CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2021

FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended March 31,		
	2021	2020	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**65,818**	70,994	(7%)
Adjusted funds from operations[1]	**38,085**	45,281	(16%)
Per share – basic ($)[1]	**0.21**	0.25	(16%)
Per share – diluted ($)[1]	**0.21**	0.25	(16%)
Net loss and other comprehensive loss[2]	**(3,062)**	(25,988)	(88%)
Per share – basic ($)	**(0.02)**	(0.14)	(86%)
Per share – diluted ($)	**(0.02)**	(0.14)	(86%)
Cash flow provided by operating activities	**37,900**	38,018	—
Per share – basic ($)	**0.21**	0.21	—
Per share – diluted ($)	**0.21**	0.21	—
EBITDAX[1]	**46,716**	58,869	(21%)
Weighted average shares outstanding – basic	**179,515**	180,931	(1%)
Weighted average shares outstanding – diluted	**179,515**	181,811	(1%)
Capital expenditures, net of dispositions	**27,844**	19,892	40%
	March 31, 2021	December 31, 2020	Change
Cash and cash equivalents	**71,501**	68,280	5%
Working capital surplus	**66,545**	73,404	(9%)
Total debt	**412,112**	415,209	(1%)
Total assets	**751,857**	749,792	—
Common shares, end of period (000's)	**179,515**	179,515	—

Operating	Three months ended March 31,		
	2021	2020	Change
Natural gas, LNG and crude oil production[1]			
Natural gas and LNG (MMscfpd)	**179,474**	201,398	(11%)
Colombia oil (bopd)	**256**	315	(19%)
Total (boepd)	**31,743**	35,648	(11%)
Realized contractual sales, before royalties[1]			
Natural gas and LNG (MMscfpd)	**177,633**	201,524	(12%)
Colombia oil (bopd)	**307**	298	3%
Total (boepd)	**31,471**	35,653	(12%)
Operating netbacks[1]			
Natural gas and LNG ($/Mcf)	**3.36**	3.60	(7%)
Colombia oil ($/bopd)	**34.06**	20.13	69%
Corporate ($/boe)	**19.33**	20.49	(6%)

(1) Non-IFRS measures – see "Non-IFRS Measures" section within MD&A.
(2) The net loss realized during the three months ended March 31, 2021 is mainly due to the non-cash deferred tax expense of $11.3 million, which is primarily due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Canacol Energy Ltd. and its subsidiaries ("Canacol" or the "Corporation") are primarily engaged in natural gas exploration and development activities in Colombia. The Corporation's head office is located at 2650, 585 - 8th Avenue SW, Calgary, Alberta, T2P 1G1, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

Advisories

The following management's discussion and analysis ("MD&A") is dated May 12, 2021 and is the Corporation's explanation of its financial performance for the period covered by the financial statements along with an analysis of the Corporation's financial position. Comments relate to and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three months ended March 31, 2021 ("the financial statements"), and the audited consolidated financial statements and MD&A for the year ended December 31, 2020. 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 ("USD"), unless otherwise noted, and all tabular amounts are expressed in thousands of USD, 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, or that environmental licenses required to construct the pipeline from the Corporation's operations to Medellin will be obtained, or 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 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, pre-license costs 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 the weighted-average shares outstanding consistent with the calculation of net income (loss) and comprehensive income (loss) per share.

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

	Three months ended March 31,	
	2021	2020
Cash flow provided by operating activities	**$ 37,900**	$ 38,018
Changes in non-cash working capital	**185**	7,263
Adjusted funds from operations	**$ 38,085**	$ 45,281

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

	2020			2021	
	Q2	**Q3**	**Q4**	**Q1**	**Rolling**
Net income (loss) and comprehensive income (loss)(1)	$ 17,715	$ 2,609	$ 921	$ (3,062)	$ 18,183
(+) Interest expense	7,705	7,602	7,850	7,754	30,911
(+) Income tax (recovery) expense	(3,754)	14,864	20,149	17,137	48,396
(+) Depletion and depreciation	16,226	14,045	16,314	16,903	63,488
(+) Exploration expense	—	—	—	5,904	5,904
(+) Pre-license costs	285	395	191	163	1,034
(+/-) Unrealized foreign exchange loss (gain)	747	(327)	(524)	584	480
(+/-) Other non-cash expenses and non-recurring items	1,491	3,115	1,040	1,333	6,979
EBITDAX	**$ 40,415**	**$ 42,303**	**$ 45,941**	**$ 46,716**	**$ 175,375**

(1) The net loss realized during the three months ended March 31, 2021 is mainly due to the non-cash deferred tax expense of $11.3 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 March 31, 2021 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales volumes decreased 12% to 177.6 MMscfpd for the three months ended March 31, 2021, compared to 201.5 MMscfpd for the same period in 2020. Average natural gas and LNG production volumes decreased 11% to 179.5 MMscfpd for the three months ended March 31, 2021, compared to 201.4 MMscfpd for the same period in 2020, which is due to certain off-takers under take-or-pay contracts utilizing a large portion of their annual contractual downtime for regular maintenance and a decrease in spot market sales as a result of the COVID-19 pandemic.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended March 31, 2021 decreased 17% to $58.2 million, compared to $69.9 million for same period in 2020, mainly attributable to the decrease of natural gas production and lower gas sales prices, net of transportation costs.
- Adjusted funds from operations decreased 16% to $38.1 million for the three months ended March 31, 2021, compared to $45.3 million for the same period in 2020. Adjusted funds from operations per basic share decreased 16% to $0.21 per basic share from $0.25 per basic share.
- EBITDAX decreased 21% to $46.7 million for the three months ended March 31, 2021, compared to $58.9 million for the same period in 2020.
- The Corporation realized a net loss of $3.1 million for the three months ended March 31, 2021, compared to a net loss of $26 million for the same period in 2020, resulting in a 88% decrease year over year. The net loss is primarily due to a deferred income tax expense of $11.3 million which is entirely due to the effect of the reduction in the Colombian Peso ("COP") exchange rate on the value of unused tax losses and cost pools as further explained in the "Income Tax" section of this MD&A.
- The Corporation's natural gas and LNG operating netback decreased 7% to $3.36 per Mcf in the three months ended March 31, 2021, compared to $3.60 per Mcf for the same period in 2020. The decrease is mainly due to the lower average realized prices, net of transportation related to firm contracts and lower demand of spot sales as a result of the COVID-19 pandemic. In addition, operating expenses per Mcf increased 27% to $0.28 per Mcf during the three months ended March 31, 2021, compared to $0.22 per Mcf for the same period in 2020, mainly due to higher reservoir engineering costs related to certain well testing and lower natural gas sales volumes during the three months ended March 31, 2021, compared to the same period in 2020.
- Net capital expenditures for the three months ended March 31, 2021 were $27.8 million. Net capital expenditures included non-cash adjustments mainly related to decommissioning obligations of $0.7 million.
- As at March 31, 2021, the Corporation had $71.5 million in cash and cash equivalents and $66.5 million in working capital surplus.

Results of Operations

For the three months ended March 31, 2021, the Corporation's production primarily consisted of natural gas from the Nelson, Palmer, Nispero and Cañahuate fields in the Esperanza block, the Clarinete and Pandereta 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 included crude oil from its Rancho Hermoso property in Colombia ("Colombia oil"). The Corporation's LNG production was less than one percent of total natural gas and LNG production and therefore the results have been combined as "Natural gas and LNG".

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those in Colombia and Canada, enacted emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine periods and social distancing, caused material disruption to businesses globally resulting in an economic downturn.

Most energy companies worldwide were 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 the Corporation's focus on natural gas production, with the majority of natural gas sales being under fixed volume and price take-or-pay contracts priced in USD at the wellhead.

On March 26, 2020, the Colombia government imposed a country wide shutdown and as a result, industrial, construction, and commercial demand for gas decreased significantly. The Corporation's natural gas spot sales demand and realized average sales prices were consequently impacted, which makes up a minority of the Corporation's natural gas portfolio. Canacol's take-or-pay natural gas contracts did not see instances of force majeure and no events of defaults in payments for deliveries. However, throughout the remainder of 2020, Canacol allowed take-or-pay off-takers to defer a portion of their undelivered contracted volumes to be delivered by November 2021, at the latest.

During the three months ended March 31, 2021, the Colombian shutdown was gradually being lifted and the economy was showing signs of recovery, including a higher demand of the Corporation's spot sales as compared to the 2020 demand. The realized contractual natural gas sales during the three months ended March 31, 2021 were 177.6 MMscfpd, which increased as compared to 162.8 MMscfpd realized during the last nine months ended December 31, 2020, since the beginning of the pandemic. However, the realized contractual natural gas sales have not yet fully recovered to the pre-pandemic levels of 201.5 MMscfpd realized during three months ended March 31, 2020.

During the three months ended March 31, 2021, the Corporation spud the Flauta-1 exploration well located on its VIM-5 block targeting gas within the Cienega de Oro ("CDO") sandstone reservoir. The well did not encounter commercial gas and has been plugged and abandoned.

During the three months ended March 31, 2021, the Corporation spud the Oboe-2 development well located on its VIM-5 block targeting gas within the CDO sandstone reservoir. The well has been completed and tied into the Jobo gas processing facility.

During the three months ended March 31, 2021, the Corporation spud the Cañahuate-4 development well located on its Esperanza block targeting gas within the CDO sandstone reservoir. The well encountered 72 feet true vertical depth of gas pay and will be tied in and put onto production by early May 2021.

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 March 31,		
	2021	2020	Change
Natural Gas and LNG (MMscfpd)			
Natural gas and LNG production	**179,474**	201,398	(11%)
Field consumption	**(1,918)**	(222)	764%
Natural gas and LNG sales [(1)]	**177,556**	201,176	(12%)
Take-or-pay volumes (2)	**77**	348	(78%)
Realized contractual natural gas and LNG sales	**177,633**	201,524	(12%)
Colombia Oil (bopd)			
Crude oil production	**256**	315	(19%)
Inventory movements and other	**51**	(17)	n/a
Colombia oil sales	**307**	298	3%
Corporate (boepd / bopd)			
Natural gas and LNG production [(1)]	**31,487**	35,333	(11%)
Colombia oil production	**256**	315	(19%)
Total production	**31,743**	35,648	(11%)
Field consumption and inventory	**(286)**	(56)	411%
Total corporate sales	**31,457**	35,592	(12%)
Take-or-pay volumes (2)	**14**	61	(77%)
Total realized contractual sales	**31,471**	35,653	(12%)

(1) Natural gas and LNG sales volumes exclude the natural gas trading purchases related to a certain off-taker's long-term contract as described in the "Revenues, Net of Royalties and Transportation Expenses" section of this MD&A.

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 natural 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; and
3) *Undelivered natural gas and LNG nomination*s - represents the portion of undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside natural gas and LNG 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 11% decrease in the natural gas and LNG production volumes during the three months ended March 31, 2021, compared to the same period in 2020, is mainly due to: i) certain off-takers under take-or-pay contracts utilized a large portion of their annual contractual downtime due to the timing of regular maintenance and ii) a decrease in spot market sales as a result of the COVID-19 pandemic during the three months ended March 31, 2021.

Realized contractual natural gas and LNG sales for the three months ended March 31, 2021 averaged approximately 177.6 MMscfpd. Realized contractual sales is defined as natural gas and LNG produced and sold plus income received from nominated take-or-pay contracts without the actual delivery of natural gas or LNG and the expiry of the customers' rights to take the deliveries plus natural gas purchases.

The decrease in Colombia oil production volumes during the three months ended March 31, 2021, compared to the same period in 2020, is primarily due to natural production declines.

Revenues, Net of Royalties and Transportation Expenses

		Three months ended March 31,		
		2021	2020	Change
Natural Gas and LNG				
Natural gas and LNG revenues	**$**	**78,808**	$ 94,395	(17%)
Transportation expenses		**(9,274)**	(11,300)	(18%)
Revenues, net of transportation expenses		**69,534**	83,095	(16%)
Royalties		**(11,300)**	(13,172)	(14%)
Revenues, net of royalties and transportation expenses	**$**	**58,234**	$ 69,923	(17%)
Colombia Oil				
Crude oil revenues	**$**	**1,303**	$ 994	31%
Transportation expenses		**1**	7	(86%)
Revenues, net of transportation expenses		**1,304**	1,001	30%
Royalties		**(100)**	(75)	33%
Revenues, net of royalties and transportation expenses	**$**	**1,204**	$ 926	30%
Corporate				
Natural gas and LNG revenues	**$**	**78,808**	$ 94,395	(17%)
Crude oil revenues		**1,303**	994	31%
Total revenues		**80,111**	95,389	(16%)
Royalties		**(11,400)**	(13,247)	(14%)
Natural gas, LNG and crude oil production revenues, net of royalties		**68,711**	82,142	(16%)
Take-or-pay natural gas and LNG income (2)		**24**	145	(83%)
Natural gas, LNG and crude oil revenues, net of royalties, as reported		**68,735**	82,287	(16%)
Natural gas trading revenues		**6,356**	—	n/a
Total natural gas, LNG and crude oil revenues, after royalties		**75,091**	82,287	(9%)
Transportation expenses		**(9,273)**	(11,293)	(18%)
Total revenues, net of royalties and transportation expenses	**$**	**65,818**	$ 70,994	(7%)

Natural Gas Trading

		Three months ended March 31,		
		2021	2020	Change
Natural gas trading revenue	**$**	**6,356**	$ —	n/a
Natural gas purchases cost		**6,321**	—	n/a
Natural gas trading profit	**$**	**35**	$ —	n/a

The Corporation recognized $6.4 million of natural gas trading revenues and incurred gas purchase costs of $6.3 million during the three months ended March 31, 2021 related to the delivery of a certain off-taker's long-term contract. The Corporation's gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities.

Natural Gas Transportation Expenses

The Corporation either sells its natural gas at its Jobo gas plant gate (whereby the off-taker incurs the transportation expenses, and as such Canacol does not recognize a transportation expense), or delivers its gas to the off-takers' locations (whereby Canacol pays and recognizes the transportation expenses directly). In the latter case, the Corporation's transportation expenses on such contracts are compensated by higher gross sales prices, resulting in average realized sales prices (net of transportation) being consistent with the Corporation's realized price in which the off-taker incurs the transportation expense. The blend of these two types of delivery options varies from contract to contract and quarter to quarter, hence the Corporation refers to an average net realized sales price which in either case is net of any transportation costs regardless of which party incurs the transportation expense.

Natural gas transportation expenses decreased 18% during the three months ended March 31, 2021, compared to the same period in 2020, primarily due to the decrease in natural gas sales volume subject to transportation expenses, as describe above, compared to the same period in 2020.

Natural Gas Royalties

	Three months ended March 31,		
	2021	2020	Change
Natural Gas and LNG			
Esperanza royalties	**$ 1,942**	$ 3,082	(37%)
VIM-5 royalties	**9,014**	9,963	(10%)
VIM-21 royalties	**344**	127	171%
Royalty expense	**$ 11,300**	$ 13,172	(14%)
Natural Gas Royalty Rates			
Esperanza	**7.1%**	9.3%	(23%)
VIM-5	**23.7%**	20.8%	14%
VIM-21	**9.7%**	9.4%	3%
Natural gas royalty rate	**16.3%**	15.9%	3%

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 of 16.3% was 3% higher during the three months ended March 31, 2021, compared to 15.9% for the same period in 2020, mainly due to a higher royalty rate at the VIM-5 block as a result of production at certain fields exceeding the 5,000 boepd threshold, at which point, is subject to a higher royalty rate, as described above. The increase in the VIM-5 royalty rate is offset by a lower royalty rate at the Esperanza block due to production at certain fields being below the 5,000 boepd threshold and therefore subject to a lower royalty rate.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended March 31,		
	2021	2020	Change
Average Benchmark Prices			
Henry Hub ($/Mcf)	**$ 2.72**	$ 1.87	45%
Alberta Energy Company ($/Mcf)	**$ 2.30**	$ 1.43	61%
Brent ($/bbl)	**$ 61.07**	$ 51.33	19%
Average Sales Prices, Net of Transportation			
Natural gas and LNG ($/Mcf)	**$ 4.35**	$ 4.54	(4%)
Colombia oil ($/bbl)	**$ 47.20**	$ 36.91	28%
Corporate average ($/boe)	**$ 25.02**	$ 25.96	(4%)

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.

The decrease in average natural gas and LNG sales prices, net of transportation during the three months ended March 31, 2021, compared to the same period in 2020, is mainly due to slightly lower priced firm contracts in 2021 and lower demand of spot sales as a result of the COVID-19 pandemic.

The increase in average crude oil sales prices during the three months ended March 31, 2021, compared to the same period in 2020, is mainly due to increased benchmark crude oil prices.

Operating Expenses

	Three months ended March 31,		
	2021	2020	Change
Natural gas and LNG	**$ 4,441**	$ 4,086	9%
Colombia oil	**263**	380	(31%)
Total operating expenses	**$ 4,704**	$ 4,466	5%
Natural gas and LNG ($/Mcf)	**$ 0.28**	$ 0.22	27%
Colombia oil ($/bbl)	**$ 9.52**	$ 14.01	(32%)
Corporate ($/boe)	**$ 1.66**	$ 1.38	20%

Natural gas and LNG operating expenses per Mcf increased 27% to $0.28 per Mcf for the three months ended March 31, 2021, compared to $0.22 per Mcf for the same period in 2020. The increase is mainly due to higher reservoir engineering and rental costs related to certain well testing performed during the three months ended March 31, 2021. In addition, lower natural gas sales volumes during the three months ended March 31, 2021, compared to the same period in 2020, resulted in higher operating expenses per Mcf due to the majority of the Corporation's operating expenses being fixed.

Operating Netbacks

	Three months ended March 31,		
$/Mcf	**2021**	2020	Change
Natural Gas and LNG			
Revenue, net of transportation expense	**$ 4.35**	$ 4.54	(4%)
Royalties	**(0.71)**	(0.72)	(1%)
Operating expenses	**(0.28)**	(0.22)	27%
Operating netback	**$ 3.36**	$ 3.60	(7%)

	Three months ended March 31,		
$/bbl	**2021**	2020	Change
Colombia oil			
Revenue, net of transportation expense	**$ 47.20**	$ 36.91	28%
Royalties	**(3.62)**	(2.77)	31%
Operating expenses	**(9.52)**	(14.01)	(32%)
Operating netback	**$ 34.06**	$ 20.13	69%

	Three months ended March 31,		
$/boe	**2021**	2020	Change
Corporate			
Revenue, net of transportation expense	**$ 25.02**	$ 25.96	(4%)
Royalties	**(4.03)**	(4.09)	(1%)
Operating expenses	**(1.66)**	(1.38)	20%
Operating netback	**$ 19.33**	$ 20.49	(6%)

General and Administrative Expenses

		Three months ended March 31,	
	2021	2020	Change
Gross costs	**$ 8,008**	$ 7,756	3%
Less: capitalized amounts	**(1,337)**	(1,243)	8%
General and administrative expenses	**$ 6,671**	$ 6,513	2%
$/boe	**$ 2.36**	$ 2.01	17%

General and administrative ("G&A") gross costs increased 3% during the three months ended March 31, 2021, compared to the same period in 2020, 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 increased 17% during the three months ended March 31, 2021, compared to the same period in 2020. The increase is mainly due to the decrease of natural gas production during the three months ended March 31, 2021. Gross costs are expected to remain flat as the Corporation's production base grows, which will result in the G&A per boe to further decrease going forward.

Net Finance Expense

		Three months ended March 31,	
	2021	2020	Change
Net financing expense paid	**$ 7,520**	$ 6,530	15%
Non-cash financing expenses	**906**	814	11%
Net finance expense	**$ 8,426**	$ 7,344	15%

Net finance expense increased during the three months ended March 31, 2021, compared to the same period in 2020, mainly as a result of interest income of $1 million earned on proceeds owed to the Corporation related to a litigation settlement ruled in favor of the Corporation during the three months ended March 31, 2020.

Stock-Based Compensation Expense and Restricted Share Units

		Three months ended March 31,	
	2021	2020	Change
Stock-based compensation expense	**$ 204**	$ 521	(61%)
Restricted share unit expense	**363**	1,000	(64%)
Stock-based compensation and restricted share unit expense	**$ 567**	$ 1,521	(63%)

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.

Stock-based compensation expense decreased 63% during the three months ended March 31, 2021, compared to the same period in 2020, due to no stock options being granted in 2021 and less restricted share units being amortized in the 2021 due to the timing of the grant.

Depletion and Depreciation Expense

		Three months ended March 31,	
	2021	2020	Change
Depletion and depreciation expense	**$ 16,903**	$ 17,954	(6%)
$/boe	**$ 5.97**	$ 5.54	8%

Depletion and depreciation expense decreased 6% during the three months ended March 31, 2021, compared to the same periods in 2020, primarily as a result of lower natural gas production.

Income Tax Expense

	Three months ended March 31,	
	2021	2020
Current income tax expense	**$ 5,864**	$ 9,740
Deferred income tax expense	**11,273**	41,140
Income tax expense	**$ 17,137**	$ 50,880

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 31% for the three months ended March 31, 2021. The Colombian statutory income tax rate will decrease 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 three months ended March 31, 2021 of $11.3 million was entirely as a result of the 9% de-valuation of the COP to USD as at March 31, 2021 of 3,737:1, compared to the December 31, 2020 rate of 3,433:1. In the event that the COP strengthens in the future, the Corporation would realize a deferred income tax recovery for the period.

Capital Expenditures

	Three months ended March 31,	
	2021	2020
Drilling and completions	**$ 17,513**	$ 10,714
Facilities, workovers and infrastructure	**5,964**	3,923
Land, seismic, communities and other	**3,802**	4,106
Capitalized G&A	**1,337**	1,243
Net proceeds on disposition of property, plant and equipment	**(239)**	(58)
Net cash capital expenditures	**28,377**	19,928
Non-cash costs and adjustments:		
Right-of-Use leased assets	**119**	1,305
Disposition	**159**	(25)
Non-cash costs and adjustments[(1)]	**(811)**	(1,316)
Net capital expenditures	**$ 27,844**	$ 19,892
Net capital expenditures recorded as:		
Expenditures on exploration and evaluation assets	**$ 13,787**	$ 2,315
Expenditures on property, plant and equipment	**14,137**	17,660
Disposition	**(80)**	(83)
Net capital expenditures	**$ 27,844**	$ 19,892

[(1)] Non-cash costs and adjustments mainly related to a change in estimate related to decommissioning obligations.

Net capital expenditures during the three months ended March 31, 2021 are primarily related to:

- Drilling and completion of the Oboe-2 development well;
- Drilling of the Flauta-1 exploration well;
- Drilling of the Cañahuate-4 development well;
- Pre-drilling of the Milano-1 exploration well;
- Facility and workover costs at the VIM-5 block; and
- Seismic costs mainly related to the SSJN-7, VMM-49 and VMM-45 blocks.

Liquidity and Capital Resources

Foreign Currency Risk

As at March 31, 2021, the COP to the USD exchange rate was 3,737:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.26:1 (December 31, 2020 – 1.27:1). The 9% devaluation of the COP resulted in the reduction of certain expenditures and liabilities as at and during the three months ended March 31, 2021. In addition, the total deferred income tax expense of $11.3 million recognized during the three months ended March 31, 2021, was entirely as a result of the devaluation of COP to USD.

During the three months ended March 31, 2021, the Corporation held no foreign exchange contract.

As a result of the COVID-19 pandemic, the Corporation is currently benefiting from the recent depreciation of the COP. The decline of the COP against the USD effectively reduces COP denominated expenditures including capital expenditures, operating costs and G&A for the remainder of 2021, as compared to the Corporation's original budget estimates. According to the Corporation's original budget estimates, the Corporation's expected annual savings in 2021 given the March 31, 2021 COP to the USD exchange rate of 3,737:1 would be approximately $2.4 million.

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, litigation 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, Bank Debt and Bridge Loan 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 March 31, 2021, the Corporation was in compliance with the covenants.

		March 31, 2021		**December 31, 2020**
Senior Notes - principal (7.25%)	**$**	**320,000**	$	320,000
Bank Debt - principal (LIBOR + 4.25%)		**30,000**		30,000
Bridge Loan - principal (LIBOR + 4.25%)		**25,000**		25,000
Operating loan - principal (IBR + 2%)		**2,676**		2,913
Litigation settlement liability (8.74%)		**12,990**		14,353
Lease obligation (5.1%)		**21,446**		22,943
Total debt		**412,112**		415,209
Less: working capital surplus		**(66,545)**		(73,404)
Net debt	**$**	**345,567**	**$**	**341,805**

The Consolidated Leverage Ratio is calculated as follows:

	March 31, 2021	December 31, 2020
Total debt	**$ 412,112**	$ 415,209
Less: cash and cash equivalents	**(71,501)**	(68,280)
Net debt for covenant purposes	**$ 340,611**	$ 346,929
EBITDAX	**$ 175,375**	$ 187,528
Consolidated Leverage Ratio	**1.94**	**1.85**

The Consolidated Interest Coverage Ratio is calculated as follows:

	March 31, 2021	December 31, 2020
EBITDAX	**$ 175,375**	$ 187,528
Interest expense, excluding non-cash expenses	**$ 30,911**	$ 30,788
Consolidated Interest Coverage Ratio	**5.67**	**6.09**

As at May 12, 2021, the Corporation had 179.5 million common shares, 12.7 million stock options and 1.6 million restricted share units outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing at March 31, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	$ 11,247	$ 46,429	$ 320,000	$ 377,676
Lease obligations – undiscounted	5,120	7,759	11,901	24,780
Trade and other payables	56,672	—	—	56,672
Dividend payable	7,423	—	—	7,423
Taxes payable	14,562	—	—	14,562
Litigation settlement liability	589	1,354	11,047	12,990
Other long term obligations	—	3,335	—	3,335
Restricted share units	157	15	—	172
Exploration and production contracts	6,708	34,204	4,418	45,330
Compression station operating contracts	2,622	5,402	10,719	18,743
	$ 105,100	**$ 98,498**	**$ 358,085**	**$ 561,683**

Letters of Credit

At March 31, 2021, the Corporation had letters of credit outstanding totaling $72.8 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, $4.1 million financial guarantees relate to certain petroleum assets previously sold.

Exploration and Production Contracts

The Corporation has entered into a number of exploration contracts in Colombia which require the Corporation to fulfill work program commitments and issue financial guarantees related thereto. In aggregate, the Corporation has outstanding exploration commitments at March 31, 2021 of $45.3 million and has issued $30.3 million in financial guarantees related thereto.

Related Party Transactions

The Corporation holds five million shares of Arrow Exploration Ltd. ("Arrow") valued at $0.5 million as at March 31, 2021 and a receivable balance of $6 million. Two members of key management of Canacol are also members of the board of directors of Arrow.

OUTLOOK

For the remainder of 2021, the Corporation is focused on the following operational objectives: 1) a target of drilling up to twelve exploration, appraisal, and development wells in a continuous program with the objective of targeting a 2P reserves replacement ratio of more than 200 percent, 2) the acquisition of the 655 square kilometers of 3D seismic on the Corporation's VIM-5 and SSJN-7 blocks to expand its exploration prospect inventory, 3) the execution of a definitive agreement to construct a new gas pipeline from the Jobo natural gas processing facility to Medellin, Colombia which will increase the Corporation's natural gas sales by an additional 100 MMscfpd in 2024, and 4) the continued strengthening of our environmental, social and governance strategy and reporting.

SUMMARY OF QUARTERLY RESULTS

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

	2021	2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	**65,818**	63,976	57,429	54,405	70,994	65,795	56,634	47,689
Adjusted funds from operations[1]	**38,085**	35,251	33,409	31,181	45,281	33,004	36,420	25,583
Per share – basic ($)[1]	**0.21**	0.20	0.18	0.17	0.25	0.18	0.20	0.14
Per share – diluted ($)[1]	**0.21**	0.20	0.18	0.17	0.25	0.18	0.20	0.14
Net income (loss) and comprehensive income (loss)[2]	**(3,062)**	921	2,609	17,715	(25,988)	25,432	663	1,878
Per share – basic ($)	**(0.02)**	0.01	0.01	0.10	(0.14)	0.14	—	0.01
Per share – diluted ($)	**(0.02)**	0.01	0.01	0.10	(0.14)	0.14	—	0.01
EBITDAX[1]	**46,716**	45,941	42,303	40,415	58,870	43,144	46,037	37,008
Weighted average shares outstanding – basic	**179,515**	179,764	180,980	180,916	180,931	179,238	178,273	177,381
Weighted average shares outstanding – diluted	**179,515**	179,764	181,495	181,484	181,811	181,412	180,873	178,979
Capital expenditures, net of dispositions	**27,844**	29,366	26,437	8,269	19,892	21,514	30,806	13,442
Operations								
Natural gas, LNG and crude oil production, before royalties[1]								
Natural gas and LNG (MMscfpd)	**179,474**	170,087	162,012	151,127	201,398	180,986	147,630	121,496
Colombia oil (bopd)	**256**	287	317	245	315	309	322	342
Total (boepd)	**31,743**	30,127	28,740	26,758	35,648	32,061	26,222	21,657
Realized contractual sales, before royalties[1]								
Natural gas and LNG (MMscfpd)	**177,633**	169,763	162,984	152,248	201,524	180,753	146,439	120,515
Colombia oil (bopd)	**307**	300	347	197	298	301	329	356
Total (boepd)	**31,471**	30,083	28,941	26,907	35,653	32,012	26,020	21,499
Operating netbacks ($/boe)[1]								
Natural gas and LNG ($/Mcf)	**3.36**	3.58	3.47	3.63	3.60	3.58	3.86	3.88
Colombia oil ($/bbl)	**34.06**	23.04	17.04	12.16	20.13	27.08	24.34	29.20
Corporate ($/boe)	**19.33**	20.44	19.76	20.61	20.49	20.49	22.06	22.27

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

(2) The net loss realized during the three months ended March 31, 2021 is mainly due to the non-cash deferred tax expense of $11.3 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.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended March 31, 2021 to the risks and uncertainties as identified in the MD&A for the year ended December 31, 2020.

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 March 31, 2021.

REGULATORY POLICIES

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

During the three months ended March 31, 2021, 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.