

# **CANACOL ENERGY LTD.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE MONTHS ENDED MARCH 31, 2020**



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

(in thousands of United States dollars)

As at	Note	March 31, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 49,156	\$ 41,239
Trade and other receivables	16	70,294	69,608
Tax installments and receivables		11,046	9,533
Assets held for sale		7,960	7,960
Other current assets	6	5,501	4,930
		<b>143,957</b>	<b>133,270</b>
<b>Non-current assets</b>			
Trade and other receivables	16	5,861	5,629
Exploration and evaluation assets	4	56,182	53,867
Property, plant and equipment	5	505,809	506,097
Deferred tax assets		28,673	49,176
Other non-current assets	6	5,317	6,023
		<b>601,842</b>	<b>620,792</b>
<b>Total assets</b>		<b>\$ 745,799</b>	<b>\$ 754,062</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long-term debt	9	\$ 10,909	\$ 8,182
Trade and other payables		49,551	52,591
Deferred income		12,026	11,134
Dividend payable	8	6,629	—
Lease obligations	10	5,509	4,731
Taxes payable		8,049	6,043
Other current liabilities	7	5,024	4,541
Liabilities held for sale		10,777	10,591
		<b>108,474</b>	<b>97,813</b>
<b>Non-current liabilities</b>			
Long-term debt	9	331,153	333,403
Lease obligations	10	20,363	22,367
Decommissioning obligations		15,598	16,398
Deferred tax liabilities		45,196	24,559
Other non-current liabilities	7	12,866	16,776
<b>Total liabilities</b>		<b>533,650</b>	<b>511,316</b>
<b>Equity</b>			
Share capital	8	172,091	169,459
Other reserves		67,790	68,067
Accumulated other comprehensive income		—	335
Retained (deficit) earnings	8	(27,732)	4,885
<b>Total equity</b>		<b>212,149</b>	<b>242,746</b>
<b>Total liabilities and equity</b>		<b>\$ 745,799</b>	<b>\$ 754,062</b>

Commitments and contingencies (note 17) and subsequent event (note 18)

See accompanying notes to the interim condensed consolidated financial statements.

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

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

Three months ended March 31,	Note	2020	2019
<b>Revenues</b>			
Natural gas, LNG, crude oil revenues, net of royalties	15	\$ 82,142	\$ 50,637
Take-or-pay natural gas and LNG income		145	289
<b>Total natural gas, LNG and crude oil revenues, net of royalties</b>		<b>82,287</b>	<b>50,926</b>
<b>Expenses</b>			
Operating expenses		4,466	4,094
Transportation expenses		11,293	1,522
General and administrative		6,513	5,823
Stock-based compensation and restricted share units expense	7, 8	1,521	4,805
Depletion and depreciation	5	17,954	12,689
Foreign exchange loss (gain)		4,310	(171)
Other expenses	11	3,994	2,899
		<b>50,051</b>	<b>31,661</b>
Net finance expense	12	7,344	8,226
<b>Income before income taxes</b>		<b>24,892</b>	<b>11,039</b>
<b>Income tax expense (recovery)</b>			
Current		9,740	7,258
Deferred	16	41,140	(2,493)
		<b>50,880</b>	<b>4,765</b>
<b>Net (loss) income and comprehensive (loss) income</b>		<b>\$ (25,988)</b>	<b>\$ 6,274</b>
<b>Net (loss) income per share</b>			
Basic and diluted	13	\$ (0.14)	\$ 0.04

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Equity
Balance at January 1, 2019	\$ 159,116	\$ 67,821	\$ 335	\$ (22,264)	\$ 205,008
Common share repurchases	(1,148)	—	—	—	(1,148)
Stock options exercised	1,051	(251)	—	—	800
Stock-based compensation	—	1,549	—	—	1,549
Net income	—	—	—	6,274	6,274
<b>Balance at March 31, 2019</b>	<b>\$ 159,019</b>	<b>\$ 69,119</b>	<b>\$ 335</b>	<b>\$ (15,990)</b>	<b>\$ 212,483</b>
Balance at December 31, 2019	\$ 169,459	\$ 68,067	\$ 335	\$ 4,885	\$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common share repurchased	(1,073)	—	—	—	(1,073)
Stock options exercised	3,705	(1,133)	—	—	2,572
Stock-based compensation	—	521	—	—	521
Dividend declared (note 8)	—	—	—	(6,629)	(6,629)
Net loss	—	—	—	(25,988)	(25,988)
<b>Balance at March 31, 2020</b>	<b>\$ 172,091</b>	<b>\$ 67,790</b>	<b>\$ —</b>	<b>\$ (27,732)</b>	<b>\$ 212,149</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)

Three months ended March 31,	Note	2020	2019
<b>Operating activities</b>			
Net (loss) income and comprehensive (loss) income		\$ (25,988)	\$ 6,274
Non-cash adjustments:			
Depletion and depreciation	5	17,954	12,689
Stock-based compensation and restricted share units expense	7, 8	1,521	4,805
Net financing expense	12	7,344	8,226
Unrealized foreign exchange loss and other expenses		2,973	226
Deferred income tax		41,140	(2,493)
Unrealized loss on financial instruments	11	2,612	339
Other operating activities	14	(2,275)	(2,900)
Changes in non-cash working capital	14	(7,263)	(1,911)
		<b>38,018</b>	<b>25,255</b>
<b>Investing activities</b>			
Expenditures on exploration and evaluation assets	4	(2,315)	(2,490)
Expenditures on property, plant and equipment		(17,671)	(25,155)
Net proceeds on disposition of property, plant and equipment		58	—
Other investing activities	14	868	(243)
Changes in non-cash working capital	14	52	(1,086)
		<b>(19,008)</b>	<b>(28,974)</b>
<b>Financing activities</b>			
Net financing expense paid	12	(6,530)	(7,388)
Lease principal payments	10	(1,400)	(1,179)
Common share repurchases	8	(1,073)	(1,148)
Issue of common shares	8	2,572	800
		<b>(6,431)</b>	<b>(8,915)</b>
Change in cash and cash equivalents		12,579	(12,634)
Cash and cash equivalents, beginning of period		41,239	51,632
Foreign exchange impact on cash and cash equivalents, end of period		(4,662)	—
<b>Cash and cash equivalents, end of period</b>		<b>\$ 49,156</b>	<b>\$ 38,998</b>

See accompanying notes to the interim condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries (“Canacol” or the “Corporation”) are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation’s head office is located at 2650, 585 - 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 CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on May 12, 2020.

### NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Accounting Standard 34, “Interim Financial Reporting”. These financial statements do not include all of the information required for the annual consolidated financial statements; however they have been prepared in accordance with the accounting policies outlined and should be read in conjunction with in the Corporation’s audited consolidated financial statements for the year ended December 31, 2019.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, restricted share units, certain investments 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”).

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Colombia and Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic downturn. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time. The potential financial effect on the Corporation is addressed in note 16.

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

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, with the exception of Canadian dollar unit prices (“C\$”) where indicated.

### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

#### Recent Accounting Pronouncements

A number of new accounting standards became effective on January 1, 2020, however they do not have a material impact on the financial statements.

### NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2019	\$	53,867
Additions		2,315
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>56,182</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
<b>Cost</b>			
Balance at December 31, 2019	\$ 1,035,090	\$ 31,498	\$ 1,066,588
Additions	16,355	1,305	17,660
Dispositions and de-recognition	(83)	—	(83)
<b>Balance at March 31, 2020</b>	<b>\$ 1,051,362</b>	<b>\$ 32,803</b>	<b>\$ 1,084,165</b>
<b>Accumulated depletion and depreciation</b>			
Balance at December 31, 2019	\$ (555,930)	\$ (4,561)	\$ (560,491)
Dispositions	83	—	83
Depletion and depreciation	(16,828)	(1,126)	(17,954)
Derecognition and inventory adjustments	6	—	6
<b>Balance at March 31, 2020</b>	<b>\$ (572,669)</b>	<b>\$ (5,687)</b>	<b>\$ (578,356)</b>
<b>Carrying value</b>			
As at December 31, 2019	\$ 479,160	\$ 26,937	\$ 506,097
<b>As at March 31, 2020</b>	<b>\$ 478,693</b>	<b>\$ 27,116</b>	<b>\$ 505,809</b>

### NOTE 6 – OTHER ASSETS

	March 31, 2020	December 31, 2019
<b>Current</b>		
Restricted cash	\$ 966	\$ 1,189
Prepaid expenses and deposits	3,777	1,634
Investments	508	1,186
Crude oil inventory	250	277
Hedging contract	—	644
	<b>\$ 5,501</b>	<b>\$ 4,930</b>
<b>Non-Current</b>		
Restricted cash	\$ 2,731	\$ 3,335
Prepaid expenses and deposits	2,085	2,033
Investments	501	655
	<b>\$ 5,317</b>	<b>\$ 6,023</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### NOTE 7 – OTHER LIABILITIES

	March 31, 2020	December 31, 2019
<b>Current</b>		
Restricted share units	1,073	2,235
Litigation settlement liability	2,600	2,306
Hedging contract	1,351	—
	\$ 5,024	\$ 4,541
<b>Non-Current</b>		
Restricted share units	\$ —	\$ 15
Litigation settlement liability	10,011	13,542
Other long term obligations	2,855	3,219
	\$ 12,866	\$ 16,776

#### Restricted Share Units

Balance at December 31, 2019	\$ 2,250
Amortized	1,000
Settled	(2,078)
Foreign exchange gain	(99)
<b>Balance at March 31, 2020</b>	<b>\$ 1,073</b>

RSUs are recognized as an obligation and expensed on a graded vesting basis over the vesting term of each grant. The amortized RSU obligation as at March 31, 2020 was \$1.1 million. Amortized RSUs of 426,505 of the total 1,811,472 RSUs outstanding have been recognized as an obligation as at March 31, 2020. The remaining 1,384,967 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at March 31, 2020 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2019	880
Granted	1,587
Settled	(655)
<b>Balance at March 31, 2020</b>	<b>1,812</b>

On February 3, 2020 and February 25, 2020, the Corporation granted 676,000 and 911,000 RSUs, respectively. The RSUs vest one-half in six months and one-half in one year from the grant date, and are anticipated to be settled in cash. During the three months ended March 31, 2020, 655,111 RSUs were settled in cash at a price ranging from C\$4.28 to C\$4.32 per share, resulting in cash settlements of \$2.1 million.

#### Litigation Settlement Liability

Balance at December 31, 2019	\$ 15,848
Settlement payments, net of accrued interest	(197)
Foreign exchange gain	(3,040)
<b>Balance at March 31, 2020</b>	<b>\$ 12,611</b>

The litigation settlement amount is subject to a 8.74% annual interest rate on the outstanding balance, which is denominated in Colombian Pesos. In accordance with the terms of the settlement agreement, cash payments of approximately \$0.3 million per month, including accrued interest will be paid by the Corporation and, as such, \$2.6 million has been classified as current.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### NOTE 8 – EQUITY

#### Share Capital

	Number (000's)	Amount
Balance at December 31, 2019	180,075	\$ 169,459
Issued on exercise of stock options	1,142	2,572
Transfer from other reserves for stock options	—	1,133
Common share repurchases	(362)	(1,073)
<b>Balance at March 31, 2020</b>	<b>180,855</b>	<b>\$ 172,091</b>

During the three months ended March 31, 2020, the Corporation repurchased 361,723 Common Shares at a cost of \$1.1 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, 2019	14,234	3.92
Granted	3,700	4.24
Exercised	(1,142)	2.95
Forfeited and cancelled	(732)	4.23
<b>Balance at March 31, 2020</b>	<b>16,060</b>	<b>4.05</b>

Information with respect to stock options outstanding at March 31, 2020 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$2.20 - \$3.50	2,324	0.5	2.71	2,324	2.71
\$3.51 - \$4.62	13,736	3.2	4.27	8,930	4.26
	<b>16,060</b>	<b>2.8</b>	<b>4.05</b>	<b>11,254</b>	<b>3.94</b>

Stock-based compensation of \$0.5 million (2019 - \$1.5 million) was expensed during the three months ended, March 31, 2020.

#### Dividends Declared

During the three months ended March 31, 2020, the Corporation declared a dividend of C\$0.052 per share, totaling \$6.6 million, payable on April 15, 2020 in Canadian dollars, to the Corporation's shareholders of record at the close of business on March 31, 2020. The ex-dividend date for all shareholders was March 30, 2020. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

### NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Total
Balance at December 31, 2019	\$ 312,448	\$ 29,137	\$ 341,585
Amortization of transaction costs	348	129	477
<b>Balance at March 31, 2020</b>	<b>\$ 312,796</b>	<b>\$ 29,266</b>	<b>\$ 342,062</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

A portion of Bank Debt, net of unamortized transaction costs, equal to \$10.9 million has been classified as current due to the first of eleven quarterly installments commencing on June 11, 2020.

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 March 31, 2020.

### NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other		Total
Balance at December 31, 2019	\$	19,772	\$	7,326	\$ 27,098
Additions		—		1,305	1,305
Settlements		(453)		(947)	(1,400)
Foreign exchange gain		—		(1,131)	(1,131)
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>19,319</b>	<b>\$</b>	<b>6,553</b>	<b>\$ 25,872</b>
Lease obligations - current	\$	1,888	\$	3,621	\$ 5,509
Lease obligations - non-current		17,431		2,932	20,363
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>19,319</b>	<b>\$</b>	<b>6,553</b>	<b>\$ 25,872</b>

Lease payments related to short-term, low value or variable lease payments were recognized as transportation expenses, operating expenses and capital costs as follows:

Three months ended March 31,	2020		2019
Low-value right-of-use assets	\$	29	\$ 24
Short-term lease arrangements		110	2,127
Variable lease payments		5,448	—
<b>Total lease payments</b>	<b>\$</b>	<b>5,587</b>	<b>\$ 2,151</b>

During the three months ended March 31, 2019, there were no variable lease payments since the Corporation owned a portion of the Sabanas pipeline, which was sold during Q2 2019. During the three months ended March 31, 2020, the Corporation paid variable lease payments related to the Sabanas pipeline transportation expenses.

Future lease payments related to short-term, low value or variable lease arrangements as at March 31, 2020 are as follows:

	Less than 1		1-3 years		Thereafter		Total
Future lease payments	\$	27,804	\$	47,028	\$	28,812	\$ 103,644

### NOTE 11 – OTHER EXPENSES (INCOME)

Three months ended March 31,	2020		2019
Donations	\$	50	\$ 15
Pre-license costs		159	171
Other expenses		128	2,086
Other tax expense		731	203
Loss on financial instruments		2,926	424
	<b>\$</b>	<b>3,994</b>	<b>\$ 2,899</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### Loss on Financial Instruments

Three months ended March 31,	2020		2019	
Hedging contract - unrealized	\$	1,996	\$	—
Hedging contract - realized		314		—
Investments - unrealized		616		150
Restricted share units - unrealized		—		189
Restricted share units - realized		—		85
	\$	2,926	\$	424

During the three months ended March 31, 2020, the Corporation realized losses on its Colombian pesos (“COP”) to United States dollar (“USD”) foreign exchange hedging contract due to the devaluation of the COP during the period (note 16).

### NOTE 12 – FINANCE INCOME AND EXPENSE

Three months ended March 31,	2020		2019	
<b>Finance income</b>				
Interest and other income	\$	1,101	\$	349
<b>Finance expense</b>				
Accretion on decommissioning obligations		337		370
Amortization of upfront financing fees		477		468
Interest expense on lease obligations		394		394
Interest and other financing costs		7,237		7,343
	\$	8,445	\$	8,575
<b>Net finance expense</b>	\$	7,344	\$	8,226

During the three months ended March 31, 2020, interest income related to interest earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation.

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

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

Three months ended March 31,	2020		2019	
Net (loss) income	\$	(25,988)	\$	6,274
<b>Weighted-average common shares outstanding:</b>				
Weighted-average common shares outstanding, basic		180,931		177,547
Effect of stock options		—		2,090
<b>Weighted-average common shares outstanding, diluted</b>		180,931		179,637

Due to the net loss realized during the three months ended March 31, 2020, stock options were anti-dilutive.

### NOTE 14 – OTHER CASH FLOW ACTIVITIES

#### Other Operating Activities

Three months ended March 31,	Note	2020		2019	
Settlement liability principal payments	7	\$	(197)	\$	(436)
Settlement of decommissioning obligations			—		(847)
Settlement of restricted share units obligation	7		(2,078)		(1,617)
		\$	(2,275)	\$	(2,900)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### Other Investing Activities

Three months ended March 31,	2020	2019
Investment	\$ 93	\$ 90
Change in restricted cash	827	(112)
Change in prepaid expenses and deposits	(52)	(221)
	\$ 868	\$ (243)

### Non-Cash Working Capital

Three months ended March 31,	2020	2019
<b>Change in:</b>		
Trade and other receivables	\$ (918)	\$ (4,123)
Prepaid expenses and deposits	(2,143)	(1,720)
Tax installments and receivables	(1,513)	(2,222)
Crude oil inventory	21	(31)
Trade and other payables	(3,040)	616
Deferred income	892	(400)
Taxes payable	2,006	4,714
	(4,695)	(3,166)
Foreign exchange impact on working capital ending balances	(2,516)	169
	\$ (7,211)	\$ (2,997)
<b>Attributable to:</b>		
Operating activities	\$ (7,263)	\$ (1,911)
Investing activities	52	(1,086)
	\$ (7,211)	\$ (2,997)

### NOTE 15 – SUPPLEMENTAL INFORMATION

The Corporation records natural gas, LNG and crude oil revenues, net of royalties on a consolidated basis which were allocated as follows:

Three months ended March 31,	2020	2019
Natural gas and LNG revenues, net of royalties	\$ 81,223	\$ 48,767
Petroleum revenues, net of royalties	919	1,870
	\$ 82,142	\$ 50,637

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

Three months ended March 31,	2020	2019
Natural gas royalties	\$ 13,172	\$ 6,951
Petroleum royalties	75	158
	\$ 13,247	\$ 7,109

Cash payments of income taxes and interest were as follows:

Three months ended March 31,	2020	2019
Income taxes paid	\$ 6,923	\$ 6,307
Interest paid	\$ 893	\$ 1,124

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

### 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 installments and receivables, trade and other payables, dividend payable, taxes payable, lease obligations, settlement liability approximate their fair values at March 31, 2020. Restricted Share Units (“RSUs”), certain investments and hedging contract are recorded at fair value. The fair value of the Senior Notes and Bank Debt is \$265.2 million and \$30 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 and Interest Rate Risk

The majority of Canacol’s production volume is subject to long-term fixed price contracts, which limits the Corporation’s exposure to commodity price risk, including current volatility prices as a result of COVID-19. The Corporation’s interest bearing debt are subject to fixed interest rates which limits the Corporation’s exposure to interest rate risk. The Corporation had no commodity or interest rate contracts in place as at or during the three months ended March 31, 2020.

##### (ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to foreign currency fluctuations as certain expenditures, liabilities and the Corporation’s unused tax losses and capital pools, are denominated in COP and Canadian dollars (“CAD”), which are re-valued each reporting period.

As at March 31, 2020, the COP to the USD exchange rate was 4,065:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.42:1 (December 31, 2019 – 1.30:1). The 24% devaluation of the COP and 9% devaluation of CAD resulted in the reduction of certain expenditures and liabilities as at and during the three months ended March 31, 2020. In addition, \$35 million of the total deferred income tax expense of \$41.1 million recognized during the three months ended March 31, 2020, was as a result of the devaluation of COP to USD.

During the three months ended March 31, 2020, the Corporation held a foreign 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

#### 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.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

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

The following table outlines the contractual maturities of the Corporation's financial liabilities at March 31, 2020:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ 10,909	\$ 10,909	\$ 328,182	\$ 350,000
Lease obligations – undiscounted	5,870	5,120	19,661	30,651
Trade and other payables	49,551	—	—	49,551
Dividend payable	6,629	—	—	6,629
Taxes payable	8,049	—	—	8,049
Hedging contract	1,351	—	—	1,351
Deferred income	12,026	—	—	12,026
Settlement liability	2,600	2,600	7,411	12,611
Other long term obligation	—	2,855	—	2,855
Restricted share units	1,073	—	—	1,073
	<b>\$ 98,058</b>	<b>\$ 21,484</b>	<b>\$ 355,254</b>	<b>\$ 474,796</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, LNG 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, LNG 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, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at March 31, 2020 was \$56.2 million (2019 - \$56.5 million), \$10.2 million related to the recovery of transportation costs passed-through to customers (2019 - \$10.8 million), \$5.9 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (2019 - \$5.7 million) and \$3.9 million of other receivables (2019 - \$2.2 million). The \$5.9 million receivable from Arrow is scheduled to be collected through six equal monthly payments commencing in April 2021, and as such, has been classified as non-current as at March 31, 2020. Two members of key management of Canacol are also members of the board of directors of Arrow. The remaining receivable balances are anticipated be collected in 2020 and there are no expected credit losses as assessed by the Corporation.

### 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, 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.

	March 31, 2020	December 31, 2019
Senior Notes - Principal (7.25%)	\$ 320,000	\$ 320,000
Bank debt - Principal (6.875%)	30,000	30,000
Settlement liability (8.74%)	12,611	15,848
Lease obligation (6.875%)	25,872	27,098
Total debt	388,483	392,946
Working capital surplus	(54,501)	(50,676)
<b>Net debt</b>	<b>\$ 333,982</b>	<b>\$ 342,270</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

(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 at March 31, 2020:

	Less than 1 year		1-3 years		Thereafter		Total
Exploration and production contracts	\$ 12,314	\$	29,755	\$	6,748	\$	48,817
Compression station operating contracts	2,570		5,296		13,447		21,313

#### Letters of Credit

At March 31, 2020, the Corporation had letters of credit outstanding totaling \$73.6 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, \$11.3 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than the end of 2021.

#### Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at March 31, 2020 of \$48.8 million and has issued \$35.9 million in financial guarantees related thereto.

#### Contingencies

In the normal course of operations, the Corporation has disputes with industry participants and assessments from tax authorities for which it currently cannot determine the ultimate results. The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

### NOTE 18 – SUBSEQUENT EVENT

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente and withdrew a \$5 million principal amount denominated in COP, for the purposes of additional COP liquidity purposes, if required, subject to an annual interest rate of Reference Bank Indicator ("IBR") + 2%. The IBR is a Colombian central bank short-term reference interest rate denominated in COP, which reflects the price at which banks are willing to offer or raise resources on the money market. The principal payment term consists of two equal installments of \$2.5 million, which will be paid on October 18, 2020 and April 16, 2021.