

CANACOL ENERGY LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2021**



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,		
	2021	2020	Change	2021	2020	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	59,969	54,405	10%	125,787	125,399	—
Adjusted funds from operations ⁽¹⁾⁽²⁾	33,643	31,181	8%	71,929	76,462	(6%)
Per share – basic (\$) ⁽¹⁾	0.19	0.17	12%	0.40	0.42	(5%)
Per share – diluted (\$) ⁽¹⁾	0.19	0.17	12%	0.40	0.42	(5%)
Net income (loss) and other comprehensive income (loss) ⁽³⁾	2,424	17,715	(86%)	(638)	(8,273)	(92%)
Per share – basic (\$)	0.01	0.10	(90%)	—	(0.05)	(100%)
Per share – diluted (\$)	0.01	0.10	(90%)	—	(0.05)	(100%)
Cash flow (used) provided by operating activities ⁽²⁾	(13)	37,814	n/a	37,887	75,832	(50%)
Per share – basic (\$)	—	0.21	(100%)	0.21	0.42	(50%)
Per share – diluted (\$)	—	0.21	(100%)	0.21	0.42	(50%)
EBITDAX ⁽¹⁾	44,638	40,415	10%	91,354	99,285	(8%)
Weighted average shares outstanding – basic	179,289	180,916	(1%)	179,401	180,923	(1%)
Weighted average shares outstanding – diluted	179,289	181,484	(1%)	179,401	181,622	(1%)
Capital expenditures, net of dispositions	26,363	8,269	219%	54,207	28,161	92%
				June 30, 2021	December 31, 2020	Change
Cash and cash equivalents ⁽⁴⁾				34,834	68,280	(49%)
Working capital surplus				44,740	73,404	(39%)
Total debt				410,896	415,209	(1%)
Total assets				728,242	749,792	(3%)
Common shares, end of period (000's)				178,515	179,515	(1%)
Operating	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural gas, LNG and crude oil production ⁽¹⁾						
Natural gas and LNG (MMscfpd)	173,117	151,127	15%	176,278	176,259	—
Colombia oil (bopd)	262	245	7%	259	280	(8%)
Total (boepd)	30,633	26,758	14%	31,185	31,203	—
Realized contractual sales ⁽¹⁾						
Natural gas and LNG (MMscfpd)	171,463	152,248	13%	174,532	176,884	(1%)
Colombia oil (bopd)	209	197	6%	258	247	4%
Total (boepd)	30,290	26,907	13%	30,878	31,279	(1%)
Operating netbacks ⁽¹⁾						
Natural gas and LNG (\$/Mcf)	3.14	3.63	(13%)	3.25	3.60	(10%)
Colombia oil (\$/bbl)	33.54	12.16	176%	33.81	17.00	99%
Corporate (\$/boe)	17.98	20.61	(13%)	18.67	20.55	(9%)

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

(2) Adjusted funds from operations represents cash flow (used) provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of \$20.7 million, primarily due to certain income tax expense cash payments (see the “Income Tax Expense” section in this MD&A), ii) the payment of the remaining outstanding balance of the Corporation’s litigation settlement liability of \$12.9 million.

(3) The Corporation realized a net loss during the six months ended June 30, 2021 mainly due to the non-cash deferred tax expense of \$9.7 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.

(4) During the three months ended June 30, 2021, the Corporation made cash payments as follows: i) the 2020 income tax expense of \$11.3 million, ii) prepaid 2021 tax installments of \$10.7 million and iii) the semi-annual Senior Notes interest payment of \$12.1 million. The Corporation expects to receive a portion of its 2020 prepaid tax installments totaling \$9.3 million in cash from the Colombian tax authorities by the end of Q3 2021.

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 4, 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 and six months ended June 30, 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 (used) provided by operating activities before the settlement of decommissioning obligations, payment of a litigation settlement liability 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 (used) provided by operating activities to adjusted funds from operations:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Cash flow (used) provided by operating activities	\$ (13)	\$ 37,814	\$ 37,887	\$ 75,832
Changes in non-cash working capital	20,730	(6,633)	20,915	630
Payment of litigation settlement liability ⁽¹⁾⁽²⁾	12,872	—	13,073	—
Settlement of decommissioning obligations	54	—	54	—
Adjusted funds from operations	\$ 33,643	\$ 31,181	\$ 71,929	\$ 76,462

(1) The payment of the litigation settlement liability was included in the cash flow (used) provided by operating activities due to the nature of the settlement being related to a previous transportation expense dispute and, as such, the costs are included in operating activities in the current quarter.

(2) The settlement of litigation settlement liability includes regular monthly payments of \$0.2 million during the six months ended June 30, 2021.

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

	2020		2021		Rolling
	Q3	Q4	Q1	Q2	
Net income (loss) and comprehensive income (loss) ⁽¹⁾	\$ 2,609	\$ 921	\$ (3,062)	\$ 2,424	\$ 2,892
(+) Interest expense	7,602	7,850	7,754	8,078	31,284
(+) Income tax (recovery) expense	14,864	20,149	17,137	4,769	56,919
(+) Depletion and depreciation	14,045	16,314	16,903	15,930	63,192
(+) Exploration expense	—	—	5,904	5,671	11,575
(+) Pre-license costs	395	191	163	819	1,568
(+/-) Unrealized foreign exchange (gain) loss	(327)	(524)	584	4,050	3,783
(+/-) Other non-cash expenses and non-recurring items	3,115	1,040	1,333	2,897	8,385
EBITDAX	\$ 42,303	\$ 45,941	\$ 46,716	\$ 44,638	\$ 179,598

(1) The Corporation realized a net loss during the six months ended June 30, 2021 mainly due to the non-cash deferred tax expense of \$9.7 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, 2021 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas (“LNG”) sales volumes increased 13% to 171.5 MMscfpd for the three months ended June 30, 2021, compared to 152.2 MMscfpd for the same period in 2020. Average natural gas and LNG production volumes increased 15% to 173.1 MMscfpd for the three months ended June 30, 2021, compared to 151.1 MMscfpd for the same period in 2020. The increase is mainly due to increased firm contract and spot market sales as a result of the COVID-19 pandemic restrictions being gradually lifted during the three months ended June 30, 2021.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended June 30, 2021 decreased 1% to \$52.6 million, compared to \$53.3 million for same period in 2020, mainly attributable to lower natural gas average sales price, net of transportation; however, offset by an increase in natural gas production.
- Adjusted funds from operations increased 8% to \$33.6 million for the three months ended June 30, 2021, compared to \$31.2 million for the same period in 2020. Adjusted funds from operations per basic share increased 12% to \$0.19 per basic share from \$0.17 per basic share. Adjusted funds from operations represents cash flow (used) provided by operating activities before certain adjustments mainly related to: i) changes in non-cash working capital of \$20.7 million, primarily due to certain income tax expense cash payments (see the “Income Tax Expense” section in this MD&A), ii) the settlement of the remaining outstanding balance of the Corporation’s litigation settlement liability of \$12.9 million. Due to such adjustments, the Corporation recognized cash flow used in operations during the three months ended June 30, 2021, compared to cash flow provided by operations of \$37.8 million for the same period in 2020.
- EBITDAX increased 10% to \$44.6 million for the three months ended June 30, 2021, compared to \$40.4 million for the same period in 2020.
- The Corporation realized a net income of \$2.4 million for the three months ended June 30, 2021, compared to a net income of \$17.7 million for the same period in 2020, resulting in a 86% decrease year over year. The decrease is mainly due to a deferred tax recovery realized during the three months ended June 30, 2020 as a result of the recovery of the COP relative to the USD as at June 30, 2020 as compared to March 31, 2020.
- The Corporation’s natural gas and LNG operating netback decreased 13% to \$3.14 per Mcf in the three months ended June 30, 2021, compared to \$3.63 per Mcf for the same period in 2020. The decrease is mainly due to the lower average realized prices, net of transportation expense. In addition, the Corporation’s royalties per Mcf increased by 11% to \$0.71 per Mcf in the three months ended June 30, 2021, compared to \$0.64 per Mcf for the same period in 2020. The increase is due to higher production at the Corporation’s VIM-5 block, which is subject to a higher royalty rate.
- Net capital expenditures for the three months ended June 30, 2021 were \$26.4 million. Net capital expenditures included non-cash adjustments mainly related to decommissioning obligations and right-of-use leased assets of \$1.9 million.
- On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Divivienda (“Colombia Bank Debt”) for a principal amount of \$12.9 million denominated in COP, which is subject to an annual interest rate of Reference Bank Indicator (“IBR”) plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation’s litigation settlement liability, which was subject to an 8.74% annual interest rate. As a result of a lower interest rate, the Corporation will realize annual interest savings of approximately \$0.6 million (lower interest rate of 4.38% at the agreement date).
- As at June 30, 2021, the Corporation had \$34.8 million in cash and cash equivalents and \$44.7 million in working capital surplus. During the three months ended June 30, 2021, the Corporation made cash payments as follows: i) the 2020 income tax remaining installment of \$11.3 million, ii) prepaid 2021 tax installments of \$10.7 million and iii) the semi-annual Senior Notes interest payment of \$12.1 million. The Corporation expects that a portion of its 2020 prepaid tax installments totaling \$9.3 million will be returned from the Colombian tax authorities by the end of 2021.

Results of Operations

For the three months ended June 30, 2021, the Corporation’s production primarily consisted of natural gas from the Nelson, Palmer, Nispero and Cañahuatè fields in the Esperanza block, the Clarinete, Pandereta and Oboe fields in the VIM-5 block and the Toronja, Arandala, Breva and Aguas Vivas fields 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.

As of the date of this MD&A, the Colombian shutdown is gradually being lifted and the economy is showing signs of recovery, including a higher demand for the Corporation’s natural gas in the spot market as compared to 2020. The realized contractual natural gas sales during the three and six months ended June 30, 2021 were 171.5 MMscfpd and 174.5 MMscfpd, respectively, which have increased as compared to 162.8 MMscfpd realized during the last nine months ended December 31, 2020, during the height 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 June 30, 2021, the Corporation spud the Milano-1 exploration well located on its Esperanza block. The well did not encounter commercial gas and has been plugged and abandoned.

During the three months ended June 30, 2021, the Corporation completed the Cañahuate-4 development well located on its Esperanza block targeting gas within the Cienaga de Oro (“CDO”) sandstone reservoir. The well was tied in and put on permanent production.

During the three months ended June 30, 2021, the Corporation spud the Nelson-9 development well located on its Esperanza block targeting gas within the Porquero sandstone reservoir. The well encountered 52 feet true vertical depth of gas pay and has been completed, tied-in and put on permanent production.

During the three months ended June 30, 2021, the Corporation spud the Aguas Vivas-1 exploration well located on its VIM-21 block targeting gas within the CDO sandstone reservoir. The well encountered 412 feet true vertical depth of net gas pay, which is the thickest yet encountered by the Corporation and marks a significant and important new gas discovery. The well tested at a final rate of 35.5 MMscfpd, was tied in and put on permanent production. The Aguas Vivas-2 appraisal well was spud on June 12, 2021 and targeted a planned total depth of approximately 8,419 feet measured depth within the CDO sandstone reservoir. The Aguas Vivas-2 appraisal well encountered 229 feet of net gas pay, confirming a significant natural gas discovery. Upon completion of the drilling operations, the Aguas Vivas-2 appraisal well will be cased and completed and the rig will be used to immediately spud the Aguas Vivas-3 appraisal well.

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,		
	2021	2020	Change	2021	2020	Change
Natural Gas and LNG (MMscfpd)						
Natural gas and LNG production	173,117	151,127	15%	176,278	176,259	—
Field consumption	(1,654)	(257)	544%	(1,785)	(237)	653%
Natural gas and LNG sales ⁽¹⁾	171,463	150,870	14%	174,493	176,022	(1%)
Take-or-pay volumes (2)	—	1,378	(100%)	39	862	(95%)
Realized contractual natural gas and LNG sales	171,463	152,248	13%	174,532	176,884	(1%)
Colombia Oil (bopd)						
Crude oil production	262	245	7%	259	280	(8%)
Inventory movements and other	(53)	(48)	10%	(1)	(33)	(97%)
Colombia oil sales	209	197	6%	258	247	4%
Corporate (boepd / bopd)						
Natural gas and LNG production ⁽¹⁾	30,371	26,513	15%	30,926	30,923	—
Colombia oil production	262	245	7%	259	280	(8%)
Total production	30,633	26,758	14%	31,185	31,203	—
Field consumption and inventory	(343)	(93)	269%	(314)	(75)	319%
Total corporate sales	30,290	26,665	14%	30,871	31,128	(1%)
Take-or-pay volumes (2)	—	242	(100%)	7	151	(95%)
Total realized contractual sales	30,290	26,907	13%	30,878	31,279	(1%)

(1) Natural gas and LNG sales volumes excluded the natural gas sales related to a certain off-taker's long-term contract as described under "Natural Gas Trading" 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 nominations* - represents the portion of undelivered natural gas and LNG sales nominations for which the off-takers have a legal right to take delivery at a later date, for a fixed period of time ("make-up rights"). These nominations are paid for at the time, alongside 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 15% increase in the natural gas and LNG production volumes during the three months ended June 30, 2021, compared to the same period in 2020, is mainly due to: i) an increase in spot market sales as a result of the COVID-19 pandemic restrictions gradually being lifted during the three months ended June 30, 2021 and ii) an increase in firm contracts volumes due to certain off-takers under take-or-pay contracts utilizing a large portion of their annual contractual downtime during the three months ended June 30, 2020.

Realized contractual natural gas and LNG sales for the three and six months ended June 30, 2021 averaged approximately 171.5 and 174.5 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 plus natural gas purchases.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural Gas and LNG						
Natural gas and LNG revenues	\$ 73,051	\$ 68,228	7%	\$ 151,859	\$ 162,623	(7%)
Transportation expenses	(9,301)	(6,116)	52%	(18,575)	(17,416)	7%
Revenues, net of transportation expenses	63,750	62,112	3%	133,284	145,207	(8%)
Royalties	(11,116)	(8,842)	26%	(22,416)	(22,014)	2%
Revenues, net of royalties and transportation expenses	\$ 52,634	\$ 53,270	(1%)	\$ 110,868	\$ 123,193	(10%)
Colombia Oil						
Crude oil revenues	\$ 989	\$ 384	158%	\$ 2,292	\$ 1,378	66%
Transportation expenses	(14)	8	n/a	(13)	15	n/a
Revenues, net of transportation expenses	975	392	149%	2,279	1,393	64%
Royalties	(75)	(29)	159%	(175)	(104)	68%
Revenues, net of royalties and transportation expenses	\$ 900	\$ 363	148%	\$ 2,104	\$ 1,289	63%
Corporate						
Natural gas and LNG revenues	\$ 73,051	\$ 68,228	7%	\$ 151,859	\$ 162,623	(7%)
Crude oil revenues	989	384	158%	2,292	1,378	66%
Total revenues	74,040	68,612	8%	154,151	164,001	(6%)
Royalties	(11,191)	(8,871)	26%	(22,591)	(22,118)	2%
Natural gas, LNG and crude oil production revenues, net of royalties	62,849	59,741	5%	131,560	141,883	(7%)
Take-or-pay natural gas and LNG income (2)	—	772	(100%)	24	917	(97%)
Natural gas, LNG and crude oil revenues, net of royalties, as reported	62,849	60,513	4%	131,584	142,800	(8%)
Natural gas trading revenues	6,435	—	n/a	12,791	—	n/a
Total natural gas, LNG and crude oil revenues, after royalties	69,284	60,513	14%	144,375	142,800	1%
Transportation expenses	(9,315)	(6,108)	53	(18,588)	(17,401)	7%
Total revenues, net of royalties and transportation expenses	\$ 59,969	\$ 54,405	10%	\$ 125,787	\$ 125,399	—

Natural Gas Trading

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural gas trading revenue	\$ 6,435	\$ —	n/a	\$ 12,791	\$ —	n/a
Natural gas trading purchases cost	(6,410)	—	n/a	(12,731)	—	n/a
Natural gas trading profit	\$ 25	\$ —	n/a	\$ 60	\$ —	n/a

The Corporation recognized \$6.4 million and \$12.8 million of natural gas trading revenues and incurred gas purchase costs of \$6.4 million and \$12.7 million during the three and six months ended June 30, 2021, respectively, 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 natural 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 increased 52% and 7% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, primarily due to the increase in natural gas sales volume subject to transportation expenses, as described above, compared to the same periods in 2020.

Natural Gas Royalties

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural Gas						
Esperanza royalties	\$ 1,551	\$ 2,662	(42%)	\$ 3,493	\$ 5,744	(39%)
VIM-5 royalties	9,225	6,036	53%	18,239	15,999	14%
VIM-21 royalties	340	144	136%	684	271	152%
Royalty expense	\$ 11,116	\$ 8,842	26%	\$ 22,416	\$ 22,014	2%
Natural Gas Royalty Rates						
Esperanza	8.5%	8.6%	(1%)	7.7%	8.9%	(14%)
VIM-5	22.3%	20.7%	8%	23.0%	20.8%	11%
VIM-21	9.7%	9.7%	—	9.7%	9.5%	1%
Natural gas royalty rate	17.4%	14.2%	23%	16.8%	15.2%	11%

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 Esperanza and VIM-5 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 17.4% and 16.8% was 23% and 11% higher during the three and six months ended June 30, 2021, compared to 14.2% and 15.2% for the same periods in 2020, respectively, mainly due to higher production at the VIM-5 block, which is subject to a higher royalty rate. In addition, the VIM-5 royalty rate was higher, as compared to 2020, 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 production allocation at the Corporation's Esperanza block, which is subject to a lower royalty rate, was lower during the second quarter of 2021 as the Corporation continues to perform routine maintenance at the block. Going forward, the maintenance is expected to increase the production at the Esperanza block and, as such, the overall royalty rate is expected to decrease for the remainder of 2021.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Average Benchmark Prices						
Henry Hub (\$/Mcf)	\$ 2.97	\$ 1.75	70%	\$ 2.84	\$ 1.81	57%
Alberta Energy Company (\$/Mcf)	\$ 2.48	\$ 1.41	76%	\$ 2.39	\$ 1.42	68%
Brent (\$/bbl)	\$ 69.02	\$ 33.26	108%	\$ 65.04	\$ 42.30	54%
Average Sales Prices, Net of Transportation						
Natural gas and LNG (\$/Mcf)	\$ 4.09	\$ 4.52	(10%)	\$ 4.22	\$ 4.53	(7%)
Colombia oil (\$/bbl)	\$ 51.26	\$ 21.87	134%	\$ 48.80	\$ 30.99	57%
Corporate average (\$/boe)	\$ 23.48	\$ 25.76	(9%)	\$ 24.26	\$ 25.88	(6%)

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 and six months ended June 30, 2021, compared to the same periods in 2020, is mainly due to lower priced fixed contracts for the 2021 contract year as compared to the 2020 contract year. The decrease during the three months ended June 30, 2021 was offset by higher spot market prices as a result of the COVID-19 pandemic restrictions gradually being lifted during the three months ended June 30, 2021.

The decrease in average natural gas and LNG sales prices, net of transportation in the Q2 2021, as compared to Q1 2021, was mainly due to off-takers under higher priced fixed contracts performing regular maintenance during the three months ended June 30, 2021. In addition, the Q2 2021 spot market average natural gas and LNG sales prices, net of transportation was negatively impacted by: i) Colombia experiencing La Niña climate phenomenon during Q2 2021, which increases rainfall and, as such, decreases the demand for natural gas and ii) the shutdown in Colombia due to the recent political unrest, which also resulted in lower demand for natural gas.

Subsequent to June 30, 2021, the demand for spot market volumes has increased, as evidenced by the July 2021 realized contractual natural gas sales volumes of approximately 190 MMscfd, mainly due to the following: i) the recent political unrest in Colombia has improved, ii) the COVID-19 vaccination roll-out in Colombia is well underway and iii) the La Niña climate phenomenon has weakened, all of which, results in the higher demand of natural gas. As such, the spot market average natural gas and LNG sales prices, net of transportation has been significantly higher since mid-July 2021, as compared to the three and six months ended June 30, 2021.

The increase in average crude oil sales prices during the three and six months ended June 30, 2021, compared to the same period in 2020, is mainly due to increased benchmark crude oil prices.

Operating Expenses

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural gas and LNG	\$ 3,715	\$ 3,477	7%	\$ 8,156	\$ 7,563	8%
Colombia oil	262	145	81%	525	525	—
Total operating expenses	\$ 3,977	\$ 3,622	10%	\$ 8,681	\$ 8,088	7%
Natural gas and LNG (\$/Mcf)	\$ 0.24	\$ 0.25	(4%)	\$ 0.26	\$ 0.24	8%
Colombia oil (\$/bbl)	\$ 13.78	\$ 8.09	70%	\$ 11.24	\$ 11.68	(4%)
Corporate (\$/boe)	\$ 1.44	\$ 1.49	(3%)	\$ 1.55	\$ 1.43	8%

Natural gas and LNG operating expenses per Mcf decreased 4% to \$0.24 per Mcf for the three months ended June 30, 2021, compared to \$0.25 per Mcf for the same period in 2020. The decrease is mainly due to higher natural gas sales volumes, however the decrease was offset by higher maintenance costs during the three months ended June 30, 2021.

Natural gas and LNG operating expenses per Mcf increased 8% to \$0.26 per Mcf for the six months ended June 30, 2021, compared to \$0.24 per Mcf for the same period in 2020. The increase is mainly due to higher reservoir engineering, labour and rental costs related to certain well testing performed, compared to the same period in 2020.

Operating Netbacks

\$/Mcf	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Natural Gas and LNG						
Revenue, net of transportation expense	\$ 4.09	\$ 4.52	(10%)	\$ 4.22	\$ 4.53	(7%)
Royalties	(0.71)	(0.64)	11%	(0.71)	(0.69)	3%
Operating expenses	(0.24)	(0.25)	(4%)	(0.26)	(0.24)	8%
Operating netback	\$ 3.14	\$ 3.63	(13%)	\$ 3.25	\$ 3.60	(10%)

\$/bbl	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Colombia oil						
Revenue, net of transportation expense	\$ 51.26	\$ 21.87	134%	\$ 48.80	\$ 30.99	57%
Royalties	(3.94)	(1.62)	143%	(3.75)	(2.31)	62%
Operating expenses	(13.78)	(8.09)	70%	(11.24)	(11.68)	(4%)
Operating netback	\$ 33.54	\$ 12.16	176%	\$ 33.81	\$ 17.00	99%

\$/boe	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Corporate						
Revenue, net of transportation expense	\$ 23.48	\$ 25.76	(9%)	\$ 24.26	\$ 25.88	(6%)
Royalties	(4.06)	(3.66)	11%	(4.04)	(3.90)	4%
Operating expenses	(1.44)	(1.49)	(3%)	(1.55)	(1.43)	8%
Operating netback	\$ 17.98	\$ 20.61	(13%)	\$ 18.67	\$ 20.55	(9%)

General and Administrative Expenses

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Gross costs	\$ 8,612	\$ 7,309	18%	\$ 16,620	\$ 15,065	10%
Less: capitalized amounts	(1,486)	(1,243)	20%	(2,823)	(2,486)	14%
General and administrative expenses	\$ 7,126	\$ 6,066	17%	\$ 13,797	\$ 12,579	10%
\$/boe	\$ 2.59	\$ 2.50	4%	\$ 2.47	\$ 2.22	11%

General and administrative (“G&A”) gross costs increased 18% and 10% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, mainly due to certain year-end annual costs which are typically paid at year-end now being accrued on a quarterly basis throughout the year.

G&A per boe increased 4% and 11% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, mainly due to certain year-end annual costs being accrued on a quarterly basis throughout the year during the three and six months ended June 30, 2021. Annual gross costs are expected to remain relatively flat as the Corporation’s production base grows, which will result in the G&A per boe to decrease going forward.

Net Finance Expense

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Net financing expense paid	\$ 7,880	\$ 7,369	7%	\$ 15,400	\$ 13,899	11%
Non-cash financing expenses	1,001	(285)	n/a	1,907	529	260%
Net finance expense	\$ 8,881	\$ 7,084	25%	\$ 17,307	\$ 14,428	20%

Net finance expense increased 25% and 20% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, 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 during the six months ended June 30, 2020 and ii) a gain on debt modification of \$1.2 million related to the Credit Suisse Bank Debt modification during the three months ended June 30, 2020.

Stock-Based Compensation Expense and Restricted Share Units

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Stock-based compensation expense	\$ 166	\$ 595	(72%)	\$ 370	\$ 1,116	(67%)
Restricted share unit expense	1,693	1,898	(11%)	2,056	2,898	(29%)
Stock-based compensation and restricted share unit expense	\$ 1,859	\$ 2,493	(25%)	\$ 2,426	\$ 4,014	(40%)

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 and restricted share units expense decreased 25% and 40% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, due to no stock options being granted in 2021 and less restricted share units being amortized during the three and six months ended June 30, 2021 due to the timing of the grant.

Depletion and Depreciation Expense

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	Change	2021	2020	Change
Depletion and depreciation expense	\$ 15,930	\$ 16,226	(2%)	\$ 32,833	\$ 34,180	(4%)
\$/boe	\$ 5.78	\$ 6.69	(14%)	\$ 5.88	\$ 6.03	(3%)

Depletion and depreciation expense decreased 2% and 4% during the three and six months ended June 30, 2021, compared to the same periods in 2020, respectively, primarily as a result of an adjustment recognized during the three months ended June 30, 2020 related to the Corporation's Rancho Hermoso block, which was 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,	
	2021	2020	2021	2020
Current income tax expense	\$ 6,319	\$ 7,912	\$ 12,183	\$ 17,652
Deferred income tax (recovery) expense	\$ (1,550)	(11,666)	9,723	29,474
Income tax expense (recovery)	\$ 4,769	\$ (3,754)	\$ 21,906	\$ 47,126

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 31% for the three and six months ended June 30, 2021. The Colombian statutory income tax rate is currently set to 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 six months ended June 30, 2021 of \$9.7 million was mainly as a result of the 9% devaluation of the COP to USD as at June 30, 2021 of 3,757:1, 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.

Income Taxes Cash Payments

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Income taxes paid	\$ 22,020	\$ 13,967	\$ 26,037	\$ 20,890

During the three and six months ended June 30, 2021, the Corporation paid its remaining 2020 income tax expense balance of \$11.3 million. In addition, the Corporation also paid tax installments related to its 2021 income tax expense of \$10.7 million and \$14.7 million during the three and six months ended June 30, 2021, respectively.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Drilling and completions	\$ 11,682	\$ 5,218	\$ 29,195	\$ 15,932
Facilities, workovers and infrastructure	5,920	2,977	11,884	6,900
Land, seismic, communities and other	5,423	2,516	9,225	6,622
Capitalized G&A	1,486	1,243	2,823	2,486
Net proceeds on disposition of property, plant and equipment	(31)	—	(270)	(58)
Net cash capital expenditures	24,480	11,954	52,857	31,882
Non-cash costs and adjustments:				
Right-of-Use leased assets	355	—	474	1,305
Disposition	5	—	164	(25)
Non-cash costs and adjustments ⁽¹⁾	1,523	(3,685)	712	(5,001)
Net capital expenditures	\$ 26,363	\$ 8,269	\$ 54,207	\$ 28,161
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	\$ 11,428	\$ 2,752	\$ 25,215	\$ 5,067
Expenditures on property, plant and equipment	14,961	5,517	29,098	23,177
Disposition	(26)	—	(106)	(83)
Net capital expenditures	\$ 26,363	\$ 8,269	\$ 54,207	\$ 28,161

(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 June 30, 2021 are primarily related to:

- Drilling of the Milano-1 exploration well;
- Completion of the Cañahuaté-4 development well;
- Drilling and completion of the Nelson-9 development well;
- Drilling and completion of the Aguas Vivas-1 exploration well;
- Drilling of the Aguas Vivas-2 exploration well;
- Facility and workover costs at Esperanza;
- Facility costs at the VIM-5 block; and
- Seismic related to the VIM-33 and SSJN-7 blocks.

Liquidity and Capital Resources

Foreign Currency Risk

As at June 30, 2021, the COP to the USD exchange rate was 3,757:1 (December 31, 2020 – 3,433:1) and the CAD to USD exchange rate was 1.24:1 (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 and six months ended June 30, 2021. In addition, the total deferred income tax expense of \$9.7 million recognized during the six months ended June 30, 2021, was mainly as a result of the devaluation of COP to USD.

During the three and six months ended June 30, 2021, the Corporation held no foreign exchange contract.

As a result of recent world events, the Corporation is currently benefiting from the recent devaluation 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.

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, 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.

On June 17, 2021, the Corporation entered into a three year term credit agreement with Banco Divivienda ("Colombia Bank Debt") for a principal amount of \$12.9 million denominated in COP, which is subject to an annual interest rate of Reference Bank Indicator ("IBR") plus 2.5% (IBR was 1.86% at the agreement date). The Colombia Bank Debt was used to repay the Corporation's litigation settlement liability, which was subject to an 8.74% annual interest rate. As a result of a lower interest rate, the Corporation will realize annual interest savings of approximately \$0.6 million (lower interest rate of 4.38% at the agreement date).

The Corporation's Senior Notes, Credit Suisse 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 June 30, 2021, the Corporation was in compliance with the covenants.

	June 30, 2021	December 31, 2020
Senior Notes - principal (7.25%)	\$ 320,000	\$ 320,000
Credit Suisse Bank Debt - principal (LIBOR + 4.25%)(¹)	30,000	30,000
Bridge Loan - principal (LIBOR + 4.25%)(¹)	25,000	25,000
Operating Loan - principal (IBR + 1.5%)(²)	2,661	2,913
Colombia Bank Debt - principal (IBR + 2.5%)(²)(³)	12,831	—
Litigation settlement liability (8.74%)(³)	—	14,353
Lease obligation (5.1%)	20,404	22,943
Total debt	410,896	415,209
Less: working capital surplus	(44,740)	(73,404)
Net debt	\$ 366,156	\$ 341,805

(1) The LIBOR rate during the three and six months ended June 30, 2021 was 0.178% and 0.199%, respectively.

(2) The IBR rate during the three and six months ended June 30, 2021 was 1.74% and 1.72%, respectively.

(3) During the three months ended June 30, 2021, the Corporation replaced its litigation settlement liability, which was subject to an 8.74% annual interest rate with its Colombia Bank Debt, which is subject to a significantly lower annual interest rate of IBR plus 2.5% (IBR was 1.86% at the agreement date), resulting in significant interest savings going forward.

The Consolidated Leverage Ratio is calculated as follows:

	June 30, 2021	December 31, 2020
Total debt	\$ 410,896	\$ 415,209
Less: cash and cash equivalents	(34,834)	(68,280)
Net debt for covenant purposes	\$ 376,062	\$ 346,929
EBITDAX	\$ 179,598	\$ 187,529
Consolidated Leverage Ratio	2.09	1.85

The Consolidated Interest Coverage Ratio is calculated as follows:

	June 30, 2021	December 31, 2020
EBITDAX	\$ 179,598	\$ 187,529
Interest expense, excluding non-cash expenses	\$ 31,284	\$ 30,788
Consolidated Interest Coverage Ratio	5.74	6.09

As at August 4, 2021, the Corporation had 177.5 million common shares, 12.3 million stock options and 1.6 million restricted share units outstanding. Subsequent to June 30, 2021, the Corporation repurchased 1,060,000 common shares of the Corporation at a cost of \$2.8 million, including transaction fees.

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, 2021:

	Less than 1 year	1-3 years	Thereafter	Total
Long-term debt – principal	\$ 15,518	\$ 54,974	\$ 320,000	\$ 390,492
Lease obligations – undiscounted	4,987	7,298	11,133	23,418
Trade and other payables	51,427	—	—	51,427
Dividend payable	7,489	—	—	7,489
Taxes payable	6	—	—	6
Other long term obligations	—	3,485	—	3,485
Restricted share units	1,684	164	—	1,848
Exploration and production contracts	4,872	34,082	4,370	43,324
Compression station operating contracts	2,634	5,428	10,029	18,091
	\$ 88,617	\$ 105,431	\$ 345,532	\$ 539,580

Letters of Credit

At June 30, 2021, the Corporation had letters of credit outstanding totaling \$75.9 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 June 30, 2021 of \$43.3 million and has issued \$33.3 million in financial guarantees related thereto.

Related Party Transactions

The Corporation holds five million shares of Arrow Exploration Ltd. ("Arrow") valued at \$0.4 million as at June 30, 2021 and a receivable balance of \$6.2 million. Two members of key management of Canacol are also members of the board of directors of Arrow.

During the three months ended June 30, 2021, the Corporation entered into a sixth amended promissory note with Arrow, which includes a new principal amount of \$6 million, continues to be subject to an annual interest rate of 15%, and includes the following repayment terms, in the the event that: a) Arrow does not complete a successful equity financing of \$12 million or more by September 30, 2021, the principal plus interest shall be paid as follows: i) two cash payments of \$1.6 million due on July 30, 2022 and December 30, 2022, respectively, and

ii) the issuance of common shares of Arrow on July 30, 2022 for the remaining balance; or b) Arrow completes a successful equity financing of \$12 million or more by September 30, 2021, the principal plus interest shall be paid as follows: i) one cash payment of \$3.2 million due fifteen days from the financing closing date, and ii) at the discretion of Arrow, the balance shall be paid either in cash or a combination of cash and issuance of common shares of Arrow. Arrow also commits to replace the letters of credit currently guaranteed by Canacol. According to Arrow's recent press releases, the company is currently seeking to list its common shares for trading on the Alternative Investment Market ("AIM") of the London Stock Exchange and intends to raise \$12 million. As such, the Corporation reclassified its receivable balance with Arrow of \$6.2 million (principal and accrued interest) during the three months ended June 30, 2021 from current to non-current, which reduced the Corporation's working capital surplus.

OUTLOOK

For the remainder of 2021, the Corporation is focused on the following objectives: 1) Target the drilling of 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. The Corporation has drilled six exploration and development wells, with a significant gas discovery being made at Aguas Vivas, which is currently being appraised; 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. The Corporation has successfully completed the seismic program on SSJN-7 and is currently in the process of acquisition on VIM-5; 3) The execution of a definitive agreement to construct a new natural 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 MMscf/d in 2024; 4) The continued strengthening of our environmental, social and governance strategy and reporting. The Corporation has now released its 2020 sustainability report, making substantial gains in all key metrics; 5) The continuation of our return of capital program to shareholders. The Corporation has continued to issue quarterly dividends with no reduction in dividend amounts. In addition, since the Corporation obtained necessary approval to conduct a normal course issuer bid to purchase outstanding common shares of the Corporation in November 2018, it has acquired and cancelled 4,857,013 common shares of the Corporation at an average price of C\$3.59 per common share, including 2,060,000 common shares, which were repurchased since May 2021, at an average price of C\$3.31 per common share.

SUMMARY OF QUARTERLY RESULTS

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

	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	59,969	65,818	63,976	57,429	54,405	70,994	65,795	56,634
Adjusted funds from operations ⁽¹⁾⁽³⁾	33,643	38,085	35,251	33,409	31,181	45,281	33,004	36,420
Per share – basic (\$) ⁽¹⁾	0.19	0.21	0.20	0.18	0.17	0.25	0.18	0.20
Per share – diluted (\$) ⁽¹⁾	0.19	0.21	0.20	0.18	0.17	0.25	0.18	0.20
Cash flow (used) provided by operating activities ⁽³⁾	(13)	37,900	26,477	50,016	37,814	38,018	37,181	36,887
Net income (loss) and comprehensive income (loss) ⁽²⁾	2,424	(3,062)	921	2,609	17,715	(25,988)	25,432	663
Per share – basic (\$)	0.01	(0.02)	0.01	0.01	0.10	(0.14)	0.14	—
Per share – diluted (\$)	0.01	(0.02)	0.01	0.01	0.10	(0.14)	0.14	—
EBITDAX ⁽¹⁾	44,638	46,716	45,941	42,303	40,415	58,870	43,144	46,037
Weighted average shares outstanding – basic	179,289	179,515	179,764	180,980	180,916	180,931	179,238	178,273
Weighted average shares outstanding – diluted	179,289	179,515	179,764	181,495	181,484	181,811	181,412	180,873
Capital expenditures, net of dispositions	26,363	27,844	29,366	26,437	8,269	19,892	21,514	30,806
Operations								
Natural gas, LNG and crude oil production ⁽¹⁾								
Natural gas and LNG (MMscfpd)	173,117	179,474	170,087	162,012	151,127	201,398	180,986	147,630
Colombia oil (bopd)	262	256	287	317	245	315	309	322
Total (boepd)	30,633	31,743	30,127	28,740	26,758	35,648	32,061	26,222
Realized contractual sales, before royalties ⁽¹⁾								
Natural gas and LNG (MMscfpd)	171,463	177,633	169,763	162,984	152,248	201,524	180,753	146,439
Colombia oil (bopd)	209	307	300	347	197	298	301	329
Total (boepd)	30,290	31,471	30,083	28,941	26,907	35,653	32,012	26,020
Operating netbacks ⁽¹⁾								
Natural gas and LNG (\$/Mcf)	3.14	3.36	3.58	3.47	3.63	3.60	3.58	3.86
Colombia oil (\$/bbl)	33.54	34.06	23.04	17.04	12.16	20.13	27.08	24.34
Corporate (\$/boe)	17.98	19.33	20.44	19.76	20.61	20.49	20.49	22.06

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

(2) The Corporation realized a net loss during the six months ended June 30, 2021 mainly due to the non-cash deferred tax expense of \$9.7 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.

(3) Adjusted funds from operations represents cash flow (used) provided by operating activities before certain adjustments related to: i) changes in non-cash working capital of \$20.7 million, primarily due to certain income tax expense cash payments (see the “Income Tax Expense” section in this MD&A), ii) the payment of the remaining outstanding balance of the Corporation’s litigation settlement liability of \$12.9 million.

RISKS AND UNCERTAINTIES

There have been no significant changes in the three months ended June 30, 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 June 30, 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 June 30, 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.