**	6,522	(25)	8,103	**12,988**	13,519	(4)
Operating netback[(1)]	**106,618**	121,865	(13)	103,390	**210,008**	226,831	(7)
DD&A expenses	**51,697**	46,607	11	62,921	**114,618**	86,068	33
G&A expenses before stock-based compensation	**9,268**	5,593	66	7,869	**17,137**	13,575	26
G&A stock-based compensation expense (recovery)	**(627)**	6,609	(109)	1,727	**1,100**	9,787	(89)
Severance expenses	**270**	1,011	(73)	672	**942**	1,011	(7)
Foreign exchange (gain) loss	**1,175**	2,216	47	(2,434)	**(1,259)**	1,274	(199)
Financial instruments (gain) loss	**(18,340)**	4,768	(485)	3,165	**(15,175)**	11,714	(230)
Interest expense	**10,564**	7,375	43	7,938	**18,502**	12,870	44
	54,007	74,179	(27)	81,858	**135,865**	136,299	—
Interest income	**397**	610	(35)	133	**530**	1,396	(62)
Income before income taxes	**53,008**	48,296	10	21,665	**74,673**	91,928	(19)
Current income tax expense (recovery)	**(489)**	4,827	(110)	11,363	**10,874**	17,116	(36)
Deferred income tax expense	**14,957**	23,169	(35)	8,323	**23,280**	36,651	(36)
	14,468	27,996	(48)	19,686	**34,154**	53,767	(36)
Net income	**$ 38,540**	$ 20,300	90	$ 1,979	**$ 40,519**	$ 38,161	6
Sales Volumes (NAR)							
Total sales volumes, BOE	**2,664,257**	2,539,089	5	2,865,040	**5,529,297**	4,987,456	11
Total sales volumes, BOEPD	**29,277**	27,902	5	31,833	**30,549**	27,555	11
Brent Price per bbl	**$ 68.32**	$ 74.90	(9)	$ 63.90	**$ 66.11**	$ 71.04	(7)
Consolidated Results of Operations per BOE Sales Volumes NAR							
Oil and natural gas sales	**$ 59.30**	$ 64.37	(8)	$ 53.25	**$ 56.17**	$ 60.49	(7)
Operating expenses	**12.66**	10.52	20	12.14	**12.39**	9.73	27
Workover expenses	**4.79**	3.29	46	2.20	**3.44**	2.57	34
Transportation expenses	**1.83**	2.57	(29)	2.83	**2.35**	2.71	(13)

Operating netback[1]	**40.02**	47.99	(17)	36.08	**37.99**	45.48	(16)
DD&A expenses	**19.40**	18.36	6	21.96	**20.73**	17.26	20
G&A expenses before stock-based compensation	**3.48**	2.20	58	2.75	**3.10**	2.72	14
G&A stock-based compensation expense (recovery)	**(0.24)**	2.60	(109)	0.60	**0.20**	1.96	(90)
Severance expenses	**0.10**	0.40	(75)	0.23	**0.17**	0.20	(15)
Foreign exchange (gain) loss	**0.44**	0.88	50	(0.85)	**(0.23)**	0.26	188
Financial instruments (gain) loss	**(6.88)**	1.88	466	1.10	**(2.74)**	2.35	217
Interest expense	**3.97**	2.90	37	2.77	**3.35**	2.58	30
	20.27	29.22	(31)	28.56	**24.58**	27.33	(10)
Interest income	**0.15**	0.24	(38)	0.05	**0.10**	0.28	(64)
Income before income taxes	**19.90**	19.01	5	7.57	**13.50**	18.43	(27)
Current income tax expense (recovery)	**(0.18)**	1.90	(109)	3.97	**1.97**	3.43	(43)
Deferred income tax expense	**5.61**	9.12	(38)	2.91	**4.21**	7.35	(43)
	5.43	11.02	(51)	6.88	**6.18**	10.78	(43)
Net income	**$ 14.47**	$ 7.99	81	$ 0.69	**$ 7.32**	$ 7.65	(4)

[1] Operating netback is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition of this measure.

Oil and Gas Production and Sales Volumes, BOEPD

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Average Daily Volumes (BOEPD)				
Working Interest Production Before Royalties	**35,340**	35,400	**36,744**	35,239
Royalties	**(6,147)**	(7,202)	**(6,322)**	(7,045)
Production NAR	**29,193**	28,198	**30,422**	28,194
Decrease (Increase) in Inventory	**84**	(296)	**127**	(639)
Sales	**29,277**	27,902	**30,549**	27,555
Royalties, % of Working Interest Production Before Royalties	**17%**	20 %	**17%**	20 %

Oil and gas production NAR for the three and six months ended June 30, 2019 increased by 4% and 8% respectively, compared with the corresponding periods of 2018. The increase in production was a result of successful drilling and workover campaign in the Acordionero Field and acquisition of additional WI in Suroriente Block during the first quarter of 2019. These increases were partially offset by the temporary suspension of Suroriente production due to community blockades from June 17 through July 9, 2019, and, starting late May 2019, downtime from ESP failures in Acordionero and the temporary shut-in of two large producers in Acordionero with high GOR. The successful commissioning of water injection facilities in Acordionero in July 2019 and associated increase in water injection is expected to reduce the GOR in the field and the planned transition to gas to power in August 2019 is expected to reduce ESP failures due to unreliable power. Both activities in Acordionero are expected to allow us to restore production in the coming months.

Royalties as a percentage of production for the three and six months ended June 30, 2019 decreased compared with the corresponding periods of 2018 commensurate with the decrease in benchmark oil prices and the price sensitive royalty regime in Colombia.

Operating Netbacks

(Thousands of U.S. Dollars)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Oil and Natural Gas Sales	**$ 157,993**	$ 163,446	**$ 310,558**	$ 301,674
Transportation Expenses	**(4,885)**	(6,522)	**(12,988)**	(13,519)
	153,108	156,924	**297,570**	288,155
Operating Expenses	**(33,733)**	(26,732)	**(68,516)**	(48,508)
Workover Expenses	**(12,757)**	(8,327)	**(19,046)**	(12,816)
Operating Netback(1)	**$ 106,618**	$ 121,865	**$ 210,008**	$ 226,831
U.S. Dollars Per BOE Sales Volumes NAR				
Brent	**$ 68.32**	$ 74.90	**$ 66.11**	$ 71.04
Quality and Transportation Discounts	**(9.02)**	(10.53)	**(9.94)**	(10.55)
Average Realized Price	**59.30**	64.37	**56.17**	60.49
Transportation Expenses	**(1.83)**	(2.57)	**(2.35)**	(2.71)
Average Realized Price Net of Transportation Expenses	**57.47**	61.80	**53.82**	57.78
Operating Expenses	**(12.66)**	(10.53)	**(12.39)**	(9.73)
Workover Expenses	**(4.79)**	(3.28)	**(3.44)**	(2.57)
Operating Netback(1)	**$ 40.02**	$ 47.99	**$ 37.99**	$ 45.48

(1) Operating netback is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition of this measure.

Oil and gas sales for the three months ended June 30, 2019 decreased 3% to $158.0 million as a result of 9% decrease in Brent partially offset by higher sales volumes, compared with the corresponding period of 2018. Oil and gas sales for the six months ended June 30, 2019 increased 3% to $310.6 million as a result of higher sales volumes and lower quality and transportation discounts partially offset by lower realized prices as a result of 7% decrease in Brent, compared with the corresponding period of 2018. Compared with the prior quarter, oil and gas sales increased 4% as a result of higher realized prices as a result of 7% increase in Brent partially offset by lower sales volumes.

The following table shows the effect of changes in realized prices and sales volumes on our oil and gas sales for the three and six months ended June 30, 2019 compared with the prior quarter and the corresponding periods of 2018:

(Thousands of U.S. Dollars)	Second Quarter 2019 Compared with First Quarter 2019	Second Quarter 2019 Compared with Second Quarter 2018	Six Months Ended, June 30, 2019 Compared with Six Months Ended June 30, 2018
Oil and natural gas sales for the comparative period	$ 152,565	$ 163,446	$ 301,674
Realized sales prices increase (decrease) effect	16,120	(13,510)	(23,890)
Sales volumes (decrease) increase effect	(10,692)	8,057	32,774
Oil and natural gas sales for the three and six months ended June 30, 2019	**$ 157,993**	**$ 157,993**	**$ 310,558**

Average realized prices for the three and six months ended June 30, 2019 decreased 8% and 7%, respectively, compared with the corresponding periods of 2018. The decrease was commensurate with decreases in benchmark oil prices partially offset by lower quality and transportation discounts. Compared with the prior quarter, average realized prices increased 11%.

We have options to sell our oil through multiple pipelines and trucking routes. Each transportation route has varying effects on realized sales prices and transportation expenses and we primarily focus on maximizing operating netback. The following table shows the percentage of oil volumes we sold in Colombia using each transportation method for the three and six months ended June 30, 2019 and 2018, and the prior quarter:

	Three Months Ended June 30,		Three Months Ended March, 31	Six Months Ended June 30,	
	2019	**2018**	**2019**	**2019**	**2018**
Volume transported through pipeline	**1%**	9%	3%	**2%**	9%
Volume sold at wellhead	**51%**	41%	43%	**47%**	42%
Volume transported via truck	**48%**	50%	54%	**51%**	49%
	100%	100%	100%	**100%**	100%

Volumes transported through pipeline or via truck receive higher realized prices, but incur higher transportation expenses. Volumes sold at the wellhead have the opposite effect of lower realized prices, offset by lower transportation expenses.

Transportation expenses for the three and six months ended June 30, 2019 decreased 25% and 4% to $4.9 and $13.0 million, respectively, compared with the corresponding periods of 2018. On a per BOE basis, transportation expenses decreased 29% and 13% to $1.83 and $2.35, respectively, compared with the corresponding periods of 2018. Lower transportation expenses were a result of higher volumes sold at wellhead during the three and six months ended June 30, 2019.

For the three months ended June 30, 2019, transportation expenses decreased 40% compared with $8.1 million in the prior quarter. On a per BOE basis, transportation expenses decreased 35% from $2.83 in the prior quarter. Lower transportation expenses were a result of higher volumes sold at wellhead, which had lower costs per BOE.

***Operating expense*s** for the three and six months ended June 30, 2019 increased 26% and 41% to $33.7 and $68.5 million, respectively, compared with the corresponding periods of 2018. On a per BOE basis, operating expenses increased by $2.14 and $2.66, respectively, compared to the corresponding periods of 2018, primarily as a result of higher power generation, field operations maintenance and equipment rental costs. The Acordionero facilities expansion was fully commissioned at the beginning of the third quarter of 2019 and the gas-to-power will be commissioned in mid-August 2019. These projects will allow expanded water injection and delivery of enhanced power reliability by the end of third quarter, which are expected to reduce operating costs and enhance ultimate recovery of oil and gas in the Acordionero field. With the commissioning of the permanent facilities and gas-to-power projects, the Company expects to reduce operating costs by terminating contracts related to rental facilities in the field and generating power through natural gas produced in the field instead of purchased diesel.

Operating expenses for the three months ended June 30, 2019 decreased by 3% compared with the prior quarter. On a per BOE basis, operating expenses for the three months ended June 30, 2019 increased by 4%, or $0.52, as a result of lower sales volumes during the second quarter of 2019.

Workover expenses increased to $4.79 and $3.44 per BOE, respectively, during the three and six months ended June 30, 2019, compared to $3.29 and $2.57 in the corresponding periods of 2018 due to submersible pump failures during the second quarter of 2019 as a result of unstable power. Workover expenses increased by $2.59 per BOE compared to the prior quarter as a result of higher frequency of pump failures during the second quarter of 2019.

DD&A Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
DD&A Expenses, thousands of U.S. Dollars	**$ 51,697**	$ 46,607	**$ 114,618**	$ 86,068
DD&A Expenses, U.S. Dollars per BOE	**19.40**	18.36	**20.73**	17.26

DD&A expenses for the three and six months ended June 30, 2019 increased 11% and 33% or $1.04 and $3.47 per BOE, respectively, compared to the corresponding periods of 2018. The increase in DD&A expenses was due to higher costs in the depletable base, partially offset by an allocation to proved reserves related to Acordionero field and Suroriente Block.
For the three months ended June 30, 2019, DD&A expenses decreased 18% or $2.56 per BOE from the prior quarter primarily due to lower DD&A rate resulting from increased allocation to proved reserves.

G&A Expenses

	Three Months Ended June 30,			Three Months Ended March 31	Six Months Ended June 30,		
(Thousands of U.S. Dollars)	**2019**	**2018**	**% Change**	**2019**	**2019**	**2018**	**% Change**
G&A Expenses Before Stock-Based Compensation	**$ 9,268**	$ 5,593	66	$ 7,869	**$ 17,137**	$ 13,575	26
G&A Stock-Based Compensation (Recovery)	**(627)**	6,609	(109)	1,727	**1,100**	9,787	(89)
G&A Expenses, Including Stock-Based Compensation	**$ 8,641**	$ 12,202	(29)	$ 9,596	**$ 18,237**	$ 23,362	(22)
U.S. Dollars Per BOE Sales Volumes NAR							
G&A Expenses Before Stock-Based Compensation	**$ 3.48**	$ 2.20	58	$ 2.75	**$ 3.10**	$ 2.72	14
G&A Stock-Based Compensation (Recovery)	**(0.24)**	2.60	(109)	0.60	**0.20**	1.96	(90)
G&A Expenses, Including Stock-Based Compensation	**$ 3.24**	$ 4.80	(33)	$ 3.35	**$ 3.30**	$ 4.68	(29)

For the three and six months ended June 30, 2019, G&A expenses before stock-based compensation increased 66% and 26%, respectively, from the corresponding periods of 2018. On a per BOE basis, G&A expenses before stock-based compensation increased 58% and 14%, from the corresponding periods of 2018. The increase was mainly a result of lower recoveries and capitalization.

For the three months ended June 30, 2019, G&A expenses before stock-based compensation increased 18% (27% per BOE) from the prior quarter primarily due to lower recoveries and capitalization during current quarter.

After stock-based compensation, G&A expenses for the three and six months ended June 30, 2019 decreased 29% and 22% (33% and 29% per BOE), respectively, compared to the corresponding periods of 2018, mainly due to lower G&A stock-based compensation resulting from a lower share price compared to the corresponding periods of 2018.

G&A expenses after stock-based compensation for the three months ended June 30, 2019 decreased by 10% (3% per BOE) compared with the prior quarter primarily due to lower G&A stock-based compensation resulting from lower share price in the current period.

Severance

For the three and six months ended June 30, 2019, severance costs decreased 73% and 7% to $0.3 and $0.9 million, compared with the corresponding periods in 2018 and decreased 60% compared with the prior quarter. The decrease is a result of head-count optimization during comparative periods of 2018 and first quarter of 2019.

Foreign Exchange Gains and Losses

For the three and six months ended June 30, 2019, we had a $1.2 million loss and $1.3 million gain on foreign exchange, compared with $2.2 million and $1.3 million losses in the corresponding periods of 2018. Taxes receivable, deferred income taxes and investment are considered monetary assets, and require translation from local currency to U.S. dollar functional currency at each balance sheet date. This translation was the main source of the foreign exchange losses and gains in the periods.

The following table presents the change in the U.S. dollar against the Colombian peso for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2019	**2018**	**2019**	**2018**
Change in the U.S. dollar against the Colombian peso	**strengthened by 1%**	strengthened by 5%	**weakened by 1%**	weakened by 2%
Change in the U.S. dollar against the Canadian dollar	**weakened by 2%**	strengthened by 2%	**weakened by 4%**	strengthened by 5%

Financial Instrument Gains and Losses

The following table presents the nature of our financial instruments gains and losses for the three and six months ended June 30, 2019, and 2018:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Thousands of U.S. Dollars)	**2019**	**2018**	**2019**	**2018**
Commodity price derivative (gain) loss	**$ (706)**	$ 14,461	**$ 488**	$ 19,455
Foreign currency derivatives loss (gain)	**55**	1,945	**55**	(2,024)
Investment gain	**(17,689)**	(11,638)	**(15,718)**	(5,717)
Financial instruments (gain) loss	**$ (18,340)**	$ 4,768	**$ (15,175)**	$ 11,714

Income Tax Expense

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Thousands of U.S. Dollars)	**2019**	**2018**	**2019**	**2018**
Income before income tax	**$ 53,008**	$ 48,296	**$ 74,673**	$ 91,928
Current income tax expense (recovery)	**$ (489)**	$ 4,827	**$ 10,874**	$ 17,116
Deferred income tax expense	**14,957**	23,169	**23,280**	36,651
Total income tax expense	**$ 14,468**	$ 27,996	**$ 34,154**	$ 53,767
Effective tax rate	**27%**	58%	**46%**	58%

Current income tax expense was lower for the six months ended June 30, 2019, compared with the corresponding period of 2018 primarily as a result of lower Colombian taxable income and higher tax depreciation in Colombia. The deferred income tax expense of $23.3 million for the six months ended June 30, 2019, was lower compared with the corresponding period of 2018 primarily due to lower excess tax depreciation compared with accounting depreciation in Colombia, a reduction in the Colombian tax rate and a reduction to the valuation allowance in Colombia.

For the six months ended June 30, 2019, the difference between the effective tax rate of 46% and the 33% Colombian tax rate was primarily due to foreign currency translation adjustments and an increase in the valuation allowance.

For the six months ended June 30, 2018, the difference between the effective tax rate of 58% and the 37% Colombian tax rate was primarily due to the impact of foreign tax rates, stock based compensation, foreign currency translation adjustments and an increase in the valuation allowance.

Net Income and Funds Flow from Operations (a Non-GAAP Measure)

(Thousands of U.S. Dollars)	Second Quarter 2019 Compared with First Quarter 2019	% change	Second Quarter 2019 Compared with Second Quarter 2018	% change	Six Months Ended, June 30, 2019 Compared with Six Months Ended June	% change
Net income for the comparative period	$ 1,979		$ 20,300		38,161	
Increase (decrease) due to:						
Prices	16,120		(13,510)		(23,890)	
Sales volumes	(10,692)		8,057		32,774	
Expenses:						
Operating	1,050		(7,001)		(20,008)	
Workover	(6,468)		(4,430)		(6,230)	
Transportation	3,218		1,637		531	
Cash G&A, RSU settlements and lease payments, excluding stock-based compensation expense	(1,353)		(3,673)		(3,571)	
Severance	402		741		69	
Interest, net of amortization of debt issuance costs	(2,517)		(3,085)		(5,360)	
Realized foreign exchange	1,848		1,340		593	
Settlement of financial instruments	(905)		8,541		14,138	
Current taxes	11,852		5,316		6,242	
Other	264		(213)		(866)	
Net change in funds flow from operations[(1)] from comparative period	12,819		(6,280)		(5,578)	
Expenses:						
Depletion, depreciation and accretion	11,224		(5,090)		(28,550)	
Deferred tax	(6,634)		8,212		13,371	
Amortization of debt issuance costs	(109)		(104)		(272)	
Non-cash lease expenses net of lease payments	(46)		(46)		(46)	
Stock-based compensation, net of RSU settlement	2,354		7,280		8,742	
Financial instruments gain or loss, net of financial instruments settlements	22,410		14,567		12,751	
Unrealized foreign exchange	(5,457)		(299)		1,940	
Net change in net income	36,561		18,240		2,358	
Net income for the current period	**$ 38,540**	**1,847%**	**$ 38,540**	**90%**	**$ 40,519**	**6%**

[(1)]Funds flow from operations is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition and reconciliation of this measure.

Capital expenditures during the three months ended June 30, 2019 were $99.6 million:

(Millions of U.S. Dollars)		
Colombia:		
Exploration	**$**	**36.2**
Development:		
Drilling and Completions		**28.3**
Facilities		**18.6**
Other		**16.5**
		99.6
Corporate		**—**
	$	**99.6**

During the three months ended June 30, 2019, we drilled the following wells in Colombia:

	Number of wells (Gross)	Number of wells (Net)
Development	**6**	**6**
Total	**6**	**6**

We spud 6 development wells, five in Midas and one in Chaza Blocks. Of the wells spud during the quarter, two development wells were completed as of June 30, 2019.

We also continued facilities work at the Acordionero Field on the Midas Block and the Moqueta Field on the Chaza Block.

On February 20, 2019, the Company acquired 36.2% working interest ("WI") in the Suroriente Block and a 100% WI of the Llanos-5 Block for cash consideration of $79.1 million and a promissory note of $1.5 million.

Liquidity and Capital Resources

	As at				
(Thousands of U.S. Dollars)		**June 30, 2019**	**% Change**		**December 31, 2018**
Cash and Cash Equivalents	**$**	**147,712**	189	$	51,040
Current Restricted Cash and Cash Equivalents	**$**	**699**	(45)	$	1,269
Working Capital, Including Cash and Cash Equivalents	**$**	**151,384**	357	$	33,145
6.25% Senior notes	**$**	**300,000**	—	$	300,000
7.75% Senior notes	**$**	**300,000**	—	$	—
Convertible Notes	**$**	**115,000**	—	$	115,000

We believe that our capital resources, including cash on hand, cash generated from operations and available capacity on our credit facility, will provide us with sufficient liquidity to meet our strategic objectives and planned capital program for 2019, given current oil price trends and production levels. In accordance with our investment policy, available cash balances are held in our primary cash management banks or may be invested in U.S. or Canadian government-backed federal, provincial or state securities or other money market instruments with high credit ratings and short-term liquidity. We believe that our current financial position provides us the flexibility to respond to both internal growth opportunities and those available through acquisitions.

At June 30, 2019, we had an undrawn revolving credit facility with a syndicate of lenders with a borrowing base of $300 million. Availability under the revolving credit facility is determined by the reserves-based borrowing base determined by the lenders. The next re-determination of the borrowing base is due to occur no later than November 2019.

At June 30, 2019, we had $115 million aggregate principal amount of 5.00% Convertible Senior Notes due 2021, $300 million aggregate principal amount of 6.25% Senior Notes due 2025, and $300 million aggregate principal amount of 7.75% Senior Notes due 2027 outstanding.

On July 17, 2019, pursuant to a previously announced offer to purchase for cash all outstanding Convertible Notes, the Company purchased and canceled $114,997,000 aggregate principal amount of Convertible Notes at a purchase price of $1,075 in cash per $1,000 principal amount of Convertible Notes plus $1.6 million of accrued and unpaid interest outstanding on such Convertible Notes up to, but not excluding the date of purchase. After giving effect to the purchase and cancellation of the Convertible Notes, 3,000 aggregate principal amount of Convertible Notes remain outstanding.

Under the terms of our credit facility and Senior Notes, we are required to maintain compliance with certain financial and operating covenants which include: limitations on our ratio of debt to net income plus interest, taxes, depreciation, depletion, amortization, exploration expenses and all non-cash charges minus all non-cash income ("EBITDAX") to a maximum of 4.0 to 1.0 (under the credit facility) and 3.5 to 1.0 (under the Senior Notes); the maintenance of a ratio of EBITDAX to interest expense of at least 2.5 to 1.0 (definitions of debt, EBITDAX and other relevant terms are per the credit agreement or the indenture governing the Senior Notes and may differ between these agreements). As at June 30, 2019, we were in compliance with all financial and operating covenants in these agreements. Under the terms of the credit facility and Senior Notes, we are also limited in our ability to make distributions to our shareholders.

At June 30, 2019, net debt to EBITDA was 1.4 times on a trailing twelve month basis and 1.2 times on the basis of the Quarter's annualized results

Derivative Positions

At June 30, 2019, we had outstanding commodity price derivative positions as follows:

Period and type of instrument	Volume, bopd	Reference	Purchased Put ($/bbl, Weighted Average)	Sold Call ($/bbl, Weighted Average)	Premium ($/bbl, Weighted Average)
Purchased Puts: July 1, to December 31, 2019	5,000	ICE Brent	$ 60.00	n/a	$ 2.39
Collars: July 1, to December 31, 2019	5,000	ICE Brent	$ 60.00	$ 71.53	n/a

At June 30, 2019, current liabilities on our balance sheet included $0.4 million and current assets on our balance sheet included $0.9 million in relation to the above outstanding commodity price derivative positions.

Foreign Currency Derivatives

At June 30, 2019, the Company entered into foreign currency derivative positions as follows:

Period and type of instrument	Amount Hedged (Millions COP)	U.S. Dollar Equivalent of Amount Hedged (Thousands of U.S. Dollars)(1)	Reference	Floor Price (COP, Weighted Average)	Cap Price (COP, Weighted Average)
Collars: July 1, to December 31, 2019	135,000	42,109	COP	3,019	3,446

(1) At June 30, 2019 foreign exchange rate.

Cash Flows

The following table presents our primary sources and uses of cash and cash equivalents for the periods presented:

(Thousands of U.S. Dollars)	Six Months Ended June 30, 2019	2018
Sources of cash and cash equivalents:		
Net income	**$ 40,519**	$ 38,161
Adjustments to reconcile net income to EBITDA(1) and funds flow from operations(1)		
DD&A expenses	**114,618**	86,068
Interest expense	**18,502**	12,870
Income tax expense	**34,154**	53,767
EBITDA	**207,793**	190,866
Current income tax expense	**(10,874)**	(17,116)
Contractual interest and other financing expenses	**(16,717)**	(11,357)
Stock-based compensation expense	**1,100**	10,202
Cash settlement of RSUs	**—**	(360)
Unrealized foreign exchange (gain) loss	**(1,109)**	831
Financial instruments (gain) loss	**(15,175)**	11,714
Non-cash lease expenses	**894**	—
Lease payments	**(848)**	—
Cash settlement of financial instruments	**(1,345)**	(15,483)
Funds flow from operations	**163,719**	169,297
Proceeds from bank debt, net of issuance costs	**163,000**	4,988
Proceeds from issuance of Senior Notes, net of issuance costs	**289,117**	288,087
Proceeds from issuance of shares	**—**	845
	615,836	463,217
Uses of cash and cash equivalents:		
Additions to property, plant and equipment	**(194,084)**	(157,088)
Additions to property, plant and equipment - property acquisitions	**(77,772)**	(3,100)
Repayment of bank debt	**(163,000)**	(153,000)
Repurchase of shares of Common Stock	**(23,951)**	(1,208)
Net changes in assets and liabilities from operating activities	**(70,194)**	(37,994)
Changes in non-cash investing working capital	**11,116**	(6,142)
Settlement of asset retirement obligations	**(510)**	(369)
Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents	**(1,073)**	(69)
	(519,468)	(358,970)
Net increase in cash and cash equivalents and restricted cash and cash equivalents	**$ 96,368**	$ 104,247

(1) EBITDA and funds flow from operations are a non-GAAP measures which do not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights - non-GAAP measures" for a definition and reconciliation of this measure.

One of the primary sources of variability in our cash flows from operating activities is the fluctuation in oil prices, the impact of which we partially mitigate by entering into commodity derivatives. Sales volume changes and costs related to operations and debt service also impact cash flow. Our cash flows from operating activities are also impacted by foreign currency exchange rate changes, the impact of which we partially mitigate by entering into foreign currency derivatives.

Off-Balance Sheet Arrangements

As at June 30, 2019, we had no off-balance sheet arrangements.

Contractual Obligations

On May 20, 2019, we issued $300 million aggregate principal amount of the 7.75% Senior Notes. Refer to Note 4 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Form 10-Q.

During the six months ended June 30, 2019, we re-paid a balance of $163 million outstanding under our revolving credit facility, which was undrawn as at June 30, 2019.

Subsequent to June 30, 2019, we purchased and canceled $114,997,000 aggregate principal amount of Convertible Notes at a purchase price of $1,075 in cash per $1,000 principal amount of Convertible Notes plus $1.6 million of accrued and unpaid interest outstanding on such Convertible Notes up to, but not excluding the date of purchase

Except for noted above, as at June 30, 2019, there were no other material changes to our contractual obligations outside of the ordinary course of business from those as at December 31, 2018.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in Item 7 of our 2018 Annual Report on Form 10-K, and have not changed materially since the filing of that document, other than as follows:

Leases

We adopted Accounting Standard Codification ("ASC") 842 Leases with a date of initial application on January 1, 2019 in accordance with the modified retrospective transition approach using the practical expedients available for land easements and short-term leases. We did not elect the "suite" of practical expedients or use the hindsight expedient in its adoption.

The transition resulted in the recognition of a right-of-use asset presented in other capital assets of $3.8 million, the recognition of lease liabilities in other long-term liabilities of $4.2 million and a $0.4 million impact on retained earnings. When measuring the lease liabilities, the Company's incremental borrowing rate was used. At January 1, 2019 the average rates applied were between 5.6% and 9.1%.

At inception of a contract, we assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception of a contract that contains a lease component, we allocate the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. We recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our incremental borrowing rate. Generally, we use the Company's incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***