CANACOL ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

MANAGEMENT'S REPORT

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

The Corporation's external auditors, KPMG LLP, have audited the consolidated financial statements for the years ended December 31, 2020 and 2021. 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 16, 2022

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, 2021 and December 31, 2020
- the consolidated statements of operations and comprehensive income (loss) 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, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. 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.

KPMG

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 related to D&P assets 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 the inputs of this calculation to the estimate of proved plus probable reserves.
- With respect to the estimate of proved and probable reserves:
- We evaluated the competence, capabilities and objectivity of the independent reserve engineer engaged by the Company
- We compared the 2021 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 2021 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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 16, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

As at	Note		December 31, 2021		December 31, 2020
ASSETS					
Current assets					
Cash and cash equivalents		$	**138,523**	$	68,280
Trade and other receivables	20		**71,362**		70,685
Tax installments and receivables			**5,576**		10,589
Other current assets	6		**2,893**		3,949
			218,354		153,503
Non-current assets					
Trade and other receivables	20		**1,709**		—
Exploration and evaluation assets	4		**69,987**		62,775
Property, plant and equipment	5		**530,972**		524,786
Deferred tax assets	15		**4,808**		3,422
Other non-current assets	6		**17,930**		5,306
			625,406		596,289
Total assets		$	**843,760**	$	749,792
LIABILITIES AND EQUITY					
Current liabilities					
Current portion of long-term debt	9	$	**2,513**	$	7,199
Trade and other payables			**52,363**		45,176
Deferred income	17		**5,206**		12,709
Dividend payable	8		**7,226**		7,332
Lease obligations	11		**4,308**		4,744
Taxes payable			**3,444**		12,916
Other current liabilities	7		**1,991**		2,540
			77,051		92,616
Non-current liabilities					
Long-term debt	9		**491,970**		359,933
Lease obligations	11		**13,781**		18,199
Decommissioning obligations	10		**26,147**		24,588
Deferred tax liabilities	15		**45,517**		30,174
Other non-current liabilities	7		**4,163**		16,910
Total liabilities			**658,629**		542,420
Equity					
Share capital	8		**159,798**		168,572
Other reserves			**67,219**		66,567
Retained deficit			**(41,886)**		(27,767)
Total equity			**185,131**		207,372
Total liabilities and equity		$	**843,760**	$	749,792

Commitments and contingencies (note 21)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) "Michael Hibberd"
Director

(signed) "Francisco Diaz"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

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

Year ended December 31,	Note		2021		2020
Revenues					
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	17	**$**	**284,069**	$	276,610
Natural gas trading revenues	17		**26,475**		2,195
Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties			**310,544**		278,805
Expenses					
Operating expenses			**20,699**		18,005
Transportation expenses			**34,882**		32,001
Natural gas trading purchase costs	17		**26,206**		2,170
Exploration expense	4		**19,347**		—
General and administrative			**29,584**		26,829
Stock-based compensation expense	7,8		**4,550**		5,909
Depletion and depreciation	5		**67,747**		64,539
Foreign exchange loss			**4,078**		6,168
Other expenses	12		**9,978**		14,776
			217,071		170,397
Net finance expense	13		**34,407**		31,012
Income before income taxes			**59,066**		77,396
Income tax expense					
Current	15		**29,932**		30,769
Deferred	15		**13,957**		51,370
			43,889		82,139
Net income (loss) and comprehensive income (loss)		**$**	**15,177**	$	(4,743)
Net income (loss) per share					
Basic and diluted	14	**$**	**0.09**	$	(0.03)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars)

	Note	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2019		$ 169,459	$ 68,067	$ 335	$ 4,885	$ 242,746
Reclassification adjustment		—	335	(335)	—	—
Common shares repurchased	8	(5,536)	—	—	—	(5,536)
Stock options exercised	8	4,649	(1,435)	—	—	3,214
Stock options settled in cash	8	—	(43)	—	—	(43)
Provision for cash settlement of stock options	8	—	(1,866)	—	—	(1,866)
Stock-based compensation	8	—	1,509	—	—	1,509
Dividends declared	8	—	—	—	(27,909)	(27,909)
Net loss		—	—	—	(4,743)	(4,743)
Balance at December 31, 2020		**$ 168,572**	**$ 66,567**	**$ —**	**$ (27,767)**	**$ 207,372**
Balance at December 31, 2020		$ 168,572	$ 66,567	$ —	$ (27,767)	$ 207,372
Common shares repurchased	8	(8,774)	—	—	—	(8,774)
Stock-based compensation	8	—	652	—	—	652
Dividends declared	8	—	—	—	(29,296)	(29,296)
Net income		—	—	—	15,177	15,177
Balance at December 31, 2021		**$ 159,798**	**$ 67,219**	**$ —**	**$ (41,886)**	**$ 185,131**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

Year ended December 31,	Note	2021	2020
Operating activities			
Net income (loss) and comprehensive income (loss)		$ **15,177**	$ (4,743)
Non-cash adjustments:			
Depletion and depreciation	5	**67,747**	64,539
Exploration expense	4	**19,347**	—
Stock-based compensation expense	7,8	**4,550**	5,909
Net financing expense	12	**34,407**	31,012
Unrealized foreign exchange loss and other expenses		**3,660**	3,556
Deferred income tax expense	15	**13,957**	51,370
Unrealized (gain) loss on financial instruments	12	**(1,248)**	929
Payment of litigation settlement liability	7	**(13,073)**	(732)
Other operating activities	16	**(3,804)**	(7,439)
Changes in non-cash working capital	16	**(16,906)**	7,924
		123,814	152,325
Investing activities			
Expenditures on exploration and evaluation assets	4	**(41,565)**	(25,511)
Expenditures on property, plant and equipment	5	**(57,153)**	(59,997)
Net proceeds on disposition of property, plant and equipment		**297**	114
Other investing activities	16	**(8,513)**	2,537
Changes in non-cash working capital	16	**5,458**	(6,105)
		(101,476)	(88,962)
Financing activities			
Draw on long-term debt, net of financing fees and make-whole payment	9	**156,938**	29,249
Repayment of long-term debt	9	**(30,000)**	(5,338)
Net financing expense paid	13	**(31,669)**	(28,662)
Lease principal payments	11	**(5,511)**	(5,762)
Dividends paid	8	**(29,458)**	(20,577)
Common share repurchases	8	**(8,774)**	(5,536)
Issue of common shares	8	**—**	3,214
		51,526	(33,412)
Change in cash and cash equivalents		**73,864**	29,951
Cash and cash equivalents, beginning of year		**68,280**	41,239
Foreign exchange impact on cash and cash equivalents, end of year		**(3,621)**	(2,910)
Cash and cash equivalents, end of year		$ **138,523**	$ 68,280

See accompanying notes to the consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these consolidated financial statements (the "financial statements") for issuance on March 16, 2022.

NOTE 2 - BASIS OF PREPARATION

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

Basis of Measurement

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

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

Functional and Presentation Currency

These financial statements are presented in United States dollars ("USD"), which is both the functional and presentation currency, with the exception of Canadian dollar unit prices ("C$") where indicated.

Significant Estimates and Management Judgements

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

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

The Corporation holds an investment in a public company, Arrow Exploration Corp. ("Arrow"), of which two of the board of directors of Arrow are also key members of the Corporation's management. Management has used judgement in determining that the Corporation does 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 Corporation'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, trade and other receivables, investments, restricted share units, long-term debt, litigation settlement liability, trade and other payables, dividend payable, lease obligations 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, 2021, 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. As at December 31, 2021, the Corporation has paid its litigation settlement liability.

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, 2021, 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 held a head lease for an office lease, which was sub-leased to a third party in return for monthly lease income. The Corporation accounted for the head lease and sub-lease arrangements as two separate contracts. The head lease was recognized as a lease obligation and the sub-lessee's share of the head lease was recognized as a net investment. The Corporation recognized interest income received under finance leases over the lease term in the consolidated statements of operations using the effective interest rate method. As at December 31, 2021, the Corporation's office head lease and sub-lease arrangement has expired.

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, 2021, 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, in pipelines or in storage tanks at the reporting date, and is valued at the lower of cost, using the weighted-average cost method, or net realizable value. Costs include direct and indirect expenditures including depletion and depreciation incurred in bringing the crude oil to its existing condition and location.

Revenue

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

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

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

Stock-Based Compensation

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

Long-term Incentive Compensation Liability

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

Finance Income and Expenses

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

Gain and Loss on the Modification or Settlement of Bank Debt

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

Income Taxes

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

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

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

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

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

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

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

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Corporation by the weighted-average number of common shares outstanding during the period. Diluted net income (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 and have become effective from January 1, 2021.

The Corporation adopted the Interest Rate Benchmark Reform - Phase 2 ("IBOR Reform"), which is applicable to IFRS 9, however it did not have a material impact on the financial statements. The Phase 2 amendments provides practical relief which relates to modifications of financial instruments and lease contracts triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2019	$	53,867
Additions		25,511
Transferred to D&P assets (note 5)		(16,603)
Balance at December 31, 2020		62,775
Additions		41,565
Transferred to exploration expense		(19,347)
Transferred to D&P assets (note 5)		(15,006)
Balance at December 31, 2021	**$**	**69,987**

During the year ended December 31, 2021, the Corporation drilled the Flauta-1 exploration well located on its VIM-5 block and the Milano-1 exploration well located on its Esperanza block. The wells did not encounter commercial gas and, as such, $12.5 million of related costs were transferred to exploration expense.

During the year ended December 31, 2021, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment of the Corporation's VIM-19 exploration block, $6.8 million of associated costs were transferred to exploration expense.

During the year ended December 31, 2021, the Corporation made natural gas discoveries, Aguas Vivas-1 on its VIM-21 block, San Marcos-1 on its Esperanza block and Siku-1 on its VIM-5 block, and accordingly, $15 million of exploration costs associated with such discoveries have been transferred to D&P assets.

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Cost			
Balance at December 31, 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 (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
Additions	58,651	1,392	60,043
Transferred from E&E assets (note 4)	15,006	—	15,006
Dispositions and de-recognition	(873)	(795)	(1,668)
Balance at December 31, 2021	**$ 1,197,712**	**$ 33,594**	**$ 1,231,306**
Accumulated depletion and depreciation			
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)
Depletion and depreciation	(63,819)	(3,928)	(67,747)
Derecognition and inventory adjustments	243	309	552
Balance at December 31, 2021	**$ (688,031)**	**$ (12,303)**	**$ (700,334)**
Carrying value			
As at December 31, 2019	$ 479,160	$ 26,937	$ 506,097
As at December 31, 2020	$ 500,473	$ 24,313	$ 524,786
As at December 31, 2021	**$ 509,681**	**$ 21,291**	**$ 530,972**

During the year ended December 31, 2020, the Corporation's liquefied natural gas ("LNG") plant commenced operations, and consequently, the carrying amount of $20.9 million began being depleted.

During the year ended December 31, 2020, certain costs and decommissioning obligations related to the Corporation's Rancho Hermoso block were transferred from assets held for sale since the disposal of such block within twelve months was no longer highly probable.

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

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

NOTE 6 – OTHER ASSETS

	December 31, 2021	December 31, 2020
Current		
Prepaid expenses and deposits	$ **2,533**	$ 3,332
Investments	**—**	289
Inventory	**360**	328
	$ **2,893**	$ 3,949
Non-Current		
Prepaid expenses and deposits	$ **7,563**	$ 2,896
Investments	**10,367**	2,410
	$ **17,930**	$ 5,306

As at December 31, 2021, the Corporation had prepaid expenses related to pre-construction activities of the natural gas pipeline, which is expected to be constructed from the Corporation's operations to Medellin, Colombia.

Investments

	Office Sub-Lease	Arrow Investment	Other Share Investments	Total Investments
Balance at December 31, 2019	$ 684	$ 808	$ 350	$ 1,842
Additions	—	—	1,506	1,506
Sub-lease receipts and finance income	(382)	—	—	(382)
Unrealized loss	—	(285)	—	(285)
Foreign exchange (loss) gain	(13)	(52)	83	18
Balance at December 31, 2020	289	471	1,939	2,699
Additions	—	3,155	4,115	7,270
Sub-lease receipts and finance income	(269)	—	—	(269)
Unrealized gain (loss)	—	1,598	(350)	1,248
Foreign exchange loss	(20)	(193)	(368)	(581)
Balance at December 31, 2021	**$ —**	**$ 5,031**	**$ 5,336**	**$ 10,367**

During the year ended December 31, 2021, the Corporation settled a portion of Arrow's outstanding receivable balance totaling $3.2 million through the receipt of Arrow shares, following their Alternative Investment Market ("AIM") financing of approximately C$15 million, which brings Canacol's ownership in Arrow to 19.9% totaling 41.7 million of held shares (2020 - 5 million) valued at $5 million as at December 31, 2021 (2020 - $0.5 million). Two members of key management of Canacol are also members of the board of directors of Arrow.

During the year ended December 31, 2021, the Corporation purchased $4.1 million (2020 - $1.5 million) of shares in Termoelectrica el Tesorito S.A.S. ESP ("Tesorito"), a Colombian power generation company. As at December 31, 2021, the Corporation's total investment in Tesorito is $5.3 million (2020 - $1.6 million).

The Corporation held a head lease for an office recognized as a lease obligation, which was subleased to a third party in return for monthly lease income. The sub-lease contract was reported separately from the head lease and was recognized as a net investment. As at December 31, 2021, the Corporation's office head-lease and sub-lease arrangement has expired.

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

NOTE 7 – OTHER LIABILITIES

		December 31, 2021		December 31, 2020
Current				
Long-term incentive compensation liability	**$**	**1,991**	$	1,966
Litigation settlement liability		**—**		574
	$	**1,991**	$	2,540
Non-Current				
Long-term incentive compensation liability	**$**	**94**	$	—
Litigation settlement liability		**—**		13,779
Other long term obligations		**4,069**		3,131
	$	**4,163**	$	16,910

Long-term Incentive Compensation Liability

Balance at December 31, 2019	$	2,250
Amortized		4,400
Settled		(4,809)
Foreign exchange loss		125
Balance at December 31, 2020		1,966
Amortized		3,928
Settled		(3,750)
Foreign exchange gain		(59)
Balance at December 31, 2021	**$**	**2,085**

The long-term incentive compensation liability includes RSUs and PSUs. The RSUs and PSUs are recognized as an obligation and expensed on a graded vesting basis and cliff vesting basis, respectively, over the vesting term of each grant. The amortized long-term incentive compensation liability as at December 31, 2021 was $2.1 million (2020 - $2 million).

The number of outstanding RSUs and PSUs as at December 31, 2021 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2019	880
Granted	1,587
Settled	(1,702)
Balance at December 31, 2020	765
Granted	2,655
Settled	(1,423)
Balance at December 31, 2021	**1,997**

i) Restricted Share Units

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.

On March 22, 2021, the Corporation granted 1,695,100 RSUs. A portion of the RSUs vest one-half in six months and one-half in one year from the grant date, and the other portion vest one-third in six months, one-third in one year and one-third in eighteen months from the grant date. During the year ended December 31, 2021, 1,422,997 RSUs were settled in cash at a price ranging from C$3.03 to C$3.69 per share, resulting in cash settlements of $3.8 million. The remaining outstanding units are anticipated to be settled in cash.

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

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.

As at December 31, 2021, amortized RSUs of 786,256 of the total 1,036,767 RSUs outstanding were recognized as an obligation and the remaining 250,511 RSUs will be recognized over the remaining vesting period.

ii) Performance Share Units

On December 7, 2021, the Corporation granted 960,000 PSUs, which cliff vest in May 2023. The expected units to be settled based on the likelihood of unit holders meeting certain performance conditions was 768,000 units. As at December 31, 2021, amortized PSUs of 37,209 of the total 768,000 PSUs to be amortized were recognized as an obligation and the remaining 730,791 PSUs will be recognized over the remaining vesting period.

iii) Deferred Share Units

On December 7, 2021, the Corporation granted 71,350 DSUs, which entitle the holder to receive either the underlying number of shares of the Company's Common Stock upon vesting of such units or, at the option of the Company, a cash payment equal to the value of the underlying shares. DSUs vest immediately and are settled at such time the grantee ceases to be a member of the Board of Directors. The Company currently intends to settle the DSUs in cash.

Litigation Settlement Liability

Balance at December 31, 2019	$	15,848
Settlement payments, net of accrued interest		(732)
Foreign exchange gain		(763)
Balance at December 31, 2020		14,353
Settlement payments, net of accrued interest		(13,073)
Foreign exchange gain		(1,280)
Balance at December 31, 2021	**$**	**—**

During the year ended December 31, 2021, the Corporation entered into a credit agreement with Banco Davivienda (note 9) and paid its litigation settlement liability outstanding principal and accrued interest, which was denominated in Colombian Pesos ("COP"). Until settlement, the liability was subject to a 8.74% annual interest rate.

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

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2019	180,075	$ 169,459
Issued on exercise of stock options	1,451	3,214
Transfer from other reserves for stock options	—	1,435
Common share repurchases	(2,011)	(5,536)
Balance at December 31, 2020	179,515	168,572
Common share repurchases	(3,348)	(8,774)
Balance at December 31, 2021	**176,167**	**$ 159,798**

During the years ended December 31, 2021 and 2020, the Corporation renewed its normal course issuer bid ("NCIB"), as authorized by the TSX to purchase up to 10,513,661 outstanding common shares of the Corporation ("Common Shares") (2020 - 11,341,964), 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 43,316 Common Shares (2020 - 60,132), which is 25% of the Corporation's average daily trading volume on the TSX for the six months ended November 30, 2021 and 2020, 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, 2021 to December 23, 2022 (2020 - December 24, 2020 to December 23, 2021), or until such earlier time as the NCIB is completed or terminated at the option of the Corporation.

During the years ended December 31, 2021 and 2020, Canacol 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, 2022 (2020 - 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.

During the year ended December 31, 2021, the Corporation repurchased and subsequently cancelled 3,348,500 common shares (2020 - 2,011,123 common shares) of the Corporation at a cost of $8.8 million (2020 - $5.5 million), including transaction fees.

On January 28, 2022, the Corporation purchased and subsequently cancelled 5,307,700 common shares of the Corporation at a cost of $13.2 million under its NCIB, relying on the block purchase exemption under the NCIB rules.

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

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, 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
Forfeited and cancelled	(2,983)	4.20
Balance at December 31, 2021	**9,826**	**4.29**

During the year ended December 31, 2020, the Corporation granted 3,700,000 stock options and settled 1,997,100 stock options in cash $1.9 million.

There were no stock options granted nor settled during the year ended December 31, 2021.

Information with respect to stock options outstanding at December 31, 2021 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$)
$3.97 - $4.20	1,716	0.8	4.15	1,716	4.15
$4.21 - $4.62	8,110	1.9	4.32	6,196	4.35
	9,826	**1.7**	**4.29**	**7,912**	**4.31**

Stock-based compensation of $0.7 million (2020 - $1.5 million) was expensed during the year ended December 31, 2021.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the below weighted-average inputs. A forfeiture rate of 8% was used when recording stock-based compensation for the year ended December 31, 2020.

Year ended December 31,	2020
Weighted-average fair value at grant date (C$)	0.77
Share price (C$)	4.24
Exercise price (C$)	4.24
Volatility	26% - 40%
Option life	5 years
Dividends	4.9 %
Risk-free interest rate	1.28% - 1.36%

Dividends Declared

During the year ended December 31, 2021, the Corporation declared four dividend payments of C$0.052 per share, totaling $29.3 million, of which $7.4 million was paid on April 15, 2021, $7.5 million was paid on July 15, 2021, $7.2 million was paid on October 15, 2021 and $7.2 million was paid on January 17, 2022, to shareholders of record at the close of business on March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021, 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.

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Credit Suisse Bank Debt	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Balance at December 31, 2019	$ 312,448	$ 29,137	$ —	$ —	$ —	$ 341,585
Draw on long-term debt, net of financing fees	—	2,276	21,973	—	5,000	29,249
Repayment of long-term debt	—	(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
Draw on long-term debt, net of make-whole payment and financing fees(1)	144,017	—	—	12,921	—	156,938
Repayment of long-term debt	—	(30,000)	—	—	—	(30,000)
Gain on modification of long-term debt	(2,526)	—	—	—	—	(2,526)
De-recognition of unamortized transaction costs(2)	—	849	—	—	—	849
Amortization of transaction costs	1,864	906	534	—	—	3,304
Foreign exchange gain	—	—	—	(814)	(400)	(1,214)
Balance at December 31, 2021	**$ 457,206**	**$ —**	**$ 22,657**	**$ 12,107**	**$ 2,513**	**$ 494,483**
Long-term debt - current	$ —	$ —	$ —	$ —	$ 2,513	$ 2,513
Long-term debt - non-current	457,206	—	22,657	12,107	—	491,970
Balance at December 31, 2021	**$ 457,206**	**$ —**	**$ 22,657**	**$ 12,107**	**$ 2,513**	**$ 494,483**

(1) The net draw of $180 million was net of: i) transaction costs of $14.9 million and ii) Make-Whole Payment of $21.1 million.
(2) The loss on settlement of long-term debt related to the Credit Suisse Bank Debt included : i) unamortized transaction costs of $0.8 million and ii) a cash prepayment penalty of $1.1 million totaling $1.9 million

Operating Loan

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 remaining balance payment being extended to April 11, 2022, and, as such, $2.5 million has been classified as current as at December 31, 2021.

Bridge Loan

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility ("RCF") and a $75 million senior unsecured bridge term loan ("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 RCF bears an interest rate of LIBOR + 4.75%, has a three-year term, and the Corporation's can / is allowed 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, 2021. The RCF is not subject to typical periodic redeterminations.

On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023. The remaining $50 million is available to be drawn at any time up to the new term and is budgeted to be used for Project construction materials. The Bridge Loan bears an interest rate of LIBOR + 4.25%, and the Corporation's can / is allowed 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. 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.

Credit Suisse Bank Debt

The Corporation's credit agreement with Credit Suisse ("Credit Suisse Bank Debt") for $30 million 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. 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 Credit Suisse 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).

During the year ended December 31, 2021, the Corporation repaid its Credit Suisse Bank Debt principal amount from net proceeds received though the Senior Notes refinancing, as described below, resulting in a loss on settlement of long-term debt of $1.9 million, comprised of: i) unamortized transaction costs of $0.8 million and ii) a prepayment penalty of $1.1 million (note 13).

Colombia Bank Debt

On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Davivienda ("Colombia Bank Debt") for a principal amount of $12.9 million denominated in COP, which is subject to an annual interest rate of IBR plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation's litigation settlement liability, which was subject to an 8.74% annual interest rate (note 7). The principal is scheduled to mature three years from the agreement date.

Senior Notes

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

The issuance of the 2028 Senior Notes was considered a modification of the 2025 Senior Notes, which resulted in a gain on modification of long-term debt of $2.5 million (note 13). In addition to repaying its Credit Suisse Bank Debt of $30 million, the Corporation paid the Make-Whole Payment of $21.1 million and transaction costs of $14.9 million, which were both netted against the incremental principal amount of $180 million, totaling a net draw of $144 million.

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

Net Carrying Value

	Senior Notes	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Long-term debt - principal	$ 500,000	$ 25,000	$ 12,107	$ 2,513	$ 539,620
Unamortized transaction costs	(42,794)	(2,343)	—	—	(45,137)
Balance at December 31, 2021	**$ 457,206**	**$ 22,657**	**$ 12,107**	**$ 2,513**	**$ 494,483**

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

The long-term debt agreements include various financial covenants and non-financial covenants relating to indebtedness, operations, investments, asset sales, capital expenditures and other standard operating business covenants, including a maximum consolidated leverage ratio of 3.25:1.00 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, 2021.

NOTE 10 – DECOMMISSIONING OBLIGATIONS

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
Accretion	1,645
Additions	3,867
Settlements	(73)
Change in estimates	(3,880)
Balance at December 31, 2021	**$ 26,147**

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 $26.1 million as at December 31, 2021 (2020 - $24.6 million) based on an undiscounted total future liability of $34.3 million (2020 - $30.5 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 8.2% (2020 - 5.8%) and the average inflation rate is 3% (2020 - 2.6%).

During the year ended December 31, 2020, the Corporation reclassified costs and decommissioning obligations related to the its Rancho Hermoso block from assets and liabilities held for sale since the disposal of such block within twelve months was not 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, 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
Additions	—	1,392	1,392
Settlements	(2,006)	(3,505)	(5,511)
De-recognitions	—	(501)	(501)
Foreign exchange gain	—	(234)	(234)
Balance at December 31, 2021	**$ 15,917**	**$ 2,172**	**$ 18,089**
Lease obligations - current	$ 2,173	$ 2,135	$ 4,308
Lease obligations - non-current	13,744	37	13,781
Balance at December 31, 2021	**$ 15,917**	**$ 2,172**	**$ 18,089**

As at December 31, 2021, the Corporation's lease obligations carrying value was $18.1 million (2020 - $22.9 million), including the compression stations previously recorded as a finance lease under IAS 17.

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

The Corporation uses certain IFRS 16 exemptions to not recognize low-value assets and short-term lease arrangements as leases. Lease arrangements with variable payments are also excluded from being recognized as a lease obligation and right-of-use asset. Such payments are recognized on the consolidated statements of operations or capitalized as PP&E or E&E. The payments related to short-term lease arrangements and low-value assets are recognized as operating expenses on the consolidated statements of operations. The variable lease payments related to the Sabanas pipeline are recognized as transportation expenses on the consolidated statements of operations. In addition, variable lease payments related to a drilling rig contract are capitalized.

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

Year ended December 31,	**2021**	2020
Low-value right-of-use assets	**$ 81**	$ 102
Short-term lease arrangements	**421**	923
Variable lease payments	**20,039**	19,593
Total lease payments	**$ 20,541**	$ 20,618

Future lease payments related to short-term, low value or variable lease arrangements as at December 31, 2021 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	$ 32,836	$ 32,137	$ 16,552	$ 81,525

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

NOTE 12 – OTHER EXPENSES

Year ended December 31,		**2021**		2020
Donations	**$**	**491**	$	974
Pre-license costs		**2,246**		1,030
Other expenses		**5,141**		7,531
Other tax expense		**3,348**		3,286
(Gain) loss on financial instruments		**(1,248)**		1,955
	$	**9,978**	$	14,776

(Gain) Loss on Financial Instruments

Year ended December 31,		**2021**		2020
Hedging contract - unrealized	**$**	**—**	$	644
Hedging contract - realized		**—**		1,026
Investments - Unrealized		**(1,248)**		285
	$	**(1,248)**	$	1,955

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).

During the year ended December 31, 2021, the Corporation realized gains on its investment in Arrow (note 6) due to an increase in the share price.

NOTE 13 – FINANCE INCOME AND EXPENSE

Year ended December 31,		**2021**		2020
Finance income				
Interest and other income	**$**	**874**	$	2,126
Gain on modification of long-term debt		**2,526**		1,174
Finance expense				
Loss on settlement of long-term debt[1]		**1,904**		—
Accretion on decommissioning obligations		**1,645**		1,388
Amortization of upfront transaction costs		**2,770**		2,136
Interest expense on lease obligations		**1,116**		1,363
Interest and other financing costs		**30,372**		29,425
		37,807		34,312
Net finance expense	**$**	**34,407**	$	31,012

(1) The loss on settlement of long-term debt related to the Credit Suisse Bank Debt included: i) unamortized transaction costs of $0.8 million and ii) a cash prepayment penalty of $1.1 million totaling $1.9 million.

During the year ended December 31, 2020, the Corporation recognized interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation.

During the year ended December 31, 2020, the Corporation amended its Credit Suisse Bank Debt, which 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 9).

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

During the year ended December 31, 2021, the Corporation recognized a gain on modification of long-term debt related to the refinancing of its Senior Notes of $2.5 million (note 9). In addition, a loss on settlement of long-term debt of $1.9 million was recognized related to its Credit Suisse Bank Debt comprised of: i) unamortized transaction costs of $0.8 million (note 9) and ii) a cash prepayment penalty of $1.1 million.

NOTE 14 – NET INCOME (LOSS) PER SHARE

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

Year ended December 31,		**2021**		2020
Net income (loss)	**$**	**15,177**	$	(4,743)
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic		**178,141**		180,646

Due to the net loss realized during the year ended December 31, 2020, stock options were anti-dilutive. There was no dilution effect of stock options during the year ended December 31, 2021 due to the stock options being out-of-the-money.

NOTE 15 – INCOME TAXES

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

Year ended December 31,		**2021**		2020
Net income before taxes	**$**	**59,066**	$	77,396
Statutory rates		**23%**		24%
Expected income taxes	**$**	**13,585**		18,575
Effect on taxes resulting from:				
Non-deductible permanent differences and other	**$**	**1,820**	$	5,489
Tax differential on foreign jurisdictions		**6,700**		6,587
Change in unrecognized tax benefit		**3,349**		37,889
Provision to filing true-up		**244**		3,069
Change in enacted tax rate		**2,760**		1,689
Foreign exchange		**15,431**		8,841
Provision for income taxes	**$**	**43,889**	$	82,139
Current tax expense	**$**	**29,932**	$	30,769
Deferred tax expense		**13,957**		51,370
	$	**43,889**	$	82,139

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

The net deferred tax liability is comprised of:

Year ended December 31,		**2021**		2020
Net book value of property, plant and equipment in excess of asset tax base	**$**	**(62,033)**	$	(42,902)
Losses carried forward		**9,422**		6,957
Decommissioning liabilities and other provisions		**10,576**		8,316
Timing differences on revenue and expense recognition and other		**1,326**		877
Deferred tax liability	**$**	**(40,709)**	$	(26,752)

The enacted tax rates are 32% for 2020, 31% for 2021 and 35% for 2022 and onward. In Q3 2021, the Colombian government mandated an increase in the tax rate to 35% from 30% beginning on January 1, 2022.

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 15 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 de-recognized $29.7 million in association with such non-capital losses during the year ended December 31, 2020. 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.

At December 31, 2021, the Corporation had non-capital losses carried forward of approximately $105.3 million (2020 - $118.5 million) available to reduce future years taxable income. At December 31, 2021, the Corporation had deferred income tax assets of $327.6 million (2020 - $371.2 million) related to Canada and Colombia that were not recognized in the financial statements due to uncertainties associated with its ability to utilize these balances in the future.

During the year ended December 31, 2020, the Corporation recognized a deferred tax expense of $51.4 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, 2021, the Corporation recognized a deferred tax expense of $14 million mainly related to the foreign exchange impact on the Corporation's unused tax pools of $15.4 million, offset by an increase in the deferred tax assets related to other minor items.

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

NOTE 16 – OTHER CASH FLOW ACTIVITIES

Other Operating Activities

Year ended December 31,	Note		2021		2020
Settlement of decommissioning obligations		$	(54)	$	(721)
Settlement of restricted share units	7		(3,750)		(4,809)
Settlement of cash settled options	8		—		(1,909)
		$	(3,804)	$	(7,439)

Other Investing Activities

Year ended December 31,	Note		2021		2020
Change in investments	6	$	(3,846)	$	(1,124)
Change in restricted cash			—		4,524
Change in prepaid expenses and deposits			(4,667)		(863)
		$	(8,513)	$	2,537

Non-Cash Working Capital

Year ended December 31,		2021		2020
Change in:				
Trade and other receivables	$	(5,760)	$	3,634
Prepaid expenses and deposits		799		(1,698)
Tax installments and receivables		5,013		(1,056)
Crude oil inventory		(37)		(37)
Trade and other payables		7,187		(7,415)
Deferred income		(7,503)		1,575
Taxes payable		(9,472)		6,873
		(9,773)		1,876
Foreign exchange impact on working capital ending balances		(1,675)		(57)
	$	(11,448)	$	1,819
Attributable to:				
Operating activities	$	(16,906)	$	7,924
Investing activities		5,458		(6,105)
	$	(11,448)	$	1,819

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, with the exception of its take-or-pay natural gas income, on a consolidated basis which were allocated as follows:

Year ended December 31,		2021		2020
Natural gas and LNG revenues, net of royalties	$	277,933	$	272,359
Crude oil revenue, net of royalties		5,630		3,120
Take-or-pay natural gas income		506		1,131
	$	284,069	$	276,610

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

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

Year ended December 31,		2021		2020
Natural gas royalties	$	45,805	$	43,264
Crude oil royalties		471		257
	$	46,276	$	43,521

Natural Gas Trading

Year ended December 31,		2021		2020
Natural gas trading revenue	$	26,475	$	2,195
Natural gas trading purchases cost		(26,206)		(2,170)
Natural gas trading profit	$	269	$	25

The Corporation recognized $26.5 million and $2.2 million of natural gas trading revenue and incurred gas purchase costs of $26.2 million and $2.2 million during the year ended December 31, 2021 and 2020, respectively, related to the delivery of a certain off-taker's long-term contract.

The Corporation's gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities.

Major Customers

Major customers are customers which represent more than 10% of total revenue for a given period. For the year ended December 31, 2021, two major customers represented 37% and 13% of total revenues in the year, respectively. For the year ended December 31, 2020, three major customers represented 29%, 15% and 10% of total revenues in the year, respectively.

Take-or-Pay Natural Gas Income

During the year ended December 31, 2021, the Corporation realized take-or-pay natural gas income of $0.5 million (2020 - $1.1 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

As at December 31, 2021, the Corporation has deferred income of $5.2 million (2020 - $12.7 million) which related to undelivered natural gas nominations for which the off-takers have a legal right to take delivery at a later date. As at December 31, 2021, 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,		2021		2020
Income taxes paid	$	44,061	$	33,695
Interest paid	$	29,374	$	26,435

During the year ended December 31, 2021, the Corporation paid its remaining 2020 income tax expense installment of $11.4 million (2020 - $11 million). In addition, the Corporation also prepaid advances related to its 2021 income tax expense of $32.7 million (2020 - $22.7 million) during the year ended December 31, 2021.

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

NOTE 18 – KEY MANAGEMENT PERSONNEL

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

Year ended December 31,	2021	2020
Salaries and director fees	$ 4,731	$ 3,571
Benefits	495	474
Long-term incentive compensation(1)	1,842	2,077
Key management personnel compensation	**$ 7,068**	$ 6,122

(1) The long-term incentive compensation includes RSUs, PSUs and DSUs amortized as stock-based compensation expense during December 31, 2021 and 2020.

NOTE 19 – SIGNIFICANT SUBSIDIARIES

The Corporation has the following significant subsidiaries:

			Ownership Interest	
	Country of Incorporation	Fiscal year end	December 31, 2021	December 31, 2020
Canacol Energy Inc.	Canada	December 31	100%	100%
Shona Energy L.P.	Canada	December 31	—	100%
CNE Oil & Gas S.A.S	Colombia	December 31	100%	100%
Canacol Energy Colombia S.A.S.	Colombia	December 31	100%	100%

NOTE 20 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, dividend payable and lease obligations approximate their fair values at December 31, 2021. RSUs and certain investments are recorded at fair value. The fair value of the Senior Notes, Bridge Loan, Colombia Bank Debt and Operating Loan is $496.2 million, $25 million, $12.1 million and $2.5 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 Colombia Bank Debt, Bridge Loan, Operating Loan and certain investments were classified as level 2 as at December 31, 2021. There has been no reclassification of financial instruments into or out of each fair value hierarchy during the year ended

December 31, 2021. 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 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, 2021.

(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, 2021, the COP to the USD exchange rate was 3,981:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.27:1 (December 31, 2020 – 1.27:1). The 16% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the year ended December 31, 2021. In addition, total deferred income tax expense of $14 million recognized during the year ended December 31, 2021, was mainly as a result of the devaluation of COP to USD.

During the year ended December 31, 2021, the Corporation held no 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, which includes the Senior Notes are subject to fixed interest rates and limits the Corporation's exposure to interest rate risk. The Corporation's Colombia 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, 2021.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The emergency measures enacted to combat the spread of the virus, including travel bans, self-imposed quarantine periods and social distancing, caused material disruption to businesses globally resulting in an economic downturn, including in Canada and Colombia. As a result of the economic downturn, the Corporation had lower demand for 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 the impact of COVID-19. As at December 31, 2021, COVID-19 restrictions are being lifted and the Colombian economy has shown signs of recovery, which has been reflected in the increased demand for the Corporation's spot sales.

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

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, 2021:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	$ 2,512	$ 25,000	$ 512,107	$ 539,619
Lease obligations – undiscounted	4,779	3,012	13,099	20,890
Trade and other payables	52,363	—	—	52,363
Dividend payable	7,226	—	—	7,226
Taxes payable	3,444	—	—	3,444
Other long term obligation	—	4,069	—	4,069
Long-term incentive compensation liability	1,991	94	—	2,085
	$ 72,315	**$ 32,175**	**$ 525,206**	**$ 629,696**

Credit Risk

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

The Corporation's trade receivables primarily relate to sales of natural gas, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at December 31, 2021 was $57.2 million (December 31, 2020 - $49.9 million), $9.7 million related to the recovery of transportation costs passed-through to customers (December 31, 2020 - $10.7 million), $3.4 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (December 31, 2020 - $5.8 million) and $2.7 million of other receivables (December 31, 2020 - $4.3 million). During the year ended December 31, 2021, the Corporation received $3.2 million of the $6.4 million receivable, through the receipt of Arrow shares (note 6). The remaining balance of $3.4 million is expected to be collected as follows: i) half of the remaining balance of $3.4 million will be paid no later than December 31, 2022 and ii) half will be paid no later than June 30, 2023. As such, $1.7 million of the total $3.4 million was classified as non-current as at December 31, 2021.

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, 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.

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

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding long-term obligations less working capital. 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, 2021	December 31, 2020
Senior Notes - principal (2021 - 5.75%; 2020 - 7.25%)	9	**500,000**	$ 320,000
Bank Debt - principal (LIBOR + 4.25%)(1)	9	**—**	30,000
Bridge Loan - principal (LIBOR + 4.25%)(1)	9	**25,000**	25,000
Colombia Bank Debt - principal (IBR + 2.5%)(2)	9	**12,107**	—
Litigation settlement liability (8.74%)	7	**—**	14,353
Operating loan (IBR + 1.5%)(2)	9	**2,513**	2,913
Lease obligation (5.1%)	11	**18,089**	22,943
Total debt		**557,709**	415,209
Working capital surplus		**(148,124)**	(73,404)
Net debt		**$ 409,585**	$ 341,805

(1) The LIBOR rate during the year ended December 31, 2021 was 0.338%.
(2) The IBR rate during the year ended December 31, 2021 was 2.41%.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at December 31, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 5,608	$ 63,312	$ 16,379	$ 85,299
Compression station operating contracts	2,660	5,482	8,645	16,787
	$ 8,268	**$ 68,794**	**$ 25,024**	**$ 102,086**

Letters of Credit

At December 31, 2021, the Corporation had letters of credit outstanding totaling $76 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, $4.1 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than December 31, 2022.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at December 31, 2021 of $85.3 million and has issued $33.4 million of the total $76 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.