CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

MANAGEMENT'S REPORT

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

The Corporation's external auditors, KPMG LLP, have audited the consolidated financial statements for the years ended December 31, 2019 and 2020. Their audit included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

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

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

March 17, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canacol Energy Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019;
- the consolidated statements of operations and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the impact of estimated proved and probable reserves on depletion expense

Description of the matter

We draw attention to Note 2, Note 3 and Note 5 to the financial statements. The Company depletes its development and production ("D+P") assets using the units of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. The Company recorded depletion expense of $60,392 thousand.

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

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

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

- We recalculated depletion expense and agreed inputs to the estimate of proved plus probable reserves and other assumptions.

With respect to the estimate of proved and probable reserves:

- We evaluated the competence, capabilities and objectivity of the independent reserve engineer engaged by the Company.
- We compared the 2020 actual production, operating and royalty costs, and development plans and costs to those estimates used in the prior year estimate of proved reserves to assess the Company's ability to accurately forecast.
- We evaluated the forecasted commodity price assumptions used in the estimate of proved and probable reserves by comparing to contracts, previously realized prices and expected future commodity prices published by other independent reserve engineers.

We evaluated the appropriateness of forecasted production, operating and royalty costs, and future development plans and cost assumptions used in the estimate of proved and probable reserves by comparing them to 2020 actual results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate,

to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Reinier Deurwaarder.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 17, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**$ 68,280**	$ 41,239
Trade and other receivables	20	**70,685**	69,608
Tax installments and receivables		**10,589**	9,533
Assets held for sale		**—**	7,960
Other current assets	6	**3,949**	4,930
		153,503	133,270
Non-current assets			
Trade and other receivables	20	**—**	5,629
Exploration and evaluation assets	4	**62,775**	53,867
Property, plant and equipment	5	**524,786**	506,097
Deferred tax assets	15	**3,422**	49,176
Other non-current assets	6	**5,306**	6,023
		596,289	620,792
Total assets		**$ 749,792**	$ 754,062
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	**$ 7,199**	$ 8,182
Trade and other payables		**45,176**	52,591
Deferred income	17	**12,709**	11,134
Dividend payable	8	**7,332**	—
Lease obligations	11	**4,744**	4,731
Taxes payable		**12,916**	6,043
Other current liabilities	7	**2,540**	4,541
Liabilities held for sale	10	**—**	10,591
		92,616	97,813
Non-current liabilities			
Long-term debt	9	**359,933**	333,403
Lease obligations	11	**18,199**	22,367
Decommissioning obligations	10	**24,588**	16,398
Deferred tax liabilities	15	**30,174**	24,559
Other non-current liabilities	7	**16,910**	16,776
Total liabilities		**542,420**	511,316
Equity			
Share capital	8	**168,572**	169,459
Other reserves	8	**66,567**	68,067
Accumulated other comprehensive income		**—**	335
Retained (deficit) earnings	8	**(27,767)**	4,885
Total equity		**207,372**	242,746
Total liabilities and equity		**$ 749,792**	$ 754,062

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Michael Hibberd"
Director

(signed) "Francisco Diaz"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

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

Year ended December 31,	Note	2020	2019
Revenues			
Natural gas, LNG, crude oil revenues, net of royalties	17	$ 277,674	$ 240,841
Take-or-pay natural gas and LNG income		1,131	1,238
Total natural gas, LNG and crude oil revenues, net of royalties		278,805	242,079
Expenses			
Operating expenses		18,005	17,138
Transportation expenses		32,001	22,557
General and administrative		26,829	28,973
Stock-based compensation and restricted share units expense	7,8	5,909	7,921
Depletion and depreciation	5	64,539	54,283
Foreign exchange loss		6,168	59
Other expenses	12	16,946	13,512
		170,397	144,443
Net finance expense	13	31,012	32,902
Income before income taxes		77,396	64,734
Income tax expense (recovery)			
Current	15	30,769	32,058
Deferred	15	51,370	(1,571)
		82,139	30,487
Net income (loss) and comprehensive income (loss)		$ (4,743)	$ 34,247
Net income (loss) per share			
Basic and diluted	14	$ (0.03)	$ 0.19

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained (Deficit) Earnings	Total Equity
Balance at January 1, 2019 (note 6)	$ 159,116	$ 67,821	$ 335	$ (22,264)	$ 205,008
Common shares repurchased	(1,443)	—	—	—	(1,443)
Stock options exercised	11,786	(3,152)	—	—	8,634
Stock-based compensation	—	3,398	—	—	3,398
Dividends declared (note 8)	—	—	—	(7,098)	(7,098)
Net income	—	—	—	34,247	34,247
Balance at December 31, 2019	**$ 169,459**	**$ 68,067**	**$ 335**	**$ 4,885**	**$ 242,746**
Balance at December 31, 2019	$ 169,459	$ 68,067	$ 335	$ 4,885	$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common shares repurchased (note 8)	(5,536)	—	—	—	(5,536)
Stock options exercised (note 8)	4,649	(1,435)	—	—	3,214
Stock options settled in cash (note 8)	—	(1,909)	—	—	(1,909)
Stock-based compensation (note 8)	—	1,509	—	—	1,509
Dividends declared (note 8)	—	—	—	(27,909)	(27,909)
Net loss	—	—	—	(4,743)	(4,743)
Balance at December 31, 2020	**$ 168,572**	**$ 66,567**	**$ —**	**$ (27,767)**	**$ 207,372**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(*in thousands of United States dollars)*

Year ended December 31,	Note	2020	2019
Operating activities			
Net income (loss) and comprehensive income (loss)		**$ (4,743)**	$ 34,247
Non-cash adjustments:			
Depletion and depreciation	5	**64,539**	54,283
Stock-based compensation and restricted share units expense	7,8	**5,909**	7,921
Net financing expense	13	**31,012**	32,902
Unrealized foreign exchange loss and other expenses		**3,556**	2,629
Deferred income tax expense (recovery)		**51,370**	(1,571)
Unrealized loss on financial instruments	12	**929**	78
Other operating activities	16	**(8,171)**	(8,315)
Changes in non-cash working capital	16	**7,924**	(15,704)
		152,325	106,470
Investing activities			
Expenditures on exploration and evaluation assets	4	**(25,511)**	(36,778)
Expenditures on property, plant and equipment		**(59,997)**	(66,282)
Net proceeds on disposition of property, plant and equipment		**114**	12,379
Other investing activities	16	**2,537**	(390)
Changes in non-cash working capital	16	**(6,105)**	6,807
		(88,962)	(84,264)
Financing activities			
Draw on long-term debt, net of financing fees	9	**29,249**	—
Repayment of long-term debt	9	**(5,338)**	—
Net financing expense paid	13	**(28,662)**	(29,505)
Lease principal payments	11	**(5,762)**	(5,067)
Dividends paid	8	**(20,577)**	(7,098)
Common share repurchases	8	**(5,536)**	(1,443)
Issue of common shares	8	**3,214**	8,634
		(33,412)	(34,479)
Change in cash and cash equivalents		**29,951**	(12,273)
Cash and cash equivalents, beginning of period		**41,239**	51,632
Foreign exchange impact on cash and cash equivalents, end of period		**(2,910)**	1,880
Cash and cash equivalents, end of period		**$ 68,280**	$ 41,239

See accompanying notes to the consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2650, 585 - 8th 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 consolidated financial statements (the "financial statements") for issuance on March 17, 2021.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, 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").

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 ("USD"), which is both the functional and presentation currency, with the exception of Canadian dollar unit prices ("C$") where indicated.

Significant Estimates and Management Judgements

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

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. As a result of the economic downturn, the Corporation had lower demand of its spot sales, which make up a small portion of the Corporation's overall sales. The majority of sales are under fixed volume and priced take-or-pay contracts which limited impact related to COVID-19. The situation continues to be dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time, however the Colombian economy has seen recent signs of recovery towards the end of 2020 and into early 2021, which has been reflected in the increase in demand of the Corporation's spot sales subsequent to December 31, 2020.

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

The Corporation holds an investment in a public company, Arrow Exploration Corp. ("Arrow"), of which two of the board of directors of Arrow are also key members of the Corporation's management. Management has used judgement in determining that the Corporation does not have significant influence over Arrow by considering the Corporation's voting rights and ownership interest of Arrow (note 6).

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

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

The calculation of stock-based compensation expense is subject to uncertainty as it reflects the Corporation's best estimate of whether or not obligations will be incurred. In addition, the key assumptions used for stock-based compensation calculation are based on estimated volatility and estimated forfeiture rates for stock options that will not vest.

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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

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

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

Foreign Currency

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

Financial Instruments

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

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

Restricted cash - Restricted cash relates to cash placed in trust to ensure the payment of its obligations pursuant to exploration, abandonment and credit agreements and as such is classified separately from cash and cash equivalents due to its restricted use. Subsequent to initial recognition, this financial instrument is measured at amortized cost. As at December 31, 2020, the Corporation did not hold restricted cash.

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

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

Litigation settlement liability - Litigation settlement liability is a present legal obligation of the Corporation which is measured at the settlement amount and is subject to accrued interest at 8.74% per annum. The interest and litigation settlement liability is settled on a monthly basis.

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

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

Hedging contracts - Hedging contracts are measured at fair value with changes recorded through profit or loss. As at December 31, 2020, the Corporation did not hold hedging contracts.

Property, Plant and Equipment and Exploration and Evaluation Assets

Recognition and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Lease Obligations and Right-of-Use Assets

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

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

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

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

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

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

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

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

The Corporation 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.

Assets and Liabilities Held for Sale

Assets and liabilities held for sale are recognized if the carrying value will be recovered principally through a sale transaction rather than continuing use. The assets and liabilities will be recognized at the lower of the carrying amount or the fair value less cost to sell and any impairment loss or recovery is recognized in the consolidated statements of operations and comprehensive income. In the event that the sale of the assets and liabilities is determined no longer highly probable, they will be reclassified from asset and liabilities held for sale. As at December 31, 2020, the Corporation did not hold assets and liabilities held for sale.

Impairment loss and recovery

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

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

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

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

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

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

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

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

Provisions

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

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

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

Inventory

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

Revenue

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

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

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

Stock-Based Compensation

The grant date fair value of stock options granted to officers, employees and directors is recognized as stock-based compensation expense with a corresponding increase in other reserves on a graded vesting basis over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. The fair value of the stock options granted is estimated using the Black-Scholes option pricing model. Upon exercise of stock options, the fair value of the stock options are transferred from other reserves to share capital.

Restricted Share Units

The grant date fair value of restricted share units ("RSUs") granted to officers, employees and directors is recognized as RSU expense with a corresponding increase in RSU liability on a graded vesting basis over the vesting period. Subsequent to initial recognition, the RSU liability and expense is measured at fair value.

Finance Income and Expenses

Net finance income or expense is comprised of interest income, interest expense on borrowings and leases, amortization of upfront fees, accretion of the discount on decommissioning liabilities and gains on the modification of bank debt. Modifications of bank debt occur when the borrower and lender negotiate substantially different terms such as the interest rate, maturity date or other terms in the lending agreement which impact future cash flows. A gain or loss on the modification of bank debt is calculated using the difference between the carrying value of the original bank debt at the amendment date and the present value of the amended future cash flows discounted at the original effective interest rate. Any gain or loss on modifications of bank debt is recognized on the amendment date in the consolidated statements of operations and comprehensive income.

Income Taxes

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

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

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

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

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

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

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

Net Income (Loss) per Share

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

Reclassification of Prior Year Figures

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

Recent Accounting Pronouncements

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

Interest rate benchmarks including, among others, the London Interbank Offered Rate ("LIBOR") are being reformed. The UK Financial Conduct Authority ("FCA") has stated that after 2021 it will no longer compel banks to submit rates used for the calculation of LIBOR. Regulators globally have emphasized that it is now time for market participants to start transitioning from the use of IBORs to alternative rates.

On August 27, 2020, the IASB published guidance in regards to the Interest Rate Benchmark Reform – Phase 2 ("IBOR Reform"). The amendment is effective on January 1, 2021 with the option of early adoption, however the Corporation did not early adopt the amendment. The IBOR Reform primarily relates to the modification of financial instruments under IFRS 9 - "Financial Instruments", allowing for a practical expedient for modifications as a result of the IBOR reform. The practical expedient for modifications is accounted for by updating the effective interest rate without the modification of the financial instrument and is subject to satisfying all qualifying criteria, such as the change in interest rate being a direct consequence of the reform. The Corporation anticipates that the IBOR Reform will not have a significant impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2018	$	39,555
Additions		36,778
Transferred to D&P assets (note 5)		(22,466)
Balance at December 31, 2019		53,867
Additions		25,511
Transferred to D&P assets (note 5)		(16,603)
Balance at December 31, 2020	**$**	**62,775**

During the year ended December 31, 2019, the Corporation made natural gas discoveries, Acordeon-1 and Ocarina-1 on its VIM-5 block and Arandala-1 on its VIM-21 block and, accordingly, $22.5 million of exploration costs associated with such discoveries have been transferred to D&P assets.

During the year ended December 31, 2020, the Corporation made natural gas discoveries, Porro-Norte on its VIM-5 block and Fresa-1 on its VIM-21 block and, accordingly, $16.6 million of exploration costs associated with such discoveries have been transferred to D&P assets.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets [1]	Total
Cost			
Balance at December 31, 2018	$ 973,993	$ 22,701	$ 996,694
Adoption of IFRS 16 (note 11)	—	5,877	5,877
Additions	70,088	4,285	74,373
Dispositions and de-recognition	(15,176)	(1,365)	(16,541)
Transferred to assets held for sale	(16,281)	—	(16,281)
Transferred from E&E (note 4)	22,466	—	22,466
Balance at December 31, 2019	1,035,090	31,498	1,066,588
Additions	57,198	1,664	58,862
Transferred from assets held for sale	16,281	—	16,281
Transferred from E&E assets (note 4)	16,603	—	16,603
Dispositions and de-recognition	(244)	(165)	(409)
Balance at December 31, 2020	**$ 1,124,928**	**$ 32,997**	**$ 1,157,925**
Accumulated depletion and depreciation			
Balance at December 31, 2018	$ (515,499)	$ (767)	$ (516,266)
Dispositions	1,225	—	1,225
Depletion and depreciation	(49,997)	(4,286)	(54,283)
Transferred from assets held for sale	8,321	—	8,321
Derecognition and inventory adjustments	20	492	512
Balance at December 31, 2019	(555,930)	(4,561)	(560,491)
Dispositions	83	—	83
Depletion and depreciation	(60,392)	(4,147)	(64,539)
Transferred from assets held for sale	(8,321)	—	(8,321)
Derecognition and inventory adjustments	105	24	129
Balance at December 31, 2020	**$ (624,455)**	**$ (8,684)**	**$ (633,139)**
Carrying value			
As at December 31, 2018	$ 458,494	$ 21,934	$ 480,428
As at December 31, 2019	$ 479,160	$ 26,937	$ 506,097
As at December 31, 2020	**$ 500,473**	**$ 24,313**	**$ 524,786**

[1] Prior to January 1, 2019, the Right-of-Use Asset related to a finance lease under IAS 17.

The Corporation began depleting its Jobo 3 natural gas processing facility ("Jobo 3") during the year ended December 31, 2019. The liquefied natural gas ("LNG") plant had not yet commenced full capacity operation; consequently, the carrying amount of $20.9 million was not yet being depleted as at December 31, 2019. During the year ended December 31, 2020, the LNG plant began being depleted as it commenced operations.

Due to the adoption of IFRS 16, the Corporation recognized right-of-use leased assets of $5.9 million as at January 1, 2019, which were adjusted for certain changes, additions and expiry of contracts and depreciated over the terms of the lease contracts.

During the year ended December 31, 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 United States dollars (tabular amounts in thousands) except as otherwise noted)

During the year ended December 31, 2019, certain costs related to the Corporation's Rancho Hermoso block were transferred to assets held for sale at their carrying values due to the Corporation's intention to sell such assets as at December 31, 2019. During the year ended December 31, 2020, the Corporation reclassified such costs and decommissioning obligations from assets and liabilities since the disposal of such block within the next twelve months was no longer highly probable.

NOTE 6 – OTHER ASSETS

	December 31, 2020	December 31, 2019
Current		
Restricted cash	$ —	$ 1,189
Prepaid expenses and deposits	3,332	1,634
Investments	289	1,186
Inventory	328	277
Hedging contract	—	644
	$ 3,949	$ 4,930
Non-Current		
Restricted cash	$ —	$ 3,335
Prepaid expenses and deposits	2,896	2,033
Investments	2,410	655
	$ 5,306	$ 6,023

Restricted Cash

	December 31, 2020	December 31, 2019
Restricted cash - current	$ —	$ 1,189
Restricted cash - non-current	—	3,335
	$ —	$ 4,524

At December 31, 2019, restricted cash consisted of $4.5 million for work commitments and other capital commitments, of which $1.2 million is classified as current and $3.3 million is classified as non-current.

During the year ended December 31, 2020, restricted cash was replaced by letters of credit (note 21) and, consequently, was released into free cash.

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

Investments

	Office Sub-Lease	Share 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	(363)	—	(363)
Unrealized loss	—	(722)	(722)
Foreign exchange gain	40	64	104
Balance at December 31, 2019	684	1,158	1,842
Additions	—	1,506	1,506
Sub-lease receipts and finance income	(382)	—	(382)
Unrealized loss	—	(285)	(285)
Foreign exchange (loss) gain	(13)	31	18
Balance at December 31, 2020	**$ 289**	**$ 2,410**	**$ 2,699**
Investments - current	$ 289	$ —	$ 289
Investments - non-current	—	2,410	2,410
Balance at December 31, 2020	**$ 289**	**$ 2,410**	**$ 2,699**

The Corporation holds five million shares of Arrow valued at $0.5 million as at December 31, 2020 (2019 - $0.8 million). Two members of key management of Canacol are also members of the board of directors of Arrow. The Corporation also holds $1.9 million (2019 - $0.4 million) investments in other shares, including in a power plant generation company as at December 31, 2020.

The Corporation holds a head lease for an office recognized as a lease obligation, 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 IFRS 16 transition. Additionally, the Corporation recognized $1.4 million of the total $7.3 million lease obligation (note 11) related to the office head lease and an office sub-lease was recognized as an investment of $1 million. The difference between the PV of the head lease payments and sub-lease receipts was adjusted to the opening retained earnings (deficit) balance as at January 1, 2019.

NOTE 7 – OTHER LIABILITIES

	December 31, 2020	December 31, 2019
Current		
Restricted share units	**$ 1,966**	$ 2,235
Litigation settlement liability	**574**	2,306
	$ 2,540	$ 4,541
Non-Current		
Restricted share units	**$ —**	$ 15
Litigation settlement liability	**13,779**	13,542
Other long term obligations	**3,131**	3,219
	$ 16,910	$ 16,776

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

Restricted Share Units

Balance at December 31, 2018	$	2,143
Amortized		4,523
Settled		(4,532)
Foreign exchange loss		116
Balance at December 31, 2019		2,250
Amortized		4,400
Settled		(4,809)
Foreign exchange loss		125
Balance at December 31, 2020	**$**	**1,966**

RSUs are recognized as an obligation and expensed on a graded vesting basis over the vesting term of each grant. The amortized RSU obligation, net of settlements as at December 31, 2020 was $2 million (2019 - $2.3 million).

As at December 31, 2019, amortized RSUs of 625,790 of the total 879,586 RSUs outstanding were recognized as an obligation and the remaining 253,796 RSUs were recognized over the subsequent vesting period.

As at December 31, 2020, amortized RSUs of 667,568 of the total 764,664 RSUs outstanding were recognized as an obligation and the remaining 97,096 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at December 31, 2020 and 2019 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2018	724
Granted	1,461
Settled	(1,305)
Balance at December 31, 2019	880
Granted	1,587
Settled	(1,702)
Balance at December 31, 2020	**765**

On January 28, 2019 and August 28, 2019, the Corporation granted 970,500 and 490,000 RSUs, respectively. The RSUs vest one-half in six months and one-half in one year from the grant date and were settled in cash. During the year ended December 31, 2019, 1,304,711 RSUs were settled in cash at a price ranging from C$4.24 to C$4.62 per share, resulting in cash settlements of $4.5 million.

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. During the year ended December 31, 2020, 1,701,922 RSUs were settled in cash at a price ranging from C$3.51 to C$4.34 per share, resulting in cash settlements of $4.8 million. The remaining outstanding units are anticipated to be settled in cash.

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

Litigation Settlement Liability

Balance at December 31, 2018	$	16,749
Principal settlements		(1,042)
Foreign exchange loss		141
Balance at December 31, 2019		15,848
Principal settlements		(732)
Foreign exchange gain		(763)
Balance at December 31, 2020	**$**	**14,353**

The litigation settlement amount is subject to a 8.74% annual interest rate on the outstanding balance, which is denominated in Colombian Peso ("COP"). In accordance with the terms of the settlement agreement, cash payments of approximately $0.2 million per month, including accrued interest will be paid by the Corporation and, as such, $0.6 million has been classified as current (2019 - $2.3 million).

NOTE 8 – EQUITY

Share Capital

	Number (000's)		Amount
Balance at December 31, 2018	177,462	$	159,116
Issued on exercise of stock options	3,048		8,634
Transfer from other reserves for stock options	—		3,152
Common share repurchases	(435)		(1,443)
Balance at December 31, 2019	180,075		169,459
Issued on exercise of stock options	1,451		3,214
Transfer from other reserves for stock options exercised	—		1,435
Common share repurchases	(2,011)		(5,536)
Balance at December 31, 2020	**179,515**	**$**	**168,572**

During the years ended December 31, 2020 and 2019, the Corporation renewed its normal course issuer bid ("NCIB"), as authorized by the TSX to purchase up to 11,341,964 outstanding common shares of the Corporation ("Common Shares") (2019 - 14,276,439), 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 60,132 Common Shares (2019 - 46,189), which is 25% of the Corporation's average daily trading volume on the TSX for the six months ended November 30, 2020 and 2019, respectively. 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 December 24, 2020 to December 23, 2021 (2019 - December 11, 2019 to December 10, 2020), or until such earlier time as the NCIB is completed or terminated at the option of the Corporation.

Canacol has also entered into an 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 may not ordinarily be permitted to purchase Common Shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, the designated broker may purchase Common Shares until the expiry of the NCIB on December 23, 2021. Such purchases will be determined by the broker at its sole discretion based on the purchasing parameters set out by the Corporation, in accordance with the rules of the TSX, applicable securities laws and the terms of the ASPP. The ASPP 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 may 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 will be included in the number of Common Shares available for purchase under the NCIB.

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

During the year ended December 31, 2019, the Corporation repurchased 434,608 Common Shares at a cost of $1.4 million, including transaction fees.

During the year ended December 31, 2020, the Corporation repurchased 2,011,123 common shares of the Corporation at a cost of $5.5 million, including transaction fees.

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at December 31, 2018	15,682	4.02
Granted	3,108	4.51
Exercised	(3,048)	3.69
Forfeited and cancelled	(1,508)	5.87
Balance at December 31, 2019	14,234	3.92
Granted	3,700	4.24
Exercised	(1,451)	2.92
Cash settled stock options	(1,997)	2.69
Forfeited and cancelled	(1,677)	4.24
Balance at December 31, 2020	**12,809**	**4.27**

Information with respect to stock options outstanding at December 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$)
$3.78 - $4.23	5,432	1.2	4.16	5,431	4.16
$4.24 - $4.62	7,377	3.3	4.35	3,510	4.42
	12,809	**2.4**	**4.27**	**8,941**	**4.27**

Stock-based compensation of $1.5 million (2019 - $3.4 million) was expensed during the year ended December 31, 2020.

During the year ended December 31, 2020, the Corporation cash settled 1,997,100 stock options for an amount of $1.9 million.

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

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average inputs:

Year ended December 31,	2020	2019
Weighted-average fair value at grant date (C$)	**0.77**	1.19
Share price (C$)	**4.24**	4.45 - 4.62
Exercise price (C$)	**4.24**	4.45 - 4.62
Volatility	**26% - 40%**	27% - 34%
Option life	**5 years**	5 years
Dividends	**4.9%**	Nil
Risk-free interest rate	**1.28% - 1.36%**	1.67% - 1.87%

A forfeiture rate of 8% (2019 - 8%) was used when recording stock-based compensation for the year ended December 31, 2020.

Dividends Declared

During the year ended December 31, 2020, the Corporation declared four dividend payments of C$0.052 per share, totaling $27.9 million, of which $6.6 million was paid on April 15, 2020, $6.9 million was paid on July 15, 2020, $7 million was paid on October 15, 2020 and $7.3 was paid on January 15, 2021, to shareholders of record at the close of business on March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020, respectively. The ex-dividend dates for all shareholders were March 30, 2020, June 29, 2020, September 29, 2020, and December 30, 2020, respectively. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and are subject to any restrictions according to the Corporation's Senior Notes indenture agreement, which are based on the Corporation's net income, equity proceeds, and guarantees provided.

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Bridge Loan	Operating Loan	Total
Balance at December 31, 2018	$ 311,055	$ 28,629	$ —	$ —	$ 339,684
Amortization of transaction costs	1,393	508	—	—	1,901
Balance at December 31, 2019	312,448	29,137	—	—	341,585
Draw, net of transaction costs	—	2,276	21,973	5,000	29,249
Repayment	—	(2,727)	—	(2,611)	(5,338)
Gain on modification of bank debt	—	(1,174)	—	—	(1,174)
Amortization of transaction costs	1,403	733	150	—	2,286
Foreign exchange loss	—	—	—	524	524
Balance at December 31, 2020	**$ 313,851**	**$ 28,245**	**$ 22,123**	**$ 2,913**	**$ 367,132**
Long-term debt - current	$ —	$ 4,286	$ —	$ 2,913	$ 7,199
Long-term debt - non-current	313,851	23,959	22,123	—	359,933
Balance at December 31, 2020	**$ 313,851**	**$ 28,245**	**$ 22,123**	**$ 2,913**	**$ 367,132**

On May 3, 2018, the Corporation completed a private offering of senior unsecured notes ("Senior Notes") in the aggregate principal amount of $320 million. The Senior Notes pay interest semi-annually at a fixed rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms.

On December 6, 2018, the Corporation entered into a credit agreement for an amount of $30 million with Credit Suisse ("Bank Debt"). The Bank Debt was originally set to mature on December 11, 2022, with interest payable quarterly and principal repayable in eleven equal quarterly installments starting June 11, 2020. The Bank Debt carried interest at a fixed rate of 6.875% per annum and is secured by the Corporation's Jobo 2 gas processing facility ("Jobo 2"). A portion of the proceeds from the Bank Debt totaling $24.2 million were used to purchase Jobo 2, previously held under a finance lease agreement (note 11). On June 11, 2020, the Corporation paid the first $2.7 million principal payment of Bank Debt. On June 30, 2020, the Corporation entered into an agreement to amend the terms of the Bank Debt. The agreement included revision of the following terms: i) the original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and ii) the original eleven equal quarterly principal payments, which commenced on June 11, 2020, were revised to seven equal quarterly principal payments to commence on December 11, 2021. In accordance with the agreement, the $2.7 million original principal payment was returned to the Corporation, net of transaction costs of $0.5 million. The Bank Debt was revalued for the amended terms of the agreement with new future cash flows discounted at the original effective interest rate resulting in a $1.2 million gain on modification of bank debt, in accordance with IFRS 9 (note 13). The first quarterly principal payment of $4.3 million has been classified as current as at December 31, 2020.

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente ("Operating Loan") and withdrew a $5 million principal amount denominated in COP, for additional COP liquidity purposes. The Operating Loan is subject to an annual interest rate of Reference Bank Indicator ("IBR") + 2% (IBR was 2.9% at the agreement date). The IBR is a Colombian central bank short-term reference interest rate for lendings 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, one of which was paid on October 18, 2020 with the balance due on April 16, 2021 and, as such, $2.9 million has been classified as current as at December 31, 2020.

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility (the "RCF") and a $75 million senior unsecured bridge term loan (the "Bridge Loan") with a syndicate of banks. The Bridge Loan is intended to be used to construct and own a pipeline from the Corporation's operations to Medellin, Colombia (the "Project").

On August 28, 2020, the Corporation withdrew the initial $25 million of the Bridge Loan, net of transaction costs of $3.1 million, which will be used for initial engineering costs and environmental licensing related to the Project. The remaining $50 million is available to be drawn at any time up to twelve months from the closing date and is currently budgeted to be used for Project construction materials. The Bridge Loan bears an interest rate of LIBOR + 4.25%, a two-year term, and the Corporation's ability to repay the Bridge Loan at any time within the term without penalty. Any undrawn amounts are subject to a commitment fee of 30% of the 4.25% interest margin throughout the availability period. During the term, Canacol intends to divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership with Canacol being the guarantor throughout the outstanding term of the Bridge Loan.

The RCF bears an interest rate of LIBOR + 4.75%, a three-year term, and the Corporation's ability to repay/redraw the RCF at any time within the term without penalty. Canacol will pay a commitment fee to the syndicate of 30% of the 4.75% interest margin on any undrawn amounts throughout the term. The RCF remained undrawn as at December 31, 2020. The RCF is not subject to typical periodic redeterminations.

Long-term debt includes various financial and non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants, including a maximum consolidated leverage ratio of 3.50:1.00 and a minimum consolidated EBITDAX to interest expense, excluding non-cash interest expenses, ratio of 2.50:1.00. The Corporation was in compliance with its covenants as at December 31, 2020.

As at December 31, 2020, unamortized transaction costs of $6.1 million (2019 - $7.6 million), $1.8 million (2019 - $0.9 million) and $2.9 million (2019 - $Nil) were netted against the Senior Notes, Bank Debt and Bridge Loan principal amounts, respectively, resulting in carrying values of $313.9 million (2019 - $312.4 million), $28.2 million (2019 - $29.1 million) and $22.1 million (2019 - $Nil), respectively. The Bridge Loan transaction costs amortization of $0.2 million have been capitalized to PP&E as part of a qualifying asset and the remaining $2.1 million transaction costs amortization have been recognized as finance expense (note 13).

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

NOTE 10 – DECOMMISSIONING OBLIGATIONS

Balance at December 31, 2018	$	23,690
Accretion		1,496
Additions		2,594
Disposition (note 5)		(499)
Settlements		(847)
Transferred to assets held for sale		(10,591)
Change in estimates		555
Balance at December 31, 2019		16,398
Accretion		1,388
Additions		1,618
Settlements		(937)
Transferred from assets held for sale		10,591
Change in estimates		(4,470)
Balance at December 31, 2020	**$**	**24,588**

The Corporation's decommissioning obligations result from its ownership interests in natural gas and petroleum assets, including well sites, facilities, and gathering systems. The total decommissioning obligations are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Corporation has estimated the present value of the decommissioning obligations to be $24.6 million at December 31, 2020 (2019 - $16.4 million) based on an undiscounted total future liability of $30.5 million (2019 - $22.3 million). These payments are expected to be made over the next fourteen years. The average discount factor, being the risk-free rate related to the liability is 5.8% (2019 - 6.4%) and the average inflation rate is 2.6% (2019 - 3.3%).

During the year ended December 31, 2019, the Corporation sold its working interest in the Sabanas flowline and de-recognized the corresponding decommissioning obligation of $0.5 million as a result.

During the year ended December 31, 2019, the Corporation classified $10.6 million of decommissioning obligations related to the Corporation's Rancho Hermoso block as liabilities held for sale. During the year ended December 31, 2020, the Corporation reclassified such costs and decommissioning obligations from assets and liabilities since the disposal of such block within the next twelve months was no longer highly probable.

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

NOTE 11 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2018	$ 21,473	$ —	$ 21,473
Adoption of IFRS 16	—	7,313	7,313
Additions	—	4,260	4,260
Settlements	(1,701)	(3,366)	(5,067)
De-recognitions	—	(853)	(853)
Foreign exchange loss	—	(28)	(28)
Balance at December 31, 2019	19,772	7,326	27,098
Additions	—	1,665	1,665
Settlements	(1,849)	(3,913)	(5,762)
De-recognitions	—	(150)	(150)
Foreign exchange loss	—	92	92
Balance at December 31, 2020	**$ 17,923**	**$ 5,020**	**$ 22,943**
Lease obligations - current	$ 2,006	$ 2,738	$ 4,744
Lease obligations - non-current	15,917	2,282	18,199
Balance at December 31, 2020	**$ 17,923**	**$ 5,020**	**$ 22,943**

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. The lease obligations were discounted, using an incremental borrowing rate of 6.875%, and recognized at the present value of minimum lease payments. The lease terms range from one to three years. As at December 31, 2020, the Corporation's lease obligations carrying value was $22.9 million (2019 - $27.1 million), including the compression stations, previously recorded as a finance lease under IAS 17.

The Corporation utilized 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 were recognized on the consolidated statements of operations or capitalized as PP&E or E&E. The payments related to short-term lease arrangements and low-value assets were recognized as operating expenses on the consolidated statements of operations. The variable lease payments related to the Sabanas pipeline were recognized as transportation expenses on the consolidated statements of operations. In addition, variable lease payments related to a drilling rig contract were capitalized.

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

Year ended December 31,	**2020**	2019
Low-value right-of-use assets	**$ 102**	$ 103
Short-term lease arrangements	**923**	797
Variable lease payments	**19,593**	25,637
Total lease payments	**$ 20,618**	$ 26,537

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

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	$ 35,232	$ 31,507	$ 32,780	$ 99,519

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

NOTE 12 – OTHER EXPENSES

Year ended December 31,	2020	2019
Donations	$ 974	$ 1,371
Pre-license costs	1,030	2,973
Natural gas purchase costs	2,170	—
Other expenses	7,531	5,493
Other tax expense	3,286	3,666
Loss on financial instruments	1,955	9
	$ 16,946	$ 13,512

The Corporation incurred natural gas purchase costs of $2.2 million during the year ended December 31, 2020 related to the delivery of a certain off-taker's contract, of which the Corporation also recognized $2.2 million of natural gas trading revenue (note 17).

Loss (Gain) on Financial Instruments

Year ended December 31,	2020	2019
Hedging contract - unrealized	$ 644	$ (643)
Hedging contract - realized	1,026	(69)
Investments - unrealized	285	721
	$ 1,955	$ 9

During the year ended December 31, 2020, the Corporation realized losses on its COP to USD foreign exchange hedging contract, which has expired as at December 31, 2020, due to the devaluation of the COP during the period (note 20).

NOTE 13 – FINANCE INCOME AND EXPENSE

Year ended December 31,	2020	2019
Finance income		
Interest and other income	$ 2,126	$ 1,283
Gain on modification of bank debt	1,174	—
Finance expense		
Accretion on decommissioning obligations	1,388	1,496
Amortization of upfront transaction costs	2,136	1,901
Interest expense on lease obligations	1,363	1,531
Interest and other financing costs	29,425	29,257
	34,312	34,185
Net finance expense	$ 31,012	$ 32,902

During the year ended December 31, 2020, the Corporation recognized: i) interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation and ii) a gain on debt modification of $1.2 million related to the Bank Debt modification (note 9).

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

NOTE 14 – NET (LOSS) INCOME PER SHARE

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

Year ended December 31,		**2020**		2019
Net (loss) income	**$**	**(4,743)**	$	34,247
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic		**180,646**		178,266
Effect of stock options		**—**		2,129
Weighted-average common shares outstanding, diluted		**180,646**		180,395

Due to the net loss realized during the year ended December 31, 2020, stock options were dilutive.

NOTE 15 – INCOME TAXES

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

Year ended December 31,		**2020**		2019
Net income before taxes	**$**	**77,396**	$	64,734
Statutory rates		**24%**		27%
Expected income taxes		**18,575**		17,478
Effect on taxes resulting from:				
Non-deductible permanent differences and other	**$**	**5,489**	$	776
Tax differential on foreign jurisdictions		**6,587**		6,324
Change in unrecognized tax benefit		**37,889**		6,340
Provision to filing true-up		**3,069**		926
Change in enacted tax rate		**1,689**		1,028
Foreign exchange		**8,841**		(2,385)
Provision for income taxes	**$**	**82,139**	$	30,487
Current	**$**	**30,769**	$	32,058
Deferred tax expense (recovery)		**51,370**		(1,571)
	$	**82,139**	$	30,487

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

Year ended December 31,		**2020**		2019
Net book value of property, plant and equipment in excess of asset tax base	**$**	**(42,902)**	$	(45,559)
Losses carried forward		**6,957**		59,001
Decommissioning liabilities and other provision		**8,316**		9,274
Timing differences on revenue and expense recognition and other		**877**		1,901
Deferred tax (liability) asset	**$**	**(26,752)**	$	24,617

In the fourth quarter of 2019, the Colombian government enacted a new tax reform to replace the 2018 tax reform, which was overturned by the Colombian Constitutional Court. This new tax reform maintains the same corporate tax rates that were approved by congress in 2018. The enacted tax rates are 32% for 2020, 31% for 2021 and 30% for 2022 and onwards. The tax rates applied to the calculation of deferred income taxes, before valuation allowances, have been adjusted to reflect these changes.

At December 31, 2020, the Corporation had non-capital losses carried forward of approximately $118.5 million (2019 - $184.5 million) available to reduce future years taxable income. At December 31, 2020, the Corporation had deferred income tax assets of $371.2 million (2019 - $294.8 million) related to Canada and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

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

During the year ended December 31, 2020, the Corporation recognized a deferred tax expense of $51.4 million (2019 - deferred tax recovery of $1.6 million) mainly related the de-recognition of certain deferred tax assets for non-capital losses of $37.9 million and the foreign exchange impact on the Corporation's unused tax losses and capital pools of $8.8 million.

During the year ended December 31, 2020, in an effort to simplify Canacol's organizational structure, the Corporation merged certain entities (the "Merger") by way of an absorptive merger process as permitted under Colombian law. The absorbing entity had non-capital losses which were previously recognized as a deferred tax asset. Subsequent to the completion of the Merger, Colombia's Council of State issued a unification ruling concerning the treatment of tax losses in the context of mergers. This ruling significantly limits the ability of the absorbing entity to utilize its existing losses post merger. For more than fifteen years it has been accepted by the Colombian Taxation Authorities and in decisions of the Council of State, that, in the case of mergers, the absorbing company can utilize 100% of its tax losses accumulated up to the merger to offset future taxable income realized after the merger. The Corporation is in the process of presenting a Constitutional challenge against the interpretation of the relevant article in Colombia's Tax Statute in the Constitutional Court on the basis that such new interpretation violates the constitutional principles of Tax Justice, Equity and Neutrality and that based on the new interpretation of the Council of State, the relevant part of the article must be declared unconstitutional. As the outcome of the challenge is currently unknown, the Corporation has recognized a valuation allowance of $29.7 million in association with such non-capital losses. In the event that the Constitutional Court challenge is successful, at that time, the Corporation will recognize a deferred tax asset and realize a deferred tax recovery as it will have the ability to utilize the losses against future taxable income.

NOTE 16 – OTHER CASH FLOW ACTIVITIES

Other Operating Activities

Year ended December 31,	Note	2020	2019
Litigation settlement liability - principal payments	7	**$ (732)**	$ (1,042)
Settlement of decommissioning obligations	10	**(721)**	(2,741)
Settlement of restricted share units obligation	7	**(4,809)**	(4,532)
Cash settled stock options	8	**(1,909)**	—
		$ (8,171)	$ (8,315)

The litigation settlement liability payments of $0.7 million during the year ended December 31, 2020 (2019 - $1 million), related solely to the principal portion of the total payments of approximately $0.2 million per month, which consists of both the principal and interest payments.

Other Investing Activities

Year ended December 31,	Note	2020	2019
Change in investments	6	**$ (1,124)**	$ 363
Change in restricted cash		**4,524**	(328)
Change in prepaid expenses and deposits		**(863)**	(425)
		$ 2,537	$ (390)

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

Non-Cash Working Capital

Year ended December 31,	2020	2019
Change in:		
Trade and other receivables	**$ 3,634**	$ (12,993)
Prepaid expenses and deposits	**(1,698)**	275
Tax installments and receivables	**(1,056)**	(3,567)
Crude oil inventory	**(37)**	17
Trade and other payables	**(7,415)**	3,312
Deferred income	**1,575**	5,721
Taxes payable	**6,873**	(270)
	1,876	(7,505)
Foreign exchange impact on working capital ending balances	**(57)**	(1,392)
	$ 1,819	$ (8,897)
Attributable to:		
Operating activities	**$ 7,924**	$ (15,704)
Investing activities	**(6,105)**	6,807
	$ 1,819	$ (8,897)

NOTE 17 – SUPPLEMENTAL INFORMATION

Natural gas, LNG, Crude Oil Revenues, Net of Royalties

The Corporation records natural gas, LNG and crude oil revenues, net of royalties, when relevant:

Year ended December 31,	2020	2019
Natural gas and LNG revenues, net of royalties	**$ 272,359**	$ 234,629
Natural gas trading revenues	**2,195**	—
Crude oil revenue, net of royalties	**3,120**	6,212
	$ 277,674	$ 240,841

The Corporation recognized $2.2 million of natural gas trading revenues during the year ended December 31, 2020 related to the delivery of a certain off-taker's contract, which the Corporation also incurred gas purchase costs of $2.2 million (note 12).

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

Year ended December 31,	2020	2019
Natural gas royalties	**$ 43,264**	$ 34,219
Crude oil royalties	**257**	521
	$ 43,521	$ 34,740

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2020, three major customers represented 29%, 15% and 10% of total revenues in the year, respectively. For the year ended December 31, 2019, three major customers represented 32%, 13% and 13% of total revenues in the year, respectively.

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

Take-or-Pay Natural Gas Income

During the year ended December 31, 2020, the Corporation realized take-or-pay natural gas income of $1.1 million (2019 - $1.2 million) relating to the portion of natural gas sales nominations by the Corporation's off-takers that did not get delivered, due to the off-takers' inability to accept such gas, and for which the off-takers have no recourse or legal right to delivery at a later date.

Deferred Income

During the year ended December 31, 2020, the Corporation has deferred income of $12.7 million (2019 - $11.1 million) which related to undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later maturity date. As at December 31, 2020, the undelivered nominations are expected to be delivered within the next twelve months and, as such, have been classified as a current liability.

Income taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

Year ended December 31,	2020	2019
Income taxes paid	**$ 33,695**	$ 30,336
Interest paid	**$ 27,489**	$ 27,148

NOTE 18 – KEY MANAGEMENT PERSONNEL

The Corporation has determined that the key management personnel of the Corporation consists of its executive management and its Board of Directors. In addition to the salaries and fees paid to key management, the Corporation also provides compensation to both groups under its stock-based compensation and restricted share unit plans. Compensation expenses paid to key management personnel were as follows:

Year ended December 31,	2020	2019
Salaries and director fees	**$ 3,571**	$ 4,980
Severance	**—**	2,858
Benefits	**474**	691
Restricted share units	**2,077**	2,098
Key management personnel compensation	**$ 6,122**	$ 10,627

NOTE 19 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

			Ownership Interest	
	Country of Incorporation	**Fiscal year end**	**December 31, 2020**	**December 31, 2019**
Canacol Energy Inc.	Canada	December 31	100%	100%
Shona Energy L.P.	Canada	December 31	100%	100%
CNE Oil & Gas S.A.S	Colombia	December 31	100%	100%
Canacol Energy Colombia S.A.S.	Colombia	December 31	100%	100%

NOTE 20 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, tax installments and receivables, trade and other payables, dividend payable, taxes payable, lease obligations, litigation settlement liability approximate their fair values at December 31, 2020. The restricted share units and certain investments are recorded at fair value. The fair values of the Senior Notes, Bank Debt, Bridge Loan and Operating loan are $342.6 million, $30 million, $25 million and $2.9 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. The Senior Notes, RSUs and certain investments were classified as Level 1 and, the litigation settlement liability, Bank Debt, Bridge Loan, Operating Loan and certain investments were classified as level 2 as at December 31, 2020. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended December 31, 2020. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

Market Risk

Market risk is the risk that changes in market factors, such as commodity prices, foreign exchange rates, and interest rates will affect the Corporation's cash flows, profit or loss, liquidity or the value of financial instruments.

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

(i) Commodity Price

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk, including current volatile prices as a result of COVID-19. The Corporation had no commodity contracts in place as at or during the year ended December 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 December 31, 2020, the COP to the USD exchange rate was 3,433:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2019 – 1.30:1). The 5% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the year ended December 31, 2020. In addition, $8.8 million of the total deferred income tax expense of

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

$51.4 million recognized during the year ended December 31, 2020, was as a result of the devaluation of COP to USD.

During the year ended December 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

The foreign exchange contract has expired as at December 31, 2020 and the Corporation has not entered into any new foreign exchange contracts.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates to the extent that variable interest rate debt instruments are drawn. The majority of the Corporation's interest bearing debt, including the Senior Notes and the litigation settlement liability, are subject to fixed interest rates, which limits the Corporation's exposure to interest rate risk. The Corporation's Bank Debt, Bridge Loan and the Operating Loan are subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate contracts in place as at or during the year ended December 31, 2020.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, within reasonable means, sufficient liquidity to meet its liabilities when due, under both normal and unusual conditions, without incurring unacceptable losses or jeopardizing the Corporation's business objectives. The Corporation prepares an annual budget which is monitored regularly and updated as considered necessary. Natural gas, LNG and crude oil production is monitored daily to provide current cash flow estimates and the Corporation utilizes authorizations for expenditures on projects to manage capital expenditures.

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

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	$ 7,199	$ 42,143	$ 328,571	$ 377,913
Lease obligations – undiscounted	5,254	4,591	16,298	26,143
Trade and other payables	45,176	—	—	45,176
Dividend payable	7,332	—	—	7,332
Taxes payable	12,916	—	—	12,916
Litigation settlement liability	574	677	13,102	14,353
Other long term obligation	—	3,131	—	3,131
Restricted share units	1,966	—	—	1,966
	$ 80,417	**$ 50,542**	**$ 357,971**	**$ 488,930**

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

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

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 and does not expect to in the future. The trade receivable balance, relating to contracts with customers, as at December 31, 2020 was $49.9 million (2019 - $56.5 million), $10.7 million related to the recovery of transportation costs passed-through to customers (2019 - $10.8 million), $5.8 million from Arrow related to the sale of certain petroleum assets (2019 - $5.7 million) and $4.3 million of other receivables (2019 - $2.2 million). The $5.8 million receivable from Arrow which is expected to be collected within twelve months. Two members of key management of Canacol are also members of the board of directors of Arrow.

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, litigation 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 to ensure it is compliant with its debt covenants. Net debt is defined as the principal amount of its outstanding long-term obligations less working capital. In order to facilitate the management of its net debt, the Corporation prepares annual budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices, changes in capital structure, execution of the Corporation's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updates are prepared and reviewed as required.

	Note	December 31, 2020	December 31, 2019
Senior Notes - principal (7.25%)	9	$ 320,000	$ 320,000
Bank Debt - principal (LIBOR + 4.25%)	9	30,000	30,000
Bridge Loan - principal (LIBOR + 4.25%)	9	25,000	—
Operating loan (IBR + 2%)	9	2,913	—
Litigation settlement liability (8.74%)	7	14,353	15,848
Lease obligation (5.1%)	11	22,943	27,098
Total debt		415,209	392,946
Working capital surplus		(73,404)	(50,676)
Net debt		**$ 341,805**	**$ 342,270**

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2020:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 22,767	$ 14,446	$ 4,653	$ 41,866
Compression station operating contracts	2,608	5,374	11,413	19,395
	$ 25,375	$ 19,820	$ 16,066	$ 61,261

Letters of Credit

At December 31, 2020, the Corporation had letters of credit outstanding totaling $79.5 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. Subsequent to December 31, 2020, $7.2 million of the $11.3 million of the Arrow letters credit were cancelled.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at December 31, 2020 of $41.9 million and has issued $30.3 million in financial guarantees related thereto.

Contingencies

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