CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**54,405**	47,689	14%	**125,399**	97,093	29%
Adjusted funds from operations(1)	**31,181**	25,584	22%	**76,462**	55,491	38%
Per share – basic ($)(1)	**0.17**	0.14	21%	**0.42**	0.31	35%
Per share – diluted ($)(1)	**0.17**	0.14	21%	**0.42**	0.31	35%
Net income (loss) and other comprehensive income (loss)(2)	**17,715**	1,878	843%	**(8,273)**	8,152	n/a
Per share – basic ($)	**0.10**	0.01	900%	**(0.05)**	0.05	n/a
Per share – diluted ($)	**0.10**	0.01	900%	**(0.05)**	0.05	n/a
Cash flow provided by operating activities	**37,814**	9,027	319%	**75,832**	34,282	121%
Per share – basic ($)	**0.21**	0.05	320%	**0.42**	0.19	121%
Per share – diluted ($)	**0.21**	0.05	320%	**0.42**	0.19	121%
EBITDAX(1)	**40,415**	37,008	9%	**99,285**	76,830	29%
Weighted average shares outstanding – basic	**180,916**	177,381	2%	**180,923**	177,464	2%
Weighted average shares outstanding – diluted	**181,484**	178,979	1%	**181,622**	179,282	1%
Capital expenditures, net of dispositions	**8,269**	13,442	(38%)	**28,161**	48,167	(42%)
				Jun 30, 2020	Dec 31, 2019	Change
Cash and cash equivalents				**58,552**	41,239	42%
Restricted cash				**4,027**	4,524	(11%)
Working capital surplus				**72,141**	50,676	42%
Total debt				**393,856**	392,946	—
Total assets				**739,981**	754,062	(2%)
Common shares, end of period (000's)				**181,005**	180,075	1%

Operating	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Natural gas, LNG and crude oil production, before royalties(1)						
Natural gas and LNG (Mcfpd)	**151,127**	121,496	24%	**176,259**	122,385	44%
Colombia oil (bopd)	**245**	342	(28%)	**280**	387	(28%)
Total (boepd)	**26,758**	21,657	24%	**31,203**	21,858	43%
Realized contractual sales, before royalties(1)						
Natural gas and LNG (Mcfpd)	**152,248**	120,515	26%	**176,884**	121,265	46%
Colombia oil (bopd)	**197**	356	(45%)	**247**	398	(38%)
Total (boepd)	**26,907**	21,499	25%	**31,279**	21,673	44%
Operating netbacks(1)						
Natural gas and LNG ($/Mcf)	**3.63**	3.88	(6%)	**3.60**	3.96	(9%)
Colombia oil ($/bopd)	**12.16**	29.20	(58%)	**17.00**	26.12	(35%)
Corporate ($/boe)	**20.61**	22.27	(7%)	**20.55**	22.63	(9%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) The net loss realized during the six months ended June 30, 2020 is solely due to the non-cash deferred tax expense of $29.5 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, as it did as at June 30, 2020, 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 August 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 and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Cash flow provided by operating activities	**$ 37,814**	$ 9,027	**$ 75,832**	$ 34,282
Changes in non-cash working capital	**(6,633)**	16,557	**630**	18,468
Settlement of decommissioning obligations	**—**	—	**—**	2,741
Adjusted funds from operations	**$ 31,181**	$ 25,584	**$ 76,462**	$ 55,491

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

	2019		2020		
	Q3	Q4	Q1	Q2	Rolling
Net income (loss) and comprehensive income (loss)(1)	$ 663	$ 25,432	$ (25,988)	$ 17,715	$ 17,822
(+) Interest expense	7,620	7,800	7,631	7,705	30,756
(+) Income tax expense (recovery)	20,973	(6,330)	50,880	(3,754)	61,769
(+) Depletion and depreciation	13,015	16,842	17,954	16,226	64,037
(+) Pre-license costs	223	368	159	285	1,035
(+/-) Unrealized foreign exchange loss (gain)	1,666	(2,094)	3,030	747	3,349
(+/-) Other non-cash expenses and non-recurring items	2,584	1,126	5,204	1,491	10,405
EBITDAX	**$ 46,744**	**$ 43,144**	**$ 58,870**	**$ 40,415**	**$ 189,173**

(1) The net loss realized during the six months ended June 30, 2020 is solely due to the non-cash deferred tax expense of $29.5 million, which is primarily due to the effect of the reduction in the 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 June 30, 2020 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales increased 26% to 152.2 MMscfpd for the three months ended June 30, 2020, compared to 120.5 MMscfpd for the same period in 2019. Average natural gas and LNG production volumes increased 24% to 151.1 MMscfpd for the three months ended June 30, 2020, compared to 121.5 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 (the "pipeline expansion"), offset by the decrease in sales as a result of the COVID-19 pandemic.
- Total natural gas and LNG revenue, net of royalties and transportation expenses for the three months ended June 30, 2020 increased 17% to $53.3 million, compared to $45.7 million for same period in 2019, mainly attributable to the increase of natural gas production.
- Adjusted funds from operations increased 22% to $31.2 million for the three months ended June 30, 2020, compared to $25.6 million for the same period in 2019. Adjusted funds from operations per basic share increased 21% to $0.17 per basic share from $0.14 per basic share.
- EBITDAX increased 9% to $40.4 million for the three months ended June 30, 2020, compared to $37 million for the same period in 2019.
- The Corporation realized a net income of $17.7 million for the three months ended June 30, 2020, compared to a net income of $1.9 million for the same period in 2019, an 843% increase year over year.
- The Corporation's natural gas and LNG operating netback decreased 6% to $3.63 per Mcf in the three months ended June 30, 2020, compared to $3.88 per Mcf for the same period in 2019. The decrease is due to lower spot market gas sales prices, net of transportation costs. The decrease is offset by a 19% reduction of operating expenses per Mcf to $0.25 per Mcf for the three months ended June 30, 2020, compared to $0.31 per Mcf for the same period in 2019.
- Net capital expenditures for the three months ended June 30, 2020 were $8.3 million. Net capital expenditures included non-cash adjustments related to decommissioning obligations of $3.7 million.
- On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente ("Operating loan") and withdrew $5 million in COP for additional COP liquidity purposes.
- On June 30, 2020, the Corporation entered into an agreement to amend the terms of the bank debt held with Credit Suisse ("Credit Suisse Bank Debt"). The original fixed interest rate of 6.875% was revised to a floating interest rate of LIBOR + 4.25% (LIBOR rate was 0.3% at the amendment date) and the original eleven equal quarterly principal payments, which were to commence on June 11, 2020, were revised to seven equal quarterly principal payments to commence on December 11, 2021.
- As at June 30, 2020, the Corporation had $58.6 million in cash and cash equivalents, $4 million in restricted cash and $72.1 million in working capital surplus.

Results of Operations

For the three months ended June 30, 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.

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 been relatively insulated from the effects of low oil prices given our focus on natural gas production, with 80% of natural gas sales being under fixed volume and price take-or-pay contracts priced in United States Dollar ("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. During the three months ended June 30, 2020, Canacol has allowed take-or-pay off-takers to defer a portion of their contracted volumes to be delivered by November 2021, at the latest, with cash collections occurring by the end of 2020, at the latest. Additionally, certain parties have agreed that the annual contractual downtime of these contracts shall be taken in Q2 2020, if not already taken earlier in the year. As a result of the country wide shutdown imposed in Colombia on March 26, 2020, which remained largely in effect for the duration of the quarter, industrial, construction, and commercial demand for gas decreased significantly as workers remain in quarantine. As a result, there were virtually no spot natural gas sales for the month of April 2020 and significantly lower than normal spot natural gas sales in May and June 2020.

During the three months ended June 30, 2020, the Corporation re-commenced the drilling of the Clarinete-5 development well, located on the 100% working interest operated VIM-5 block, which was interrupted on March 26, 2020 due to the COVID-19 pandemic. The well encountered 309 feet true vertical depth (“TVD”) of net gas pay within the primary Cienaga de Oro sandstone (“CDO”) reservoir, which represents the thickest gas pay section of any well drilled in the history of Canacol. The CDO reservoir was perforated between 8,430 – 8,631 feet measured depth (“ft md”) and tested at a final rate of 43 MMscfpd. The well has been tied onto permanent production. The Corporation spud the Pandereta-8 development well on June 27, 2020, also located on its VIM-5 block. The well reached 9,524 ft md and encountered 168 TVD of net gas pay within the producing CDO reservoir. The well is currently being completed and tied into the manifold to be placed on production.

During the three months ended June 30, 2020, the Corporation contracted a second drilling rig to spud the Porro Norte-1 exploration well, located on its VIM-5 block. The well was spud in the third week of July 2020 and will take approximately seven weeks to drill and test.

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

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Natural Gas and LNG (Mcfpd)						
Natural gas and LNG production	**151,127**	121,496	24%	**176,259**	122,385	44%
Field consumption	**(257)**	(1,710)	(85%)	**(237)**	(1,767)	(87%)
Natural gas and LNG sales	**150,870**	119,786	26%	**176,022**	120,618	46%
Take-or-pay volumes (2)	**1,378**	729	89%	**862**	647	33%
Realized contractual natural gas and LNG sales	**152,248**	120,515	26%	**176,884**	121,265	46%
Undelivered natural gas and LNG nominations (3)	**18,942**	5,904	221%	**14,629**	2,862	411%
Nominated contractual natural gas and LNG sales	**171,190**	126,419	35%	**191,513**	124,127	54%
Colombia Oil (bopd)						
Crude oil production	**245**	342	(28%)	**280**	387	(28%)
Inventory movements and other	**(48)**	14	(443%)	**(33)**	11	n/a
Colombia oil sales	**197**	356	(45%)	**247**	398	(38%)
Corporate (boepd / bopd)						
Natural gas and LNG production	**26,513**	21,315	24%	**30,923**	21,471	44%
Colombia oil production	**245**	342	(28%)	**280**	387	(28%)
Total production	**26,758**	21,657	24%	**31,203**	21,858	43%
Field consumption and inventory	**(93)**	(286)	(67%)	**(75)**	(299)	(75%)
Total corporate sales	**26,665**	21,371	25%	**31,128**	21,559	44%
Take-or-pay volumes (2)	**242**	128	89%	**151**	114	32%
Total realized contractual sales	**26,907**	21,499	25%	**31,279**	21,673	44%
Undelivered natural gas and LNG nominations (3)	**3,323**	1,036	221%	**2,566**	502	411%
Total nominated contractual sales	**30,230**	22,535	34%	**33,845**	22,175	53%

The Corporation has three types of natural gas and LNG 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 natural gas and LNG 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 or by the end of 2020, at the latest, 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.

The 24% and 44% increase in natural gas and LNG production volumes during the three and six months ended June 30, 2020, compared to the same periods in 2019, respectively, is primarily due to the pipeline expansion. The Corporation's natural gas and LNG production volumes is less than anticipated during the three months ended June 30, 2020 due to the decreased demand for spot volumes during the COVID-19 pandemic. In addition, certain off-takers under take-or-pay contracts utilized their entire annual contracted downtime during the three months ended June 30, 2020, which will likely result in higher firm contract production anticipated for the remainder of 2020.

Realized contractual natural gas and LNG sales for the three and six months ended June 30, 2020 averaged approximately 152.2 and 176.9 MMscfpd, respectively. 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 June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Natural Gas and LNG						
Natural gas and LNG revenues	**$ 68,228**	$ 54,801	25%	**$ 162,623**	$ 110,519	47%
Transportation expenses	**(6,116)**	(2,134)	187%	**(17,416)**	(3,535)	393%
Revenues, net of transportation expenses	**62,112**	52,667	18%	**145,207**	106,984	36%
Royalties	**(8,842)**	(6,968)	27%	**(22,014)**	(13,919)	58%
Revenues, net of royalties and transportation	**$ 53,270**	$ 45,699	17%	**$ 123,193**	$ 93,065	32%
Colombia Oil						
Crude oil revenues	**$ 384**	$ 1,845	(79%)	**$ 1,378**	$ 3,873	(64%)
Transportation expenses	**8**	(105)	n/a	**15**	(226)	n/a
Revenues, net of transportation expenses	**392**	1,740	(77%)	**1,393**	3,647	(62%)
Royalties	**(29)**	(140)	(79%)	**(104)**	(298)	(65%)
Revenues, net of royalties and transportation	**$ 363**	$ 1,600	(77%)	**$ 1,289**	$ 3,349	(62%)
Corporate						
Natural gas and LNG revenues	**$ 68,228**	$ 54,801	25%	**$ 162,623**	$ 110,519	47%
Crude oil revenues	**384**	1,845	(79%)	**1,378**	3,873	(64%)
Total revenues	**68,612**	56,646	21%	**164,001**	114,392	43%
Royalties	**(8,871)**	(7,108)	25%	**(22,118)**	(14,217)	56%
Natural gas, LNG and crude oil revenues, net of royalties, as reported	**59,741**	49,538	21%	**141,883**	100,175	42%
Take-or-pay natural gas and LNG income (2)	**772**	390	98%	**917**	679	35%
Total natural gas, LNG and crude oil revenues, after royalties, as reported	**60,513**	49,928	21%	**142,800**	100,854	42%
Transportation expenses	**(6,108)**	(2,239)	173%	**(17,401)**	(3,761)	363%
Total revenues, net of royalties and transportation expenses	**$ 54,405**	$ 47,689	14%	**$ 125,399**	$ 97,093	29%

Natural Gas and LNG Realized Contractual Sales

During the three and six months ended June 30, 2020, the Corporation realized $0.8 million and $0.9 million of take-or-pay income (as described in (2) on page six of this MD&A), respectively, which is equivalent to 1.4 MMscfpd and 0.9 MMscfpd, of natural gas and LNG sales, respectively, without actual delivery of the natural gas or LNG and the expiry of the customers' rights to take the deliveries.

As at June 30, 2020, the Corporation has deferred income of $15.3 million which related to: i) $10.3 million of undelivered natural gas and LNG sales nominations of 18.9 MMscfpd and 14.6 MMscfpd realized (as described in (3) on page six of this MD&A) during the three and six months ended June 30, 2020, respectively, for which the off-takers have a legal right to take delivery at a later maturity date and ii) proceeds of $5 million received for natural gas, LNG and crude oil to be delivered within the next twelve months. As at June 30, 2020, $5.7 million of the $10.3 million relates to undelivered nominations which will be delivered no later than November 2021 and as such, $5.7 million has been classified as a non-current liability. The remaining $4.6 million of the $10.3 million undelivered nominations along with the proceeds received of $5 million are expected to be delivered within the next twelve months and, as such, $9.7 million has been classified as a current liability.

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 take-or-pay natural gas sales contracts are generally passed through to Canacol's customers, with the exception of the Corporation's spot sales and a small number of take-or-pay customers. 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 187% and 393% during the three and six months ended June 30, 2020, compared to the same periods in 2019, respectively, primarily due to the increase in natural gas sales volume subject to transportation expenses, compared to the same periods 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 and VIM-21 natural gas production is subject to additional x-factor royalty rates of 13% and 3%, respectively. The natural gas royalty rate was 14.2% and 15.1% during the three and six months ended June 30, 2020, respectively, mainly due to increased production at the Corporation's VIM-5 block, which is subject to a higher royalty rate. The Q2 2020 natural gas royalty rate of 14.2% has decreased from the Q1 2020 royalty rate of 15.9% due to less production from the Corporation's VIM-5 block, which is subject to a higher royalty rate.

Average Sales Prices, Net of Transportation

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Average Benchmark Prices						
Henry Hub ($/Mcf)	**$ 1.77**	$ 2.51	(29%)	**$ 1.82**	$ 2.70	(33%)
Alberta Energy Company ($/Mcf)	**$ 1.47**	$ 0.90	63%	**$ 1.50**	$ 1.41	6%
Brent ($/bbl)	**$ 31.08**	$ 67.41	(54%)	**$ 37.94**	$ 63.19	(40%)
Average Sales Prices, Net of Transportation						
Natural gas and LNG ($/Mcf)	**$ 4.52**	$ 4.83	(6%)	**$ 4.53**	$ 4.90	(8%)
Colombia oil ($/bbl)	**$ 21.87**	$ 53.71	(59%)	**$ 30.99**	$ 50.63	(39%)
Corporate average ($/boe)	**$ 25.76**	$ 27.98	(8%)	**$ 25.88**	$ 28.35	(9%)

The decrease in average realized natural gas and LNG sales prices, net of transportation during the three and six months ended June 30, 2020, compared to the same periods in 2019, is mainly due to the lower demand of spot sales as a result of the COVID-19 pandemic.

The decrease in average realized crude oil sales prices during the three and six months ended June 30, 2020, compared to the same period in 2019, is mainly due to decreased benchmark crude oil prices.

Operating Expenses

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Natural gas and LNG	**$ 3,477**	$ 3,357	4%	**$ 7,563**	$ 6,638	14%
Colombia oil	**145**	654	(78%)	**525**	1,467	(64%)
Total operating expenses	**$ 3,622**	$ 4,011	(10%)	**$ 8,088**	$ 8,105	—
Natural gas and LNG ($/Mcf)	**$ 0.25**	$ 0.31	(19%)	**$ 0.24**	$ 0.30	(20%)
Colombia oil ($/bbl)	**$ 8.09**	$ 20.19	(60%)	**$ 11.68**	$ 20.36	(43%)
Corporate ($/boe)	**$ 1.49**	$ 2.06	(28%)	**$ 1.43**	$ 2.08	(31%)

Natural gas and LNG operating expenses per Mcf decreased 19% and 20% to $0.25/Mcf and $0.24/Mcf for the three and six months ended June 30, 2020, compared to $0.31/Mcf and $0.30/Mcf for the same periods in 2019, respectively. The decrease is mainly attributable to the increase in natural gas sales volumes as a result of the completion the pipeline expansion in late Q3 2019 as over 90% of the Corporation's operating expenses are fixed.

Operating Netbacks

	Three months ended June 30,			Six months ended June 30,		
$/Mcf	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Natural Gas and LNG						
Revenue, net of transportation expense	**$ 4.52**	$ 4.83	(6%)	**$ 4.53**	$ 4.90	(8%)
Royalties	**(0.64)**	(0.64)	—	**(0.69)**	(0.64)	8%
Operating expenses	**(0.25)**	(0.31)	(19%)	**(0.24)**	(0.30)	(20%)
Operating netback	**$ 3.63**	$ 3.88	(6%)	**$ 3.60**	$ 3.96	(9%)

	Three months ended June 30,			Six months ended June 30,		
$/bbl	**2020**	2019	Change	**2020**	2019	Change
Colombia oil						
Revenue, net of transportation expense	**$ 21.87**	$ 53.71	(59%)	**$ 30.99**	$ 50.62	(39%)
Royalties	**(1.62)**	(4.32)	(63%)	**(2.31)**	(4.14)	(44%)
Operating expenses	**(8.09)**	(20.19)	(60%)	**(11.68)**	(20.36)	(43%)
Operating netback	**$ 12.16**	$ 29.20	(58%)	**$ 17.00**	$ 26.12	(35%)

	Three months ended June 30,			Six months ended June 30,		
$/boe	**2020**	2019	Change	**2020**	2019	Change
Corporate						
Revenue, net of transportation expense	**$ 25.76**	$ 27.98	(8%)	**$ 25.88**	$ 28.35	(9%)
Royalties	**(3.66)**	(3.65)	—	**(3.90)**	(3.64)	7%
Operating expenses	**(1.49)**	(2.06)	(28%)	**(1.43)**	(2.08)	(31%)
Operating netback	**$ 20.61**	$ 22.27	(7%)	**$ 20.55**	$ 22.63	(9%)

General and Administrative Expenses

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Gross costs	**$ 7,309**	$ 6,978	5%	**$ 15,065**	$ 14,366	5%
Less: capitalized amounts	**(1,243)**	(1,291)	(4%)	**(2,486)**	(2,856)	(13%)
General and administrative expenses	**$ 6,066**	$ 5,687	7%	**$ 12,579**	$ 11,510	9%
$/boe	**$ 2.50**	$ 2.92	(14%)	**$ 2.22**	$ 2.95	(25%)

General and administrative ("G&A") gross costs increased 5% during the three and six months ended June 30, 2020, compared to the same periods in 2019, due to certain year-end annual costs typically paid at year-end now being accrued on a quarterly basis throughout the year.

G&A per boe decreased 14% and 25% during the three and six months ended June 30, 2020, compared to the same periods in 2019, respectively. 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 the USD during three and six months ended June 30, 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 June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Net financing expense paid	**$ 7,369**	$ 7,340	—	**$ 13,899**	14,729	(6%)
Non-cash financing (income) expenses	**(285)**	851	n/a	**529**	1,688	(69%)
Net finance expense	**$ 7,084**	$ 8,191	(14%)	**$ 14,428**	16,417	(12%)

Net financing expense paid decreased during the three and six months ended June 30, 2020, compared to the same periods in 2019, mainly as a result of: i) interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation and ii) a gain on debt modification of $1.2 million related to the Credit Suisse Bank Debt modification.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Stock-based compensation expense	**$ 595**	$ 700	(15%)	**$ 1,116**	$ 2,249	(50%)
Restricted share unit expense	**1,898**	—	n/a	**2,898**	3,256	(11%)
Stock-based compensation and restricted share unit expense	**$ 2,493**	$ 700	256%	**$ 4,014**	$ 5,505	(27%)

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 June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Depletion and depreciation expense	**$ 16,226**	$ 11,737	38%	**$ 34,180**	$ 24,426	40%
$/boe	**$ 6.69**	$ 6.04	11%	**$ 6.03**	$ 6.26	(4%)

Depletion and depreciation expense increased 38% and 40% during the three and six months ended June 30, 2020, compared to the same periods in 2019, respectively, primarily as a result of higher natural gas production, depletion of the Jobo 3 natural gas processing facility, depletion of the LNG plant costs and depletion of the Rancho Hermoso block, previously not being depleted as it was classified as an asset held for sale since Q3 2019.

Income Tax Expense

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Current income tax expense	**$ 7,912**	$ 7,930	**$ 17,652**	$ 15,188
Deferred income tax (recovery) expense	**(11,666)**	2,352	**29,474**	(141)
Income tax (recovery) expense	**$ (3,754)**	$ 10,282	**$ 47,126**	$ 15,047

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

The Corporation's unused tax losses and cost pools are denominated in COP 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 six months ended June 30, 2020 of $29.5 million was mainly as a result of the 15% de-valuation of the COP to USD as at June 30, 2020 of 3,758:1, compared to the December 31, 2019 rate of 3,277:1. In the event that the COP strengthens further in the future, as it did as at June 30, 2020, the Corporation would realize a further deferred income tax recovery for the period.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Drilling and completions	**$ 5,218**	$ 10,968	**$ 15,932**	$ 17,760
Facilities, work overs and infrastructure	**2,977**	5,362	**6,900**	21,164
Land, seismic, communities and other	**2,516**	10,026	**6,622**	13,512
Right-of-Use leased assets(1)	**—**	(627)	**1,305**	5,250
Capitalized G&A	**1,243**	1,291	**2,486**	2,856
Disposition	**—**	(14,506)	**(83)**	(14,506)
Non-cash costs and adjustments(1)	**(3,685)**	928	**(5,001)**	2,131
Net capital expenditures	**$ 8,269**	$ 13,442	**$ 28,161**	$ 48,167
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	**$ 2,752**	$ 14,903	**$ 5,067**	$ 17,393
Expenditures on property, plant and equipment	**5,517**	13,045	**23,177**	45,280
Disposition	**—**	(14,506)	**(83)**	(14,506)
Net capital expenditures	**$ 8,269**	$ 13,442	**$ 28,161**	$ 48,167

(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 June 30, 2020 are primarily related to:

- Facility costs at VIM-5 and Esperanza blocks;
- Drilling and completion of the Clarinete-5 development well;
- Drilling of the Pandereta-8 development well; and
- Pre-drilling costs related to the Porro Norte exploration well.

Liquidity and Capital Resources

Foreign Currency Risk

As at June 30, 2020, the COP to the USD exchange rate was 3,758:1 (December 31, 2019 – 3,277:1) and the CAD to USD exchange rate was 1.36:1 (December 31, 2019 – 1.30:1). The 15% devaluation of the COP and 5% devaluation of CAD resulted in the reduction of certain expenditures and liabilities as at and during the six months ended June 30, 2020. In addition, $21.2 million of the total deferred income tax expense of $29.5 million recognized during the six months ended June 30, 2020 was as a result of the devaluation of COP to USD.

During the three and six months ended June 30, 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

The foreign exchange contract has now expired and the Corporation has not entered into a new contract.

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 2020, as compared to the Corporation's original budget estimates. The Corporation's foreign exchange contract, which has historically been 'in the money', partially reduces the savings at the current rate.

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 Senior Notes and Credit Suisse Bank Debt include 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 June 30, 2020, the Corporation was in compliance with the covenants.

		June 30, 2020		**December 31, 2019**
Senior Notes - principal (7.25%)	$	320,000	$	320,000
Credit Suisse Bank Debt - principal (LIBOR + 4.25%)		30,000		30,000
Operating loan - principal (IBR + 2%)		5,321		—
Litigation settlement liability (8.74%)		13,524		15,848
Lease obligation (6.875%)		25,011		27,098
Total debt		393,856		392,946
Less: working capital surplus		(72,141)		(50,676)
Net debt	**$**	**321,715**	**$**	**342,270**

The Consolidated Leverage Ratio is calculated as follows:

		June 30, 2020
Total debt	$	393,856
Less: cash and cash equivalents		(58,552)
Net debt for covenant purposes		335,304
EBITDAX		189,173
Consolidated Leverage Ratio		**1.77**

The Consolidated Interest Coverage Ratio is calculated as follows:

		June 30, 2020
EBITDAX	$	189,173
Interest expense, excluding non-cash expenses		30,756
Consolidated Interest Coverage Ratio		**6.15**

As at August 12, 2020, the Corporation had 181 million common shares, 15.9 million stock options and 1.4 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 June 30, 2020:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ 5,321	$ 30,000	$ 320,000	$ 355,321
Lease obligations – undiscounted	5,670	9,028	14,391	29,089
Trade and other payables	35,430	—	—	35,430
Dividend payable	6,907	—	—	6,907
Taxes payable	7,653	—	—	7,653
Hedging contract	156	—	—	156
Deferred income	9,650	5,694	—	15,344
Settlement liability	509	1,183	11,832	13,524
Other long term obligations	—	2,892	—	2,892
Restricted share units	3,035	—	—	3,035
Exploration and production contracts	4,722	37,129	6,405	48,256
Compression station operating contracts	2,584	5,322	12,769	20,675

Letters of Credit

At June 30, 2020, the Corporation had letters of credit outstanding totaling $82 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 June 30, 2020 of $48.3 million and has issued $30.1 million in financial guarantees related thereto.

Subsequent Event

As at June 30, 2020, Canacol maintained its strong balance sheet and liquidity including approximately $59 million of cash, with its robust 2020 capital and dividend programs being funded through existing cash and operating cash flows. The Corporation's existing financial flexibility is further enhanced by the re-profiled terms on the Credit Suisse Bank Debt and the two new credit facilities led by Credit Suisse, as described below.

On July 31, 2020, the Corporation entered into a $46 million senior unsecured revolving credit facility (the "RCF") and a $75 million senior unsecured bridge term loan (the "Bridge") with a syndicate of banks. The Bridge is intended to be used to construct and own a pipeline to Medellin, Colombia (the "Project"), with Canacol being the guarantor throughout the outstanding term of the Bridge. The initial draw from the Bridge will be used for initial engineering costs and environmental licensing and the following $50 million is currently budgeted for construction materials. It is anticipated that during the term, Canacol will divest between 75% to 100% ownership of the Project, while maintaining up to a 25% working interest in the ownership.

The RCF includes an interest rate of LIBOR + 4.75%, a three-year term, and the Corporation's ability to repay/redraw the RCF at any time within the term without penalty. Canacol will pay a commitment fee to the syndicate of 30% of the 4.75% interest margin on any undrawn amounts throughout the term. The RCF will be undrawn at the start. The RCF will not be subject to typical periodic redeterminations.

The Bridge includes an interest rate of LIBOR + 4.25%, a two-year term, and the Corporation's ability to repay the Bridge at any time within the term without penalty. Within thirty days of the July 31, 2020 closing, the subsidiary is obligated to draw the first $25 million of the Bridge, with the remaining $50 million to be available to be drawn at any time up to twelve months from the closing date. The subsidiary will pay a commitment fee to the syndicate of 30% of the 4.25% interest margin on any undrawn amounts throughout the availability period.

The RCF and Bridge covenants are consistent with the Corporation's existing covenants of its Senior Notes.

OUTLOOK

Despite the worldwide uncertainties and disruptions caused by the Covid-19 pandemic, Canacol's operations continued on relatively uninterrupted during Q2, including the drilling of Clarinete-5 and its 43 MMscfpd production test. Post June 30, 2020, the Corporation is currently completing the Pandereta-8 development well, which encountered 168 feet true vertical depth of net gas pay. Utilizing a second rig, the Corporation has also recently spud the Porro Norte-1 exploration well and anticipates well results to be released once the well has reached total depth and has been logged.

As at June 30, 2020, Canacol maintained its strong balance sheet and liquidity including approximately $58.6 million of cash, with our robust 2020 capital and dividend programs being funded through existing cash and operating cash flows. Adding to Canacol's existing financial flexibility, we have re-profiled the terms of the Credit Suisse Bank Debt and entered into two new credit facilities. Although these additional funds are not necessarily required at this time, the Corporation felt it prudent to secure additional financial flexibility at very favourable rates to potentially add additional wells in our drilling campaign and to advance the Medellin pipeline project.

Despite the slow recovery from the COVID-19 pandemic in Colombia, the Corporation expects its sales to be inside the previously released guidance range of 170 MMcfpd and 197 MMcfpd.

SUMMARY OF QUARTERLY RESULTS

	2020		2019				2018	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**54,405**	70,994	65,795	56,634	47,689	49,404	50,727	53,398
Adjusted funds from operations(1)	**31,181**	45,281	33,004	36,420	25,583	29,907	28,679	25,810
Per share – basic ($)(1)	**0.17**	0.25	0.18	0.20	0.14	0.17	0.16	0.15
Per share – diluted ($)(1)	**0.17**	0.25	0.18	0.20	0.14	0.17	0.16	0.14
Net income (loss) and comprehensive income (loss)(2)	**17,715**	(25,988)	25,432	663	1,878	6,274	(16,272)	12,138
Per share – basic ($)	**0.10**	(0.14)	0.14	—	0.01	0.03	(0.09)	0.07
Per share – diluted ($)	**0.10**	(0.14)	0.14	—	0.01	0.03	(0.09)	0.07
EBITDAX(1)	**40,415**	58,870	43,144	46,037	37,008	39,822	33,440	36,006
Weighted average shares outstanding – basic	**180,916**	180,931	179,238	178,273	177,381	177,547	177,678	177,453
Weighted average shares outstanding – diluted	**181,484**	181,811	181,412	180,873	178,979	179,637	178,977	178,985
Capital expenditures, net	**8,269**	19,892	21,514	30,806	13,442	34,725	37,701	18,585
Operations								
Natural gas, LNG and crude oil production, before royalties(1)								
Natural gas and LNG (Mcfpd)	**151,127**	201,398	180,986	147,630	121,496	123,291	116,616	114,923
Colombia oil (bopd)	**245**	315	309	322	342	433	488	1,816
Total (boepd)	**26,758**	35,648	32,061	26,222	21,657	22,063	20,947	21,978
Realized contractual sales, before royalties(1)								
Natural gas and LNG (Mcfpd)	**152,248**	201,524	180,753	146,439	120,515	122,025	119,284	115,316
Colombia oil (bopd)	**197**	298	301	329	356	440	592	1,945
Total (boepd)	**26,907**	35,653	32,012	26,020	21,499	21,848	21,519	22,176
Operating netbacks ($/boe)(1)								
Natural gas and LNG ($/Mcf)	**3.63**	3.60	3.58	3.86	3.88	4.03	3.92	3.80
Colombia oil ($/bbl)	**12.16**	20.13	27.08	24.34	29.20	23.64	27.89	26.27
Corporate ($/boe)	**20.61**	20.49	20.49	22.06	22.27	23.00	22.51	22.04

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

(2) The net loss realized during the six months ended June 30, 2020 is solely due to the non-cash deferred tax expense of $29.5 million, which is primarily due to the effect of the reduction in the COP exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, as it did as at June 30, 2020, 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 not implemented new accounting policies during the three months ended June 30, 2020.

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 June 30, 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.