

# CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE AND SIX MONTHS ENDED JUNE 30, 2022



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

(in thousands of United States dollars)

As at	Note	June 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 90,808	\$ 138,523
Trade and other receivables	16	78,953	71,362
Tax installments and receivables		285	5,576
Other current assets	6	6,044	2,893
		<b>176,090</b>	<b>218,354</b>
<b>Non-current assets</b>			
Trade and other receivables	16	—	1,709
Exploration and evaluation assets	4	89,290	69,987
Property, plant and equipment	5	552,504	530,972
Deferred tax assets		4,761	4,808
Other non-current assets	6	23,976	17,930
		<b>670,531</b>	<b>625,406</b>
<b>Total assets</b>		<b>\$ 846,621</b>	<b>\$ 843,760</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long-term debt	9	\$ —	\$ 2,513
Trade and other payables		58,845	52,363
Deferred income		2,311	5,206
Dividend payable	8	6,894	7,226
Lease obligations	10	3,496	4,308
Taxes payable		4,906	3,444
Other current liabilities	7	2,306	1,991
		<b>78,758</b>	<b>77,051</b>
<b>Non-current liabilities</b>			
Long-term debt	9	494,732	491,970
Deferred income		1,724	—
Lease obligations	10	14,124	13,781
Decommissioning obligations		31,074	26,147
Deferred tax liabilities		45,273	45,517
Other non-current liabilities	7	4,830	4,163
<b>Total liabilities</b>		<b>670,515</b>	<b>658,629</b>
<b>Equity</b>			
Share capital	8	146,623	159,798
Other reserves		67,362	67,219
Retained deficit		(37,879)	(41,886)
<b>Total equity</b>		<b>176,106</b>	<b>185,131</b>
<b>Total liabilities and equity</b>		<b>\$ 846,621</b>	<b>\$ 843,760</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)

		Three months ended June 30,		Six months ended June 30,	
	Note	2022	2021	2022	2021
<b>Revenues</b>					
Natural gas, LNG, take-or-pay and crude oil revenues, net of royalties	15	\$ 78,664	\$ 62,849	\$ 153,586	\$ 131,584
Natural gas trading revenues	15	7,766	6,435	15,550	12,791
<b>Total natural gas, LNG, take-or-pay and crude oil revenues, net of royalties</b>		<b>86,430</b>	<b>69,284</b>	<b>169,136</b>	<b>144,375</b>
<b>Expenses</b>					
Operating expenses		6,044	3,977	12,806	8,681
Transportation expenses		8,408	9,315	17,447	18,588
Natural gas trading purchase costs	15	7,405	6,410	14,815	12,731
Exploration expense		—	5,671	—	11,575
General and administrative		6,697	7,126	13,187	13,797
Stock-based compensation expense	7,8	974	1,859	2,678	2,426
Depletion and depreciation	5	18,284	15,930	34,952	32,833
Foreign exchange loss		2,879	986	540	1,782
Other expenses	11	4,699	1,936	5,750	3,387
		<b>55,390</b>	<b>53,210</b>	<b>102,175</b>	<b>105,800</b>
Net finance expense	12	10,288	8,881	20,591	17,307
<b>Income before income taxes</b>		<b>20,752</b>	<b>7,193</b>	<b>46,370</b>	<b>21,268</b>
<b>Income tax expense (recovery)</b>					
Current		15,194	6,319	28,556	12,183
Deferred	16	11,962	(1,550)	(197)	9,723
		<b>27,156</b>	<b>4,769</b>	<b>28,359</b>	<b>21,906</b>
<b>Net (loss) income and comprehensive (loss) income</b>		<b>\$ (6,404)</b>	<b>\$ 2,424</b>	<b>\$ 18,011</b>	<b>\$ (638)</b>
<b>Net (loss) income per share</b>					
Basic and diluted	13	\$ (0.04)	\$ 0.01	\$ 0.10	\$ —

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)

	Note	Share Capital	Other Reserves	Retained Deficit	Total Equity
Balance at December 31, 2020		\$ 168,572	\$ 66,567	\$ (27,767)	\$ 207,372
Common shares repurchased	8	(2,779)	—	—	(2,779)
Stock-based compensation	8	—	370	—	370
Dividends declared	8	—	—	(14,912)	(14,912)
Net loss		—	—	(638)	(638)
<b>Balance at June 30, 2021</b>		<b>\$ 165,793</b>	<b>\$ 66,937</b>	<b>\$ (43,317)</b>	<b>\$ 189,413</b>
Balance at December 31, 2021		\$ 159,798	\$ 67,219	\$ (41,886)	\$ 185,131
Common shares repurchased	8	(13,175)	—	—	(13,175)
Stock-based compensation	8	—	143	—	143
Dividends declared	8	—	—	(14,004)	(14,004)
Net income		—	—	18,011	18,011
<b>Balance at June 30, 2022</b>		<b>\$ 146,623</b>	<b>\$ 67,362</b>	<b>\$ (37,879)</b>	<b>\$ 176,106</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 June 30,		Six months ended June 30,	
		2022	2021	2022	2021
<b>Operating activities</b>					
Net (loss) income and comprehensive (loss) income		\$ (6,404)	\$ 2,424	\$ 18,011	\$ (638)
Non-cash adjustments:					
Depletion and depreciation	5	18,284	15,930	34,952	32,833
Exploration expense		—	5,671	—	11,575
Stock-based compensation expense	7,8	974	1,859	2,678	2,426
Net financing expense	12	10,288	8,881	20,591	17,307
Unrealized foreign exchange loss and other expenses		3,007	367	439	792
Deferred income tax (recovery) expense		11,962	(1,550)	(197)	9,723
Equity investment loss (income)	11	1,077	—	(258)	—
Unrealized (gain) loss on financial instruments	11	(102)	61	(1,474)	81
Settlement of decommissioning obligation		—	(54)	—	(54)
Payment of litigation settlement liability		—	(12,872)	—	(13,073)
Settlement of restricted share units	7	—	—	(1,840)	(2,170)
Changes in non-cash working capital	14	(3,748)	(20,730)	499	(20,915)
		35,338	(13)	73,401	37,887
<b>Investing activities</b>					
Expenditures on exploration and evaluation assets	4	(19,590)	(11,428)	(31,772)	(25,215)
Expenditures on property, plant and equipment		(23,096)	(13,083)	(38,392)	(27,912)
Net proceeds on disposition of property, plant and equipment		—	31	—	270
Other investing activities	14	(3,889)	(3,054)	(4,364)	(2,916)
Changes in non-cash working capital	14	(2,453)	(2,042)	2,975	9,651
		(49,028)	(29,576)	(71,553)	(46,122)
<b>Financing activities</b>					
Draw on long-term debt, net of financing fees and make-whole payment		—	12,921	—	12,921
Repayment of long-term debt	9	(2,647)	—	(2,647)	—
Net financing expense paid	12	(8,194)	(7,880)	(16,518)	(15,400)
Lease principal payments	10	(1,084)	(1,429)	(2,164)	(2,846)
Dividends paid	8	(7,110)	(7,423)	(14,280)	(14,755)
Common share repurchases	8	—	(2,779)	(13,175)	(2,779)
		(19,035)	(6,590)	(48,784)	(22,859)
Change in cash and cash equivalents		(32,725)	(36,179)	(46,936)	(31,094)
Cash and cash equivalents, beginning of period		126,083	71,501	138,523	68,280
Foreign exchange impact on cash and cash equivalents, end of period		(2,550)	(488)	(779)	(2,352)
<b>Cash and cash equivalents, end of period</b>		<b>\$ 90,808</b>	<b>\$ 34,834</b>	<b>\$ 90,808</b>	<b>\$ 34,834</b>

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, 2022 and 2021

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

### NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on August 10, 2022.

### 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 the Corporation’s audited consolidated financial statements for the year ended December 31, 2021.

#### Basis of Measurement

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

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

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

#### Functional and Presentation Currency

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

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

The Corporation has reviewed new and revised accounting pronouncements that have been issued and have become effective on January 1, 2022, however they do not have a material impact on the financial statements.

### NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2021	\$	69,987
Additions		31,772
Transferred to D&P assets (note 5)		(12,469)
<b>Balance at June 30, 2022</b>	<b>\$</b>	<b>89,290</b>

During the six months ended June 30, 2022, the Corporation made natural gas discoveries, Carambolo-1 and Cornamusa-1 on its VIM-21 block and Alboka-1 on its VIM-5 block, and accordingly, \$12.5 million of exploration costs associated with such discoveries have been transferred to D&P assets.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

(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
<b>Cost</b>			
Balance at December 31, 2021	\$ 1,197,712	\$ 33,594	\$ 1,231,306
Additions	42,896	1,931	44,827
Transferred from E&E assets (note 4)	12,469	—	12,469
Dispositions and de-recognition	(1,521)	(1,960)	(3,481)
<b>Balance at June 30, 2022</b>	<b>\$ 1,251,556</b>	<b>\$ 33,565</b>	<b>\$ 1,285,121</b>
<b>Accumulated depletion and depreciation</b>			
Balance at December 31, 2021	\$ (688,031)	\$ (12,303)	\$ (700,334)
Dispositions	1,426	1,251	2,677
Depletion and depreciation	(33,433)	(1,519)	(34,952)
Derecognition and inventory adjustments	(8)	—	(8)
<b>Balance at June 30, 2022</b>	<b>\$ (720,046)</b>	<b>\$ (12,571)</b>	<b>\$ (732,617)</b>
<b>Carrying value</b>			
As at December 31, 2021	\$ 509,681	\$ 21,291	\$ 530,972
<b>As at June 30, 2022</b>	<b>\$ 531,510</b>	<b>\$ 20,994</b>	<b>\$ 552,504</b>

### NOTE 6 – OTHER ASSETS

	June 30, 2022	December 31, 2021
<b>Current</b>		
Prepaid expenses and deposits	\$ 5,475	\$ 2,533
Investments	242	—
Inventory	327	360
	<b>\$ 6,044</b>	<b>\$ 2,893</b>
<b>Non-Current</b>		
Prepaid expenses and deposits	\$ 12,030	\$ 7,563
Investments	11,946	10,367
	<b>\$ 23,976</b>	<b>\$ 17,930</b>

As at June 30, 2022, the Corporation had prepaid expenses related to pre-construction activities of the natural gas pipeline, which is expected to be constructed from the Corporation's operations to Medellin, Colombia. In addition, the Corporation made certain annual prepayments, including insurance premiums, during the six months ended June 30, 2022.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

### Investments

	Office Sub-Lease	Arrow Equity Investment	Arrow Warrants	Other Share Investments	Total Investments
Balance at December 31, 2021	\$ —	\$ 3,784	\$ 1,247	\$ 5,336	\$ 10,367
Additions	348	—	—	—	348
Sub-lease receipts and finance income	(103)	—	—	—	(103)
Equity investment income	—	258	—	—	258
Unrealized fair value gain	—	—	1,474	—	1,474
Foreign exchange (loss) gain	(3)	—	37	(190)	(156)
<b>Balance at June 30, 2022</b>	<b>\$ 242</b>	<b>\$ 4,042</b>	<b>\$ 2,758</b>	<b>\$ 5,146</b>	<b>\$ 12,188</b>

During the six months ended June 30, 2022, the Corporation entered into an office sub-lease agreement and, accordingly, reclassified its right-of-use asset to an office sublease investment of \$0.3 million, which will be received within the next twelve months and, as such, has been classified as current as at June 30, 2022.

During the six months ended June 30, 2022, the Corporation recognized equity investment income related to its investment in Arrow Exploration Corp. (“Arrow”) due to having significant influence over the company, as a result of having two representatives on the Board of Directors of Arrow, together with an interest of approximately 19.99% of Arrow’s common shares. As at June 30, 2022, the carrying value of the equity investment was \$4 million.

As at June 30, 2022, the Corporation also holds 18,357,602 of Arrow warrants with a fair market value of \$2.8 million, according to the Black-Scholes pricing model using the following inputs:

	June 30, 2022
Weighted-average fair value (C\$)	0.19
Share price (C\$)	0.24
Exercise price (C\$)	0.15
Volatility	200.2 %
Warrant life	2 years
Risk-free interest rate	3.10 %

### NOTE 7 – OTHER LIABILITIES

	June 30, 2022	December 31, 2021
<b>Current</b>		
Long-term incentive compensation liability	\$ 2,306	\$ 1,991
<b>Non-Current</b>		
Long-term incentive compensation liability	\$ 762	\$ 94
Other long term obligations	4,068	4,069
	<b>\$ 4,830</b>	<b>\$ 4,163</b>

#### Long-term Incentive Compensation Liability

Balance at December 31, 2021	\$ 2,085
Amortized	2,902
Settled	(1,840)
Foreign exchange gain	(79)
<b>Balance at June 30, 2022</b>	<b>\$ 3,068</b>



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

The long-term incentive compensation liability includes restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”). The RSUs and PSUs are recognized as an obligation and expensed on a graded vesting basis and cliff vesting basis, respectively, over the vesting term of each grant. The DSUs vested immediately on the grant date and were recognized as an expense. The amortized long-term incentive compensation liability as at June 30, 2022 was \$3.1 million (December 31, 2021 - \$2.1 million).

The number of outstanding RSUs, PSUs and DSUs as at June 30, 2022 were as follows:

	<b>Outstanding Units</b>
	(000's)
Balance at December 31, 2021	1,997
Granted	2,122
Settled	(724)
Cancelled	(13)
<b>Balance at June 30, 2022</b>	<b>3,382</b>

### i) Restricted Share Units

On February 8, 2022, the Corporation granted 1,911,316 RSUs. The RSUs will vest in four equal tranches six-months, twelve-months, eighteen-months and twenty-four months from the grant date, respectively, and are expected to be settled in cash. During the six months ended June 30, 2022, the Corporation settled 724,433 RSUs at C\$3.19 per unit for a total amount of \$1.8 million in cash and cancelled 13,000 RSUs. As at June 30, 2022, 1,087,712 of the total 2,246,906 RSUs outstanding were amortized and recognized as an obligation and the remaining 1,159,194 RSUs will be recognized over the remaining vesting period.

### ii) Performance Share Units

As at June 30, 2022, amortized PSUs of 338,411 of the total 991,806 PSUs outstanding were amortized and recognized as an obligation and the remaining 653,395 PSUs will be recognized over the remaining vesting period.

### iii) Deferred Share Units

During the six months ended June 30, 2022, 139,443 of DSUs were granted, which vested immediately and were recognized as an expense on the grant date.

The Corporation also granted 71,554 RSUs, PSUs, and DSUs related to the Corporation’s quarterly dividend payment (note 8), which were accrued on the outstanding units as of the dividend record dates. The units will be amortized and settled in accordance with the units’ contracted vesting periods.

## NOTE 8 – EQUITY

### Share Capital

	<b>Number</b>	<b>Amount</b>
	(000's)	
Balance at December 31, 2021	176,167 \$	159,798
Common share repurchases	(5,308)	(13,175)
<b>Balance at June 30, 2022</b>	<b>170,859 \$</b>	<b>146,623</b>

During the six months ended June 30, 2022, the Corporation repurchased 5,307,700 common shares of the Corporation at a cost of \$13.2 million, including transaction fees. Subsequent to June 30, 2022, the Corporation repurchased 86,632 common shares of the Corporation at a cost of \$0.2 million, including transaction fees.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

(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, 2021	9,826	4.29
Forfeited and cancelled	(1,680)	4.27
<b>Balance at June 30, 2022</b>	<b>8,146</b>	<b>4.31</b>

There were no stock options granted nor settled during the six months ended June 30, 2022.

Information with respect to stock options outstanding at June 30, 2022 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$3.97 - \$4.23	1,699	0.3	4.15	1,699	4.15
\$4.24 - \$4.62	6,447	1.8	4.35	5,559	4.36
	<b>8,146</b>	<b>1.5</b>	<b>4.31</b>	<b>7,258</b>	<b>4.31</b>

Stock-based compensation of \$0.1 million and \$0.1 million (2021 - \$0.2 million and \$0.4 million) was expensed during the three and six months ended June 30, 2022, respectively.

### Dividends Declared

During the six months ended June 30, 2022, the Corporation declared dividends of C\$0.052 per share, totaling \$14 million, of which \$7.2 million was paid on April 19, 2022 and \$6.9 million was paid on July 15, 2022 to shareholders of record at the close of business on March 31, 2022 and June 30, 2022, respectively. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and are subject to any restrictions according to the Corporation's Senior Notes indenture agreement.

### NOTE 9 – LONG-TERM DEBT

	Senior Notes	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Balance at December 31, 2021	\$ 457,206	\$ 22,657	\$ 12,107	\$ 2,513	\$ 494,483
Repayment of long-term debt	—	—	—	(2,647)	(2,647)
Amortization of transaction costs	2,948	243	—	—	3,191
Foreign exchange (gain) loss	—	—	(429)	134	(295)
<b>Balance at June 30, 2022</b>	<b>\$ 460,154</b>	<b>\$ 22,900</b>	<b>\$ 11,678</b>	<b>\$ —</b>	<b>\$ 494,732</b>

During the six months ended June 30, 2022, the Corporation repaid its Operating Loan principal balance of \$2.6 million.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

### Net Carrying Value

	Senior Notes	Bridge Loan	Colombia Bank Debt	Operating Loan	Total
Long-term debt - principal	\$ 500,000	\$ 25,000	\$ 11,678	\$ —	\$ 536,678
Unamortized transaction costs	(39,846)	(2,100)	—	—	(41,946)
<b>Balance at June 30, 2022</b>	<b>\$ 460,154</b>	<b>\$ 22,900</b>	<b>\$ 11,678</b>	<b>\$ —</b>	<b>\$ 494,732</b>

As at June 30, 2022, unamortized transaction costs were netted against the Senior Notes and Bridge Loan principal amounts. During the three and six months ended June 30, 2022, Bridge Loan transaction costs amortization of \$0.1 million and \$0.2 million were capitalized to PP&E as part of a qualifying asset, and the remaining \$1.5 million and \$2.9 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 3.25:1.00 and a minimum consolidated EBITDAX to interest expense, excluding non-cash interest expenses, ratio of 2.50:1.00. The Corporation was in compliance with its covenants as at June 30, 2022.

### NOTE 10 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2021	\$ 15,917	\$ 2,172	\$ 18,089
Additions	—	1,930	1,930
Settlements	(1,072)	(1,092)	(2,164)
De-recognitions	—	(355)	(355)
Foreign exchange loss	—	120	120
<b>Balance at June 30, 2022</b>	<b>\$ 14,845</b>	<b>\$ 2,775</b>	<b>\$ 17,620</b>
Lease obligations - current	\$ 2,260	\$ 1,236	\$ 3,496
Lease obligations - non-current	12,585	1,539	14,124
<b>Balance at June 30, 2022</b>	<b>\$ 14,845</b>	<b>\$ 2,775</b>	<b>\$ 17,620</b>

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

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Low-value right-of-use assets	\$ 63	\$ 25	\$ 76	\$ 50
Short-term lease arrangements	35	221	77	253
Variable lease payments	2,309	3,959	6,265	11,925
<b>Total lease payments</b>	<b>\$ 2,407</b>	<b>\$ 4,205</b>	<b>\$ 6,418</b>	<b>\$ 12,228</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

Future lease payments related to short-term, low value or variable lease arrangements as at June 30, 2022 are as follows:

	Less than 1 year		1-3 years		Thereafter		Total
Future lease payments	\$	37,933	\$	32,455	\$	8,367	\$ 78,755

### NOTE 11 – OTHER EXPENSES (INCOME)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Donations	\$ —	\$ —	\$ —	\$ 293
Pre-license costs	535	819	985	982
Other expenses	2,420	333	4,925	860
Other tax expense	769	723	1,572	1,171
Equity investment loss (income) (note 6)	1,077	—	(258)	—
(Gain) loss on financial instruments (note 6)	(102)	61	(1,474)	81
	\$ 4,699	\$ 1,936	\$ 5,750	\$ 3,387

### NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
<b>Finance income</b>				
Interest and other income	\$ 281	\$ 198	\$ 470	\$ 432
<b>Finance expense</b>				
Accretion on decommissioning obligations	612	401	1,128	719
Amortization of upfront transaction costs	1,482	600	2,945	1,188
Interest expense on lease obligations	246	290	497	595
Interest and other financing costs	8,229	7,788	16,491	15,237
	10,569	9,079	21,061	17,739
<b>Net finance expense</b>	\$ 10,288	\$ 8,881	\$ 20,591	\$ 17,307

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

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net (loss) income	\$ (6,404)	\$ 2,424	\$ 18,011	\$ (638)
<b>Weighted-average common shares outstanding:</b>				
Weighted-average common shares outstanding, basic	170,589	179,289	171,651	179,401

There was no dilution effect of stock options during the three and six months ended June 30, 2022 and the three months ended June 30, 2021 due to the stock options being out-of-the-money. There was no dilution effect of stock options during six months ended June 30, 2021 due to the net loss.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

(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,	
		2022	2021	2022	2021
Change in investments		\$ 103	\$ (1,134)	\$ 103	\$ (1,034)
Change in prepaid expenses and deposits		(3,992)	(1,920)	(4,467)	(1,882)
		\$ (3,889)	\$ (3,054)	\$ (4,364)	\$ (2,916)

#### Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Change in:				
Trade and other receivables	\$ (107)	\$ (1,541)	\$ (5,882)	\$ 4,120
Prepaid expenses and deposits	122	846	(2,942)	(1,577)
Tax installments and receivables	3,087	(757)	5,291	(612)
Crude oil inventory	34	(368)	57	(308)
Trade and other payables	(6,790)	(5,245)	6,482	6,251
Deferred income	(66)	(1,074)	(1,171)	(5,974)
Taxes payable	(1,242)	(14,556)	1,462	(12,910)
	(4,962)	(22,695)	3,297	(11,010)
Foreign exchange impact on working capital ending balances	(1,239)	(77)	177	(254)
	\$ (6,201)	\$ (22,772)	\$ 3,474	\$ (11,264)
Attributable to:				
Operating activities	\$ (3,748)	\$ (20,730)	\$ 499	\$ (20,915)
Investing activities	(2,453)	(2,042)	2,975	9,651
	\$ (6,201)	\$ (22,772)	\$ 3,474	\$ (11,264)

### 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 and natural gas trading, on a consolidated basis which were allocated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Natural gas and LNG revenues, net of royalties	\$ 76,259	\$ 61,935	\$ 149,505	\$ 129,443
Crude oil revenue, net of royalties	2,251	914	3,784	2,117
Take-or-pay natural gas income	154	—	297	24
	\$ 78,664	\$ 62,849	\$ 153,586	\$ 131,584

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Natural gas royalties	\$ 12,928	\$ 11,116	\$ 24,762	\$ 22,416
Crude oil royalties	143	75	243	175
	\$ 13,071	\$ 11,191	\$ 25,005	\$ 22,591

### Natural Gas Trading

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Natural gas trading revenue	\$ 7,766	\$ 6,435	\$ 15,550	\$ 12,791
Natural gas trading purchases cost	(7,405)	(6,410)	(14,815)	(12,731)
Natural gas trading profit	\$ 361	\$ 25	\$ 735	\$ 60

The Corporation recognized \$7.8 million and \$15.6 million (2021 - \$6.4 million and \$12.8 million) of natural gas trading revenue and incurred gas purchase costs of \$7.4 million and \$14.8 million (2021 - \$6.4 million and \$12.7 million) during the three and six months ended June 30, 2022 related to the delivery of a certain off-taker's long-term contract, respectively.

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,	
	2022	2021	2022	2021
Income taxes paid	\$ 13,867	\$ 22,020	\$ 21,420	\$ 26,037
Interest paid	\$ 15,760	\$ 12,836	\$ 16,616	\$ 14,073

During the three and six months ended June 30, 2022, the Corporation paid a 2021 income tax installment of \$1.5 million and \$4.8 million (2021 - \$11.3 million), respectively. In addition, the Corporation also prepaid advances related to its 2022 income tax expense of \$12.3 million and \$16.5 million (2021- \$10.7 million and \$14.7 million) during the three and six months ended June 30, 2022, respectively.

## NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, dividend payable and lease obligations approximate their fair values at June 30, 2022. RSUs, PSUs and certain investments are recorded at fair value. The fair value of the Senior Notes, Bridge Loan and Colombia Bank Debt is \$404.7 million, \$25 million and \$11.7 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

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

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

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Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk. The Corporation had no commodity contracts in place as at or during the three and six months ended June 30, 2022.

(ii) Foreign Currency Risk

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

As at June 30, 2022, the COP to the USD exchange rate was 4,127:1 (December 31, 2021 – 3,981:1) and the CAD to USD exchange rate was 1.29:1 (December 31, 2021 – 1.27:1). The 4% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the six months ended June 30, 2022.

In addition, the Corporation recognized a deferred tax expense of \$12 million and a deferred tax income recovery of \$0.2 million (2021 - deferred tax recovery of \$1.6 million and deferred tax expense of \$9.7 million), respectively. The fluctuation of deferred taxes is mainly due to the impact of the devaluation (10% and 4% for the three and six months ended June 30, 2022, respectively) of COP to USD on COP denominated tax pools.

During the three and six months ended June 30, 2022, the Corporation held no foreign exchange contracts.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates to the extent that variable interest rate debt instruments are drawn. The majority of the Corporation's interest bearing debt, being the Senior Notes, is subject to a fixed interest rate and limits the Corporation's exposure to interest rate risk. The Corporation's Colombia Bank Debt and Bridge Loan are subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk. The Corporation had no interest rate contracts in place as at or during the three and six months ended June 30, 2022.

### 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, 2022 and 2021

(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, 2022:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ —	\$ 25,000	\$ 511,678	\$ 536,678
Lease obligations – undiscounted	4,041	3,256	11,134	18,431
Trade and other payables	58,845	—	—	58,845
Dividend payable	6,894	—	—	6,894
Taxes payable	4,906	—	—	4,906
Other long term obligations	—	4,068	—	4,068
Long-term incentive compensation liability	2,306	762	—	3,068
	<b>\$ 76,992</b>	<b>\$ 33,086</b>	<b>\$ 522,812</b>	<b>\$ 632,890</b>

### 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, 2022 was \$60.8 million (December 31, 2021 - \$57.2 million), \$11.4 million related to the recovery of transportation costs passed-through to customers (December 31, 2021 - \$9.7 million), \$3.6 million from Arrow related to the sale of certain petroleum assets (December 31, 2021 - \$5.8 million) and \$3.2 million of other receivables (December 31, 2021 - \$3.4 million). The receivable from Arrow is expected to be collected as follows: i) half of the remaining balance of \$3.6 million will be paid no later than December 31, 2022 and ii) half will be paid no later than June 30, 2023. As such, the total \$3.6 million was classified as current as at June 30, 2022.

### Capital Management

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

	Note	June 30, 2022	December 31, 2021
Senior Notes - principal (5.75%)	9	500,000	\$ 500,000
Bridge Loan - principal (LIBOR + 4.25%) <sup>(1)</sup>	9	25,000	25,000
Colombia Bank Debt - principal (IBR + 2.5%) <sup>(2)</sup>	9	11,678	12,107
Operating loan (IBR + 1.5%) <sup>(2)</sup>	9	—	2,513
Lease obligation (5.75%)	10	17,620	18,089
Total debt		554,298	557,709
Working capital surplus		(100,828)	(148,124)
<b>Net debt</b>		<b>\$ 453,470</b>	<b>\$ 409,585</b>

(1) The LIBOR rate during the six months ended June 30, 2022 was 2.86%.

(2) The IBR rate being applied to the interest expense during the six months ended June 30, 2022 was 5.18%.



## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

(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, 2022:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 5,377	\$ 58,586	\$ 16,379	80,342
Compression station operating contracts	2,688	5,538	7,231	15,457
	<b>\$ 8,065</b>	<b>\$ 64,124</b>	<b>\$ 23,610</b>	<b>95,799</b>

#### Letters of Credit

At June 30, 2022, the Corporation had letters of credit outstanding totaling \$85.8 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 December 31, 2022.

#### Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at June 30, 2022 of \$80.3 million and has issued \$40.9 million of the total \$85.8 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.