CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2020

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended March 31,		
	2020	2019	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**70,994**	49,404	44%
Adjusted funds from operations(1)	**45,281**	29,907	51%
Per share – basic ($)(1)	**0.25**	0.17	47%
Per share – diluted ($)(1)	**0.25**	0.17	47%
Net (loss) income and other comprehensive (loss) income(2)	**(25,988)**	6,274	n/a
Per share – basic ($)	**(0.14)**	0.03	n/a
Per share – diluted ($)	**(0.14)**	0.03	n/a
Cash flow provided by operating activities	**38,018**	25,255	51%
Per share – basic ($)	**0.21**	0.14	50%
Per share – diluted ($)	**0.21**	0.14	50%
EBITDAX(1)	**58,870**	39,822	48%
Weighted average shares outstanding – basic	**180,931**	177,547	2%
Weighted average shares outstanding – diluted	**181,811**	179,637	1%
Capital expenditures, net of dispositions	**19,892**	34,725	(43%)
	Mar 31, 2020	Dec 31, 2019	Change
Cash and cash equivalents	**49,156**	41,239	19%
Restricted cash	**3,697**	4,524	(18%)
Working capital surplus	**54,501**	50,676	8%
Total debt	**388,483**	392,946	(1%)
Total assets	**745,799**	754,062	(1%)
Common shares, end of period (000's)	**180,855**	180,075	—

Operating	Three months ended March 31,		
	2020	2019	Change
Natural gas, LNG and crude oil production, before royalties(1)			
Natural gas and LNG (Mcfpd)	**201,398**	123,291	63%
Colombia oil (bopd)	**315**	433	(27%)
Total (boepd)	**35,648**	22,063	62%
Realized contractual sales, before royalties(1)			
Natural gas and LNG (Mcfpd)	**201,524**	122,025	65%
Colombia oil (bopd)	**298**	440	(32%)
Total (boepd)	**35,653**	21,848	63%
Operating netbacks(1)			
Natural gas and LNG ($/Mcf)	**3.60**	4.03	(11%)
Colombia oil ($/bopd)	**20.13**	23.64	(15%)
Corporate ($/boe)	**20.49**	23.00	(11%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.

(2) The net loss realized during the three months ended March 31, 2020 is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "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.

Advisories

The following management's discussion and analysis ("MD&A") is dated May 12, 2020 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three months ended March 31, 2020 ("the financial statements"), and the audited consolidated financial statements and MD&A for the year ended December 31, 2019. The financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and all amounts herein are expressed in United States dollars, unless otherwise noted, and all tabular amounts are expressed in thousands of United States dollars, except per share amounts or as otherwise noted. Additional information for the Corporation, including the Annual Information Form, may be found on SEDAR at www.sedar.com.

Forward-Looking Statements *– Certain information set forth in this document contains forward-looking statements. All statements other than historical facts contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates, and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. In particular, with respect to forward-looking comments in this MD&A, readers are cautioned that there can be no assurance that the Corporation will complete its planned capital projects on schedule or that natural gas and petroleum production will result from such capital projects, that additional natural gas sales contracts will be secured, or that hydrocarbon-based royalties assessed will remain consistent, or that royalties will continue to be applied on a sliding-scale basis as production increases on any one block. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive therefrom.*

In addition to historical information, this MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"). These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in natural gas, LNG and oil prices; the results of exploration and development drilling and related activities; fluctuations in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; and risks associated with natural gas and oil operations, many of which are beyond the control of the Corporation and are subject to a higher degree of uncertainty during this volatile period due to COVID-19. Accordingly, there is no representation by the Corporation that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except to the extent required by law, the Corporation assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are qualified in their entirety by these cautionary statements.

Readers are further cautioned not to place undue reliance on any forward-looking information or statements.

Non-IFRS Measures *– Two of the benchmarks the Corporation uses to evaluate its performance are adjusted funds from operations and EBITDAX, which are measures not defined in the IFRS. Adjusted funds from operations represents cash flow* *provided by operating activities before the settlement of decommissioning obligations and changes in non-cash working capital. EBITDAX is calculated on a rolling 12-month basis and is defined as net income (loss) and comprehensive income (loss) adjusted for interest, income taxes, depreciation, depletion, amortization, exploration expenses and other similar non-recurring or non-cash charges. The Corporation considers these measures as key measures to demonstrate its ability to generate the cash flow necessary to fund future growth through capital investment, pay dividends and repay its debt. These measures should not be considered as an alternative to, or more meaningful than, cash provided by operating activities or net income (loss) and comprehensive income (loss) as determined in accordance with IFRS as an indicator of the Corporation's performance. The Corporation's determination of these measures may not be comparable to that reported by other companies.*

The Corporation also presents adjusted funds from operations per share, whereby per share amounts are calculated using weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share.

The following table reconciles the Corporation's cash provided by operating activities to adjusted funds from operations:

	Three months ended March 31,	
	2020	2019
Cash flow provided by operating activities	$ **38,018**	$ 25,255
Changes in non-cash working capital	**7,263**	1,911
Settlement of decommissioning obligations	**—**	2,741
Adjusted funds from operations	**$ 45,281**	$ 29,907

The following table reconciles the Corporation's net income (loss) and comprehensive income (loss) to EBITDAX:

	2019			2020	
	Q2	**Q3**	**Q4**	**Q1**	**Rolling**
Net income (loss) and comprehensive income (loss)(1)	$ 1,878	$ 663	$ 25,432	$ (25,988)	$ 1,985
(+) Interest expense	7,631	7,620	7,800	7,631	30,682
(+) Income tax expense (recovery)	10,875	20,973	(6,330)	50,880	76,398
(+) Depletion and depreciation	11,737	13,015	16,842	17,954	59,548
(+) Exploration expenses	2,211	223	368	159	2,961
(+/-) Unrealized foreign exchange (gain) loss	(70)	1,666	(2,094)	3,030	2,532
(+/-) Other non-cash expenses and non-recurring items	3,339	2,584	1,126	5,204	12,253
EBITDAX	**$ 37,601**	**$ 46,744**	**$ 43,144**	**$ 58,870**	**$ 186,359**

(1) The net loss realized during the three months ended March 31, 2020 is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding current portion of long-term obligations, and is used to evaluate the Corporation's financial leverage. Operating netback is a benchmark common in the oil and gas industry and is calculated as revenue, net of transportation expense, less royalties, less operating expenses, calculated on a per unit basis of sales volumes. Operating netback is an important measure in evaluating operational performance as it demonstrates profitability relative to current commodity prices.

Working capital and operating netback as presented do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities.

The term "boe" is used in this MD&A. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of cubic feet of natural gas to barrels of oil equivalent is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In this MD&A, we have expressed boe using the Colombian conversion standard of 5.7 Mcf: 1 bbl required by the Ministry of Mines and Energy of Colombia. Natural gas and LNG volumes per day are expressed in million standard cubic feet per day ("MMscfpd") throughout this MD&A.

Three Months Ended March 31, 2020 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales increased 65% to 201.5 MMscfpd for the three months ended March 31, 2020, compared to 122 MMscfpd for the same period in 2019. Average natural gas and LNG production volumes increased 63% to 201.4 MMscfpd for the three months ended March 31, 2020, compared to 123.3 MMscfpd for the same period in 2019. The increase is primarily due to the completion of the 100 MMscfpd pipeline expansion in late Q3 2019; in addition, the LNG plant commenced operation during the three months ended March 31, 2020.
- Total natural gas and LNG revenue, net of royalties and transportation expenses for the three months ended March 31, 2020 increased 48% to $69.9 million, compared to $47.4 million for same period in 2019, mainly attributable to the increase of natural gas production.
- Adjusted funds from operations increased 51% to $45.3 million for the three months ended March 31, 2020, compared to $29.9 million for the same period in 2019. Adjusted funds from operations per basic share increased 47% to $0.25 per basic share from $0.17 per basic share.
- EBITDAX increased 48% to $58.9 million for the three months ended March 31, 2020, compared to $39.8 million for the same period in 2019.
- The Corporation realized a net loss of $26 million for the three months ended March 31, 2020, compared to a net income of $6.3 million for the same period in 2019. The net loss is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools as further explained in the "Income Tax" section of this MD&A. The Corporation also realized a foreign exchange loss of $4.3 million during the three months ended March 31, 2020 as a result of the 24% devaluation of COP during the period.
- The Corporation's natural gas and LNG operating netback decreased 11% to $3.60 per Mcf in the three months ended March 31, 2020, compared to $4.03 per Mcf for the same period in 2019. The decrease is due to: i) to lower spot market gas sales prices, net transportation costs and ii) an increase in royalties per unit of $0.08 per Mcf due to increased natural gas volumes being produced at the Corporation's VIM-5 block, which is subject to a higher royalty rate. The decrease is offset by a 27% reduction of operating expenses per Mcf to $0.22 per Mcf for the three months ended March 31, 2020, compared to $0.30 per Mcf for the same period in 2019.
- Net capital expenditures for the three months ended March 31, 2020 were $19.9 million. Net capital expenditures included non-cash adjustments related to decommissioning obligations of $1.3 million and right-of-use leased assets recognized of $1.3 million.
- As at March 31, 2020, the Corporation had $49.2 million in cash and cash equivalents, $3.7 million in restricted cash and $54.5 million in working capital surplus.

Results of Operations

For the three months ended March 31, 2020, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Nispero and Cañahuate fields in the Esperanza block, the Clarinete, Pandereta, Oboe and Acordeon fields in the VIM-5 block and the Toronja field in the VIM-21 block, located in the Lower Magdalena Basin in Colombia. The Corporation's production also includes crude oil from its Rancho Hermoso property in Colombia ("Colombia oil").

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Colombia and Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic downturn. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time. The effect on the Corporation is explained throughout this MD&A.

During the three months ended March 31, 2020, the Nelson-14 development well located on the 100% operated working interest Esperanza contract was spud and reached a total depth of 10,150 feet measured depth. The well encountered 309 feet true vertical depth of net gas pay with 24% average porosity within the productive Cienega de Oro ("CDO") sandstone reservoir. The well has been tied into the Nelson production manifold and is on permanent production.

The Clarinete-5 development well located on the 100% working interest operated VIM-5 contract was drilled during the three months ended March 31, 2020. The Clarinete-5 development well targeted the productive CDO sandstone reservoir. The completion of the Clarinete-5 development well was interrupted due to the COVID-19 lock-down; however it is expected to resume in mid-May 2020, when the COVID-19 lock-down is lifted in Colombia.

In addition to its producing fields, the Corporation has interests in a number of exploration blocks in Colombia.

Average Daily Production and Realized Contractual Sales Volumes

Production and realized contractual sales volumes in this MD&A are reported before royalties.

	Three months ended March 31,		
	2020	2019	Change
Natural Gas and LNG (Mcfpd)			
Natural gas and LNG production	**201,398**	123,291	63%
Field consumption	**(222)**	(1,830)	(88%)
Natural gas and LNG sales	**201,176**	121,461	66%
Take-or-pay volumes	**348**	564	(38%)
Realized contractual natural gas and LNG sales	**201,524**	122,025	65%
Colombia Oil (bopd)			
Crude oil production	**315**	433	(27%)
Inventory movements and other	**(17)**	7	n/a
Colombia oil sales	**298**	440	(32%)
Corporate			
Natural gas and LNG production (boepd)	**35,333**	21,630	63%
Colombia oil production (bopd)	**315**	433	(27%)
Total production (boepd)	**35,648**	22,063	62%
Field consumption and inventory (boepd)	**(56)**	(314)	(82%)
Total corporate sales (boepd)	**35,592**	21,749	64%
Take-or-pay volumes (boepd)	**61**	99	(38%)
Total realized contractual sales (boepd)	**35,653**	21,848	63%

The 63% increase in natural gas and LNG production volumes during the three months ended March 31, 2020, compared to the same period in 2019, is primarily due to the completion of the 100 MMscfpd pipeline expansion in late Q3 2019.

Realized contractual natural gas and LNG sales for the three months ended March 31, 2020 averaged approximately 201.5 MMscfpd. Realized contractual sales is defined as natural gas and LNG produced and sold plus income received from nominated take-or-pay contracts without the actual delivery of natural gas or LNG and the expiry of the customers' rights to take the deliveries.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended March 31,		
	2020	2019	Change
Natural Gas and LNG			
Natural gas and LNG revenues	$ **94,395**	$ 55,718	69%
Transportation expenses	**(11,300)**	(1,401)	707%
Revenues, net of transportation expenses	**83,095**	54,317	53%
Royalties	**(13,172)**	(6,951)	89%
Revenues, net of royalties and transportation expenses	$ **69,923**	$ 47,366	48%
Colombia Oil			
Crude oil revenues	$ **994**	$ 2,028	(51%)
Transportation expenses	**7**	(121)	n/a
Revenues, net of transportation expenses	**1,001**	1,907	(48%)
Royalties	**(75)**	(158)	(53%)
Revenues, net of royalties and transportation expenses	$ **926**	$ 1,749	(47%)
Corporate			
Natural gas and LNG revenues	$ **94,395**	$ 55,718	69%
Crude oil revenues	**994**	2,028	(51%)
Total revenues	**95,389**	57,746	65%
Royalties	**(13,247)**	(7,109)	86%
Natural gas, LNG and crude oil revenues, net of royalties, as reported	**82,142**	50,637	62%
Take-or-pay natural gas and LNG income (2)	**145**	289	(50%)
Total natural gas, LNG and crude oil revenues, after royalties, as reported	**82,287**	50,926	62%
Transportation expenses	**(11,293)**	(1,522)	642%
Total revenues, net of royalties and transportation expenses	$ **70,994**	$ 49,404	44%

Natural Gas and LNG Realized Contractual Sales

The Corporation has three types of natural gas realized sales:

1) *Natural Gas and LNG sales* - represents natural gas and LNG production less a typically small amount of gas volume that is consumed at the field level;
2) *Take-or-pay income* - represents the portion of natural gas and LNG sales nominations by the Corporation's off-takers that do not get delivered, due to the off-taker's inability to accept such gas and for which the off-takers have no recourse or legal right to delivery at a later date. As such, they are recorded as revenue in the period;
3) *Undelivered gas nominations* - represents the portion of undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside gas sales and take-or-pay income, and as such are included in deferred income for the period. The Corporation recognizes revenues associated with such make-up rights ("settlements") at the earlier of: a) when the make-up volume is delivered, b) the make-up right expires, or c) when it is determined that the likelihood that the off-taker will utilize the make-up right is remote.

For the three months ended March 31, 2020, the Corporation realized $0.1 million of take-or-pay income (as described in (2) above), which is equivalent to 0.3 MMscfpd, of natural gas and LNG sales, without actual delivery of the natural gas or LNG and the expiry of the customers' rights to take the deliveries.

As at March 31, 2020, the Corporation has received proceeds for natural gas and crude oil to be delivered at a later date (as described in (3) above). As at March 31, 2020, undelivered nominations resulted in a deferred income balance of $12 million which has been classified as a current liability as it is expected to be settled within the next twelve months.

Natural Gas Transportation Expenses

The sales prices of the Corporation's natural gas sales contracts are largely fixed, with a portion of its portfolio sold on the spot market, of which the Corporation incurs transportation expenses. Natural gas transportation expenses associated with the Corporation's fixed-priced natural gas sales contracts are generally passed through to Canacol's customers, with the exception of the Corporation's spot sales. The Corporation's transportation expenses associated with the spot sales are compensated by higher gross sales prices, resulting in realized sales prices, net of transportation that are consistent with the Corporation's fixed-priced contracts.

Natural gas transportation expenses increased 707% during the three months ended March 31, 2020, compared to the same period in 2019, primarily due to the increase in the Corporation's natural gas spot sales related to the 66% increase in sales volume, compared to the same period in 2019.

Natural Gas Royalties

The Corporation's natural gas royalties are generally at a rate of 6.4%, until net field production reaches 5,000 boepd, at which point the royalty rates increase on a sliding scale up to a 20% maximum rate at 125,000 boepd field production. The Corporation's natural gas production is subject to an additional overriding royalty of 2% - 4%. The Corporation's VIM-5 natural gas production is subject to an additional x-factor royalty of 13%. During the three months ended March 31, 2020, natural gas royalties increased 89%, compared to the same period in 2019, mainly due to the 63% increased natural gas production volumes. In addition, the increase is due to increased production at the Corporation's VIM-5 block, which is subject to a higher royalty rate.

Average Sales Prices, Net of Transportation

	Three months ended March 31,		
	2020	2019	Change
Average Benchmark Prices			
Guajira ($/Mcf)	**$ 4.39**	$ 4.30	2%
Henry Hub ($/Mcf)	**$ 1.88**	$ 2.88	(35%)
Alberta Energy Company ($/Mcf)	**$ 1.54**	$ 2.12	(27%)
Brent ($/bbl)	**$ 26.35**	$ 63.19	(58%)
Average Sales Prices, Net of Transportation			
Natural gas and LNG, net of transportation ($/Mcf)	**$ 4.54**	$ 4.97	(9%)
Colombia oil, net of transportation ($/bbl)	**$ 36.91**	$ 48.16	(23%)
Corporate average, net of transportation ($/boe)	**$ 25.96**	$ 28.72	(10%)

The decrease in average realized natural gas and LNG sales prices, net of transportation during the three months ended March 31, 2020, compared to the same period in 2019, is mainly due to lower spot sales prices.

The decrease in average realized crude oil sales prices during the three months ended March 31, 2020, compared to the same period in 2019, is mainly due to decreased benchmark crude oil prices.

Operating Expenses

	Three months ended March 31,		
	2020	2019	Change
Natural gas and LNG	**$ 4,086**	$ 3,281	25%
Colombia oil	**380**	813	(53%)
Total operating expenses	**$ 4,466**	$ 4,094	9%
Natural gas and LNG ($/Mcf)	**$ 0.22**	$ 0.30	(27%)
Colombia oil ($/bbl)	**$ 14.01**	$ 20.53	(32%)
Corporate ($/boe)	**$ 1.38**	$ 2.09	(34%)

Natural gas and LNG operating expenses per Mcf decreased 27% to $0.22/Mcf for the three months ended March 31, 2020, compared to $0.30/Mcf for the same period in 2019. The decrease is mainly attributable to the increase in natural gas sales volumes as a result of the completion the 100 MMscfpd pipeline expansion in late Q3 2019 as over 90% of the Corporation's operating expenses are fixed.

Operating Netbacks

$/Mcf		Three months ended March 31, 2020		2019	Change
Natural Gas and LNG					
Revenue, net of transportation expense	**$**	**4.54**	$	4.97	(9%)
Royalties		**(0.72)**		(0.64)	13%
Operating expenses		**(0.22)**		(0.30)	(27%)
Operating netback	**$**	**3.60**	$	4.03	(11%)

$/bbl		Three months ended March 31, 2020		2019	Change
Colombia oil					
Revenue, net of transportation expense	**$**	**36.91**	$	48.16	(23%)
Royalties		**(2.77)**		(3.99)	(31%)
Operating expenses		**(14.01)**		(20.53)	(32%)
Operating netback	**$**	**20.13**	$	23.64	(15%)

$/boe		Three months ended March 31, 2020		2019	Change
Corporate					
Revenue, net of transportation expense	**$**	**25.96**	$	28.72	(10%)
Royalties		**(4.09)**		(3.63)	13%
Operating expenses		**(1.38)**		(2.09)	(34%)
Operating netback	**$**	**20.49**	$	23.00	(11%)

General and Administrative Expenses

		Three months ended March 31, 2020		2019	Change
Gross costs	**$**	**7,756**	$	7,388	5%
Less: capitalized amounts		**(1,243)**		(1,565)	(21%)
General and administrative expenses	**$**	**6,513**	$	5,823	12%
$/boe	**$**	**2.01**	$	2.97	(32%)

General and administrative expenses ("G&A") per boe decreased 32% during the three months ended March 31, 2020, compared to the same period in 2019. The decrease is mainly due to: i) the increase of natural gas production and ii) the devaluation of the COP and Canadian dollar ("CAD") relative to United States dollar ("USD") during three months ended March 31, 2020. Gross costs are expected to remain flat as the Corporation's production base grows, which will result in the G&A per boe to further decrease going forward.

Net Finance Expense

	Three months ended March 31,		
	2020	2019	Change
Net financing expense paid	**$ 6,530**	$ 7,388	(12%)
Non-cash financing costs	**814**	838	(3%)
Net finance expense	**$ 7,344**	$ 8,226	(11%)

Net financing expense paid decreased during the three months ended March 31, 2020, compared to the same period in 2019, mainly as a result of higher interest income earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended March 31,		
	2020	2019	Change
Stock-based compensation expense	**$ 521**	$ 1,548	(66%)
Restricted share unit expense	**1,000**	3,257	(69%)
Stock-based compensation and restricted share unit expense	**$ 1,521**	$ 4,805	(68%)

Stock-based compensation and restricted share units expense is a non-cash expense recognized based on the fair value of units granted recognized on a graded vesting basis over the grant term. The fair value of the stock options granted were estimated using the Black-Scholes option pricing model.

Depletion and Depreciation Expense

	Three months ended March 31,		
	2020	2019	Change
Depletion and depreciation expense	**$ 17,954**	$ 12,689	41%
$/boe	**$ 5.54**	$ 6.48	(15%)

Depletion and depreciation expense increased 41% during the three months ended March 31, 2020, compared to the same period in 2019, primarily as a result of higher natural gas production, depletion of the Jobo 3 natural gas processing facility and depletion of the LNG plant costs.

Income Tax Expense

	Three months ended March 31,	
	2020	2019
Current income tax expense	**$ 9,740**	$ 7,258
Deferred income tax expense (recovery)	**41,140**	(2,493)
Income tax expense (recovery)	**$ 50,880**	$ 4,765

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 32% for the three months ended March 31, 2020. The Colombian statutory income tax rate will decrease to 31% on January 1, 2021 and the to 30% on January 1, 2022.

The Corporation's unused tax losses and cost pools are denominated in Colombian Pesos, which are re-valued at each reporting date using the period end COP to USD foreign exchange rate. The non-cash deferred income tax expense recognized during the three months ended March 31, 2020 of $41.1 million was mainly as a result of the 24% de-valuation of the COP to USD as at March 31, 2020 of 4,065:1, compared to the December 31, 2019 rate of 3,277:1. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

Capital Expenditures

	Three months ended March 31, 2020	2019
Drilling and completions	$ 10,714	$ 6,792
Facilities, work overs and infrastructure	3,923	15,802
Land, seismic, communities and other	4,106	3,486
Right-of-Use leased assets(1)	1,305	5,877
Capitalized G&A	1,243	1,565
Disposition	(83)	—
Non-cash costs and adjustments(1)	(1,316)	1,203
Net capital expenditures	**$ 19,892**	**$ 34,725**
Net capital expenditures recorded as:		
Expenditures on exploration and evaluation assets	$ 2,315	$ 2,490
Expenditures on property, plant and equipment	17,660	32,235
Disposition	(83)	—
Net capital expenditures	**$ 19,892**	**$ 34,725**

(1) Non-cash costs and adjustments relate to change in estimates related to decommissioning obligations and right-of-use leased assets

Net capital expenditures during the three months ended March 31, 2020 are primarily related to:

- Facility costs at VIM-5 and Esperanza blocks;
- Drilling of the Nelson-4 and Clarinete-5 development wells;
- Pre-drilling costs of the Porro Norte exploration well; and
- LNG plant completion costs.

Liquidity and Capital Resources

Foreign Currency Risk

As at March 31, 2020, the COP to the USD exchange rate was 4,065:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.42:1 (December 31, 2019 – 1.30:1). The 24% devaluation of the COP and 9% devaluation of CAD resulted in the reduction of certain expenditures and liabilities as at and during the three months ended March 31, 2020. In addition, $35 million of the total deferred income tax expense of $41.1 million recognized during the three months ended March 31, 2020, was as a result of the devaluation of COP to USD.

During the three months ended March 31, 2020, the Corporation held a foreign exchange contract under the following terms:

Term	Principal	Type	Exchange Rate Range
August 2019 - July 2020	$2.5 million	COP to USD foreign exchange collar	3,383:1 - 3,535:1

As a result of recent world events, the Corporation is currently benefiting from the recent depreciation of the COP and the CAD. The recent COP decline against the USD effectively reduces COP denominated expenditures including capital expenditures, operating costs and G&A for the remainder of 2020, as compared to the Corporation's original budget estimates. The Corporation's foreign exchange contract, which has historically been 'in the money', effectively reduces the savings at the current rate by approximately 15% for the remainder of 2020. Similarly, the recent weakness in the CAD effectively reduces the Canadian denominated G&A.

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, settlement liability, lease obligations and working capital, defined as current assets less current liabilities excluding current portion of long-term obligations. In order to maintain or adjust the capital structure, from time to time the Corporation may issue or repurchase common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels.

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, as defined above. 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.

The Corporation's bank debt includes various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The bank debt is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to twelve months trailing EBITDAX ratio ("Consolidated Leverage Ratio") of 3.50:1.00 and a minimum twelve months trailing EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at March 31, 2020, the Corporation was in compliance with the covenants.

		March 31, 2020		December 31, 2019
Senior Notes - Principal (7.25%)	$	320,000	$	320,000
Bank debt - Principal (6.875%)		30,000		30,000
Settlement liability (8.74%)		12,611		15,848
Lease obligation (6.875%)		25,872		27,098
Total debt		388,483		392,946
Less: working capital surplus		(54,501)		(50,676)
Net debt	**$**	**333,982**	**$**	**342,270**

The Consolidated Leverage Ratio is calculated as follows:

		March 31, 2020
Total debt	$	388,483
Less: cash and cash equivalents		(49,156)
Net debt for covenant purposes		339,327
EBITDAX		186,359
Consolidated Leverage Ratio		**1.82**

The Consolidated Interest Coverage Ratio is calculated as follows:

		March 31, 2020
EBITDAX	$	186,359
Interest expense, excluding non-cash expenses		30,682
Consolidated Interest Coverage Ratio		**6.07**

As at May 12, 2020, the Corporation had 180.9 million common shares, 16 million stock options and 1.8 million restricted share units outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at March 31, 2020:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ 10,909	$ 19,091	$ 320,000	$ 350,000
Lease obligations – undiscounted	5,870	9,529	15,252	30,651
Trade and other payables	49,551	—	—	49,551
Dividend payable	6,629	—	—	6,629
Taxes payable	8,049	—	—	8,049
Hedging contract	1,351	—	—	1,351
Deferred income	12,026	—	—	12,026
Settlement liability	2,600	4,612	5,399	12,611
Other long term obligations	—	2,855	—	2,855
Restricted share units	1,073	—	—	1,073
Exploration and production contracts	12,314	29,755	6,748	48,817
Compression station operating contracts	2,570	5,296	13,447	21,313

Letters of Credit

At March 31, 2020, the Corporation had letters of credit outstanding totaling $73.6 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $11.3 million financial guarantees relate to certain petroleum assets previously sold.

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, 2020 of $48.8 million and has issued $35.9 million in financial guarantees related thereto.

OUTLOOK

Most energy companies worldwide have been heavily impacted by both the drastic drop in world oil price and demand related to the measures taken to limit the COVID-19 pandemic. Canacol has largely been insulated from the effects of low oil prices given our focus on gas production, with the blend of our gas sales being weighted towards 80% fixed volume and price take-or-pay contracts priced in USD at the wellhead.

Canacol's take-or-pay natural gas contracts have seen no instances of force majeure, with payments for deliveries being up to date with no events of default. For the months of April, May and June 2020, Canacol has allowed take-or-pay off-takers to defer a maximum of 20% of their contracted volumes to be delivered in the last six months of 2020, with cash collections either occurring in April, May or June or at the time of delivery. Additionally, all parties have agreed that the annual contractual downtime of these contracts shall be taken during the months of April and May, if not already taken earlier in the year. These concessions impacted the month of April 2020 in the following manner: April 2020 nominated volumes totaled 147 MMscfpd, less than 10% of which are allowed to be taken in the latter half of 2020 (up to 20% deferral), and take-or-pay income received, of which the off-taker has lost the right to take its gas, totaled 3 MMscfpd. These amounts totaled 150 MMscfpd of cash and nominated natural gas sales. An additional average of 13 MMscfpd for the month of April was deemed contractual downtime by seven off-takers, which will have the effect of increasing sales in the latter half of 2020.

As a result of the country wide shutdown imposed in Colombia on March 26, 2020, which remained largely in effect until April 27, 2020, we saw industrial, construction, and commercial demand for gas decrease significantly as workers in these industries remained at home. As a result, there were virtually no interruptible gas sales for the month of April 2020. With the return of manufacturing and construction activities in most of Colombia on April 27, 2020, and the country wide shutdown scheduled to be lifted completely for all sectors on May 26, 2020, the Corporation expects interruptible demand to continue to increase and stabilize through the summer months of July and August 2020. Should this interruptible demand not return to the Colombian gas market, the period of July forward (once the off-taker deferral period expires, as described above) are anticipated to have contracts of approximately 162 MMscfpd, with 2020 annual sales thus being approximately 170 MMscfpd.

The Corporation's best estimate is that demand will begin to increase once the quarantine measures are lifted, and under that scenario our full year 2020 guidance remains relatively intact. Full year 2020 production guidance would be 197 MMscfpd, with the assumption that interruptible sales return by August 2020. It is management's belief that average sales volumes for 2020 will be closer to this level than a low case sales of 170 MMscfpd implied by only selling into the take or pay contracts for the remainder of 2020.

Canacol remains very well capitalized, with a Net Debt to EBITDAX (12 month trailing) ratio of 1.8x, and is still anticipated to exit 2020 with a significant increase to its existing cash balance which was $49 million at March 31, 2020. The Corporation expects to exit 2020 with a Net Debt to EBITDAX ratio of approximately 1.3x.

Canacol's production operations at the Jobo facility were uninterrupted during the quarantine. Our Jobo gas processing facility continues to operate with several shifts of workers quarantined at the facility. As a result of the quarantine, the Corporation has experienced approximately a two month delay in the rig move from the last drilled well of Clarinete-5 to its next scheduled location of Pandereta-8. This delay, and a small delay of the commencement of the Corporation's planned second rig, now anticipated to be operational in July 2020, has led to Canacol now expecting to drill nine wells in 2020, down from its original twelve well guidance. Capital expenditures have been revised to $108 million, down from $114 million, as the Corporation has shifted its near term focus to facilities and flow line construction in preparation of increased gas production.

The Corporation expects Colombian demand for its natural gas to increase in the near term related to the current 20-year low level of the hydroelectric reservoirs due to an unusually dry winter in Colombia, and in the medium to long term related to the continued decline of Colombia's main gas producing fields. Colombia's hydroelectric reservoirs are currently at a 20-year low due to the unusually dry winter. In May of 2016, during the last El Niño Phenomenon, the level of the reservoirs was 41%. Currently, the aggregate level of electric power generation reservoirs is 32%. The months of June and July are forecasted to have rainfall well below the historical averages, and there is further uncertainty with respect to the levels of rainfall in the following months. This will result in the need for a higher than normal usage of gas to power the thermoelectric plants to ensure that adequate electricity is supplied to the country, most particularly to the Caribbean coast.

Meanwhile, Colombia's total gas production continues to decline. In April of 2020, the Ministry of Mines and Energy reported that proven gas reserves in Colombia decreased by approximately 18%, from 3.8 Tcf at the end of 2018, to 3.1 Tcf at the end of 2019. This decrease in reserves was partially related to production of approximately 0.4 Tcf during 2019. Conversely, Canacol's gas reserves and production increased significantly.

Given these natural gas market fundamentals of declining gas supply, excluding Canacol, and stressed and uncertain hydroelectric production, Canacol remains very well positioned to capture any increasing demand once the Colombian economy begins to normalize post the lifting of quarantine.

COVID-19 Response

In accordance with the World Health Organization, along with the federal, provincial, and municipal government agencies in the jurisdictions in which we operate in Colombia and Canada, the Corporation has implemented strict protocols to support the safety and health of our employees, contractors and the communities in which we operate. Actions which have been taken to prevent the spread of the virus include the introduction of flexible work hours and arrangements for office employees, modified shift strategies to support physical distancing in the field, medical monitoring of all staff, and increased cleaning and sanitization in all locations.

Non-essential office employees in both Bogota and Calgary have been working remotely from home since late March. On May 11, 2020, executive management and key personnel returned to the office to work, with the remainder of employees working from home for the foreseeable future. In the Corporation's Jobo production station, two crew rotations have been lodged permanently on location for a period of 28 days, with access to and from the facilities being strictly forbidden. Production operations have not been impacted as a result. The Corporation's drilling rig was idled on March 26, 2020 upon the completion of the Clarinete-5 drilling operation in response to Colombian federal quarantine measures, and is anticipated that it will be mobilized to the Pandereta-8 development drilling location commencing on May 27, 2020.

During April and May of 2020, approximately $65,000 was donated by the Colombian and Canadian employees of Canacol to support at-risk communities in the five neighboring municipalities of our field operations as well as in

Bogota. The Entretejiendo, Project Union, and CES Waldorf foundations converted the donations into an ongoing distribution of market baskets comprised of food staples, hygiene products, and basic medical supplies for more than 10,500 families, senior citizens, and orphans. More details can be found on the Canacol and Entretejiendo websites.

SUMMARY OF QUARTERLY RESULTS

	2020	2019				2018		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**70,994**	65,795	56,634	47,689	49,404	50,727	53,398	52,397
Adjusted funds from operations(1)	**45,281**	33,004	36,420	25,583	29,907	28,679	25,810	28,252
Per share – basic ($)(1)	**0.25**	0.18	0.20	0.14	0.17	0.16	0.15	0.16
Per share – diluted ($)(1)	**0.25**	0.18	0.20	0.14	0.17	0.16	0.14	0.16
Net income (loss) and comprehensive income (loss)(2)	**(25,988)**	25,432	663	1,878	6,274	(16,272)	12,138	(25,979)
Per share – basic ($)	**(0.14)**	0.14	—	0.01	0.03	(0.09)	0.07	(0.15)
Per share – diluted ($)	**(0.14)**	0.14	—	0.01	0.03	(0.09)	0.07	(0.15)
EBITDAX(1)	**58,870**	43,144	46,037	37,008	39,822	33,440	36,006	33,617
Weighted average shares outstanding – basic	**180,931**	179,238	178,273	177,381	177,547	177,678	177,453	177,018
Weighted average shares outstanding – diluted	**181,811**	181,412	180,873	178,979	179,637	178,977	178,985	178,742
Capital expenditures, net	**19,892**	21,514	30,806	13,442	34,725	37,701	18,585	31,111
Operations								
Natural gas, LNG and crude oil production, before royalties(1)								
Natural gas and LNG (Mcfpd)	**201,398**	180,986	147,630	121,496	123,291	116,616	114,923	111,446
Colombia oil (bopd)	**315**	309	322	342	433	488	1,816	1,967
Total (boepd)	**35,648**	32,061	26,222	21,657	22,063	20,947	21,978	21,519
Realized contractual sales, before royalties(1)								
Natural gas and LNG (Mcfpd)	**201,524**	180,753	146,439	120,515	122,025	119,284	115,316	111,933
Colombia oil (bopd)	**298**	301	329	356	440	592	1,945	1,903
Total (boepd)	**35,653**	32,012	26,020	21,499	21,848	21,519	22,176	21,540
Operating netbacks ($/boe)(1)								
Natural gas and LNG ($/Mcf)	**3.60**	3.58	3.86	3.88	4.03	3.92	3.80	3.79
Colombia oil ($/bbl)	**20.13**	27.08	24.34	29.20	23.64	27.89	26.27	35.30
Corporate ($/boe)	**20.49**	20.49	22.06	22.27	23.00	22.51	22.04	22.90

(1) Non-IFRS measure – see “Non-IFRS Measures” section above.

(2) The net loss realized during the three months ended March 31, 2020 is solely due to the non-cash deferred tax expense of $41.1 million, which is primarily due to the effect of the reduction in the Colombian Peso (“COP”) exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

RISKS AND UNCERTAINTIES

The risk and uncertainties identified in the audited consolidated financial statements for the year ended December 31, 2019 are subject to a higher degree of measurement uncertainty during this volatile period due to circumstances related to COVID-19.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's management made judgements, assumptions and estimates in the preparation of the financial statements. Actual results may differ from those estimates, and those differences may be material. The basis of presentation and the Corporation's significant accounting policies can be found in the notes to the financial statements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has implemented new accounting policies during the three months ended March 31, 2020. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed under the CEO and CFO's supervision, DC&P and established processes to ensure that they are provided with sufficient knowledge to support the representations made in the interim certificates required to be filed under National Instrument 52-109.

Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS.

During the three months ended March 31 2020, there has been no change in the Corporation's ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

Limitations of Controls and Procedures

The Corporation's management, including its CEO and CFO, believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.