

# **CANACOL ENERGY LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**



## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 33,414	\$ 51,632
Restricted cash	4	1,134	1,208
Trade and other receivables	16	62,675	62,244
Prepaid expenses and deposits		2,132	1,909
Tax installments and receivables		15,046	5,966
Investments	8	1,171	1,466
Crude oil inventory		255	314
		<b>115,827</b>	<b>124,739</b>
<b>Non-current assets</b>			
Trade and other receivables	16	5,000	—
Restricted cash	4	3,484	2,988
Prepaid expenses and deposits		1,984	1,608
Exploration and evaluation assets	5	53,003	39,555
Property, plant and equipment	6	510,248	480,428
Investments	8	736	350
Deferred tax assets		43,190	55,335
		<b>617,645</b>	<b>580,264</b>
<b>Total assets</b>		<b>\$ 733,472</b>	<b>\$ 705,003</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank debt	10	\$ 4,959	\$ —
Trade and other payables		54,088	49,279
Deferred income		5,646	5,413
Lease obligations	11	3,799	1,701
Restricted share units	16	1,816	2,112
Taxes payable		4,847	6,313
Hedging contract	16	318	—
Settlement liability	7	1,900	3,600
Decommissioning obligations		—	840
		<b>77,373</b>	<b>69,258</b>
<b>Non-current liabilities</b>			
Long-term debt	10	336,146	339,684
Lease obligations	11	20,537	19,772
Decommissioning obligations		28,064	22,850
Restricted share units	16	4	31
Settlement liability	7	13,248	13,149
Other long term obligations		3,272	2,533
Deferred tax liabilities		34,206	32,289
<b>Total liabilities</b>		<b>512,850</b>	<b>499,566</b>
<b>Equity</b>			
Share capital	9	163,659	159,116
Other reserves		70,077	67,821
Accumulated other comprehensive income		335	335
Deficit		(13,449)	(21,835)
<b>Total equity</b>		<b>220,622</b>	<b>205,437</b>
<b>Total liabilities and equity</b>		<b>\$ 733,472</b>	<b>\$ 705,003</b>

Commitments and contingencies (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

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

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
<b>Revenues</b>					
Natural gas and crude oil revenues, net of royalties	14	\$ 63,347	\$ 58,751	\$ 163,522	\$ 166,970
Take-or-pay natural gas income		299	382	978	1,120
<b>Total natural gas and crude oil revenues, net of royalties</b>		<b>63,646</b>	<b>59,133</b>	<b>164,500</b>	<b>168,090</b>
Dividend income		—	—	—	356
<b>Expenses</b>					
Operating expenses		3,692	8,585	11,797	23,093
Transportation expenses		7,012	5,735	10,773	14,666
Pre-license costs and exploration expense		223	1,844	2,605	12,929
General and administrative		5,296	6,330	16,806	19,510
Donations		678	396	1,011	1,634
Stock-based compensation and restricted share units expense	9, 16	1,089	2,359	6,594	7,828
Depletion and depreciation	6	13,015	10,636	37,441	32,444
Foreign exchange loss		1,474	1,041	1,538	1,980
Other expenses		1,077	2	4,688	1,681
Other tax expenses		707	1,244	1,503	2,743
Loss on financial instruments	14	290	905	1,035	5,302
Loss on settlement of long-term debt		—	—	—	14,417
Loss on assets and liabilities held for sale		—	1,822	—	1,822
Impairment recovery		—	—	—	(19,126)
Settlement liability	7	—	—	—	20,258
		<b>34,553</b>	<b>40,899</b>	<b>95,791</b>	<b>141,181</b>
Net finance expense	12	8,164	8,834	24,581	25,834
<b>Income before income taxes</b>		<b>20,929</b>	<b>9,400</b>	<b>44,128</b>	<b>1,431</b>
<b>Income taxes</b>					
Current		6,064	6,007	21,252	19,593
Deferred		14,202	(8,745)	14,061	(12,599)
		<b>20,266</b>	<b>(2,738)</b>	<b>35,313</b>	<b>6,994</b>
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 663</b>	<b>\$ 12,138</b>	<b>\$ 8,815</b>	<b>\$ (5,563)</b>
<b>Net income (loss) per share</b>					
Basic and diluted	13	\$ —	\$ 0.07	\$ 0.05	\$ (0.03)

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Deficit	Non- Controlling Interest	Total Equity
Balance at December 31, 2017	\$ 707,125	\$ 65,547	\$ 335	\$ (533,847)	\$ (18)	\$ 239,142
Transfer of deficit to share capital	(533,847)	—	—	533,847	—	—
Distribution of share capital	(20,000)	—	—	—	—	(20,000)
Stock options exercised	6,220	(2,439)	—	—	—	3,781
Stock-based compensation	—	4,334	—	—	—	4,334
Net loss	—	—	—	(5,563)	—	(5,563)
<b>Balance at September 30, 2018</b>	<b>\$ 159,498</b>	<b>\$ 67,442</b>	<b>\$ 335</b>	<b>\$ (5,563)</b>	<b>\$ (18)</b>	<b>\$ 221,694</b>
Balance at January 1, 2019 (note 3)	\$ 159,116	\$ 67,821	\$ 335	\$ (22,264)	\$ —	\$ 205,008
Common share repurchases	(1,443)	—	—	—	—	(1,443)
Stock options exercised	5,986	(560)	—	—	—	5,426
Stock-based compensation	—	2,816	—	—	—	2,816
Net income	—	—	—	8,815	—	8,815
<b>Balance at September 30, 2019</b>	<b>\$ 163,659</b>	<b>\$ 70,077</b>	<b>\$ 335</b>	<b>\$ (13,449)</b>	<b>\$ —</b>	<b>\$ 220,622</b>

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,	
		2019	2018	2019	2018
<b>Operating activities</b>					
Net income (loss) and comprehensive income (loss)		\$ 663	\$ 12,138	\$ 8,815	\$ (5,563)
Adjustments:					
Net financing expense	12	8,164	8,834	24,581	25,834
Exploration impairment		—	—	—	9,865
Stock-based compensation and restricted share units expense	9, 16	1,089	2,359	6,594	7,828
Depletion and depreciation	6	13,015	10,636	37,441	32,444
Realized loss on financial instruments	14	—	992	—	1,645
Unrealized loss (gain) on financial instruments	14	375	(85)	1,035	3,808
Unrealized foreign exchange loss (gain) and other		1,654	(427)	2,563	(524)
Loss on settlement of long-term debt		—	—	—	14,417
Impairment recovery		—	—	—	(19,126)
Settlement liability	7	(184)	(672)	(898)	19,012
Settlement of decommissioning obligations		—	—	(2,741)	—
Loss on settlement of decommissioning obligations		—	—	1,894	—
Settlement of restricted share units liability	16	(2,558)	(1,042)	(4,175)	(3,220)
Deferred income tax		14,202	(8,745)	14,061	(12,599)
Loss on held for sale assets and liabilities		—	1,822	—	1,822
Changes in non-cash working capital	14	467	10,328	(18,001)	(385)
		<b>36,887</b>	<b>36,138</b>	<b>71,169</b>	<b>75,258</b>
<b>Investing activities</b>					
Expenditures on exploration and evaluation assets	5	(9,948)	(8,332)	(27,341)	(37,406)
Expenditures on property, plant and equipment		(20,656)	(12,686)	(58,552)	(35,164)
Proceeds on assets and liabilities held for sale		—	14,242	—	36,349
Net proceeds on disposition of property, plant and equipment	6	—	3,000	11,972	3,000
Proceeds from disposal of investments		—	—	—	12,725
Investments		92	(5,000)	272	(5,100)
Change in restricted cash		(60)	34	(422)	22,492
Change in prepaid expenses and deposits		(607)	(2,727)	(376)	(3,044)
Changes in non-cash working capital	14	3,163	(17,139)	6,665	(30,146)
		<b>(28,016)</b>	<b>(28,608)</b>	<b>(67,782)</b>	<b>(36,294)</b>
<b>Financing activities</b>					
Draw on long-term debt		—	—	—	320,000
Financing fees		—	—	—	(9,864)
Repayment of long-term debt		—	—	—	(305,000)
Net financing expense paid	12	(7,290)	(8,112)	(22,019)	(23,070)
Prepayment penalty on settlement of long-term debt		—	—	—	(4,980)
Lease principal payments		(1,207)	(1,954)	(3,569)	(5,432)
Common share repurchases	9	—	—	(1,443)	—
Issue of common shares	9	4,364	776	5,426	3,781
		<b>(4,133)</b>	<b>(9,290)</b>	<b>(21,605)</b>	<b>(24,565)</b>
Change in cash and cash equivalents		<b>4,738</b>	<b>(1,760)</b>	<b>(18,218)</b>	<b>14,399</b>
Cash and cash equivalents, beginning of period		<b>28,676</b>	<b>55,230</b>	<b>51,632</b>	<b>39,071</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 33,414</b>	<b>\$ 53,470</b>	<b>\$ 33,414</b>	<b>\$ 53,470</b>

See accompanying notes to the interim condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

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

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### NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation’s head office is located at 2650, 585 - 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation’s shares are traded on the Toronto Stock Exchange (“TSX”) under the symbol CNE, the OTCQX in the United States of America under the symbol CNEEF, 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 6, 2019.

### NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, “Interim Financial Reporting”. These financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2018.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, restricted cash, oil and gas investments, restricted share units and hedging contract which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”), long-term debt, office sub-lease investment and settlement liability, which are measured at amortized cost and decommissioning obligations, which are measured at the present value (“PV”) of management’s best estimate of the expenditures required to settle the present obligations at the period end date. Lease obligations and assets were initially measured at the PV of minimum lease payments. Subsequently, they are measured at amortized costs and cost, respectively.

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

#### Functional and Presentation Currency

These financial statements are presented in United States dollars, which is both the functional and presentation currency.

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

#### Recent Accounting Pronouncements

A number of accounting standards became effective on January 1, 2019, however they do not have a material impact on the financial statements, with the exception of IFRS 16 Leases (“IFRS 16”) as described below.

On January 1, 2019, the Corporation adopted IFRS 16 to replace the existing guidance of IAS 17 Leases (“IAS 17”). IFRS 16 establishes principles and disclosures related to the amount, timing and uncertainty of cash flows arising from a lease arrangement and establishes a single definition of a lease arrangement rather than distinguish between an operating and finance lease. Under IFRS 16, lease arrangements, previously classified as operating leases under IAS 17, are recognized on the consolidated statement of financial position as a right-of-use asset and corresponding lease obligation. IAS 17 criteria recognized a lease arrangement as a finance lease when substantially all of the risks and rewards of ownership of the underlying asset are transferred to the lessor; whereas IFRS 16 recognizes a finance lease based on the right to control and the use of an identified asset.

Under IFRS 16, an intermediate lessor of an office lease accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference of the right-of-use asset arising from the head lease. Upon transition to IFRS 16, the Corporation recognized \$1.4 million of the total \$7.3 million lease obligation (note 11) related to an office head lease and an office sub-lease was recognized as an investment of \$1 million (note 8). The difference between the present value of the head lease payments and sub-lease receipts was adjusted to the opening deficit balance as at January 1, 2019.

The Corporation reviewed its lease arrangements to determine which of them meet the definition of a lease under IFRS 16 and the corresponding impact on the financial statements. For all lease arrangements determined to be a lease under IFRS 16, the Corporation has recognized a right-of-use asset of \$5.9 million (note 6) and a lease obligation of \$7.3 million (note 11) on the consolidated statements of financial position as at January 1, 2019.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

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

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial adoption is recognized as at January 1, 2019 and does not impact comparative figures or retained earnings (deficit). The Corporation has elected not to recognize right-of-use assets and lease obligations for low-value assets or short-term lease arrangements. The Corporation has recognized leases previously recorded as finance leases under IAS 17 at the carrying value of the finance lease asset and the finance lease obligation as at December 31, 2018.

The contractual commitments disclosed as at December 31, 2018 recognized as lease obligations as at January 1, 2019 are as follows:

<b>Office lease commitments</b>	<b>December 31, 2018</b>	
Office lease commitments - disclosed as at December 31, 2018	\$	3,104
Adjustment for a head lease and a sub-lease reported as separate contracts <sup>(1)</sup>		1,180
Adjustment for reasonably certain renewal terms and consumer price index		1,381
<b>Adjusted office lease commitments - undiscounted basis</b>	<b>\$</b>	<b>5,665</b>

<sup>(1)</sup> As at December 31, 2018, the Corporation's office head lease commitments were disclosed net of a sub-lease contract

<b>IFRS 16 adoption</b>	<b>January 1, 2019</b>	
Adjusted office lease commitments - undiscounted basis	\$	5,665
Adjustment for discounting the office lease commitments at 6.875%		(576)
Adjusted office lease commitments - discounted basis		5,089
Other lease obligations <sup>(1)</sup> - discounted basis		2,224
<b>Total lease obligations - discounted basis (note 11)</b>	<b>\$</b>	<b>7,313</b>

<sup>(1)</sup> Other lease obligations recognized as at January 1, 2019 relate to operational and information technology equipment

The details of the changes in accounting policy are disclosed below.

### Lessee

The Corporation holds leases related to properties, production equipment, 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 Corporation has elected to include both lease and non-lease components in the total estimated lease payments outstanding.

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 exercise 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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

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

### Lessor

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

### NOTE 4 – RESTRICTED CASH

	September 30, 2019	December 31, 2018
Restricted cash – current	\$ 1,134	\$ 1,208
Restricted cash – non-current	3,484	2,988
	<b>\$ 4,618</b>	<b>\$ 4,196</b>

At September 30, 2019, restricted cash consisted of \$4.6 million for work commitments and other capital commitments, of which \$1.1 million is classified as current and \$3.5 million is classified as non-current.

### NOTE 5 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2018	\$ 39,555
Additions	27,341
Transferred to D&P assets (note 6)	(13,893)
<b>Balance at September 30, 2019</b>	<b>\$ 53,003</b>

During the nine months ended September 30, 2019, the Corporation made natural gas discoveries, Acordeon-1 and Ocarina-1 on its VIM-5 block and, accordingly, \$13.9 million of exploration costs associated with these blocks have been transferred to development and production assets.

### NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Purchased Property, Plant and Equipment	Right-of-Use Leased Assets	Total
<b>Cost</b>			
Balance at December 31, 2018	\$ 973,993	\$ 22,701	\$ 996,694
Additions	61,626	5,877	67,503
Transferred from E&E assets (note 5)	13,893	—	13,893
Disposals and de-recognition	(14,506)	(1,365)	(15,871)
<b>Balance at September 30, 2019</b>	<b>\$ 1,035,006</b>	<b>\$ 27,213</b>	<b>\$ 1,062,219</b>
<b>Accumulated depletion and depreciation</b>			
Balance at December 31, 2018	\$ (515,499)	\$ (767)	\$ (516,266)
Disposals	1,225	—	1,225
Depletion and depreciation	(34,803)	(2,638)	(37,441)
Derecognition and inventory adjustments	19	492	511
<b>Balance at September 30, 2019</b>	<b>\$ (549,058)</b>	<b>\$ (2,913)</b>	<b>\$ (551,971)</b>
<b>Carrying value</b>			
As at December 31, 2018	\$ 458,494	\$ 21,934	\$ 480,428
<b>As at September 30, 2019</b>	<b>\$ 485,948</b>	<b>\$ 24,300</b>	<b>\$ 510,248</b>

The Corporation began depleting its Jobo 3 natural gas processing facility (“Jobo 3”) during the three months ended September 30, 2019. The liquefied natural gas plant has not yet commenced operation; consequently, the carrying amount of \$26.6 million is not yet being depleted as at September 30, 2019.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

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

As a result of the Corporation's recent expansion of its natural gas processing and transportation systems, including the completion of Jobo 3, the Corporation has reassessed its cash generating unit ("CGU") structure during the three months ended September 30, 2019. Since the Corporation's cash flows are generated through common processing and transportation systems rather than at the individual field level, it was determined that an aggregate natural gas CGU is more appropriate than individual block level CGUs. The Corporation has assessed its individual block level CGUs for impairment prior to consolidating such CGUs and determined there was no impairment.

Due to the adoption of IFRS 16, the Corporation recognized right-of-use leased assets of \$5.9 million, which will be depreciated over the terms of the lease contracts (note 3 and note 11).

During the nine months ended September 30, 2019, the Corporation sold its working interest in the Sabanas flowline for net proceeds of \$12 million, with a carrying value of \$13.3 million and corresponding decommissioning obligation of \$0.5 million, resulting in a loss on sale of assets of \$0.8 million. In addition to the \$12 million of sales proceeds, the Corporation has realized approximately \$4.3 million of revenue recognized in the consolidated statements of operations, since holding ownership in the working interest of the Sabanas flowline, resulting in an overall cash return of \$2.3 million on the Corporation's original \$14 million of capital expenditures.

### NOTE 7 – SETTLEMENT LIABILITY

Balance at December 31, 2018	\$	16,749
Settlement payments, net of accrued interest		(898)
Foreign exchange gain		(703)
<b>Balance at September 30, 2019</b>	<b>\$</b>	<b>15,148</b>

The settlement amount is subject to a 8.74% annual interest rate on the outstanding balance. In accordance with the terms of the settlement agreement, cash payments of approximately \$0.2 million per month will be paid by the Corporation and, as such, \$1.9 million has been classified as current.

### NOTE 8 – INVESTMENTS

	Office Sub- Lease	Oil and Gas Company Investments	Total Investments
Balance at December 31, 2018	\$ —	\$ 1,816	\$ 1,816
Adoption of IFRS 16	1,007	—	1,007
Sub-lease receipts and finance income	(272)	—	(272)
Unrealized loss	—	(717)	(717)
Foreign exchange gain	29	44	73
<b>Balance at September 30, 2019</b>	<b>\$ 764</b>	<b>\$ 1,143</b>	<b>\$ 1,907</b>
Investments - current	\$ 378	\$ 793	\$ 1,171
Investments - non-current	386	350	736
<b>Balance at September 30, 2019</b>	<b>\$ 764</b>	<b>\$ 1,143</b>	<b>\$ 1,907</b>

#### Office Sub-Lease

The Corporation holds a head lease for an office lease recognized as a finance lease obligation (note 11), which is subleased to a third party in return for monthly lease income. The sub-lease contract is reported separately from the head lease and is recognized as a net investment upon transition of IFRS 16 (note 3). A portion of the investment equal to \$0.4 million has been classified as current as it will be received within the next twelve months.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three and nine months ended September 30, 2019 and 2018

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

### Oil and Gas Company Investments

The Corporation holds five million shares of Arrow Exploration Corp. valued at \$0.8 million as at September 30, 2019. Two members of key management of Canacol are also members of the board of directors of Arrow Exploration Corp.

### NOTE 9 – SHARE CAPITAL

#### Authorized

The Corporation is authorized to issue an unlimited number of common shares.

#### Issued and Outstanding

	Number (000's)	Amount
Balance at December 31, 2018	177,462	\$ 159,116
Issued on exercise of stock options	1,843	5,426
Transfer from other reserves for stock options	—	560
Common share repurchases	(435)	(1,443)
<b>Balance at September 30, 2019</b>	<b>178,870</b>	<b>\$ 163,659</b>

During the nine months ended September 30, 2019, the Corporation repurchased 434,608 Common Shares at a cost of \$1.4 million, including transaction fees.

#### Stock Options

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

	Number (000's)	Weighted-Average Exercise Price (C\$)
Balance at December 31, 2018	15,682	4.02
Granted	3,108	4.51
Exercised	(1,843)	3.84
Forfeited and cancelled	(1,363)	6.06
<b>Balance at September 30, 2019</b>	<b>15,584</b>	<b>3.88</b>

Information with respect to stock options outstanding at September 30, 2019 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices (C\$)	Number of Stock Options (000's)	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (C\$)	Number of Stock Options (000's)	Weighted-Average Exercise Price (C\$)
\$2.13 to \$3.50	3,866	0.8	2.69	3,866	2.69
\$3.51 to \$4.51	11,718	3.1	4.28	9,459	4.24
	<b>15,584</b>	<b>2.5</b>	<b>3.88</b>	<b>13,325</b>	<b>3.79</b>

Stock-based compensation of \$0.6 million and \$2.8 million (2018 - \$1.1 million and \$4.3 million) was expensed during the three and nine months ended September 30, 2019, respectively.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 10 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Total
Balance at December 31, 2018	\$ 311,055	\$ 28,629	\$ 339,684
Amortization of transaction costs	1,041	380	1,421
<b>Balance at September 30, 2019</b>	<b>\$ 312,096</b>	<b>\$ 29,009</b>	<b>\$ 341,105</b>

A portion of Bank Debt, net of unamortized transaction costs equal to \$5 million has been classified as current due to the first of eleven quarterly installments commencing on June 11, 2020. As at September 30, 2019, the unamortized transaction costs of \$7.9 million and \$1 million are netted against the Senior Notes and Bank Debt principal amounts, resulting in carrying values of \$312.1 million and \$29 million, respectively.

Bank Debt includes various financial and non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation was in compliance with its covenants as at September 30, 2019.

### NOTE 11 – LEASE OBLIGATIONS

As at September 30, 2019	Minimum Lease Payments	PV of Minimum Lease Payments
<b>IFRS 16 adoption</b>		
Not later than one year	\$ 2,204	\$ 1,988
Later than one year and not later than five years	2,347	2,143
Later than five years	—	—
	4,551	4,131
Less: future finance charges	(420)	—
<b>PV of minimum lease payments</b>	<b>\$ 4,131</b>	<b>\$ 4,131</b>
<b>Compression stations</b>		
Not later than one year	\$ 2,825	\$ 1,811
Later than one year and not later than five years	11,877	8,891
Later than five years	10,364	9,503
	25,066	20,205
Less: future finance charges	(4,861)	—
<b>PV of minimum lease payments</b>	<b>\$ 20,205</b>	<b>\$ 20,205</b>
Lease obligations - current		\$ 3,799
Lease obligations - non-current		20,537
<b>PV of minimum lease payments</b>		<b>\$ 24,336</b>
<b>As at December 31, 2018</b>		<b>PV of Minimum Lease Payments</b>
Lease obligations - current		\$ 1,701
Lease obligations - non-current		19,772
<b>PV of minimum lease payments</b>		<b>\$ 21,473</b>

As at January 1, 2019, the Corporation adopted IFRS 16, resulting in the recognition of \$7.3 million of lease obligations, previously recognized as operating leases under IAS 17 (note 3). The lease obligations were discounted at the incremental borrowing rate of 6.875% at inception, equal to the interest rate of Bank Debt and was initially recognized at the present value of minimum lease payments. The lease terms range from one to four years. The amortized lease carrying value as at September 30, 2019 was \$4.1 million.

The Corporation utilized certain IFRS 16 exemptions to exclude low-value right-of-use assets and short-term lease arrangements as leases. Lease arrangements with variable payments were also excluded from being recognized as a lease obligation and right-of-use asset. Low-value right-of-use assets were recognized as operating expenses on the consolidated statements of operations during the three and nine months ended September 30, 2019. A portion of the

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short-term lease arrangements was recognized as capital payments (note 5 and note 6) and a portion was recognized as operating expenses on the consolidated statements of operations during the three and nine months ended September 30, 2019. The variable lease payments were recognized as transportation expenses on the consolidated statements of operations during the three and nine months ended September 30, 2019. These lease payments were recognized on a straight-line basis summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Low-value right-of-use assets	\$ 263	\$ —	\$ 572	\$ —
Short-term lease arrangements	3,077	—	9,876	—
Variable lease payments	3,957	—	5,836	—
<b>Total lease payments</b>	<b>\$ 7,297</b>	<b>\$ —</b>	<b>\$ 16,284</b>	<b>\$ —</b>

Future lease payments related to these lease arrangements as at September 30, 2019 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 15,836	\$ 30,736	\$ 52,632	\$ 99,204

### NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Finance income</b>				
Interest and other income	\$ 330	\$ 113	\$ 969	\$ 528
<b>Finance expense</b>				
Accretion on decommissioning obligations	394	373	1,141	1,221
Amortization of upfront fees	480	349	1,421	1,543
Interest expense on lease obligations	350	856	1,106	2,829
Interest and other financing costs	7,270	7,369	21,882	20,769
	\$ 8,494	\$ 8,947	\$ 25,550	\$ 26,362
<b>Net finance expense</b>	<b>\$ 8,164</b>	<b>\$ 8,834</b>	<b>\$ 24,581</b>	<b>\$ 25,834</b>

### NOTE 13 – NET INCOME (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 663	\$ 12,138	\$ 8,815	\$ (5,563)
Weighted-average common share adjustments:				
Weighted-average common shares outstanding, basic	178,273	177,453	177,736	177,018
Effect of stock options	2,600	1,532	1,945	—
<b>Weighted-average common shares outstanding, diluted</b>	<b>180,873</b>	<b>178,985</b>	<b>179,681</b>	<b>177,018</b>

Due to the net loss realized during the nine months ended September 30, 2018, stock options were anti-dilutive.

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### NOTE 14 – SUPPLEMENTAL INFORMATION

The Corporation records natural gas and crude oil revenues, net of royalties allocated to the following categories:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Natural gas revenues, net of royalties	\$ 62,012	\$ 49,378	\$ 158,612	\$ 138,935
Petroleum revenues, net of royalties	\$ 1,335	\$ 9,373	\$ 4,910	\$ 28,035

The Corporation records natural gas and crude oil revenues, net of royalties. Royalties incurred were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Natural gas royalties	\$ 8,554	\$ 6,303	\$ 22,473	\$ 18,308
Petroleum royalties	\$ 117	\$ 965	\$ 415	\$ 3,019

Income taxes and interest paid were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Income taxes paid	\$ 4,578	\$ 4,021	\$ 23,959	\$ 29,976
Interest paid	\$ 792	\$ 1,045	\$ 14,700	\$ 11,451

Loss (gain) on derivatives and financial instruments:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Crude oil payable in kind - realized	\$ —	\$ (844)	\$ —	\$ (844)
Crude oil payable in kind - unrealized	—	—	—	144
Restricted share units - unrealized	(74)	(85)	—	(172)
Restricted share units - realized	(85)	(2)	—	100
Investments - unrealized	131	—	717	3,801
Investments - realized	—	1,836	—	2,489
Hedging contract - unrealized	318	—	318	35
Hedging contract - realized	—	—	—	(251)
	\$ 290	\$ 905	\$ 1,035	\$ 5,302

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Changes in non-cash working capital are comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Change in:</b>				
Trade and other receivables	\$ (621)	\$ (1,296)	\$ (5,431)	\$ (12,647)
Prepaid expenses and deposits	604	183	(223)	(530)
Taxes receivable	(4,937)	2,080	(9,080)	4,159
Crude oil inventory	40	(60)	40	(97)
Trade and other payables	6,949	(9,072)	2,344	(13,314)
Crude oil payable in kind	—	(14)	—	(48)
Deferred income	193	1,037	233	4,618
Taxes payable	1,402	331	781	(12,672)
	\$ 3,630	\$ (6,811)	\$ (11,336)	\$ (30,531)
<b>Attributable to:</b>				
Operating activities	\$ 467	\$ 10,328	\$ (18,001)	\$ (385)
Investing activities	3,163	(17,139)	6,665	(30,146)
	\$ 3,630	\$ (6,811)	\$ (11,336)	\$ (30,531)

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### NOTE 15 – SEGMENTED INFORMATION

The Corporation's only reportable segment is "Colombia". The main purpose of "Other Segments" is to reconcile the reportable segment to the Corporation's combined results. "Other Segments" is not a reportable segment. The Corporation's chief operating decision makers are its executive officers.

The following tables show information regarding the Corporation's segments.

	Colombia (reportable)	Other Segments (non-reportable)	Total
<b>Three months ended September 30, 2019</b>			
Revenue and other income	\$ 63,646	\$ —	\$ 63,646
Expenses, excluding income tax	(32,755)	(9,962)	(42,717)
Net income (loss) before taxes	30,891	(9,962)	20,929
Income tax expense	20,266	—	20,266
Net income (loss)	\$ 10,625	\$ (9,962)	\$ 663
Capital expenditures, net of dispositions	\$ 30,801	\$ 5	\$ 30,806
<b>Three months ended September 30, 2018</b>			
Revenue and other income	\$ 59,133	\$ —	\$ 59,133
Expenses, excluding income taxes	(37,799)	(11,934)	(49,733)
Net income (loss) before taxes	21,334	(11,934)	9,400
Income tax recovery	(2,738)	—	(2,738)
Net income (loss)	\$ 24,072	\$ (11,934)	\$ 12,138
Capital expenditures, net of dispositions	\$ 18,579	\$ 6	\$ 18,585
<b>Nine months ended September 30, 2019</b>			
Revenue and other income	\$ 164,500	\$ —	\$ 164,500
Expenses, excluding income tax	(83,077)	(37,295)	(120,372)
Net income (loss) before taxes	81,423	(37,295)	44,128
Income tax expense	35,313	—	35,313
Net income (loss)	\$ 46,110	\$ (37,295)	\$ 8,815
Capital expenditures, net of dispositions	\$ 77,153	\$ 1,820	\$ 78,973
<b>Nine months ended September 30, 2018</b>			
Revenue and other income	\$ 168,446	\$ —	\$ 168,446
Expenses, excluding income tax and impairments	(125,769)	(50,507)	(176,276)
Impairment on E&E assets	(9,865)	—	(9,865)
Impairment recovery	19,126	—	19,126
Net income (loss) before taxes	51,938	(50,507)	1,431
Income tax expense	6,994	—	6,994
Net income (loss)	\$ 44,944	\$ (50,507)	\$ (5,563)
Capital expenditures, net of dispositions	\$ 89,720	\$ 170	\$ 89,890
<b>Balance at September 30, 2019</b>			
Total assets	\$ 665,585	\$ 67,887	\$ 733,472
Total liabilities	\$ 155,627	\$ 357,223	\$ 512,850
<b>Balance at December 31, 2018</b>			
Total assets	\$ 629,611	\$ 75,392	\$ 705,003
Total liabilities	\$ 130,859	\$ 368,707	\$ 499,566

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### NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, tax receivable, trade and other payables, lease obligations, settlement liability approximate their fair values at September 30, 2019. Restricted Share Units (“RSUs”), oil and gas company investments and hedging contract are recorded at fair value. The fair value of the Senior Notes and Bank Debt is \$337.4 million and \$30 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 have been assessed on the fair value hierarchy described above. Cash and cash equivalents, restricted cash, trade and other receivable, tax receivable, trade and other payables, RSUs, settlement liability and oil and gas company investments were classified as Level 1 and the hedging contract was classified as level 2 as at September 30, 2019. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the nine months ended September 30, 2019. 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.

#### Restricted Share Units

Balance at December 31, 2018	\$	2,143
Amortized		3,777
Settled		(4,175)
Foreign exchange loss		75
<b>Balance at September 30, 2019</b>	<b>\$</b>	<b>1,820</b>

RSUs are recognized as an obligation and expense on a graded vesting basis over the vesting term of each grant. The vested RSU obligation as at September 30, 2019 was \$1.8 million. Amortized RSUs of 401,615 of the total 985,836 RSUs outstanding have been recognized as an obligation and expenses as at September 30, 2019. The remaining 584,221 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at September 30, 2019 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2018	724
Granted	1,461
Settled	(1,199)
<b>Balance at September 30, 2019</b>	<b>986</b>

On January 28, 2019 and August 28, 2019, the Corporation granted 970,500 and 490,000 RSUs. The RSUs vest at one-half in six months and one-half in one year from the grant date, and will all likely be settled in cash.



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During the nine months ended September 30, 2019, two tranches of RSUs (516,580 and 682,881 RSUs) were settled in cash at a price ranging from C\$4.24 to C\$4.45 per share, resulting in cash settlements of \$1.7 million and \$2.5 million, respectively.

### Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns.

#### (i) Commodity Price 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 nine months ended September 30, 2019.

#### (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, as well as the Corporation's unused tax losses, are denominated in Colombian pesos ("COP") and Canadian dollars ("CAD"). As at September 30, 2019, the COP to the United States dollar ("USD") exchange rate was 3,462:1 (December 31, 2018 – 3,250:1) and the CAD to USD exchange rate was 1.32:1 (December 31, 2018 – 1.36:1).

During the three months ended September 30, 2019, the Corporation entered into a forward exchange contract under the following terms:

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

#### (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 Corporation is not currently exposed to interest rate risk as its interest-bearing loans are all subject to fixed 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 nine months ended September 30, 2019.

### 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 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.

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The following table outlines the contractual maturities of the Corporation's financial liabilities at September 30, 2019:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ 5,455	\$ 10,909	\$ 333,636	\$ 350,000
Lease obligations – undiscounted	5,029	4,094	20,494	29,617
Trade and other payables	54,088	—	—	54,088
Taxes payable	4,847	—	—	4,847
Hedging contract	318	—	—	318
Deferred income	5,646	—	—	5,646
Settlement liability	1,900	1,900	11,348	15,148
Other long term obligation	—	3,272	—	3,272
Restricted share units	1,816	4	—	1,820
	<b>\$ 79,099</b>	<b>\$ 20,179</b>	<b>\$ 365,478</b>	<b>\$ 464,756</b>

### Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. The majority of the Corporation's trade receivable balances relate to natural gas and crude oil sales. The Corporation's policy is to enter into agreements with customers that are well established and well financed entities in the oil and gas industry such that the level of risk is mitigated. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables. In Colombia, a significant portion of natural gas and crude oil sales are with customers that are directly or indirectly controlled by the government. The Corporation has also entered into sales agreements with certain Colombian private sector companies, mostly with investment grade credit ratings.

The Corporation's trade receivables primarily relate to sales of natural gas and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at September 30, 2019 was \$50.2 million (December 31, 2018 - \$34.9 million), \$8.5 million related to the recovery of transportation costs passed-through to customers (December 31, 2018 - \$3.7 million), \$5.6 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (December 31, 2018 - \$8.2 million) and \$3.4 million of other receivables (December 31, 2018 - \$1.1 million). A \$5 million portion of the \$5.6 million receivable from Arrow will be collected through six equal monthly payments commencing in October 2020, and as such, has been classified as non-current as at September 30, 2019. The remaining receivable balances will be collected in 2019.

### Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, settlement liability, lease obligations and working capital, defined as current assets less current liabilities excluding the current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

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, as defined above. In order to facilitate the management of its net debt, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

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	September 30, 2019	December 31, 2018
Senior Notes - Principal (7.25%)	\$ 320,000	\$ 320,000
Bank debt - Principal (6.875%)	30,000	30,000
Settlement liability (8.74%)	15,148	16,749
Lease obligation (2019 - 6.875%; 2018 - 5.2%)	24,336	21,473
Total debt	389,484	388,222
Working capital surplus	(49,112)	(60,782)
<b>Net debt</b>	<b>\$ 340,372</b>	<b>\$ 327,440</b>

### NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2019:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 8,959	\$ 42,266	\$ 5,183	\$ 56,408
Compression station operating contracts	2,544	5,244	14,792	22,580

#### Letters of Credit

At September 30, 2019, the Corporation had letters of credit outstanding totaling \$76.9 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, \$11.3 million relates to assets previously sold, which will be transferred to the purchaser upon completion of the transition period ending no later than the end of 2020.

#### 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, 2019 of \$56.4 million and has issued \$21.7 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.