

# CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020



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

(in thousands of United States dollars)

As at	Note	September 30, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 93,770	\$ 41,239
Trade and other receivables	16	58,064	69,608
Tax installments and receivables		7,657	9,533
Assets held for sale	5	—	7,960
Other current assets	6	7,599	4,930
		<b>167,090</b>	<b>133,270</b>
<b>Non-current assets</b>			
Trade and other receivables	16	—	5,629
Exploration and evaluation assets	4	70,631	53,867
Property, plant and equipment	5	503,746	506,097
Deferred tax assets		30,897	49,176
Other non-current assets	6	7,196	6,023
		<b>612,470</b>	<b>620,792</b>
<b>Total assets</b>		<b>\$ 779,560</b>	<b>\$ 754,062</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long-term debt	9	\$ 5,156	\$ 8,182
Trade and other payables	8	57,020	52,591
Deferred income	15	3,361	11,134
Dividend payable	8	7,041	—
Lease obligations	10	5,106	4,731
Taxes payable		10,618	6,043
Other current liabilities	7	1,963	4,541
Liabilities held for sale	5	—	10,591
		<b>90,265</b>	<b>97,813</b>
<b>Non-current liabilities</b>			
Deferred income	15	10,302	—
Long-term debt	9	363,474	333,403
Lease obligations	10	18,528	22,367
Decommissioning obligations	5	21,659	16,398
Deferred tax liabilities		45,583	24,559
Other non-current liabilities	7	15,257	16,776
<b>Total liabilities</b>		<b>565,068</b>	<b>511,316</b>
<b>Equity</b>			
Share capital	8	168,484	169,459
Other reserves	8	67,364	68,067
Accumulated other comprehensive income		—	335
Retained (deficit) earnings	8	(21,356)	4,885
<b>Total equity</b>		<b>214,492</b>	<b>242,746</b>
<b>Total liabilities and equity</b>		<b>\$ 779,560</b>	<b>\$ 754,062</b>

Commitments and contingencies (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

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

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Revenues</b>					
Natural gas, LNG, crude oil revenues, net of royalties	15	\$ 64,319	\$ 63,347	\$ 206,202	\$ 163,522
Take-or-pay natural gas and LNG income		155	299	1,072	978
<b>Total natural gas, LNG and crude oil revenues, net of royalties</b>		<b>64,474</b>	<b>63,646</b>	<b>207,274</b>	<b>164,500</b>
<b>Expenses</b>					
Operating expenses		4,722	3,692	12,810	11,797
Transportation expenses		7,045	7,012	24,446	10,773
General and administrative		6,352	5,296	18,931	16,806
Stock-based compensation and restricted share units expense	7, 8	1,365	1,089	5,379	6,594
Depletion and depreciation	5	14,045	13,015	48,225	37,441
Foreign exchange loss		819	1,474	6,512	1,538
Other expenses	11	4,493	2,975	12,057	10,842
		<b>38,841</b>	<b>34,553</b>	<b>128,360</b>	<b>95,791</b>
Net finance expense	12	8,160	8,164	22,588	24,581
<b>Income before income taxes</b>		<b>17,473</b>	<b>20,929</b>	<b>56,326</b>	<b>44,128</b>
<b>Income tax expense</b>					
Current		5,035	6,064	22,687	21,252
Deferred	16	9,829	14,202	39,303	14,061
		<b>14,864</b>	<b>20,266</b>	<b>61,990</b>	<b>35,313</b>
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 2,609</b>	<b>\$ 663</b>	<b>\$ (5,664)</b>	<b>\$ 8,815</b>
<b>Net income (loss) per share</b>					
Basic and diluted	13	\$ 0.01	\$ —	\$ (0.03)	\$ 0.05

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained (Deficit) Earnings	Total Equity
Balance at January 1, 2019	\$ 159,116	\$ 67,821	\$ 335	\$ (22,264)	\$ 205,008
Common shares repurchased	(1,443)	—	—	—	(1,443)
Stock options exercised	5,986	(560)	—	—	5,426
Stock-based compensation	—	2,816	—	—	2,816
Net income	—	—	—	8,815	8,815
<b>Balance at September 30, 2019</b>	<b>\$ 163,659</b>	<b>\$ 70,077</b>	<b>\$ 335</b>	<b>\$ (13,449)</b>	<b>\$ 220,622</b>
Balance at December 31, 2019	\$ 169,459	\$ 68,067	\$ 335	\$ 4,885	\$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common shares repurchased	(2,300)	—	—	—	(2,300)
Provision for repurchase of common shares (note 8)	(3,052)	—	—	—	(3,052)
Stock options exercised	4,377	(1,349)	—	—	3,028
Stock options settled in cash	—	(43)	—	—	(43)
Provision for cash settlement of stock options (note 8)	—	(1,264)	—	—	(1,264)
Stock-based compensation	—	1,618	—	—	1,618
Dividends declared (note 8)	—	—	—	(20,577)	(20,577)
Net loss	—	—	—	(5,664)	(5,664)
<b>Balance at September 30, 2020</b>	<b>\$ 168,484</b>	<b>\$ 67,364</b>	<b>\$ —</b>	<b>\$ (21,356)</b>	<b>\$ 214,492</b>

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Operating activities</b>					
Net income (loss) and comprehensive income (loss)		\$ 2,609	\$ 663	\$ (5,664)	\$ 8,815
Non-cash adjustments:					
Depletion and depreciation	5	14,045	13,015	48,225	37,441
Stock-based compensation and restricted share units expense	7, 8	1,365	1,089	5,379	6,594
Net financing expense	12	8,160	8,164	22,588	24,581
Unrealized foreign exchange loss and other expenses		412	1,654	4,129	4,457
Deferred income tax (recovery) expense		9,829	14,202	39,303	14,061
Unrealized (gain) loss on financial instruments	11	(44)	375	1,263	1,035
Other operating activities	14	(3,561)	(2,742)	(5,946)	(7,814)
Changes in non-cash working capital	14	17,201	467	16,571	(18,001)
		50,016	36,887	125,848	71,169
<b>Investing activities</b>					
Expenditures on exploration and evaluation	4	(11,697)	(9,948)	(16,764)	(27,341)
Expenditures on property, plant and equipment		(15,560)	(20,656)	(42,430)	(58,552)
Net proceeds on disposition of property, plant and equipment		—	—	58	11,972
Other investing activities	14	(1,018)	(575)	(2,667)	(526)
Changes in non-cash working capital	14	9,685	3,163	4,952	6,665
		(18,590)	(28,016)	(56,851)	(67,782)
<b>Financing activities</b>					
Draw on long-term debt, net financing fees	9	21,973	—	29,249	—
Repayment of long-term debt	9	—	—	(2,727)	—
Net financing expense paid	12	(7,230)	(7,290)	(21,129)	(22,019)
Lease principal payments	10	(1,541)	(1,207)	(4,351)	(3,569)
Dividends paid	8	(6,907)	—	(13,536)	—
Common share repurchases	8	(1,227)	—	(2,300)	(1,443)
Issue of common shares	8	137	4,364	3,028	5,426
		5,205	(4,133)	(11,766)	(21,605)
Change in cash and cash equivalents		36,631	4,738	57,231	(18,218)
Cash and cash equivalents, beginning of period		58,552	28,676	41,239	51,632
Foreign exchange impact on cash and cash equivalents, end of period		(1,413)	—	(4,700)	—
<b>Cash and cash equivalents, end of period</b>		<b>\$ 93,770</b>	<b>\$ 33,414</b>	<b>\$ 93,770</b>	<b>\$ 33,414</b>

See accompanying notes to the interim condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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

### NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on November 11, 2020.

### NOTE 2 - BASIS OF PREPARATION

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

#### Basis of Measurement

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

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

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

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

#### Functional and Presentation Currency

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

### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

#### Recent Accounting Pronouncements

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

### NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2019	\$	53,867
Additions		16,764
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>70,631</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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

### NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Balance at December 31, 2019	\$ 1,035,090	\$ 31,498	\$ 1,066,588
Additions	36,620	1,425	38,045
Transferred from assets held for sale	16,281	—	16,281
Dispositions and de-recognition	(109)	(102)	(211)
<b>Balance at September 30, 2020</b>	<b>\$ 1,087,882</b>	<b>\$ 32,821</b>	<b>\$ 1,120,703</b>
<b>Accumulated depletion and depreciation</b>			
Balance at December 31, 2019	\$ (555,930)	\$ (4,561)	\$ (560,491)
Dispositions	83	—	83
Depletion and depreciation	(45,117)	(3,108)	(48,225)
Transferred from assets held for sale	(8,321)	—	(8,321)
Derecognition and inventory adjustments	(21)	18	(3)
<b>Balance at September 30, 2020</b>	<b>\$ (609,306)</b>	<b>\$ (7,651)</b>	<b>\$ (616,957)</b>
<b>Carrying value</b>			
As at December 31, 2019	\$ 479,160	\$ 26,937	\$ 506,097
<b>As at September 30, 2020</b>	<b>\$ 478,576</b>	<b>\$ 25,170</b>	<b>\$ 503,746</b>

During the three months ended September 30, 2020, the Corporation reclassified certain costs and decommissioning obligations related to its Rancho Hermoso block from assets and liabilities previously held for sale since the disposal of such block within the next twelve months is no longer highly probable.

### NOTE 6 – OTHER ASSETS

	September 30, 2020	December 31, 2019
<b>Current</b>		
Restricted cash	\$ 2,749	\$ 1,189
Prepaid expenses and deposits	4,193	1,634
Investments	375	1,186
Inventory	282	277
Hedging contract	—	644
	<b>\$ 7,599</b>	<b>\$ 4,930</b>
<b>Non-Current</b>		
Restricted cash	\$ —	\$ 3,335
Prepaid expenses and deposits	5,802	2,033
Investments	1,394	655
	<b>\$ 7,196</b>	<b>\$ 6,023</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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

### Investments

	Office Sub-Lease	Share Investments	Total Investments
Balance at December 31, 2019	\$ 683	\$ 1,158	\$ 1,841
Additions	—	957	957
Sub-lease receipts and finance income	(284)	—	(284)
Unrealized loss	—	(618)	(618)
Foreign exchange loss	(24)	(103)	(127)
<b>Balance at September 30, 2020</b>	<b>\$ 375</b>	<b>\$ 1,394</b>	<b>\$ 1,769</b>
Investments - current	\$ 375	\$ —	\$ 375
Investments - non-current	—	1,394	1,394
<b>Balance at September 30, 2020</b>	<b>\$ 375</b>	<b>\$ 1,394</b>	<b>\$ 1,769</b>

### NOTE 7 – OTHER LIABILITIES

	September 30, 2020	December 31, 2019
<b>Current</b>		
Restricted share units	\$ 1,286	\$ 2,235
Litigation settlement liability	677	2,306
	<b>\$ 1,963</b>	<b>\$ 4,541</b>
<b>Non-Current</b>		
Restricted share units	\$ —	\$ 15
Litigation settlement liability	12,217	13,542
Other long term obligations	3,040	3,219
	<b>\$ 15,257</b>	<b>\$ 16,776</b>

### Restricted Share Units

Balance at December 31, 2019	\$ 2,250
Amortized	3,761
Settled	(4,772)
Foreign exchange loss	47
<b>Balance at September 30, 2020</b>	<b>\$ 1,286</b>

RSUs are recognized as an obligation and expensed on a graded vesting basis over the vesting term of each grant. The amortized RSU obligation as at September 30, 2020 was \$1.3 million. Amortized RSUs of 484,692 of the total 777,664 RSUs outstanding have been recognized as an obligation as at September 30, 2020. The remaining 292,972 RSUs will be recognized over the remaining vesting period.

On February 3, 2020 and February 25, 2020, the Corporation granted 676,000 and 911,000 RSUs, respectively. The RSUs vest one-half in six months and one-half in one year from the grant date, and are anticipated to be settled in cash. During the nine months ended September 30, 2020, 1,688,922 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.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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

The number of outstanding RSUs as at September 30, 2020 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2019	880
Granted	1,587
Settled	(1,689)
<b>Balance at September 30, 2020</b>	<b>778</b>

### Litigation Settlement Liability

Balance at December 31, 2019	\$	15,848
Settlement payments, net of accrued interest		(537)
Foreign exchange gain		(2,417)
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>12,894</b>

The litigation settlement amount is subject to a 8.74% annual interest rate on the outstanding balance, which is denominated in Colombian Pesos ("COP"). In accordance with the terms of the settlement agreement, cash payments of approximately \$0.2 million per month, including accrued interest will be paid by the Corporation and, as such, \$0.7 million has been classified as current.

## NOTE 8 – EQUITY

### Share Capital

	Number (000's)	Amount
Balance at December 31, 2019	180,075	\$ 169,459
Issued on exercise of stock options	1,372	3,028
Transfer from other reserves for stock options exercised	—	1,349
Common share repurchases	(824)	(2,300)
Repurchase of common shares provision	—	(3,052)
<b>Balance at September 30, 2020</b>	<b>180,623</b>	<b>\$ 168,484</b>

During the nine months ended September 30, 2020, the Corporation repurchased 823,723 common shares of the Corporation at a cost of \$2.3 million, including transaction fees. Subsequent to September 30, 2020, the Corporation repurchased 982,800 common shares of the Corporation at a cost of \$2.6 million, including transaction costs.

On September 21, 2020, the Corporation entered into an Automatic Share Purchase Plan ("ASPP"), which permits an independent broker to repurchase shares during blackout periods under the Corporation's normal course issuer bid, which limits the maximum daily share purchases to 46,189 shares per day. Canacol recognized a provision of \$3.1 million in trade and other payables as at September 30, 2020 as an estimate of the number of shares that may be repurchased during potential blackout periods at the maximum share price under the ASPP.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(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	(1,372)	2.91
Forfeited and cancelled	(1,304)	4.17
<b>Balance at September 30, 2020</b>	<b>15,258</b>	<b>4.06</b>

Information with respect to stock options outstanding at September 30, 2020 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$2.20 - \$3.50	2,050	0.1	2.71	2,050	2.71
\$3.51 - \$4.62	13,208	2.7	4.27	9,198	4.27
	<b>15,258</b>	<b>2.4</b>	<b>4.06</b>	<b>11,248</b>	<b>3.98</b>

Stock-based compensation of \$0.5 million and \$1.6 million (2019 - \$0.6 million and \$2.8 million) was expensed during the three and nine months ended September 30, 2020, respectively.

During the nine months ended September 30, 2020, the Corporation cash settled 44,100 stock options for an amount of \$43,193. The Corporation has the intention to settle certain other stock options maturing in the near term to be settled in cash rather than equity and as such has recognized a provision of \$1.3 million in trade and other payables as at September 30, 2020.

### Dividends Declared

During the nine months ended September 30, 2020, the Corporation declared three dividend payments of C\$0.052 per share, totaling \$20.6 million, of which \$6.6 million was paid on April 15, 2020, \$6.9 million was paid on July 15, 2020 and \$7 million is payable on October 15, 2020, to shareholders of record at the close of business on March 31, 2020, June 30, 2020 and September 30, 2020, respectively. The ex-dividend dates for all shareholders were March 30, 2020, June 29, 2020 and September 29, 2020, respectively. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

### NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Bridge Loan	Operating Loan	Total
Balance at December 31, 2019	\$ 312,448	\$ 29,137	\$ —	\$ —	\$ 341,585
Draw, net of transaction costs	—	2,276	21,973	5,000	29,249
Repayment	—	(2,727)	—	—	(2,727)
Gain on modification of bank debt	—	(1,174)	—	—	(1,174)
Amortization of transaction costs	1,051	490	—	—	1,541
Foreign exchange loss	—	—	—	156	156
<b>Balance at September 30, 2020</b>	<b>\$ 313,499</b>	<b>\$ 28,002</b>	<b>\$ 21,973</b>	<b>\$ 5,156</b>	<b>\$ 368,630</b>

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, if

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

required, 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 of \$2.5 million, which will be paid on October 18, 2020 and April 16, 2021 and, as such, \$5.3 million has been classified as current as at September 30, 2020.

On June 11, 2020, the Corporation paid the first \$2.7 million principal payment of the \$30 million bank debt held with Credit Suisse (“Bank Debt”). On June 30, 2020, the Corporation entered into an agreement to amend the terms of the Bank Debt. The agreement included revision of the following terms: i) the original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and ii) the original eleven equal quarterly principal payments, which commenced on June 11, 2020, were revised to seven equal quarterly principal payments to commence on December 11, 2021. In accordance with the agreement, the \$2.7 million original principal payment was returned to the Corporation, net of transaction costs of \$0.5 million. The Bank Debt was revalued using the terms of the agreement, discounted at the original effective interest rate, resulting in a \$1.2 million gain on modification of bank debt, in accordance with IFRS 9.

The Bank Debt includes various financial and non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation was in compliance with its covenants as at September 30, 2020.

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

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

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

### NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other	Total
Balance at December 31, 2019	\$	19,772	\$ 7,326	\$ 27,098
Additions		—	1,425	1,425
Settlements		(1,378)	(2,973)	(4,351)
De-recognitions		—	(88)	(88)
Foreign exchange gain		—	(450)	(450)
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>18,394</b>	<b>\$ 5,240</b>	<b>\$ 23,634</b>
Lease obligations - current	\$	1,966	\$ 3,140	\$ 5,106
Lease obligations - non-current		16,428	2,100	18,528
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>18,394</b>	<b>\$ 5,240</b>	<b>\$ 23,634</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Low-value right-of-use assets	\$ 24	\$ 263	\$ 77	\$ 572
Short-term lease arrangements	209	3,077	526	9,876
Variable lease payments	6,881	3,957	16,063	5,836
<b>Total lease payments</b>	<b>\$ 7,114</b>	<b>\$ 7,297</b>	<b>\$ 16,666</b>	<b>\$ 16,284</b>

During the three and nine months ended September 30, 2020, the Corporation paid variable lease payments related to the Sabanas pipeline transportation expenses.

Future lease payments related to short-term, low value or variable lease arrangements as at September 30, 2020 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 32,636	\$ 31,351	\$ 36,801	\$ 100,788

### NOTE 11 – OTHER EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Donations	\$ 337	\$ 678	\$ 704	\$ 1,011
Pre-license costs	395	223	839	2,605
Other expenses	2,952	1,077	6,056	4,688
Other tax expense	731	707	2,169	1,503
Loss on financial instruments	78	290	2,289	1,035
	<b>\$ 4,493</b>	<b>\$ 2,975</b>	<b>\$ 12,057</b>	<b>\$ 10,842</b>

### (Gain) Loss on Financial Instruments

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Hedging contract - unrealized	\$ (156)	\$ 318	\$ 645	\$ 318
Hedging contract - realized	122	—	1,026	—
Investments - unrealized	112	131	618	717
Restricted share units - unrealized	—	(74)	—	—
Restricted share units - realized	—	(85)	—	—
	<b>\$ 78</b>	<b>\$ 290</b>	<b>\$ 2,289</b>	<b>\$ 1,035</b>

During the nine months ended September 30, 2020, the Corporation realized losses on its COP to United States dollar (“USD”) foreign exchange hedging contract, which has expired as at September 30, 2020, due to the devaluation of the COP during the period (note 16).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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### NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Finance income</b>				
Interest and other income	\$ 372	\$ 330	\$ 1,809	\$ 969
Gain on modification of bank debt	—	—	1,174	—
<b>Finance expense</b>				
Accretion on decommissioning obligations	340	394	1,092	1,141
Amortization of upfront financing fees	590	480	1,541	1,421
Interest expense on lease obligations	297	350	1,041	1,106
Interest and other financing costs	7,305	7,270	21,897	21,882
	\$ 8,532	\$ 8,494	\$ 25,571	\$ 25,550
<b>Net finance expense</b>	\$ 8,160	\$ 8,164	\$ 22,588	\$ 24,581

During the nine months ended September 30, 2020, the Corporation recognized: i) interest income of \$1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation and ii) a gain on debt modification of \$1.2 million related to the Bank Debt modification (note 9).

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 2,609	\$ 663	\$ (5,664)	\$ 8,815
<b>Weighted-average common shares outstanding:</b>				
Weighted-average common shares outstanding, basic	180,980	178,273	180,942	177,736
Effect of stock options	515	2,600	—	1,945
<b>Weighted-average common shares outstanding, diluted</b>	<b>181,495</b>	<b>180,873</b>	<b>180,942</b>	<b>179,681</b>

Due to the net loss realized during the nine months ended September 30, 2020, stock options were anti-dilutive.

### NOTE 14 – OTHER CASH FLOW ACTIVITIES

#### Other Operating Activities

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Litigation settlement liability - principal payments	7	\$ (230)	\$ (184)	\$ (537)	\$ (898)
Settlement of decommissioning obligations		(594)	—	(594)	(2,741)
Settlement of restricted share units obligation	7	(2,694)	(2,558)	(4,772)	(4,175)
Cash settled options	8	(43)	—	(43)	—
		\$ (3,561)	\$ (2,742)	\$ (5,946)	\$ (7,814)

The litigation settlement liability payments of \$0.2 million and \$0.5 million during the three and nine months ended September 30, 2020, respectively, related solely to the principal portion of the total payments of approximately \$0.2 million per month, which consists of both the principal and interest payments.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### Other Investing Activities

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Change in investments	\$ (646)	\$ 92	\$ (673)	\$ 272
Change in restricted cash	1,278	(60)	1,775	(422)
Change in prepaid expenses and deposits	(1,650)	(607)	(3,769)	(376)
	\$ (1,018)	\$ (575)	\$ (2,667)	\$ (526)

### Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Change in:				
Trade and other receivables	\$ 8,425	\$ (621)	\$ 16,255	\$ (7,589)
Prepaid expenses and deposits	(801)	604	(2,559)	(223)
Tax installments and receivables	(826)	(4,937)	1,876	(9,144)
Crude oil inventory	110	40	22	40
Trade and other payables	17,274	9,843	113	4,051
Deferred income	(1,681)	193	2,529	1,249
Taxes payable	2,965	1,402	4,575	3,262
	25,466	6,524	22,811	(8,354)
Foreign exchange impact on working capital ending balances	1,420	(2,894)	(1,288)	(2,982)
	\$ 26,886	\$ 3,630	\$ 21,523	\$ (11,336)
Attributable to:				
Operating activities	\$ 17,201	\$ 467	\$ 16,571	\$ (18,001)
Investing activities	9,685	3,163	4,952	6,665
	\$ 26,886	\$ 3,630	\$ 21,523	\$ (11,336)

## NOTE 15 – SUPPLEMENTAL INFORMATION

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Natural gas and LNG revenues, net of royalties	\$ 63,344	\$ 62,012	\$ 203,953	\$ 158,612
Crude oil revenue, net of royalties	975	1,335	2,249	4,910
	\$ 64,319	\$ 63,347	\$ 206,202	\$ 163,522

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Natural gas royalties	\$ 9,869	\$ 8,554	\$ 31,883	\$ 22,473
Crude oil royalties	82	117	186	415
	\$ 9,951	\$ 8,671	\$ 32,069	\$ 22,888

### Deferred Income

As at September 30, 2020, the Corporation has deferred income of \$13.7 million related to either: i) undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later maturity date and ii) proceeds received for natural gas, LNG and crude oil to be delivered at a later date. As at September 30, 2020, \$3.4 million of 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:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Income taxes paid	\$ 3,272	\$ 4,578	\$ 24,162	\$ 23,959
Interest paid	\$ 619	\$ 792	\$ 15,060	\$ 14,700

## NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, trade and other receivables, tax installments and receivables, trade and other payables, dividend payable, taxes payable, lease obligations, litigation settlement liability approximate their fair values at September 30, 2020. Restricted Share Units (“RSUs”) and certain investments are recorded at fair value. The fair value of the Senior Notes, Bank Debt, Bridge Loan and Operating loan is \$328.1 million, \$30 million, \$25 million and \$5.2 million, respectively.

### Market Risk

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

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

(i) Commodity Price and Interest Rate Risk

The majority of Canacol’s production volume is subject to long-term fixed price contracts, which limits the Corporation’s exposure to commodity price risk, including current volatile prices as a result of COVID-19. The majority of the Corporation’s interest bearing debt, including the Senior Notes and the Litigation Settlement Liability, are subject to fixed interest rates, which limits the Corporation’s exposure to interest rate risk. The Corporation’s Bank Debt, Bridge Loan and the Operating Loan are subject to variable interest rates. The Corporation had no commodity or interest rate contracts in place as at or during the three and nine months ended September 30, 2020.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Corporation is exposed to



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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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 September 30, 2020, the COP to the USD exchange rate was 3,879:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.33:1 (December 31, 2019 – 1.30:1). The 18% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the nine months ended September 30, 2020. In addition, \$25.1 million of the total deferred income tax expense of \$39.3 million recognized during the nine months ended September 30, 2020, was as a result of the devaluation of COP to USD.

During the nine months ended September 30, 2020, the Corporation held a foreign exchange contract under the following terms:

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

The foreign exchange contract has expired as at September 30, 2020 and the Corporation has not entered into any new foreign exchange contracts.

### 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 September 30, 2020:

	Less than 1 year		1-2 years		Thereafter		Total
Long-term debt – principal	\$	5,156	\$	42,143	\$	332,857	\$ 380,156
Lease obligations – undiscounted		5,469		4,904		17,200	27,573
Trade and other payables		57,020		—		—	57,020
Dividend payable		7,041		—		—	7,041
Taxes payable		10,618		—		—	10,618
Deferred income		3,361		10,302		—	13,663
Litigation settlement liability		677		677		11,540	12,894
Other long term obligation		—		3,040		—	3,040
Restricted share units		1,286		—		—	1,286
	\$	<b>90,628</b>	\$	<b>61,066</b>	\$	<b>361,597</b>	\$ <b>513,291</b>

### Credit Risk

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



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2020 was \$40.1 million (2019 - \$56.5 million), \$8.7 million related to the recovery of transportation costs passed-through to customers (2019 - \$10.8 million), \$5.5 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (2019 - \$5.7 million) and \$3.8 million of other receivables (2019 - \$2.2 million). The \$5.5 million receivable from Arrow is scheduled to be collected upon the closing of the sale of one of their assets which is expected to be within twelve months. Two members of key management of Canacol are also members of the board of directors of Arrow. The remaining receivable balances are anticipated be collected in 2020 and there are no expected credit losses as assessed by the Corporation.

### Capital Management

The Corporation monitors leverage and adjusts its capital structure based on its net debt level. Net debt is defined as the principal amount of its outstanding long-term obligations less working capital. 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	September 30, 2020	December 31, 2019
Senior Notes - principal (7.25%)	9	\$ 320,000	\$ 320,000
Bank Debt - principal (LIBOR + 4.25%)	9	30,000	30,000
Bridge Loan - principal (LIBOR + 4.25%)	9	25,000	—
Operating loan (IBR + 2%)	9	5,156	—
Litigation settlement liability (8.74%)	7	12,894	15,848
Lease obligation (5.1%)	10	23,634	27,098
Total debt		416,684	392,946
Working capital surplus		(87,764)	(50,676)
<b>Net debt</b>		<b>\$ 328,920</b>	<b>\$ 342,270</b>

### NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments at September 30, 2020:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 6,000	\$ 35,348	\$ 4,496	\$ 45,844
Compression station operating contracts	2,596	5,348	12,091	20,035

### Letters of Credit

At September 30, 2020, the Corporation had letters of credit outstanding totaling \$85.2 million to guarantee work commitments on exploration blocks and to guarantee other contractual commitments, of which, \$11.3 million relates to certain assets previously sold, which are scheduled to be transferred to Arrow no later than the end of 2021.

### Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2020 of \$45.8 million and has issued \$29.8 million in financial guarantees related thereto.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

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

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### 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.