

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2021



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	June 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		\$ 34,834	\$ 68,280
Trade and other receivables	16	60,406	70,685
Tax installments and receivables		11,201	10,589
Other current assets	6	5,640	3,949
		112,081	153,503
Non-current assets			
Trade and other receivables	16	6,159	—
Exploration and evaluation assets	4	71,515	62,775
Property, plant and equipment	5	525,804	524,786
Deferred tax assets		4,490	3,422
Other non-current assets	6	8,193	5,306
		616,161	596,289
Total assets		\$ 728,242	\$ 749,792
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	\$ 14,976	\$ 7,199
Trade and other payables		51,427	45,176
Deferred income		6,735	12,709
Dividend payable	8	7,489	7,332
Lease obligations	10	4,284	4,744
Taxes payable		6	12,916
Other current liabilities	7	1,684	2,540
		86,601	92,616
Non-current liabilities			
Long-term debt	9	366,226	359,933
Lease obligations	10	16,120	18,199
Decommissioning obligations		25,267	24,588
Deferred tax liabilities		40,966	30,174
Other non-current liabilities	7	3,649	16,910
Total liabilities		538,829	542,420
Equity			
Share capital	8	165,793	168,572
Other reserves		66,937	66,567
Retained deficit		(43,317)	(27,767)
Total equity		189,413	207,372
Total liabilities and equity		\$ 728,242	\$ 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 INCOME (LOSS)
(UNAUDITED)**

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2021	2020	2021	2020
Revenues					
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	15	\$ 62,849	\$ 60,513	\$ 131,584	\$ 142,800
Natural gas trading revenues	15	6,435	—	12,791	—
Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties		69,284	60,513	144,375	142,800
Expenses					
Operating expenses		3,977	3,622	8,681	8,088
Transportation expenses		9,315	6,108	18,588	17,401
Natural gas trading purchases cost	15	6,410	—	12,731	—
Exploration expense	4	5,671	—	11,575	—
General and administrative		7,126	6,066	13,797	12,579
Stock-based compensation and restricted share units expense	7,8	1,859	2,493	2,426	4,014
Depletion and depreciation	5	15,930	16,226	32,833	34,180
Foreign exchange loss		986	1,383	1,782	5,693
Other expenses	11	1,936	3,570	3,387	7,564
		53,210	39,468	105,800	89,519
Net finance expense	12	8,881	7,084	17,307	14,428
Income before income taxes		7,193	13,961	21,268	38,853
Income tax expense (recovery)					
Current		6,319	7,912	12,183	17,652
Deferred		(1,550)	(11,666)	9,723	29,474
		4,769	(3,754)	21,906	47,126
Net income (loss) and comprehensive income (loss)		\$ 2,424	\$ 17,715	\$ (638)	\$ (8,273)
Net income (loss) per share					
Basic and diluted	13	\$ 0.01	\$ 0.10	\$ —	\$ (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 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	4,175	(1,284)	—	—	2,891
Stock-based compensation	—	1,116	—	—	1,116
Dividends declared (note 8)	—	—	—	(13,536)	(13,536)
Net loss	—	—	—	(8,273)	(8,273)
Balance at June 30, 2020	\$ 172,561	\$ 68,234	\$ —	\$ (16,924)	\$ 223,871
Balance at December 31, 2020	\$ 168,572	\$ 66,567	\$ —	\$ (27,767)	\$ 207,372
Common shares repurchased	(2,779)	—	—	—	(2,779)
Stock-based compensation	—	370	—	—	370
Dividends declared (note 8)	—	—	—	(14,912)	(14,912)
Net loss	—	—	—	(638)	(638)
Balance at June 30, 2021	\$ 165,793	\$ 66,937	\$ —	\$ (43,317)	\$ 189,413

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 June 30,		Six months ended June 30,	
		2021	2020	2021	2020
Operating activities					
Net income (loss) and comprehensive income (loss)		\$ 2,424	\$ 17,715	\$ (638)	\$ (8,273)
Non-cash adjustments:					
Depletion and depreciation	5	15,930	16,226	32,833	34,180
Exploration expense	4	5,671	—	11,575	—
Stock-based compensation and restricted share units expense	7,8	1,859	2,493	2,426	4,014
Net financing expense	12	8,881	7,084	17,307	14,428
Unrealized foreign exchange loss and other expenses		4,026	744	4,451	3,717
Realized foreign exchange gain		(3,659)	—	(3,659)	—
Deferred income tax (recovery) expense		(1,550)	(11,666)	9,723	29,474
Unrealized loss (gain) on financial instruments	11	61	(1,305)	81	1,307
Settlement of decommissioning obligation		(54)	—	(54)	—
Payment of litigation settlement liability	7	(12,872)	(110)	(13,073)	(307)
Settlement of RSU liability	7	—	—	(2,170)	(2,078)
Changes in non-cash working capital	14	(20,730)	6,633	(20,915)	(630)
		(13)	37,814	37,887	75,832
Investing activities					
Expenditures on exploration and evaluation	4	(11,428)	(2,752)	(25,215)	(5,067)
Expenditures on property, plant and equipment		(13,083)	(9,199)	(27,912)	(26,870)
Net proceeds on disposition of property, plant and equipment		31	—	270	58
Other investing activities	14	(3,054)	(2,517)	(2,916)	(1,649)
Changes in non-cash working capital	14	(2,042)	(4,785)	9,651	(4,733)
		(29,576)	(19,253)	(46,122)	(38,261)
Financing activities					
Draw on long-term debt	9	12,921	7,276	12,921	7,276
Repayment of long-term debt	9	—	(2,727)	—	(2,727)
Net financing expense paid	12	(7,880)	(7,369)	(15,400)	(13,899)
Lease principal payments	10	(1,429)	(1,410)	(2,846)	(2,810)
Dividends paid	8	(7,423)	(6,629)	(14,755)	(6,629)
Common share repurchases	8	(2,779)	—	(2,779)	(1,073)
Issue of common shares	8	—	319	—	2,891
		(6,590)	(10,540)	(22,859)	(16,971)
Change in cash and cash equivalents		(36,179)	8,021	(31,094)	20,600
Cash and cash equivalents, beginning of period		71,501	49,156	68,280	41,239
Foreign exchange impact on cash and cash equivalents, end of period		(488)	1,375	(2,352)	(3,287)
Cash and cash equivalents, end of period		\$ 34,834	\$ 58,552	\$ 34,834	\$ 58,552

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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 CNEEF, 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 August 4, 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		25,215
Transferred to exploration expense		(11,575)
Transferred to D&P assets (note 5)		(4,900)
Balance at June 30, 2021	\$	71,515

During the six months ended June 30, 2021, the Corporation drilled the Flauta-1 exploration well located on its VIM-5 block and the Milano-1 exploration well located on its Esperanza block. The wells did not encounter commercial gas and, as such, the related costs of \$11.6 million were recognized as an exploration expense.

During the six months ended June 30, 2021, the Corporation made a natural gas discovery, Aguas Vivas-1 on its VIM-21 block and, accordingly, \$4.9 million of exploration costs associated with such discovery have been transferred to D&P assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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	28,624	474	29,098
Transferred from E&E assets (note 4)	4,900	—	4,900
Dispositions and de-recognition	(106)	—	(106)
Balance at June 30, 2021	\$ 1,158,346	\$ 33,471	\$ 1,191,817
Accumulated depletion and depreciation			
Balance at December 31, 2020	\$ (624,455)	\$ (8,684)	\$ (633,139)
Depletion and depreciation	(30,870)	(2,013)	(32,883)
Derecognition and inventory adjustments	9	—	9
Balance at June 30, 2021	\$ (655,316)	\$ (10,697)	\$ (666,013)
Carrying value			
As at December 31, 2020	\$ 500,473	\$ 24,313	\$ 524,786
As at June 30, 2021	\$ 503,030	\$ 22,774	\$ 525,804

NOTE 6 – OTHER ASSETS

	June 30, 2021	December 31, 2020
Current		
Prepaid expenses and deposits	\$ 4,909	\$ 3,332
Investments	75	289
Inventory	656	328
	\$ 5,640	\$ 3,949
Non-Current		
Prepaid expenses and deposits	\$ 4,778	\$ 2,896
Investments	3,415	2,410
	\$ 8,193	\$ 5,306

Investments

	Office Sub-Lease	Share Investments	Total Investments
Balance at December 31, 2020	\$ 289	\$ 2,410	\$ 2,699
Additions	—	1,235	1,235
Sub-lease receipts and finance income	(201)	—	(201)
Unrealized loss	—	(81)	(81)
Foreign exchange loss	(13)	(149)	(162)
Balance at June 30, 2021	\$ 75	\$ 3,415	\$ 3,490
Investments - current	\$ 75	\$ —	\$ 75
Investments - non-current	—	3,415	3,415
Balance at June 30, 2021	\$ 75	\$ 3,415	\$ 3,490

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

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

NOTE 7 – OTHER LIABILITIES

	June 30, 2021	December 31, 2020
Current		
Restricted share units	\$ 1,684	\$ 1,966
Litigation settlement liability	—	574
	\$ 1,684	\$ 2,540
Non-Current		
Restricted share units	\$ 164	—
Litigation settlement liability	—	13,779
Other long term obligations	3,485	3,131
	\$ 3,649	\$ 16,910

Restricted Share Units

Balance at December 31, 2020	\$ 1,966
Amortized	2,056
Settled	(2,170)
Foreign exchange gain	(4)
Balance at June 30, 2021	\$ 1,848

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 June 30, 2021 was \$1.8 million.

As at June 30, 2021, amortized RSUs of 472,909 of the total 1,629,000 RSUs outstanding were recognized as an obligation and the remaining 1,156,091 RSUs will be recognized over the remaining vesting period.

The number of outstanding RSUs as at June 30, 2021 were as follows:

	Outstanding Units (000's)
Balance at December 31, 2020	765
Granted	1,629
Settled	(765)
Balance at June 30, 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 six months ended June 30, 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	(13,073)
Foreign exchange gain	(1,280)
Balance at June 30, 2021	\$ —

During the six months ended June 30, 2021, the Corporation entered into a credit agreement with Banco Divivienda (note 9) and paid its litigation settlement liability outstanding principal and accrued interest of \$13.1 million, which was denominated in Colombian Pesos ("COP"). The litigation settlement amount was

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

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

subject to a 8.74% annual interest rate on the outstanding balance and cash payments of approximately \$0.2 million per month, including accrued interest.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2020	179,515	\$ 168,572
Common share repurchases	(1,000)	(2,779)
Balance at June 30, 2021	178,515	\$ 165,793

During the six months ended June 30, 2021, the Corporation repurchased 1,000,000 common shares of the Corporation at a cost of \$2.8 million, including transaction fees. Subsequent to June 30, 2021, the Corporation repurchased 1,060,000 common shares of the Corporation at a cost of \$2.8 million, including transaction fees.

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	(470)	4.34
Balance at June 30, 2021	12,339	4.27

There were no stock options granted during the three and six months ended June 30, 2021.

Information with respect to stock options outstanding at June 30, 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	5,365	0.7	4.16	5,365	4.16
\$4.24 - \$4.62	6,974	2.8	4.35	4,788	4.38
	12,339	1.9	4.27	10,153	4.27

Stock-based compensation of \$0.2 million and \$0.4 million (2020 - \$0.6 million and \$1.1 million) was expensed during the three and six months ended June 30, 2021, respectively.

Dividends Declared

During the six months ended June 30, 2021, the Corporation declared two dividend payments of C\$0.052 per share, totaling \$14.9 million, of which \$7.4 million was paid on April 15, 2021 and \$7.5 million was paid on July 15, 2021, to shareholders of record at the close of business on March 31, 2021 and June 30, 2021, respectively. The ex-dividend dates for all shareholders were March 30, 2021 and June 29, 2021, respectively. 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 and six months ended June 30, 2021 and 2020

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

NOTE 9 – LONG-TERM DEBT

	Senior Notes	Credit Suisse Bank Debt	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Balance at December 31, 2020	\$ 313,851	\$ 28,245	\$ 22,123	\$ —	\$ 2,913	\$ 367,132
Draw on long-term debt	—	—	—	12,921	—	12,921
Amortization of transaction costs	697	491	303	—	—	1,491
Foreign exchange gain	—	—	—	(90)	(252)	(342)
Balance at June 30, 2021	\$ 314,548	\$ 28,736	\$ 22,426	\$ 12,831	\$ 2,661	\$ 381,202
Long-term debt - current	\$ —	\$ 12,315	\$ —	\$ —	\$ 2,661	\$ 14,976
Long-term debt - non-current	314,548	16,421	22,426	12,831	—	366,226
Balance at June 30, 2021	\$ 314,548	\$ 28,736	\$ 22,426	\$ 12,831	\$ 2,661	\$ 381,202

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

As at June 30, 2021, a portion of the Credit Suisse Bank Debt, net of transaction costs, and the Operating Loan totaling \$15 million was classified as current. The Operating Loan principal balance of \$2.7 million repayment was extended to April 11, 2022 while three of the seven equal quarterly \$4.3 million principal payments of the Credit Suisse Bank Debt totaling \$12.9 million are due on December 11, 2021, March 11, 2022 and June 11, 2022, respectively.

Net carrying value

	Senior Notes	Credit Suisse Bank Debt	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Long-term debt - principal	\$ 320,000	\$ 30,000	\$ 25,000	\$ 12,831	\$ 2,661	\$ 390,492
Unamortized transaction costs	(5,452)	(1,264)	(2,574)	—	—	(9,290)
Balance at June 30, 2021	\$ 314,548	\$ 28,736	\$ 22,426	\$ 12,831	\$ 2,661	\$ 381,202

As at June 30, 2021, unamortized transaction costs are netted against the Senior Notes, Credit Suisse Bank Debt and Bridge Loan principal amounts, resulting in the below carrying values. During the three and six months ended June 30, 2021, Bridge Loan transaction costs amortization of \$0.2 million and \$0.3 million were capitalized to PP&E as part of a qualifying asset, and the remaining \$0.6 million and \$1.2 Million transaction costs amortization has been recognized as a finance expense (note 12), 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 June 30, 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

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

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other		Total
Balance at December 31, 2020	\$	17,923	\$	5,020	\$ 22,943
Additions		—		475	475
Settlements		(990)		(1,856)	(2,846)
Foreign exchange gain		—		(168)	(168)
Balance at June 30, 2021	\$	16,933	\$	3,471	\$ 20,404
Lease obligations - current	\$	2,089	\$	2,195	\$ 4,284
Lease obligations - non-current		14,844		1,276	16,120
Balance at June 30, 2021	\$	16,933	\$	3,471	\$ 20,404

Payments related to low-value assets, short-term lease arrangements and 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Low-value right-of-use assets	\$ 25	\$ 24	\$ 50	\$ 53
Short-term lease arrangements	221	207	253	317
Variable lease payments	3,959	3,733	11,925	9,181
Total lease payments	\$ 4,205	\$ 3,964	\$ 12,228	\$ 9,551

Future lease payments related to short-term, low value or variable lease arrangements as at June 30, 2021 are as follows:

	Less than 1 year		1-3 years		Thereafter		Total
Future lease payments	\$	25,390	\$	31,819	\$	24,755	\$ 81,964

NOTE 11 – OTHER EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Donations	\$ —	\$ 317	\$ 293	\$ 367
Pre-license costs	819	285	982	444
Other expenses	333	2,976	860	3,104
Other tax expense	723	707	1,171	1,438
Loss (gain) on financial instruments	61	(715)	81	2,211
	\$ 1,936	\$ 3,570	\$ 3,387	\$ 7,564

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

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

Loss (Gain) on Financial Instruments

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Hedging contract - unrealized	\$ —	\$ (1,195)	\$ —	\$ 801
Hedging contract - realized	—	590	—	904
Investments - unrealized	61	(110)	81	506
	\$ 61	\$ (715)	\$ 81	\$ 2,211

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Finance income				
Interest and other income	\$ 198	\$ 336	\$ 432	\$ 1,437
Gain on modification of bank debt	—	1,174	—	1,174
Finance expense				
Accretion on decommissioning obligations	401	415	719	752
Amortization of upfront transaction costs	600	474	1,188	951
Interest expense on lease obligations	290	350	595	744
Interest and other financing costs	7,788	7,355	15,237	14,592
	\$ 9,079	\$ 8,594	\$ 17,739	\$ 17,039
Net finance expense	\$ 8,881	\$ 7,084	\$ 17,307	\$ 14,428

During the six months ended June 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 Credit Suisse Bank Debt modification.

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 2,424	\$ 17,715	\$ (638)	\$ (8,273)
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic	179,289	180,916	179,401	180,923
Effect of stock options	—	568	—	—
Basic and diluted	179,289	181,484	179,401	180,923

Due to the net loss realized during the six months ended June 30, 2021 and 2020, stock options were anti-dilutive. There was no effect of stock options during the three months ended June 30, 2021, due to the stock options being out-of-the-money.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

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

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

	Note	Three months ended June 30,		Six months ended June 30,	
		2021	2020	2021	2020
Change in investments	6	\$ (1,134)	\$ (120)	\$ (1,034)	\$ (27)
Change in restricted cash		—	(330)	—	497
Change in prepaid expenses and deposits		(1,920)	(2,067)	(1,882)	(2,119)
		\$ (3,054)	\$ (2,517)	\$ (2,916)	\$ (1,649)

Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Change in:				
Trade and other receivables	\$ (1,541)	\$ 8,748	\$ 4,120	\$ 7,830
Prepaid expenses and deposits	846	385	(1,577)	(1,758)
Tax installments and receivables	(757)	4,215	(612)	2,702
Crude oil inventory	(368)	(109)	(308)	(88)
Trade and other payables	(5,245)	(14,121)	6,251	(17,161)
Deferred income	(1,074)	3,318	(5,974)	4,210
Taxes payable	(14,556)	(396)	(12,910)	1,610
	(22,695)	2,040	(11,010)	(2,655)
Foreign exchange impact on working capital ending balances	(77)	(192)	(254)	(2,708)
	\$ (22,772)	\$ 1,848	\$ (11,264)	\$ (5,363)
Attributable to:				
Operating activities	\$ (20,730)	\$ 6,633	\$ (20,915)	\$ (630)
Investing activities	(2,042)	(4,785)	9,651	(4,733)
	\$ (22,772)	\$ 1,848	\$ (11,264)	\$ (5,363)

During the three months ended June 30, 2021, the Corporation made cash payments, impacting working capital as follows: i) the 2020 income tax remaining installment of \$11.3 million ii) prepaid 2021 tax installments of \$10.7 million and iii) the semi-annual Senior Notes interest payment of \$12.1 million. The Corporation expects that a portion of its 2020 prepaid tax installments totaling \$9.3 million will be returned from the Colombian tax authorities by the end of Q3 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Natural gas and LNG revenues, net of royalties	\$ 61,935	\$ 59,386	\$ 129,443	\$ 140,609
Crude oil revenue, net of royalties	914	355	2,117	1,274
Take-or-pay natural gas income	—	772	24	917
	\$ 62,849	\$ 60,513	\$ 131,584	\$ 142,800

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Natural gas royalties	\$ 11,116	\$ 8,842	\$ 22,416	\$ 22,014
Crude oil royalties	75	29	175	104
	\$ 11,191	\$ 8,871	\$ 22,591	\$ 22,118

Natural Gas Trading

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Natural gas trading revenue	\$ 6,435	\$ —	\$ 12,791	\$ —
Natural gas trading purchases cost	6,410	—	12,731	—
Natural gas trading profit	\$ 25	\$ —	\$ 60	\$ —

The Corporation recognized \$6.4 million and \$12.8 million of natural gas trading revenue and incurred gas purchase costs of \$6.4 million and \$12.7 million during the three and six months ended June 30, 2021, respectively, related to the delivery of a certain off-taker's long-term contract. The Corporation's gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities.

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Income taxes paid	\$ 22,020	\$ 13,967	\$ 26,037	\$ 20,890
Interest paid	\$ 12,836	\$ 12,494	\$ 14,073	\$ 13,387

During the three and six months ended June 30, 2021, the Corporation paid its remaining 2020 income tax expense installment of \$11.3 million. In addition, the Corporation also prepaid advances related to its 2021 income tax expense of \$10.7 million and \$14.7 million during the three and six months ended June 30, 2021, respectively.

During the three and six months ended June 30, 2021, the Corporation paid its semi-annual interest payment of \$12.1 million related to its Senior Notes.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 and lease obligations approximate their fair values at June 30, 2021. Restricted Share Units (“RSUs”) and certain investments are recorded at fair value. The fair value of the Senior Notes, Credit Suisse Bank Debt, Bridge Loan, Colombia Bank Debt and Operating Loan is \$340 million, \$30 million, \$25 million, \$12.8 million and \$2.7 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 is subject to fixed interest rates, which limits the Corporation’s exposure to interest rate risk. The Corporation’s Credit Suisse Bank Debt, Bridge Loan, Colombia Bank Debt 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 six months ended June 30, 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 June 30, 2021, the COP to the USD exchange rate was 3,757:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.24:1 (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 six months ended June 30, 2021. In addition, total deferred income tax expense of \$9.7 million recognized during the six months ended June 30, 2021, was mainly as a result of the devaluation of COP to USD.

During the three and six months ended June 30, 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

(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 at June 30, 2021:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ 15,518	\$ 42,143	\$ 332,831	\$ 390,492
Lease obligations – undiscounted	4,987	3,639	14,792	23,418
Trade and other payables	51,427	—	—	51,427
Dividend payable	7,489	—	—	7,489
Taxes payable	6	—	—	6
Other long term obligation	—	3,485	—	3,485
Restricted share units	1,684	164	—	1,848
	\$ 81,111	\$ 49,431	\$ 347,623	\$ 478,165

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 June 30, 2021 was \$47.6 million (December 31, 2020 - \$49.9 million), \$7.8 million related to the recovery of transportation costs passed-through to customers (December 31, 2020 - \$10.7 million), \$6.2 million from Arrow Exploration Corp. ("Arrow") related to the sale of certain petroleum assets (December 31, 2020 - \$5.8 million) and \$5 million of other receivables (December 31, 2020 - \$4.3 million). The \$6.2 million receivable from Arrow is expected to be collected by December 31, 2022 and, as such, was classified as non-current as at June 30, 2021. 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	June 30, 2021	December 31, 2020
Senior Notes - principal (7.25%)	9	\$ 320,000	\$ 320,000
Bank Debt - principal (LIBOR + 4.25%) ⁽¹⁾	9	30,000	30,000
Bridge Loan - principal (LIBOR + 4.25%) ⁽¹⁾	9	25,000	25,000
Colombia Bank Debt - principal (IBR + 2.5%) ⁽²⁾	9	12,831	—
Litigation settlement liability (8.74%)	7	—	14,353
Operating loan (IBR + 1.5%) ⁽²⁾	9	2,661	2,913
Lease obligation (5.1%)	10	20,404	22,943
Total debt		410,896	415,209
Working capital surplus		(44,740)	(73,404)
Net debt		\$ 366,156	\$ 341,805

(1) The LIBOR rate during the three and six months ended June 30, 2021 was 0.178% and 0.199%, respectively.

(2) The IBR rate during the three and six months ended June 30, 2021 was 1.74% and 1.72%, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

(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 at June 30, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 4,872	\$ 34,082	\$ 4,370	43,324
Compression station operating contracts	2,634	5,428	10,029	18,091
	\$ 7,506	\$ 39,510	\$ 14,399	61,415

Letters of Credit

At June 30, 2021, the Corporation had letters of credit outstanding totaling \$75.9 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 July 30, 2022.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at June 30, 2021 of \$43.3 million and has issued \$33.3 million of the total \$75.9 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.