

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		\$ 43,114	\$ 68,280
Trade and other receivables	16	70,031	70,685
Tax installments and receivables		180	10,589
Other current assets	6	4,743	3,949
		118,068	153,503
Non-current assets			
Trade and other receivables	16	3,207	—
Exploration and evaluation assets	4	75,876	62,775
Property, plant and equipment	5	527,782	524,786
Deferred tax assets		4,739	3,422
Other non-current assets	6	10,932	5,306
		622,536	596,289
Total assets		\$ 740,604	\$ 749,792
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	\$ 19,176	\$ 7,199
Trade and other payables		59,582	45,176
Deferred income		6,722	12,709
Dividend payable	8	7,214	7,332
Lease obligations	10	4,113	4,744
Taxes payable		5,262	12,916
Other current liabilities	7	1,292	2,540
		103,361	92,616
Non-current liabilities			
Long-term debt	9	362,450	359,933
Lease obligations	10	14,902	18,199
Decommissioning obligations		25,405	24,588
Deferred tax liabilities		44,065	30,174
Other non-current liabilities	7	3,844	16,910
Total liabilities		554,027	542,420
Equity			
Share capital	8	161,237	168,572
Other reserves		67,080	66,567
Retained deficit		(41,740)	(27,767)
Total equity		186,577	207,372
Total liabilities and equity		\$ 740,604	\$ 749,792

Commitments and contingencies (note 17)

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 September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Revenues					
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	15	\$ 75,411	\$ 64,474	\$ 206,995	\$ 207,274
Natural gas trading revenues	15	6,514	—	19,305	—
Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties		81,925	64,474	226,300	207,274
Expenses					
Operating expenses		4,599	4,722	13,279	12,810
Transportation expenses		9,123	7,045	27,711	24,446
Natural gas trading purchases cost	15	6,466	—	19,197	—
Exploration expense	4	202	—	11,777	—
General and administrative		6,315	6,352	20,112	18,931
Stock-based compensation and restricted share units expense	7,8	1,216	1,365	3,642	5,379
Depletion and depreciation	5	17,626	14,045	50,459	48,225
Foreign exchange loss		658	819	2,440	6,512
Other expenses	11	2,557	4,493	5,944	12,057
		48,762	38,841	154,561	128,360
Net finance expense	12	8,339	8,160	25,646	22,588
Income before income taxes		24,824	17,473	46,093	56,326
Income tax expense					
Current		13,184	5,035	25,367	22,687
Deferred		2,850	9,829	12,573	39,303
		16,034	14,864	37,940	61,990
Net income (loss) and comprehensive income (loss)		\$ 8,790	\$ 2,609	\$ 8,153	\$ (5,664)
Net income (loss) per share					
Basic and diluted	13	\$ 0.05	\$ 0.01	\$ 0.05	\$ (0.03)

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 Earnings (Deficit)	Total Equity
Balance at December 31, 2019	\$ 169,459	\$ 68,067	\$ 335	\$ 4,885	\$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common shares repurchased	(2,300)	—	—	—	(2,300)
Provision for repurchase of common shares	(3,052)	—	—	—	(3,052)
Stock options exercised	4,377	(1,349)	—	—	3,028
Stock options settled in cash	—	(43)	—	—	(43)
Provision for cash settlement of stock options	—	(1,264)	—	—	(1,264)
Stock-based compensation	—	1,618	—	—	1,618
Dividends declared	—	—	—	(20,577)	(20,577)
Net loss	—	—	—	(5,664)	(5,664)
Balance at September 30, 2020	\$ 168,484	\$ 67,364	\$ —	\$ (21,356)	\$ 214,492
Balance at December 31, 2020	\$ 168,572	\$ 66,567	\$ —	\$ (27,767)	\$ 207,372
Common shares repurchased (note 8)	(7,335)	—	—	—	(7,335)
Stock-based compensation	—	513	—	—	513
Dividends declared (note 8)	—	—	—	(22,126)	(22,126)
Net income	—	—	—	8,153	8,153
Balance at September 30, 2021	\$ 161,237	\$ 67,080	\$ —	\$ (41,740)	\$ 186,577

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 September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Operating activities					
Net income (loss) and comprehensive income (loss)		\$ 8,790	\$ 2,609	\$ 8,153	\$ (5,664)
Non-cash adjustments:					
Depletion and depreciation	5	17,626	14,045	50,459	48,225
Exploration expense	4	202	—	11,777	—
Stock-based compensation and restricted share units expense	7,8	1,216	1,365	3,642	5,379
Net financing expense	12	8,339	8,160	25,646	22,588
Unrealized foreign exchange loss and other expenses		862	412	5,312	4,129
Realized foreign exchange gain		—	—	(3,659)	—
Deferred income tax expense		2,850	9,829	12,573	39,303
Unrealized (gain) loss on financial instruments	11	(78)	(44)	3	1,263
Payment of litigation settlement liability	7	—	(230)	(13,073)	(537)
Other operating activities	14	(1,580)	(3,331)	(3,804)	(5,409)
Changes in non-cash working capital	14	18,819	17,201	(2,096)	16,571
		57,046	50,016	94,933	125,848
Investing activities					
Expenditures on exploration and evaluation assets	4	(7,462)	(11,697)	(32,677)	(16,764)
Expenditures on property, plant and equipment		(16,616)	(15,560)	(44,528)	(42,430)
Net proceeds on disposition of property, plant and equipment		27	—	297	58
Other investing activities	14	(2,630)	(1,018)	(5,546)	(2,667)
Changes in non-cash working capital	14	(946)	9,685	8,705	4,952
		(27,627)	(18,590)	(73,749)	(56,851)
Financing activities					
Draw on long-term debt	9	—	21,973	12,921	29,249
Repayment of long-term debt	9	—	—	—	(2,727)
Net financing expense paid	12	(7,279)	(7,230)	(22,679)	(21,129)
Lease principal payments	10	(1,383)	(1,541)	(4,229)	(4,351)
Dividends paid	8	(7,489)	(6,907)	(22,244)	(13,536)
Common share repurchases	8	(4,556)	(1,227)	(7,335)	(2,300)
Issue of common shares	8	—	137	—	3,028
		(20,707)	5,205	(43,566)	(11,766)
Change in cash and cash equivalents		8,712	36,631	(22,382)	57,231
Cash and cash equivalents, beginning of period		34,834	58,552	68,280	41,239
Foreign exchange impact on cash and cash equivalents, end of period		(432)	(1,413)	(2,784)	(4,700)
Cash and cash equivalents, end of period		\$ 43,114	\$ 93,770	\$ 43,114	\$ 93,770

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(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 November 3, 2021.

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 the Corporation’s audited consolidated financial statements for the year ended December 31, 2020.

Basis of Measurement

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

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

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

Functional and Presentation Currency

These financial statements are presented in United States dollar amounts (“USD”), which is both the functional and presentation currency, with the exception of Canadian dollar unit prices (“C\$”) where indicated.

The financial statements have been prepared by management in accordance with the International Financial Reporting Standards (“IFRS”).

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

A number of new and revised accounting standards became effective on January 1, 2021, however they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2020	\$	62,775
Additions		32,677
Transferred to exploration expense		(11,777)
Transferred to D&P assets (note 5)		(7,799)
Balance at September 30, 2021	\$	75,876

During the nine months ended September 30, 2021, the Corporation drilled the Flauta-1 exploration well located on its VIM-5 block and the Milano-1 exploration well located on its Esperanza block. The wells did not encounter commercial gas and, as such, the related costs of \$11.8 million were recognized as an exploration expense.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

During the nine months ended September 30, 2021, the Corporation made natural gas discoveries, Aguas Vivas-1 on its VIM-21 block and San Marcos-1 on its Esperanza block, and accordingly, \$7.8 million of exploration costs associated with such discoveries have been transferred to D&P assets.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Cost			
Balance at December 31, 2020	\$ 1,124,928	\$ 32,997	\$ 1,157,925
Additions	45,413	506	45,919
Transferred from E&E assets (note 4)	7,799	—	7,799
Dispositions and de-recognition	(142)	(70)	(212)
Balance at September 30, 2021	\$ 1,177,998	\$ 33,433	\$ 1,211,431
Accumulated depletion and depreciation			
Balance at December 31, 2020	\$ (624,455)	\$ (8,684)	\$ (633,139)
Depletion and depreciation	(47,477)	(2,981)	(50,458)
Derecognition and inventory adjustments	(86)	34	(52)
Balance at September 30, 2021	\$ (672,018)	\$ (11,631)	\$ (683,649)
Carrying value			
As at December 31, 2020	\$ 500,473	\$ 24,313	\$ 524,786
As at September 30, 2021	\$ 505,980	\$ 21,802	\$ 527,782

NOTE 6 – OTHER ASSETS

	September 30, 2021	December 31, 2020
Current		
Prepaid expenses and deposits	\$ 3,499	\$ 3,332
Investments	—	289
Inventory	1,244	328
	\$ 4,743	\$ 3,949
Non-Current		
Prepaid expenses and deposits	\$ 5,460	\$ 2,896
Investments	5,472	2,410
	\$ 10,932	\$ 5,306

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

Investments

	Office Sub-Lease	Share Investments	Total Investments
Balance at December 31, 2020	\$ 289	\$ 2,410	\$ 2,699
Additions	—	3,251	3,251
Sub-lease receipts and finance income	(269)	—	(269)
Unrealized loss	—	(2)	(2)
Foreign exchange loss	(20)	(187)	(207)
Balance at September 30, 2021	\$ —	\$ 5,472	\$ 5,472

During the nine months ended September 30, 2021, the Corporation purchased \$3.3 million of shares in Termoelectrica el Tesorito S.A.S. ESP, a Colombian power generation company.

NOTE 7 – OTHER LIABILITIES

	September 30, 2021	December 31, 2020
Current		
Restricted share units	\$ 1,292	\$ 1,966
Litigation settlement liability	—	574
	\$ 1,292	\$ 2,540
Non-Current		
Litigation settlement liability	—	13,779
Other long term obligations	3,844	3,131
	\$ 3,844	\$ 16,910

Restricted Share Units

Balance at December 31, 2020	\$ 1,966
Amortized	3,129
Settled	(3,750)
Foreign exchange gain	(53)
Balance at September 30, 2021	\$ 1,292

Restricted Share Units (“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 September 30, 2021 was \$1.3 million.

As at September 30, 2021, amortized RSUs of 486,866 of the total 970,667 RSUs outstanding were recognized as an obligation and the remaining 483,801 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at September 30, 2021 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2020	765
Granted	1,629
Settled	(1,423)
Balance at September 30, 2021	971

On March 22, 2021, the Corporation granted 1,629,000 RSUs. A portion of the RSUs vest one-half in six months and one-half in one year from the grant date, and the other portion vest one-third in six months, one-third in one year and one-third in eighteen months from the grant date, and are anticipated to be settled in cash.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

During the nine months ended September 30, 2021, 1,422,997 RSUs were settled in cash at a price ranging from C\$3.03 to C\$3.69 per share, resulting in cash settlements of \$3.8 million.

Litigation Settlement Liability

Balance at December 31, 2020	\$	14,353
Settlement payments, net of accrued interest		(13,073)
Foreign exchange gain		(1,280)
Balance at September 30, 2021	\$	—

During the nine months ended September 30, 2021, the Corporation entered into a credit agreement with Banco Davivienda (note 9) and paid its litigation settlement liability outstanding principal and accrued interest of \$13.1 million, which was denominated in Colombian Pesos (“COP”). The litigation settlement amount was subject to a 8.74% annual interest rate on the outstanding balance and cash payments of approximately \$0.2 million per month, including accrued interest.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2020	179,515	\$ 168,572
Common share repurchases	(2,774)	(7,335)
Balance at September 30, 2021	176,741	\$ 161,237

During the nine months ended September 30, 2021, the Corporation repurchased 2,773,700 common shares of the Corporation at a cost of \$7.3 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, 2020	12,809	4.27
Forfeited and cancelled	(2,754)	4.19
Balance at September 30, 2021	10,055	4.29

There were no stock options granted during the three and nine months ended September 30, 2021.

Information with respect to stock options outstanding at September 30, 2021 is presented below.

Range of Exercise Prices (C\$)	Stock Options Outstanding			Stock Options Exercisable	
	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\$)
\$3.97 - \$4.20	1,756	1.1	4.15	1,756	4.15
\$4.21 - \$4.62	8,299	2.2	4.32	6,362	4.35
	10,055	2.0	4.29	8,118	4.31

Stock-based compensation of \$0.1 million and \$0.5 million (2020 - \$0.5 million and \$1.6 million) was expensed during the three and nine months ended September 30, 2021, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

Dividends Declared

During the nine months ended September 30, 2021, the Corporation declared three dividend payments of C\$0.052 per share, totaling \$22.1 million, of which \$7.4 million was paid on April 15, 2021, \$7.5 million was paid on July 15, 2021 and \$7.2 million was paid on October 15, 2021, to shareholders of record at the close of business on March 31, 2021, June 30, 2021 and September 30, 2021, respectively. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Credit Suisse Bank Debt	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Balance at December 31, 2020	\$ 313,851	\$ 28,245	\$ 22,123	\$ —	\$ 2,913	\$ 367,132
Draw on long-term debt	—	—	—	12,921	—	12,921
Amortization of transaction costs	1,052	749	429	—	—	2,230
Foreign exchange gain	—	—	—	(352)	(305)	(657)
Balance at September 30, 2021	\$ 314,903	\$ 28,994	\$ 22,552	\$ 12,569	\$ 2,608	\$ 381,626
Long-term debt - current	\$ —	\$ 16,568	\$ —	\$ —	\$ 2,608	\$ 19,176
Long-term debt - non-current	314,903	12,426	22,552	12,569	—	362,450
Balance at September 30, 2021	\$ 314,903	\$ 28,994	\$ 22,552	\$ 12,569	\$ 2,608	\$ 381,626

On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Davivienda (“Colombia Bank Debt”) for a principal amount of \$12.9 million denominated in COP, which is subject to an annual interest rate of Reference Bank Indicator (“IBR”) plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation’s litigation settlement liability, which was subject to an 8.74% annual interest rate (note 7). 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 is scheduled to mature three years from the agreement date.

On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023. The Bridge Loan was entered into by the Corporation to construct and own the Medellin pipeline (the “Project”), with Canacol being the guarantor throughout the outstanding term of the Bridge Loan. During the term, Canacol intends to divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership with Canacol being the guarantor throughout the outstanding term of the Bridge Loan.

As at September 30, 2021, a portion of the Credit Suisse Bank Debt, net of transaction costs, and the Operating Loan totaling \$19.2 million was classified as current. The Operating Loan principal balance of \$2.6 million repayment was extended to April 11, 2022 while four of the seven equal quarterly \$4.3 million principal payments of the Credit Suisse Bank Debt totaling \$17.1 million are due on December 11, 2021, March 11, 2022, June 11, 2022 and September 11, 2022, respectively.

Net Carrying Value

	Senior Notes	Credit Suisse Bank Debt	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Long-term debt - principal	\$ 320,000	\$ 30,000	\$ 25,000	\$ 12,569	\$ 2,608	\$ 390,177
Unamortized transaction costs	(5,097)	(1,006)	(2,448)	—	—	(8,551)
Balance at September 30, 2021	\$ 314,903	\$ 28,994	\$ 22,552	\$ 12,569	\$ 2,608	\$ 381,626

As at September 30, 2021, unamortized transaction costs are netted against the Senior Notes, Credit Suisse Bank Debt and Bridge Loan principal amounts. During the three and nine months ended September 30, 2021, Bridge Loan transaction costs amortization of \$0.1 million and \$0.4 million were capitalized to PP&E as part of a qualifying asset, and the remaining \$0.6 million and \$1.8 million transaction costs amortization has been recognized as a finance expense (note 12), respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

The long-term debt agreements include various financial covenants and non-financial covenants relating to indebtedness, operations, investments, asset sales, capital expenditures and other standard operating business covenants, including a maximum consolidated leverage ratio of 3.50:1.00 and a minimum consolidated EBITDAX to interest expense, excluding non-cash interest expenses, ratio of 2.50:1.00. The Corporation was in compliance with its covenants as at September 30, 2021.

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other		Total
Balance at December 31, 2020	\$	17,923	\$	5,020	\$ 22,943
Additions		—		506	506
Settlements		(1,495)		(2,734)	(4,229)
De-recognitions		—		(37)	(37)
Foreign exchange gain		—		(168)	(168)
Balance at September 30, 2021	\$	16,428	\$	2,587	\$ 19,015
Lease obligations - current	\$	2,130	\$	1,983	\$ 4,113
Lease obligations - non-current		14,298		604	14,902
Balance at September 30, 2021	\$	16,428	\$	2,587	\$ 19,015

Payments related to low-value assets, short-term lease arrangements and variable lease payments are excluded from being recognized as a lease obligation and right-of-use asset under IFRS 16. The payments related to short-term lease arrangements and low-value assets were recognized as operating expenses and the variable lease payments related to the Sabanas pipeline were recognized as transportation expenses. The variable lease payments related to a drilling rig contract were capitalized.

These lease payments were recognized on a straight-line basis summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Low-value right-of-use assets	\$ 27	\$ 24	\$ 77	\$ 77
Short-term lease arrangements	105	209	358	526
Variable lease payments	4,558	6,881	16,483	16,063
Total lease payments	\$ 4,690	\$ 7,114	\$ 16,918	\$ 16,666

Future lease payments related to short-term, low value or variable lease arrangements as at September 30, 2021 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 28,525	\$ 31,978	\$ 20,654	\$ 81,157

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

NOTE 11 – OTHER EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Donations	\$ 148	\$ 337	\$ 441	\$ 704
Pre-license costs	537	395	1,519	839
Other expenses	1,185	2,952	2,045	6,056
Other tax expense	765	731	1,936	2,169
(Gain) loss on financial instruments	(78)	78	3	2,289
	\$ 2,557	\$ 4,493	\$ 5,944	\$ 12,057

Loss (Gain) on Financial Instruments

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Hedging contract - unrealized	\$ —	\$ (156)	\$ —	\$ 645
Hedging contract - realized	—	122	—	1,026
Investments - unrealized	(78)	112	3	618
	\$ (78)	\$ 78	\$ 3	\$ 2,289

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Finance income				
Interest and other income	\$ 308	\$ 372	\$ 740	\$ 1,809
Gain on modification of bank debt	—	—	—	1,174
Finance expense				
Accretion on decommissioning obligations	447	340	1,166	1,092
Amortization of upfront transaction costs	613	590	1,801	1,541
Interest expense on lease obligations	271	297	866	1,041
Interest and other financing costs	7,316	7,305	22,553	21,897
	8,647	8,532	26,386	25,571
Net finance expense	\$ 8,339	\$ 8,160	\$ 25,646	\$ 22,588

During the nine months ended September 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

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

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 8,790	\$ 2,609	\$ 8,153	\$ (5,664)
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic	177,245	180,980	178,675	180,942
Effect of stock options	—	515	—	—
Basic and diluted	177,245	181,495	178,675	180,942

Due to the net loss realized during the nine months ended September 30, 2020, stock options were anti-dilutive. There was no dilution effect of stock options during the three and nine months ended September 30, 2021 due to the stock options being out-of-the-money.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Operating Activities

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Settlement of decommissioning obligations		\$ —	\$ (594)	\$ (54)	\$ (594)
Settlement of restricted share units	7	(1,580)	(2,694)	(3,750)	(4,772)
Settlement of cash settled options	8	—	(43)	—	(43)
		\$ (1,580)	\$ (3,331)	\$ (3,804)	\$ (5,409)

Other Investing Activities

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Change in investments	6	\$ (1,948)	\$ (646)	\$ (2,982)	\$ (673)
Change in restricted cash		—	1,278	—	1,775
Change in prepaid expenses and deposits		(682)	(1,650)	(2,564)	(3,769)
		\$ (2,630)	\$ (1,018)	\$ (5,546)	\$ (2,667)

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Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Change in:				
Trade and other receivables	\$ (6,673)	\$ 8,425	\$ (2,553)	\$ 16,255
Prepaid expenses and deposits	1,410	(801)	(167)	(2,559)
Tax installments and receivables	11,021	(826)	10,409	1,876
Crude oil inventory	(541)	110	(849)	22
Trade and other payables	8,155	17,274	14,406	113
Deferred income	(13)	(1,681)	(5,987)	2,529
Taxes payable	5,256	2,965	(7,654)	4,575
	18,615	25,466	7,605	22,811
Foreign exchange impact on working capital ending balances	(742)	1,420	(996)	(1,288)
	\$ 17,873	\$ 26,886	\$ 6,609	\$ 21,523
Attributable to:				
Operating activities	\$ 18,819	\$ 17,201	\$ (2,096)	\$ 16,571
Investing activities	(946)	9,685	8,705	4,952
	\$ 17,873	\$ 26,886	\$ 6,609	\$ 21,523

During the nine months ended September 30, 2021, the Corporation made cash payments, impacting working capital as follows: i) the 2020 income tax remaining installment of \$11.4 million ii) prepaid 2021 tax installments of \$20.5 million and iii) the semi-annual Senior Notes interest payment of \$11.6 million. The Corporation received the majority of its 2020 prepaid tax installments totaling \$9 million from the Colombian tax authority during the three and nine months ended September 30, 2021.

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, with the exception of its take-or-pay natural gas income, on a consolidated basis which were allocated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Natural gas and LNG revenues, net of royalties	\$ 74,623	\$ 63,344	\$ 204,066	\$ 203,953
Crude oil revenue, net of royalties	788	975	2,905	2,249
Take-or-pay natural gas income	—	155	24	1,072
	\$ 75,411	\$ 64,474	\$ 206,995	\$ 207,274

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Natural gas royalties	\$ 12,095	\$ 9,869	\$ 34,511	\$ 31,883
Crude oil royalties	64	82	239	186
	\$ 12,159	\$ 9,951	\$ 34,750	\$ 32,069

Natural Gas Trading

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Natural gas trading revenue	\$ 6,514	\$ —	\$ 19,305	\$ —
Natural gas trading purchases cost	(6,466)	—	(19,197)	—
Natural gas trading profit	\$ 48	\$ —	\$ 108	\$ —

The Corporation recognized \$6.5 million and \$19.3 million of natural gas trading revenue and incurred gas purchase costs of \$6.5 million and \$19.2 million during the three and nine months ended September 30, 2021, respectively, related to the delivery of a certain off-taker's long-term contract. The Corporation's gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities.

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Income taxes paid	\$ 5,899	\$ 3,272	\$ 31,936	\$ 24,162
Interest paid	\$ 1,238	\$ 619	\$ 15,311	\$ 14,006

During the nine months ended September 30, 2020, the Corporation paid its remaining 2020 income tax expense installment of \$11.4 million. In addition, the Corporation also prepaid advances related to its 2021 income tax expense of \$5.9 million and \$20.5 million during the three and nine months ended September 30, 2021, respectively.

During the nine months ended September 30, 2020, the Corporation paid its semi-annual interest payment of \$11.6 million related to its Senior Notes.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, tax installments and receivables, trade and other payables, dividend payable, taxes payable and lease obligations approximate their fair values at September 30, 2021. RSUs and certain investments are recorded at fair value. The fair value of the Senior Notes, Credit Suisse Bank Debt, Bridge Loan, Colombia Bank Debt and Operating Loan is \$336.2 million, \$30 million, \$25 million, \$12.6 million and \$2.6 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.

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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 volatile prices as a result of COVID-19. The majority of the Corporation's interest bearing debt, including the Senior Notes is subject to fixed interest rates, which limits the Corporation's exposure to interest rate risk. The Corporation's Credit Suisse Bank Debt, Bridge Loan, Colombia 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 nine months ended September 30, 2021.

(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.

As at September 30, 2021, the COP to the USD exchange rate was 3,835:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2020 – 1.27:1). The 12% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the nine months ended September 30, 2021. In addition, total deferred income tax expense of \$12.6 million recognized during the nine months ended September 30, 2021, was mainly as a result of the devaluation of COP to USD.

During the three and nine months ended September 30, 2021, the Corporation held no foreign exchange contracts.

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 September 30, 2021:

	Less than 1 year		1-2 years		Thereafter		Total
Long-term debt – principal	\$	19,751	\$	37,857	\$	332,569	\$ 390,177
Lease obligations – undiscounted		4,903		3,162		14,040	22,105
Trade and other payables		59,582		—		—	59,582
Dividend payable		7,214		—		—	7,214
Taxes payable		5,262		—		—	5,262
Other long term obligation		—		3,844		—	3,844
Restricted share units		1,292		—		—	1,292
	\$	98,004	\$	44,863	\$	346,609	\$ 489,476

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables.

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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 September 30, 2021 was \$54.7 million (December 31, 2020 - \$49.9 million), \$9.2 million related to the recovery of transportation costs passed-through to customers (December 31, 2020 - \$10.7 million), \$6.4 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (December 31, 2020 - \$5.8 million) and \$3 million of other receivables (December 31, 2020 - \$4.3 million). Subsequent to September 30, 2021, the Corporation received \$3.2 million of the \$6.4 million receivable, through the receipt of Arrow shares, following their recent Alternative Investment Market ("AIM") financing of approximately C\$15 million, which brings Canacol's ownership in Arrow to 19.9%. The remaining balance of \$3.2 million is expected to be collected as follows: i) half of the remaining balance of \$3.2 million will be paid no later than December 31, 2022 and ii) half will be paid no later than June 30, 2023. As such, \$3.2 million of the total \$6.4 million was classified as non-current as at September 30, 2021. Two members of key management of Canacol are also members of the Board of Directors of Arrow.

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	September 30, 2021	December 31, 2020
Senior Notes - principal (7.25%)	9	\$ 320,000	\$ 320,000
Bank Debt - principal (LIBOR + 4.25%)(¹)	9	30,000	30,000
Bridge Loan - principal (LIBOR + 4.25%)(¹)	9	25,000	25,000
Colombia Bank Debt - principal (IBR + 2.5%)(²)	9	12,569	—
Litigation settlement liability (8.74%)	7	—	14,353
Operating loan (IBR + 1.5%)(²)	9	2,608	2,913
Lease obligation (5.1%)	10	19,015	22,943
Total debt		409,192	415,209
Working capital surplus		(37,996)	(73,404)
Net debt		\$ 371,196	\$ 341,805

(1) The LIBOR rate during the three and nine months ended September 30, 2021 was 0.116% and 0.171%, respectively.

(2) The IBR rate during the three and nine months ended September 30, 2021 was 2.45% and 1.96%, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 5,273	\$ 34,172	\$ 16,426	\$ 55,871
Compression station operating contracts	2,648	5,456	9,335	17,439
	\$ 7,921	\$ 39,628	\$ 25,761	\$ 73,310

Letters of Credit

At September 30, 2021, the Corporation had letters of credit outstanding totaling \$76 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, \$4.1 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than December 31, 2022.

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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 September 30, 2021 of \$55.9 million and has issued \$33.4 million of the total \$76 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.