CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

MANAGEMENT'S REPORT

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements of Canacol Energy Ltd. (the "Corporation") within reasonable limits of materiality. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. The accompanying consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect the Corporation's financial position, financial performance and cash flows, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Management has established and maintains a system of internal controls that is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The Corporation's external auditors, KPMG LLP, have audited the consolidated financial statements for the years ended December 31, 2021 and 2022. Their audit included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditors. The Audit Committee has reported its findings to the Board of Directors who have approved the consolidated financial statements.

(signed) "Charle Gamba"	*(signed) "Jason Bednar"*
Charle Gamba	Jason Bednar
President and Chief Executive Officer	Chief Financial Officer

March 24, 2023

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canacol Energy Ltd.

Opinion

We have audited the consolidated financial statements of Canacol Energy Ltd. (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable reserves on depletion expense and the recognition of deferred income tax assets.

Description of the matter

We draw attention to Note 2, Note 3, Note 5 and Note 15 to the financial statements. The Company depletes its development and production ("D&P") assets using the units of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. The Company recorded depletion expense related to D&P assets of $63,819 thousand. Furthermore, deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. The estimated future taxable profits are based on the cash flows from the related proved and probable reserves. The Company recorded a net deferred tax asset of $151,687 thousand.

Proved and probable reserves are estimated using independent reserve engineer reports, and take into consideration significant assumptions related to:

- Forecasted production
- Forecasted commodity prices
- Forecasted operating and royalty costs
- Forecasted future development plans and costs.

The Company engages an independent reserve engineer to estimate the Company's proved and probable reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable reserves on depletion expense and the recognition of deferred income tax assets as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable reserves.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

- We recalculated depletion expense and agreed the inputs of this calculation to the estimate of proved plus probable reserves.
- We agreed the inputs of the estimate of future taxable profits to the cash flows from the related proved and probable reserves.
- With respect to the estimate of proved and probable reserves:
  - We evaluated the competence, capabilities and objectivity of the independent reserve engineer engaged by the Company

- We compared the 2022 actual production, operating and royalty costs, and development plans and costs to those estimates used in the prior year estimate of proved reserves to assess the Company's ability to accurately forecast.
- We evaluated the forecasted commodity price assumptions used in the estimate of proved and probable reserves by comparing to contracts, previously realized prices and expected future commodity prices published by other independent reserve engineers.
- We evaluated the appropriateness of forecasted production, operating and royalty costs, and future development plans and cost assumptions used in the estimate of proved and probable reserves by comparing them to 2022 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Reinier Deurwaarder.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 24, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		$ **58,518**	$ 138,523
Trade and other receivables	20	**70,000**	71,362
Tax installments and receivables		**432**	5,576
Other current assets	6	**5,645**	2,893
		134,595	218,354
Non-current assets			
Trade and other receivables	20	**—**	1,709
Exploration and evaluation assets	4	**86,027**	69,987
Property, plant and equipment	5	**587,916**	530,972
Deferred tax assets	15	**176,294**	4,808
Other non-current assets	6	**30,016**	17,930
		880,253	625,406
Total assets		$ **1,014,848**	$ 843,760
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	$ **33,279**	$ 2,513
Trade and other payables		**62,312**	52,363
Deferred income	17	**11,239**	5,206
Dividend payable	8	**6,548**	7,226
Lease obligations	11	**2,925**	4,308
Taxes payable		**74,969**	3,444
Long-term incentive compensation liabilities	7	**2,130**	1,991
		193,402	77,051
Non-current liabilities			
Long-term debt	9	**463,170**	491,970
Lease obligations	11	**12,807**	13,781
Decommissioning obligations	10	**23,976**	26,147
Deferred tax liabilities	15	**24,607**	45,517
Long-term incentive compensation liabilities	7	**556**	94
Other long term obligations		**4,390**	4,069
Total liabilities		**722,908**	658,629
Equity			
Share capital	8	**146,142**	159,798
Other reserves		**67,439**	67,219
Retained earnings (deficit)		**78,359**	(41,886)
Total equity		**291,940**	185,131
Total liabilities and equity		$ **1,014,848**	$ 843,760

Commitments and contingencies (note 21) and subsequent events (note 22)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Michael Hibberd"
Director

(signed) "Francisco Diaz"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

Year ended December 31,	Note		2022		2021
Revenues					
Natural gas, LNG, take-or-pay, crude oil and standby revenues, net of royalties	17	**$**	**306,915**	$	284,069
Natural gas trading revenues	17		**28,796**		26,475
Total revenues, net of royalties			**335,711**		310,544
Expenses					
Operating expenses			**24,114**		20,699
Transportation expenses			**32,687**		34,882
Natural gas trading purchase costs	17		**27,575**		26,206
Exploration impairment	4		**22,333**		19,347
General and administrative			**29,189**		29,584
Stock-based compensation expense	7,8		**3,939**		4,550
Depletion and depreciation	5		**68,566**		67,747
Foreign exchange loss			**7,002**		4,078
Other expenses	12		**12,749**		9,978
			228,154		217,071
Net finance expense	13		**41,481**		34,407
Income before income taxes			**66,076**		59,066
Income tax expense (recovery)					
Current	15		**111,203**		29,932
Deferred	15		**(192,397)**		13,957
			(81,194)		43,889
Net income and comprehensive income		**$**	**147,270**	$	15,177
Net income per share (restated - note 8)					
Basic and diluted	14	**$**	**4.31**	$	0.43

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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
Common shares repurchased	8	(8,774)	—	—	(8,774)
Stock-based compensation	8	—	652	—	652
Dividends declared	8	—	—	(29,296)	(29,296)
Net income		—	—	15,177	15,177
Balance at December 31, 2021		**$ 159,798**	**$ 67,219**	**$ (41,886)**	**$ 185,131**
Balance at December 31, 2021		$ 159,798	$ 67,219	$ (41,886)	$ 185,131
Common shares repurchased	8	(13,656)	—	—	(13,656)
Stock-based compensation	8	—	220	—	220
Dividends declared	8	—	—	(27,025)	(27,025)
Net income		—	—	147,270	147,270
Balance at December 31, 2022		**$ 146,142**	**$ 67,439**	**$ 78,359**	**$ 291,940**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

Year ended December 31,		2022	2021
Operating activities			
Net income and comprehensive income		**$ 147,270**	$ 15,177
Non-cash adjustments:			
Depletion and depreciation	5	**68,566**	67,747
Exploration impairment	4	**22,333**	19,347
Stock-based compensation expense	7,8	**3,939**	4,550
Net financing expense	13	**41,481**	34,407
Unrealized foreign exchange loss and other expenses		**8,784**	3,660
Deferred income tax (recovery) expense	15	**(192,397)**	13,957
Equity investment income	6	**(862)**	—
Unrealized (gain) loss on financial instruments	6	**(1,092)**	(1,248)
Settlement of decommissioning obligation		**—**	(54)
Payment of litigation settlement liability		**—**	(13,073)
Settlement of restricted share units	7	**(3,382)**	(3,750)
Changes in non-cash working capital	16	**90,789**	(16,906)
		185,429	123,814
Investing activities			
Expenditures on exploration and evaluation assets	4	**(74,667)**	(41,565)
Expenditures on property, plant and equipment		**(91,661)**	(57,153)
Net proceeds on disposition of property, plant and equipment		**40**	297
Other investing activities	16	**(13,078)**	(8,513)
Changes in non-cash working capital	16	**(549)**	5,458
		(179,915)	(101,476)
Financing activities			
Draw on long-term debt		**—**	156,938
Repayment of long-term debt	9	**(2,647)**	(30,000)
Net financing expense paid	13	**(32,459)**	(31,669)
Lease principal payments	11	**(4,254)**	(5,511)
Dividends paid	8	**(27,653)**	(29,458)
Common share repurchases	8	**(13,656)**	(8,774)
Issue of common shares	8	**—**	—
		(80,669)	51,526
Change in cash and cash equivalents		**(75,155)**	73,864
Cash and cash equivalents, beginning of year		**138,523**	68,280
Foreign exchange impact on cash and cash equivalents, end of year		**(4,850)**	(3,621)
Cash and cash equivalents, end of year		**$ 58,518**	$ 138,523

See accompanying notes to the consolidated financial statements.

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 consolidated financial statements (the "financial statements") for issuance on March 24, 2023.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of Measurement

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

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.

Significant Estimates and Management Judgements

The timely preparation of financial statements in accordance with IFRS requires that management make estimates, assumptions and use judgement regarding the measured amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. The following discussion relates to amounts determined by management which required significant estimation and/or judgement.

Management judgement is required in determining the functional currency that represents the economic effect of underlying transactions, events and conditions. The USD is the Corporation's functional currency as it is the currency of the primary economic environment in which the Corporation operates; the Corporation's revenues, funds from financing and a portion of its expenditures are denominated in USD.

The Corporation holds an investment in a public company, Arrow Exploration Corp. ("Arrow"), of which two of the board of directors of Arrow are also key members of the Corporation's management. Management has used judgement in determining that the Corporation does have significant influence over Arrow by considering the Corporation's voting rights and ownership interest of Arrow (note 6).

Significant management judgement is required in determining the provision for deferred income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation has not recognized a benefit for the net deferred tax asset created from a portion of its non-capital losses and capital losses carried forward due to the uncertainty of realization of such amounts.

Management evaluates tax positions, annually or when circumstances require, which involves judgment and could be subject to differing interpretations of applicable tax legislation. The results of audits and reassessments and changes in the interpretations of standards may result in changes to those positions and, potentially, a material increase or decrease in the Corporation's assets, liabilities and net earnings.

The calculation of long-term incentive compensation liability relating to the performance share units is subject to uncertainty as it reflects the Corporation's best estimate of whether or not obligations will be incurred. In particular, the number of performance share units that is expected to vest are estimated based on the likelihood of unit holders meeting certain performance conditions.

Natural gas and crude oil assets and processing facilities are grouped into cash generating units ("CGUs") identified as having largely independent cash flows and are geographically integrated. The determination of the CGUs was based on management's interpretation and judgement. The recoverability of development and production asset carrying values is assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

The Corporation's natural gas cash flows are generated through common processing and transportation systems rather than at the individual block or field level, as such, the Corporation's natural gas fields and processing facilities are included in an aggregate natural gas CGU. The Corporation's oil block is included in a separate CGU.

Amounts recorded for depletion, depreciation, amortization, accretion and provisions for decommissioning obligations are based on their expected lives and other relevant assumptions.

Indicators of impairment or impairment recovery are assessed by management using judgement, considering market conditions and commodity prices. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use.

In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Key input estimates used in the determination of future cash flows from natural gas reserves include the following:

i) Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

ii) Commodity prices - Forward price estimates of the natural gas prices are used in the cash flow model. Commodity prices have fluctuated in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors; however a significant portion of the Corporation's natural gas production is sold based on firm priced contracts, which are not subject to management's estimate.

iii) Discount rate - The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

iv) Decommissioning obligation - The decommissioning obligation is determined based on management's best estimate for future costs for decommissioning activities at the end of the asset's useful life. The timing and amount of costs are subject to change based on local legal and regulatory requirements as well as market conditions.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Subsidiaries - Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss as a gain on acquisition. Acquisition related costs, other than share issue costs, are expensed as period costs in the consolidated statements of operations and comprehensive income.

Jointly-controlled operations and jointly-controlled assets - The Corporation's operating activities involve jointly-controlled assets. The financial statements include the Corporation's share of these jointly-controlled assets and a proportionate share of the relevant revenue, related operating costs and capital costs.

Transactions eliminated on consolidation - Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

Foreign Currency

The USD is the functional currency of the Corporation and its subsidiaries. Monetary assets and liabilities denominated in foreign currencies are translated to USD at the period-end exchange rate. Non-monetary assets, liabilities, revenues and expenses are translated at exchange rates at the transaction date. Foreign exchange gains or losses are recognized in the consolidated statements of operations and comprehensive income.

Financial Instruments

Non-derivative financial instruments - Non-derivative financial instruments include cash and cash equivalents, trade and other receivables, investments, long-term debt, trade and other payables, dividend payable, and lease obligations. Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs, except for financial assets and liabilities at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents - Cash and cash equivalents is measured similar to other non-derivative financial instruments. Subsequent to initial recognition, this financial instrument is measured at amortized cost.

Investments - Investments are recorded at fair value through profit or loss. Subsequent to initial recognition, this financial instrument is measured at fair value and changes therein are recognized in the consolidated statements of operations and comprehensive income.

Long-term debt - Long-term debt is recorded at amortized cost, net of directly attributable transaction costs. Subsequent to initial recognition, the directly attributable transaction costs are amortized into the carrying value using the effective interest method over the term of the debt facility through the consolidated statements of operations and comprehensive income or capitalized as part of a qualifying asset, as applicable. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Lease obligations - Lease obligations are obligations of the lessee to pay lease payments that consist of principal and interest components according to the lease agreement. Subsequent to initial recognition, the lease obligations are accreted using the interest rate implicit in the lease, if that rate can be readily determined or if not, the Corporation's incremental borrowing rate and is recorded as finance expense to the statement of operations and comprehensive income.

Other - Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, and dividend payable, are measured at amortized cost, less any impairment losses.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

Exploration and evaluation ("E&E") assets - E&E costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalized either as tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When E&E assets are determined to be technically feasible and commercially viable (generally upon assignment of proved and probable reserves), the accumulated costs are transferred to property, plant and equipment ("PP&E"). When E&E assets are determined not to be technically feasible and commercially viable or the Corporation decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive income as exploration impairment.

E&E assets are allocated into CGUs and assessed for impairment when they are transferred to PP&E or in any circumstances where sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Development and production ("D&P") assets - Items of property, plant and equipment, which include natural gas and crude oil development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. D&P assets are grouped into CGUs for impairment testing.

When significant parts of an item of PP&E, including natural gas and crude oil interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal, net of transaction costs with the carrying amount of PP&E and are recognized net within the consolidated statements of operations and comprehensive income.

Subsequent costs - Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as PP&E only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of operations and comprehensive income as incurred. Such capitalized PP&E generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is de-recognized. The costs of the day-to-day servicing of PP&E are recognized in the consolidated statements of operations and comprehensive income as incurred.

Depletion and depreciation - The net carrying value of D&P assets is depleted using the units-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated by taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of natural gas, crude oil and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Estimates are based on forecasted production, forecasted commodity prices, forecasted operating and royalty costs, engineering data and the estimated amount and timing of future development plans and costs, all of which are subject to uncertainty.

Reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

i) A reasonable assessment of the future economics of such production;

ii) A reasonable expectation that there is a market for all or substantially all the expected natural gas and crude oil production; and

iii) Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For other PP&E, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of the asset. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

Equipment and other	2 - 5 years
Right-of-Use assets	Over the term of the lease agreements

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Lease Obligations and Right-of-Use Assets

The Corporation holds leases related to office leases, compressors and information technology equipment. The lease arrangements are assessed based on whether they meet the following definition of a lease under IFRS 16:

i) Identified asset - The Corporation has access to the use of a physically distinct asset and the counterparty does not hold the right to substitute an alternative asset for use;

ii) Right to direct the use of an asset - The Corporation has relevant operational decision-making rights for the use and purpose of the underlying asset; and

iii) Substantially all of the economic rights and benefits - The Corporation obtains sole and exclusive benefit from the use of the asset throughout the duration of the lease term.

Lease arrangements which meet the criteria of a lease are recognized as right-of-use assets and lease obligations at the lease commencement date.

The right-of-use asset is initially measured at cost. Subsequently, it is measured at cost less accumulated depreciation and impairment losses and adjusted for certain re-measurements of the lease obligation. The lease obligation is measured at the present value of the lease payments outstanding at the lease commencement date, discounted using the implicit rate, and when not determinable, the Corporation's incremental borrowing rate.

The lease obligation is re-measured when there is a change in estimated future payments arising from a change in a lease term, index or rate, residual guarantee or purchase option.

The Corporation has applied judgment and estimates when determining the estimated lease payments, including the lease term. The assessment of whether a renewal, extension, termination or purchase option is reasonably certain to be exercised was considered, based on facts and circumstances, and has the potential to significantly impact the amount of right-of-use asset and lease obligation recognized.

The Corporation held a head lease for an office lease, which was sub-leased to a third party in return for monthly lease income. The Corporation accounted for the head lease and sub-lease arrangements as two separate contracts. The head lease was recognized as a lease obligation and the sub-lessee's share of the head lease was recognized as a net investment. The Corporation recognized interest income received under finance leases over the lease term in the consolidated statements of operations using the effective interest rate method.

Impairment loss and recovery

Financial assets - A financial asset is assessed at each reporting date for being credit-impaired or having significantly increased credit risk since initial recognition; if so determined, an estimated loss allowance is measured at an amount equal to the lifetime expected credit losses ("ECL"). Lifetime ECLs are a probability-weighted estimate of credit losses from all possible default events over the expected life of a financial asset. Credit losses are defined as the PV of all expected cash shortfalls relative to the carrying value of the financial asset. The ECLs are discounted at the effective interest rate.

The Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort when determining credit impairment, significantly increased credit risk and any resulting ECLs. The financial asset is written off when the Corporation has determined the financial asset is credit-impaired with no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Non-financial assets - The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and also if facts and circumstances suggest that their carrying amount exceeds the recoverable amount. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to D&P assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

All impairment losses are recognized in the consolidated statements of operations and comprehensive income.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations - The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the period-end date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Other long term obligations - The Corporation is required to invest approximately 1% of well costs in reforestation activities in Colombia. Provision is made for the estimated cost of reforestation and capitalized in the relevant asset category.

Inventory

Inventory consists of crude oil in transit, in pipelines or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

Revenue

The Corporation's revenues are primarily derived from the production of natural gas. Revenue from contracts with customers is recognized when the Corporation satisfies a performance obligation by physically transferring the product and control to a customer. The Corporation satisfies its performance obligations at the point of delivery of the product and not over a period of time. Revenue is measured based on the consideration specified in contracts with customers.

The Corporation recognizes take-or-pay natural gas income relating to the portion of natural gas sales nominations by the Corporation's off-takers that do not get delivered, typically due to the off-takers' inability to accept such gas when they have no recourse or legal right to delivery at a later date. Certain take-or-pay contracts grant the off-takers the legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time and are recorded as deferred income. The Corporation recognizes revenue associated with such make-up rights at the earliest of: a) when the make-up volume is delivered; b) when the make-up rights expires; or c) when it is determined that the likelihood of the off-taker will utilize the make-up right is remote.

Revenue is recorded net of any royalties when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably.

Stock-Based Compensation

The grant date fair value of stock options granted to officers, employees and directors is recognized as stock-based compensation expense with a corresponding increase in other reserves on a graded vesting basis over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. The fair value of the stock options granted is estimated using the Black-Scholes option pricing model. Upon exercise of stock options, the fair value of the stock options are transferred from other reserves to share capital. The Corporation did not grant any stock options during the years ended December 31, 2022 and 2021.

Long-term Incentive Compensation Liability

The grant date fair value of cash-settled restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs") granted to officers, employees and directors is recognized as an expense with a corresponding increase in long-term incentive compensation liability on a graded vesting or cliff vesting basis over the vesting period or vesting date. Subsequent to initial recognition, the long-term incentive compensation liability and corresponding stock-based compensation expense is measured at fair value. The PSUs are subject to certain non-market performance conditions, of which, the impact is estimated at the grant date. The units are expected to be settled through a cash payment equal to the fair market value of the Corporation's common shares on the settlement date.

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings and leases, amortization of upfront fees and accretion of the discount on decommissioning liabilities.

Gain and Loss on the Modification or Settlement of Bank Debt

Modifications of bank debt occur when the borrower and lender negotiate substantially different terms such as the interest rate, maturity date or other terms in the lending agreement which impact future cash flows. A gain or loss on the modification of bank debt is calculated using the difference between the carrying value of the original bank debt at the amendment date and the present value of the amended future cash flows discounted at the original effective interest rate of the bank debt. Any gain or loss on modifications of bank debt is recognized on the amendment date in the consolidated statements of operations and comprehensive income. Any loss on the settlement of debt is recognized in the consolidated statements of operations and comprehensive income related to unamortized upfront fees at the time of settlement and any prepayment penalties.

Income Taxes

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The benefits of uncertain tax positions that the Corporation has taken or expects to take in its income tax returns are recognized in the financial statements if management concludes that it is more likely than not that the position will be sustained with the tax authorities.

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Corporation by the weighted-average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the weighted-average number of common shares outstanding during the period for the effects of dilutive instruments such as stock options.

Reclassification of Prior Year Figures

The Corporation has reclassified certain prior year figures in the consolidated statements of financial position, consolidated statements of operations and comprehensive income and the consolidated statements of cash flows for comparative purposes.

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

Recent Accounting Pronouncements

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that no pronouncements or amendments are expected to have a material impact on future financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2020	$	62,775
Additions		41,565
Exploration impairment		(19,347)
Transferred to D&P assets (note 5)		(15,006)
Balance at December 31, 2021	$	69,987
Additions		74,667
Exploration impairment		(22,333)
Transferred to D&P assets (note 5)		(36,294)
Balance at December 31, 2022	**$**	**86,027**

During the year ended December 31, 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, $12.5 million of related costs were recognized as exploration impairment. The Corporation assessed its exploration blocks for impairment and, as a result of relinquishment of the Corporation's VIM-19 exploration block, $6.8 million of associated costs were recognized as exploration impairment. The Corporation made natural gas discoveries, Aguas Vivas-1 on its VIM-21 block, San Marcos-1 on its Esperanza block and Siku-1 on its VIM-5 block, and accordingly, $15 million of exploration costs associated with such discoveries have been transferred to D&P assets.

During the year ended December 31, 2022, the Corporation assessed its exploration blocks for impairment and, as a result of expected relinquishment and non-participation in Canacol's oil exploration blocks, $22.3 million of associated costs were recognized as exploration impairment. During the year ended December 31, 2022, the Corporation made natural gas and oil discoveries, Carambolo-1 and Cornamusa-1 on its VIM-21 block, Alboka-1, Claxon-1 and Saxofon-1 on its VIM-5 block, Dividivi-1 on its VIM-33 block, and Chimela-1 on its VMM-45 block (oil discovery) and, accordingly, $36.3 million of exploration costs associated with such discoveries have been transferred to D&P assets.

(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, 2020	$	1,124,928	$	32,997	$	1,157,925
Additions		58,651		1,392		60,043
Transferred from E&E (note 4)		15,006		—		15,006
Dispositions		(141)		—		(141)
Derecognition		(732)		(795)		(1,527)
Balance at December 31, 2021	$	1,197,712	$	33,594	$	1,231,306
Additions		87,888		2,205		90,093
Transferred from E&E assets (note 4)		36,294		—		36,294
Dispositions		(1,594)		(1,960)		(3,554)
Derecognition		(433)		(4,260)		(4,693)
Balance at December 31, 2022	**$**	**1,319,867**	**$**	**29,579**	**$**	**1,349,446**
Accumulated depletion and depreciation						
Balance at December 31, 2020	$	(624,455)	$	(8,684)	$	(633,139)
Depletion and depreciation		(63,819)		(3,928)		(67,747)
Derecognition and inventory adjustments		243		309		552
Balance at December 31, 2021	$	(688,031)	$	(12,303)	$	(700,334)
Dispositions		1,498		1,251		2,749
Depletion and depreciation		(65,117)		(3,449)		(68,566)
Derecognition and inventory adjustments		469		4,152		4,621
Balance at December 31, 2022	**$**	**(751,181)**	**$**	**(10,349)**	**$**	**(761,530)**
Carrying value						
As at December 31, 2021	$	509,681	$	21,291	$	530,972
As at December 31, 2022	**$**	**568,686**	**$**	**19,230**	**$**	**587,916**

During the year ended December 31, 2021, the Corporation de-recognized certain leased assets related to office leases no longer held by the Corporation.

During the year ended December 31, 2022, the Corporation acquired certain power generation equipment to replace the leased asset. The leased asset related to the power generation equipment was terminated and was de-recognized as at December 31, 2022.

During the year ended December 31, 2022, $36.3 million of exploration costs associated with exploration discoveries have been transferred from E&E assets (Note 4).

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

NOTE 6 – OTHER ASSETS

		December 31, 2022		December 31, 2021
Current				
Prepaid expenses and deposits	$	3,077	$	2,533
Investments		2,268		—
Inventory		300		360
	$	5,645	$	2,893
Non-Current				
Prepaid expenses and deposits	$	20,954	$	7,563
Investments		9,062		10,367
	$	30,016	$	17,930

As at December 31, 2022, among drilling costs and other regular prepaid expenses, the Corporation had prepaid expenses mainly related to pre-construction activities of the natural gas pipeline, which is expected to be constructed by Shanghai Engineering and Technology Corp. ("SETCO") from the Corporation's gas processing facility at Jobo to the city of Medellin, Colombia.

The Corporation executed an agreement with SETCO on October 24, 2022 to construct a 289 km long, 22 inch diameter, gas pipeline from Canacol's Jobo gas processing facility ("Jobo Station") to the city of Medellin, Colombia. The construction of this pipeline (the "Medellin Pipeline") will allow Canacol to ship natural gas to the interior market of Colombia starting on December 1, 2024. SETCO is a third-party, Chinese based, construction and pipe fabrication consortium with experience in building major gas pipelines in Asia and the Middle East. Under the terms of the agreement, SETCO will be responsible for paying 100% of the cost of building the Medellin Pipeline and will build, own, operate and maintain the pipeline. Canacol will not own or pay for any part of the costs associated with the pipeline project, including its construction or operation. The pipeline is designed to provide transportation capacity of 150 MMcfpd and is expandable to 200 MMcfpd with compression. SETCO will assume the Medellin Pipeline project via the acquisition of CNEMED S.A.S, one of Canacol's Colombian subsidiaries, when the environmental license is obtained. Upon assuming the Medellin Pipeline project, SETCO will reimburse Canacol for all of its back costs, including the amounts recorded in prepaid expenses.

Investments

		Office Sub-Lease		Arrow Equity Investment		Arrow Warrants		Tesorito Investment		Total Investments
Balance at December 31, 2020	$	289	$	471	$	—	$	1,939	$	2,699
Additions		—		3,155		—		4,115		7,270
Sub-lease receipts and finance		(269)		—		—		—		(269)
Unrealized gain (loss)		—		234		1,364		(350)		1,248
Foreign exchange loss		(20)		(76)		(117)		(368)		(581)
Balance at December 31, 2021	$	—	$	3,784	$	1,247	$	5,336	$	10,367
Additions		348		—		—		—		348
Sub-lease receipts and finance income		(313)		—		—		—		(313)
Equity investment income		—		862		—		—		862
Unrealized gain		—		—		1,092		—		1,092
Foreign exchange loss		(2)		—		(104)		(920)		(1,026)
Balance at December 31, 2022	**$**	**33**	**$**	**4,646**	**$**	**2,235**	**$**	**4,416**	**$**	**11,330**

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

During the year ended December 31, 2021, the Corporation purchased a total of $4.1 million of common shares in Termoelectrica el Tesorito S.A.S. ESP ("Tesorito"), a Colombian power generation company. As at December 31, 2022, the carrying value of the Corporation's total investment in Tesorito was $4.4 million (2021 - $5.3 million).

During the year ended December 31, 2022, the Corporation entered into an office sub-lease agreement and, accordingly, reclassified its right-of-use asset to an office sublease investment of $0.3 million. The office sublease ends within the next 12 months and, as such, has been classified as current as at December 31, 2022.

During the year ended December 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 December 31, 2022, the carrying value of the equity investment was $4.6 million.

As at December 31, 2022, the Corporation also held 18,357,602 of Arrow warrants with a fair value of $2.2 million. The Arrow warrants expire within the next 12 months and, as such, has been classified as current as at December 31, 2022. The fair value of the Arrow warrants was calculated based on the Black-Scholes pricing model using the following inputs:

	December 31, 2022
Weighted-average fair value (C$)	**0.16**
Share price (C$)	**0.29**
Exercise price (C$)	**0.15**
Volatility	**98.4 %**
Remaining life of Warrants	**0.8 years**
Risk-free interest rate	**4.47 %**

NOTE 7 – LONG TERM INCENTIVE COMPENSATION LIABILITY

	RSUs	PSUs	DSUs	Total
Balance at December 31, 2020	$ 1,966	$ —	$ —	$ 1,966
Amortized	3,833	95	—	3,928
Settled	(3,750)	—	—	(3,750)
Foreign exchange gain	(56)	(3)	—	(59)
Balance at December 31, 2021	1,993	92	—	$ 2,085
Amortized	2,964	988	230	4,182
Settled	(3,382)	—	—	(3,382)
Foreign exchange gain	(141)	(47)	(11)	(199)
Balance at December 31, 2022	**$ 1,434**	**$ 1,033**	**$ 219**	**$ 2,686**

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 a liability and expensed on a graded vesting and cliff vesting basis, respectively, over the vesting term of each grant. The DSUs vest immediately on the grant date and are recognized as an expense. Dividend units are accrued and granted on the outstanding units on each dividend record date. The dividend units are amortized and settled in accordance with the units' respective vesting periods. Stock-based compensation relating to RSUs, PSUs and DSUs of $3.7 million (2021 - $3.9 million) was expensed during the year ended December 31, 2022. The amortized long-term incentive compensation liability as at December 31, 2022 was $2.7 million (2021 - $2.1 million).

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

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

(Restated - see note 8)	**RSUs** (000's)	**PSUs** (000's)	**DSUs** (000's)	**Total** (000's)
Balance at December 31, 2020	153	—	—	153
Granted	339	192	14	545
Settled	(285)	—	—	(285)
Balance at December 31, 2021	207	192	14	413
Granted	407	193	16	616
Settled	(308)	—	—	(308)
Cancelled	(6)	—	—	(6)
Balance at December 31, 2022	**300**	**385**	**30**	**715**

Restricted Share Units

On March 22, 2021, the Corporation granted 325,820 RSUs to its board of directors, officers and key employees. A portion of the RSUs vested one-half in six months and one-half in one year from the grant date, and the other portion vested one-third in six months, one-third in one year and one-third in 18 months from the grant date. In addition, RSUs were granted on each dividend record date during the year ended December 31, 2021 for all of the RSUs outstanding, totaling 13,220 units. For the year ended December 31, 2021, the Corporation settled 284,599 RSUs at a price range between C$15.15 and C$18.45 per unit for a total of $3.8 million in cash.

On February 8, 2022, the Corporation granted 388,503 RSUs to its board of directors, officers and key employees. The RSUs vest in four equal tranches over two years from the grant date and are expected to be settled in cash. In addition, RSUs were granted on each dividend record date during the year ended December 31, 2022 for all of the RSUs outstanding, totaling 18,643 units. For the year ended December 31, 2022, the Corporation settled 308,508 RSUs at a price range between C$12.20 and C$16.25 per unit for a total of $3.4 million in cash.

Performance Share Units

On December 7, 2021, the Corporation granted 192,000 PSUs to its key management personnel. The PSUs cliff vest in May 2023 and are expected to be settled in cash.

On December 23, 2022, the Corporation granted 176,720 PSUs to its key management personnel. The PSUs cliff vest in May 2025 and are expected to be settled in cash.

PSUs were also granted on each dividend record date during the year ended December 31, 2022 for all of the PSUs outstanding, totaling 16,062 units.

Deferred Share Units

DSUs vest immediately and are settled at such time the grantee ceases to be a member of the Board of Directors. The grantee of the DSUs is entitled to receive either the Corporation's common shares upon vesting of such units or, at the option of the Corporation, a cash payment equal to the value of the underlying common shares. During the year ended December 31, 2022, the Corporation granted 15,715 DSUs (2021 - 14,270), including dividend units granted on each dividend record date, all of which were expensed and recognized as a liability immediately on the grant dates. The Corporation intends to settle DSUs in cash.

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

NOTE 8 – EQUITY

Share Capital

	Number (Restated) (000's)		Amount
Balance at December 31, 2020	35,903	$	168,572
Common share repurchases	(670)		(8,774)
Balance at December 31, 2021	35,233	$	159,798
Common share repurchases	(1,122)		(13,656)
Balance at December 31, 2022	**34,111**	**$**	**146,142**

On December 19, 2022, the shareholders of the Corporation approved the consolidation of common shares of the Corporation ("Common Shares") on the basis of five (5) existing pre-consolidation Common Shares for every one (1) post-consolidation Common Share (the "Share Consolidation"). As a result of the Share Consolidation, on January 17, 2023, 170,557,290 Common Shares issued and outstanding prior to the Share Consolidation have been reduced to 34,111,458 Common Shares (disregarding the treatment of any resulting fractional shares). Each shareholder percentage ownership in the Corporation and proportional voting power remains unchanged after the Share Consolidation. The share units, stock option units, RSUs, PSUs, DSUs and all per unit amounts in the financial statements for the years ended December 31, 2022 and 2021 were restated to reflect the Share Consolidation.

On December 24, 2021, the Corporation renewed its normal course issuer bid ("NCIB"), as authorized by the TSX to purchase up to 2,102,732 outstanding Common Shares, representing approximately 10% of the public float of Canacol at the time. The maximum number of Common Shares that Canacol could purchase on any given day was 8,663 Common Shares, which was 25% of the Corporation's average daily trading volume on the TSX for the six months ended November 30, 2021. Canacol could also make one weekly block repurchase which exceeded the daily limit subject to prescribed rules. The Corporation was authorized to make purchases during the period from December 24, 2021 to December 23, 2022 or until such earlier time as the NCIB was completed or terminated at the option of the Corporation.

During the year ended December 31, 2021, Canacol had entered into an automatic share purchase plan ("ASPP") with its designated broker. The ASPP was intended to allow for the purchase of Common Shares under the NCIB at times when the Corporation was not ordinarily permitted to purchase Common Shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, the designated broker was able to purchase Common Shares until the expiry of the NCIB on December 23, 2022. Such purchases would be determined by the broker at its sole discretion based on the purchasing parameters set out by the Corporation, in accordance with the rules of the TSX, applicable securities laws and the terms of the ASPP. The ASPP would terminate on the earlier of the date on which: (i) the NCIB expires, (ii) the maximum number of Common Shares have been purchased under the ASPP, and (iii) the Corporation terminates the ASPP in accordance with its terms. Outside of the ASPP, Common Shares could continue to be purchased under the NCIB based on management's discretion, in compliance with the rules of the TSX and applicable securities laws. All purchases made under the ASPP would be included in the number of Common Shares available for purchase under the NCIB.

During the year ended December 31, 2022, the Corporation repurchased 1,121,866 Common Shares (2021- 669,700) at a cost of $13.7 million (2021 - $8.8 million), including transaction fees.

On January 31, 2023, the Corporation renewed its NCIB, as authorized by the TSX to purchase up to 1,971,950 outstanding Common Shares, representing approximately 10% of the public float of Canacol at the time. The maximum number of Common Shares that Canacol may purchase on any given day is 13,095 Common Shares, which was 25% of the Corporation's average daily trading volume on the TSX for the six months ended December 30, 2022. Canacol may also make one weekly block repurchase which exceeds the daily limit subject to prescribed rules. The Corporation is authorized to make purchases during the period from February

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

2, 2023 to February 1, 2024 or until such earlier time as the NCIB is completed or terminated at the option of the Corporation.

On January 31, 2023 , Canacol also renewed its ASPP with its designated broker. Pursuant to the ASPP, the designated broker may purchase Common Shares until the expiry of the NCIB on February 1, 2024.

Stock Options

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

	Number (Restated)	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at December 31, 2020	2,562	21.35
Forfeited and cancelled	(597)	21.00
Balance at December 31, 2021	1,965	21.45
Forfeited and cancelled	(717)	21.10
Balance at December 31, 2022	**1,248**	**21.65**

There were no stock options granted nor exercised during the years ended December 31, 2022 and 2021.

Information with respect to stock options outstanding at December 31, 2022 is presented below.

Stock Options Outstanding (Restated)				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C$)	(000's)	(years)	(C$)	(000's)	(C$)
$20.20 - $21.25	565	1.9	21.10	403	21.05
$21.30 - $23.10	683	0.7	22.15	683	22.15
	1,248	**1.3**	**21.65**	**1,086**	**21.75**

Stock-based compensation relating to stock options of $0.2 million (2021 - $0.7 million) was expensed during the year ended December 31, 2022.

Dividends Declared

During the year ended December 31, 2022, the Corporation declared dividends of C$1.04 per share, totaling $27.0 million, of which $7.1 million was paid on April 19, 2022, $6.9 million was paid on July 15, 2022, $6.5 million was paid on October 17, 2022 and $6.5 million was paid on January 16, 2023 to shareholders of record at the close of business on March 31, 2022, June 30, 2022, September 30, 2022, and December 29, 2022, respectively. 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 long-term debt agreements.

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

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, net of make-whole payment and financing fees	144,017	—	—	12,921	—	156,938
Repayment of long-term debt	—	(30,000)	—	—	—	(30,000)
Gain on modification of bank debt	(2,526)	—	—	—	—	(2,526)
De-recognition of unamortized transaction costs	—	849				849
Amortization of transaction costs	1,864	906	534	—	—	3,304
Foreign exchange gain	—	—	—	(814)	(400)	(1,214)
Balance at December 31, 2021	$ 457,206	$ —	$ 22,657	$ 12,107	$ 2,513	$494,483
Repayment of long-term debt	—	—	—	—	(2,647)	(2,647)
Amortization of transaction costs	5,964	—	602	—	—	6,566
Foreign exchange (gain) loss	—	—	—	(2,087)	134	(1,953)
Balance at December 31, 2022	**$ 463,170**	**$ —**	**$ 23,259**	**$ 10,020**	**$ —**	**$496,449**
Long-term debt - current	$ —	$ —	$ 23,259	$ 10,020	$ —	$ 33,279
Long-term debt - non-current	463,170	—	—	—	—	463,170
Balance at December 31, 2022	**$ 463,170**	**$ —**	**$ 23,259**	**$ 10,020**	**$ —**	**$496,449**

Operating Loan

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente (“Operating Loan”) for $5 million denominated in COP, for additional COP liquidity purposes. The Operating Loan was 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 lending denominated in COP, which reflects the price at which banks are willing to offer or raise resources on the money market. The principal was fully repaid in two equal installments on October 18, 2020 and April 11, 2022, and the credit agreement was subsequently terminated.

Bridge Loan

On July 31, 2020, the Corporation entered into a $75 million senior unsecured bridge term loan (“Bridge Loan”) with a syndicate of banks. The Bridge Loan had an initial two-year term, and was intended to be used to construct a pipeline from the Corporation’s operations at Jobo to the city of Medellin, Colombia (the “Project”).

On August 28, 2020, the Corporation withdrew the initial $25 million of the Bridge Loan, net of transaction costs of $3.1 million, which was used for initial engineering and environmental licensing costs related to the Project. The remaining $50 million was available to be drawn at any time up to the maturity date and was intended to be used for construction materials for the Project. The Bridge Loan bore an annual interest rate of LIBOR + 4.25%, and the Corporation was able to repay the Bridge Loan at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee of 30% of the 4.25% interest margin throughout the availability period. Interest and financing costs associated with the Bridge Loan were capitalized in PP&E.

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.

On February 17, 2023, the Corporation repaid the $25 million outstanding on the Bridge Loan with proceeds from the New RCF (see “Revolving Credit Facility” below) and subsequently terminated the loan agreement.

Revolving Credit Facility

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility ("RCF") with a syndicate of banks. The RCF bore an annual interest rate of LIBOR + 4.75%, had a three-year term, and the Corporation was able to repay/redraw the RCF at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee equal to 30% of the 4.75% interest margin throughout the availability period. The RCF remained undrawn as at December 31, 2022. The RCF was not subject to typical periodic redeterminations.

On February 17, 2023, the Corporation terminated the RCF and entered into a new $200 million senior unsecured revolving credit facility ("New RCF") with a syndicate of banks. The New RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the New RCF at any time within the term without penalty. Any undrawn amounts are subject to a commitment fee equal to 30% of the 4.50% interest margin throughout the availability period. The New RCF is not subject to typical periodic redeterminations.

Credit Suisse Bank Debt

During the year ended December 31, 2021, the Corporation repaid its Credit Suisse Bank Debt from net proceeds received though the Senior Notes refinancing, as described below, resulting in a loss on settlement of long-term debt of $1.9 million, comprised of: i) unamortized transaction costs of $0.8 million and ii) a prepayment penalty of $1.1 million. The Credit Suisse Bank Debt bore an annual interest rate of LIBOR + 4.25%, and was set to be repaid over seven equal quarterly installments starting on December 11, 2021.

Colombia Bank Debt

On June 17, 2021, the Corporation entered into a three-year term loan agreement with Banco Davivienda ("Colombia Bank Debt") for $12.9 million denominated in COP, which was subject to an annual interest rate of IBR + 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. The principal was scheduled to mature three years from the agreement date on June 18, 2024.

On February 17, 2023, the Corporation repaid the $10 million outstanding on the Colombia Bank Debt with proceeds from the New RCF (see "Revolving Credit Facility" above) and subsequently terminated the loan agreement.

Senior Notes

On November 24, 2021, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of $500 million ("2028 Senior Notes"). The 2028 Senior Notes pay interest semi-annually at a fixed rate of 5.75% per annum, and mature in 2028 unless earlier redeemed or repurchased in accordance with their terms. The 2028 Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of Canacol. In connection with the 2028 Senior Notes offering, the Corporation entered into a tender offer with Credit Suisse Securities (USA) LLC (the "Purchaser") to purchase any and all of the outstanding $320 million Senior Notes due to mature in 2025 (the "Tender Offer"), which were subject to a 7.25% annual interest rate ("2025 Senior Notes"). Consideration paid for each $1,000 principal amount of the 2025 Senior Notes was $1,065.85, totaling $21.1 million ("Make-Whole Payment").

The issuance of the 2028 Senior Notes was considered a modification of the 2025 Senior Notes, which resulted in a gain on modification of long-term debt of $2.5 million. In addition to repaying its Credit Suisse Bank Debt of $30 million, the Corporation paid the Make-Whole Payment of $21.1 million and transaction costs of $14.9 million, which were both netted against the incremental principal amount of $180 million, resulting in a net draw of $144 million.

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

Net Carrying Value

	Senior Notes	Bridge Loan	Colombia Bank Debt	Total
Long-term debt - principal	$ 500,000	$ 25,000	$ 10,020	$ 535,020
Unamortized transaction costs	(36,830)	(1,741)	—	(38,571)
Balance at December 31, 2022	**$ 463,170**	**$ 23,259**	**$ 10,020**	**$ 496,449**

As at December 31, 2022, unamortized transaction costs were netted against the Senior Notes and Bridge Loan principal amounts. During the year ended December 31, 2022, Bridge Loan transaction costs amortization of $0.6 million (2021 - $0.5 million) were capitalized to PP&E as part of a qualifying asset, and the remaining $6 million (2021 - $2.8 million) transaction costs amortization has been recognized as a finance expense (note 13).

The Corporation's Senior Notes, Bridge Loan and its New RCF include various covenants relating to maximum leverage, minimum interest coverage, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation's financial covenants include: a) a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio ("Consolidated Leverage Ratio") of 3.25:1.00 and b) a minimum 12-month trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. The Corporation was in compliance with its covenants as at December 31, 2022.

NOTE 10 – DECOMMISSIONING OBLIGATIONS

Balance at December 31, 2020		24,588
Accretion		1,645
Additions		3,867
Settlements		(73)
Change in estimates		(3,880)
Balance at December 31, 2021		26,147
Accretion		3,058
Additions		4,074
Settlements/Dispositions		(133)
Change in estimates		(9,170)
Balance at December 31, 2022	**$**	**23,976**

The Corporation's decommissioning obligations result from its ownership interests in natural gas and petroleum assets, including well sites, facilities and gathering systems. The total decommissioning obligations are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Corporation estimated the present value of the decommissioning obligations to be $24 million as at December 31, 2022 (2021 - $26.1 million) based on an undiscounted total future liability of $37.9 million (2021 - $34.3 million). These payments are expected to be made over the next 11 years. The average discount factor, being the risk-free rate related to the liability was 13% (2021 - 8.2%) and the average inflation rate was 7% (2021 - 3%).

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

NOTE 11 – LEASE OBLIGATIONS

		Compression Stations		Other		Total
Balance at December 31, 2020	$	17,923	$	5,020	$	22,943
Additions		—		1,392		1,392
Settlements		(2,006)		(3,505)		(5,511)
De-recognitions		—		(501)		(501)
Foreign exchange gain		—		(234)		(234)
Balance at December 31, 2021	$	15,917	$	2,172	$	18,089
Additions		—		2,205		2,205
Settlements		(2,173)		(2,081)		(4,254)
De-recognitions		—		(431)		(431)
Foreign exchange loss		—		123		123
Balance at December 31, 2022	**$**	**13,744**	**$**	**1,988**	**$**	**15,732**
Lease obligations - current	$	2,350	$	575	$	2,925
Lease obligations - non-current		11,394		1,413		12,807
Balance at December 31, 2022	**$**	**13,744**	**$**	**1,988**	**$**	**15,732**

During the years ended December 31, 2022 and 2021, the Corporation de-recognized certain leases no longer held by the Corporation.

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 pipeline usage 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:

Year ended December 31,		**2022**		**2021**
Low-value right-of-use assets	**$**	**156**	$	81
Short-term lease arrangements		**99**		421
Variable lease payments		**16,144**		20,039
Total lease payments	**$**	**16,399**	$	20,541

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

		Less than 1 year		1-3 years		Thereafter		Total
Future lease payments	$	26,049	$	32,780	$	—	$	58,829

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

NOTE 12 – OTHER EXPENSES (INCOME)

Year ended December 31,	Note	2022	2021
Donations		$ —	$ 491
Pre-license costs		1,884	2,246
Other expenses		8,933	5,141
Other tax expense		3,886	3,348
Equity investment income	6	(862)	—
(Gain) loss on financial instruments	6	(1,092)	(1,248)
		$ 12,749	$ 9,978

NOTE 13 – FINANCE INCOME AND EXPENSE

Year ended December 31,	2022	2021
Finance income		
Interest and other income	$ 1,599	$ 874
Gain on modification of long-term debt	—	2,526
Finance expense		
Loss on settlement of long-term debt	—	1,904
Accretion on decommissioning obligations	3,058	1,645
Amortization of upfront transaction costs	5,964	2,770
Interest expense on lease obligations	943	1,116
Interest and other financing costs	33,115	30,372
	43,080	37,807
Net finance expense	$ 41,481	$ 34,407

During the year ended December 31, 2021, the Corporation recognized a gain on modification of long-term debt related to the refinancing of its Senior Notes of $2.5 million. In addition, a loss on settlement of long-term debt of $1.9 million was recognized related to its Credit Suisse Bank Debt comprised of: i) unamortized transaction costs of $0.8 million and ii) a cash prepayment penalty of $1.1 million.

NOTE 14 – NET INCOME PER SHARE

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

Year ended December 31,	2022	2021
Net income	$ 147,270	$ 15,177
Weighted-average common shares outstanding:		
Weighted-average common shares outstanding, basic (restated - see note 8)	34,144	35,628

There was no dilution effect of stock options for the years ended December 31, 2022 and 2021 due to the stock options being out-of-the-money.

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

NOTE 15 – INCOME TAXES

The following table reconciles income taxes calculated at the Canadian Statutory rate with actual income taxes:

Year ended December 31,	2022	2021
Net income before taxes	$ 66,076	$ 59,066
Statutory rates	23%	23%
Expected income taxes	$ 15,197	$ 13,585
Effect on taxes resulting from:		
Non-deductible permanent differences and other	$ (130,071)	$ 1,820
Tax differential on foreign jurisdictions	9,911	6,700
Change in unrecognized tax benefit	(22,702)	3,349
Provision to filing true-up	26,181	244
Change in enacted tax rate	(5,354)	2,760
Foreign exchange	25,644	15,431
Provision for income taxes	$ (81,194)	$ 43,889
Current tax expense	$ 111,203	$ 29,932
Deferred tax expense (recovery)	(192,397)	13,957
	$ (81,194)	$ 43,889

The net deferred tax asset (liability) is comprised of:

Year ended December 31,	2022	2021
Net book value of property, plant and equipment in excess of asset tax base	$ 130,013	$ (62,033)
Losses carried forward	8,876	9,422
Decommissioning liabilities and other provisions	10,604	10,576
Timing differences on revenue and expense recognition and other	2,194	1,326
Net deferred tax asset (liability)	$ 151,687	$ (40,709)

The enacted tax rates are 31% for 2021, and 35% for 2022 and onward.

During the year ended December 31, 2022, in an effort to better align the operational needs of the business and to create a more efficient and cost-effective organizational structure, the Corporation began a corporate restructuring process with the transfer of its Esperanza and VIM-21 assets from one wholly-owned subsidiary to another ("Corporate Restructuring"). The assets were transferred at fair market value, generating an additional current tax expense of $64.7 million and a deferred tax asset of $202.2 million for the year ended December 31, 2022.

As at December 31, 2022, the Corporation had non-capital losses carried forward of approximately $25.6 million (2021 - $105.3 million) available to reduce future years taxable income. As at December 31, 2022, the Corporation had deferred income tax assets of $277.4 million (2021 - $327.6 million) related to Canada and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

During the year ended December 31, 2022, the Corporation recognized a deferred tax recovery of $192.4 million, mainly related to the $202.2 million deferred tax asset recognized as a result of the Corporate Restructuring, offset by the foreign exchange impact on the Corporation's unused tax pools of $25.6 million.

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

NOTE 16 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

Year ended December 31,	Note	2022	2021
Sub-lease receipts and finance income	6	**$ 313**	$ (3,846)
Change in prepaid expenses and deposits		**(13,391)**	(4,667)
		$ (13,078)	$ (8,513)

Non-Cash Working Capital

Year ended December 31,	2022	2021
Change in:		
Trade and other receivables	**$ 2,374**	$ (5,760)
Prepaid expenses and deposits	**(544)**	799
Tax installments and receivables	**5,144**	5,013
Crude oil inventory	**69**	(37)
Trade and other payables	**9,949**	7,187
Deferred income	**6,033**	(7,503)
Taxes payable	**71,525**	(9,472)
	94,550	(9,773)
Foreign exchange impact on working capital	**(4,310)**	(1,675)
	$ 90,240	$ (11,448)
Attributable to:		
Operating activities	**$ 90,789**	$ (16,906)
Investing activities	**(549)**	5,458
	$ 90,240	$ (11,448)

NOTE 17 – SUPPLEMENTAL INFORMATION

Natural Gas, LNG, Crude Oil, Take-or-pay and Standby Revenues, Net of Royalties

Year ended December 31,	2022	2021
Natural gas and LNG revenues, net of royalties	**$ 297,448**	$ 277,933
Crude oil revenue, net of royalties	**8,063**	5,630
Power generation standby revenue	**916**	—
Take-or-pay natural gas income	**488**	506
	$ 306,915	$ 284,069

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

Year ended December 31,	2022	2021
Natural gas royalties	**$ 50,167**	$ 45,805
Crude oil royalties	**527**	471
	$ 50,694	$ 46,276

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

Natural Gas Trading

Year ended December 31,	2022	2021
Natural gas trading revenue	**$ 28,796**	$ 26,475
Natural gas trading purchases cost	**(27,575)**	(26,206)
Natural gas trading profit	**$ 1,221**	$ 269

The Corporation realized $28.8 million (2021 -$26.5 million) of natural gas trading revenue and incurred gas purchase costs of $27.6 million (2021 -$26.2 million) during the year ended December 31, 2022 related to the delivery of an 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.

Major Customers

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2022, two major customers represented 34% and 13% (2021 - 37% and 13%) of total revenues in the year, respectively.

Take-or-pay Natural Gas Income

During the year ended December 31, 2022, the Corporation realized take-or-pay natural gas income of $0.5 million (2021 - $0.5 million) relating to the portion of natural gas sales nominations by the Corporation's off-takers that did not get delivered, due to the off-takers' inability to accept such gas, and for which the off-takers have no recourse or legal right to delivery at a later date.

Deferred Income

Deferred income as at December 31, 2022 was $11.2 million (2021 - $5.2 million), which was related to undelivered natural gas nominations that were paid for or accrued in accounts receivable, for which the off-takers have a legal right to take delivery at a later date, at which point they will be recognized as revenue. Should the off-takers not accept delivery within the allotted period, the Corporation will recognize the corresponding nominations as take-or-pay income as explained in "Take-or-pay Natural Gas Income" above.

Power Generation Standby Revenue

During the year ended December 31, 2022, the Corporation realized standby revenue of $0.9 million (2021 - $ nil) for its commitment to supply natural gas for the Tesorito power generation plant. The standby revenue is earned on a daily basis, regardless of whether natural gas is actually delivered.

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

Year ended December 31,	2022	2021
Income taxes paid	**$ 35,490**	$ 44,061
Interest paid	**$ 33,533**	$ 29,374

During the year ended December 31, 2022, the Corporation paid income tax of $4.8 million (2021 - $11.4 million) for the 2021 tax year. In addition, the Corporation also prepaid advances related to its 2022 income tax expense of $30.6 million (2021- $32.7 million) during the year ended December 31, 2022.

NOTE 18 – KEY MANAGEMENT PERSONNEL

The Corporation has determined that the key management personnel of the Corporation consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Corporation also provides long-term incentive compensation, including RSUs, PSUs and DSUs. Compensation expenses paid to key management personnel were as follows:

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

Year ended December 31,	2022	2021
Salaries and director fees	$ 6,874	$ 4,731
Severance	1,162	—
Benefits	605	495
Long-term incentive compensation(1)	2,984	1,842
Key management personnel compensation	**$ 11,625**	$ 7,068

1) The long-term incentive compensation includes RSUs, PSUs and DSUs amortized as stock-based compensation expense for the years ended December 31, 2022 and 2021.

NOTE 19 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

	Country of Incorporation	Fiscal year end	Ownership Interest December 31, 2022	Ownership Interest December 31, 2021
Canacol Energy Inc.	Canada	December 31	100%	100%
CNEOG Colombia	Colombia	December 31	100%	—%
CNE Oil & Gas S.A.S	Colombia	December 31	100%	100%
Canacol Energy Colombia S.A.S.	Colombia	December 31	100%	100%

NOTE 20 – 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 December 31, 2022. The long-term incentive compensation liability, Arrow Warrants and Tesorito Investment are recorded at fair value. Long-term debt, which includes Senior Notes, Bridge Loan and Colombia Bank Debt, is carried at amortized cost. As at December 31, 2022, the fair value of Senior Notes, Bridge Loan and Colombia Bank Debt was $445.9 million, $25 million and $10 million, respectively.

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

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

The Corporation's financial instruments were assessed on the fair value hierarchy described above. The Corporation's long-term incentive compensation liability was classified as Level 1, the Arrow Warrants was classified as Level 2, and the Tesorito Investment was classified as Level 3 as at December 31, 2022. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended December 31, 2022. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

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 year ended December 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 at each reporting period.

As at December 31, 2022, the COP to the USD exchange rate was 4,810:1 (December 31, 2021 – 3,981:1) and the CAD to USD exchange rate was 1.35:1 (December 31, 2021 – 1.27:1). The 21% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the year ended December 31, 2022. In addition, a portion of deferred income tax expense of $192.4 million (2021 - $14 million) during the year ended December 31, 2022 was derived from the devaluation of COP to USD on the COP denominated tax pools. The Corporation's revenue is not exposed to foreign currency risk as all of Canacol's natural gas sales contracts are denominated in USD. The Corporation had no foreign exchange contracts in place as at or during the year ended December 31, 2022.

(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 which limits the Corporation's exposure to interest rate risk. The Corporation's Colombia Bank Debt and Bridge Loan were subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate contracts in place as at or during the year ended December 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 December 31, 2022:

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

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	$ 35,020	$ —	$ 500,000	$ 535,020
Lease obligations – undiscounted	3,442	3,074	9,595	16,111
Trade and other payables	62,312	—	—	62,312
Dividend payable	6,548	—	—	6,548
Taxes payable	74,969	—	—	74,969
Other long term obligations	—	4,390	—	4,390
Long-term incentive compensation liability	2,130	556	—	2,686
	$ 184,421	**$ 8,020**	**$ 509,595**	**$ 702,036**

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 December 31, 2022 was $54.4 million (December 31, 2021 - $57.2 million), $8.7 million related to the recovery of transportation costs passed-through to customers (December 31, 2021 - $9.7 million), $1.9 million from Arrow related to the sale of certain petroleum assets (December 31, 2021 - $3.4 million) and $5 million of other receivables (December 31, 2021 - $2.7 million). The remaining receivable of $1.9 million from Arrow is expected to be collected no later than June 30, 2023.

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, which is defined as current assets less current liabilities, adjusted for the current portion of long-term debt. 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	December 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%)	9	**10,020**	12,107
Operating loan (IBR + 1.5%)(2)	9	**—**	2,513
Lease obligation (5.75%)	10	**15,732**	18,089
Total debt		**550,752**	557,709
Working capital deficit (surplus)		**22,603**	(148,124)
Net debt		**$ 573,355**	$ 409,585

(1) The LIBOR rate during the year ended December 31, 2022 was 2.52%.
(2) The IBR rate during the year ended December 31, 2022 was 7.65% .

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

NOTE 21 – COMMITMENTS AND CONTINGENCIES

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

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 23,621	$ 8,918	$ 16,300	$ 48,839
Compression station operating contracts	2,714	5,592	5,820	14,126
	$ 26,335	**$ 14,510**	**$ 22,120**	**$ 62,965**

Letters of Credit

As at December 31, 2022, the Corporation had letters of credit outstanding totaling $87.9 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, $1.8 million letters of credit was related to certain oil assets previously sold, which were transferred to Arrow subsequent to 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 December 31, 2022 of $48.8 million and has issued $38.4 million of the total $87.9 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.

NOTE 22 – SUBSEQUENT EVENTS

On December 19, 2022, the shareholders of the Corporation approved the Share Consolidation (note 8). As a result of the Share Consolidation, on January 17, 2023, 170,557,290 Common Shares issued and outstanding prior to the Share Consolidation have been reduced to 34,111,458 Common Shares (disregarding the treatment of any resulting fractional shares). Each shareholder percentage ownership in the Corporation and proportional voting power remains unchanged after the Share Consolidation.

On February 17, 2023, the Corporation entered into a $200 million senior unsecured revolving credit facility (New RCF - see note 9) with a syndicate of banks. The New RCF bears an annual interest rate of SOFR + 4.5% and is set to expire in February 2027. The Corporation is able to repay/redraw the New RCF at any time within the four-year term without penalty. Any undrawn amounts are subject to a commitment fee equal to 30% of the 4.50% interest margin throughout the availability period. The New RCF is not subject to typical periodic redeterminations. Upon closing of the New RCF, the $25 million that was drawn on the Bridge Loan and the $10 million outstanding on the Colombian Bank Debt as at December 31, 2022 were repaid, and both loan agreements were terminated. The loan agreement of the undrawn RCF was also terminated upon closing of the New RCF.