

CANACOL ENERGY LTD.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2020**



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	June 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 58,552	\$ 41,239
Trade and other receivables	16	64,341	69,608
Tax installments and receivables		6,831	9,533
Assets held for sale	5	—	7,960
Other current assets	6	5,248	4,930
		134,972	133,270
Non-current assets			
Trade and other receivables	16	3,066	5,629
Exploration and evaluation assets	4	58,934	53,867
Property, plant and equipment	5	503,003	506,097
Deferred tax assets		32,001	49,176
Other non-current assets	6	8,005	6,023
		605,009	620,792
Total assets		\$ 739,981	\$ 754,062
LIABILITIES AND EQUITY			
Current liabilities			
Operating loan	9	\$ 5,321	\$ 8,182
Trade and other payables		35,430	52,591
Deferred income	15	9,650	11,134
Dividend payable	8	6,907	—
Lease obligations	10	5,344	4,731
Taxes payable		7,653	6,043
Other current liabilities	7	3,700	4,541
Liabilities held for sale	5	—	10,591
		74,005	97,813
Non-current liabilities			
Deferred income	15	5,694	—
Long-term debt	9	340,911	333,403
Lease obligations	10	19,667	22,367
Decommissioning obligations	5	23,069	16,398
Deferred tax liabilities		36,857	24,559
Other non-current liabilities	7	15,907	16,776
Total liabilities		516,110	511,316
Equity			
Share capital	8	172,561	169,459
Other reserves		68,234	68,067
Accumulated other comprehensive income		—	335
Retained (deficit) earnings	8	(16,924)	4,885
Total equity		223,871	242,746
Total liabilities and equity		\$ 739,981	\$ 754,062

Commitments and contingencies (note 17) and subsequent event (note 18)

See accompanying notes to the interim condensed consolidated financial statements.

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

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenues					
Natural gas, LNG, crude oil revenues, net of royalties	15	\$ 59,741	\$ 49,538	\$ 141,883	\$ 100,175
Take-or-pay natural gas and LNG income		772	390	917	679
Total natural gas, LNG and crude oil revenues, net of royalties		60,513	49,928	142,800	100,854
Expenses					
Operating expenses		3,622	4,011	8,088	8,105
Transportation expenses		6,108	2,239	17,401	3,761
General and administrative		6,066	5,687	12,579	11,510
Stock-based compensation and restricted share units expense	7, 8	2,493	700	4,014	5,505
Depletion and depreciation	5	16,226	11,737	34,180	24,426
Foreign exchange loss		1,383	235	5,693	64
Other expenses	11	3,570	4,968	7,564	7,867
		39,468	29,577	89,519	61,238
Net finance expense	12	7,084	8,191	14,428	16,417
Income before income taxes		13,961	12,160	38,853	23,199
Income tax expense (recovery)					
Current		7,912	7,930	17,652	15,188
Deferred	16	(11,666)	2,352	29,474	(141)
		(3,754)	10,282	47,126	15,047
Net income (loss) and comprehensive income (loss)		\$ 17,715	\$ 1,878	\$ (8,273)	\$ 8,152
Net income (loss) per share					
Basic and diluted	13	\$ 0.10	\$ 0.01	\$ (0.05)	\$ 0.05

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained (Deficit) Earnings	Total Equity
Balance at January 1, 2019	\$ 159,116	\$ 67,821	\$ 335	\$ (22,264)	\$ 205,008
Common shares repurchased	(1,443)	—	—	—	(1,443)
Stock options exercised	1,408	(346)	—	—	1,062
Stock-based compensation	—	2,248	—	—	2,248
Net income	—	—	—	8,152	8,152
Balance at June 30, 2019	\$ 159,081	\$ 69,723	\$ 335	\$ (14,112)	\$ 215,027
Balance at December 31, 2019	\$ 169,459	\$ 68,067	\$ 335	\$ 4,885	\$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common shares repurchased	(1,073)	—	—	—	(1,073)
Stock options exercised	4,175	(1,284)	—	—	2,891
Stock-based compensation	—	1,116	—	—	1,116
Dividends declared (note 8)	—	—	—	(13,536)	(13,536)
Net loss	—	—	—	(8,273)	(8,273)
Balance at June 30, 2020	\$ 172,561	\$ 68,234	\$ —	\$ (16,924)	\$ 223,871

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands of United States dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Operating activities					
Net income (loss) and comprehensive income (loss)		\$ 17,715	\$ 1,878	\$ (8,273)	\$ 8,152
Non-cash adjustments:					
Depletion and depreciation	5	16,226	11,737	34,180	24,426
Stock-based compensation and restricted share units expense	7, 8	2,493	700	4,014	5,505
Net financing expense	12	7,084	8,191	14,428	16,417
Unrealized foreign exchange loss and other expenses		744	683	3,717	909
Deferred income tax (recovery) expense		(11,666)	2,352	29,474	(141)
Unrealized (gain) loss on financial instruments	11	(1,305)	321	1,307	660
Other operating activities	14	(110)	(278)	(2,385)	(3,178)
Changes in non-cash working capital	14	6,633	(16,557)	(630)	(18,468)
		37,814	9,027	75,832	34,282
Investing activities					
Expenditures on exploration and evaluation assets	4	(2,752)	(14,903)	(5,067)	(17,393)
Expenditures on property, plant and equipment		(9,199)	(12,741)	(26,870)	(37,896)
Net proceeds on disposition of property, plant and equipment		—	11,972	58	11,972
Other investing activities	14	(2,517)	292	(1,649)	49
Changes in non-cash working capital	14	(4,785)	4,588	(4,733)	3,502
		(19,253)	(10,792)	(38,261)	(39,766)
Financing activities					
Draw on long-term debt, net financing fees	9	7,276	—	7,276	—
Repayment of long-term debt	9	(2,727)	—	(2,727)	—
Net financing expense paid	12	(7,369)	(7,341)	(13,899)	(14,729)
Lease principal payments	10	(1,410)	(1,183)	(2,810)	(2,362)
Dividends paid	8	(6,629)	—	(6,629)	—
Common share repurchases	8	—	(295)	(1,073)	(1,443)
Issue of common shares	8	319	262	2,891	1,062
		(10,540)	(8,557)	(16,971)	(17,472)
Change in cash and cash equivalents		8,021	(10,322)	20,600	(22,956)
Cash and cash equivalents, beginning of period		49,156	38,998	41,239	51,632
Foreign exchange impact on cash and cash equivalents, end of period		1,375	—	(3,287)	—
Cash and cash equivalents, end of period		\$ 58,552	\$ 28,676	\$ 58,552	\$ 28,676

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation’s head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation’s shares are traded on the Toronto Stock Exchange (“TSX”) under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on August 12, 2020.

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 the annual consolidated financial statements; however they have been prepared in accordance with the accounting policies outlined and should be read in conjunction with in the Corporation’s audited consolidated financial statements for the year ended December 31, 2019.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, restricted share units, certain investments and hedging contract, which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”).

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Colombia and Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic downturn. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time.

Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

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, with the exception of Canadian dollar unit prices (“C\$”) where indicated.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

A number of new accounting standards became effective on January 1, 2020, however they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2019	\$	53,867
Additions		5,067
Balance at June 30, 2020	\$	58,934

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Balance at December 31, 2019	\$ 1,035,090	\$ 31,498	\$ 1,066,588
Additions	21,872	1,305	23,177
Transferred from assets held for sale	16,281	—	16,281
Dispositions and de-recognition	(83)	—	(83)
Balance at June 30, 2020	\$ 1,073,160	\$ 32,803	\$ 1,105,963
Accumulated depletion and depreciation			
Balance at December 31, 2019	\$ (555,930)	\$ (4,561)	\$ (560,491)
Dispositions	83	—	83
Depletion and depreciation	(31,944)	(2,236)	(34,180)
Transferred from assets held for sale	(8,321)	—	(8,321)
Derecognition and inventory adjustments	(51)	—	(51)
Balance at June 30, 2020	\$ (596,163)	\$ (6,797)	\$ (602,960)
Carrying value			
As at December 31, 2019	\$ 479,160	\$ 26,937	\$ 506,097
As at June 30, 2020	\$ 476,997	\$ 26,006	\$ 503,003

During the three months ended June 30, 2020, the Corporation reclassified certain costs and decommissioning obligations related to its Rancho Hermoso block from assets and liabilities previously held for sale since the disposal of such block within the next twelve months is no longer highly probable.

NOTE 6 – OTHER ASSETS

	June 30, 2020	December 31, 2019
Current		
Restricted cash	\$ 1,044	\$ 1,189
Prepaid expenses and deposits	3,392	1,634
Investments	396	1,186
Inventory	416	277
Hedging contract	—	644
	\$ 5,248	\$ 4,930
Non-Current		
Restricted cash	\$ 2,983	\$ 3,335
Prepaid expenses and deposits	4,152	2,033
Investments	870	655
	\$ 8,005	\$ 6,023

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 7 – OTHER LIABILITIES

	June 30, 2020	December 31, 2019
Current		
Restricted share units	\$ 3,035	\$ 2,235
Litigation settlement liability	509	2,306
Hedging contract	156	—
	\$ 3,700	\$ 4,541
Non-Current		
Restricted share units	\$ —	\$ 15
Litigation settlement liability	13,015	13,542
Other long term obligations	2,892	3,219
	\$ 15,907	\$ 16,776

Restricted Share Units

Balance at December 31, 2019	\$ 2,250
Amortized	2,898
Settled	(2,078)
Foreign exchange gain	(35)
Balance at June 30, 2020	\$ 3,035

RSUs are recognized as an obligation and expensed on a graded vesting basis over the vesting term of each grant. The amortized RSU obligation as at June 30, 2020 was \$3 million. Amortized RSUs of 1,077,228 of the total 1,811,472 RSUs outstanding have been recognized as an obligation as at June 30, 2020. The remaining 734,244 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at June 30, 2020 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2019	880
Granted	1,587
Settled	(655)
Balance at June 30, 2020	1,812

On February 3, 2020 and February 25, 2020, the Corporation granted 676,000 and 911,000 RSUs, respectively. The RSUs vest one-half in six months and one-half in one year from the grant date, and are anticipated to be settled in cash. During the six months ended June 30, 2020, 655,111 RSUs were settled in cash at a price ranging from C\$4.28 to C\$4.32 per share, resulting in cash settlements of \$2.1 million.

Litigation Settlement Liability

Balance at December 31, 2019	\$ 15,848
Settlement payments, net of accrued interest	(307)
Foreign exchange gain	(2,017)
Balance at June 30, 2020	\$ 13,524

The litigation settlement amount is subject to a 8.74% annual interest rate on the outstanding balance, which is denominated in Colombian Pesos ("COP"). In accordance with the terms of the settlement agreement, cash payments of approximately \$0.2 million per month, including accrued interest will be paid by the Corporation and, as such, \$0.5 million has been classified as current.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2019	180,075	\$ 169,459
Issued on exercise of stock options	1,292	2,891
Transfer from other reserves for stock options exercised	—	1,284
Common share repurchases	(362)	(1,073)
Balance at June 30, 2020	181,005	\$ 172,561

During the six months ended June 30, 2020, the Corporation repurchased 361,723 common shares of the Corporation at a cost of \$1.1 million, including transaction fees.

Stock Options

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

	Number (000's)	Weighted-Average Exercise Price (C\$)
Balance at December 31, 2019	14,234	3.92
Granted	3,700	4.24
Exercised	(1,292)	2.95
Forfeited and cancelled	(899)	4.22
Balance at June 30, 2020	15,743	4.05

Information with respect to stock options outstanding at June 30, 2020 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices (C\$)	Number of Stock Options (000's)	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (C\$)	Number of Stock Options (000's)	Weighted-Average Exercise Price (C\$)
\$2.20 - \$3.50	2,175	0.3	2.69	2,175	2.69
\$3.51 - \$4.62	13,568	3	4.27	8,840	4.26
	15,743	2.6	4.05	11,015	3.95

Stock-based compensation of \$0.6 million and \$1.1 million (2019 - \$0.7 million and \$2.2 million) was expensed during the three and six months ended June 30, 2020, respectively.

Dividends Declared

During the six months ended June 30, 2020, the Corporation declared two dividend payments of C\$0.052 per share, totaling \$13.5 million, of which \$6.6 million was paid on April 15, 2020 and \$6.9 million is payable on July 15, 2020, to shareholders of record at the close of business on March 31, 2020 and June 30, 2020, respectively. The ex-dividend dates for all shareholders were March 30, 2020 and June 29, 2020, respectively. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Credit Suisse Bank Debt	Operating Loan	Total
Balance at December 31, 2019	\$ 312,448	\$ 29,137	\$ —	\$ 341,585
Draw, net of transaction costs	—	2,276	5,000	7,276
Repayment	—	(2,727)	—	(2,727)
Gain on modification of bank debt	—	(1,174)	—	(1,174)
Amortization of transaction costs	697	254	—	951
Foreign exchange loss	—	—	321	321
Balance at June 30, 2020	\$ 313,145	\$ 27,766	\$ 5,321	\$ 346,232

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente (“Operating Loan”) and withdrew a \$5 million principal amount denominated in COP, for additional COP liquidity purposes, if required, subject to an annual interest rate of Reference Bank Indicator (“IBR”) + 2% (IBR was 2.9% at the agreement date). The IBR is a Colombian central bank short-term reference interest rate for lendings denominated in COP, which reflects the price at which banks are willing to offer or raise resources on the money market. The principal payment term consists of two equal installments of \$2.5 million, which will be paid on October 18, 2020 and April 16, 2021 and, as such, \$5.3 million has been classified as current as at June 30, 2020.

On June 11, 2020, the Corporation paid the first \$2.7 million principal payment of the \$30 million bank debt held with Credit Suisse (“Credit Suisse Bank Debt”). On June 30, 2020, the Corporation entered into an agreement to amend the terms of the Credit Suisse Bank Debt. The agreement included revision of the following terms: i) the original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and ii) the original eleven equal quarterly principal payments which commenced on June 11, 2020 were revised to seven equal quarterly principal payments to commence on December 11, 2021. In accordance with the amendment agreement, the \$2.7 million original principal payment was returned to the Corporation, net of transaction costs of \$0.5 million. The Credit Suisse Bank Debt was revalued using the terms of the new agreement discounted at the original effective interest rate resulting in a \$1.2 million gain on modification of bank debt, in accordance with IFRS 9.

The Credit Suisse Bank Debt includes various financial and non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation was in compliance with its covenants as at June 30, 2020.

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2019	\$ 19,772	\$ 7,326	\$ 27,098
Additions	—	1,305	1,305
Settlements	(912)	(1,898)	(2,810)
Foreign exchange gain	—	(582)	(582)
Balance at June 30, 2020	\$ 18,860	\$ 6,151	\$ 25,011
Lease obligations - current	\$ 1,927	\$ 3,417	\$ 5,344
Lease obligations - non-current	16,933	2,734	19,667
Balance at June 30, 2020	\$ 18,860	\$ 6,151	\$ 25,011

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Lease payments related to short-term, low value or variable lease payments were recognized as transportation expenses, operating expenses and capital costs as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Low-value right-of-use assets	\$ 24	\$ 285	\$ 53	\$ 309
Short-term lease arrangements	207	4,672	317	6,799
Variable lease payments	3,733	1,463	9,181	1,879
Total lease payments	\$ 3,964	\$ 6,420	\$ 9,551	\$ 8,987

During the three and six months ended June 30, 2020, the Corporation paid variable lease payments related to the Sabanas pipeline transportation expenses.

Future lease payments related to short-term, low value or variable lease arrangements as at June 30, 2020 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 25,965	\$ 47,262	\$ 24,755	\$ 97,982

NOTE 11 – OTHER EXPENSES (INCOME)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Donations		\$ 317	\$ 318	\$ 367	\$ 333
Pre-license costs		285	2,211	444	2,382
Other expenses		2,976	1,525	3,104	3,611
Other tax expense		707	593	1,438	796
(Gain) Loss on financial instruments		(715)	321	2,211	745
		\$ 3,570	\$ 4,968	\$ 7,564	\$ 7,867

(Gain) Loss on Financial Instruments

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Hedging contract - unrealized	\$ (1,195)	\$ —	\$ 801	\$ —
Hedging contract - realized	590	—	904	—
Investments - unrealized	(110)	436	506	586
Restricted share units - unrealized	—	(115)	—	74
Restricted share units - realized	—	—	—	85
	\$ (715)	\$ 321	\$ 2,211	\$ 745

During the six months ended June 30, 2020, the Corporation realized losses on its COP to United States dollar (“USD”) foreign exchange hedging contract due to the devaluation of the COP during the period (note 16).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Finance income				
Interest and other income	\$ 336	\$ 290	\$ 1,437	\$ 639
Gain on modification of bank debt	1,174	—	1,174	—
Finance expense				
Accretion on decommissioning obligations	415	377	752	747
Amortization of upfront financing fees	474	474	951	941
Interest expense on lease obligations	350	361	744	756
Interest and other financing costs	7,355	7,269	14,592	14,612
	\$ 8,594	\$ 8,481	\$ 17,039	\$ 17,056
Net finance expense	\$ 7,084	\$ 8,191	\$ 14,428	\$ 16,417

During the six months ended June 30, 2020, the Corporation recognized: i) interest income of \$1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation and ii) a gain on debt modification of \$1.2 million related to the Credit Suisse Bank Debt modification (note 9).

NOTE 13 – NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share is calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 17,715	\$ 1,878	\$ (8,273)	\$ 8,152
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic	180,916	177,381	180,923	177,464
Effect of stock options	568	1,598	—	1,818
Weighted-average common shares outstanding, diluted	181,484	178,979	180,923	179,282

Due to the net loss realized during the six months ended June 30, 2020, stock options were anti-dilutive.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Operating Activities

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Litigation settlement liability - principal payments	7	\$ (110)	\$ (278)	\$ (307)	\$ (714)
Settlement of decommissioning obligations		—	—	—	(847)
Settlement of restricted share units obligation	7	—	—	(2,078)	(1,617)
		\$ (110)	\$ (278)	\$ (2,385)	\$ (3,178)

The litigation settlement liability payments of \$0.1 million and \$0.3 million during the three and six months ended June 30, 2020, respectively, related solely to the principal portion of the total payments of approximately \$0.2 million per month, which consists of both the principal and interest payments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Other Investing Activities

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Investments	\$ (120)	\$ 90	\$ (27)	\$ 180
Change in restricted cash	(330)	(250)	497	(362)
Change in prepaid expenses and deposits	(2,067)	452	(2,119)	231
	\$ (2,517)	\$ 292	\$ (1,649)	\$ 49

Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Change in:				
Trade and other receivables	\$ 8,748	\$ (2,845)	\$ 7,830	\$ (6,968)
Prepaid expenses and deposits	385	893	(1,758)	(827)
Tax installments and receivables	4,215	(1,985)	2,702	(4,207)
Crude oil inventory	(109)	31	(88)	—
Trade and other payables	(14,121)	(5,392)	(17,161)	(5,792)
Deferred income	3,318	440	4,210	1,056
Taxes payable	(396)	(2,854)	1,610	1,860
	2,040	(11,712)	(2,655)	(14,878)
Foreign exchange impact on working capital ending balances	(192)	(257)	(2,708)	(88)
	\$ 1,848	\$ (11,969)	\$ (5,363)	\$ (14,966)
Attributable to:				
Operating activities	\$ 6,633	\$ (16,557)	\$ (630)	\$ (18,468)
Investing activities	(4,785)	4,588	(4,733)	3,502
	\$ 1,848	\$ (11,969)	\$ (5,363)	\$ (14,966)

NOTE 15 – SUPPLEMENTAL INFORMATION

Natural gas, LNG, Crude Oil Revenues, Net of Royalties

The Corporation records natural gas, LNG and crude oil revenues, net of royalties on a consolidated basis which were allocated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Natural gas and LNG revenues, net of royalties	\$ 59,386	\$ 47,833	\$ 140,609	\$ 96,600
Crude oil revenue, net of royalties	355	1,705	1,274	3,575
	\$ 59,741	\$ 49,538	\$ 141,883	\$ 100,175

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Natural gas and crude oil royalties incurred were allocated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Natural gas royalties	\$ 8,842	\$ 6,968	\$ 22,014	\$ 13,919
Crude oil royalties	29	140	104	298
	\$ 8,871	\$ 7,108	\$ 22,118	\$ 14,217

Deferred Income

As at June 30, 2020, the Corporation has deferred income of \$15.3 million related to either: i) undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later maturity date and ii) proceeds received for natural gas, LNG and crude oil to be delivered at a later date. As at June 30, 2020, \$9.7 million of the undelivered nominations are expected to be delivered within the next twelve months, and as such, have been classified as a current liability.

Income taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Income taxes paid	\$ 13,967	\$ 13,074	\$ 20,890	\$ 19,381
Interest paid	\$ 13,548	\$ 12,784	\$ 14,441	\$ 13,908

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, tax installments and receivables, trade and other payables, dividend payable, taxes payable, lease obligations, litigation settlement liability approximate their fair values at June 30, 2020. Restricted Share Units (“RSUs”), certain investments and hedging contract are recorded at fair value. The fair value of the Senior Notes, Credit Suisse Bank Debt and Operating loan is \$323.5 million, \$30 million and \$5 million, respectively.

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.

(i) Commodity Price and Interest Rate Risk

The majority of Canacol’s production volume is subject to long-term fixed price contracts, which limits the Corporation’s exposure to commodity price risk, including current volatility prices as a result of COVID-19. The majority of the Corporation’s interest bearing debt, the Senior Notes and the Litigation Settlement Liability, are subject to fixed interest rates, which limits the Corporation’s exposure to interest rate risk. The Corporation’s Credit Suisse Bank Debt and the Operating Loan are subject to variable interest rates. The Corporation had no commodity or interest rate contracts in place as at or during the three and six months ended June 30, 2020.

(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, liabilities and the Corporation’s unused tax losses and capital pools, are denominated in COP and Canadian dollars (“CAD”), which are re-valued each reporting period.

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As at June 30, 2020, the COP to the USD exchange rate was 3,758:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.36:1 (December 31, 2019 – 1.30:1). The 15% devaluation of the COP and 5% devaluation of CAD resulted in the reduction of certain expenditures and liabilities as at and during the six months ended June 30, 2020. In addition, \$21.2 million of the total deferred income tax expense of \$29.5 million recognized during the six months ended June 30, 2020, was as a result of the devaluation of COP to USD.

During the three and six months ended June 30, 2020, the Corporation held a foreign exchange contract under the following terms:

Term	Principal	Type	Exchange Rate Range
August 2019 - July 2020	\$2.5 million	COP to USD foreign exchange collar	3,383:1 - 3,535:1

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 an annual budget which is monitored regularly and updated as considered necessary. Natural gas, LNG and crude oil 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 June 30, 2020:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ 5,321	\$ 12,857	\$ 337,143	\$ 355,321
Lease obligations – undiscounted	5,670	4,986	18,433	29,089
Trade and other payables	35,430	—	—	35,430
Dividend payable	6,907	—	—	6,907
Taxes payable	7,653	—	—	7,653
Hedging contract	156	—	—	156
Deferred income	9,650	5,694	—	15,344
Settlement liability	509	562	12,453	13,524
Other long term obligation	—	2,892	—	2,892
Restricted share units	3,035	—	—	3,035
	\$ 74,331	\$ 26,991	\$ 368,029	\$ 469,351

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 natural gas, LNG and crude oil 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 natural gas, LNG and 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, mostly with investment grade credit ratings.

The Corporation's trade receivables primarily relate to sales of natural gas, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at June 30, 2020 was \$48.9 million (2019 - \$56.5 million), \$8 million related to the recovery of transportation costs passed-through to customers (2019 - \$10.8 million), \$6.1 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (2019 - \$5.7 million) and \$4.4 million of other receivables (2019 - \$2.2 million). The \$6.1 million receivable from Arrow is scheduled to be collected through six equal monthly payments commencing in April 2021,

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and as such, \$3.1 million has been classified as current as at June 30, 2020. Two members of key management of Canacol are also members of the board of directors of Arrow. The remaining receivable balances are anticipated to be collected in 2020 and there are no expected credit losses as assessed by the Corporation.

Capital Management

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding long-term obligations less working capital. In order to facilitate the management of its net debt, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity 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.

	Note	June 30, 2020	December 31, 2019
Senior Notes - principal (7.25%)	9	\$ 320,000	\$ 320,000
Credit Suisse Bank Debt - principal (LIBOR + 4.25%)	9	30,000	30,000
Operating loan (IBR + 2%)	9	5,321	—
Litigation settlement liability (8.74%)	7	13,524	15,848
Lease obligation (6.875%)	10	25,011	27,098
Total debt		393,856	392,946
Working capital surplus		(72,141)	(50,676)
Net debt		\$ 321,715	\$ 342,270

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at June 30, 2020:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 4,722	\$ 37,129	\$ 6,405	\$ 48,256
Compression station operating contracts	2,584	5,322	12,769	20,675

Letters of Credit

At June 30, 2020, the Corporation had letters of credit outstanding totaling \$82 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, \$11.3 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than the end of 2021.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at June 30, 2020 of \$48.3 million and has issued \$30.1 million in financial guarantees related thereto.

Contingencies

In the normal course of operations, the Corporation has disputes with industry participants and assessments from tax authorities 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.

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NOTE 18 – SUBSEQUENT EVENT

On July 31, 2020, the Corporation entered into a \$46 million senior unsecured revolving credit facility (the “RCF”) and a \$75 million senior unsecured bridge term loan (the “Bridge”) with a syndicate of banks. The Bridge is intended to be used to construct and own a pipeline to Medellin, Colombia (the “Project”), with Canacol being the guarantor throughout the outstanding term of the Bridge. The initial draw from the Bridge will be used for initial engineering costs and environmental licensing and the following \$50 million is currently budgeted for construction materials. It is anticipated that during the term, Canacol will divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership.

The RCF includes an interest rate of LIBOR + 4.75%, a three-year term, and the Corporation’s ability to repay/redraw the RCF at any time within the term without penalty. Canacol will pay a commitment fee to the syndicate of 30% of the 4.75% interest margin on any undrawn amounts throughout the term. The RCF will be undrawn at the start. The RCF will not be subject to typical periodic redeterminations.

The Bridge includes an interest rate of LIBOR + 4.25%, a two-year term, and the Corporation’s ability to repay the Bridge at any time within the term without penalty. Within thirty days of the July 31, 2020 closing the subsidiary is obligated to draw the first \$25 million of the Bridge, with the remaining \$50 million to be available to be drawn at any time up to twelve months from the closing date. The subsidiary will pay a commitment fee to the syndicate of 30% of the 4.25% interest margin on any undrawn amounts throughout the availability period.

The RCF and Bridge covenants are consistent with the Corporation’s existing covenants of its Senior Notes (note 9).