CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Total natural gas and crude oil revenues, net of royalties and transportation expense	**50,727**	39,781	28%	**204,151**	153,665	33%
Funds from operations(1)	**28,679**	16,573	73%	**104,914**	64,896	62%
Per share – basic ($)(1)	**0.16**	0.09	78%	**0.59**	0.37	59%
Per share – diluted ($)(1)	**0.16**	0.09	78%	**0.59**	0.37	59%
Net loss and comprehensive loss	**(16,272)**	(150,343)	(89%)	**(21,835)**	(148,029)	(85%)
Per share – basic ($)	**(0.09)**	(0.85)	(89%)	**(0.12)**	(0.85)	(86%)
Per share – diluted ($)	**(0.09)**	(0.85)	(89%)	**(0.12)**	(0.85)	(86%)
EBITDAX(1)	**33,440**	29,857	12%	**138,630**	126,084	10%
Weighted average shares outstanding – basic	**177,678**	175,988	1%	**177,184**	175,180	1%
Weighted average shares outstanding – diluted	**178,977**	177,881	1%	**178,681**	177,000	1%
Capital expenditures, net, including acquisitions	**37,701**	41,652	(9%)	**127,591**	121,202	5%
				Dec 31, 2018	Dec 31, 2017	Change
Cash and cash equivalents				**51,632**	39,071	32%
Restricted cash				**4,196**	27,919	(85%)
Working capital surplus				**55,481**	110,401	(50%)
Total debt				**388,222**	340,858	14%
Total assets				**705,003**	696,443	1%
Common shares, end of period (000's)				**177,462**	176,109	1%

Operating	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Natural gas and crude oil production, before royalties						
Natural gas (Mcfpd)	**116,616**	83,043	40%	**112,102**	78,461	43%
Colombia oil (bopd)(3)	**488**	1,825	(73%)	**1,546**	1,909	(19%)
Ecuador tariff oil (bopd)(2)	**—**	1,183	(100%)	**139**	1,406	(90%)
Total (boepd)(2)	**20,947**	17,577	19%	**21,352**	17,080	25%
Realized contractual sales, before royalties (boepd)						
Natural gas (Mcfpd)	**119,284**	85,215	40%	**113,261**	80,513	41%
Colombia oil (bopd)(3)	**592**	1,820	(67%)	**1,581**	1,915	(17%)
Ecuador tariff oil (bopd)(2)	**—**	1,183	(100%)	**139**	1,406	(90%)
Total (boepd) (2)	**21,519**	17,953	20%	**21,590**	17,446	24%
Operating netbacks ($/boe)(1)						
Natural gas ($/Mcf)	**3.92**	3.56	10%	**3.80**	3.89	(2%)
Colombia oil (bopd)(3)	**27.89**	23.44	19%	**31.18**	19.05	64%
Ecuador tariff oil ($/bbl)(2)	**—**	38.54	(100%)	**38.54**	38.54	—
Corporate ($/boe)(2)	**22.51**	19.21	17%	**22.27**	19.96	12%

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) Includes tariff oil production and sales related to the Ecuador IPC – see "Non-IFRS Measures" section within MD&A.
(3) Decreased during the year ended December 31, 2018, due to the sale of the Corporation's petroleum assets.

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 March 21, 2019 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 audited consolidated financial statements of the Corporation for the years ended December 31, 2018 and 2017 (the "financial statements"). The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), 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 fact 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 petroleum and natural gas 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 oil and gas 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 oil and gas operations, many of which are beyond the control of the Corporation. 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.

Ecuador Incremental Production Contract ("Ecuador IPC") *– The Ecuador IPC was accounted for using the equity method of accounting applied under IFRS 11, as such, the proportionate share of revenues and expenditures were excluded as would be typical in oil and gas joint interest arrangements. In the previous MD&As, management had provided supplemental measures of adjusted revenues and expenditures, which are inclusive of the Ecuador IPC, to supplement the IFRS disclosures of the Corporation's operations. On February 15, 2018, the Corporation sold its interest in the Ecuador IPC investment, and its revenues and expenditures from January 1, 2018 to February 15, 2018 have become insignificant to the Corporation's overall business for the year ended December 31, 2018. As such, the Corporation has ceased to provide supplemental measures of adjusted revenues and expenditures in this MD&A.*

Non-IFRS Measures *– Two of the benchmarks the Corporation uses to evaluate its performance are funds from operations and EBITDAX, which are measures not defined in IFRS. Funds from operations represents cash flow provided by operating activities before 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, other similar non-recurring or non-cash charges and includes the Corporation's proportionate interest of those items that would otherwise have contributed to funds from operations from the Ecuador IPC had it been accounted for under the proportionate consolidation method of accounting. 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 dividend and to 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 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 funds from operations:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Cash flow provided by operating activities	**$ 18,753**	$ 25,001	**$ 94,011**	$ 65,346
Changes in non-cash working capital	**8,268**	(8,428)	**8,653**	(450)
Settlement of decommissioning obligations	**1,658**	—	**2,250**	—
Funds from operations	**$ 28,679**	$ 16,573	**$ 104,914**	$ 64,896

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

	2018				
	Q1	**Q2**	**Q3**	**Q4**	**Rolling**
Net income (loss) and comprehensive income (loss)	8,278	(25,979)	12,138	(16,272)	(21,835)
(+) Interest expense	7,945	7,428	8,225	8,249	31,847
(+/-) Income taxes (recovery)	(1,895)	11,627	(2,738)	22,189	29,183
(+) Depletion and depreciation	10,131	11,677	10,636	11,802	44,246
(+) Exploration expenses	595	10,490	1,844	745	13,674
(+/-) Other non-cash expenses and non-recurring items	8,557	18,374	5,901	6,727	39,559
(+) Contribution of Ecuador IPC	1,956	—	—	—	1,956
EBITDAX	**35,567**	**33,617**	**36,006**	**33,440**	**138,630**

In addition to the above, management uses working capital and operating netback measures. Working capital is calculated as current assets less current liabilities, excluding any non-cash items, 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.

Annual 2018 Reserves Highlights

- As announced on February 27, 2019, the Corporation's conventional natural gas total proved reserves ("1P") increased 16% since December 31, 2017, totalling 380 billion cubic feet ("Bcf") at December 31, 2018 (226% 1P reserves replacement ratio). The Corporation's conventional natural gas proved plus probable reserves ("2P") increased 11% since December 31, 2017, totalling 559 Bcf at December 31, 2018 (232% reserves replacement ratio);
- 1P finding and development cost ("F&D cost") was $0.55/Mcf and $0.84/Mcf for the one and three year periods ending December 31, 2018, respectively;
- 2P F&D cost was $0.32/Mcf and $0.57/Mcf for the one and three year periods ending December 31, 2018, respectively;
- The Corporation achieved a 7x and 4.8x 1P recycle ratio for the one and three year periods ending December 31, 2018, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2018 of $3.80/Mcf, and the three-year recycle ratio was calculated based on natural gas netback for the three year ended December 31, 2018 of $4.03/Mcf;
- The Corporation achieved a 12x and 7.1x 2P recycle ratio for the one and three year periods ending December 31, 2018, respectively. The one-year recycle ratio was calculated based on natural gas netback for the year ended December 31, 2018 of $3.80/Mcf, and the three-year recycle ratio was calculated based on natural gas netback for the three year ended December 31, 2018 of $4.03/Mcf;

Three Months Ended December 31, 2018 Financial and Operational Highlights

- Realized contractual natural gas sales increased 40% to 119.3 MMscfpd for the three months ended December 31, 2018, compared to 85.2 MMscfpd for the same period in 2017. Average natural gas production volumes increased 40% to 116.6 MMscfpd for the three months ended December 31, 2018, compared to 83 MMscfpd for the same period in 2017. The increases are primarily due to the increase in natural gas sales as a result of the completion of the Sabanas pipeline.
- Total natural gas and crude oil revenues, net of royalties and transportation expenses for the three months ended December 31, 2018, increased 28% to $50.7 million, compared to $39.8 million for same period in 2017, mainly attributable to the increase of natural gas production, offset by a decrease of crude oil production due to the sale of the Corporation's petroleum assets.
- Funds from operations increased 73% to $28.7 million for the three months ended December 31, 2018, compared to $16.6 million for the same period in 2017.
- The Corporation realized an EBITDAX of $33.4 million for the three months ended December 31, 2018, compared to $29.9 million for the same period in 2017.
- The Corporation recorded a net loss of $16.3 million for the three months ended December 31, 2018, compared to a net loss of $150.3 million for the same period in 2017.
- Net capital expenditures for the three months ended December 31, 2018 was $37.7 million. Net capital expenditures included a non-cash decrease relating to decommissioning obligations of $0.9 million and a non-cash increase of $3 million relating to the purchase of the Jobo 2 natural gas processing facility for the three months ended December 31, 2018.
- During the three months ended December 31, 2018, the Corporation distributed $20 million to its shareholders by way of a return of capital via the distribution of 22,598,870 of common shares of Arrow Exploration Corp. ("Arrow's Shares"). Through the return of capital, the registered shareholders of Canacol received 0.127 Arrow Shares per each common share owned on the record date, October 3, 2018.
- During the three months ended December 31, 2018, the Corporation entered into a credit agreement for an amount of $30 million with Credit Suisse (the "2018 Credit Facility"). A portion of the proceeds from the 2018 Credit Facility totaling $24.2 million was used to purchase the Jobo 2 natural gas processing facility, previously held under a finance lease agreement. The residual proceeds will contribute to the completion of the Jobo 3 natural gas plant expansion.
- At December 31, 2018, the Corporation had $51.6 million in cash and $4.2 million in restricted cash.

Results of Operations

For the three months ended December 31, 2018, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Trombon, Nispero, Cañahuate fields in the Esperanza block, the Clarinete, Chirimia and Oboe 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").

As at December 31, 2018, the Corporation has sold the majority of its Colombian oil assets (with the exception of its interests in the Rancho Hermoso block and its unconventional oil portfolio) to Arrow Exploration Corp. ("Arrow") for a total consideration of $40 million, adjusted for customary closing adjustments of $0.8 million, resulting in total adjusted consideration of $39.2 million. The adjusted consideration comprised of $14.2 million in cash, $20 million in common shares of Arrow's Shares, and $5 million in promissory note at an annual interest rate of 15% maturing six months after closing of the transaction.

During the three months ended December 31, 2018, the Corporation drilled the Cañahuate-3 appraisal well on its Esperanza block, which took approximately four weeks to drill. The Corporation will drill the adjacent Cañahuate-2 development well in 2019. The two wells are located in separate fault compartments on either side of the Cañahuate-1 exploration discovery in the Esperanza block. Both wells will be tested with a workover rig upon drilling the Cañahuate-2 development well in order to minimize mobilization costs.

During the three months ended December 31, 2018, the Corporation drilled Nelson-13, the seventh well on its Nelson natural gas field in its Esperanza block, which was discovered in 2011. Nelson-13 was spud using the Pioneer 302 drilling rig and reached a total depth of 9,234 feet measured depth in 21 days. The well encountered 104 feet true vertical depth ("ft TVD") of net gas pay within the productive shallow Porquero sandstone reservoir and 162 ft TVD of net gas pay within the Ciénaga de Oro sandstone reservoir. The resulting 266 feet of net gas pay represents the thickest gas pay encountered of all the Corporation's wells drilled in the Lower Magdalena Valley basin to date. The well has been cased and completed prior to tying it into the Jobo gas processing facility via the existing Nelson field flow-line.

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

Average Daily Natural Gas and Crude Oil Production and Sales Volumes

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

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Natural Gas (Mcfpd)						
Natural gas production	**116,616**	83,043	40%	**112,102**	78,461	43%
Field consumption	**(1,470)**	(1,083)	36%	**(1,129)**	(667)	69%
Natural gas sales	**115,146**	81,960	40%	**110,973**	77,794	43%
Take-or-pay volumes	**4,138**	3,255	27%	**2,288**	2,719	(16%)
Realized Contractual Natural Gas Sales	**119,284**	85,215	40%	**113,261**	80,513	41%
Colombia Oil (bopd)						
Crude oil production	**488**	1,825	(73%)	**1,546**	1,909	(19%)
Inventory movements and other	**104**	(5)	n/a	**35**	6	483%
Colombia Oil Sales	**592**	1,820	(67%)	**1,581**	1,915	(17%)
Ecuador Tariff oil (bopd)						
Crude oil production(1)	**—**	1,183	(100%)	**139**	1,406	(90%)
Corporate						
Natural gas production (boepd)	**20,459**	14,569	40%	**19,667**	13,765	43%
Colombia oil production (bopd)	**488**	1,825	(73%)	**1,546**	1,909	(19%)
Ecuador tariff oil (bopd)(1)	**—**	1,183	(100%)	**139**	1,406	(90%)
Total production (boepd)	**20,947**	17,577	19%	**21,352**	17,080	25%
Field consumption and inventory (boepd)	**(154)**	(195)	(21%)	**(163)**	(111)	47%
Total Corporate Sales (boepd)	**20,793**	17,382	20%	**21,189**	16,969	25%
Take-or-pay volumes (boepd)	**726**	571	27%	**401**	477	(16%)
Total realized contractual sales (boepd)(1)	**21,519**	17,953	20%	**21,590**	17,446	24%

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The increase in natural gas production volumes during the three months and year ended December 31, 2018, compared to the same periods in 2017, is primarily as a result of the additional sales related to the construction and operation of the Corporation's partially owned Sabanas pipeline. Canacol's ownership of its infrastructure continues to allow the Corporation to control production levels at its fields from wellhead to the sales delivery point and enables the Corporation to quickly respond to changing conditions and thereby maximize profitability.

The decrease in Colombia oil production volumes during the three months and year ended December 31, 2018, compared to the same periods in 2017, is primarily due to the Corporation selling its interest in the majority of its petroleum assets during the year ended December 31, 2018.

The decrease in Ecuador tariff oil production volumes during the three months and year ended December 31, 2018, compared to the same periods in 2017, is primarily due to the Corporation selling its interest in the Ecuador IPC investment on February 15, 2018.

Realized contractual natural gas sales for the three months and year ended December 31, 2018 averaged approximately 119.3 MMscfpd and 113.3 MMscfpd, respectively. Realized contractual sales is defined as gas produced and sold plus gas revenues received from nominated take or pay contracts.

Natural Gas and Crude Oil Revenues

	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Natural Gas						
Natural gas revenues	**$ 56,063**	$ 37,133	51%	**$ 213,306**	$ 141,979	50%
Transportation expenses	**(3,621)**	(2,075)	75%	**(17,566)**	(3,900)	350%
Revenues, net of transportation expense	**52,442**	35,058	50%	**195,740**	138,079	42%
Royalties	**(6,273)**	(4,176)	50%	**(24,581)**	(16,389)	50%
Revenues, net of royalties and transportation expenses	**46,169**	30,882	50%	**171,159**	121,690	41%
Colombia Oil						
Crude oil revenues	**2,840**	8,642	(67%)	**33,894**	31,511	8%
Transportation expenses	**25**	(236)	n/a	**(696)**	(1,343)	(48%)
Revenues, net of transportation expense	**2,865**	8,406	(66%)	**33,198**	30,168	10%
Royalties	**(181)**	(870)	(79%)	**(3,200)**	(3,155)	1%
Revenues, net of royalties and transportation expenses	**2,684**	7,536	(64%)	**29,998**	27,013	11%
Corporate						
Natural gas revenues	**56,063**	37,133	51%	**213,306**	141,979	50%
Crude oil revenues	**2,840**	8,642	(67%)	**33,894**	31,511	8%
Total revenues	**58,903**	45,775	29%	**247,200**	173,490	42%
Royalties	**(6,454)**	(5,046)	28%	**(27,781)**	(19,544)	42%
Natural gas and crude oil revenues, net of royalties, as reported	**52,449**	40,729	29%	**219,419**	153,946	43%
Take-or-pay natural gas income (2)	**1,874**	1,363	37%	**2,994**	4,962	(40%)
Total natural gas and crude oil revenues, after royalties, as reported	**54,323**	42,092	29%	**222,413**	158,908	40%
Transportation expenses	**(3,596)**	(2,311)	56%	**(18,262)**	(5,243)	248%
Total revenues, net of royalties and transportation expenses	**$ 50,727**	$ 39,781	28%	**$ 204,151**	$ 153,665	33%

The Corporation has three types of natural gas sales:

1) *Natural Gas sales* - represents natural gas 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 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 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 and year ended December 31, 2018, the Corporation has realized $1.9 and $3 million of take-or-pay income (as described in (2) above), respectively, which is equivalent to 4.1 MMscfpd and 2.3 MMscfpd of natural gas sales, respectively, without actual delivery of the natural gas.

As at December 31, 2018, the Corporation has received proceeds for crude oil and natural gas to be delivered at a later date (as described in (3) above). As at December 31, 2018, undelivered nominations resulted in a deferred income balance of $5.4 million ($5.2 million related to gas; $0.2 million related to crude oil) and has been classified as a current liability as it is expected to be settled within the next twelve months.

Average Benchmark and Realized Sales Prices

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Guajira ($/Mcf)	**$ 4.26**	$ 4.62	(8%)	**$ 4.24**	$ 4.24	—
Brent ($/bbl)	**$ 68.71**	$ 60.97	13%	**$ 71.31**	$ 54.28	31%
West Texas Intermediate ($/bbl)	**$ 60.16**	$ 55.43	9%	**$ 64.79**	$ 50.78	28%
Natural gas, net of transportation ($/Mcf)	**$ 4.95**	$ 4.65	6%	**$ 4.83**	$ 4.87	(1%)
Colombia oil, net of transportation ($/bbl)	**$ 52.60**	$ 50.20	5%	**$ 57.53**	$ 43.16	33%
Ecuador tariff ($/boe)(1)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Corporate average, net of transportation ($/boe)(1)	**$ 28.91**	$ 27.17	6%	**$ 29.60**	$ 27.16	9%

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see "Non-IFRS Measures" section above.

The increase in average realized natural gas sales prices, net transportation costs during the three months ended December 31, 2018, compared to the same period in 2017, is due to higher spot sales. The average realized natural gas sales price, net transportation costs for the year ended December 31, 2018, is consistent with the same period in 2017.

The increase in average realized crude oil sales prices during the year ended December 31, 2018, compared to the same period in 2017, is mainly due to increased benchmark crude oil prices.

Operating Expenses

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Natural gas	**$ 4,638**	$ 4,070	14%	**$ 16,895**	$ 11,337	49%
Colombia oil	**1,165**	3,610	(68%)	**12,001**	13,703	(12%)
Total operating expenses	**$ 5,803**	$ 7,680	(24%)	**$ 28,896**	$ 25,040	15%
Natural gas ($/Mcf)	**$ 0.44**	$ 0.54	(19%)	**$ 0.42**	$ 0.40	5%
Colombia oil ($/bbl)	**$ 21.39**	$ 21.56	(1%)	**$ 20.80**	$ 19.60	6%
Corporate ($/boe)(1)	**$ 3.03**	$ 4.80	(37%)	**$ 3.74**	$ 4.04	(7%)

(1) Includes Ecuador tariff oil volumes in the denominator - see "Non-IFRS Measures" section above.

Total natural gas operating expenses per Mcf decreased by 19% to $0.44/Mcf for the three months ended December 31, 2018, compared to $0.54/Mcf for the same period in 2017. The decrease is mainly attributable to fixed costs over higher production.

Total natural gas operating expenses per Mcf increased by 5% to $0.42/Mcf for the year ended December 31, 2018, compared to $0.40/Mcf for the same period in 2017. The increase is mainly attributable to expenses associated with additional fixed operating expenses at the new fields, such as Nispero, Trombon, Cañahuate, Pandereta, Chirimia and Toronja. Over 90% of the Corporation's natural gas operating expenses is fixed and, as such, the Corporation expects its natural gas operating expenses per Mcf to further decrease to approximately $0.30/Mcf, upon the commencement of operations of the new Promigas pipeline by mid-2019.

Total Colombia oil operating expenses per bbl decreased during the three months and year ended December 31, 2018, compared to the same periods in 2017, primarily due to the Corporation selling its interest in the majority of its petroleum assets during the three months ended December 31, 2018.

Operating Netbacks

$/Mcf	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Natural Gas						
Revenue, net of transportation expense	**$ 4.95**	$ 4.65	6%	**$ 4.83**	$ 4.87	(1%)
Royalties	**(0.59)**	(0.55)	7%	**(0.61)**	(0.58)	5%
Operating expenses	**(0.44)**	(0.54)	(19%)	**(0.42)**	(0.40)	5%
Operating netback	**$ 3.92**	$ 3.56	10%	**$ 3.80**	$ 3.89	(2%)

$/bbl	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Colombia oil						
Revenue, net of transportation expense	**$ 52.60**	$ 50.20	5%	**$ 57.53**	$ 43.16	33%
Royalties	**(3.32)**	(5.20)	(36%)	**(5.55)**	(4.51)	23%
Operating expenses	**(21.39)**	(21.56)	(1%)	**(20.80)**	(19.60)	6%
Operating netback	**$ 27.89**	$ 23.44	19%	**$ 31.18**	$ 19.05	64%

$/bbl	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Ecuador						
Tariff revenues(1)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—
Operating netback(1)	**$ —**	$ 38.54	(100%)	**$ 38.54**	$ 38.54	—

(1) Non-IFRS measure – inclusive of amounts related to the Ecuador IPC – see “Non-IFRS Measures” section above.

$/boe	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Corporate						
Revenue, net of transportation expense	**$ 28.91**	$ 27.17	6%	**$ 29.60**	$ 27.16	9%
Royalties	**(3.37)**	(3.16)	7%	**(3.59)**	(3.16)	14%
Operating expenses	**(3.03)**	(4.80)	(37%)	**(3.74)**	(4.04)	(7%)
Operating netback(1)	**$ 22.51**	$ 19.21	17%	**$ 22.27**	$ 19.96	12%

(1) Includes Ecuador tariff oil volumes in the denominator - see “Non-IFRS Measures” section above.

General and Administrative Expenses

	Three months ended December 31, 2018	2017	Change	Year ended December 31, 2018	2017	Change
Gross costs	**$ 10,817**	$ 9,766	11%	**$ 34,422**	$ 29,904	15%
Less: capitalized amounts	**(2,132)**	(796)	168%	**(6,227)**	(3,428)	82%
General and administrative expenses	**$ 8,685**	$ 8,970	(3%)	**$ 28,195**	$ 26,476	6%
$/boe(1)	**$ 4.54**	$ 5.61	(19%)	**$ 3.65**	$ 4.27	(15%)

(1) Includes Ecuador tariff oil volumes in the denominator - see “Non-IFRS Measures” section above.

General and administrative expenses (“G&A”) per boe decreased 19% and 15% during the three months and year ended December 31, 2018, compared to the same periods in 2017, respectively. The decrease is due to the 40% and 43% increase in natural gas production, respectively. G&A per boe is expected to continue to decrease as the Corporation’s production base grows into 2019 and 2020.

Gross G&A increased by 11% and 15% during the three months and year ended December 31, 2018, compared to same periods in 2017, respectively, primarily due to increased support costs for the Corporation’s 40% and 43% increase in natural gas production compared to the same periods in 2017, respectively. In addition, a one-time severance payment contributed to the increased costs for the year ended December 31, 2018.

Net Finance Expense

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Net financing expense paid	**$ 7,912**	$ 4,152	91%	**$ 30,982**	$ 21,216	46%
Non-cash financing costs	**793**	1,404	(44%)	**3,557**	5,112	(30%)
Net finance expense	**$ 8,705**	$ 5,556	57%	**$ 34,539**	$ 26,328	31%

Net financing expense paid increased during the three months and year ended December 31, 2018, compared to the same periods in 2017, due to: a) finance lease obligations, b) lower interest income due to the release of Ecuador IPC term deposits and c) the long-term debt principal amount increase from $305 million to $350 million.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Stock-based compensation expense	**$ 599**	$ 962	(38%)	**$ 4,934**	$ 7,673	(36%)
Restricted share unit expense	**49**	—	n/a	**3,542**	3,913	(9%)
Stock-based compensation and restricted share unit expense	**$ 648**	$ 962	(33%)	**$ 8,476**	$ 11,586	(27%)

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

Depletion and Depreciation Expense

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change	**2018**	2017	Change
Depletion and depreciation expense	**$ 11,802**	$ 10,060	17%	**$ 44,246**	$ 35,776	24%
$/boe(1)	**$ 6.17**	$ 6.29	(2%)	**$ 5.72**	$ 5.78	(1%)

(1) Includes Ecuador tariff oil volumes in the denominator - see "Non-IFRS Measures" section above.

Depletion and depreciation expense increased 17% and 24% during the three months and year ended December 31, 2018, compared to the same periods in 2017, respectively, primarily as a result of higher natural gas production.

Impairments

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
PP&E impairment (recovery)	**$ —**	$ —	**$ (19,126)**	$ —
E&E Impairment	**$ —**	$ —	**$ 9,865**	$ —
Impairment on oil assets held for sale	**$ —**	$ 117,576	**$ —**	$ 117,576

During the year ended December 31, 2018, an impairment recovery of $19.1 million was recorded based on the estimated recoverable amount of the Rancho Hermoso block (CGU) with an estimated decommissioning obligation of $10.2 million, resulting in a net recoverable amount of $8.9 million. Such recovery was primarily a result of increased market participant interest in acquiring the block and the recovery in benchmark crude oil prices during the year ended December 31, 2018. The Corporation's other CGUs were unaffected.

During the year ended December 31, 2018, the Corporation assessed its exploration blocks for impairment and, as a result of relinquishment of a block, all costs associated with such block have been written off to exploration impairment.

Assets and Liabilities Held for Sale

Ecuador IPC Joint Venture

As at December 31, 2017		Carrying amount		Impairment loss		Recoverable amount
Assets held for sale						
Restricted cash	$	30,719	$	8,052	$	22,667
Investment in equity		17,212		11,772		5,440
	$	**47,931**	**$**	**19,824**	**$**	**28,107**

The Corporation classified its 25% equity interest in the Ecuador IPC and related term deposits used as collateral to secure the Ecuador IPC's borrowings ("Ecuador restricted cash") as assets held for sale as at December 31, 2017. Proceeds for the sale total $36.4 million, consisted of $28.1 million of cash proceeds and $8.3 million return of an outstanding term deposit which was classified as current restricted cash as at December 31, 2017. A portion of the total proceeds ($30.8 million) was received in January 2018 and the remaining $6 million will be received in July 2019. As a result of being classified as assets held for sale, the carrying amounts of the investment in the Ecuador IPC and Ecuador restricted cash were revalued to the lower of their carrying value and fair value less cost to sell of $28.1 million, resulting in an impairment loss of $19.8 million.

Petroleum Assets and Liabilities

As at December 31, 2017		Carrying amount		Impairment loss		Recoverable amount
Assets held for sale						
Petroleum assets	$	**146,539**	$	**102,686**	$	**43,853**

		Carrying amount		Revaluation gain		Recoverable amount
Liabilities held for sale						
Decommissioning obligations	$	7,694	$	(4,934)	$	2,760
Other long term obligations		1,094		—		1,094
	$	**8,788**	**$**	**(4,934)**	**$**	**3,854**

The Corporation classified certain petroleum assets as held for sale as at December 31, 2017. As at December 31, 2017, the assets and liabilities were revalued to the lower of their carrying amounts and fair value less cost to sell, resulting in a net impairment loss of $97.8 million. During the year ended December 31, 2018, the Corporation completed the sale of such petroleum assets and corresponding liabilities.

Income Tax Expense

	Three months ended December 31,				Year ended December 31,			
		2018		2017		**2018**		2017
Current income tax expense	**$**	**2,240**	$	5,888	**$**	**21,833**	$	25,857
Deferred income tax expense		**19,949**		13,162		**7,350**		6,590
Income tax expense	**$**	**22,189**	$	19,050	**$**	**29,183**	$	32,447

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 37% for the year ended December 31, 2018. The Colombian statutory income tax rate will decrease to 33% on January 1, 2019, 32% on January 1, 2020, 31% on January 1, 2021, then to 30% on January 1, 2022. The Corporation consistently implements tax planning measures to reduce its overall effective tax rate.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Drilling and completions	**$ 7,027**	$ 15,052	**$ 37,138**	$ 40,113
Facilities, work overs and infrastructure	**20,493**	27,445	**38,067**	36,949
Midstream pipeline costs	**—**	(14,083)	**3,887**	10,524
Land, seismic, communities and other	**5,904**	2,796	**21,477**	23,082
Capitalized G&A	**2,132**	796	**6,227**	3,428
Non-cash costs and adjustments(1)	**2,145**	9,646	**23,795**	7,871
Disposition	**—**	—	**(3,000)**	(766)
Net capital expenditures	**$ 37,701**	$ 41,652	**$ 127,591**	$ 121,201
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 5,129**	$ 14,338	**$ 42,534**	$ 51,919
Expenditures on property, plant and equipment	**32,572**	27,314	**88,057**	70,049
Disposition	**—**	—	**(3,000)**	(766)
Net capital expenditures	**$ 37,701**	$ 41,652	**$ 127,591**	$ 121,202

(1) Non-cash costs and adjustments include change in estimates related to decommissioning liabilities and finance leased assets

Capital expenditures during the three months ended December 31, 2018 are primarily related to:

- Jobo 3 natural gas plant expansion;
- Drilling and completion of Nelson-13 well;
- Pre-drilling of Cañahuate-2 well;
- Testing and completion of Cañahuate-3;
- Facility costs at Esperanza and VIM-5;

The Jobo 3 natural gas plant expansion will facilitate up to 330 MMcfpd of production, which will allow for spare capacity above the Corporation's 230 MMcfpd expected production when the Promigas pipeline expansion is completed.

Liquidity and Capital Resources

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, finance lease obligations and working capital, defined as current assets less current liabilities. 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.

During the year ended December 31, 2018, the Corporation received proceeds relating to assets and liabilities held for sale of $44.6 million consisting of: i) $14.2 million of the total $39.2 million proceeds from Arrow and ii) $30.4 million of the total $36.4 million cash proceeds, from the sale of its equity interest in the Ecuador IPC. The remaining proceeds were recognized as current receivables, with the exception of $20 million, which was received through the receipt of Arrow's Shares.

During the year ended December 31, 2018, the Corporation sold its remaining shares of Interoil for proceeds of $1.9 million, resulting in an overall realized cash gain of $3.8 million on the Corporation's original $3.2 million investment. During the year ended December 31, 2018, the Corporation sold its investment in a power generation company for proceeds of $12.4 million.

On May 3, 2018, the Corporation completed a private offering of senior unsecured notes ("Senior Notes") in the aggregate principal amount of $320 million. The net proceeds have been used to fully repay the outstanding amounts borrowed under its then existing credit facility in the amount of $305 million plus accrued interest and transaction costs. The Senior Notes pay interest semi-annually at a fixed rate of 7.25% per annum, and will mature in May 2025, unless earlier redeemed or repurchased in accordance with their terms.

By replacing the credit facility of $305 million, the Corporation benefits from: (i) replacing the term loan that bears an interest rate of fluctuating three month Libor +5.5% (which would have totaled approximately 8.1%, as the three month Libor has been increasing materially), to a fixed coupon of 7.25%, which provides both a reduction and certainty of debt expenses in an extremely volatile interest rate environment; (ii) deferring the quarterly $23.5 million principal amortization of the credit facility that was scheduled to begin in March 2019, for a bullet maturity in May 2025; (iii) an administratively less burdensome note indenture that does not require collateral or quarterly certification of maintenance covenants (only incurrence-based covenants); (iv) no cash required to be held in a debt service reserve account as was required under the credit facility (these amounts were scheduled to total approximately $25 million by the end of 2018); and (v) achieving certain other operational and financial flexibilities, including the ability for the Corporation to pay dividends.

During the year ended December 31, 2018, the Corporation obtained necessary approval to conduct a NCIB to purchase outstanding Common Shares on the open market, in accordance with the rules of the TSX. During the year ended December 31, 2018, the Corporation purchased 351,282 Common Shares at a cost of $1 million, including transaction fees.

On July 3, 2018, the Shareholders approved a reduction in stated share capital by the amount of the Corporation's deficit of $533.8 million as at January 1, 2018. A distribution to the Shareholders, as a return of share capital, either in cash, or property, in the amount of $20 million as also approved by the Shareholders. During the year ended December 31, 2018, the Board declared a $20 million special distribution, in this regard, to be settled by the transfer of the 22,598,870 of Arrow's Shares. The Corporation distributed 0.127 Arrow's Shares held in trust per each common share of Canacol owned by each Shareholder as a return of share capital.

On December 6, 2018, the Corporation entered into a credit agreement for an amount of $30 million with Credit Suisse. The 2018 Credit Facility will mature on December 11, 2022, with interest payable quarterly and principal repayable in 11 equal quarterly installments starting June 30, 2020, following more than one year of initial grace period. The 2018 Credit Facility carries interest at a fixed rate of 6.875% per annum and is secured by the Corporation's Jobo 2 natural gas processing facility. A portion of the proceeds from the 2018 Credit Facility totaling $24.2 million were used to purchase the Jobo 2 natural gas processing facility which was previously leased under a finance lease agreement. By replacing the Jobo 2 finance lease with the 2018 Credit Facility, the Corporation benefits from: a) a lower interest rate (after inflation adjusted future lease payments are considered), and b) the Corporation is able to operate Jobo 2 on its own, thereby reducing its operating costs by approximately $2 million per year going forward.

The 2018 Credit Facility includes various non-financial covenants relating to indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The 2018 Credit Facility is also subject to various financial covenants, including a maximum consolidated total debt, less cash and cash equivalents, to EBITDAX ratio ("Consolidated Leverage Ratio") of 3.50:1.00 and a minimum EBITDAX to interest expense, excluding non-cash expenses, ratio ("Consolidated Interest Coverage Ratio") of 2.50:1.00. As at December 31, 2018, the Corporation was in compliance with the covenants.

	December 31, 2018	December 31, 2017
Senior Notes - Principal (7.25%)	$ 320,000	$ —
Bank debt - Principal (2018 - 6.875%; 2017 - LIBOR + 5.5%)	30,000	305,000
Settlement liability (8.74%)	16,749	—
Finance lease obligation (2018 - 5.2%; 2017 - 6.5%)	21,473	35,858
Total debt	388,222	340,858
Less: working capital surplus	(55,481)	(110,401)
Net debt	**$ 332,741**	**$ 230,457**

The Consolidated Leverage Ratio is calculated as follows:

Consolidated Leverage Ratio		December 31, 2018
Total debt	$	388,222
Less: cash and cash equivalents		(51,632)
Net debt for covenant purposes		336,590
EBITDAX		138,630
Consolidated Leverage Ratio		**2.43**

The Consolidated Interest Coverage Ratio is calculated as follows:

Consolidated Interest Coverage Ratio		December 31, 2018
EBITDAX	$	138,630
Interest expense, excluding non-cash expenses		31,847
Consolidated Interest Coverage Ratio		**4.35**

Letters of Credit

At December 31, 2018, the Corporation had letters of credit outstanding totaling $89.1 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $21.9 million financial guarantees relate to the petroleum assets sold during the year ended December 31, 2018. The letters of credit related to such petroleum assets will be cancelled subsequent to December 31, 2018, upon completion of the transition period.

As at March 21, 2019, the Corporation had 177.5 million common shares, 16.4 million stock options and 1.2 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 December 31, 2018:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ —	$ 16,364	$ 333,636	$ 350,000
Finance lease obligation – undiscounted (1)	2,783	5,734	18,637	27,154
Trade and other payables	49,279	—	—	49,279
Deferred income	5,413	—	—	5,413
Settlement liability	3,600	7,200	5,949	16,749
Other long term obligations	—	2,533	—	2,533
Restricted share units	2,112	31	—	2,143
Exploration and production contracts	24,092	39,536	6,391	70,019
Compression station operating contracts	2,508	5,166	16,787	24,461
Office leases	1,320	1,304	480	3,104

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. During the year ended December 31, 2018, the Corporation entered into phase two of its VIM-21 block work program with a total commitment of $10.3 million to be completed over the next three years. In aggregate, the Corporation has outstanding exploration commitments at December 31, 2018 of $70 million and has issued $39.7 million in financial guarantees related thereto. Due to the sale of certain petroleum assets, $30 million of exploration commitments have been transferred to the Arrow and $21.9 million of the total $39.7 million financial guarantees relating to these assets will be cancelled subsequent to December 31, 2018, upon completion of the transition period.

Settlement Liability

As a result of a disagreement between the Corporation and another Colombian entity (the "Counterparty") over the payment of certain operating costs relating to crude oil production, a settlement liability of $20.3 million (the "Settlement") has been recognized as of December 31, 2018. The settlement amount is subject to a 8.74% annual interest rate on the outstanding balance. Under the terms of the agreement, the Corporation will make cash payments on a monthly basis equal to the amount of approximately $0.3 million per month until a mutual agreement is reached to settle the remainder of the debt.

OUTLOOK

In 2018, Canacol became Colombia's premier independent gas explorer and producer, second only in terms of gas production to Ecopetrol, the Colombian state oil and gas company.

The Corporation achieved significant growth in production and cash flows at margins in excess of 79%, whilst its exploration and development drilling programs continued to increase reserves at industry leading F&D costs. With over 140 exploration prospects and leads identified on its 1.1 million net acres of exploration lands containing 2.6 TCF of gross mean unrisked prospective resources, the Corporation anticipates maintaining robust production and reserves growth for many years to come.

Growth highlights from 2018 included:

- Q4 2018 realized contractual natural gas sales of 119.3 MMscfpd, marking the fifth consecutive quarterly increase in realized contractual natural gas sales, and a 40% increase over Q4 2017 of 85.2 MMscfpd;
- Natural gas revenues, net of transportation expenses increased 42% to $195.7 million for the year ended December 31, 2018, compared to $138.1 million for the 2017 comparable period;
- Funds from operations increased 62% to $104.9 million for the year ended December 31, 2018, compared to $64.9 million for the 2017 comparable period;
- Continued drilling success that has yielded a historic 80% rate (12 for 15) of commercial gas discovery from our exploration programs and 100% (8 for 8) on gas development wells;
- A 226% 1P reserves replacement ratio and a 232% 2P reserves replacement ratio;
- A 16% increase in 1P reserves to 380 Bcf, and an 11% increase in 2P reserves to 559 Bcf from December 31, 2017;
- An industry leading 1P F&D cost of $0.55/Mcf and $0.84/Mcf for the one and three year periods ending December 31, 2018, respectively;
- An industry leading 2P F&D cost of $0.32/Mcf and $0.57/Mcf for the one and three year periods ending December 31, 2018, respectively;
- Achieved an industry leading 7x and 4.8x 1P recycle ratio for the one and three year periods ending December 31, 2018, respectively;
- Achieved an industry leading 12x and 7.1x 2P recycle ratio for the one and three year periods ending December 31, 2018, respectively;
- Completed the refinancing of the Corporation's $305 million syndicated credit facility into $320 million of senior unsecured notes with a seven-year bullet payment at maturity, effectively reducing the interest rate and achieving greater operational and financial flexibility;
- Divestment of most of the Corporation's conventional oil assets in Ecuador and Colombia, becoming a gas focused Colombia player with little to no competition; and
- Confirmed exploration upside of gross unrisked mean prospective resources of 2.6 TCF in over 145 identified prospects and leads for future exploration drilling.

For 2019, the Corporation is focused on the following objectives: 1) completion of the expansion of the Jobo gas processing facility during the first quarter, which will lift gas treatment capacity from current levels of 200 MMscfpd to 330 MMscfpd in advance of the completion of the Promigas gas pipeline expansion scheduled to be completed by June 1, 2019, which will lift gas sales to approximately 220 MMscfpd from current levels of approximately 130 MMscfpd; 2) the drilling of eight exploration, appraisal and development wells in a continuous program targeting a 3P reserves replacement ratio of over 200%; and 3) execution of a definitive agreement to construct a new gas pipeline from Jobo to either Medellin or Cartagena/Barranquilla, thereby increasing the Corporation's natural gas sales by an additional 100 MMscfpd in 2021 to a total sales level greater than 300 MMscfpd.

SUMMARY OF QUARTERLY RESULTS

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total natural gas and crude oil revenues, net of royalties and transportation expense	**50,727**	53,398	52,397	47,629	39,781	35,962	37,022	40,900
Funds from operations(1)	**28,679**	26,482	28,826	21,581	16,573	13,876	18,644	15,910
Per share – basic ($)(1)	**0.16**	0.15	0.16	0.12	0.09	0.08	0.11	0.09
Per share – diluted ($)(1)	**0.16**	0.15	0.16	0.12	0.09	0.08	0.11	0.09
Net income (loss) and comprehensive income (loss)	**(16,272)**	12,138	(25,979)	8,278	(150,343)	(1,514)	11,770	(7,942)
Per share – basic ($)	**(0.09)**	0.07	(0.15)	0.05	(0.85)	(0.01)	0.07	(0.05)
Per share – diluted ($)	**(0.09)**	0.07	(0.15)	0.05	(0.85)	(0.01)	0.07	(0.05)
EBITDAX(1)	**33,440**	36,006	33,617	35,567	29,857	32,912	29,071	32,244
Weighted average shares outstanding – basic	**177,678**	177,453	177,018	176,572	175,988	175,663	174,668	174,378
Weighted average shares outstanding – diluted	**178,977**	178,985	178,742	178,759	177,881	177,705	176,739	176,560
Capital expenditures, net	**37,701**	18,585	31,111	40,194	41,652	24,978	30,572	24,000
Operations (boepd)								
Natural gas and crude oil production, before royalties								
Natural gas (Mcfpd)	**116,616**	114,923	111,446	105,262	83,043	75,947	77,948	76,876
Colombia oil (bopd)(3)	**488**	1,816	1,967	1,924	1,825	1,890	1,920	2,002
Ecuador tariff oil (bopd)(2)	**—**	—	—	564	1,183	1,373	1,567	1,503
Total (boepd)(2)	**20,947**	21,978	21,519	20,955	17,577	16,587	17,162	16,992
Realized contractual sales, before royalties (boepd)								
Natural gas (Mcfpd)	**119,284**	115,316	111,933	106,334	85,214	76,027	78,059	82,798
Colombia oil ($/bbl)(3)	**592**	1,945	1,903	1,896	1,820	1,895	1,933	2,014
Ecuador tariff oil (bopd)(2)	**—**	—	—	564	1,183	1,373	1,567	1,503
Total (boepd)(2)	**21,519**	22,176	21,540	21,115	17,953	16,606	17,195	18,043
Operating netbacks ($/boe)(1)								
Natural gas ($/Mcf)	**3.92**	3.80	3.79	3.71	3.56	3.84	3.96	4.23
Colombia oil ($/bbl)(3)	**27.89**	26.27	35.30	33.21	23.44	20.28	15.58	17.16
Ecuador tariff oil ($/bbl)(2)	**—**	—	—	38.54	38.54	38.54	38.54	38.54
Total ($/boe) (2)	**22.51**	22.04	22.90	21.64	21.82	20.07	19.32	19.21

(1) Non-IFRS measure – see "Non-IFRS Measures" section above.
(2) Includes tariff oil production related to the Ecuador IPC.
(3) Decreased during the year ended December 31, 2018, due to the sale of the Corporation's petroleum assets.

RISKS AND UNCERTAINTIES

The Corporation is subject to several risk factors including, but not limited to: the volatility of oil and natural gas prices; foreign exchange and currency risks; general risks related to foreign operations such as political, economic, regulatory and other uncertainties as they relate to both foreign investment policies and energy policies; governments exercising from time to time significant influence on the economy to control inflation; developing environmental regulations in foreign jurisdictions; discovery of new oil and natural gas reserves; concentration of oil sales receipts with a few major customers; substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the long-term for which additional financings may be required to implement the Corporation's business plan.

Although periodic volatility of financial and capital markets may severely limit access to capital, the Corporation has been able to successfully attract capital in the past.

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the Colombian peso and the Canadian dollar. Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to United States dollar ("US dollar") denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in Colombian Pesos and Canadian dollars. The Corporation has not entered into any currency derivatives in order to reduce its exposure to fluctuations that the US dollar may incur.

The Corporation is not exposed to interest rate risk as all debt instruments are subject to fixed interest rates.

Fluctuations in energy prices will not only impact revenues of the Corporation but may also impact the Corporation's ability to raise capital. The Corporation mitigates its commodity price risk by entering into long-term fixed price take-or-pay contacts with customers.

The Corporation's policy is to enter into agreements with customers that are well established and well-financed entities in the oil and gas industry such that the level of risk associated with one or more of its customers facing financial difficulties are mitigated while balancing factors of economic dependence with profit maximization. To date, the Corporation has not experienced any material credit loss in the collection of trade accounts receivable.

The Corporation attempts to mitigate its business and operational risk exposures by maintaining comprehensive insurance coverage on its assets and operations, by employing or contracting competent technicians and professionals, by instituting and maintaining operational health, safety and environmental standards and procedures and by maintaining a prudent approach to exploration and development activities. The Corporation also addresses and regularly reports on the impact of risks to its shareholders and writing down the carrying values of assets that may not be recoverable.

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended December 31, 2018 as filed on SEDAR and hereby incorporated by reference.

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 year ended December 31, 2018. The Corporation is currently reviewing new IFRSs that have been issued but are not yet effective. 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 have assessed the design and operating effectiveness of the Corporation's DC&P as at December 31, 2018. Based on this assessment, it was concluded that the design and operation of the Corporation's DC&P are effective as at December 31, 2018.

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. The Corporation's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation's ICFR as at December 31, 2018 based on criteria described in "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation's ICFR are effective as at December 31, 2018. During the three months ended December 31, 2018, 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.