

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2024



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

| As at | Note | March 31, 2024 | December 31, 2023 |
|--|------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 25,122 | \$ 39,425 |
| Trade and other receivables | 16 | 76,944 | 97,785 |
| Tax installments and receivables | | 11,471 | 10,070 |
| Investments | 6 | 8,776 | — |
| Other current assets | 6 | 5,968 | 4,355 |
| | | 128,281 | 151,635 |
| Non-current assets | | | |
| Exploration and evaluation assets | 4 | 119,014 | 113,381 |
| Property, plant and equipment | 5 | 694,352 | 681,034 |
| Deferred tax assets | | 258,737 | 261,195 |
| Investments | 6 | 5,528 | 17,310 |
| Other non-current assets | 6 | 10,366 | 8,873 |
| | | 1,087,997 | 1,081,793 |
| Total assets | | \$ 1,216,278 | \$ 1,233,428 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | | 93,776 | 107,911 |
| Deferred income | | 9,898 | 6,640 |
| Dividend payable | | — | 6,706 |
| Lease obligations | 10 | 3,570 | 3,241 |
| Taxes payable | | 35,185 | 38,861 |
| Long-term incentive compensation liabilities | 7 | 623 | 1,545 |
| | | 143,052 | 164,904 |
| Non-current liabilities | | | |
| Long-term debt | 9 | 665,009 | 663,000 |
| Lease obligations | 10 | 11,786 | 10,194 |
| Decommissioning obligations | | 29,055 | 30,121 |
| Deferred tax liabilities | | 3,953 | 5,875 |
| Long-term incentive compensation liabilities | 7 | 758 | 1,273 |
| Other long term obligations | | 6,961 | 6,387 |
| Total liabilities | | 860,574 | 881,754 |
| Equity | | | |
| Share capital | 8 | 146,142 | 146,142 |
| Other reserves | | 67,830 | 67,454 |
| Retained earnings | | 141,732 | 138,078 |
| Total equity | | 355,704 | 351,674 |
| Total liabilities and equity | | \$ 1,216,278 | \$ 1,233,428 |

See accompanying notes to the consolidated financial statements.

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

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

| Three months ended March 31, | Note | 2024 | 2023 |
|--|------|-----------------|------------------|
| Revenues | | | |
| Total revenues, net of royalties | 15 | \$ 83,402 | \$ 76,231 |
| | | 83,402 | 76,231 |
| Expenses | | | |
| Operating expenses | | 7,400 | 4,904 |
| Transportation expenses | | 5,711 | 2,318 |
| General and administrative | | 8,131 | 7,196 |
| Stock-based compensation expense | 7 | 52 | 1,591 |
| Depletion and depreciation | 5 | 19,026 | 18,971 |
| Foreign exchange loss (gain) | | (47) | 587 |
| Other expenses | 11 | 5,701 | 2,152 |
| | | 45,974 | 37,719 |
| Net finance expense | 12 | 16,056 | 12,769 |
| Income before income taxes | | 21,372 | 25,743 |
| Income tax expense (recovery) | | | |
| Current | | 17,183 | 26,292 |
| Deferred | | 535 | (17,423) |
| | | 17,718 | 8,869 |
| Net income and comprehensive income | | \$ 3,654 | \$ 16,874 |
| Net income per share | | | |
| Basic and diluted | 13 | \$ 0.11 | \$ 0.49 |

See accompanying notes to the consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(in thousands of United States dollars)

| | Note | Share Capital | Other Reserves | Retained Earnings (Deficit) | Total Equity |
|----------------------------------|------|-------------------|-------------------|-----------------------------------|-------------------|
| Balance at December 31, 2022 | | \$ 146,142 | \$ 67,439 | \$ 78,359 | \$ 291,940 |
| Stock-based compensation | 8 | — | 15 | — | 15 |
| Dividends declared | | — | — | (6,553) | (6,553) |
| Net income | | — | — | 16,874 | 16,874 |
| Balance at March 31, 2023 | | \$ 146,142 | \$ 67,454 | \$ 88,680 | \$ 302,276 |
| Balance at December 31, 2023 | | \$ 146,142 | \$ 67,454 | \$ 138,078 | \$ 351,674 |
| Stock-based compensation | 8 | — | 376 | — | 376 |
| Net income | | — | — | 3,654 | 3,654 |
| Balance at March 31, 2024 | | \$ 146,142 | \$ 67,830 | \$ 141,732 | \$ 355,704 |

See accompanying notes to the consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

| Three months ended March 31, | Note | 2024 | 2023 |
|--|------|------------------|------------------|
| Operating activities | | | |
| Net income and comprehensive income | | \$ 3,654 | \$ 16,874 |
| Non-cash adjustments: | | | |
| Depletion and depreciation | 5 | 19,026 | 18,971 |
| Stock-based compensation expense | 7 | 52 | 1,591 |
| Net financing expense | 12 | 16,056 | 12,769 |
| Unrealized foreign exchange (gain) loss and other expenses | | 947 | 1,356 |
| Deferred income tax recovery | | 535 | (17,423) |
| Equity investment loss (income) | 6 | 2,976 | (605) |
| Unrealized gain on financial instruments | 6 | 30 | 42 |
| Settlement of decommissioning obligation | | (701) | (217) |
| Settlement of long-term incentive compensation | 7 | (1,050) | (882) |
| Changes in non-cash working capital | 14 | 13,194 | (1,507) |
| | | 54,719 | 30,969 |
| Investing activities | | | |
| Expenditures on exploration and evaluation assets | 4 | (12,965) | (11,598) |
| Expenditures on property, plant and equipment | | (22,971) | (35,934) |
| Proceeds on disposition of property, plant and equipment | | 58 | 409 |
| Other investing activities | 14 | (1,202) | 2,852 |
| Changes in non-cash working capital | 14 | (10,822) | 8,199 |
| | | (47,902) | (36,072) |
| Financing activities | | | |
| Draw on long-term debt, net of financing fees | 9 | — | 67,151 |
| Repayment of debt | 9 | — | (34,930) |
| Net financing expense paid | 12 | (13,328) | (8,864) |
| Lease principal payments | 10 | (1,021) | (792) |
| Dividends paid | | (6,706) | (6,542) |
| | | (21,055) | 16,023 |
| Change in cash and cash equivalents | | (14,238) | 10,920 |
| Cash and cash equivalents, beginning of period | | 39,425 | 58,518 |
| Foreign exchange impact on cash and cash equivalents | | (65) | 2,635 |
| Cash and cash equivalents, end of period | | \$ 25,122 | \$ 72,073 |

See accompanying notes to the consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on May 8, 2024.

NOTE 2 - BASIS OF PREPARATION

The financial statements were prepared by management in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These financial statements do not include all of the information required for the annual consolidated financial statements; however they were prepared in accordance with the accounting policies outlined and should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2023, which were prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, investments and restricted share units, which are measured at fair value with changes in fair value recorded in profit or loss (“fair value through profit or loss”).

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

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

Functional and Presentation Currency

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

NOTE 3 – MATERIAL ACCOUNTING POLICIES

Recent Accounting Pronouncements - Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 - “Presentation of Financial Statements”, to clarify its requirements for the presentation of liabilities as current or non-current in the statements of financial position. IAS 1 was further amended in October 2022, specifying the classification and disclosure of a liability with covenants. The initial application of the amendments to IAS 1 effective January 1, 2024 did not have any material impacts on the financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

| | | |
|----------------------------------|-----------|----------------|
| Balance at December 31, 2023 | \$ | 113,381 |
| Additions | | 12,965 |
| Transferred to PP&E (note 5) | | (7,332) |
| Balance at March 31, 2024 | \$ | 119,014 |

During the three months ended March 31, 2024, the Corporation transferred \$7.3 million of exploration costs to PP&E as a result of natural gas discovery at the VIM-21 block.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

| | Property, Plant and Equipment | Right-of-Use Leased Assets | Total |
|---|----------------------------------|-------------------------------|---------------------|
| Cost | | | |
| Balance at December 31, 2023 | \$ 1,343,969 | \$ 30,275 | \$ 1,374,244 |
| Additions | 22,017 | 3,000 | 25,017 |
| Transferred from E&E assets (note 4) | 7,332 | — | 7,332 |
| Dispositions | (182) | (41) | (223) |
| Derecognition | (64) | — | (64) |
| Balance at March 31, 2024 | \$ 1,373,072 | \$ 33,234 | \$ 1,406,306 |
| Accumulated depletion and depreciation | | | |
| Balance at December 31, 2023 | \$ (681,022) | \$ (12,188) | \$ (693,210) |
| Dispositions | 178 | 38 | 216 |
| Depletion and depreciation | (18,232) | (794) | (19,026) |
| Derecognition and inventory adjustments | 66 | — | 66 |
| Balance at March 31, 2024 | \$ (699,010) | \$ (12,944) | \$ (711,954) |
| Carrying value | | | |
| As at December 31, 2023 | \$ 662,947 | \$ 18,087 | \$ 681,034 |
| As at March 31, 2024 | \$ 674,062 | \$ 20,290 | \$ 694,352 |

During the three months ended March 31, 2024, \$7.3 million of exploration costs have been transferred from E&E assets (note 4).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 6 – INVESTMENTS AND OTHER ASSETS

Investments

| | Arrow Equity Investment | Tesorito Investment | Total Investments |
|----------------------------------|----------------------------|------------------------|----------------------|
| Balance at December 31, 2023 | \$ 11,752 | \$ 5,558 | \$ 17,310 |
| Equity investment loss | (2,976) | — | (2,976) |
| Unrealized loss | — | (30) | (30) |
| Balance at March 31, 2024 | \$ 8,776 | \$ 5,528 | \$ 14,304 |
| Investments - current | \$ 8,776 | — | \$ 8,776 |
| Investments - non-current | — | 5,528 | 5,528 |
| Balance at March 31, 2024 | \$ 8,776 | \$ 5,528 | \$ 14,304 |

The Corporation held an investment in a public company, Arrow Exploration Corp. (“Arrow”), of which two of the board of directors of Arrow were also key members of the Corporation’s management. As at March 31, 2024, the Corporation held an aggregate of 60,072,807 common shares of Arrow, which is an approximately 21.0% of equity interest in Arrow. The carrying value of the equity investment in Arrow was \$8.8 million. On April 26, 2024, the Corporation sold all of its Arrow common shares at £ 0.185 per share for a total of \$13.3 million USD, net of fees.

Other Assets

| | March 31, 2024 | December 31, 2023 |
|-------------------------------|------------------|-------------------|
| Current | | |
| Restricted cash | \$ 189 | \$ 480 |
| Prepaid expenses and deposits | 5,353 | 3,485 |
| Inventory | 426 | 390 |
| | \$ 5,968 | \$ 4,355 |
| Non-Current | | |
| Prepaid expenses and deposits | 10,366 | 8,873 |
| | \$ 10,366 | \$ 8,873 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 7 – LONG-TERM INCENTIVE COMPENSATION LIABILITY

| | | RSUs | | PSUs | | DSUs | | Total |
|----------------------------------|-----------|------------|-----------|------------|-----------|------------|-----------|--------------|
| Balance at December 31, 2023 | \$ | 1,868 | \$ | 731 | \$ | 219 | \$ | 2,818 |
| Amortized | | (125) | | (96) | | (67) | | (288) |
| Settled/Cancelled | | (1,091) | | — | | — | | (1,091) |
| Foreign exchange loss | | (30) | | (22) | | (6) | | (58) |
| Balance at March 31, 2024 | \$ | 622 | \$ | 613 | \$ | 146 | \$ | 1,381 |

The long-term incentive compensation liability includes restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”). The RSUs and PSUs are recognized as a liability and expensed on a graded vesting and cliff vesting basis, respectively, over the vesting term of each grant. The DSUs vest immediately on the grant date and are recognized as an expense. The DSUs are settled at such time the grantee ceases to be a member of the Board of Directors. Dividend share units are accrued and granted on the outstanding units on each dividend payment date. The dividend share units are amortized and settled in accordance with the units’ respective vesting periods. Stock-based compensation relating to RSUs, PSUs and DSUs was a recovery of \$0.3 million (2023 - \$1.6 million expense) for the three months ended March 31, 2024. The amortized long-term incentive compensation liability as at March 31, 2024 was \$1.4 million (December 31, 2023 - \$2.8 million).

The number of outstanding RSUs, PSUs and DSUs as at March 31, 2024 were as follows:

| | RSUs | PSUs | DSUs | Total |
|----------------------------------|------------|------------|-----------|------------|
| | (000’s) | (000’s) | (000’s) | (000’s) |
| Balance at December 31, 2023 | 481 | 419 | 42 | 942 |
| Granted | 18 | 16 | 1 | 35 |
| Settled | (231) | — | — | (231) |
| Cancelled | (13) | — | — | (13) |
| Balance at March 31, 2024 | 255 | 435 | 43 | 733 |

Restricted Share Units

Dividend share units were granted on the dividend payment dates during the three months ended March 31, 2024 for all of the RSUs outstanding, totaling 17,990 units. For the three months ended March 31, 2024, the Corporation settled 130,497 and 100,041 RSUs at a price of C\$6.29 and C\$5.89 per unit, respectively, for a total of \$1.0 million in cash.

Performance Share Units

Dividend share units were granted on dividend payment dates during the three months ended March 31, 2024 for all of the PSUs outstanding, totaling 15,686 units.

Deferred Share Units

The grantee of the DSUs is entitled to receive either the Corporation’s common shares upon vesting of such units or, at the option of the Corporation, a cash payment equal to the value of the underlying common shares.

Dividend share units were granted on dividend payment dates during the three months ended March 31, 2024 for all of the DSUs outstanding, totaling 1,559 units.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

(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, 2023 and March 31, 2024 | 34,111 \$ | 146,142 |

Stock Options

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

| | Number (000's) | Weighted-Average Exercise Price (C\$) |
|-----------------------------------|-------------------|---|
| Balance at December 31, 2023 | 787 | 21.76 |
| Granted | 685 | 6.10 |
| Forfeited, cancelled, and expired | (257) | 22.15 |
| Balance at March 31, 2024 | 1,215 | 12.85 |

Information with respect to stock options outstanding as at March 31, 2024 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\$) |
| \$6.10 - \$21.20 | 1,112 | 3.3 | 11.90 | 655 | 15.94 |
| \$21.21 - \$23.10 | 103 | 0.4 | 23.10 | 103 | 23.10 |
| | 1,215 | 3.1 | 12.85 | 758 | 16.92 |

Stock-based compensation of \$0.4 million was expensed during the three months ended March 31, 2024.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the inputs below. A forfeiture rate of 8% was used when recording stock-based compensation for the three months ended March 31, 2024.

| At March 31, | 2024 |
|---|---------|
| Weighted-average fair value at grant date (C\$) | 2.02 |
| Share price (C\$) | 6.10 |
| Exercise price (C\$) | 6.10 |
| Volatility | 37 % |
| Option life | 5 years |
| Dividends | — % |
| Risk-free interest rate | 3.76 % |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 9 – LONG-TERM DEBT

| | Senior Notes | RCF | Total |
|-----------------------------------|-------------------|-------------------|-------------------|
| Balance at December 31, 2023 | \$ 469,212 | \$ 193,788 | \$ 663,000 |
| Amortization of transaction costs | 1,518 | 491 | 2,009 |
| Balance at March 31, 2024 | \$ 470,730 | \$ 194,279 | \$ 665,009 |

Senior Notes

On November 24, 2021, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of \$500 million (“Senior Notes”). The Senior Notes pay interest semi-annually at a fixed rate of 5.75% per annum, and mature in 2028 unless earlier redeemed or repurchased in accordance with their terms. The Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of Canacol.

Revolving Credit Facility

On February 17, 2023, the Corporation entered into a \$200 million senior unsecured revolving credit facility (“RCF”) with a syndicate of banks. The RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the RCF at any time within the term without penalty. Any undrawn amounts are subject to a commitment fee equal to 30% of the 4.50% interest margin throughout the availability period. The RCF is not subject to typical periodic redeterminations. The amount drawn and outstanding as at March 31, 2024 was \$200 million.

Net Carrying Value

| | Senior Notes | New RCF | Total |
|----------------------------------|-------------------|-------------------|-------------------|
| Long-term debt - principal | \$ 500,000 | \$ 200,000 | \$ 700,000 |
| Unamortized transaction costs | (29,270) | (5,721) | (34,991) |
| Balance at March 31, 2024 | \$ 470,730 | \$ 194,279 | \$ 665,009 |

As at March 31, 2024, unamortized transaction costs were netted against the Senior Notes and RCF principal amounts.

The Corporation’s Senior Notes and the RCF include various covenants relating to maximum leverage, minimum interest coverage, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation’s financial covenants include: a) a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio (“Consolidated Leverage Ratio”) of 3.25:1.00 (incurrence) or 3.50:1.00 (maintenance) and b) a minimum 12 month trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio (“Consolidated Interest Coverage Ratio”) of 2.50:1.00. The Corporation was in compliance with its covenants as at March 31, 2024.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 10 – LEASE OBLIGATIONS

| | Compression Stations | | Other | Total |
|----------------------------------|----------------------|---------------|-----------------|------------------|
| Balance at December 31, 2023 | \$ | 11,394 | \$ 2,041 | \$ 13,435 |
| Additions | | — | 3,000 | 3,000 |
| Settlements | | (622) | (399) | (1,021) |
| De-recognitions | | — | (3) | (3) |
| Foreign exchange gain | | — | (55) | (55) |
| Balance at March 31, 2024 | \$ | 10,772 | \$ 4,584 | \$ 15,356 |
| Lease obligations - current | \$ | 2,586 | \$ 984 | \$ 3,570 |
| Lease obligations - non-current | | 8,186 | 3,600 | 11,786 |
| Balance at March 31, 2024 | \$ | 10,772 | \$ 4,584 | \$ 15,356 |

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

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

| Three months ended March 31, | 2024 | | 2023 |
|-------------------------------|-----------|------------|-----------------|
| Low-value right-of-use assets | \$ | 39 | \$ 59 |
| Short-term lease arrangements | | 1 | 14 |
| Variable lease payments | | 706 | 4,762 |
| Total lease payments | \$ | 746 | \$ 4,835 |

Future lease payments related to short-term, low-value or variable lease arrangements as at March 31, 2024 are as follows:

| | Less than 1 year | | 1-3 years | Thereafter | Total |
|-----------------------|------------------|--------|-----------|------------|-----------|
| Future lease payments | \$ | 25,438 | \$ 12,505 | \$ — | \$ 37,943 |

NOTE 11 – OTHER EXPENSES (INCOME)

| Three months ended March 31, | Note | 2024 | 2023 |
|---------------------------------|------|-----------------|-----------------|
| Pre-license costs | | 189 | 408 |
| Other expenses | | 2,057 | 1,903 |
| Other tax expense | | 449 | 404 |
| Equity investment (income) loss | 6 | 2,976 | (605) |
| Loss on financial instruments | 6 | 30 | 42 |
| | | \$ 5,701 | \$ 2,152 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 12 – FINANCE INCOME AND EXPENSE

| Three months ended March 31, | 2024 | 2023 |
|---|------------------|------------------|
| Finance income | | |
| Interest income | \$ 393 | \$ 807 |
| Finance expense | | |
| Accretion on decommissioning obligations | 719 | 746 |
| Amortization of upfront transaction costs | 2,009 | 3,159 |
| Interest expense on lease obligations | 251 | 231 |
| Interest and other financing costs | 13,470 | 9,440 |
| | 16,449 | 13,576 |
| Net finance expense | \$ 16,056 | \$ 12,769 |

NOTE 13 – NET INCOME PER SHARE

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

| Three months ended March 31, | 2024 | 2023 |
|--|---------------|---------------|
| Net income | \$ 3,654 | \$ 16,874 |
| Weighted-average common shares outstanding: | | |
| Weighted-average common shares outstanding, basic | 34,111 | 34,111 |

The stock options were anti-dilutive for the three months ended March 31, 2024 and 2023.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

| Three months ended March 31, | Note | 2024 | 2023 |
|---|------|-------------------|-----------------|
| Sub-lease receipts and finance income | | \$ — | \$ 33 |
| Change in restricted cash | | 291 | — |
| Change in non-current prepaid expenses and deposits | | (1,493) | 2,819 |
| | | \$ (1,202) | \$ 2,852 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

Change in Non-Cash Working Capital

| Three months ended March 31, | 2024 | 2023 |
|----------------------------------|-----------|-------------|
| Change in: | | |
| Trade and other receivables | \$ 19,679 | \$ (18,309) |
| Prepaid expenses and deposits | (2,095) | (847) |
| Tax installments and receivables | (1,401) | (1,308) |
| Crude oil inventory | (38) | (25) |
| Trade and other payables | (13,510) | 11,460 |
| Deferred income | 3,258 | 4,589 |
| Taxes payable | (3,521) | 11,132 |
| | \$ 2,372 | \$ 6,692 |
| Attributable to: | | |
| Operating activities | \$ 13,194 | \$ (1,507) |
| Investing activities | (10,822) | 8,199 |
| | \$ 2,372 | \$ 6,692 |

NOTE 15 – SUPPLEMENTAL INFORMATION

Total Revenues, Net of Royalties

| Three months ended March 31, | 2024 | 2023 |
|--|-----------|-----------|
| Natural gas and LNG revenues, net of royalties | \$ 78,789 | \$ 73,359 |
| Crude oil revenue, net of royalties | 3,751 | 2,062 |
| Power generation standby revenue | 753 | 749 |
| Take-or-pay natural gas income | 109 | 61 |
| | \$ 83,402 | \$ 76,231 |

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

| Three months ended March 31, | 2024 | 2023 |
|------------------------------|-----------|-----------|
| Natural gas royalties | \$ 17,031 | \$ 14,579 |
| Crude oil royalties | 144 | 130 |
| | \$ 17,175 | \$ 14,709 |

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

| Three months ended March 31, | 2024 | 2023 |
|------------------------------|-----------|-----------|
| Income taxes paid | \$ 19,974 | \$ 18,255 |
| Interest paid | \$ 5,290 | \$ 1,317 |

During the three months ended March 31, 2024, the Corporation paid income tax of \$14.2 million (2023 - \$14.8 million) for the 2023 tax year. In addition, the Corporation also paid installments relating to its 2024 income tax expense of \$5.8 million (2023 - \$3.5 million) during the three months ended March 31, 2024, which was net of \$0.8 million of VAT paid on certain eligible capital expenditures that were applied against the Corporation's taxes payable.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values at March 31, 2024. The long-term incentive compensation liability and Tesorito Investment are recorded at fair value. Long-term debt, which includes Senior Notes and the RCF, is carried at amortized cost. As at March 31, 2024, the fair value of Senior Notes and the RCF was \$240.4 million and \$200 million, respectively.

Market Risk

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk. The Corporation had no commodity contracts in place as at or during the three months ended March 31, 2024.

(ii) Foreign Currency Risk

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

As at March 31, 2024, the COP to USD exchange rate was 3,842:1 (December 31, 2023 – 3,822:1) and the CAD to USD exchange rate was 1.36:1 (December 31, 2023 – 1.32:1). The Corporation's revenues are not exposed to foreign currency risk as all of Canacol's natural gas sales contracts are denominated in USD. The Corporation had no foreign exchange contracts in place as at or during the three months ended March 31, 2024.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates to the extent that variable interest rate debt instruments are drawn. The majority of the Corporation's interest bearing debt, being the Senior Notes, is subject to a fixed interest rate which limits the Corporation's exposure to interest rate risk. The Corporation's RCF is subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate contracts in place as at or during the three months ended March 31, 2024.

Liquidity Risk

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

The following table outlines the contractual maturities of the Corporation's financial liabilities as at March 31, 2024:

| | Less than 1 year | 1-2 years | Thereafter | Total |
|--|---------------------|------------------|-------------------|-------------------|
| Long-term debt – principal | \$ — | \$ — | \$ 700,000 | \$ 700,000 |
| Lease obligations – undiscounted | 4,925 | 5,040 | 6,599 | 16,564 |
| Trade and other payables | 93,776 | — | — | 93,776 |
| Taxes payable | 35,185 | — | — | 35,185 |
| Other long term obligations | — | 6,961 | — | 6,961 |
| Long-term incentive compensation liability | 623 | 758 | — | 1,381 |
| | \$ 134,509 | \$ 12,759 | \$ 706,599 | \$ 853,867 |

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables.

The Corporation's trade receivables primarily relate to sales of natural gas, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers, however, as at March 31, 2024, the Corporation has invoices from a certain customer totaling \$21 million that have become past due. The Corporation expects to be able to collect the total outstanding balance in full and is confident in its legal position in respect of the dispute with that certain customer (note 17 - contingencies).

As at March 31, 2024, Trade and other receivables was comprised of a) \$59.7 million (December 31, 2023 - \$79.4 million) of trade receivables, b) \$9.7 million related to the recovery of transportation costs passed-through to customers (December 31, 2023 - \$13.6 million), and c) \$7.5 million of other receivables (December 31, 2023 - \$4.8 million).

Capital Management

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

| | Note | March 31, 2024 | December 31, 2023 |
|----------------------------------|------|-------------------|-------------------|
| Senior Notes - principal (5.75%) | 9 | 500,000 | \$ 500,000 |
| RCF (SOFR + 4.5%) ⁽¹⁾ | 9 | 200,000 | 200,000 |
| Lease obligation (5.75%) | 10 | 15,356 | 13,435 |
| Total debt | | 715,356 | 713,435 |
| Working capital deficit | | 11,201 | 10,028 |
| Net debt | | \$ 726,557 | \$ 723,463 |

(1) The SOFR rate for the three months ended March 31, 2024 was 5.38%.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments as at March 31, 2024:

| | Less than 1 year | 1-3 years | Thereafter | Total |
|---|------------------|------------------|-----------------|------------------|
| Exploration and production contracts | \$ 6,404 | \$ 50,362 | \$ 1,763 | \$ 58,529 |
| Compression station operating contracts | 2,782 | 5,732 | 2,206 | 10,720 |
| | \$ 9,186 | \$ 56,094 | \$ 3,969 | \$ 69,249 |

Letters of Credit

As at March 31, 2024, the Corporation had letters of credit outstanding totaling \$79.1 million (December 31, 2023 - \$87.5 million) to guarantee work commitments on exploration blocks and to guarantee other contractual commitments.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at March 31, 2024 of \$58.5 million and has issued \$37.9 million of the total \$79.1 million in financial guarantees related thereto.

Contingencies

The Corporation has a policy to record contingent liabilities as they become determinable and the probability of loss is more likely than not.

Commencing the second week of August 2023, the Corporation experienced unusual and unexpected production capacity restrictions at some of its gas fields as a result of issues at the Jobo gas treatment facility as well as certain of its producing wells (the "Force Majeure"). As a result of the Force Majeure, the Corporation has had to restrict gas deliveries under certain supply contracts dedicated to supplying non-essential gas demand, all in accordance with applicable Colombian regulations and in consultation with the relevant authorities. A certain customer disagrees with the Corporation's assessment of Force Majeure and claims that the Corporation is liable for the natural gas that was not delivered under take-or-pay contract during that period, totaling \$12 million, and has withheld payment of regular natural gas sales invoices totaling \$21 million of gas deliveries as at March 31, 2024 (note 16 - credit risk). The Corporation anticipates entering an arbitration with this customer. In Canacol's view, the certain customer's claim is without merit. The ultimate outcome of the potential arbitration cannot be determined at this time, however, the Corporation is confident in its legal position and expects to be able to collect the \$21 million of receivable in full.