

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2021



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	March 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		\$ 71,501	\$ 68,280
Trade and other receivables	16	65,024	70,685
Tax installments and receivables		10,444	10,589
Other current assets	6	6,199	3,949
		153,168	153,503
Non-current assets			
Exploration and evaluation assets	4	70,658	62,775
Property, plant and equipment	5	521,949	524,786
Deferred tax assets		957	3,422
Other non-current assets	6	5,125	5,306
		598,689	596,289
Total assets		\$ 751,857	\$ 749,792
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	\$ 10,815	\$ 7,199
Trade and other payables		56,672	45,176
Deferred income		7,809	12,709
Dividend payable	8	7,423	7,332
Lease obligations	10	4,580	4,744
Taxes payable		14,562	12,916
Other current liabilities	7	746	2,540
		102,607	92,616
Non-current liabilities			
Long-term debt	9	356,817	359,933
Lease obligations	10	16,866	18,199
Decommissioning obligations		23,742	24,588
Deferred tax liabilities		38,983	30,174
Other non-current liabilities	7	15,751	16,910
Total liabilities		554,766	542,420
Equity			
Share capital	8	168,572	168,572
Other reserves		66,771	66,567
Retained deficit		(38,252)	(27,767)
Total equity		197,091	207,372
Total liabilities and equity		\$ 751,857	\$ 749,792

Commitments and contingencies (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

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

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

Three months ended March 31,	Note	2021	2020
Revenues			
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	15	\$ 68,735	\$ 82,287
Natural gas trading revenues	15	6,356	—
Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties		75,091	82,287
Expenses			
Operating expenses		4,704	4,466
Transportation expenses		9,273	11,293
Natural gas trading purchases cost	15	6,321	—
Exploration expense	4	5,904	—
General and administrative		6,671	6,513
Stock-based compensation and restricted share units expense	7,8	567	1,521
Depletion and depreciation	5	16,903	17,954
Foreign exchange loss		796	4,310
Other expenses	11	1,451	3,994
		52,590	50,051
Net finance expense	12	8,426	7,344
Income before income taxes		14,075	24,892
Income tax expense			
Current		5,864	9,740
Deferred		11,273	41,140
		17,137	50,880
Net loss and comprehensive loss		\$ (3,062)	\$ (25,988)
Net loss per share			
Basic and diluted	13	\$ (0.02)	\$ (0.14)

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(in thousands of United States dollars)

	Share Capital	Other Reserves	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2019	\$ 169,459	\$ 68,067	\$ 335	\$ 4,885	\$ 242,746
Reclassification adjustment	—	335	(335)	—	—
Common shares repurchased	(1,073)	—	—	—	(1,073)
Stock options exercised	3,705	(1,133)	—	—	2,572
Stock-based compensation	—	521	—	—	521
Dividends declared (note 8)	—	—	—	(6,629)	(6,629)
Net loss	—	—	—	(25,988)	(25,988)
Balance at March 31, 2020	\$ 172,091	\$ 67,790	\$ —	\$ (27,732)	\$ 212,149
Balance at December 31, 2020	\$ 168,572	\$ 66,567	\$ —	\$ (27,767)	\$ 207,372
Stock-based compensation	—	204	—	—	204
Dividends declared (note 8)	—	—	—	(7,423)	(7,423)
Net loss	—	—	—	(3,062)	(3,062)
Balance at March 31, 2021	\$ 168,572	\$ 66,771	\$ —	\$ (38,252)	\$ 197,091

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

Three months ended March 31,	Note	2021	2020
Operating activities			
Net loss and comprehensive loss		\$ (3,062)	\$ (25,988)
Non-cash adjustments:			
Depletion and depreciation	5	16,903	17,954
Exploration expense	4	5,904	—
Stock-based compensation and restricted share units expense	7,8	567	1,521
Net financing expense	12	8,426	7,344
Unrealized foreign exchange loss and other expenses		425	2,973
Deferred income tax expense		11,273	41,140
Unrealized loss on financial instruments	11	20	2,612
Other operating activities	14	(2,371)	(2,275)
Changes in non-cash working capital	14	(185)	(7,263)
		37,900	38,018
Investing activities			
Expenditures on exploration and evaluation assets	4	(13,787)	(2,315)
Expenditures on property, plant and equipment		(14,829)	(17,671)
Net proceeds on disposition of property, plant and equipment		239	58
Other investing activities	14	138	868
Changes in non-cash working capital	14	11,693	52
		(16,546)	(19,008)
Financing activities			
Net financing expense paid	12	(7,520)	(6,530)
Lease principal payments	10	(1,417)	(1,400)
Dividends paid	8	(7,332)	—
Common share repurchases	8	—	(1,073)
Issue of common shares	8	—	2,572
		(16,269)	(6,431)
Change in cash and cash equivalents		5,085	12,579
Cash and cash equivalents, beginning of period		68,280	41,239
Foreign exchange impact on cash and cash equivalents, end of period		(1,864)	(4,662)
Cash and cash equivalents, end of period		\$ 71,501	\$ 49,156

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

(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 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation’s shares are traded on the Toronto Stock Exchange (“TSX”) under the symbol CNE, the OTCQX in the United States of America under the symbol CNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on May 12, 2021.

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, 2020.

Basis of Measurement

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

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

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

Functional and Presentation Currency

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

A number of new and revised accounting standards became effective on January 1, 2021, however they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2020	\$	62,775
Additions		13,787
Transferred to exploration expense		(5,904)
Balance at March 31, 2021	\$	70,658

During the three months ended March 31, 2021, the Corporation drilled the Flauta-1 exploration well located on its VIM-5 block. The well did not encounter commercial gas and, as such, the related costs of \$5.9 million were recognized as an exploration expense.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

(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, 2020	\$ 1,124,928	\$ 32,997	\$ 1,157,925
Additions	14,018	119	14,137
Dispositions and de-recognition	(80)	—	(80)
Balance at March 31, 2021	\$ 1,138,866	\$ 33,116	\$ 1,171,982
Accumulated depletion and depreciation			
Balance at December 31, 2020	(624,455)	(8,684)	(633,139)
Depletion and depreciation	(15,888)	(1,015)	(16,903)
Derecognition and inventory adjustments	9	—	9
Balance at March 31, 2021	\$ (640,334)	\$ (9,699)	\$ (650,033)
Carrying value			
As at December 31, 2020	\$ 500,473	\$ 24,313	\$ 524,786
As at March 31, 2021	\$ 498,532	\$ 23,417	\$ 521,949

NOTE 6 – OTHER ASSETS

	March 31, 2021	December 31, 2020
Current		
Prepaid expenses and deposits	\$ 5,755	\$ 3,332
Investments	184	289
Inventory	260	328
	\$ 6,199	\$ 3,949
Non-Current		
Prepaid expenses and deposits	\$ 2,858	\$ 2,896
Investments	2,267	2,410
	\$ 5,125	\$ 5,306

Investments

	Office Sub- Lease	Share Investments	Total Investments
Balance at December 31, 2020	\$ 289	\$ 2,410	\$ 2,699
Sub-lease receipts and finance income	(100)	—	(100)
Unrealized loss	—	(20)	(20)
Foreign exchange loss	(5)	(123)	(128)
Balance at March 31, 2021	\$ 184	\$ 2,267	\$ 2,451
Investments - current	\$ 184	\$ —	\$ 184
Investments - non-current	—	2,267	2,267
Balance at March 31, 2021	\$ 184	\$ 2,267	\$ 2,451

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

NOTE 7 – OTHER LIABILITIES

	March 31, 2021	December 31, 2020
Current		
Restricted share units	\$ 157	\$ 1,966
Litigation settlement liability	589	574
	\$ 746	\$ 2,540
Non-Current		
Restricted share units	\$ 15	\$ —
Litigation settlement liability	12,401	13,779
Other long term obligations	3,335	3,131
	\$ 15,751	\$ 16,910

Restricted Share Units

Balance at December 31, 2020	\$ 1,966
Amortized	363
Settled	(2,170)
Foreign exchange loss	13
Balance at March 31, 2021	\$ 172

RSU are recognized as an obligation and expensed on a graded vesting basis over the vesting term of each grant. The amortized RSU obligation as at March 31, 2021 was \$0.2 million.

As at March 31, 2021, amortized RSUs of 60,803 of the total 1,629,000 RSUs outstanding were recognized as an obligation and the remaining 1,568,197 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at March 31, 2021 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2020	765
Granted	1,629
Settled	(765)
Balance at March 31, 2021	1,629

On March 22, 2021, the Corporation granted 1,629,000 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, and are anticipated to be settled in cash. During the three months ended March 31, 2021, 764,664 RSUs were settled in cash at a price ranging from C\$3.52 to C\$3.69 per share, resulting in cash settlements of \$2.2 million.

Litigation Settlement Liability

Balance at December 31, 2020	\$ 14,353
Settlement payments, net of accrued interest	(201)
Foreign exchange gain	(1,162)
Balance at March 31, 2021	\$ 12,990

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

payments of approximately \$0.2 million per month, including accrued interest will be paid by the Corporation and, as such, \$0.6 million has been classified as current.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2020 and March 31, 2021	179,515	\$ 168,572

During the three months ended March 31, 2021, the Corporation did not issue nor repurchase shares of the Corporation.

Stock Options

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

	Number (000's)	Weighted-Average Exercise Price (C\$)
Balance at December 31, 2020	12,809	4.27
Forfeited and cancelled	(201)	4.33
Balance at March 31, 2021	12,608	4.27

Information with respect to stock options outstanding at March 31, 2021 is presented below.

Range of Exercise Prices (C\$)	Stock Options Outstanding			Stock Options Exercisable	
	Number of Stock Options (000's)	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (C\$)	Number of Stock Options (000's)	Weighted-Average Exercise Price (C\$)
\$3.78 - \$4.23	5,402	0.9	4.16	5,401	4.16
\$4.24 - \$4.62	7,206	3.1	4.35	4,922	4.39
	12,608	2.2	4.27	10,323	4.27

Stock-based compensation of \$0.2 million (2020 - \$0.5 million) was expensed during the three months ended March 31, 2021.

Dividends Declared

During the three months ended March 31, 2021, the Corporation declared a dividend of C\$0.052 per share, totaling \$7.4 million, which was paid on April 15, 2021 to shareholders of record at the close of business on March 31, 2021. The ex-dividend dates for all shareholders was March 30, 2021. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bank Debt	Bridge Loan	Operating Loan	Total
Balance at December 31, 2020	\$ 313,851	\$ 28,245	\$ 22,123	\$ 2,913	\$ 367,132
Amortization of transaction costs	346	242	149	—	737
Foreign exchange gain	—	—	—	(237)	(237)
Balance at March 31, 2021	\$ 314,197	\$ 28,487	\$ 22,272	\$ 2,676	\$ 367,632
Long-term debt - current	\$ —	\$ 8,139	\$ —	\$ 2,676	\$ 10,815
Long-term debt - non-current	314,197	20,348	22,272	—	356,817
Balance at March 31, 2021	\$ 314,197	\$ 28,487	\$ 22,272	\$ 2,676	\$ 367,632

As at March 31, 2021, a portion of the Bank Debt, net of transaction costs, and the Operating Loan totalling \$10.8 million was classified as current. The Operating Loan principal balance of \$2.7 million was paid on April 16, 2021 while two of the seven equal quarterly \$4.3 million principal payments of the Bank Debt totaling are due on December 11, 2021 and March 11, 2022, respectively.

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 3.50:1.00 and a minimum consolidated EBITDAX to interest expense, excluding non-cash interest expenses, ratio of 2.50:1.00. The Corporation was in compliance with its covenants as at March 31, 2021.

As at March 31, 2021, unamortized transaction costs of \$5.8 million, \$1.5 million and \$2.7 million are netted against the Senior Notes, Bank Debt and Bridge Loan principal amounts, respectively, resulting in carrying values of \$314.2 million, \$28.5 million and \$22.3 million, respectively. The Bridge Loan transaction costs amortization of \$0.1 million has been capitalized to PP&E as part of a qualifying asset and the remaining \$0.6 million transaction costs amortization has been recognized as a finance expense (note 12).

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2020	\$ 17,923	\$ 5,020	\$ 22,943
Additions	—	119	119
Settlements	(492)	(925)	(1,417)
Foreign exchange gain	—	(199)	(199)
Balance at March 31, 2021	\$ 17,431	\$ 4,015	\$ 21,446
Lease obligations - current	\$ 2,047	\$ 2,533	\$ 4,580
Lease obligations - non-current	15,384	1,482	16,866
Balance at March 31, 2021	\$ 17,431	\$ 4,015	\$ 21,446

Payments related to low-value assets, short-term lease arrangements or variable lease payments are excluded from being recognized as a lease obligation and right-of-use asset under IFRS 16. The payments related to short-term lease arrangements and low-value assets were recognized as operating expenses and the variable lease payments related to the Sabanas pipeline were recognized as transportation expenses. The variable lease payments related to a drilling rig contract were capitalized.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

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

Three months ended March 31,	2021	2020
Low-value right-of-use assets	\$ 25	\$ 29
Short-term lease arrangements	32	110
Variable lease payments	7,966	5,448
Total lease payments	\$ 8,023	\$ 5,587

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

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 28,744	\$ 31,661	\$ 28,812	\$ 89,217

NOTE 11 – OTHER EXPENSES

Three months ended March 31,	2021	2020
Donations	\$ 293	\$ 50
Pre-license costs	163	159
Other expenses	527	128
Other tax expense	448	731
Loss on financial instruments	20	2,926
	\$ 1,451	\$ 3,994

Loss on Financial Instruments

Three months ended March 31,	2021	2020
Hedging contract - unrealized	\$ —	\$ 1,996
Hedging contract - realized	—	314
Investments - unrealized	20	616
	\$ 20	\$ 2,926

NOTE 12 – FINANCE INCOME AND EXPENSE

Three months ended March 31,	2021	2020
Finance income		
Interest and other income	\$ 234	\$ 1,101
Finance expense		
Accretion on decommissioning obligations	318	337
Amortization of upfront transaction costs	588	477
Interest expense on lease obligations	305	394
Interest and other financing costs	7,449	7,237
	8,660	8,445
Net finance expense	\$ 8,426	\$ 7,344

During the three months ended March 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

NOTE 13 – NET LOSS PER SHARE

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

Three months ended March 31,	2021	2020
Net loss	\$ (3,062)	\$ (25,988)
Weighted-average common shares outstanding:		
Basic and diluted	179,515	180,931

Due to the net loss realized during the three months ended March 31, 2021 and 2020, stock options were anti-dilutive.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Operating Activities

Three months ended March 31,	Note	2021	2020
Litigation settlement liability - principal payments	7	\$ (201)	\$ (197)
Settlement of restricted share units obligation	7	(2,170)	(2,078)
		\$ (2,371)	\$ (2,275)

The litigation settlement liability payments of \$0.2 million during the three months ended March 31, 2021, related solely to the principal portion of the total payments of approximately \$0.2 million per month, which consists of both the principal and interest payments.

Other Investing Activities

Three months ended March 31,	Note	2021	2020
Change in investments	6	\$ 100	\$ 93
Change in restricted cash		—	827
Change in prepaid expenses and deposits		38	(52)
		\$ 138	\$ 868

Non-Cash Working Capital

Three months ended March 31,	2021	2020
Change in:		
Trade and other receivables	\$ 5,661	\$ (918)
Prepaid expenses and deposits	(2,423)	(2,143)
Tax installments and receivables	145	(1,513)
Crude oil inventory	60	21
Trade and other payables	11,496	(3,040)
Deferred income	(4,900)	892
Taxes payable	1,646	2,006
	11,685	(4,695)
Foreign exchange impact on working capital ending balances	(177)	(2,516)
	\$ 11,508	\$ (7,211)
Attributable to:		
Operating activities	\$ (185)	\$ (7,263)
Investing activities	11,693	52
	\$ 11,508	\$ (7,211)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

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

Three months ended March 31,	2021	2020
Natural gas and LNG revenues, net of royalties	\$ 67,508	\$ 81,223
Crude oil revenue, net of royalties	1,203	919
Take-or-pay natural gas income	24	145
	\$ 68,735	\$ 82,287

Natural gas trading

Three months ended March 31,	2021	2020
Natural gas trading revenue	\$ 6,356	\$ —
Natural gas trading purchases cost	6,321	—
Natural gas trading profit	\$ 35	\$ —

The Corporation recognized \$6.4 million of natural gas trading revenue and incurred gas purchase costs of \$6.3 million during the three months ended March 31, 2021 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.

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

Three months ended March 31,	2021	2020
Natural gas royalties	\$ 11,300	\$ 13,172
Crude oil royalties	100	75
	\$ 11,400	\$ 13,247

Income taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

Three months ended March 31,	2021	2020
Income taxes paid	\$ 4,017	\$ 6,923
Interest paid	\$ 1,237	\$ 893

During the three months ended March 31, 2021, the Corporation paid interest on its Bridge Loan which was drawn on August 28, 2020.

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, tax installments and receivables, trade and other payables, dividend payable, taxes payable, lease obligations, litigation settlement liability approximate their fair values at March 31, 2021. 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 \$339.8 million, \$30 million, \$25 million and \$2.7 million, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

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 months ended March 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 March 31, 2021, the COP to the USD exchange rate was 3,737:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.26:1 (December 31, 2020 – 1.27:1). The 9% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the three months ended March 31, 2021. In addition, total deferred income tax expense of \$11.3 million recognized during the three months ended March 31, 2021, was entirely as a result of the devaluation of COP to USD.

During the three months ended March 31, 2021, the Corporation held no 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 March 31, 2021:

	Less than 1 year		1-2 years		Thereafter		Total
Long-term debt – principal	\$	11,247	\$	42,143	\$	324,286	\$ 377,676
Lease obligations – undiscounted		5,120		4,114		15,546	24,780
Trade and other payables		56,672		—		—	56,672
Dividend payable		7,423		—		—	7,423
Taxes payable		14,562		—		—	14,562
Litigation settlement liability		589		677		11,724	12,990
Other long term obligation		—		3,335		—	3,335
Restricted share units		157		15		—	172
	\$	95,770	\$	50,284	\$	351,556	\$ 497,610

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

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. The trade receivable balance, relating to contracts with customers, as at March 31, 2021 was \$45.5 million (December 31, 2020 - \$49.9 million), \$8.3 million related to the recovery of transportation costs passed-through to customers (December 31, 2020 - \$10.7 million), \$6 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (December 31, 2020 - \$5.8 million) and \$5.2 million of other receivables (December 31, 2020 - \$4.3 million). The \$6 million receivable from Arrow is expected to be collected within twelve months. Two members of key management of Canacol are also members of the board of directors of Arrow.

Capital Management

The Corporation 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	March 31, 2021	December 31, 2020
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	25,000
Operating loan (IBR + 2%)	9	2,676	2,913
Litigation settlement liability (8.74%)	7	12,990	14,353
Lease obligation (5.1%)	10	21,446	22,943
Total debt		412,112	415,209
Working capital surplus		(66,545)	(73,404)
Net debt		\$ 345,567	\$ 341,805

NOTE 17 – COMMITMENTS AND CONTINGENCIES

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

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 6,708	\$ 34,204	\$ 4,418	\$ 45,330
Compression station operating contracts	2,622	5,402	10,719	18,743
	\$ 9,330	\$ 39,606	\$ 15,137	\$ 64,073

Letters of Credit

At March 31, 2021, the Corporation had letters of credit outstanding totaling \$72.8 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 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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

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

Corporation has outstanding exploration commitments at March 31, 2021 of \$45.3 million and has issued \$30.3 million in financial guarantees related thereto.

Contingencies

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