

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2022



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	March 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		\$ 126,083	\$ 138,523
Trade and other receivables	16	77,128	71,362
Tax installments and receivables		3,372	5,576
Other current assets	6	6,296	2,893
		212,879	218,354
Non-current assets			
Trade and other receivables	16	1,718	1,709
Exploration and evaluation assets	4	82,169	69,987
Property, plant and equipment	5	531,345	530,972
Deferred tax assets		5,070	4,808
Other non-current assets	6	21,530	17,930
		641,832	625,406
Total assets		\$ 854,711	\$ 843,760
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	\$ 2,668	\$ 2,513
Trade and other payables		65,635	52,363
Deferred income		2,595	5,206
Dividend payable	8	7,110	7,226
Lease obligations	10	3,741	4,308
Taxes payable		6,148	3,444
Other current liabilities	7	1,066	1,991
		88,963	77,051
Non-current liabilities			
Long-term debt	9	494,292	491,970
Deferred income		1,506	—
Lease obligations	10	15,026	13,781
Decommissioning obligations		27,025	26,147
Deferred tax liabilities		33,621	45,517
Other non-current liabilities	7	4,922	4,163
Total liabilities		665,355	658,629
Equity			
Share capital	8	146,623	159,798
Other reserves		67,314	67,219
Retained deficit		(24,581)	(41,886)
Total equity		189,356	185,131
Total liabilities and equity		\$ 854,711	\$ 843,760

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)

Three months ended March 31,	Note	2022	2021
Revenues			
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	15	\$ 74,922	\$ 68,735
Natural gas trading revenues	15	7,784	6,356
Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties		82,706	75,091
Expenses			
Operating expenses		6,762	4,704
Transportation expenses		9,039	9,273
Natural gas trading purchase costs	15	7,410	6,321
Exploration expense		—	5,904
General and administrative		6,490	6,671
Stock-based compensation expense	7,8	1,704	567
Depletion and depreciation	5	16,668	16,903
Foreign exchange (gain) loss		(2,339)	796
Other expenses	11	1,051	1,451
		46,785	52,590
Net finance expense	12	10,303	8,426
Income before income taxes		25,618	14,075
Income tax expense (recovery)			
Current		13,362	5,864
Deferred		(12,159)	11,273
		1,203	17,137
Net income (loss) and comprehensive income (loss)		\$ 24,415	\$ (3,062)
Net income (loss) per share			
Basic and diluted	13	\$ 0.14	\$ (0.02)

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)

	Note	Share Capital	Other Reserves	Retained Deficit	Total Equity
Balance at December 31, 2020		\$ 168,572	\$ 66,567	\$ (27,767)	\$ 207,372
Stock-based compensation	8	—	204	—	204
Dividends declared	8	—	—	(7,423)	(7,423)
Net loss		—	—	(3,062)	(3,062)
Balance at March 31, 2021		\$ 168,572	\$ 66,771	\$ (38,252)	\$ 197,091
Balance at December 31, 2021		\$ 159,798	\$ 67,219	\$ (41,886)	\$ 185,131
Common shares repurchased	8	(13,175)	—	—	(13,175)
Stock-based compensation	8	—	95	—	95
Dividends declared	8	—	—	(7,110)	(7,110)
Net income		—	—	24,415	24,415
Balance at March 31, 2022		\$ 146,623	\$ 67,314	\$ (24,581)	\$ 189,356

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

Three months ended March 31,	Note	2022	2021
Operating activities			
Net income (loss) and comprehensive income (loss)		\$ 24,415	\$ (3,062)
Non-cash adjustments:			
Depletion and depreciation	5	16,668	16,903
Exploration expense		—	5,904
Stock-based compensation expense	7,8	1,704	567
Net financing expense	12	10,303	8,426
Unrealized foreign exchange (gain) loss and other expenses		(2,568)	425
Deferred income tax (recovery) expense		(12,159)	11,273
Equity investment income	11	(1,335)	—
Unrealized (gain) loss on financial instruments	11	(1,372)	20
Payment of litigation settlement liability		—	(201)
Settlement of restricted share units	7	(1,840)	(2,170)
Changes in non-cash working capital	14	4,247	(185)
		38,063	37,900
Investing activities			
Expenditures on exploration and evaluation assets	4	(12,182)	(13,787)
Expenditures on property, plant and equipment		(15,296)	(14,829)
Net proceeds on disposition of property, plant and equipment		—	239
Other investing activities	14	(475)	138
Changes in non-cash working capital	14	5,428	11,693
		(22,525)	(16,546)
Financing activities			
Net financing expense paid	12	(8,324)	(7,520)
Lease principal payments	10	(1,080)	(1,417)
Dividends paid	8	(7,170)	(7,332)
Common share repurchases	8	(13,175)	—
		(29,749)	(16,269)
Change in cash and cash equivalents		(14,211)	5,085
Cash and cash equivalents, beginning of period		138,523	68,280
Foreign exchange impact on cash and cash equivalents, end of period		1,771	(1,864)
Cash and cash equivalents, end of period		\$ 126,083	\$ 71,501

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

(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 2000, 215 - 9th Avenue SW, Calgary, Alberta, T2P 1K3, 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 May 11, 2022.

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, 2021.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments and restricted share units and performance share units, 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 periods.

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

Functional and Presentation Currency

These financial statements are presented in United States dollars (“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

The Corporation has reviewed new and revised accounting pronouncements that have been issued and have become effective on January 1, 2022, however they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2021	\$	69,987
Additions		12,182
Balance at March 31, 2022	\$	82,169

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

(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
Cost			
Balance at December 31, 2021	\$ 1,197,712	\$ 33,594	\$ 1,231,306
Additions	15,926	1,902	17,828
Dispositions and de-recognition	(1,407)	(1,960)	(3,367)
Balance at March 31, 2022	\$ 1,212,231	\$ 33,536	\$ 1,245,767
Accumulated depletion and depreciation			
Balance at December 31, 2021	\$ (688,031)	\$ (12,303)	\$ (700,334)
Dispositions	1,321	1,251	2,572
Depletion and depreciation	(15,907)	(761)	(16,668)
Derecognition and inventory adjustments	8	—	8
Balance at March 31, 2022	\$ (702,609)	\$ (11,813)	\$ (714,422)
Carrying value			
As at December 31, 2021	\$ 509,681	\$ 21,291	\$ 530,972
As at March 31, 2022	\$ 509,622	\$ 21,723	\$ 531,345

NOTE 6 – OTHER ASSETS

	March 31, 2022	December 31, 2021
Current		
Prepaid expenses and deposits	\$ 5,597	\$ 2,533
Investments	354	—
Inventory	345	360
	\$ 6,296	\$ 2,893
Non-Current		
Prepaid expenses and deposits	\$ 8,038	\$ 7,563
Investments	13,492	10,367
	\$ 21,530	\$ 17,930

As at March 31, 2022, the Corporation had prepaid expenses related to pre-construction activities of the natural gas pipeline, which is expected to be constructed from the Corporation's operations to Medellin, Colombia. In addition, the Corporation made certain annual prepayments, including insurance premiums, during the three months ended March 31, 2022.

Investments

	Office Sub-Lease	Arrow Equity Investment	Arrow Warrants	Other Share Investments	Total Investments
Balance at December 31, 2021	\$ —	\$ 3,784	\$ 1,247	\$ 5,336	\$ 10,367
Additions	348	—	—	—	348
Equity investment income	—	1,335	—	—	1,335
Unrealized fair value gain	—	—	1,372	—	1,372
Foreign exchange gain	6	—	87	331	424
Balance at March 31, 2022	\$ 354	\$ 5,119	\$ 2,706	\$ 5,667	\$ 13,846

During the three months ended March 31, 2022, the Corporation entered into an office sub-lease agreement

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

and, accordingly, reclassified its right-of-use asset to an office sublease investment of \$0.3 million, which will be received within the next twelve months and, as such, has been classified as current as at March 31, 2022.

During the three months ended March 31, 2022, the Corporation recognized equity investment income related to its investment in Arrow Exploration Corp. (“Arrow”) due to having significant influence over the company as a result of having two representatives on the Board of Directors of Arrow, together with an interest of approximately 19.99% of Arrow’s common shares. As at March 31, 2022, the carrying value of the equity investment was \$5.1 million.

As at March 31, 2022, the Corporation also holds 18,357,602 of Arrow warrants with a fair market value of \$2.7 million, according to the Black-Scholes pricing model using the following inputs:

	March 31, 2022
Weighted-average fair value (C\$)	0.19
Share price (C\$)	0.23
Exercise price (C\$)	0.15
Volatility	200.2 %
Warrant life	2 years
Risk-free interest rate	2.27 %

NOTE 7 – OTHER LIABILITIES

	March 31, 2022	December 31, 2021
Current		
Long-term incentive compensation liability	\$ 1,066	\$ 1,991
Non-Current		
Long-term incentive compensation liability	\$ 974	\$ 94
Other long term obligations	3,948	4,069
	\$ 4,922	\$ 4,163

Long-term Incentive Compensation Liability

Balance at December 31, 2021	\$ 2,085
Amortized	1,795
Settled	(1,840)
Balance at March 31, 2022	\$ 2,040

The long-term incentive compensation liability includes restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”). The RSUs and PSUs are recognized as an obligation and expensed on a graded vesting basis and cliff vesting basis, respectively, over the vesting term of each grant. The DSUs vested immediately on the grant date and were recognized as an expense. The amortized long-term incentive compensation liability as at March 31, 2022 was \$2 million (December 31, 2021 - \$2.1 million).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

The number of outstanding RSUs, PSUs and DSUs as at March 31, 2022 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2021	1,997
Granted	1,911
Settled	(585)
Balance at March 31, 2022	3,323

i) Restricted Share Units

On February 8, 2022, the Corporation granted 1,911,316 RSUs. The RSUs will vest in four equal tranches six-months, twelve-months, eighteen-months and twenty-four months from the grant date, respectively, and are expected to be settled in cash. During the three months ended March 31, 2022, the Corporation settled 0.6 million RSUs at C\$3.19 per unit for a total amount of \$1.8 million in cash. As at March 31, 2022, 503,626 of the total 2,223,650 RSUs outstanding were amortized and recognized as an obligation and the remaining 1,720,024 RSUs will be recognized over the remaining vesting period.

ii) Performance Share Units

As at March 31, 2022, amortized PSUs of 171,163 of the total 960,000 PSUs granted were amortized and recognized as an obligation and the remaining 788,837 PSUs will be recognized over the remaining vesting period.

iii) Deferred Share Units

As at March 31, 2022, the entire DSUs granted of 139,443 was recognized as an expense immediately on the grant date.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2021	176,167 \$	159,798
Common share repurchases	(5,308)	(13,175)
Balance at March 31, 2022	170,859 \$	146,623

During the three months ended March 31, 2022, the Corporation repurchased 5,307,700 common shares of the Corporation at a cost of \$13.2 million, including transaction fees.

Notional Units

The number and weighted-average exercise prices of notional units were as follows:

	Number (000's)	Weighted-Average Exercise Price (C\$)
Balance at December 31, 2021	9,826	4.29
Forfeited and cancelled	(1,613)	4.23
Balance at March 31, 2022	8,213	4.31

There were no notional units granted nor settled during the three months ended March 31, 2022.

Information with respect to notional units outstanding at March 31, 2022 is presented below.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

Notional Units Outstanding				Notional Units Exercisable	
Range of Exercise Prices	Number of Notional Units	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Notional Units	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$3.97 - \$4.23	1,704	0.6	4.15	1,704	4.15
\$4.21 - \$4.62	6,509	2.1	4.35	5,559	4.37
	8,213	1.8	4.31	7,263	4.31

Stock-based compensation of \$0.1 million (2021 - \$0.2 million) was expensed during the three months ended March 31, 2022.

Dividends Declared

During the three months ended March 31, 2022, the Corporation declared a dividend of C\$0.052 per share, totaling \$7.1 million, which was paid on April 19, 2022 to shareholders of record at the close of business on March 31, 2022. The ex-dividend date for all shareholders was March 31, 2022. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and are subject to any restrictions according to the Corporation's Senior Notes indenture agreement.

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Balance at December 31, 2021	\$ 457,206	\$ 22,657	\$ 12,107	\$ 2,513	\$ 494,483
Amortization of transaction costs	1,463	106	—	—	1,569
Foreign exchange loss	—	—	753	155	908
Balance at March 31, 2022	\$ 458,669	\$ 22,763	\$ 12,860	\$ 2,668	\$ 496,960
Long-term debt - current	\$ —	\$ —	\$ —	\$ 2,668	\$ 2,668
Long-term debt - non-current	458,669	22,763	12,860	—	494,292
Balance at March 31, 2022	\$ 458,669	\$ 22,763	\$ 12,860	\$ 2,668	\$ 496,960

The Operating Loan principal balance of \$2.7 million was repaid on April 11, 2022.

Net Carrying Value

	Senior Notes	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Long-term debt - principal	\$ 500,000	\$ 25,000	\$ 12,860	\$ 2,668	\$ 540,528
Unamortized transaction costs	(41,331)	(2,237)	—	—	(43,568)
Balance at March 31, 2022	\$ 458,669	\$ 22,763	\$ 12,860	\$ 2,668	\$ 496,960

As at March 31, 2022, unamortized transaction costs were netted against the Senior Notes and Bridge Loan principal amounts. During the three months ended March 31, 2022, Bridge Loan transaction costs amortization of \$0.1 million were capitalized to PP&E as part of a qualifying asset, and the remaining \$1.5 million transaction costs amortization has been recognized as a finance expense (note 12).

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 3.25:1.00 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 March 31, 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other	Total
Balance at December 31, 2021	\$	15,917	\$ 2,172	\$ 18,089
Additions		—	1,902	1,902
Settlements		(533)	(547)	(1,080)
De-recognitions		—	(355)	(355)
Foreign exchange loss		—	211	211
Balance at March 31, 2022	\$	15,384	\$ 3,383	\$ 18,767
Lease obligations - current	\$	2,216	\$ 1,525	\$ 3,741
Lease obligations - non-current		13,168	1,858	15,026
Balance at March 31, 2022	\$	15,384	\$ 3,383	\$ 18,767

The Corporation uses certain IFRS 16 exemptions to not recognize low-value assets and short-term lease arrangements as leases. Lease arrangements with variable payments are also excluded from being recognized as a lease obligation and right-of-use asset. Such payments are recognized on the consolidated statements of operations or capitalized as PP&E or E&E. The payments related to short-term lease arrangements and low-value assets are recognized as operating expenses on the consolidated statements of operations. The variable lease payments related to the Sabanas pipeline are recognized as transportation expenses on the consolidated statements of operations. In addition, variable lease payments related to a drilling rig contract are capitalized.

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

Three months ended March 31,	2022		2021
Low-value right-of-use assets	\$	13	\$ 25
Short-term lease arrangements		42	32
Variable lease payments		3,956	7,966
Total lease payments	\$	4,011	\$ 8,023

Future lease payments related to short-term, low value or variable lease arrangements as at March 31, 2022 are as follows:

	Less than 1 year		1-3 years		Thereafter		Total
Future lease payments	\$	39,614	\$	32,294	\$	12,505	\$ 84,413

NOTE 11 – OTHER EXPENSES (INCOME)

Three months ended March 31,	2022		2021
Donations	\$	—	\$ 293
Pre-license costs		450	163
Other expenses		2,505	527
Other tax expense		803	448
Equity investment income (note 6)		(1,335)	—
(Gain) loss on financial instruments (note 6)		(1,372)	20
	\$	1,051	\$ 1,451

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

NOTE 12 – FINANCE INCOME AND EXPENSE

Three months ended March 31,	2022	2021
Finance income		
Interest and other income	\$ 189	\$ 234
Finance expense		
Accretion on decommissioning obligations	516	318
Amortization of upfront transaction costs	1,463	588
Interest expense on lease obligations	251	305
Interest and other financing costs	8,262	7,449
	10,492	8,660
Net finance expense	\$ 10,303	\$ 8,426

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

Three months ended March 31,	2022	2021
Net income (loss)	\$ 24,415	\$ (3,062)
Weighted-average common shares outstanding:		
Weighted-average common shares outstanding, basic	172,451	179,515

There was no dilution effect of stock options during the three months ended March 31, 2022 due to the stock options being out-of-the-money. There was no dilution effect of stock options during the three months ended March 31, 2021 due to the net loss.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

Three months ended March 31,	Note	2022	2021
Change in investments		\$ —	\$ 100
Change in prepaid expenses and deposits		(475)	38
		\$ (475)	\$ 138

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

Non-Cash Working Capital

Three months ended March 31,	2022	2021
Change in:		
Trade and other receivables	\$ (5,775)	\$ 5,661
Prepaid expenses and deposits	(3,064)	(2,423)
Tax installments and receivables	2,204	145
Crude oil inventory	23	60
Trade and other payables	13,272	11,496
Deferred income	(1,105)	(4,900)
Taxes payable	2,704	1,646
	8,259	11,685
Foreign exchange impact on working capital ending balances	1,416	(177)
	\$ 9,675	\$ 11,508
Attributable to:		
Operating activities	\$ 4,247	\$ (185)
Investing activities	5,428	11,693
	\$ 9,675	\$ 11,508

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 and natural gas trading, on a consolidated basis which were allocated as follows:

Three months ended March 31,	2022	2021
Natural gas and LNG revenues, net of royalties	\$ 73,246	\$ 67,508
Crude oil revenue, net of royalties	1,533	1,203
Take-or-pay natural gas income	143	24
	\$ 74,922	\$ 68,735

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

Three months ended March 31,	2022	2021
Natural gas royalties	\$ 11,834	\$ 11,300
Crude oil royalties	100	100
	\$ 11,934	\$ 11,400

Natural Gas Trading

Three months ended March 31,	2022	2021
Natural gas trading revenue	\$ 7,784	\$ 6,356
Natural gas trading purchases cost	(7,410)	(6,321)
Natural gas trading profit	\$ 374	\$ 35

The Corporation recognized \$7.8 million (2021 - \$6.4 million) of natural gas trading revenue and incurred gas purchase costs of \$7.4 million (2021 - \$6.3 million) during the three months ended March 31, 2022 related to the delivery of a certain off-taker's long-term contract.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

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 March 31,	2022		2021	
Income taxes paid	\$	7,553	\$	4,017
Interest paid	\$	856	\$	1,237

During the three months ended March 31, 2022, the Corporation paid a 2021 income tax installment of \$3.3 million. In addition, the Corporation also prepaid advances related to its 2022 income tax expense of \$4.3 million (2021- \$4 million) during the three months ended March 31, 2022.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, dividend payable and lease obligations approximate their fair values at March 31, 2022. RSUs, PSUs and certain investments are recorded at fair value. The fair value of the Senior Notes, Bridge Loan, Colombia Bank Debt and Operating Loan is \$463.9 million, \$25 million, \$12.9 million and \$2.7 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

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. 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. The Corporation had no commodity contracts in place as at or during the three months ended March 31, 2022.

(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 Colombian Peso ("COP") and Canadian dollars ("CAD"), which are re-valued each reporting period.

As at March 31, 2022, the COP to the USD exchange rate was 3,748:1 (December 31, 2021 – 3,981:1) and the CAD to USD exchange rate was 1.25:1 (December 31, 2021 – 1.27:1).

During the three months ended March 31, 2022, the Corporation held no foreign exchange contracts.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates to the extent that variable interest rate debt instruments are drawn. The majority of the Corporation's interest bearing debt, being the Senior Notes, is subject to a fixed interest rate and limits the Corporation's exposure to interest rate risk. The Corporation's Colombia Bank Debt, Bridge Loan and the Operating Loan are subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2022 and 2021

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

Corporation had no interest rate contracts in place as at or during the three months ended March 31, 2022.

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 March 31, 2022:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ 2,668	\$ 25,000	\$ 512,860	\$ 540,528
Lease obligations – undiscounted	4,410	3,028	12,222	19,660
Trade and other payables	65,635	—	—	65,635
Dividend payable	7,110	—	—	7,110
Taxes payable	6,148	—	—	6,148
Other long term obligations	—	3,948	—	3,948
Long-term incentive compensation liability	1,066	974	—	2,040
	\$ 87,037	\$ 32,950	\$ 525,082	\$ 645,069

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.

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 March 31, 2022 was \$61.6 million (December 31, 2021 - \$57.2 million), \$10.2 million related to the recovery of transportation costs passed-through to customers (December 31, 2021 - \$9.7 million), \$3.4 million from Arrow related to the sale of certain petroleum assets (December 31, 2021 - \$5.8 million) and \$3.6 million of other receivables (December 31, 2021 - \$3.4 million). The receivable from Arrow is expected to be collected as follows: i) half of the remaining balance of \$3.4 million will be paid no later than December 31, 2022 and ii) half will be paid no later than June 30, 2023. As such, \$1.7 million of the total \$3.4 million was classified as non-current as at March 31, 2022.

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.

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

	Note	March 31, 2022	December 31, 2021
Senior Notes - principal (5.75%)	9	500,000	\$ 500,000
Bridge Loan - principal (LIBOR + 4.25%) ⁽¹⁾	9	25,000	25,000
Colombia Bank Debt - principal (IBR + 2.5%) ⁽²⁾	9	12,860	12,107
Operating loan (IBR + 1.5%) ⁽²⁾	9	2,668	2,513
Lease obligation (5.75%)	10	18,767	18,089
Total debt		559,295	557,709
Working capital surplus		(130,325)	(148,124)
Net debt		\$ 428,970	\$ 409,585

(1) The LIBOR rate during the three months ended March 31, 2022 was 2.10%.

(2) The IBR rate being applied to the interest expense during the three months ended March 31, 2022 was 3.35%.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at March 31, 2022:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 4,394	\$ 64,516	\$ 16,379	\$ 85,289
Compression station operating contracts	2,674	5,510	7,938	16,122
	\$ 7,068	\$ 70,026	\$ 24,317	\$ 101,411

Letters of Credit

At March 31, 2022, the Corporation had letters of credit outstanding totaling \$86.3 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.

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 March 31, 2022 of \$85.3 million and has issued \$41.4 million of the total \$86.3 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.