

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		\$ 48,342	\$ 58,518
Trade and other receivables	16	73,850	70,000
Tax installments and receivables		7,830	432
Other current assets	6	7,725	5,645
		137,747	134,595
Non-current assets			
Exploration and evaluation assets	4	110,079	86,027
Property, plant and equipment	5	627,664	587,916
Deferred tax assets		235,509	176,294
Other non-current assets	6	21,710	30,016
		994,962	880,253
Total assets		\$ 1,132,709	\$ 1,014,848
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	\$ —	\$ 33,279
Trade and other payables		86,721	62,312
Deferred income		10,319	11,239
Dividend payable	8	6,560	6,548
Lease obligations	10	2,849	2,925
Taxes payable		36,778	74,969
Long-term incentive compensation liabilities	7	1,800	2,130
		145,027	193,402
Non-current liabilities			
Long-term debt	9	605,979	463,170
Lease obligations	10	10,711	12,807
Decommissioning obligations		23,441	23,976
Deferred tax liabilities		11,864	24,607
Long-term incentive compensation liabilities	7	1,469	556
Other long term obligations		5,735	4,390
Total liabilities		804,226	722,908
Equity			
Share capital	8	146,142	146,142
Other reserves		67,454	67,439
Retained earnings		114,887	78,359
Total equity		328,483	291,940
Total liabilities and equity		\$ 1,132,709	\$ 1,014,848

Commitments and contingencies (note 17)

See accompanying notes to the consolidated financial statements.

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

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Revenues					
Total revenues, net of royalties	15	\$ 79,088	\$ 79,160	\$ 232,997	\$ 232,746
Natural gas trading income		—	7,971	—	23,521
		79,088	87,131	232,997	256,267
Expenses					
Operating expenses		6,921	5,644	18,623	18,450
Transportation expenses		2,470	9,027	7,861	26,474
Natural gas trading purchase costs		—	7,549	—	22,364
Impairment of long lived assets	5,6	32,604	—	32,604	—
General and administrative		8,418	7,241	23,756	20,428
Stock-based compensation expense	7	1,282	458	4,567	3,136
Depletion and depreciation	5	17,619	17,388	55,839	52,340
Foreign exchange loss (gain)		(2,616)	4,082	(3,975)	4,621
Other expenses	11	4,482	3,871	7,521	9,620
		71,180	55,260	146,796	157,433
Net finance expense	12	14,028	10,364	41,088	30,955
Income before income taxes		(6,120)	21,507	45,113	67,879
Income tax expense (recovery)					
Current		10,063	14,835	60,731	43,391
Deferred		(15,659)	11,135	(71,958)	10,938
		(5,596)	25,970	(11,227)	54,329
Net income (loss) and comprehensive income (loss)		\$ (524)	\$ (4,463)	\$ 56,340	\$ 13,550
Net income (loss) per share (restated - note 8)					
Basic and diluted	13	\$ (0.02)	\$ (0.13)	\$ 1.65	\$ 0.39

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(in thousands of United States dollars)

	Note	Share Capital	Other Reserves	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2021		\$ 159,798	\$ 67,219	\$ (41,886)	\$ 185,131
Common shares repurchased	8	(13,325)	—	—	(13,325)
Stock-based compensation	8	—	195	—	195
Dividends declared	8	—	—	(20,483)	(20,483)
Net income		—	—	13,550	13,550
Balance at September 30, 2022		\$ 146,473	\$ 67,414	\$ (48,819)	\$ 165,068
Balance at December 31, 2022		\$ 146,142	\$ 67,439	\$ 78,359	\$ 291,940
Stock-based compensation	8	—	15	—	15
Dividends declared	8	—	—	(19,812)	(19,812)
Net income		—	—	56,340	56,340
Balance at September 30, 2023		\$ 146,142	\$ 67,454	\$ 114,887	\$ 328,483

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Operating activities					
Net income and comprehensive income		\$ (524)	\$ (4,463)	\$ 56,340	\$ 13,550
Non-cash adjustments:					
Depletion and depreciation	5	17,619	17,388	55,839	52,340
Impairment of long lived assets	5,6	32,604	—	32,604	—
Stock-based compensation expense	7	1,282	458	4,567	3,136
Net financing expense	12	14,028	10,364	41,088	30,955
Unrealized foreign exchange loss and other expenses		1,310	5,598	2,874	6,035
Deferred income tax (recovery) expense		(15,659)	11,135	(71,958)	10,938
Equity investment income	11	151	(161)	(1,048)	(419)
Unrealized (gain) loss on financial instruments	11	327	(62)	(288)	(1,536)
Settlement of decommissioning obligation		—	—	(217)	—
Settlement of restricted share units and performance share units	7	(2,188)	(1,542)	(4,689)	(3,382)
Changes in non-cash working capital	14	17,262	23,279	(42,344)	23,778
		66,212	61,994	72,768	135,395
Investing activities					
Expenditures on exploration and evaluation assets	4	(17,639)	(16,561)	(40,569)	(48,333)
Expenditures on property, plant and equipment		(26,247)	(29,191)	(102,848)	(67,583)
Net proceeds on disposition of property, plant and equipment		56	10	479	10
Other investing activities	14	1,687	1,659	1,986	(2,705)
Changes in non-cash working capital	14	3,969	2,673	2,725	5,648
		(38,174)	(41,410)	(138,227)	(112,963)
Financing activities					
Draw on long-term debt, net of financing fees	9	—	—	137,151	—
Repayment of debt	9	—	—	(34,930)	(2,647)
Net financing expense paid	12	(11,370)	(8,017)	(31,641)	(24,535)
Lease principal payments	10	(741)	(1,151)	(2,299)	(3,315)
Dividends paid	8	(6,699)	(6,894)	(19,794)	(21,174)
Common share repurchases		—	(150)	—	(13,325)
		(18,810)	(16,212)	48,487	(64,996)
Change in cash and cash equivalents		9,228	4,372	(16,972)	(42,564)
Cash and cash equivalents, beginning of period		38,936	90,808	58,518	138,523
Foreign exchange impact on cash and cash equivalents, end of period		178	(2,687)	6,796	(3,466)
Cash and cash equivalents, end of period		\$ 48,342	\$ 92,493	\$ 48,342	\$ 92,493

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation’s head office is located at 2000, 215 - 9th Avenue SW, Calgary, Alberta, T2P 1K3, Canada. The Corporation’s shares are traded on the Toronto Stock Exchange (“TSX”) under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on November 8, 2023.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These financial statements do not include all of the information required for the annual consolidated financial statements; however they have been prepared in accordance with the accounting policies outlined and should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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 investments, restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”), 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

The Corporation has reviewed new and amended standards that have been issued and have become effective on January 1, 2023 or that are not yet effective and determined that they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2022	\$	86,027
Additions ⁽¹⁾		40,569
Transferred to D&P assets (note 5)		(16,517)
Balance at September 30, 2023	\$	110,079

(1) Net of \$5.1 million of insurance proceeds

During the nine months ended September 30, 2023, the Corporation made the Lulo natural gas discovery on its VIM-21 block and the Pina natural gas discovery on its Esperanza block, and accordingly, \$16.5 million of exploration costs associated with such discoveries have been transferred to D&P assets.

In late 2022 through to early 2023, the Corporation drilled the Natilla-1 exploration well located on its SSJN-7 block (50% working interest). The Natilla-1 exploration well encountered mechanical issues and did not reach

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

the primary Cienaga de Oro Formation target. This event was covered by the Corporation's insurance policy and, during the three months ended September 30, 2023, the Corporation received \$5.1 million of insurance reimbursement (net to Canacol) related to the drilling costs of Natilla-1. The well was subsequently sidetracked but was ultimately plugged and abandoned.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Cost			
Balance at December 31, 2022	\$ 1,176,734	\$ 29,579	\$ 1,206,313
Additions	104,040	118	104,158
Transferred from E&E assets (note 4)	16,517	—	16,517
Dispositions	(19)	(54)	(73)
Impairment	(25,078)	—	(25,078)
Derecognition	(618)	—	(618)
Balance at September 30, 2023	\$ 1,271,576	\$ 29,643	\$ 1,301,219
Accumulated depletion and depreciation			
Balance at December 31, 2022	\$ (608,048)	\$ (10,349)	\$ (618,397)
Dispositions	1	30	31
Depletion and depreciation	(54,478)	(1,361)	(55,839)
Derecognition and inventory adjustments	650	—	650
Balance at September 30, 2023	\$ (661,875)	\$ (11,680)	\$ (673,555)
Carrying value			
As at December 31, 2022	\$ 568,686	\$ 19,230	\$ 587,916
As at September 30, 2023	\$ 609,701	\$ 17,963	\$ 627,664

During the nine months ended September 30, 2023, \$16.5 million of exploration costs associated with the Lulo and Pina discoveries have been transferred from E&E assets (note 4).

On October 19, 2023, the Corporation announced the termination of the natural gas pipeline project that connects the Corporation's gas processing facility at Jobo to the city of Medellin, Colombia (the "Medellin Project")(note 18). As a result, the cumulative costs associated with the Medellin Project totaling \$25.1 million was expensed as impairment as at September 30, 2023.

NOTE 6 – OTHER ASSETS

	September 30, 2023	December 31, 2022
Current		
Restricted cash	\$ 698	\$ —
Prepaid expenses and deposits	\$ 4,218	\$ 3,077
Investments	2,548	2,268
Inventory	261	300
	\$ 7,725	\$ 5,645
Non-Current		
Restricted cash	\$ 202	\$ —
Prepaid expenses and deposits	\$ 10,574	\$ 20,954
Investments	10,934	9,062
	\$ 21,710	\$ 30,016

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

As a result of the termination of the Medellin Project (note 5), \$7.5 million of non-current prepaid expenses and deposits was expensed as impairment during the three and nine months ended September 30, 2023 (note 18).

Investments

	Office Sub-Lease	Arrow Equity Investment	Arrow Warrants	Tesorito Investment	Total Investments
Balance at December 31, 2022	\$ 33	\$ 4,646	\$ 2,235	\$ 4,416	\$ 11,330
Sub-lease receipts and finance income	(33)	—	—	—	(33)
Equity investment income	—	1,048	—	—	1,048
Unrealized gain	—	—	288	—	288
Foreign exchange gain	—	—	25	824	849
Balance at September 30, 2023	\$ —	\$ 5,694	\$ 2,548	\$ 5,240	\$ 13,482

As at September 30, 2023, the Corporation had an approximately 17.8% equity interest in Arrow Exploration Corp. (“Arrow”). The carrying value of the equity investment in Arrow was \$5.7 million as at September 30, 2023.

As at September 30, 2023, the Corporation held 18,357,602 Arrow warrants with a fair value of \$2.5 million. The Arrow warrants expire in October 2023 and, as such, has been classified as current as at September 30, 2023. The fair value of the Arrow warrants was calculated based on the Black-Scholes pricing model using the following inputs:

	September 30, 2023
Weighted-average fair value (C\$)	0.19
Share price (C\$)	0.34
Exercise price (C\$)	0.15
Volatility	67.1 %
Remaining life of Warrants	0.1 years
Risk-free interest rate	4.93 %

On October 13, 2023, the Corporation exercised all of the 18,357,602 Arrow warrants to purchase 18,357,602 common shares of Arrow at an exercise price of C\$0.15 per Arrow common share. The Corporation holds an aggregate of 60,072,807 Common Shares of Arrow subsequent to the warrants exercise, which represents an approximately 22.5% equity interest in Arrow (note 18).

NOTE 7 – LONG TERM INCENTIVE COMPENSATION LIABILITY

	RSUs	PSUs	DSUs	Total
Balance at December 31, 2022	\$ 1,434	\$ 1,033	\$ 219	\$ 2,686
Amortized	3,805	1,483	208	5,496
Settled/Cancelled	(3,151)	(1,689)	(85)	(4,925)
Foreign exchange loss	22	(6)	(4)	12
Balance at September 30, 2023	\$ 2,110	\$ 821	\$ 338	\$ 3,269

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

\$1.3 million and \$4.6 million (2022 - \$0.4 million and \$3.0 million) was expensed during the three and nine months ended September 30, 2023, respectively.

The number of outstanding RSUs, PSUs and DSUs as at September 30, 2023 were as follows:

	RSUs (000's)	PSUs (000's)	DSUs (000's)	Total (000's)
Balance at December 31, 2022	300	385	30	715
Granted	547	276	25	848
Settled	(353)	(203)	(10)	(566)
Cancelled	(25)	(50)	(2)	(77)
Balance at September 30, 2023	469	408	43	920

Restricted Share Units

On January 31, 2023, May 15, 2023 and June 23, 2023, the Corporation granted a total of 506,787 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, dividend units were granted on the dividend record dates during the nine months ended September 30, 2023 for all of the RSUs outstanding, totaling 40,021 units. For the nine months ended September 30, 2023, the Corporation settled 102,211, 26,738, 126,988 and 97,150 RSUs at a price of C\$11.65, C\$10.73, C\$11.35, and C\$12.17 per unit, respectively, for a total of \$3.1 million in cash.

Performance Share Units

On May 15, 2023, the Corporation granted 242,731 PSUs to its officers. In addition, dividend units were granted on dividend record dates during the nine months ended September 30, 2023 for all of the PSUs outstanding, totaling 33,275 units. For the nine months ended September 30, 2023, the Corporation settled 203,191 PSUs at a price of C\$10.24 per unit for a total of \$1.5 million in cash.

Deferred Share Units

On May 15, 2023 and June 23, 2023, the Corporation granted a total of 22,665 DSUs to its Board of Directors. In addition, dividend units were granted on dividend record dates during the nine months ended September 30, 2023 for all of the DSUs outstanding, totaling 2,838 units. For the nine months ended September 30, 2023, the Corporation settled 10,189 DSUs at a price of C\$11.31 per unit for a total of \$0.1 million in cash.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2022	34,111	\$ 146,142
Balance at September 30, 2023	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 three and nine months ended September 30, 2022 were restated to reflect the Share Consolidation.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

On January 31, 2023, the Corporation renewed its normal course issuer bid (“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 2, 2023 to February 1, 2024 or until such earlier time as the NCIB is completed or terminated at the option of the Corporation. The Corporation did not purchase any Common Shares during the nine months ended September 30, 2023.

On January 31, 2023, Canacol renewed its automatic share purchase plan (“ASPP”) with its designated broker. The ASPP is intended to allow for the purchase of Common Shares under the NCIB at times when the Corporation is not ordinarily permitted to purchase Common Shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, the designated broker is able to purchase Common Shares until the expiry of the NCIB on February 1, 2024. Such purchases are 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 will 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 can 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 are included in the number of Common Shares available for purchase under the NCIB.

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000’s)	(C\$)
Balance at December 31, 2022	1,248	21.65
Forfeited and cancelled	(458)	21.50
Balance at September 30, 2023	790	21.76

Information with respect to stock options outstanding as at September 30, 2023 is presented below.

Stock Options Outstanding and Exercisable			
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
(C\$)	(000’s)	(years)	(C\$)
\$21.20 - \$22.50	677	1.0	21.54
\$22.51 - \$23.10	113	0.9	23.10
	790	1.0	21.76

Dividends Declared

The Corporation declared dividends of C\$0.26 per share on March 16, 2023, June 20, 2023, and September 14, 2023 totaling \$19.8 million, of which, \$6.6 million was paid on April 17, 2023, \$6.7 million was paid on July 17, 2023, and \$6.5 million was paid on October 16, 2023 to the shareholders of record. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and are subject to restrictions according to the Corporation’s long-term debt agreements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	New RCF	Bridge Loan	Colombia Bank Debt	Total
Balance at December 31, 2022	\$ 463,170	\$ —	\$ 23,259	\$ 10,020	\$496,449
Draw on long-term debt, net of financing fees	—	137,151	—	—	137,151
Repayment of long-term debt	—	—	(25,000)	(9,930)	(34,930)
Amortization of transaction costs	4,511	1,147	1,741	—	7,399
Foreign exchange gain	—	—	—	(90)	(90)
Balance at September 30, 2023	\$ 467,681	\$ 138,298	\$ —	\$ —	\$605,979

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 for the Medellin 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 Medellin 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 Medellin 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. The unamortized transaction costs of \$1.7 million was amortized and capitalized to PP&E upon termination of the loan agreement.

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 \$9.9 million outstanding on the Colombia Bank Debt with proceeds from the New RCF (see “Revolving Credit Facility” below) 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 (“Senior Notes”). The 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 Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of Canacol.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

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 was not subject to typical periodic redeterminations.

On February 17, 2023, the Corporation terminated the undrawn RCF and entered into a new \$200 million senior unsecured revolving credit facility (“New RCF”) with a syndicate of banks. The unamortized transaction costs of \$1.5 million related to the RCF was amortized and expensed upon termination of the loan agreement. 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. The amount drawn and outstanding as at September 30, 2023 was \$145 million.

Net Carrying Value

	Senior Notes	New RCF	Total
Long-term debt - principal	\$ 500,000	\$ 145,000	\$ 645,000
Unamortized transaction costs	(32,319)	(6,702)	(39,021)
Balance at September 30, 2023	\$ 467,681	\$ 138,298	\$ 605,979

As at September 30, 2023, unamortized transaction costs were netted against the Senior Notes and New RCF principal amounts.

The Corporation’s Senior Notes and the 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 (incurrence) or 3.50:1.00 (maintenance) 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 September 30, 2023.

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2022	\$ 13,744	\$ 1,988	\$ 15,732
Additions	—	118	118
Settlements	(1,751)	(548)	(2,299)
De-recognitions	—	(25)	(25)
Foreign exchange loss	—	34	34
Balance at September 30, 2023	\$ 11,993	\$ 1,567	\$ 13,560
Lease obligations - current	\$ 2,490	\$ 359	\$ 2,849
Lease obligations - non-current	9,503	1,208	10,711
Balance at September 30, 2023	\$ 11,993	\$ 1,567	\$ 13,560

The Corporation applies 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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

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:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Low-value right-of-use assets	\$ 33	\$ 35	\$ 136	\$ 111
Short-term lease arrangements	28	9	45	86
Variable lease payments	10,279	5,054	23,511	11,319
Total lease payments	\$ 10,340	\$ 5,098	\$ 23,692	\$ 11,516

Future lease payments related to short-term, low-value or variable lease arrangements as at September 30, 2023 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 31,360	\$ 20,654	\$ —	\$ 52,014

NOTE 11 – OTHER EXPENSES (INCOME)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Pre-license costs		270	446	876	1,431
Other expenses		2,327	2,752	5,029	7,677
Other tax expense		1,407	896	2,952	2,467
Equity investment (income) loss	6	151	(161)	(1,048)	(419)
(Gain) loss on financial instruments	6	327	(62)	(288)	(1,536)
		\$ 4,482	\$ 3,871	\$ 7,521	\$ 9,620

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Finance income				
Interest income	\$ 631	\$ 421	\$ 2,213	\$ 891
Finance expense				
Accretion on decommissioning obligations	642	841	2,275	1,969
Amortization of upfront transaction costs	2,016	1,506	7,172	4,451
Interest expense on lease obligations	198	231	591	728
Interest and other financing costs	11,803	8,207	33,263	24,698
	14,659	10,785	43,301	31,846
Net finance expense	\$ 14,028	\$ 10,364	\$ 41,088	\$ 30,955

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

NOTE 13 – NET (LOSS) INCOME PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net (loss) income	\$ (524)	\$ (4,463)	\$ 56,340	\$ 13,550
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic (restated - see note 8)	34,111	34,118	34,111	34,330

The stock options were anti-dilutive for the three and nine months ended September 30, 2023 due to being out-of-the-money.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Sub-lease receipts and finance income	6	\$ —	\$ 104	\$ 33	\$ 207
Change in restricted cash		(704)	—	(900)	—
Change in non-current prepaid expenses and deposits		2,391	1,555	2,853	(2,912)
		\$ 1,687	\$ 1,659	\$ 1,986	\$ (2,705)

Change in Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Change in:				
Trade and other receivables	\$ 12,225	\$ 1,900	\$ (3,850)	\$ (3,982)
Prepaid expenses and deposits	1,156	(75)	(2,654)	(3,017)
Tax installments and receivables	(3,130)	(19)	(7,398)	5,272
Crude oil inventory	(5)	(7)	17	50
Trade and other payables	15,765	10,338	24,409	16,820
Deferred income	(4,134)	5,885	(920)	4,714
Taxes payable	1,777	10,855	(38,191)	12,317
	23,654	28,877	(28,587)	32,174
Foreign exchange impact on working capital	(2,423)	(2,925)	(11,032)	(2,748)
	\$ 21,231	\$ 25,952	\$ (39,619)	\$ 29,426
Attributable to:				
Operating activities	\$ 17,262	\$ 23,279	\$ (42,344)	\$ 23,778
Investing activities	3,969	2,673	2,725	5,648
	\$ 21,231	\$ 25,952	\$ (39,619)	\$ 29,426

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

NOTE 15 – SUPPLEMENTAL INFORMATION

Total Revenues, Net of Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Natural gas and LNG revenues, net of royalties	\$ 76,079	\$ 76,695	\$ 224,476	\$ 226,200
Crude oil revenue, net of royalties	2,358	2,322	6,254	6,106
Power generation standby revenue	655	—	2,168	—
Take-or-pay natural gas income	(4)	143	99	440
	\$ 79,088	\$ 79,160	\$ 232,997	\$ 232,746

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Natural gas royalties	\$ 14,803	\$ 12,769	\$ 43,560	\$ 37,531
Crude oil royalties	162	157	402	400
	\$ 14,965	\$ 12,926	\$ 43,962	\$ 37,931

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Income taxes paid	\$ 11,705	\$ 6,544	\$ 109,824	\$ 27,964
Interest paid	\$ 3,779	\$ 1,209	\$ 22,600	\$ 17,825

During the nine months ended September 30, 2023, the Corporation paid income tax of \$72.5 million (2022 - \$4.8 million) for the 2022 tax year, which included the one-time current tax expense of \$64.7 million related to the Corporation's corporate restructuring that was accrued at December 31, 2022. In addition, the Corporation also paid installments relating to its 2023 income tax expense of \$11.7 million and \$37.3 million (2022 - \$6.5 million and \$23.1 million) during the three and nine months ended September 30, 2023, respectively.

For the three and nine months ended September 30, 2023, \$3.7 million and \$4.3 million (2022 - \$1.2 million and \$2.2 million) of the total income taxes paid, respectively, were related to VAT paid on certain eligible capital expenditures that were applied against the Corporation's taxes payable.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and dividend payable approximate their fair values at September 30, 2023. The long-term incentive compensation liability, Arrow warrants and Tesorito Investment are recorded at fair value. Lease obligations and long-term debt, which includes Senior Notes and the New RCF, are carried at amortized cost. As at September 30, 2023, the fair value of Senior Notes, which are listed on the Singapore Exchange, was \$405.1 million.

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

The objective of market risk management is to mitigate market risk exposures where considered appropriate and to maximize returns.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk. The Corporation had no commodity contracts in place as at or during the three and nine months ended September 30, 2023.

(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 September 30, 2023, the COP to the USD exchange rate was 4,054:1 (December 31, 2022 – 4,810:1) and the CAD to USD exchange rate was 1.35:1 (December 31, 2022 – 1.35:1). The Corporation's revenues are 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 three and nine months ended September 30, 2023.

(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 New RCF is 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 three and nine months ended September 30, 2023.

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 as at September 30, 2023:

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 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	\$ —	\$ —	\$ 645,000	\$ 645,000
Lease obligations – undiscounted	3,583	3,645	8,207	15,435
Trade and other payables	86,721	—	—	86,721
Dividend payable	6,560	—	—	6,560
Taxes payable	36,778	—	—	36,778
Other long term obligations	—	5,735	—	5,735
Long-term incentive compensation liability	1,800	1,469	—	3,269
	\$ 135,442	\$ 10,849	\$ 653,207	\$ 799,498

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. As at September 30, 2023, Trade and other receivables was comprised of a) \$54.6 million (December 31, 2022 - \$54.4 million) of trade receivables, b) \$16.7 million related to the recovery of transportation costs passed-through to customers (December 31, 2022 - \$8.7 million), and c) \$2.6 million of other receivables (December 31, 2022 - \$5.0 million).

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	September 30, 2023	December 31, 2022
Senior Notes - principal (5.75%)	9	500,000	\$ 500,000
Bridge Loan - principal (LIBOR + 4.25%)	9	—	25,000
Colombia Bank Debt - principal (IBR + 2.5%)	9	—	10,020
New RCF (SOFR + 4.5%) ⁽¹⁾	9	145,000	—
Lease obligation (5.75%)	10	13,560	15,732
Total debt		658,560	550,752
Working capital deficit		4,431	22,603
Net debt		\$ 662,991	\$ 573,355

(1) The SOFR rate for the three and nine months ended September 30, 2023 was 5.31% and 4.99%, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments as at September 30, 2023:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 23,761	\$ 14,927	\$ 16,931	55,619
Compression station operating contracts	2,754	5,676	3,661	12,091
	\$ 26,515	\$ 20,603	\$ 20,592	67,710

Letters of Credit

As at September 30, 2023, the Corporation had letters of credit outstanding totaling \$93.2 million (December 31, 2022 - \$87.9 million) to guarantee work commitments on exploration blocks and to guarantee other contractual commitments.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2023 of \$55.6 million and has issued \$45.1 million of the total \$93.2 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 18 – SUBSEQUENT EVENTS

On October 13, 2023, the Corporation exercised all of the 18,357,602 Arrow warrants to purchase 18,357,602 common shares of Arrow at an exercise price of C\$0.15 per Arrow common share. The Corporation holds an aggregate of 60,072,807 common shares of Arrow subsequent to the warrants exercise, which represents an approximately 22.5% equity interest in Arrow.

On October 19, 2023, the Corporation announced the termination of the long term take-or-pay sales contract with Empresas Publicas de Medellin E.S.P. ("EPM"), previously scheduled to commence deliveries on December 1, 2024. As of the time of termination, the Corporation was still in the process of obtaining the environmental license required for the building of the pipeline to deliver natural gas from the Corporation's Jobo gas processing facility to the city of Medellin, Colombia. As a result of the termination of the project, the cumulative cost spent totaling \$32.6 million was expensed as impairment as at September 30, 2023.

On October 19, 2023, the Corporation also announced that it has made a strategic entrance into Bolivia with the execution of three exploration and production ("E&P") contracts with Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), the Bolivian state oil and gas company. The Corporation is also in the process of seeking government approval for the award of a fourth E&P contract. These four E&P contracts expose Canacol to both low-risk mature gas field re-developments as well as significant natural gas exploration potential in the largest gas producing basin of Bolivia with a modest capital commitment over five years of approximately \$27 million of investment. Gas from these contracts can be rapidly commercialized given success, as they are strategically located along the main gas pipeline routes with export to Brazil.