CANACOL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2023

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of United States dollars)

As at	Note	March 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		$ **72,073**	$ 58,518
Trade and other receivables	16	**88,309**	70,000
Tax installments and receivables		**1,740**	432
Other current assets	6	**4,906**	5,645
		167,028	134,595
Non-current assets			
Exploration and evaluation assets	4	**97,625**	86,027
Property, plant and equipment	5	**613,623**	587,916
Deferred tax assets		**190,350**	176,294
Other non-current assets	6	**27,802**	30,016
		929,400	880,253
Total assets		$ **1,096,428**	$ 1,014,848
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	9	$ **—**	$ 33,279
Trade and other payables		**78,228**	62,312
Deferred income		**15,828**	11,239
Dividend payable	8	**6,553**	6,548
Lease obligations	10	**2,874**	2,925
Taxes payable		**86,101**	74,969
Long-term incentive compensation liabilities	7	**2,984**	2,130
		192,568	193,402
Non-current liabilities			
Long-term debt	9	**531,967**	463,170
Lease obligations	10	**12,163**	12,807
Decommissioning obligations		**31,289**	23,976
Deferred tax liabilities		**21,240**	24,607
Long-term incentive compensation liabilities	7	**503**	556
Other long term obligations		**4,422**	4,390
Total liabilities		**794,152**	722,908
Equity			
Share capital	8	**146,142**	146,142
Other reserves		**67,454**	67,439
Retained earnings		**88,680**	78,359
Total equity		**302,276**	291,940
Total liabilities and equity		$ **1,096,428**	$ 1,014,848

Commitments and contingencies (note 17)

See accompanying notes to the consolidated financial statements.

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

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

Three months ended March 31,	Note	2023	2022
Revenues			
Total revenues, net of royalties	15	**$ 76,231**	$ 74,922
Natural gas trading income		**—**	7,784
		76,231	82,706
Expenses			
Operating expenses		**4,904**	6,762
Transportation expenses		**2,318**	9,039
Natural gas trading purchase costs		**—**	7,410
General and administrative		**7,196**	6,490
Stock-based compensation expense	7	**1,591**	1,704
Depletion and depreciation	5	**18,971**	16,668
Foreign exchange loss (gain)		**587**	(2,339)
Other expenses	11	**2,152**	1,051
		37,719	46,785
Net finance expense	12	**12,769**	10,303
Income before income taxes		**25,743**	25,618
Income tax expense (recovery)			
Current		**26,292**	13,362
Deferred		**(17,423)**	(12,159)
		8,869	1,203
Net income and comprehensive income		**$ 16,874**	$ 24,415
Net income per share (restated - note 8)			
Basic and diluted	13	**$ 0.49**	$ 0.71

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, 2021		$ 159,798	$ 67,219	$ (41,886)	$ 185,131
Common shares repurchased	8	(13,175)	—	—	(13,175)
Stock-based compensation	8	—	95	—	95
Dividends declared	8	—	—	(7,110)	(7,110)
Net income		—	—	24,415	24,415
Balance at March 31, 2022		**$ 146,623**	**$ 67,314**	**$ (24,581)**	**$ 189,356**
Balance at December 31, 2022		$ 146,142	$ 67,439	$ 78,359	$ 291,940
Stock-based compensation	8	—	15	—	15
Dividends declared	8	—	—	(6,553)	(6,553)
Net income		—	—	16,874	16,874
Balance at March 31, 2023		**$ 146,142**	**$ 67,454**	**$ 88,680**	**$ 302,276**

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of United States dollars)

Three months ended March 31,	Note	2023	2022
Operating activities			
Net income and comprehensive income		**$ 16,874**	$ 24,415
Non-cash adjustments:			
Depletion and depreciation	5	**18,971**	16,668
Stock-based compensation expense	7	**1,591**	1,704
Net financing expense	12	**12,769**	10,303
Unrealized foreign exchange loss and other expenses		**1,356**	(2,568)
Deferred income tax (recovery) expense		**(17,423)**	(12,159)
Equity investment income	11	**(605)**	(1,335)
Unrealized (gain) loss on financial instruments	11	**42**	(1,372)
Settlement of decommissioning obligation		**(217)**	—
Settlement of restricted share units	7	**(882)**	(1,840)
Changes in non-cash working capital	14	**(1,507)**	4,247
		30,969	38,063
Investing activities			
Expenditures on exploration and evaluation assets	4	**(11,598)**	(12,182)
Expenditures on property, plant and equipment		**(35,934)**	(15,296)
Net proceeds on disposition of property, plant and equipment		**409**	—
Other investing activities	14	**2,852**	(475)
Changes in non-cash working capital	14	**8,199**	5,428
		(36,072)	(22,525)
Financing activities			
Draw on long-term debt, net of financing fees	9	**67,151**	—
Repayment of debt	9	**(34,930)**	—
Net financing expense paid	12	**(8,864)**	(8,324)
Lease principal payments	10	**(792)**	(1,080)
Dividends paid	8	**(6,542)**	(7,170)
Common share repurchases		**—**	(13,175)
		16,023	(29,749)
Change in cash and cash equivalents		**10,920**	(14,211)
Cash and cash equivalents, beginning of period		**58,518**	138,523
Foreign exchange impact on cash and cash equivalents, end of period		**2,635**	1,771
Cash and cash equivalents, end of period		**$ 72,073**	$ 126,083

See accompanying notes to the interim condensed consolidated financial statements.

(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 May 10, 2023.

NOTE 2 - BASIS OF PREPARATION

The financial statements have been 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 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, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain investments, restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"), 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 – SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements

The Corporation has reviewed new and amended standards that have been issued and have become effective on January 1, 2023 or that are not yet effective and determined that they do not have a material impact on the financial statements.

NOTE 4 – EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2022	$	86,027
Additions		11,598
Balance at March 31, 2023	**$**	**97,625**

(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, 2022	$ 1,176,734	$ 29,580	$ 1,206,313
Additions	44,606	81	44,687
Dispositions	(599)	(24)	(623)
Derecognition	(18)	—	(18)
Balance at March 31, 2023	**$ 1,220,723**	**$ 29,637**	**$ 1,250,359**
Accumulated depletion and depreciation			
Balance at December 31, 2022	$ (608,048)	$ (10,349)	$ (618,397)
Dispositions	566	26	592
Depletion and depreciation	(18,516)	(455)	(18,971)
Derecognition and inventory adjustments	40	—	40
Balance at March 31, 2023	**$ (625,958)**	**$ (10,778)**	**$ (636,736)**
Carrying value			
As at December 31, 2022	$ 568,686	$ 19,231	$ 587,917
As at March 31, 2023	**$ 594,765**	**$ 18,859**	**$ 613,623**

NOTE 6 – OTHER ASSETS

	March 31, 2023	December 31, 2022
Current		
Prepaid expenses and deposits	**$ 2,411**	$ 3,077
Investments	**2,192**	2,268
Inventory	**303**	300
	$ 4,906	$ 5,645
Non-Current		
Prepaid expenses and deposits	**$ 18,135**	$ 20,954
Investments	**9,667**	9,062
	$ 27,802	$ 30,016

As at March 31, 2023, among drilling costs and other regular prepaid expenses, the Corporation had non-current prepaid expenses mainly related to pre-construction activities of the natural gas pipeline, which is expected to be constructed by Shanghai Engineering and Technology Corp. ("SETCO") from the Corporation's gas processing facility at Jobo to the city of Medellin, Colombia.

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

Investments

		Office Sub-Lease		Arrow Equity Investment		Arrow Warrants		Tesorito Investment		Total Investments
Balance at December 31, 2022	$	33	$	4,646	$	2,235	$	4,416	$	11,330
Sub-lease receipts and finance income		(33)		—		—		—		(33)
Equity investment income		—		605		—		—		605
Unrealized gain (loss)		—		—		(42)		—		(42)
Foreign exchange loss		—		—		(1)		—		(1)
Balance at March 31, 2023	**$**	**—**	**$**	**5,251**	**$**	**2,192**	**$**	**4,416**	**$**	**11,859**

As at March 31, 2023, the Corporation had an approximately 19.99% equity interest in Arrow Exploration Corp. ("Arrow"). The carrying value of the equity investment in Arrow was $5.3 million as at March 31, 2023.

As at March 31, 2023, the Corporation held 18,357,602 Arrow warrants with a fair value of $2.2 million. The Arrow warrants expire within the next 12 months and, as such, has been classified as current as at March 31, 2023. The fair value of the Arrow warrants was calculated based on the Black-Scholes pricing model using the following inputs:

	March 31, 2023
Weighted-average fair value (C$)	**0.16**
Share price (C$)	**0.30**
Exercise price (C$)	**0.15**
Volatility	**89.7 %**
Remaining life of Warrants	**0.6 years**
Risk-free interest rate	**4.36 %**

NOTE 7 – LONG TERM INCENTIVE COMPENSATION LIABILITY

		RSUs		PSUs		DSUs		Total
Balance at December 31, 2022	$	1,434	$	1,033	$	219	$	2,686
Amortized		890		760		38		1,688
Settled		(882)		—		—		(882)
Foreign exchange gain		(3)		(2)		—		(5)
Balance at March 31, 2023	**$**	**1,439**	**$**	**1,791**	**$**	**257**	**$**	**3,487**

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. Dividend units are accrued and granted on the outstanding units on each dividend record date. The dividend units are amortized and settled in accordance with the units' respective vesting periods. Stock-based compensation relating to RSUs, PSUs and DSUs of $1.6 million was expensed during the three months ended March 31, 2023. The amortized long-term incentive compensation liability as at March 31, 2023 was $3.5 million.

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

The number of outstanding RSUs, PSUs and DSUs as at March 31, 2023 were as follows:

	RSUs (000's)	PSUs (000's)	DSUs (000's)	Total (000's)
Balance at December 31, 2022	300	385	30	715
Granted	215	8	1	224
Settled	(102)	—	—	(102)
Cancelled	(3)	—	—	(3)
Balance at March 31, 2023	**410**	**393**	**31**	**834**

Restricted Share Units

On January 31, 2023, the Corporation granted 208,800 RSUs to its key employees. The RSUs vest in four equal tranches over two years from the grant date and are expected to be settled in cash. In addition, dividend units were granted on dividend record date during the three months ended March 31, 2023 for all of the RSUs outstanding, totaling 6,451 units. For the three months ended March 31, 2023, the Corporation settled 102,211 RSUs at a price of C$11.65 per unit for a total of $0.9 million in cash.

Performance Share Units

Dividend units were granted on dividend record date during the three months ended March 31, 2023 for all of the PSUs outstanding, totaling 8,587 units.

Deferred Share Units

Dividend units were granted on dividend record date during the three months ended March 31, 2023 for all of the DSUs outstanding, totaling 669 units.

NOTE 8 – EQUITY

Share Capital

	Number (000's)		Amount
Balance at December 31, 2022	34,111	$	146,142
Balance at March 31, 2023	**34,111**	**$**	**146,142**

On December 19, 2022, the shareholders of the Corporation approved the consolidation of common shares of the Corporation ("Common Shares") on the basis of five (5) existing pre-consolidation Common Shares for every one (1) post-consolidation Common Share (the "Share Consolidation"). As a result of the Share Consolidation, on January 17, 2023, 170,557,290 Common Shares issued and outstanding prior to the Share Consolidation have been reduced to 34,111,458 Common Shares (disregarding the treatment of any resulting fractional shares). Each shareholder percentage ownership in the Corporation and proportional voting power remains unchanged after the Share Consolidation. The share units, stock option units, RSUs, PSUs, DSUs and all per unit amounts in the financial statements for the three months ended March 31, 2022 were restated to reflect the Share Consolidation.

On January 31, 2023, the Corporation renewed its normal course issuer bid ("NCIB"), as authorized by the TSX to purchase up to 1,971,950 outstanding Common Shares, representing approximately 10% of the public float of Canacol at the time. The maximum number of Common Shares that Canacol may purchase on any given day is 13,095 Common Shares, which was 25% of the Corporation's average daily trading volume on the TSX for the six months ended December 30, 2022. Canacol may also make one weekly block repurchase which exceeds the daily limit subject to prescribed rules. The Corporation is authorized to make purchases during the period from February 2, 2023 to February 1, 2024 or until such earlier time as the NCIB is completed or terminated at the option of the Corporation. The Corporation did not purchase any Common Shares during the three months ended March 31, 2023.

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

On January 31, 2023, Canacol renewed its automatic share purchase plan ("ASPP") with its designated broker. The ASPP is intended to allow for the purchase of Common Shares under the NCIB at times when the Corporation is not ordinarily permitted to purchase Common Shares due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, the designated broker is able to purchase Common Shares until the expiry of the NCIB on February 1, 2024. Such purchases are determined by the broker at its sole discretion based on the purchasing parameters set out by the Corporation, in accordance with the rules of the TSX, applicable securities laws and the terms of the ASPP. The ASPP will terminate on the earlier of the date on which: (i) the NCIB expires, (ii) the maximum number of Common Shares have been purchased under the ASPP, and (iii) the Corporation terminates the ASPP in accordance with its terms. Outside of the ASPP, Common Shares can continue to be purchased under the NCIB based on management's discretion, in compliance with the rules of the TSX and applicable securities laws. All purchases made under the ASPP are included in the number of Common Shares available for purchase under the NCIB.

Stock Options

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

	Number	Weighted-Average Exercise Price
	(000's)	(C$)
Balance at December 31, 2022	1,248	21.65
Forfeited and cancelled	(347)	21.70
Balance at March 31, 2023	**901**	**21.65**

Information with respect to stock options outstanding as at March 31, 2023 is presented below.

Stock Options Outstanding and Exercisable (restated)			
Range of Exercise Prices	**Number of Stock Options**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**
(C$)	(000's)	(years)	(C$)
\$20.20 - \$22.50	779	1.4	21.42
\$22.51 - \$23.10	122	1.4	23.10
	901	**1.4**	**21.65**

Dividends Declared

During the three months ended March 31, 2023, the Corporation declared a dividend of C$0.26 per share, totaling $6.6 million, which was paid on April 17, 2023, to shareholders of record at the close of business on March 31, 2023. The declaration, timing, amount and payment of future dividends remain at the discretion of the Board of Directors and are subject to restrictions according to the Corporation's long-term debt agreements.

NOTE 9 – LONG-TERM DEBT

	Senior Notes	New RCF	Bridge Loan	Colombia Bank Debt	Total
Balance at December 31, 2022	$ 463,170	$ —	$ 23,259	$ 10,020	$496,449
Draw on long-term debt, net of financing fees	—	67,151	—	—	67,151
Repayment of long-term debt	—	—	(25,000)	(9,930)	(34,930)
Amortization of transaction costs	1,482	164	1,741	—	3,387
Foreign exchange gain	—	—	—	(90)	(90)
Balance at March 31, 2023	**$ 464,652**	**$ 67,315**	**$ —**	**$ —**	**$531,967**

Bridge Loan

On July 31, 2020, the Corporation entered into a $75 million senior unsecured bridge term loan ("Bridge Loan") with a syndicate of banks. The Bridge Loan had an initial two-year term, and was intended to be used to construct a pipeline from the Corporation's operations at Jobo to the city of Medellin, Colombia (the "Project").

On August 28, 2020, the Corporation withdrew the initial $25 million of the Bridge Loan, net of transaction costs of $3.1 million, which was used for initial engineering and environmental licensing costs related to the Project. The remaining $50 million was available to be drawn at any time up to the maturity date and was intended to be used for construction materials for the Project. The Bridge Loan bore an annual interest rate of LIBOR + 4.25%, and the Corporation was able to repay the Bridge Loan at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee of 30% of the 4.25% interest margin throughout the availability period. Interest and financing costs associated with the Bridge Loan were capitalized in PP&E.

On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023.

On February 17, 2023, the Corporation repaid the $25 million outstanding on the Bridge Loan with proceeds from the New RCF (see "Revolving Credit Facility" below) and subsequently terminated the loan agreement. The unamortized transaction costs of $1.7 million was amortized and capitalized to PP&E upon termination of the loan agreement.

Colombia Bank Debt

On June 17, 2021, the Corporation entered into a three-year term loan agreement with Banco Davivienda ("Colombia Bank Debt") for $12.9 million denominated in COP, which was subject to an annual interest rate of IBR + 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. The principal was scheduled to mature three years from the agreement date on June 18, 2024.

On February 17, 2023, the Corporation repaid the $9.9 million outstanding on the Colombia Bank Debt with proceeds from the New RCF (see "Revolving Credit Facility" below) and subsequently terminated the loan agreement.

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 July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility ("RCF") with a syndicate of banks. The RCF bore an annual interest rate of LIBOR + 4.75%, had a three-year term, and the Corporation was able to repay/redraw the RCF at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee equal to 30% of the 4.75% interest margin throughout the availability period. The RCF was not subject to typical periodic redeterminations.

On February 17, 2023, the Corporation terminated the undrawn RCF and entered into a new $200 million senior unsecured revolving credit facility ("New RCF") with a syndicate of banks. The unamortized transaction costs of $1.5 million related to the RCF was amortized and expensed upon termination of the loan agreement. The New RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the New 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 New RCF is not subject to typical periodic redeterminations. The amount drawn and outstanding as at March 31, 2023 was $75 million.

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

Net Carrying Value

	Senior Notes	New RCF	Total
Long-term debt - principal	$ 500,000	$ 75,000	$ 575,000
Unamortized transaction costs	(35,348)	(7,685)	(43,033)
Balance at March 31, 2023	**$ 464,652**	**$ 67,315**	**$ 531,967**

As at March 31, 2023, unamortized transaction costs were netted against the Senior Notes and New RCF principal amounts. During the three months ended March 31, 2023, the remaining Bridge Loan transaction costs amortization of $1.7 million were capitalized to PP&E and $3.2 million transaction costs amortization has been recognized as a finance expense (note 12).

The Corporation's Senior Notes and the New RCF include various covenants relating to maximum leverage, minimum interest coverage, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation's financial covenants include: a) a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio ("Consolidated Leverage Ratio") of 3.25:1.00 and b) a minimum 12-month trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. The Corporation was in compliance with its covenants as at March 31, 2023.

NOTE 10 – LEASE OBLIGATIONS

	Compression Stations	Other	Total
Balance at December 31, 2021	$ 15,917	$ 2,172	$ 18,089
Additions	—	2,205	2,205
Settlements	(2,173)	(2,081)	(4,254)
De-recognitions	—	(431)	(431)
Foreign exchange loss	—	123	123
Balance at December 31, 2022	$ 13,744	$ 1,988	$ 15,732
Additions	—	81	81
Settlements	(582)	(210)	(792)
De-recognitions	—	(2)	(2)
Foreign exchange loss	—	18	18
Balance at March 31, 2023	**$ 13,162**	**$ 1,875**	**$ 15,037**
Lease obligations - current	$ 2,396	$ 478	$ 2,874
Lease obligations - non-current	10,766	1,397	12,163
Balance at March 31, 2023	**$ 13,162**	**$ 1,875**	**$ 15,037**

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 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.

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

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

Three months ended March 31,		2023		2022
Low-value right-of-use assets	$	59	$	13
Short-term lease arrangements		14		42
Variable lease payments		4,762		3,956
Total lease payments	$	4,835	$	4,011

Future lease payments related to short-term, low value or variable lease arrangements as at March 31, 2023 are as follows:

		Less than 1 year		1-3 years		Thereafter		Total
Future lease payments	$	32,180	$	28,812	$	—	$	60,992

NOTE 11 – OTHER EXPENSES (INCOME)

Three months ended March 31,	Note		2023		2022
Pre-license costs			408		450
Other expenses			1,903		2,505
Other tax expense			404		803
Equity investment income	6		(605)		(1,335)
(Gain) loss on financial instruments	6		42		(1,372)
		$	2,152	$	1,051

NOTE 12 – FINANCE INCOME AND EXPENSE

Three months ended March 31,		2023		2022
Finance income				
Interest and other income	$	807	$	189
Finance expense				
Accretion on decommissioning obligations		746		516
Amortization of upfront transaction costs		3,159		1,463
Interest expense on lease obligations		231		251
Interest and other financing costs		9,440		8,262
		13,576		10,492
Net finance expense	$	12,769	$	10,303

NOTE 13 – NET INCOME PER SHARE

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

Three months ended March 31,		2023		2022
Net income	$	16,874	$	24,415
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding, basic (restated - see note 8)		34,111		34,490

There was no dilution effect of stock options for the three months ended March 31, 2023 due to the stock options being out-of-the-money.

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

NOTE 14 – OTHER CASH FLOW ACTIVITIES

Other Investing Activities

Three months ended March 31,	Note	2023	2022
Sub-lease receipts and finance income	6	**$ 33**	$ —
Change in non-current prepaid expenses and deposits		**2,819**	(475)
		$ 2,852	$ (475)

Change in Non-Cash Working Capital

Three months ended March 31,	2023	2022
Change in:		
Trade and other receivables	**$ (18,309)**	$ (5,775)
Prepaid expenses and deposits	**(847)**	(3,064)
Tax installments and receivables	**(1,308)**	2,204
Crude oil inventory	**(25)**	23
Trade and other payables	**15,916**	13,272
Deferred income	**4,589**	(1,105)
Taxes payable	**11,132**	2,704
	11,148	8,259
Foreign exchange impact on working capital	**(4,456)**	1,416
	$ 6,692	$ 9,675
Attributable to:		
Operating activities	**$ (1,507)**	$ 4,247
Investing activities	**8,199**	5,428
	$ 6,692	$ 9,675

NOTE 15 – SUPPLEMENTAL INFORMATION

Total Revenues, Net of Royalties

Three months ended March 31,	2023	2022
Natural gas and LNG revenues, net of royalties	**$ 73,359**	$ 73,246
Crude oil revenue, net of royalties	**2,062**	1,533
Power generation standby revenue	**749**	—
Take-or-pay natural gas income	**61**	143
	$ 76,231	$ 74,922

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

Three months ended March 31,	2023	2022
Natural gas royalties	**$ 14,579**	$ 11,834
Crude oil royalties	**130**	100
	$ 14,709	$ 11,934

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

Income Taxes and Interest Cash Payments

Cash payments of income taxes and interest were as follows:

Three months ended March 31,	2023	2022
Income taxes paid	**$ 18,255**	$ 7,553
Interest paid	**$ 1,317**	$ 856

During the three months ended March 31, 2023, the Corporation paid income tax of $14.8 million (2022 - $3.3 million) for the 2022 tax year. In addition, the Corporation also prepaid advances related to its 2023 income tax expense of $3.5 million (2022 - $4.3 million) during the three months ended March 31, 2023.

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 and dividend payable approximate their fair values at March 31, 2023. The long-term incentive compensation liability, Arrow Warrants and Tesorito Investment are recorded at fair value. Lease obligations and long-term debt, which includes Senior Notes and the New RCF, are carried at amortized cost. As at March 31, 2023, the fair value of Senior Notes and the New RCF was $408.6 million and $75 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

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 months ended March 31, 2023.

(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 March 31, 2023, the COP to the USD exchange rate was 4,627:1 (December 31, 2022 – 4,810:1) and the CAD to USD exchange rate was 1.35:1 (December 31, 2022 – 1.35:1). 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 three months ended March 31, 2023.

(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 New RCF is 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 months ended March 31, 2023.

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

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 March 31, 2023:

	Less than 1 year	1-2 years	Thereafter	Total
Long-term debt – principal	$ —	$ —	$ 575,000	$ 575,000
Lease obligations – undiscounted	3,553	3,657	9,995	17,205
Trade and other payables	78,228	—	—	78,228
Dividend payable	6,553	—	—	6,553
Taxes payable	86,101	—	—	86,101
Other long term obligations	—	4,422	—	4,422
Long-term incentive compensation liability	2,984	503	—	3,487
	$ 177,419	**$ 8,582**	**$ 584,995**	**$ 770,996**

Credit Risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations. To date, the Corporation has not experienced any material credit losses in the collection of its trade receivables.

The Corporation's trade receivables primarily relate to sales of natural gas, LNG and crude oil, which are normally collected within 45 days of the month of production. The Corporation has historically not experienced any collection issues with its customers. The trade receivable balance, relating to contracts with customers, as at March 31, 2023 was $68.7 million (December 31, 2022 - $54.4 million), $12.6 million related to the recovery of transportation costs passed-through to customers (December 31, 2022 - $8.7 million), $2 million from Arrow related to the sale of certain petroleum assets (December 31, 2022 - $1.9 million) and $5.1 million of other receivables (December 31, 2022 - $5.0 million). The remaining receivable of $2 million from Arrow is expected to be collected no later than June 30, 2023.

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.

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

	Note	March 31, 2023	December 31, 2022
Senior Notes - principal (5.75%)	9	**500,000**	$ 500,000
Bridge Loan - principal (LIBOR + 4.25%)	9	**—**	25,000
Colombia Bank Debt - principal (IBR + 2.5%)	9	**—**	10,020
New RCF (SOFR + 4.5%)[(1)]	9	**75,000**	—
Lease obligation (5.75%)	10	**15,037**	15,732
Total debt		**590,037**	550,752
Working capital deficit (surplus)		**22,666**	22,603
Net debt		**$612,703**	$573,355

(1) The SOFR rate for the three months ended March 31, 2023 was 4.85%.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Presented below are the Corporation's contractual commitments as at March 31, 2023:

	Less than 1 year	1-3 years	Thereafter	Total
Exploration and production contracts	$ 23,163	$ 10,184	$ 16,336	$ 49,683
Compression station operating contracts	2,728	5,620	5,099	13,447
	$ 25,891	**$ 15,804**	**$ 21,435**	**$ 63,130**

Letters of Credit

As at March 31, 2023, the Corporation had letters of credit outstanding totaling $88.1 million (December 31, 2022 - $87.9 million) to guarantee work commitments on exploration blocks and to guarantee other contractual commitments.

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 March 31, 2023 of $49.7 million and has issued $38.3 million of the total $88.1 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.