

CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024



INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	September 30, 2024	December 31, 2023
ASSETS			
Current assets			
Cash and cash equivalents		\$ 67,141	\$ 39,425
Trade and other receivables	16	83,234	97,785
Tax installments and receivables		15,611	10,070
Other current assets	6	5,704	4,355
		171,690	151,635
Non-current assets			
Exploration and evaluation assets	4	136,491	113,381
Property, plant and equipment	5	698,629	681,034
Deferred tax assets	16	213,661	261,195
Investments	6	5,101	17,310
Other non-current assets	6	5,763	8,873
		1,059,645	1,081,793
Total assets		\$ 1,231,335	\$ 1,233,428
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		79,479	107,911
Deferred income		14,501	6,640
Dividend payable		—	6,706
Lease obligations	10	4,464	3,241
Taxes payable		14,329	38,861
Long-term incentive compensation liabilities	7	1,323	1,545
		114,096	164,904
Non-current liabilities			
Long-term debt	9	712,964	663,000
Lease obligations	10	8,966	10,194
Decommissioning obligations		33,711	30,121
Deferred tax liabilities	16	6,726	5,875
Long-term incentive compensation liabilities	7	1,034	1,273
Other long term obligations		7,408	6,387
Total liabilities		884,905	881,754
Equity			
Share capital	8	146,142	146,142
Other reserves		69,508	67,454
Retained earnings		130,780	138,078
Total equity		346,430	351,674
Total liabilities and equity		\$ 1,231,335	\$ 1,233,428

See accompanying notes to the consolidated financial statements.

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

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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
Revenues					
Total revenues, net of royalties	15	\$ 94,541	\$ 79,088	\$ 272,514	\$ 232,997
		94,541	79,088	272,514	232,997
Expenses					
Operating expenses		6,969	6,921	21,496	18,623
Transportation expenses		6,607	2,470	18,601	7,861
Impairment of long lived assets	5,6	—	32,604	—	32,604
General and administrative		7,876	8,418	23,227	23,756
Stock-based compensation expense	7,8	2,312	1,282	2,538	4,567
Depletion and depreciation	5	20,254	17,619	58,713	55,839
Foreign exchange loss (gain)		390	(2,616)	295	(3,975)
Other expenses (income)	11	(9,868)	4,482	933	7,521
		34,540	71,180	125,803	146,796
Net finance expense	12	18,182	14,028	51,029	41,088
Income before income taxes		41,819	(6,120)	95,682	45,113
Income tax expense (recovery)					
Current		26,223	10,063	54,595	60,731
Deferred		5,250	(15,659)	48,385	(71,958)
		31,473	(5,596)	102,980	(11,227)
Net income (loss) and comprehensive income (loss)		\$ 10,346	\$ (524)	\$ (7,298)	\$ 56,340
Net income (loss) per share					
Basic and diluted	13	\$ 0.30	\$ (0.02)	\$ (0.21)	\$ 1.65

See accompanying notes to the consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(in thousands of United States dollars)

	Note	Share Capital	Other Reserves	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2022		\$ 146,142	\$ 67,439	\$ 78,359	\$ 291,940
Stock-based compensation	8	—	15	—	15
Dividends declared		—	—	(19,812)	(19,812)
Net income		—	—	56,340	56,340
Balance at September 30, 2023		\$ 146,142	\$ 67,454	\$ 114,887	\$ 328,483
Balance at December 31, 2023		\$ 146,142	\$ 67,454	\$ 138,078	\$ 351,674
Warrants	9	—	1,418	—	1,418
Stock-based compensation	8	—	636	—	636
Net loss		—	—	(7,298)	(7,298)
Balance at September 30, 2024		\$ 146,142	\$ 69,508	\$ 130,780	\$ 346,430

See accompanying notes to the consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
Operating activities					
Net income (loss) and comprehensive income (loss)		\$ 10,346	\$ (524)	\$ (7,298)	\$ 56,340
Non-cash adjustments:					
Depletion and depreciation	5	20,254	17,619	58,713	55,839
Impairment of long lived assets	5,6	—	32,604	—	32,604
Stock-based compensation expense	7	2,312	1,282	2,538	4,567
Net financing expense	12	18,182	14,028	51,029	41,088
Unrealized foreign exchange (gain) loss and other expenses		2,837	1,310	3,453	2,874
Deferred income tax expense (recovery)		5,250	(15,659)	48,385	(71,958)
Equity investment loss (income)	6	—	151	2,976	(1,048)
Unrealized loss (gain) on financial instruments	6	20	327	457	(288)
Realized gain on investment	6	—	—	(4,473)	—
Impairment of prepaid expenses	6	—	—	3,825	—
Settlement of decommissioning obligation		(14)	—	(901)	(217)
Settlement of long-term incentive compensation	7	(1,292)	(2,188)	(2,349)	(4,689)
Changes in non-cash working capital	14	(36,203)	17,262	(30,742)	(42,344)
		21,692	66,212	125,613	72,768
Investing activities					
Expenditures on exploration and evaluation assets	4	(11,657)	(17,639)	(35,515)	(40,569)
Expenditures on property, plant and equipment		(12,271)	(26,247)	(58,260)	(102,848)
Proceeds on disposition of property, plant and equipment		—	56	116	479
Proceeds from sale of Arrow shares	6	—	—	13,249	—
Other investing activities	14	1,664	1,687	(1,349)	1,986
Changes in non-cash working capital	14	(3,515)	3,969	(7,036)	2,725
		(25,779)	(38,174)	(88,795)	(138,227)
Financing activities					
Draw on long-term debt, net of financing fees	9	45,093	—	45,093	137,151
Repayment of debt	9	—	—	—	(34,930)
Net financing expense paid	12	(15,088)	(11,370)	(42,476)	(31,641)
Lease principal payments	10	(944)	(741)	(3,031)	(2,299)
Dividends paid		—	(6,699)	(6,706)	(19,794)
		29,061	(18,810)	(7,120)	48,487
Change in cash and cash equivalents		24,974	9,228	29,698	(16,972)
Cash and cash equivalents, beginning of period		42,596	38,936	39,425	58,518
Foreign exchange impact on cash and cash equivalents		(429)	178	(1,982)	6,796
Cash and cash equivalents, end of period		\$ 67,141	\$ 48,342	\$ 67,141	\$ 48,342

See accompanying notes to the consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 1 - GENERAL INFORMATION

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

The Board of Directors approved these interim condensed consolidated financial statements (the “financial statements”) for issuance on November 5, 2024.

NOTE 2 - BASIS OF PREPARATION

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

Basis of Measurement

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

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

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

Functional and Presentation Currency

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

NOTE 3 – MATERIAL ACCOUNTING POLICIES

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

In April 2024, the IASB issued new IFRS 18 - Presentation and Disclosure in Financial Statements (“IFRS 18”) replacing IAS 1. The new guidance is expected to improve the usefulness of information presented and disclosed in the financial statements of companies. IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with early adoption permitted. Canacol is currently assessing the impact of this new IFRS accounting standard on its consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2023	\$	113,381
Additions		35,515
Transferred to PP&E (note 5)		(12,405)
Balance at September 30, 2024	\$	136,491

During the nine months ended September 30, 2024, the Corporation transferred \$12.4 million of exploration costs to PP&E as a result of natural gas discoveries at Pomelo-1 and Chontaduro-1 wells on its VIM-21 block.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment	Right-of-Use Leased Assets	Total
Cost			
Balance at December 31, 2023	\$ 1,343,969	\$ 30,275	\$ 1,374,244
Additions	60,822	3,089	63,911
Transferred from E&E assets (note 4)	12,405	—	12,405
Dispositions	(182)	(41)	(223)
Derecognition	(3,579)	—	(3,579)
Balance at September 30, 2024	\$ 1,413,435	\$ 33,323	\$ 1,446,758
Accumulated depletion and depreciation			
Balance at December 31, 2023	\$ (681,022)	\$ (12,188)	\$ (693,210)
Dispositions	178	38	216
Depletion and depreciation	(56,327)	(2,386)	(58,713)
Derecognition	3,578	—	3,578
Balance at September 30, 2024	\$ (733,593)	\$ (14,536)	\$ (748,129)
Carrying value			
As at December 31, 2023	\$ 662,947	\$ 18,087	\$ 681,034
As at September 30, 2024	\$ 679,842	\$ 18,787	\$ 698,629

During the nine months ended September 30, 2024, \$12.4 million of exploration costs have been transferred from E&E assets (note 4).

NOTE 6 – INVESTMENTS AND OTHER ASSETS

Investments

	Arrow Equity Investment	Tesorito Investment	Total Investments
Balance at December 31, 2023	\$ 11,752	\$ 5,558	\$ 17,310
Proceeds from sale of Arrow shares	(13,249)	—	(13,249)
Equity investment loss	(2,976)	—	(2,976)
Realized gain on sale of shares	4,473	—	4,473
Unrealized loss on financial instruments	—	(457)	(457)
Balance at September 30, 2024	\$ —	\$ 5,101	\$ 5,101

The Corporation held an investment in a public company, Arrow Exploration Corp. (“Arrow”), of which two of the board of directors of Arrow are also key members of the Corporation’s management. On April 26, 2024, the Corporation sold all of its Arrow common shares at £0.185 per share for a total of \$13.3 million USD, net of fees.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

Other Assets

	September 30, 2024	December 31, 2023
Current		
Restricted cash	\$ 1,114	\$ 480
Prepaid expenses and deposits	4,140	3,485
Inventory	450	390
	\$ 5,704	\$ 4,355
Non-Current		
Prepaid expenses and deposits	5,763	8,873
	\$ 5,763	\$ 8,873

During the nine months ended September 30, 2024, the Corporation expensed \$3.8 million of non-current prepaid expenses and deposits as two vendors filed for bankruptcy and these amounts are deemed to be unrecoverable (note 11). Despite recording the impairment, the Corporation is actively pursuing the recovery of these amounts.

NOTE 7 – LONG-TERM INCENTIVE COMPENSATION LIABILITY

	RSUs	PSUs	DSUs	Total
Balance at December 31, 2023	\$ 1,868	\$ 731	\$ 219	\$ 2,818
Amortized	1,797	97	96	1,990
Settled/Cancelled	(2,389)	—	(7)	(2,396)
Foreign exchange loss	(30)	(20)	(5)	(55)
Balance at September 30, 2024	\$ 1,246	\$ 808	\$ 303	\$ 2,357

The long-term incentive compensation liability includes restricted share units (“RSUs”), performance share units (“PSUs”) and deferred share units (“DSUs”). The RSUs and PSUs are recognized as a liability and expensed on a graded vesting and cliff vesting basis, respectively, over the vesting term of each grant. The DSUs vest immediately on the grant date and are recognized as an expense. The DSUs are settled at such time the grantee ceases to be a member of the Board of Directors. Dividend share units are accrued and granted on the outstanding units on each dividend payment date. The dividend share units are amortized and settled in accordance with the units’ respective vesting periods. Stock-based compensation relating to RSUs, PSUs and DSUs was \$2.0 million (2023 - \$4.6 million expense) for the nine months ended September 30, 2024. The amortized long-term incentive compensation liability as at September 30, 2024 was \$2.4 million (December 31, 2023 - \$2.8 million).

The number of outstanding RSUs, PSUs and DSUs as at September 30, 2024 were as follows:

	RSUs	PSUs	DSUs	Total
	(000’s)	(000’s)	(000’s)	(000’s)
Balance at December 31, 2023	481	419	42	942
Granted	1,364	628	79	2,071
Settled	(695)	—	(2)	(697)
Cancelled	(15)	—	—	(15)
Balance at September 30, 2024	1,135	1,047	119	2,301

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

Restricted Share Units

On September 23, 2024, the Corporation granted 1,345,666 RSU's to its Board of Directors, officers, and key employees. The RSUs vest in four equal tranches, with the first tranche vesting immediately and the remaining three tranches vesting over 1.5 years from the grant date and are expected to be settled in cash. Dividend share units were granted on January 15, 2024 for all of the RSUs outstanding, totaling 17,990 units. For the nine months ended September 30, 2024, the Corporation settled 694,703 RSUs at a price range between C\$3.78 and C\$6.29 per unit for a total of \$2.3 million in cash.

Performance Share Units

On September 23, 2024, the Corporation granted 612,442 PSU's to its officers. The PSU's cliff vest in May 2027 and are expected to be settled in cash. Dividend share units were granted on January 15, 2024 for all of the PSUs outstanding, totaling 15,686 units.

Deferred Share Units

At the option of the Corporation, the grantee of the DSUs is entitled to receive either the Corporation's common shares upon vesting of such units, a cash payment equal to the value of the underlying common shares, or a combination thereof.

On September 23, 2024, the Corporation granted a total of 77,865 DSU's to its Board of Directors. Dividend share units were granted on January 15, 2024 for all of the DSUs outstanding, totaling 1,559 units. For the nine months ended September 30, 2024, the Corporation settled 2,285 DSU's at a price of C\$4.31 per unit.

NOTE 8 – EQUITY

Share Capital

	Number (000's)	Amount
Balance at December 31, 2023 and September 30, 2024	34,111 \$	146,142

Stock Options

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

	Number (000's)	Weighted-Average Exercise Price (C\$)
Balance at December 31, 2023	787	21.76
Granted	785	5.77
Forfeited, cancelled, and expired	(414)	21.07
Balance at September 30, 2024	1,158	11.17

Information with respect to stock options outstanding as at September 30, 2024 is presented below.

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Stock Options	Weighted-Average Exercise Price
(C\$)	(000's)	(years)	(C\$)	(000's)	(C\$)
\$3.49 - \$6.10	752	4.4	5.75	254	5.76
\$6.11 - \$21.20	406	0.3	21.20	406	21.20
	1,158	3.0	11.17	660	15.26

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

Stock-based compensation of \$0.1 million and \$0.6 million was expensed during the three and nine months ended September 30, 2024, respectively.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the inputs below. A forfeiture rate of 8% was used when recording stock-based compensation for the nine months ended September 30, 2024.

At September 30,	2024
Weighted-average fair value at grant date (C\$)	1.60
Share price (C\$)	4.80
Exercise price (C\$)	4.80
Volatility	39 %
Option life	5 years
Dividend yield	— %
Risk-free interest rate	3.28 %

NOTE 9 – LONG-TERM DEBT

	Senior Notes	RCF	Term Loan	Total
Balance at December 31, 2023	\$ 469,212	\$ 193,788	\$ —	\$ 663,000
Draw on long-term debt, net of fees	—	—	45,093	45,093
Value of warrants, net of fees	—	—	(1,418)	(1,418)
Amortization of discount	—	—	92	92
Amortization of transaction costs	4,586	1,471	140	6,197
Balance at September 30, 2024	\$ 473,798	\$ 195,259	\$ 43,907	\$ 712,964

Senior Notes

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

Revolving Credit Facility

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

Senior Term Loan Facility

On September 3, 2024, the Corporation entered into a \$75 million senior secured term loan facility (the “Term Loan”) with Macquarie Group (“Macquarie”). The initial draw was \$50 million, with a further commitment of \$25 million available for a 12-month period should certain production metrics be met. The Term Loan bears an annual interest rate of SOFR + 8.0% on drawn amounts and 2.4% on undrawn amounts. The Term Loan is set to amortize over four equal quarterly installments starting on December 3, 2025. No prepayments may be made during the first 12 months. The Term Loan is secured by all material assets of the Corporation.

In connection with the Term Loan, 1,888,448 common share purchase warrants (the “Warrants”) were issued to Macquarie, with each Warrant entitling Macquarie to purchase one common share of the Corporation at an exercise price equal to the five-day volume weighted average trading price of the common shares ending on September 3, 2024. The Warrants will expire three years after the date of issuance. The Warrants were valued

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

at \$1.6 million (\$1.4 million net of fees) and were recognized under Other Reserves as at September 30, 2024. The fair value of the Warrants was estimated on September 3, 2024 using the Black-Scholes option pricing model with the inputs below.

At September 3,	2024
Stock price @ grant date (C\$)	3.60
Strike price (C\$)	3.60
Expected life (years)	3.00
Annualized volatility	41 %
Dividend rate	— %
Risk free interest rate	3.16 %

Net Carrying Value

	Senior Notes	RCF	Term Loan	Total
Long-term debt - principal	\$ 500,000	\$ 200,000	\$ 50,000	\$ 750,000
Unamortized discount	—	—	(1,480)	(1,480)
Unamortized transaction costs	(26,202)	(4,741)	(4,613)	(35,556)
Balance at September 30, 2024	\$ 473,798	\$ 195,259	\$ 43,907	\$ 712,964

As at September 30, 2024, unamortized transaction costs were netted against the Senior Notes, RCF and Term Loan principal amounts. Unamortized discount, which is the value of the Warrants recognized at inception, was also netted against the Term Loan principal amount. The unamortized transaction costs and unamortized discount are amortized at each reporting date using the effective interest method.

The Corporation's Senior Notes, RCF, and Term Loan include various covenants relating to maximum leverage, minimum interest coverage, minimum liquidity requirements, minimum reserves value, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants.

The Corporation's financial covenants include:

- Consolidated Leverage Ratio: a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio of 3.25 : 1.00 (incurrence) or 3.50 : 1.00 (maintenance);
- Consolidated Interest Coverage Ratio: a minimum 12-month trailing adjusted EBITDAX, to 12-month trailing interest expense, excluding non-cash expenses ratio of 2.50 : 1.00;
- Consolidated Current Ratio: a minimum adjusted current assets, to adjusted current liabilities ratio of 1.00 : 1.00; and
- Consolidated Asset Coverage Ratio: a minimum aggregate net present value of proved developed producing reserves before tax (discounted at 10%) as at the most recent reserves report date, to the principal drawn and outstanding on the Term Loan ratio of 2.50 to 1.00.

The Corporation was in compliance with its covenants as at September 30, 2024.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations		Other	Total
Balance at December 31, 2023	\$	11,394	\$ 2,041	\$ 13,435
Additions		—	3,089	3,089
Settlements		(1,640)	(1,391)	(3,031)
Derecognition		—	(3)	(3)
Foreign exchange gain		—	(60)	(60)
Balance at September 30, 2024	\$	9,754	\$ 3,676	\$ 13,430
Lease obligations - current	\$	2,686	\$ 1,778	\$ 4,464
Lease obligations - non-current		7,068	1,898	8,966
Balance at September 30, 2024	\$	9,754	\$ 3,676	\$ 13,430

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

Lease payments related to short-term, low-value or variable lease arrangements are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Low-value right-of-use assets	\$ 29	\$ 33	\$ 123	\$ 136
Short-term lease arrangements	53	28	54	45
Variable lease payments	957	10,279	3,887	23,511
Total lease payments	\$ 1,039	\$ 10,340	\$ 4,064	\$ 23,692

Future lease payments related to short-term, low-value or variable lease arrangements as at September 30, 2024 are as follows:

	Less than 1 year	1-3 years	Thereafter	Total
Future lease payments	\$ 24,616	\$ 4,184	\$ —	\$ 28,800

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 11 – OTHER EXPENSES (INCOME)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
Pre-license costs		109	270	483	876
Other expenses (income)		(11,303)	2,327	(5,590)	5,029
Other tax expense		1,306	1,407	3,255	2,952
Equity investment (income) loss	6	—	151	2,976	(1,048)
Impairment of prepaid expense	6	—	—	3,825	—
Realized gain on investments	6	—	—	(4,473)	—
Loss on financial instruments	6	20	327	457	(288)
		\$ (9,868)	\$ 4,482	\$ 933	\$ 7,521

The Corporation was in arbitration with Promigas S.A. (“Promigas”), a natural gas transportation company in Colombia, regarding a dispute in the amount of transportation costs charged. During the three months ended September 30, 2024, the arbitration tribunal ruled in the Corporation’s favor and ordered Promigas to reimburse Canacol for the amount overcharged plus interest, totaling \$14.2 million (the “Settlement”). The Settlement was recorded as other income for the three months ended September 30, 2024, and was collected in full on November 6, 2024.

NOTE 12 – FINANCE INCOME AND EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Finance income				
Interest income	\$ 307	\$ 631	\$ 910	\$ 2,213
Finance expense				
Accretion on decommissioning obligations	827	642	2,263	2,275
Amortization of upfront transaction costs	2,175	2,016	6,198	7,172
Amortization of discount	92	—	92	—
Interest expense on lease obligations	187	198	658	591
Interest and other financing costs	15,208	11,803	42,728	33,263
	18,489	14,659	51,939	43,301
Net finance expense	\$ 18,182	\$ 14,028	\$ 51,029	\$ 41,088

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 13 – NET INCOME (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 10,346	\$ (524)	\$ (7,298)	\$ 56,340
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic	34,111	34,111	34,111	34,111
Net income (loss) per share:				
Basic and diluted	\$ 0.30	\$ (0.02)	\$ (0.21)	\$ 1.65

The stock options were anti-dilutive for the nine months ended September 30, 2024 and 2023.

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Sub-lease receipts and finance income	\$ —	\$ —	\$ —	\$ 33
Change in restricted cash	60	(704)	(634)	(900)
Change in non-current prepaid expenses and deposits	1,604	2,391	(715)	2,853
	\$ 1,664	\$ 1,687	\$ (1,349)	\$ 1,986

Change in Non-Cash Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Change in:				
Trade and other receivables	\$ (11,227)	\$ 12,225	\$ 10,604	\$ (3,850)
Prepaid expenses and deposits	487	2,669	(1,255)	(1,141)
Tax installments and receivables	(1,459)	(3,130)	(5,541)	(7,398)
Crude oil inventory	25	(5)	(60)	17
Trade and other payables	(5,348)	11,829	(25,731)	11,864
Deferred income	(1,982)	(4,134)	7,861	(920)
Taxes payable	(20,214)	1,777	(23,656)	(38,191)
	\$ (39,718)	\$ 21,231	\$ (37,778)	\$ (39,619)
Attributable to:				
Operating activities	\$ (36,203)	\$ 17,262	\$ (30,742)	\$ (42,344)
Investing activities	(3,515)	3,969	(7,036)	2,725
	\$ (39,718)	\$ 21,231	\$ (37,778)	\$ (39,619)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

NOTE 15 – SUPPLEMENTAL INFORMATION

Total Revenues, Net of Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Natural gas and LNG revenues, net of royalties	\$ 89,804	\$ 76,079	\$ 257,838	\$ 224,476
Crude oil revenue, net of royalties	3,964	2,358	12,260	6,254
Power generation standby revenue	773	655	2,307	2,168
Take-or-pay natural gas income	—	(4)	109	99
	\$ 94,541	\$ 79,088	\$ 272,514	\$ 232,997

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Natural gas royalties	\$ 15,082	\$ 14,803	\$ 47,886	\$ 43,560
Crude oil royalties	124	162	394	402
	\$ 15,206	\$ 14,965	\$ 48,280	\$ 43,962

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Income tax payments and installments	\$ 35,860	\$ 6,734	\$ 65,941	\$ 101,829
Withholding tax	1,718	2,017	9,554	9,025
Interest paid	5,437	3,779	30,273	22,600

NOTE 16 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their fair values at September 30, 2024. The long-term incentive compensation liability and Tesorito Investment are recorded at fair value. Long-term debt, which includes Senior Notes, the RCF, and the Term Loan are carried at amortized cost. As at September 30, 2024, the fair value of Senior Notes, the RCF, and the Term Loan was \$274.8 million, \$200 million, and \$48.5 million, respectively.

Market Risk

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Lower commodity prices can also impact the Corporation's ability to raise capital. The majority of Canacol's production volume is subject to long-term fixed price contracts, which limits the Corporation's exposure to commodity price risk. The Corporation had no commodity contracts in place as at or during the nine months ended September 30, 2024.

(ii) Foreign Currency Risk

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

As at September 30, 2024, the COP to USD exchange rate was 4,164:1 (December 31, 2023 – 3,822:1) and the CAD to USD exchange rate was 1.35:1 (December 31, 2023 – 1.32:1). The Corporation's revenues are not exposed to foreign currency risk as all of Canacol's natural gas sales contracts are denominated in USD. The Corporation had no foreign exchange contracts in place as at or during the nine months ended September 30, 2024.

(iii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates to the extent that variable interest rate debt instruments are drawn. The majority of the Corporation's interest bearing debt, being the Senior Notes, is subject to a fixed interest rate which limits the Corporation's exposure to interest rate risk. The Corporation's RCF and Term 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 nine months ended September 30, 2024.

Liquidity Risk

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

The following table outlines the contractual maturities of the Corporation's financial liabilities as at September 30, 2024:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	\$ —	\$ 50,000	\$ 700,000	\$ 750,000
Lease obligations – undiscounted	4,843	4,763	4,459	14,065
Trade and other payables	79,479	—	—	79,479
Taxes payable	14,329	—	—	14,329
Other long term obligations	—	7,408	—	7,408
Long-term incentive compensation liability	1,323	1,034	—	2,357
	\$ 99,974	\$ 63,205	\$ 704,459	\$ 867,638

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

(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 and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers, however, as at September 30, 2024, the Corporation has invoices from a certain customer totaling \$21 million that have become past due. The Corporation expects to be able to collect the total outstanding balance in full and is confident in its legal position in respect of the dispute with that certain customer (note 17 - contingencies).

As at September 30, 2024, trade and other receivables was comprised of a) \$55.7 million (December 31, 2023 - \$79.4 million) of trade receivables, b) \$10.2 million related to the recovery of transportation costs passed-through to customers (December 31, 2023 - \$13.6 million), and c) \$17.4 million of other receivables (December 31, 2023 - \$4.8 million).

Capital Management

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

	Note	September 30, 2024	December 31, 2023
Senior Notes - principal (5.75%)	9	500,000	\$ 500,000
RCF (SOFR + 4.5%)(¹)	9	200,000	200,000
Term Loan (SOFR + 8%)(¹)	9	50,000	—
Lease obligation (5.75%)	10	13,430	13,435
Total debt		763,430	713,435
Working capital deficit (surplus)		(62,058)	10,028
Net debt		\$ 701,372	\$ 723,463

(1) The SOFR rate for the nine months ended September 30, 2024 was 5.28%.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments as at September 30, 2024:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	\$ 3,914	\$ 42,490	\$ 1,762	\$ 48,166
Compression station operating contracts	2,810	5,790	736	9,336
	\$ 6,724	\$ 48,280	\$ 2,498	\$ 57,502

Letters of Credit

As at September 30, 2024, the Corporation had letters of credit outstanding totaling \$65.4 million (December 31, 2023 - \$87.5 million) to guarantee work commitments on exploration blocks and to guarantee other contractual commitments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023

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

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at September 30, 2024 of \$48.2 million and has issued \$29.7 million of the total \$65.4 million in financial guarantees related thereto.

Contingencies

The Corporation's policy is to record contingent liabilities as they become determinable and the probability of loss is more likely than not. Commencing the second week of August 2023, the Corporation experienced unusual and unexpected production capacity restrictions at some of its gas fields as a result of issues at the Jobo gas treatment facility as well as certain of its producing wells (the "Force Majeure"). As a result of the Force Majeure, the Corporation had to restrict gas deliveries under certain supply contracts dedicated to supplying non-essential gas demand, all in accordance with applicable Colombian regulations and in consultation with the relevant authorities. A certain customer disagrees with the Corporation's assessment of Force Majeure and claims that the Corporation is liable for the natural gas that was not delivered under take-or-pay contract during that period, totaling \$12 million, and has withheld payment of regular natural gas sales invoices totaling \$21 million of gas deliveries as at September 30, 2024 (note 16 - credit risk). The Corporation anticipates entering an arbitration with this customer. In Canacol's view, the certain customer's claim is without merit. The ultimate outcome of the potential arbitration cannot be determined at this time, however, the Corporation is confident in its legal position and expects to be able to collect the \$21 million of receivable in full.