

CANACOL ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022



FINANCIAL & OPERATING HIGHLIGHTS

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

Financial	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	67,956	69,903	(3%)	274,228	249,187	10%
Adjusted funds from operations ⁽¹⁾	(16,977)	43,691	n/a	94,640	153,847	(38%)
Per share – basic (\$) ⁽¹⁾⁽²⁾	(0.50)	1.24	n/a	2.77	4.32	(36%)
Per share – diluted (\$) ⁽¹⁾⁽²⁾	(0.50)	1.24	n/a	2.77	4.32	(36%)
Net income and other comprehensive income	133,722	7,024	>999%	147,270	15,177	870%
Per share – basic (\$) ⁽²⁾	3.92	0.20	>999%	4.31	0.43	902%
Per share – diluted (\$) ⁽²⁾	3.92	0.20	>999%	4.31	0.43	902%
Cash flow provided by operating activities	50,034	28,881	73%	185,429	123,814	50%
Per share – basic (\$) ⁽¹⁾⁽²⁾	1.47	0.82	79%	5.43	3.48	56%
Per share – diluted (\$) ⁽¹⁾⁽²⁾	1.47	0.82	79%	5.43	3.48	56%
Adjusted EBITDAX ⁽¹⁾	52,003	49,198	6%	212,850	194,390	9%
Weighted average shares outstanding – basic ⁽²⁾	34,113	35,312	(3%)	34,144	35,628	(4%)
Weighted average shares outstanding – diluted ⁽²⁾	34,113	35,312	(3%)	34,144	35,628	(4%)
Net cash capital expenditures ⁽¹⁾	50,382	21,513	134%	166,288	98,421	69%
				December 31, 2022	December 31, 2021	Change
Cash and cash equivalents				58,518	138,523	(58%)
Working capital surplus (deficit)				(22,603)	148,124	n/a
Total debt				550,752	557,709	(1%)
Total assets				1,014,848	843,760	20%
Common shares, end of period (000's) ⁽²⁾				34,111	35,233	(3%)
Operating	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural gas, LNG and crude oil production ⁽¹⁾						
Natural gas and LNG (Mcfpd)	177,985	186,145	(4%)	184,584	182,829	1%
Colombia oil (bopd)	546	244	124%	522	289	81%
Total (boepd)	31,771	32,901	(3%)	32,905	32,364	2%
Realized contractual sales ⁽¹⁾						
Natural gas and LNG (Mcfpd)	175,580	185,896	(6%)	182,367	181,434	1%
Colombia oil (bopd)	541	490	10%	519	294	77%
Total (boepd)	31,345	33,103	(5%)	32,513	32,124	1%
Operating netbacks ⁽¹⁾						
Natural gas and LNG (\$/Mcf)	3.73	3.59	4%	3.68	3.40	8%
Colombia oil (\$/bbl)	22.81	21.93	4%	23.69	28.39	(17%)
Corporate (\$/boe)	21.27	20.51	4%	20.99	19.48	8%

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

(2) Restated to reflect the 5:1 share consolidation on January 17, 2023 - see “Share Consolidation” section within this MD&A.

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 2000, 215 - 9th Avenue SW, Calgary, Alberta, T2P 1K3, Canada. The Corporation's shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol CNE, the OTCQX in the United States of America under the symbol CNNEF, the Bolsa de Valores de Colombia under the symbol CNEC and the Bolsa Mexicana de Valores under the symbol CNEN.

Advisories

The following management's discussion and analysis ("MD&A") is dated March 24, 2023 and is the Corporation's explanation of its financial performance for the period covered by the audited consolidated financial statements for the years ended December 31, 2022 and 2021 ("the financial statements"), along with an analysis of the Corporation's financial position. Comments should be read in conjunction with the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, 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 adjusted EBITDAX, which are measures not defined in 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, adjusted for non-recurring charges. Adjusted 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 dividend 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 December 31,		Year ended December 31,	
	2022	2021	2022	2021
Cash flow provided by operating activities	\$ 50,034	\$ 28,881	\$ 185,429	\$ 123,814
Changes in non-cash working capital	(67,011)	14,810	(90,789)	16,906
Payment of litigation settlement liability ⁽¹⁾	—	—	—	13,073
Settlement of decommissioning obligations	—	—	—	54
Adjusted funds from operations	\$ (16,977)	\$ 43,691	\$ 94,640	\$ 153,847

(1) The litigation settlement liability was related to a transportation expense dispute, and, as such, the non-recurring settlement was included in cash flows provided by operating activities during the year ended December 31, 2021.

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

	2022				
	Q1	Q2	Q3	Q4	Rolling
Net income (loss) and comprehensive income (loss)	\$ 24,415	\$ (6,404)	\$ (4,463)	\$ 133,722	\$ 147,270
(+) Interest expense	8,513	8,475	8,438	8,632	34,058
(+) Income tax expense	1,203	27,156	25,970	(135,523)	(81,194)
(+) Depletion and depreciation	16,668	18,284	17,388	16,226	68,566
(+) Exploration expense	—	—	—	22,333	22,333
(+) Pre-license costs	450	535	446	453	1,884
(+) Unrealized foreign exchange loss (gain)	(2,548)	2,995	4,999	2,660	8,106
(+/-) Other non-cash or non-recurring items	923	4,167	3,237	3,500	11,827
Adjusted EBITDAX	\$ 49,624	\$ 55,208	\$ 56,015	\$ 52,003	\$ 212,850

In addition to the above, management uses the operating netback measure. 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.

Operating netback as presented does 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, boe is expressed 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 thousand cubic feet per day ("Mcfpd") or million cubic feet per day ("MMcfpd") throughout this MD&A.

Annual 2022 Reserves Highlights

- The Corporation's conventional natural gas and oil total proved plus probable reserves ("2P") increased 8% since December 31, 2021, totaling 652 billion cubic feet equivalent ("Bcfe") at December 31, 2022 (169% 2P reserves replacement ratio).
- 1P and 2P finding and development cost ("F&D cost") were \$2.6 per Mcf and \$1.87 per Mcf for the three-year period ending December 31, 2022, respectively.
- The Corporation achieved a 1P and 2P Reserves life index ("RLI") of 5.2 years and 10 years, respectively, based on annualized fourth quarter 2022 conventional natural gas production of 178 MMcfpd.

Three Months Ended December 31, 2022 Financial and Operational Highlights

- Realized contractual natural gas and liquefied natural gas ("LNG") sales volumes decreased 6% to 175.6 MMcfpd for the three months ended December 31, 2022, compared to 185.9 MMcfpd for the same period in 2021. Average natural gas and LNG production volumes decreased 4% to 178 MMcfpd for the three months ended December 31, 2022, compared to 186.1 MMcfpd for the same period in 2021. The decrease is mainly due to a temporary lower demand for firm contracts volumes during the quarter as further explained in the "Average Daily Production and Realized Contractual Sales Volumes" section of this MD&A.
- Total natural gas and LNG revenues, net of royalties and transportation expenses for the three months ended December 31, 2022 decreased 3% to \$65.1 million, compared to \$67 million for same period in 2021, mainly due to lower natural gas and LNG sales volume in the period.
- Adjusted funds from operations was an outflow of \$17 million for the three months ended December 31, 2022, compared to an inflow of \$43.7 million for the same period in 2021. The outflow is entirely driven by the additional current tax expense related to Canacol's Corporate Restructuring. Refer to the "Income Taxes" section of this MD&A for further explanation.
- Adjusted EBITDAX increased 6% to \$52 million for the three months ended December 31, 2022, compared to \$49.2 million for the same period in 2021.
- The Corporation realized a net income of \$133.7 million for the three months ended December 31, 2022, compared to a net income of \$7 million for the same period in 2021. The significant increase in net income is mainly attributable to the recognition of income tax recovery of \$135.5 million as a result of Canacol's Corporate Restructuring. Refer to the "Income Taxes" section of this MD&A for further explanation.
- The Corporation's natural gas and LNG operating netback increased 4% to \$3.73 per Mcf in the three months ended December 31, 2022, compared to \$3.59 per Mcf for the same period in 2021. The increase is mainly due to an increase in average sales prices, net of transportation expenses and a decrease in operating expenses, offset by an increase in royalties.
- As at December 31, 2022, the Corporation had \$58.5 million in cash and cash equivalents and \$22.6 million in working capital deficit, largely as a result of increased current tax expense driven by Canacol's Corporate Restructuring. Refer to the "Income Taxes" section of this MD&A for further explanation.

Share Consolidation

On December 19, 2022, the shareholders of the Corporation approved the consolidation of common shares of the Corporation (“Common Shares”) on the basis of five (5) existing pre-consolidation Common Shares for every one (1) post-consolidation Common Share (the “Share Consolidation”). As a result of the Share Consolidation, on January 17, 2023, 170,557,290 Common Shares issued and outstanding prior to the Share Consolidation have been reduced to 34,111,458 Common Shares (disregarding the treatment of any resulting fractional shares). Each shareholder percentage ownership in the Corporation and proportional voting power remains unchanged after the Share Consolidation. All share units and per share amounts in this MD&A were restated to reflect the Share Consolidation.

Results of Operations

For the three months ended December 31, 2022, the Corporation’s production primarily consisted of natural gas from the Nelson, Palmer, Nispero, San Marcos, Cañahuate, and Cañaflacha fields in the Esperanza block, the Clarinete, Claxon, Pandereta, Acordeon, Siku, Ocarina and Alboka fields in the VIM-5 block and the Aguas Vivas, Arandala, Toronja, Breva, and Cornamusa 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 block 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 addition to its producing fields, the Corporation has interests in several natural gas exploration blocks in Colombia.

On October 24, 2022, the Corporation executed an agreement with Shanghai Engineering and Technology Corp. (“SETCO”) to construct a 289 km long, 22 inch diameter, gas pipeline from Canacol’s Jobo gas processing facility (“Jobo Station”) to the city of Medellin, Colombia. The construction of this pipeline (the “Medellin Pipeline”) will allow Canacol to ship natural gas to the interior market of Colombia starting on December 1, 2024. SETCO is a third-party, Chinese based, construction and pipe fabrication consortium with experience in building major gas pipelines in Asia and the Middle East. Under the terms of the agreement, SETCO will be responsible for paying 100% of the cost of building the Medellin Pipeline and will build, own, operate and maintain the pipeline. Canacol will not own or pay for any part of the costs associated with the pipeline project, including its construction or operation. The pipeline is designed to provide transportation capacity of 150 MMcfpd and is expandable to 200 MMcfpd with compression. SETCO will take over the project via the acquisition of CNEMED S.A.S, one of Canacol’s Colombian subsidiaries, when the environmental license is obtained (currently expected in August 2023).

During the three months ended December 31, 2022, the Corporation completed the drilling of the Chimela-1 exploration well on its 100% operated VMM-45 E&P contract located in the Middle Magdalena Basin. The well reached a total depth of 14,101 feet measured depth (“ft md”) on December 16, 2022 and encountered 85 feet of net oil and gas pay within the primary Upper Lisama (gas bearing) and Basal Lisama (oil bearing) sandstone reservoirs.

During the three months ended December 31, 2022, the Corporation commenced the drilling of the Dividivi-1 exploration well on its 100% operated VIM-33 E&P contract located in the Lower Magdalena Basin. The Dividivi-1 well reached a total depth of 4,692 ft md on January 2, 2023 and encountered 89 feet of gross gas pay within the primary CDO sandstone and Cicuco limestone reservoirs.

During the three months ended December 31, 2022, the Corporation commenced the drilling of the Saxofon-1 exploration well on its VIM-5 block. The Saxofon-1 well reached a total depth of 9,416 ft md on January 7, 2023 and encountered 338 feet of gross gas pay within the Porquero and CDO reservoirs.

The Corporation also spud the Natilla-1 exploration well located on its 50% operated working interest SSJN-7 Exploration and Production (“E&P”) contract during the three months ended December 31, 2022. The well is targeting gas bearing sandstones within the CDO and Porquero sandstone reservoirs. The well drilled to a depth of 11,848 ft md within the Porquero sandstone interval, the secondary target of the well, prior to encountering drilling related problems. The well was sidetracked due to mechanical issues.

Average Daily Production and Realized Contractual Sales Volumes

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

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural Gas and LNG (Mcfpd)						
Natural gas and LNG production	177,985	186,145	(4%)	184,584	182,829	1%
Field consumption	(2,495)	(1,561)	60%	(2,481)	(1,745)	42%
Natural gas and LNG sales	175,490	184,584	(5%)	182,103	181,084	1%
Take-or-pay volumes (2)	90	1,312	(93%)	264	350	(25%)
Realized contractual natural gas and LNG sales	175,580	185,896	(6%)	182,367	181,434	1%
Colombia Oil (bopd)						
Crude oil production	546	244	124%	522	289	81%
Inventory movements and other	(5)	246	(102%)	(3)	5	(160%)
Colombia oil sales	541	490	10%	519	294	77%
Corporate (boepd / bopd)						
Natural gas and LNG production	31,225	32,657	(4%)	32,383	32,075	1%
Colombia oil production	546	244	124%	522	289	81%
Total production	31,771	32,901	(3%)	32,905	32,364	2%
Field consumption and inventory	(442)	(28)	>999%	(438)	(301)	46%
Total corporate sales	31,329	32,873	(5%)	32,467	32,063	1%
Take-or-pay volumes (2)	16	230	(93%)	46	61	(25%)
Total realized contractual sales	31,345	33,103	(5%)	32,513	32,124	1%

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.

Realized contractual natural gas and LNG sales for the three months and year ended December 31, 2022 averaged 175.6 and 182.4 MMcfpd, 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.

The 6% decrease in realized contractual natural gas and LNG sales for the three months ended December 31, 2022, compared to the same period in 2021, is mainly due to a decrease in the demand for natural gas. Natural gas demand was lower due to the region experiencing high reservoir levels caused by heavy rains, which temporarily reduced the demand for natural gas.

The 1% increase in realized contractual natural gas and LNG sales for the year ended December 31, 2022, compared to the same period in 2021, is mainly due to an increase of natural gas sales contracted under firm

contracts in 2022, offset by lower spot sales as a result of less demand for natural gas from thermoelectric generators due to higher rainfall.

Revenues, Net of Royalties and Transportation Expenses

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural Gas and LNG						
Natural gas and LNG revenues	\$ 83,884	\$ 85,161	(1%)	\$347,615	\$323,738	7%
Transportation expenses	(6,178)	(6,904)	(11%)	(32,510)	(34,580)	(6%)
Revenues, net of transportation expenses	77,706	78,257	(1%)	315,105	289,158	9%
Royalties	(12,636)	(11,294)	12%	(50,167)	(45,805)	10%
Revenues, net of royalties and transportation expenses	\$ 65,070	\$ 66,963	(3%)	\$264,938	\$243,353	9%
Colombia Oil						
Crude oil revenues	\$ 2,084	\$ 2,957	(30%)	\$ 8,590	\$ 6,101	41%
Transportation expenses	(35)	(267)	87%	(177)	(302)	(41%)
Revenues, net of transportation expenses	2,049	2,690	(24%)	8,413	5,799	45%
Royalties	(127)	(232)	(45%)	(527)	(471)	12%
Revenues, net of royalties and transportation expenses	\$ 1,922	\$ 2,458	(22%)	\$ 7,886	\$ 5,328	48%
Corporate						
Natural gas and LNG revenues	\$ 83,884	\$ 85,161	(1%)	\$347,615	\$323,738	7%
Crude oil revenues	2,084	2,957	(30%)	8,590	6,101	41%
Total revenues	85,968	88,118	(2%)	356,205	329,839	8%
Royalties	(12,763)	(11,526)	11%	(50,694)	(46,276)	10%
Natural gas, LNG and crude oil production revenues, net of royalties	73,205	76,592	(4%)	305,511	283,563	8%
Power generation standby revenue	916	—	n/a	916	—	n/a
Take-or-pay natural gas income	48	482	(90%)	488	506	(4%)
Natural gas, LNG, take-or-pay, crude oil and standby revenues, net of royalties, as reported	74,169	77,074	(4%)	306,915	284,069	8%
Transportation expenses	(6,213)	(7,171)	(13%)	(32,687)	(34,882)	(6%)
Total revenues, net of royalties and transportation expenses	\$ 67,956	\$ 69,903	(3%)	\$274,228	\$249,187	10%

Natural Gas and LNG Sales

Natural gas and LNG revenues, net of transportation expenses during the three months ended December 31, 2022 decreased 1% to \$77.7 million, compared to \$78.3 million for the same period in 2021, due to a 5% decrease in natural gas and LNG sales volume, offset by a 4% increase in average sales price, net of transportation expenses. Natural gas and LNG revenues, net of transportation expenses during the year ended December 31, 2022 increased 9% to \$315.1 million, compared to \$289.2 million for the same period in 2021, due to a 1% increase in natural gas and LNG sales volume and an 8% increase in average sales price, net of transportation expenses.

During the three months and year ended December 31, 2022, the Corporation realized power generation standby revenue of \$0.9 million for its commitment to supply natural gas for a power generation plant owned by Termoelectrica el Tesorito S.A.S. ESP (“Tesorito”), a Colombian power generation company. The power generation standby revenue is earned on a daily basis, regardless of whether natural gas is actually delivered.

As at December 31, 2022, the Corporation had deferred income of \$11.2 million, which was related to undelivered natural gas and LNG sales nominations that were paid for or accrued in accounts receivable, for which the off-takers have a legal right to take delivery at a later date, at which point they will be recognized as revenue. Should the off-takers not accept delivery within the allotted period, the Corporation will recognize the corresponding nominations as take-or-pay income as explained on page 6 of this MD&A.

Natural Gas Trading

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural gas trading revenue	\$ 5,275	\$ 7,170	(26%)	\$ 28,796	\$ 26,475	9%
Natural gas trading purchase cost	(5,211)	(7,009)	(26%)	(27,575)	(26,206)	5%
Natural gas trading profit	\$ 64	\$ 161	(60%)	\$ 1,221	\$ 269	354%

The Corporation recognized \$5.3 million and \$28.8 million (2021 - \$7.2 million and \$26.5 million) of natural gas trading revenue and incurred natural gas purchase costs of \$5.2 million and \$27.6 million (2021 - \$7 million and \$26.2 million) during the three months and year ended December 31, 2022, respectively, related to the delivery of an off-taker's long-term contract.

The Corporation's natural gas purchases are isolated to this particular long-term contract and it does not intend to engage in speculative gas trading activities. This natural gas trading contract ended in November 2022.

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 decreased 11% and 6% for the three months and year ended December 31, 2022, compared to the same periods in 2021, respectively, and is primarily attributable to the decrease in natural gas sales volume subject to transportation expenses, as described above, compared to the same periods in 2021.

Natural Gas Royalties

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural Gas						
Esperanza royalties	\$ 1,093	\$ 1,790	(39%)	\$ 4,501	\$ 7,341	(39%)
VIM-5 royalties	9,801	7,638	28%	36,782	34,791	6%
VIM-21 royalties	1,742	1,866	(7%)	8,884	3,673	142%
Royalty expense	\$ 12,636	\$ 11,294	12%	\$ 50,167	\$ 45,805	10%
Natural Gas Royalty Rates						
Esperanza	8.5%	7.3%	16%	8.5%	7.7%	10%
VIM-5	21.9%	23.2%	(6%)	22.1%	23.0%	(4%)
VIM-21	9.1%	9.3%	(2%)	9.6%	9.4%	2%
Natural gas royalty rate	16.3%	14.4%	13%	15.9%	15.8%	1%

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 600,000 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 increased to 16.3% for the three months ended December 31, 2022, compared to 14.4% for the same period in 2021, mainly due to higher production at the VIM-5 block, which is subject to a higher royalty rate. The natural gas royalty rate increased marginally to 15.9% for the year ended December 31, 2022, compared to 15.8% for the same period in 2021.

Average Benchmark and Realized Sales Prices, Net of Transportation

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Average Benchmark Prices						
Henry Hub (\$/MMBtu)	\$ 6.09	\$ 4.85	26%	\$ 6.51	\$ 3.71	75%
Alberta Energy Company ("AECO") (\$/MMBtu)	\$ 4.42	\$ 3.89	14%	\$ 4.34	\$ 2.91	49%
Brent (\$/bbl)	\$ 88.59	\$ 79.80	11%	\$ 98.89	\$ 70.78	40%
Average Sales Prices, Net of Transportation						
Natural gas and LNG (\$/Mcf)	\$ 4.81	\$ 4.61	4%	\$ 4.74	\$ 4.37	8%
Colombia oil (\$/bbl)	\$ 41.17	\$ 59.67	(31%)	\$ 44.41	\$ 54.04	(18%)
Corporate average (\$/boe)	\$ 27.67	\$ 26.77	3%	\$ 27.30	\$ 25.20	8%

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 Corporation's transportation expenses associated with the spot sales are typically compensated by higher gross sales prices, resulting in realized sales prices, net of transportation that are consistent with the Corporation's fixed-priced contracts.

The 4% and 8% increase in average natural gas and LNG sales prices, net of transportation to \$4.81 per Mcf and \$4.74 per Mcf for the three months and year ended December 31, 2022, respectively, compared to the same periods in 2021, is mainly due to higher priced firm contracts as a result of tighter supply during these periods.

The 31% and 18% decrease in average crude oil sales prices for the three months and year ended December 31, 2022, compared to the same periods in 2021, respectively, is mainly due to increased Colombia oil production from two previously suspended wells being put back into production since the first quarter of 2022 under tariff production. In accordance with the operation and maintenance agreement, these wells have a lower fixed tariff price of \$17.36 per bbl, however, they are not subject to royalties and they do not have any future capital and abandonment requirements.

Operating Expenses

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural gas and LNG	\$ 4,877	\$ 5,952	(18%)	\$ 20,715	\$ 18,418	12%
Colombia oil	787	1,469	(46%)	3,399	2,281	49%
Total operating expenses	\$ 5,664	\$ 7,421	(24%)	\$ 24,114	\$ 20,699	16%
Natural gas and LNG (\$/Mcf)	\$ 0.30	\$ 0.35	(14%)	\$ 0.31	\$ 0.28	11%
Colombia oil (\$/bbl)	\$ 15.81	\$ 32.59	(51%)	\$ 17.94	\$ 21.27	(16%)
Corporate (\$/boe)	\$ 1.97	\$ 2.45	(20%)	\$ 2.03	\$ 1.77	15%

Natural gas and LNG operating expenses per Mcf decreased 14% to \$0.30 per Mcf for the three months ended December 31, 2022 compared to \$0.35 per Mcf for the same period in 2021, mainly due to less maintenance activities performed during the quarter and a weaker COP against the USD, offset by inflation.

Natural gas and LNG operating expenses per Mcf increased 11% to \$0.31 per Mcf for the year ended December 31, 2022, compared to \$0.28 per Mcf for the same period in 2021, mainly due to increased maintenance activities and inflation, offset by a weaker COP against the USD.

Colombia oil operating expenses decreased 46% for the three months ended December 31, 2022 compared to the same period in 2021, mainly due to a larger than usual quantity of oil that was in inventory was sold during the

three months ended December 31, 2021, offset by no operating expenses recovery from Canacol's partner due to Brent prices being over \$70 per bbl during the three months ended December 31, 2022 and inflation. According to the joint operating agreement, the Corporation's partner will reimburse a portion of Canacol's operating expenses at the Rancho Hermoso block when Brent price is below \$70 per bbl. Colombia oil operating expenses increased 49% for the year ended December 31, 2022, compared to the same period in 2021, mainly attributable to lower recovery of operating expenses due to Brent prices exceeding \$70 per bbl and inflation.

Colombia oil operating expense per bbl decreased 51% and 16% for the three months and year ended December 31, 2022, compared to the same period in 2021, respectively, mainly due to fixed costs over higher oil production volumes, offset by inflation.

Operating Netbacks

\$/Mcf	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Natural Gas and LNG						
Revenue, net of transportation expense ⁽¹⁾	\$ 4.81	\$ 4.61	4%	\$ 4.74	\$ 4.37	8%
Royalties	(0.78)	(0.67)	16%	(0.75)	(0.69)	9%
Operating expenses ⁽²⁾	(0.30)	(0.35)	(14%)	(0.31)	(0.28)	11%
Operating netback	\$ 3.73	\$ 3.59	4%	\$ 3.68	\$ 3.40	8%

\$/bbl	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Colombia oil						
Revenue, net of transportation expense ⁽¹⁾	\$ 41.17	\$ 59.67	(31%)	\$ 44.41	\$ 54.04	(18%)
Royalties	(2.55)	(5.15)	(50%)	(2.78)	(4.39)	(37%)
Operating expenses ⁽²⁾	(15.81)	(32.59)	(51%)	(17.94)	(21.26)	(16%)
Operating netback	\$ 22.81	\$ 21.93	4%	\$ 23.69	\$ 28.39	(17%)

(1) Refer to the "Average Benchmark and Realized Sales Prices, Net of Transportation" of this MD&A for more information.

(2) Refer to the "Operating Expenses" section of this MD&A for more information.

\$/boe	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Corporate						
Revenue, net of transportation expense	\$ 27.67	\$ 26.77	3%	\$ 27.30	\$ 25.20	8%
Royalties	(4.43)	(3.81)	16%	(4.28)	(3.95)	8%
Operating expenses	(1.97)	(2.45)	(20%)	(2.03)	(1.77)	15%
Operating netback	\$ 21.27	\$ 20.51	4%	\$ 20.99	\$ 19.48	8%

General and Administrative Expenses

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Gross costs	\$ 10,913	\$ 11,053	(1%)	\$ 37,274	\$ 35,388	5%
Less: capitalized amounts	(2,152)	(1,581)	36%	(8,085)	(5,804)	39%
General and administrative expenses	\$ 8,761	\$ 9,472	(8%)	\$ 29,189	\$ 29,584	(1%)
\$/boe	\$ 3.04	\$ 3.13	(3%)	\$ 2.46	\$ 2.53	(3%)

General and administrative ("G&A") gross costs decreased 1% for the three months ended December 31, 2022, compared to the same period in 2021, mainly due to lower personnel costs and the weaker Colombian peso ("COP") against the USD, offset by inflation. G&A gross costs increased 5% for the year ended December 31,

2022, compared to the same period in 2021, mainly due to severance costs of \$1.3 million and inflation, offset by a weaker COP against the USD.

G&A per boe decreased 3% for the three months and year ended December 31, 2022 compared to the same periods in 2021, mainly due to higher capitalized amounts related to certain projects. Annual gross costs are expected to remain relatively flat as the Corporation's production base grows, which will result in a decrease in the G&A per boe going forward.

Net Finance Expense

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Net financing expense paid	\$ 7,924	\$ 8,990	(12%)	\$ 32,459	\$ 31,669	2%
Non-cash net financing expenses (income)	2,602	(229)	n/a	9,022	2,738	230%
Net finance expense	\$ 10,526	\$ 8,761	20%	\$ 41,481	\$ 34,407	21%

Net finance expense increased 20% and 21% for the three months and year ended December 31, 2022, compared to the same periods in 2021, respectively, mainly due to the amortization of upfront transaction costs and interest expense related to the refinancing of the Senior Notes. The Senior Notes principal amount increased from \$320 million to \$500 million and is subject to a lower interest rate of 5.75% compared to the previous rate of 7.25%. The Credit Suisse bank debt and the litigation settlement obligation were settled in 2021 and as such, offset the higher interest expense during the same periods in 2022.

Stock-Based Compensation Expense

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Equity-settled unit expense	\$ 22	\$ 139	(84%)	\$ 192	\$ 652	(71%)
Cash-settled unit expense	781	769	2%	3,747	3,898	(4%)
Stock-based compensation	\$ 803	\$ 908	(12%)	\$ 3,939	\$ 4,550	(13%)

Equity-settled expense is a non-cash expense recognized on a graded vesting basis based on the fair value of stock options granted over the term. The fair value of the stock options granted were estimated using the Black-Scholes pricing model. There were no stock options granted nor exercised during the years ended December 31, 2022 and 2021. Equity-settled unit expense decreased for the three months and year ended December 31, 2022, compared to the same periods in 2021, due to less stock options being amortized as a result of expiries.

Cash-settled unit expense is a non-cash amortization of restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"), which are expected to be settled in cash, amortized over their respective vesting terms and revalued each period based on the Corporation's share price. Cash-settled unit expense increased marginally during the three months ended December 31, 2022 compared to the same period in 2021. Cash settled unit expense decreased during the year ended December 31, 2022 compared to the same period in 2021 mainly due to the devaluation of the Corporation's share price as at December 31, 2022.

Depletion and Depreciation Expense

	Three months ended December 31,			Year ended December 31,		
	2022	2021	Change	2022	2021	Change
Depletion and depreciation expense	\$ 16,226	\$ 17,288	(6%)	\$ 68,566	\$ 67,747	1%
\$/boe	\$ 5.63	\$ 5.72	(2%)	\$ 5.79	\$ 5.79	—

Depletion and depreciation expense decreased 6% during the three months ended December 31, 2022, compared to the same period in 2021, primarily as a result of lower natural gas production. Depletion and depreciation expense increased 1% during the year ended December 31, 2022, compared to the same period in 2021, mainly due to higher natural gas production.

Income Tax Expense

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Current income tax expense	\$ 67,812	\$ 4,565	\$ 111,203	\$ 29,932
Deferred income tax expense (recovery)	(203,335)	1,384	(192,397)	13,957
Income tax expense (recovery)	\$ (135,523)	\$ 5,949	\$ (81,194)	\$ 43,889

The Corporation's pre-tax income was subject to the Colombian statutory income tax rate of 35% for the three months and year ended December 31, 2022.

During the three months and year ended December 31, 2022, in an effort to better align the operational needs of the business and to create a more efficient and cost-effective organizational structure, the Corporation began a corporate restructuring process with the transfer of its Esperanza and VIM-21 assets from one wholly-owned subsidiary to another ("Corporate Restructuring"). The assets were transferred at fair market value, generating an additional current tax expense of \$64.7 million and a deferred tax asset of \$202.2 million for the three months and year ended December 31, 2022.

For the three months and year ended December 31, 2022, current income tax expense increased, compared to the same periods in 2021, mainly due to: i) the increase in annual tax rate from 31% in 2021 to 35% in 2022 and ii) the recognition of \$64.7 million of current tax expense as a result of the Corporate Restructuring.

During the three months and year ended December 31, 2022, the Corporation recognized a deferred tax recovery of \$203.3 million and \$192.4 million, respectively, mainly attributable to the \$202.2 million deferred tax asset recognized as a result of the Corporate Restructuring. The deferred tax recovery was offset by a deferred tax expense of \$14.7 million and \$25.6 million for the three months and year ended December 31, 2022, respectively, as a result of the devaluation of the COP against the USD. The Corporation's unused tax losses and capital pools are denominated in COP, which are re-valued at each reporting date using the period end COP to USD foreign exchange rate. The unrealized change in unused tax losses and capital pool values as a result of foreign exchange are recognized as deferred tax expense/recovery at each quarter end. As at December 31, 2022, the COP to the USD exchange rate was 4,810:1 (December 31, 2021 – 3,981:1).

Income Tax Cash Payments

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Income taxes paid	\$ 7,526	\$ 12,125	\$ 35,490	\$ 44,061

During the year ended December 31, 2022, the Corporation paid income tax of \$4.8 million (2021 - \$11.4 million) for the 2021 tax year. In addition, the Corporation also prepaid advances related to its 2022 income tax expense of \$7.5 million and \$30.6 million (2021- \$12.1 million and \$32.7 million) during the three months and year ended December 31, 2022, respectively.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Drilling and completions	\$ 19,590	\$ 8,253	\$ 64,761	\$ 49,459
Facilities, workovers and infrastructure	8,233	6,718	40,240	25,320
Land, seismic, communities and other	20,437	4,961	53,242	18,135
Capitalized G&A	2,152	1,581	8,085	5,804
Net proceeds on disposition of property, plant and equipment	(30)	—	(40)	(297)
Net cash capital expenditures	50,382	21,513	166,288	98,421
Non-cash costs and adjustments:				
Right-of-Use leased assets	276	886	2,205	1,392
Disposition	(41)	(1,456)	(3,514)	(1,371)
Non-cash costs and adjustments ⁽¹⁾	(12,657)	613	(3,773)	1,498
Net capital expenditures	\$ 37,960	\$ 21,556	\$ 161,206	\$ 99,940
Net capital expenditures recorded as:				
Expenditures on exploration and evaluation assets	\$ 26,334	\$ 8,888	\$ 74,667	\$ 41,565
Expenditures on property, plant and equipment	11,697	14,124	90,093	60,043
Disposition	(71)	(1,456)	(3,554)	(1,668)
Net capital expenditures	\$ 37,960	\$ 21,556	\$ 161,206	\$ 99,940

(1) Non-cash costs and adjustments mainly related to change in decommissioning obligations

Net capital expenditures during the three months ended December 31, 2022 are primarily related to:

- Chimela-1 development well drilling costs;
- Dividivi-1 development well drilling costs;
- Natilla-1 exploration well drilling costs;
- Clarinete-7 development well drilling costs;
- Saxofon-1 development well drilling costs;
- 3D seismic costs at the VIM-5 block;
- Medellin pipeline engineering design costs;
- Facility and workover related costs at the VIM-5 and Esperanza blocks; and
- Lands and other costs at the VIM-5, VMM-47, VIM-21, VMM10-1, VMM-53 and VMM-45 blocks.

Liquidity and Capital Resources

Capital Management

The Corporation's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, long-term debt, lease obligations and working capital, defined as current assets less current liabilities excluding the 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.

Normal Course Issuer Bid

On December 24, 2021, the Corporation renewed its normal course issuer bid (“NCIB”), as authorized by the TSX to purchase up to 2,102,732 outstanding Common Shares. The maximum number of Common Shares that Canacol could purchase on any given day was 8,663 Common Shares. Canacol could also make one weekly block repurchase which exceeded the daily limit subject to prescribed rules. The Corporation was authorized to make purchases during the period from December 24, 2021 to December 23, 2022 or until such earlier time as the NCIB was completed or terminated at the option of the Corporation.

During the year ended December 31, 2022, the Corporation repurchased 1,121,866 Common Shares (2021-669,700) at a cost of \$13.7 million (2021 - \$8.8 million), including transaction fees.

On January 31, 2023, the Corporation renewed its NCIB, as authorized by the TSX to purchase up to 1,971,950 outstanding Common Shares. The maximum number of Common Shares that Canacol may purchase on any given day is 13,095 Common Shares. Canacol could also make one weekly block repurchase which exceeded the daily limit subject to prescribed rules. The Corporation is authorized to make purchases during the period from February 2, 2023 to February 1, 2024 or until such earlier time as the NCIB is completed or terminated at the option of the Corporation.

Operating Loan

On April 21, 2020, the Corporation entered into a credit agreement with Banco de Occidente (“Operating Loan”) for \$5 million denominated in COP, for additional COP liquidity purposes. The Operating Loan was subject to an annual interest rate of Reference Bank Indicator (“IBR”) + 2% (IBR was 2.9% at the agreement date). The IBR is a Colombian central bank short-term reference interest rate for lending denominated in COP, which reflects the price at which banks are willing to offer or raise resources on the money market. The principal was fully repaid in two equal installments on October 18, 2020 and April 11, 2022, and the credit agreement was subsequently terminated.

Bridge Loan

On July 31, 2020, the Corporation entered into a \$75 million senior unsecured bridge term loan (“Bridge Loan”) with a syndicate of banks. The Bridge Loan had an initial two-year term, and was intended to be used to construct a pipeline from the Corporation’s operations at Jobo to the city of Medellin, Colombia (the “Project”).

On August 28, 2020, the Corporation withdrew the initial \$25 million of the Bridge Loan, net of transaction costs of \$3.1 million, which was used for initial engineering and environmental licensing costs related to the Project. The remaining \$50 million was available to be drawn at any time up to the maturity date and was intended to be used for construction materials for the Project. The Bridge Loan bore an annual interest rate of LIBOR + 4.25%, and the Corporation was able to repay the Bridge Loan at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee of 30% of the 4.25% interest margin throughout the availability period. Interest and financing costs associated with the Bridge Loan were capitalized in PP&E.

On August 12, 2021, the Corporation amended its Bridge Loan to extend both the term and the availability period of undrawn amounts from July 31, 2022 to July 31, 2023.

On February 17, 2023, the Corporation repaid the \$25 million outstanding on the Bridge Loan with proceeds from the New RCF (see “Revolving Credit Facility” below) and subsequently terminated the loan agreement.

Revolving Credit Facility

On July 31, 2020, the Corporation entered into a \$46 million senior unsecured revolving credit facility (“RCF”) with a syndicate of banks. The RCF bore an annual interest rate of LIBOR + 4.75%, had a three-year term, and the Corporation was able to repay/redraw the RCF at any time within the term without penalty. Any undrawn amounts were subject to a commitment fee equal to 30% of the 4.75% interest margin throughout the availability period. The RCF remained undrawn as at December 31, 2022. The RCF was not subject to typical periodic redeterminations.

On February 17, 2023, the Corporation terminated the RCF and entered into a new \$200 million senior unsecured revolving credit facility (“New RCF”) with a syndicate of banks. The New RCF bears an annual interest rate of SOFR + 4.5%, has a four-year term, and the Corporation is able to repay/redraw the New RCF at any time within the term without penalty. Any undrawn amounts are subject to a commitment fee equal to 30% of the 4.50% interest margin throughout the availability period. The New RCF is not subject to typical periodic redeterminations.

Colombia Bank Debt

On June 17, 2021, the Corporation entered into a three-year term loan agreement with Banco Davivienda (“Colombia Bank Debt”) for \$12.9 million denominated in COP, which was subject to an annual interest rate of IBR + 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. The principal was scheduled to mature three years from the agreement date on June 18, 2024.

On February 17, 2023, the Corporation repaid the \$10 million outstanding on the Colombia Bank Debt with proceeds from the New RCF (see “Revolving Credit Facility” above) and subsequently terminated the loan agreement.

Senior Notes

On November 24, 2021, the Corporation completed a private offering of senior unsecured notes in the aggregate principal amount of \$500 million (“Senior Notes”). The Senior Notes pay interest semi-annually at a fixed rate of 5.75% per annum, and mature in 2028 unless earlier redeemed or repurchased in accordance with their terms. The Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of Canacol.

Financial Covenants

The Corporation’s Senior Notes, Bridge Loan and its New RCF include various covenants relating to maximum leverage, minimum interest coverage, indebtedness, operations, investments, assets sales, capital expenditures and other standard operating business covenants. The Corporation’s financial covenants include: a) a maximum consolidated total debt, less cash and cash equivalents, to 12-month trailing adjusted EBITDAX ratio (“Consolidated Leverage Ratio”) of 3.25:1.00 and b) a minimum 12-month trailing adjusted EBITDAX to interest expense, excluding non-cash expenses, ratio (“Consolidated Interest Coverage Ratio”) of 2.50:1.00.

As at December 31, 2022, the Corporation was in compliance with the covenants.

	December 31, 2022	December 31, 2021
Senior Notes - principal (5.75%)	\$ 500,000	\$ 500,000
Bridge Loan - principal (LIBOR + 4.25%)	25,000	25,000
Operating Loan - principal (IBR + 1.5%)	—	2,513
Colombia Bank Debt - principal (IBR + 2.5%)	10,020	12,107
Lease obligation	15,732	18,089
Total debt	550,752	557,709
Working capital deficit (surplus)	22,603	(148,124)
Net debt	\$ 573,355	\$ 409,585

The Consolidated Leverage Ratio is calculated as follows:

	December 31, 2022	December 31, 2021
Total debt	\$ 550,752	\$ 557,709
Less: cash and cash equivalents	(58,518)	(138,523)
Net debt for covenant purposes	\$ 492,234	\$ 419,186
Adjusted EBITDAX	\$ 212,850	\$ 194,390
Consolidated Leverage Ratio	2.31	2.16

The Consolidated Interest Coverage Ratio is calculated as follows:

	December 31, 2022	December 31, 2021
Adjusted EBITDAX	\$ 212,850	\$ 194,390
Interest expense, excluding non-cash expenses	\$ 34,058	\$ 31,488
Consolidated Interest Coverage Ratio	6.25	6.17

As at March 24, 2023, the Corporation had 34.1 million common shares, 1.2 million stock options, and 0.7 million RSUs, PSUs and DSUs outstanding.

Contractual Obligations

The following table provides a summary of the Corporation's cash requirements to meet its financial liabilities and contractual obligations existing as at December 31, 2022:

	Less than 1 year		1-3 years		Thereafter		Total
Long-term debt – principal	\$	35,020	\$	—	\$	500,000	\$ 535,020
Lease obligations – undiscounted		3,442		6,208		6,461	16,111
Trade and other payables		62,312		—		—	62,312
Dividend payable		6,548		—		—	6,548
Taxes payable		74,969		—		—	74,969
Other long term obligations		—		4,390		—	4,390
Long-term incentive compensation liability		2,130		556		—	2,686
Exploration and production contracts		23,621		8,918		16,300	48,839
Compression station operating contracts		2,714		5,592		5,820	14,126
	\$	210,756	\$	25,664	\$	528,581	\$ 765,001

Letters of Credit

As at December 31, 2022, the Corporation had letters of credit outstanding totaling \$87.9 million to guarantee work commitments on exploration blocks in Colombia and to guarantee other contractual commitments, of which, \$1.8 million letters of credit was related to certain oil assets previously sold, which were transferred to Arrow Exploration Ltd. (“Arrow”) subsequent to December 31, 2022.

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 December 31, 2022 of \$48.8 million and has issued \$38.4 million of the total \$87.9 million in financial guarantees related thereto.

Related Party Transactions

As at December 31, 2022, the Corporation held 41.7 million shares and 18.4 million warrants of Arrow with carrying values of \$4.6 million (cost) and \$2.2 million (fair market value), respectively, and a receivable balance of \$1.9 million. The receivable balance of \$1.9 million will be paid no later than June 30, 2023. Two members of key management of Canacol are also members of the board of directors of Arrow.

Sustainability

As indicated in the Corporation's 2021 Environmental, Social and Governance (“ESG”) Integrated Report, Canacol currently leads the industry as one of the cleanest oil and gas producers in both Colombia and North America with Scope 1 and 2 greenhouse gas (“GHG”) emissions that are 80% lower than our oil focused peers and 50% lower than our gas focused peers, on average. Canacol's ambition is to continue to lead the oil and gas industry in Colombia in terms of supplying the increasing energy demands of Colombians while reducing carbon emissions, exploring avenues for renewable energy generation, fostering national energy self-sufficiency, and catalyzing the growth and development of Colombia's economy and its people. Canacol enthusiastically supports global goals to meet the Paris Agreement targets as well as Colombia's commitment to a 51% reduction in emissions by 2030, of which, natural gas will play a crucial role in a fair and equitable energy transition. The Corporation's objective on ESG is to improve the quality of life of millions of people through the exploration, production and supply of conventional natural gas in Colombia. Alongside this, Canacol is focused on generating value for its stakeholders in a sustainable, collaborative, co-responsible, respectful and transparent way. With the Corporation's transition to natural gas, it now has an environmentally friendly value proposition that contributes to the reduction of CO₂ emissions in Colombia and provides for a more efficient use of resources.

The Corporation continues to support its communities in essential social projects such as access to water and utilities, local economic projects, construction and improvement of public and community infrastructure, technical and university scholarships, amongst others.

The Corporation has strong corporate governance standards and procedures, which are aligned with best global practices, and uses control mechanisms that protect shareholder's interests, respect and promote human rights, guarantee ethical behavior, integrity and transparency, ensure regulatory compliance and minimize risk.

For 2022 and beyond, the Corporation is committed to continue developing and maintaining a robust ESG strategy and, as such, is implementing a plan with the following four priorities:

1. A cleaner energy future - deliver natural gas under the highest environmental and operational efficiency standards.
2. A safe and committed team - maintain best-in-class health and safety practices and promote a diverse and inclusive culture.
3. Transparent and ethical business - adopt best practices, incorporate governance, encourage respect for human rights and ensure ethics and integrity in everything Canacol does.
4. A society guided by sustainable development - promote and maintain close and transparent relationships that guarantee communities' growth and quality of life.

OUTLOOK

For the remainder of 2023, the Corporation is focused on the following objectives: 1) the drilling of up to 10 exploration and appraisal wells in a continuous program targeting a 2P reserves replacement ratio of more than 200%; 2) the acquisition of 282 square kilometers of 3D seismic on the VIM-5 block to expand the Corporation's exploration prospect inventory; 3) continue to progress the new gas pipeline project from Jobo to Medellin which will add 100 MMcfpd of new gas sales to the interior in late 2024, allowing Canacol to increase gas sales to over 300 MMcfpd; 4) continue to return capital to shareholders in the form of dividends and share buybacks; and 5) continue with our commitment of strengthening our environmental, social and governance strategy and reporting with the objective of improving the Corporation's ranking on various sustainability indices.

SUMMARY OF QUARTERLY RESULTS

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

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total natural gas, LNG and crude oil revenues, net of royalties and transportation expense	67,956	70,133	70,256	65,883	69,903	66,288	53,534	59,462
Adjusted funds from operations ⁽¹⁾	(16,977)	38,715	39,086	33,816	43,691	38,227	33,643	38,085
Per share – basic (\$) ⁽¹⁾⁽²⁾	(0.50)	1.15	1.15	1.00	1.25	1.10	0.95	1.05
Per share – diluted (\$) ⁽¹⁾⁽²⁾	(0.50)	1.15	1.15	1.00	1.25	1.10	0.95	1.05
Cash flow provided (used) by operating activities	50,034	61,994	35,338	38,063	28,881	57,046	(13)	37,900
Net (loss) income and comprehensive (loss) income	133,722	(4,463)	(6,404)	24,415	7,024	8,790	2,424	(3,062)
Per share – basic (\$) ⁽²⁾	3.92	(0.15)	(0.20)	0.70	0.20	0.25	0.05	(0.10)
Per share – diluted (\$) ⁽²⁾	3.92	(0.15)	(0.20)	0.70	0.20	0.25	0.05	(0.10)
Adjusted EBITDAX ⁽¹⁾	52,003	56,015	55,208	49,624	49,198	53,836	44,638	46,716
Weighted average shares outstanding – basic ⁽²⁾	34,113	34,157	34,118	34,490	35,312	35,449	35,858	35,903
Weighted average shares outstanding – diluted ⁽²⁾	34,113	34,157	34,118	34,490	35,312	35,449	35,858	35,903
Net cash capital expenditures ⁽¹⁾	50,382	45,742	42,686	27,478	21,513	24,051	24,480	28,377
Operations								
Natural gas, LNG and crude oil production ⁽¹⁾								
Natural gas and LNG (Mcfpd)	177,985	186,695	190,559	183,130	186,145	192,402	173,117	179,474
Colombia oil (bopd)	546	544	571	428	244	394	262	256
Total (boepd)	31,771	33,298	34,002	32,556	32,901	34,149	30,633	31,743
Realized contractual sales, before royalties ⁽¹⁾								
Natural gas and LNG (Mcfpd)	175,580	184,163	187,963	181,813	185,896	190,553	171,463	177,633
Colombia oil (bopd)	541	558	565	412	490	168	209	307
Total (boepd)	31,345	32,867	33,541	32,309	33,103	33,598	30,290	31,471
Operating netbacks ⁽¹⁾								
Natural gas and LNG (\$/Mcf)	3.73	3.73	3.66	3.58	3.59	3.49	3.14	3.36
Colombia oil (\$/bbl)	22.81	27.48	27.49	14.23	21.93	30.93	33.54	34.06
Corporate (\$/boe)	21.27	21.31	21.02	20.33	20.51	19.96	17.98	19.33

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

(2) Restated to reflect the 5:1 share consolidation on January 17, 2023 - see “Share Consolidation” section within this MD&A.

SUMMARY OF ANNUAL INFORMATION

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

Year ended December 31,	2022	2021	2020
Financial			
Total natural gas and crude oil revenues, net of royalties and transportation expense	274,228	249,187	244,609
Net income (loss) and comprehensive income (loss)	147,270	15,177	(4,743)
Per share – basic (\$) ⁽²⁾	4.31	0.43	(0.13)
Per share – diluted (\$) ⁽²⁾	4.31	0.43	(0.13)
Adjusted funds from operations ⁽¹⁾	94,640	153,847	145,122
Per share – basic (\$) ⁽¹⁾⁽²⁾	2.77	4.32	4.02
Per share – diluted (\$) ⁽¹⁾⁽²⁾	2.77	4.32	4.02
Cash flow from operations	185,429	123,814	152,325
Adjusted EBITDAX ⁽¹⁾	212,850	194,390	187,528
Cash and cash equivalents	58,518	138,523	68,280
Total assets	1,014,848	843,760	749,792
Total debt	550,752	557,709	415,209
Net cash capital expenditures ⁽¹⁾	166,288	99,940	83,964
Operating			
Natural gas and crude oil production, before royalties ⁽¹⁾			
Natural gas (Mcfpd)	184,584	182,829	171,126
Colombia oil (bopd)	522	289	291
Total (boepd)	32,905	32,364	30,313
Realized contractual sales, before royalties ⁽¹⁾			
Natural gas (Mcfpd)	182,367	181,434	171,600
Colombia oil (bopd)	519	294	286
Total (boepd)	32,513	32,124	30,392
Operating netbacks (\$/boe) ⁽¹⁾			
Natural gas (\$/Mcf)	3.68	3.40	3.57
Colombia oil (\$/bbl)	23.69	28.39	18.57
Corporate (\$/boe)	20.99	19.48	20.34

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

(2) Restated to reflect the 5:1 share consolidation on January 17, 2023 - see “Share Consolidation” section within this MD&A.

RISKS AND UNCERTAINTIES

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

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a Public Health Emergency of International Concern, and on March 11, 2020, characterized COVID-19 as a pandemic. A local, regional, national or international outbreak of a contagious disease, such as COVID-19 or other similar illnesses, result in: a significant decline in economic activity in the operational region of Colombia, currency fluctuations, a decrease in individuals willingness to travel, imposed mobility restrictions or other quarantine measures through government regulations, and business interruptions due to outbreaks or required quarantines in one or more of the Corporation's facilities. While the effects of this outbreak are lessening, further business disruption is possible and may have a material adverse effect on the financial condition and financial results of the Corporation.

The periodic volatility of financial and capital markets may severely limit access to capital; however, the Corporation has successfully been able to attract capital in the past and has sufficient anticipated cash flow from operations to support its current operations, capital program and dividend program.

The Corporation is exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in the COP and the CAD. Most of the Corporation's revenues and funds from financing activities are expected to be received in reference to USD denominated prices while a portion of its operating, capital, and general and administrative costs are denominated in COP and CAD. As at and for the year ended December 31, 2022, the Corporation has not entered into any foreign currency hedges.

The majority of the Corporation's interest bearing debt, including the Senior Notes, are subject to fixed interest rates, which limits the Corporation's exposure to interest rate risk. The Corporation's Colombia Bank Debt, Bridge Loan and the Revolving Credit Facility, when drawn, are subject to variable interest rates. The remainder of the Corporation's financial assets and liabilities are not exposed to interest rate risk.

Fluctuations in natural gas spot prices will not only impact revenues of the Corporation but may also impact the Corporation's ability to raise capital, if required. The Corporation's exposure to the volatility of natural gas spot prices is limited due to a significant portion of the Corporation's natural gas are sold under USD denominated fixed priced contracts.

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

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

A more comprehensive discussion of risks and uncertainties is contained in the Corporation's Annual Information Form for the year ended December 31, 2022 as filed on SEDAR and hereby incorporated by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has not implemented new accounting policies during the three months ended December 31, 2022. Detailed discussions of new accounting policies and impact are provided in the financial statements.

REGULATORY POLICIES

Disclosure Controls and Procedures

Disclosure Controls and Procedures (“DC&P”) are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), along with other members of management, have designed, or caused to be designed under the CEO and CFO’s supervision, DC&P and have assessed the design and operating effectiveness of the Corporation’s DC&P as at December 31, 2022. Based on this assessment, it was concluded that the design and operation of the Corporation’s DC&P are effective as at December 31, 2022.

Internal Controls over Financial Reporting

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Corporation’s CEO and CFO, with support of management have assessed the design and operating effectiveness of the Corporation’s ICFR as at December 31, 2022 based on criteria described in “Internal Control - Integrated Framework” issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Corporation’s ICFR are effective as at December 31, 2022.

During the three months ended December 31, 2022, 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.